

SAO Meeting Whitehorse, Canada, October 2013 version 2013.09.18

Ag. [7.1] Update on the Arctic Council Project Support Instrument (PSI) *(Presented by NEFCO)*

This Report updates the previous PSI Report¹ of 19 February 2013 to the SAO 2013 Spring Meeting.

Preamble

The PSI is an instrument for financing prioritised Arctic Council projects. The Fourth Ministerial meeting of the Arctic Council in Reykjavik 2004, inter alia: “Emphasized the need for reinforcing efforts to finance circumpolar cooperation, supported the Project Support Instrument (PSI) concept as a mechanism to enhance the process of identifying, mobilizing and transferring financing for specific priority Arctic Council projects...”. The PSI response to Arctic Council priorities is to strengthen its work on environment protection including climate change (e.g. CO2 mitigation, SLCP) and actions in support of the implementation of the Persistent Organic Pollutants (POPs) and Heavy Metals protocol on Long-Range Trans-boundary Air Pollution (LRTAP).

The Preparatory PSI Committee in 2012 requested the Fund Manager (FM, NEFCO) to obtain clarity on what accrues as an Arctic Council project. The SAO decision² from the Haparanda Fall 2012 Meeting, among other, “...noted that items listed in P1-P10 identified by the Fund Manager in the November 2012 Update on the PSI³ are approved Arctic Council project areas. Projects within these areas are thus eligible for funding consideration if they have followed the appropriate Arctic Council and subsidiary body procedures including bringing the individual projects forward to the appropriate Arctic Council subsidiary body for approval; requested the Fund Manager to proceed with an appropriate assessment and development of these projects for future consideration of the PSI Committee for financing; encouraged the Fund Manager to cooperate with relevant Arctic Council subsidiary body chair(s) to mobilize the Project Support Instrument (PSI).”

Summary of Progress

1. Trust fund pledges, deposits and allocations for PSI currently stand at EURO 15.9 million. As reported to the Ministerial Meeting May 2013⁴, PSI resource allocation for 2013–2015 tentatively is about 40 per cent for projects on integrated hazardous waste management and POPs, about 25 per cent is allocated for mitigation of mercury and 20 per cent for SLCPs.
2. The FM is in communication with ACAP on the status of its projects, including projects that are under implementation and others that are being developed. Progress can be reported on the following actions:
 - Mitigation of CO2 and SLCP i.e. Black carbon, methane, HFC, ozone depleting substances
 - Management of POPs e.g. Dioxins, PCBs and obsolete pesticides
 - Mercury release reduction, e.g. Non-ferrous smelters, energy lamps, waste management
 - Integrated Waste Management, e.g. waste from household, servicing sector, industry
 - Resource efficiency (cleaner production, energy efficiency)
 - Information Exchange on the Arctic Council Project Support Instrument (PSI)
3. **Regarding climate change initiatives**, the FM is working on the following:

¹ NEFCO Update on the Project Support Instrument (PSI), SAO Meeting Stockholm March 2013 version 2013.02.19.

² Final Report, Meeting of Senior Arctic Officials, Haparanda, Sweden, 14-15 November 2012.

³ NEFCO Update on the Project Support Instrument (PSI), SAO Meeting Haparanda November 2012 version 2012.10.10.

⁴ Senior Arctic Officials Report to Ministers, Kiruna, Sweden, Arctic Council Secretariat, 15 May 2013.

- a. Three SLCP initiatives with respective sub-projects under development
 - i. Project 1-M: Reduction of Methane Emissions
 - ii. Project 2-BC: Reduction of Black Carbon Emissions
 - iii. Project 3-HFC: Mitigation of HFC (including ODS) Emissions (End-of-Life Equipment)

Partners: Interest FIN, NO, RF, SE, USA, NEFCO

Total cost up to EURO 77 million. Not all Projects are expected to proceed, subject to feasibility studies, however. Regarding the current status of the Work Plan, the FM, in response to the SAO's Haparanda decision, is working to proceed on Project "2.5-BC-K: Eight Karelian settlements with diesel power". Some of the sub-projects are also on the NEFCO-AMAP Barents Hotspot list, (as Project Kr 14 & Kr16). The SLCP work is running a minor delay due to field conditions, but the first inception report (IR) has been received. Other IRs are underway. The IRs will help NEFCO to develop a detailed Work Plan and budget for the SLCP Projects. Once we have confidence that these Project(s) are up to the mark, NEFCO will present them for the PSI financing pipeline.

