

# EIB financing of the OLT Toscana Offshore LNG in Italy

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## The project

The OLT Toscana Offshore LNG company was established in September 2002 with the purpose of building an offshore regassification plant near Livorno (Tuscany, Italy). Behind its complex structure we can identify the interests of the Belleli family<sup>1</sup> and of the Falck Group<sup>2</sup>. In 2005, the UK shipping company Golar (that will sell to OLT the gas carrier 'Golar Frost', to be converted into a floating regassification plant, the first of its kind), the Spanish multinational Endesa, the service companies Iride, Amga and Asa and the group Cross Gas Offshore (lead by the Falk Group).

In January 2006, Cross Gas Offshore sold its stake following a controversy with the Belleli family. The acquisition of OLT Toscana from Endesa and Iride speeded up. In 2007 the two companies controlled 61 percent of OLT Toscana<sup>3</sup>. In 2007 the German multinational E.On gained a good share in the deal through a deal with Enel-Acciona for the acquisition of Endesa<sup>4</sup>. In May 2010, Iren S.p.A. was established from the merging of Iride and Enia, and it obtained the Iride share in the project in Tuscany<sup>5</sup>.

**Today the stakes in OLT Toscana are: the E.On Group (46.79%), Iren Group (46.79%, with a substantial participation by Iren Mercato), OLT Energy Toscana S.p.A. (3.73%), and Golar LNG (2.69%)<sup>6</sup>.**

1 Mr. Aldo Belleli was arrested for corruption during the investigation "Mani pulite" on February 9 1993, part of the scandal related to the Enel power plant of Gioia Tauro. Livorno: progetto offshore gas, Cronistoria (Livorno, 2006). Study group on the offshore gas terminal.

2 <http://www.falck.it/>

3 <http://www.gasstrategies.com/publications/gas-matters-to-day/102136>

4 <http://archivio-radiocor.ilsole24ore.com/articolo-543717/endesa-ri-gassificatori-trieste/>

5 <http://archivio-radiocor.ilsole24ore.com/articolo-815099/iride-enia-nasce-gruppo-iren/>

6 <http://www.oltoffshore.it/chi-siamo/azionisti>



## Environmental and social impacts

The local population has tried to acquire information about the regassification plant since 2002, when the mayor of Livorno first mentioned the project in a public event. The project involves a floating regassification plant – unique in its kind – that will be anchored about 22 km from the coast not far from the marine park of 'Secche della Meloria' (now a 'no go' area due to the regassification plant<sup>7</sup>) and within the 'Sanctuary of Whales' international protected area<sup>8</sup>.

A citizens committee against the regassification plant<sup>9</sup>, Vertenza Livorno<sup>10</sup>, and other citizens' groups and environmental organisations have written several letters to the public authorities as well as a request for information about the environmental and safety

7 <http://circoloborgo.blogspot.it/p/parco-marino-secche-della-meloria.html>

8 The international treaty between Italy, France and Monaco was signed on November 25, 1999, ratified and executed in Italy through the executive decree Legge n. 391 of October 11, 2001. [http://www.minambiente.it/home\\_it/menu.html?mp=/menu/menu\\_attivita-&m=argomenti.html|Mare.html|Tutela\\_della\\_biodiversita\\_marina.html|Santuario\\_dei\\_Cetacei.html](http://www.minambiente.it/home_it/menu.html?mp=/menu/menu_attivita-&m=argomenti.html|Mare.html|Tutela_della_biodiversita_marina.html|Santuario_dei_Cetacei.html)

9 <http://www.offshorenograzie.it/>

10 <http://www.vertenzalivorno.it/>

aspects of the project. Two appeals have also been sent to the regional administrative tribunal (TAR), one presented by citizens and another by the environmental organisation Greenpeace. Citizens' groups are critical of the lack of informed consultation that in their view invalidated the EIA, subsequent changes to the project that have been approved without a proper EIA, and some key safety aspects (including the impacts of equipment failure, and management of equipment failure accidents) highlighted in an independent report commissioned by the Tuscany region<sup>11</sup>. A report by WWF also highlights the impact on the sea of the use of active chlorine in the heat transfer process during regassification, and of its discharge in the sea<sup>12</sup>. The study provides evidence that the result will be the almost total sterilisation of volumes of water at the scale of 636,000 m<sup>3</sup> per day for one regassification plant of the capacity of 8 Mld m<sup>3</sup>/year<sup>13</sup>.

