

# Gazprom Marketing and Trading – Clean Energy



The use of gas as a clean alternative to oil and coal is a fundamental component of global ambitions to move towards a low carbon economy. GM&T Clean Energy focuses, among other things, on exploring associated opportunities to achieve sustainable and environmental solutions, whether directly in gas supply and management or indirectly in innovative applications, such as the development of natural gas as a viable fuel for vehicles.



As part of the same clean energy practice, sustainability projects are also developed worldwide to provide our customers with the carbon products and help them to manage emissions responsibly and cost-effectively. From land fill gas utilisation in West Africa to wind farms in Mexico, we deliver an end-to-end service from project identification through to the provision of carbon credits. Working with our partners, GM&T is realising Clean Development Mechanism projects worldwide as well as Joint implementation projects in Russia and Eastern Europe.



As part of our initiative to directly finance projects we fund pioneering programmes such as the Rimba Raya Reduced Emissions from Deforestation and Degradation (REDD) project in Indonesia, which is poised to achieve its first verified reduction of emissions. It all means that whatever the post-2012 carbon landscape, we can help you navigate voluntary, pre-compliance and compliance markets.



Beyond carbon, we are also actively engaged in the biomass market, providing a range of innovative products to global suppliers and end users that address financial, technical or other logistical hurdles. These compliment some of the energy efficient applications offered through GM&T's retail business, such as smart meter systems, that together represent a holistic suite of clean energy products.

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# Gazprom Marketing and Trading – Biomass Trading



With extensive and deep industry experience and a global presence we provide the industry with integrated solutions that obtain driven results. Combined with trading, marketing and risk management expertise we are well placed to be a Leader in this growing market.

Our division provides an international marketplace for long term or spot supply sourced sustainably, cross commodity offtake, project financing, and tolling agreements.

We work with our customers throughout the process, with global ocean and land freight services and support in all aspects to meet our clients unique requirements.



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# REDD Case Study: The Rimba Raya Project

## Region

Kalimantan, Island of Borneo, Indonesia

## Project type

Reduced Emissions from Deforestation and Degradation through Avoided Planned Deforestation

## Methodology

VM0004 Methodology for Conservation Projects that Avoid Planned Land Use Conversion in Peat Swamp Forests, v1-0

## Standards

The Voluntary Carbon Standard (VCS)  
The Climate, Community and Biodiversity Alliance (CCBA)

## Emission reductions

3.5m t CO<sub>2</sub>e per year  
over a 30 year project life  
Project start date – July 2009

## Status

Validation

## Verifiers

VCS Methodology:  
Bureau Veritas, Winrock International  
CBA Methodology:  
Scientific Certification Systems (SCS)  
Validation and Verification:  
Det Norske Veritas Certification AS (DNV)

The project involves the establishment of a biodiversity reserve in an area that was under direct threat of conversion to palm oil. The reserve covers 91,215 hectares of tropical peat swamp forest and wetland, which form a critical buffer to the neighbouring Tanjung Puting National Park. Revenues from carbon finance were critical to the revocation of 4 palm oil licenses that had been granted in the project area.

The project will protect the area from deforestation and rehabilitate areas that have already been degraded through illegal logging. A number of initiatives are being implemented around monitoring and fire prevention, as a result of which the project is expected to achieve an annual saving of 3.5m carbon emissions through avoided deforestation and swamp drainage. There are also significant biodiversity benefits in maintaining a diverse natural habitat that is home to a large number of endangered species, such as the orang-utan.