NEFCO's allocations for the work can be summarised as follows:

No.	Description	Consultant	Timing	Budget, EURO
1	Energy Supply in 8 Karelian Settlements: Aim: Establishment of bankable project(s). Financing will be a mix of loans and grants.	Norwegian	Fall 2013	120 000
2	Mapping alternative solution for diesel power plants in North-West Russia. Aim: The study is to examine the situation in the Barents, develop investment projects, and provide an inventory of Nordic interest that can contribute to projects –including experiences in Russia and Alaska.	To be selected	Fall 2013	28 000
3	Dolgoshcheli wind-diesel complex. Aim of this action make the wind-diesel project (largely financed by NEFCO) operational	To be selected	Fall 2013	Max 30 000
3	Energy Supply Conversion in Kolguev Island (Nenets AO). Aim: a feasible investment project for the energy systems in Kolguev Island and the Bugrino that are currently based on obsolete diesel stations – based on a Centek 2013 study on energy and environmental issues.	To be selected	Winter 2013 Spring 2014	t.b.d.
4	Structuring of centralized power supply of in Arkhangelsk Region; Aim: This is a large potential investment project conceptualized by the domestic electric distribution company. It envisages replacement of electricity from diesel power station by extending the regional electrical grid. It is estimated to switch 7,500 tons of diesel fuel annually – corresponding to ca 11 million USD annually in fuel costs. Investment budget is estimated to be USD 70 million for three investment phases. The concept needs to be substantiated in feasibility study. The investment project is too large for NEFCO and will be discussed with some larger potential co-financiers.	To be selected	t.b.d.	t.b.d.

4. **Cooperation with Sweden:** About 2 million SEK is available in the SLCF Trust Fund with NEFCO. Resource allocations to be identified and considered, including through the ACAP-PSG.
5. **NEFCO Early Start Projects:** 12 million Euro to address SLCFs through energy efficiency and cleaner production projects in NW Russia. "Early Start" projects expected to be implemented within the next 1-2 years.

6. **Mercury Mitigation (RF, US, NEFCO):** Non-Ferrous Metals/Zinc Smelter Project. Estimated budget Euro 3.5 million. Timeline: about 2 years from start of project.
7. **PCB Management (RF, US, NEFCO):** PCB management and destruction. Budget about Euro 3 million. The Project is on hold awaiting PSI mobilization. A second initiative during Q2 2013 pertains to Franz Josef Land. A NEFCO-BHSF Study is underway. EUR 30.000 has been allocated by NEFCO and the project is to include development of a Project Proposal for submission to ACAP- PCB PSG
8. **PSI Information Exchange:** Work is underway with the Russian Focal Point/Authorised Government Agency (AGA) — The Ministry of Natural Resource and Environment (MNRE) — and the designated Russian Execution Agency (REA (i.e. the VTB Bank) for PSI Projects in the Russian Federation (RF) to finalize the necessary servicing agreements delineating the roles and functions of the MNRE, REA and the FM on the operations of the PSI in Russia. The PSI is of interest to four Russian Federation Ministries: i) MNRE, ii) Ministry Economic Development, iii) Ministry of Finance; and iv) Ministry of Foreign Affairs. The four RF ministries cooperate through the officially established PSI Inter-Ministerial Commission (IMC) which is chaired by the MNRE Deputy Minister. IMC has suggested some modifications to the agreed to services agreement package between AGA, REA and NEFCO and these changes are in the process of being addressed. The services contract package was expected to be signed in Q1, 2013. Work on the service agreements has been a protracted process (November 2012-September 2013) and the current renegotiation is striving to resolve in particular the following outstanding issues:
 - Establishment of arbitration rules
 - Indemnification clause between REA and AGA
 - Acknowledgement that contracts exists between the parties and the obligation to keep each other informed of any changes in the agreements.

Once REA has submitted the renegotiated services agreement package to AGA, the text proposal will be referred back to the IMC for approval. MNRE has expressed expectation that the draft contract agreements are submitted by REA by the end of September 2013. Assuming that once the service agreement package is signed and everything will proceed without complications, and Russia will notify its contribution to the PSI account during the third quarter of 2013, PSI is expected to formally start up in 2013.

Action:

SAOs may wish to Note with appreciation NEFCO's Update on the PSI to the SAO Meeting of October 2013.

<i>Documentation:</i> None