## Economic and financial aspects

The construction of the OLT Toscana Offshore LNG project moved forward in January 2008 with a loan of USD 185 million from the Italian bank Unicredit for the purchase of the gas carrier Golar Frost<sup>14</sup> (total cost: USD 231 million, or about EUR 160 million). In February 2008, OLT Toscana and Iride signed a contract of EUR 390 million with Saipem (Eni Group) for the conversion of the gas carrier into a floating regassification and storage unit (FRSU), and for other works related to the offshore installation and operationalising<sup>15</sup>.

11 Analysis of OLT Toscana Offshore LNG final report. Prepared by: Andrew Alderson, I.Eng, Hart, Fenton & Co Ltd; Ronald. P. Koopman, Ph.D., P.E., Pericolo Analisi Consulting; Jerry Havens, Ph.D., P.E., Havens Associates, Inc. September 13, 2010.

12 Comitato scientifico del WWF Friuli Venezia-Giulia - Livio Poldini – Marco Costantini – Maurizio Fermeglia – Carlo Franzosini – Fabio Gemitì - Michele Giani – Dario Predonzan (Ottobre 2011). L'utilizzo di acqua di mare negli impianti di rigassificazione del GNL. Documento di approfondimento.

13 Comitato scientifico del WWF Friuli Venezia-Giulia - Livio Poldini – Marco Costantini – Maurizio Fermeglia – Carlo Franzosini – Fabio Gemitì - Michele Giani – Dario Predonzan (Ottobre 2011). L'utilizzo di acqua di mare negli impianti di rigassificazione del GNL. Documento di approfondimento.

14 <http://archivio-radiocor.ilsole24ore.com/articolo-617599/iride-olt-offshore-acquista-nave/>

15 OLT Offshore Toscana LNG, Iride, Endesa, Press Release, February 29, 2008.

According to industry media, the conversion of the gas carrier was carried out by Moss Maritime<sup>16</sup>, a company based in Norway and 100 percent controlled by Saipem, and the estimated cost was EUR 90 million<sup>17</sup>. The

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conversion works were done at Drydocks World in Dubai<sup>18</sup> and not in Livorno as originally planned. It is not easy to know the exact cost of each part of the construction. However it is known that the overall costs of the project have risen from an expected EUR 400 million in 2008 to EUR 810 million or more in 2013<sup>19</sup>. The completion date has also been delayed several times since 2008<sup>20</sup>, from 2011 to the current date of third trimester 2013, without clear reasons for the delays.

The financing aspects have been key from the early days of the project. Still today there are open questions concerning the economic and financial sustainability of the project, that very likely could not have been built without the public financial support it received.

In 2009, shareholders of OLT offshore LNG Toscana were reportedly in favour of "including new shareholders that could bring in fresh resources"<sup>21</sup>.

In June 2009, the European Investment Bank's Board of directors discussed a request for a loan from Iride, and the financial plan was structured with expected "equity and loans" by the project promoters<sup>22</sup>. The *project finance* formula – with capitals collected through loans from private banks and equity from project proponents for the benefit of a company created ad hoc for the realisation of the project, with its own independent economic, financial and patrimonial status – has been tested in Italy since the mid 2000s for infrastructure projects built using public-private partnerships (PPPs).

16 <http://www.mossw.com/about.php>

17 <http://www.hydrocarbons-technology.com/projects/livorno/>

18 <http://www.hydrocarbons-technology.com/projects/livorno/>

19 Access to information request to the European Investment Bank dated December 21, 2012.

20 OLT Offshore Toscana LNG, Iride, Endesa, Press Release, February 29, 2008.

21 <http://archivio-radiocor.ilsole24ore.com/articolo-672175/rigassificatore-livorno-fondo-f2i/>

22 European Investment Bank, June 16 2009, Document 09/323, Structured Finance Facility, Offshore LNG Toscana. Proposal from the management committee to the Board of Directors. Document obtained through an access to information request to the European Investment Bank dated December 21, 2012.



Livorno, 13 October 2007. Protest against the offshore regassification plant - photo emiliano dominici CC BY 2.0 license

The shareholders of OLT Offshore LNG Toscana should have tested the interest of private banks and defined a closing agreement with them that could have allowed the repayment of the loans by a defined date, thanks to the income generated by the plant through the sale of its gas.

The EIB played a key role in giving a positive signal to the banks that were considering financing the project, and also in improving the rating of the debt generated by the project, that could then be placed on capital markets as part of the project finance architecture. In other words, the EIB loan was used to allow OLT Offshore to gain access to loans that were difficult for the company to source.

However, this public support was not sufficient to attract private banks to the business. The EIB did, however, disburse a loan of EUR 240 million in December 2011, more than two years after holding board discussions on June 16, 2009.