**“Once approved by the Indonesian government, the Rimba Raya Biodiversity Reserve will become the most significant orang-utan conservation project in the world.”**

Dr. Biruté Mary Galdikas, the founder of Orangutan Foundation International

#### Helping To Protect Endangered Species



- 94+ Endangered, Threatened and Vulnerable Species in the Project Area

- 29 mammals

- Orang-utan, Agile gibbon, Proboscis monkey, Pangolin, Banteng, Otter civet, Hairy-nosed otter, and Borneo bay cat

- 80 species of bird are listed by the IUCN as Threatened or Near-threatened with global extinction, including the Endangered Storm's Stork

The project proponents recognise that the key to any forest conservation project is engagement and support of the local communities. Only by changing the relationship the communities have with the forest and creating a model that allows communities to prosper from the improved health of the forest, can sustained conservation be achieved. The project therefore also aims to aid local community development through the creation of employment opportunities and by addressing poverty, hunger and disease in the surrounding region.

The project will be assessed and monitored against the Voluntary Carbon Standard (VCS) and Climate, Community and Biodiversity Alliance (CCBA) methodologies. In 2010, the VCS methodology developed for the project became the first REDD methodology to be validated under the Voluntary Carbon Standard double approval process. The project is expected to be validated and to achieve its first verified emission reductions in the middle of 2011.

#### HELPING THROUGH SOCIAL PROGRAMMES

- Distribution of water filtration devices
- Distribution of clean stove technology
- Provision of solar lighting
- Increased access to healthcare
- Early childhood development materials and tools
- Training in project and reserve management
- Environmental conservation education



# Gazprom Marketing and Trading – Carbon Project Finance

## Background

Carbon finance mechanisms such as the CDM are designed to provide project activities with an additional stream of revenue to increase the attractiveness of the project to investors. This model has been successful in a number of regions, in particular China and India. In our view this is a function of the following conditions:

(i) There exists a ready pool of local investors who understand the risks of carbon revenues and are willing to recognise them as part of an investment analysis;

(ii) The technology is understood locally and project activities can be designed, constructed, operated and maintained by local companies;

(iii) The scale of investment required for projects is attractive to financing institutions; and

(iv) There is a sufficient Industrial base that provides opportunities for CDM type project activities.

Take an example of where this model is successful. Developing a small hydro power project in China involves the application of a technology for which the Chinese are world leaders. The financing required is sufficiently large for banks to be interested, and there are multiple local banks available to provide this. Diversified revenues include carbon and can be securitised. Further, there is demand for power and an established grid to connect power sources to.

This is contrasted to a significant number of project activities that achieve the CDM objectives of voluntary implementation and achieving sustainable development but for which these conditions are not met. For example, a small scale project with a sole dependency on carbon revenues, applying a new methodology in a LDC achieves few, if any of the above criteria. In such cases an additional carbon revenue stream does little to promote the mobilisation of upfront financing for a project.





**A focus on understanding why projects have and have not been successful as a part of mechanisms such as the CDM allow us to develop innovative structures to overcome project barriers.**

#### **CASE STUDIES**

##### **Financing of an improved cookstove project, Nepal**

GM&T has worked with the project developer to understand the project cash flow requirements and the likely carbon that will be generated. By gaining access to this carbon, GM&T has been able to finance the upfront capital required to get the project off the ground.

##### **Framework agreement for the development of landfill projects in Africa**

GM&T has negotiated a framework agreement with a local project developer, an international engineering company and landfill gas manufacturer. We are currently working to implement three projects in West Africa where GM&T is providing the upfront financing in return for carbon off take.

##### **Rimba Raya REDD+ project**

GM&T worked with Infinite Earth to finance the development of the Rimba Raya avoided deforestation project. This achieved the first REDD methodology approved under the Voluntary Carbon Standard.

#### **GM&T'S ROLE**

Through applying our deep knowledge and experience in carbon markets, GM&T is committed to developing innovative carbon based financing solutions to achieve the conditions necessary to implement a project where such conditions may not be naturally met.

In the first instance this involves ensuring an understanding of the various elements required to implement a project. Once this is in place, we work to put in place innovative solutions to address any gaps:

- Project development and development financing. GM&T works with a number of organisations who have the technical ability to design project activities and secure the relevant licenses. This includes development of projects through the CDM cycle;
- Technology. GM&T partners with a number of technology providers, giving us access to a range of emission reducing technologies, design and implementation expertise;

- Financing. GM&T has the ability to provide upfront financing in return for access to future carbon off take. We have experience working with project developers to implement innovative structures that leverage future carbon revenues to secure upfront capital for project development and construction;
- UN and Regulatory Frameworks. With a portfolio of over 120 projects, GM&T has significant experience navigating the UNFCCC procedures and processes.

