



Overview of BioCF ERPA terms

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What is an ERPA?

- An Emission Reductions Purchase Agreement:
 - A Purchase and sale agreement
 - Not a loan or credit
- Payment upon delivery of asset (Emission Reductions)
- Asset creation
 - Project registered by the CDM Executive Board (for CDM projects)
 - Emission reductions verified and certified by a third party
 - ERs issued by the EB
- No Bank financing involved in the carbon purchase – the Bank signs an ERPA as Trustee for a carbon fund

Bank Carbon Funds – public and private funding



BioCF - \$53.8 million - 14 participants (5 public participants)



PCF - \$180 million



CDCF - \$128.6 million



Italian Carbon Fund - \$45 million



Danish Carbon Fund - \$75 million



Spanish Carbon Fund - \$221 million

Umbrella Carbon Facility - \$500+ million first tranche

Single donor funds:



Netherlands CDM Facility - \$172 million

Netherlands European Carbon Fund - \$40 million (managed with IFC)

ERPA purpose

- Identify basic terms – price, volume, delivery schedule
- Identify responsibilities
 - Trustee: payment, arrange for verification, EB communication
 - Sponsor:
 - establish and operate the project (create and maintain ERs)
 - operate in compliance with the Kyoto monitoring plan, Environmental Management Plan and other covenants
- Establish rights
 - Trustee: receive ERs, option, cost recovery, default remedies
 - Sponsor: receive \$, default remedies
- Risk allocation

ERPA – Basic risk allocation (VERs)

BioCF

- Regulatory risks
 - Registration risk
 - Methodology
 - Additionality
 - Baseline risk (registration and renewal)
 - Issuance of CERs

Project Sponsor

- Project risks
 - Financing, establishing and operating project
 - Generating ERs

Country risks

- Host Country “Letter of Approval”
- Forest definition
- Risk allocation can vary by contract

ERPA – Risk mitigation

Regulatory Risks

- Baseline risk mitigation
 - Conservative Baseline
 - Annual purchase amount no more than 80% of expected amount
- EB Communication rights

Project Risks

- Payment on delivery
- Seniority
 - Purchase 1st ERs
 - “Sweeping”
- Option – fund management risk mitigation tool
- Default provisions

Country risks

- LOA and forest definition -- condition of ERPA purchase and sale
- Letter of No Objection

Permanence – a LULUCF risk

- Long term permanence obligations (e.g., contracts to 2037)
- Permanence strategy to mitigate risks from fire, pest, illegal logging, weather
 - “Reserve” ER pool – a form of self insurance
 - “Hold Back” – withholding payment until pre-set time (commercially difficult)
 - “Permanence Payment” – lower ER price and Trustee sets aside amount to fund permanence obligations
- Pre-signing legal due diligence
 - Title to forests and carbon
 - Long-term control over land

ERPA remedies – Project sponsor defaults

- Transfer failure – remedies designed to keep project operational. Trustee can:
 - take delivery in a later year
 - decrease contract amount and increase option
 - terminate if transfer failure persists for 3 years, and recover costs
- Intentional breach - right to costs and damages; termination
- Others – right to terminate and recover outstanding costs

General Conditions and ERPA

- ERPA – project-specific terms (purchase volume; price; preconditions; special reps & warranties and covenants)
- General Conditions – standardized purchase and sale terms
- Terms vary between fund, and VER and CER contracts
 - CER contract – seller taking regulatory risk

Project Structures

