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TÜV®

CDM Executive Board

Our / Your Reference	Contact	Direct Dial	Date
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Response to the Review of project "Fuel Switching from Mazout to Natural Gas in Quena Paper Industry Co. (QPIC)" (Ref. no. 9010)

Dear Honourable Members of the CDM Executive Board,

Please find attached the response of TÜV NORD to the review of the above mentioned project No. 9010.

The PP has authorized us to submit their review response in the attached consolidated document. The content of this response remains in the sole responsibility of the PP. In so far as actions from the PP were to be taken the TÜV NORD response has taken those actions into account.

TUV NORD would like to confirm that this response contains only clarifications and no new material or documents has been submitted to us from the project proponent. Therefore, there was no need to make any changes in the validation report or the PDD. The project proponent would like to keep the registration date as per the date when the UNFCCC received the registration fee in its account.

If you have any questions do not hesitate to contact us.

Yours sincerely,

Rainer Winter
Head TÜV NORD JI/CDM Certification Program

Review Issue # 1 (a)	
Original text of the issue raised:	The DOE shall further explain how it has validated the identified barrier (i.e. other barrier - access to finance), in particular: a) how the identified barrier is appropriate and specific to the proposed project activity,
PP´s Response	
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DOE´s Response	
The identified barrier is appropriate to the project activity as in the absence of the CDM project activity the status quo would have continued, and the use of heavy fuel oil will proceed. The identified barrier is also specific to the project activity, where the increase in capital requested by the PP from the company's shareholders is just enough to finance the fuel switching project activity. PP requested capital several time from Banks and shareholders to implement the project but always the outcome was negative. Therefore PP faces difficulties to get access to finance. This was checked for example by following evidences: **Two shareholders refused to participate in the capital increase with a larger amount than their original shares (the National Investment bank, and the National Bank of Egypt). This was checked from the letters sent in Oct. 2011[a] and Nov. 2011[b], respectively. Both letters are attached with this response.** **Please refer to DOE response on review issue 1(c) for further specific evidence which also confirm that the barrier "access to finance" is appropriate.**	

Review Issue # 1 (b)	
Original text of the issue raised:	how the CDM will help to alleviate the identified barrier considering that it is argued based on the Egyptian revolution and the poor financial condition of the PP;
PP´s Response	
DOE´s Response	
The CDM would help in alleviating the barrier based on two main facts: **- The CDM process is independent of the local conditions of production and profitability which are causing the PP to be in a poor financial condition, e.g. the CDM market is not influenced by the paper market and the selling price of products against imported goods, etc., and** **- The CDM revenue is obtained in hard currency; thus helps PP overcome the barriers related to local currency droppings and inflation, resulting from the post-revolution economic crises.**	

PP management board approached the shareholders prior to the start date of the project. Two shareholders refused to participate in the capital increase (Misr for Life Insurance, and Misr Insurance Holding Company). This was checked from the letters sent in May 2011[c] and Sept. 2011[d], respectively. Both letters are attached. This capital increase rejection can be overcome by CDM funds.

CDM would help in alleviating the barrier was also proved from the fact that based on ERPA[e] and CDM consideration one stake holder agreed to increase its funding for the project activity. This proves that CDM funds helps in alleviating the barrier. Therefore, CDM will help PP in overcoming the identified access to finance barrier i.e. other barriers.

Review Issue # c	
Original text of the issue raised:	how the barrier was substantiated by independent sources of data giving that the evidence provided correspond to letters and board meeting minutes issued by the PP or its shareholders.
PP´s Response	
DOE´s Response	

The barriers were substantiated by independent sources of data as follows:

- <u>The large capital investment required:</u> This is evidenced by copies of the signed contracts and copies of the cheques issued by the PP. See the attached documents referencing each of the values in Table 7, page 14, of the PDD[f]. Also checked by an independent source is the exchange rate from EGP to EUR (attached)[g].

- <u>The PP's financial information:</u> The actual audited financial statement of the company for the year 2009-2010 was checked by the validation team. It included the values of losses endured by the company in 2009 and 2010, and the total debt in 2010. This audited statement is attached[h&i] and proves that the project proponent is having debts in the range of EGP 924,456,006. The audited statement is attached.

-<u>Inability to repay the present debts:</u> The PP was confirmed to be unable to repay due instalments of the debt based on a letter from the department of Irregular Loans Treatment and Restructuring at the National Bank of Egypt. This letter warns PP from the negative impact resulting from non-repayment on the borrowing privileges of the PP. The bank letter is attached[j].

- <u>Borrowing privileges suspension:</u> This debt value has lead to the fact that the PP's borrowing privileges had been suspended by Egyptian banks. PP was unable to get the finance from external financing institutions for the project activity. This was cross verified from the CDM APU member present during site visit and host country expert present during site visit, letter is attached[j].