An understanding of why projects have and have not been successful as part of mechanisms such as the CDM, allows us to develop innovative structures that position GM&T as the natural partner for project developers looking to overcome such barriers.

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# Gazprom Marketing and Trading – CDM in Least Developed Countries

## Efficient Fuel Wood Cooking Stoves Project in Foothills and Plains of Central Development Region of Nepal



### Location

Terai region, central Nepal

### Project Stage

Submitted for registration

### Methodology

AMS-II.G, Energy Efficiency  
Measures in Thermal Applications  
of Non-Renewable Biomass

### Estimated CER Volume

145,582

### Crediting Period

7 years (2011-2018)

GM&T recognises the need to deploy capital towards clean energy projects throughout the developing world. It is actively engaged in a number of CDM projects based in Least Developed Countries, through the provision of targeted upfront capital for project development and construction. GM&T has experience working on the complex methodological issues associated with programmatic projects, of developing relationships with local NGO partners and of mitigating political and local regulatory risks.

### Cooking Stoves Project in Nepal

The practice of burning traditional biomass fuel in rudimentary and inefficient stoves, in kitchens with poor ventilation, causes excessive indoor air pollution and has been recognised as a serious health risk for women and children throughout the developing world. The provision of clean cook stoves is therefore recognised as one of the most critical and effective measures to reduce the number of unnecessary deaths and illness amongst poor people. It has been designated as one of the priority areas for the Clinton Global Initiative.

GM&T has purchased carbon credits from a programme of activity project which aims to reduce fuel consumption by introducing fuel efficient cooking stoves into 6 Nepalese districts. GM&T has provided early stage funding, in return for future CERs, to support CDM and project development. A local NGO partner will be responsible for providing and maintaining the equipment.

The funding will help to disseminate approximately thirty thousand fuel efficient stoves in the project area over the next 3 years, through the transfer of stove building skills and technology to the indigenous community. The project will contribute towards checking deforestation and degradation of forests in the region as well as to an improvement in the end users' quality of life due to a reduction in the time and money spent on fuel wood collection and a reduction in indoor air pollution.

A municipal landfill site in Freetown, Sierra Leone which GM&T is helping to develop under the CDM



**GM&T has experience working on the complex methodological issues associated with programmatic projects, of developing relationships with local NGO partners and of mitigating political and local regulatory risks.**

#### **Tough Stuff Solar Panel and Lamp Sales, Madagascar**



#### **Location**

Madagascar

#### **Project Stage**

Validation

#### **Methodology**

Approved small-scale baseline methodology AMS-I.A "Electricity generation by the user"

#### **Estimated CER Volume**

81,678

#### **Crediting Period**

10 years (2011-2021)

#### **Solar panel lighting project in Managascar**

About 1.6 billion people around the world live without access to regular electricity and currently use kerosene lanterns as a light source. Fuel based lighting is inefficient, expensive, dangerous and unhealthy. Due to poor ventilation, fuel-based lighting poses serious health hazards that are serious and debilitating, such as respiratory and eye problems.

GM&T is helping to develop a solar panel lighting project involving the distribution of solar kits to thousands of homes. In Madagascar, where 10% of the population has access to the grid, more than 80% of the population still rely on kerosene lamps and candles for lighting purposes, which the project aims to displace. Funding provided by GM&T is being used to support CDM project development.



#### **SOCIAL AND COMMUNITY BENEFITS**

- **Increased productivity** - with improved lighting, overall productivity and income of a household increases because people are able to work more efficiently
- **Improvements in child education** - better light for studying
- **Improved health** - reduction in internal air pollution with associated respiratory infections and eye problems

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