- <u>The fluctuations in the currency market:</u> These result in the ballooning the debt of the PP, and are evidenced by the downgrading of Egypt rating by international organizations. Copies of articles announcing the degradations are attached.

<u>Difficulty of obtaining unanimous shareholders' approval to increase the company's capital:</u> PP management board approached the shareholders prior to the start date of the

project. Two shareholders refused to participate in the capital increase (Misr for Life Insurance, and Misr Insurance Holding Company). This was checked from the letters sent in May 2011[c] and Sept. 2011[d], respectively. Both letters are attached.

In Sept. 2011, PP management board approached the approving shareholders requesting that they pay the outstanding amount and readjust their shares in the company. Two shareholders refused to participate in the capital increase with a larger amount than their original shares (the National Investment bank, and the National Bank of Egypt). This was checked from the letters sent in Oct. 2011[a] and Nov. 2011[b], respectively. Both letters are attached.

Review Issue # d	
Original text of the issue raised:	how the DOE has confirmed that the ERPA was essential in obtaining funds for the project giving that it was signed after the project starting date.
PP´s Response	
DOE´s Response	

The PP management board requested the capital increase in Sept. 2010, and issued the first cheque for the project activity on 22 Dec. 2010 (project starting date in the PDD from equity funding), depending on that the remaining amount (50% + construction of internal network and pumping station) would be covered by the capital increase after obtaining the shareholders' approval. PP started the conversation for ERPA in December 2010 via telephonic conversations first but got the draft ERPA only in 3rd May 2011. This was finally signed in June 2011. This was confirmed by the CDM APU member & host country expert present during site visit that first telephonic conversations are done before any draft is prepared, hence accepted by Validation team.
By May 2011, the request was officially rejected by one shareholder. By chance It was at that time that PP signed the ERPA with the CDM developer, though the conversations were around 6 months old. The ERPA then became a critical factor in convincing the approving shareholders to cover the outstanding amount.
It was also noted by the validation team that until January 2012 (13 months from the project starting date, and 6 months from the ERPA signing) the PP was still exerting effort to obtain the capital investment for the implementation of the project activity using the CDM benefits to convince the shareholders (see the letter dated 22 Jan. 2012 from the PP to one of the shareholders urging them to approve to finance the project).
It is thus confirmed that based on ERPA and CDM consideration, the PP managed to raise the necessary funding for the project activity and convince the shareholders to increase the company capital. Hence ERPA played the main part in convincing the shareholder to increase the capital.

Review Issue # e	
Original text	whether the additional investment needed for the construction of the NG

of the issue raised:	pipeline can be translated into financial terms and should be assessed with an investment analysis. Please refer to VVM (Version 01.2) para. 115-117 and EB 50 Annex 13 paragraphs 5, 7 and 9.
PP´s Response	
DOE´s Response	
From EB 50, annex 13, paragraph 7, the rationale differentiating financial barriers that are studies as other barriers, from those studied using an investment analysis, is explained to be in whether or not a barrier can be monetized and quantified as an additional cost in an investment analysis. Also, the point is not if the investment is attractive or not but rather to finance the project at all, PP has problems to get money and not to analyze if the investment financial attractive. If PP would get capital or would have capital then an investment analyses would came into the picture but the situation is a different. **As per VVM § 116 the barrier of this project has no direct impact on the return. Also, as per VVM § 116 (b) Barriers are related to the unavailability of sources of finance for the project activity and hence Investment analysis could not be used. This can be proved from the fact that PP went to the shareholders to increase the capital but could not get the same, but got the negative response.** **In the case of QPIC, the barriers are related to the unavailability of sources of finance for the project activity which is as per VVM § 116 (b)).** **Similarly, the credit rating and currency outlook have been downgraded of Egypt several times. The most recent reports were checked and found that it has reached B+ by Standard and Poor's report and BB- by Fitch report. The effect of the country's poor economic conditions on the financing of this project activity cannot be quantified in an investment analysis.** **Based on the barriers analysis and other barriers reported in the PDD and FVR of the project, the project activity is found by the validation team to be additional in accordance with the relevant guidelines; VVM (Version 01.2) para. 115-117 and EB 50 Annex 13 paragraphs 5, 7 and 9.**	

Documents submitted

a) October 2011 stakeholder rejection letter
b) November 2011 stakeholder rejection letter
c) May 2011 stakeholder rejection Letter
d) September 2011 stakeholder rejection Letter
e) Draft ERPA of May 2011
f) Copies of signed contracts & Copies of Cheques
g) Xchange rate
h) 2009 audited statement

i) 2010 Audited statement
j) letter from bank for Borrowing privilege suspension.