In the meantime, the financial structure of the project changed significantly. The project promoters abandoned the project finance model<sup>23</sup>. Iren Mercato and E.On financed OLT Offshore Toscana LNG with EUR 470

<sup>23</sup> Access to information request to the European Investment Bank dated March 21, 2013.

million in 2010, providing the financing needed to repay the loan from Unicredit for the purchase of the vessel<sup>24</sup>. In 2011 they further financed OLT Toscana with EUR 50 million. According to the Iren Group's 2011 annual report, on December 31, 2011 OLT Toscana received EUR 520 million in investments from shareholders<sup>25</sup>.

Furthermore, the beneficiary of the EIB loan changed from 2009, from Iride to Iren S.p.A. The loan was approved as *corporate finance* to Iren, anchored to the intervention of another public financial institution, the Italian export credit agency SACE (100 percent controlled by the Italian Ministry of Finance and passed under Cassa Depositi e Prestiti in 2012) that covered 80 percent of the EIB loan with a public guarantee.

The EIB loan was disbursed in three tranches between December 16, 2011 and April 10, 2012. Shortly after this, the media reported a dramatic financial crash for Iren: -20 percent in two days (in May 2012) on the Milan stock market. The true picture of a company under capitalised and highly indebted was emerging<sup>26</sup>, of

<sup>24</sup> Iren S.p.A., Relazioni e Bilanci al 31 dicembre 2010. [http://ir.grupporen.it/opencms/opencms/AEM\\_Torino/BilanciAnnualiIT.html?tipo=4.1](http://ir.grupporen.it/opencms/opencms/AEM_Torino/BilanciAnnualiIT.html?tipo=4.1)

<sup>25</sup> Iren S.p.A., Relazioni e Bilanci al 31 dicembre 2011. [http://ir.grupporen.it/opencms/opencms/AEM\\_Torino/BilanciAnnualiIT.html?tipo=4.1](http://ir.grupporen.it/opencms/opencms/AEM_Torino/BilanciAnnualiIT.html?tipo=4.1)

<sup>26</sup> Iren debt was of EUR 2.893 billion in May 2012 and of EUR

how it had distributed returns to shareholders regardless of its precarious economic and financial condition. Iren was used for “dividend lending” to its main shareholders, namely Italian local authorities. In other words, Iren used its quotation on the stock market to recapitalise itself, while distributing dividends through loans for investments. The main creditor of Iren was the EIB, possibly supplying to other private banks that may have considered it too risky to give credit to Iren<sup>27</sup>.

According to the industry press, Iren closed 2011 with a net loss of EUR 108 million, and with a devaluation of EUR 233 million<sup>28</sup>. According to the Italian financial daily *Il Sole 24 Ore*, on January 12, 2012 markets “suspended their judgement on Iren”, waiting to see what would be the level of consolidation of its debt<sup>29</sup>. OLT Offshore Toscana LNG was a significant component of this debt, given that Iren exposed itself as a company to find the capital needed for the project.

These facts raise several questions about the due diligence of the EIB and of SACE attached to the financial support they provided to Iren.

How is it possible that a financial analysis of the beneficiary did not identify the precarious economic and financial situation of the company? How is it possible, too, that this high indebtedness passed unnoticed, a state of affairs that shortly afterwards saw the company record substantial losses, endure a fall on the stock market and face important doubts over its longer term sustainability?

The two public financial institutions screened Iren through their respective due diligence procedures. In the case of the EIB, the decision on financing took some time. It remains to be clarified, however, how we ended up in the current situation and if there were any financial implications for the public financial institutions involved in financing the project.

2.653 billion at end of 2011. [http://www.reggionline.com/notizie/2012/05/16/iren-profondo-rosso-in-borsa-titolo-perde-il-20-in-due-giorni\\_12184#.UNL-XmaYNok](http://www.reggionline.com/notizie/2012/05/16/iren-profondo-rosso-in-borsa-titolo-perde-il-20-in-due-giorni_12184#.UNL-XmaYNok). Iren debt was EUR 2.6 billion on September 30, 2011. <http://www.alicenonlosa.it/Default.aspx?Page=DET&ID=57194>

27 Merian Research, March 17 2011. Gli investimenti nell'acqua: Hera, Iren, F2i e i mercati finanziari.

28 4 aprile 2012, <http://www.piazzaffari.info/energia/iren-11-do-po-bilancio-2011.html>

29 <http://www.alicenonlosa.it/Default.aspx?Page=DET&ID=57194>

Since June 2011, Iren's management has been involved in judicial investigations that lead to the arrest of a high level manager and of the vice-president of the company, as was public knowledge. However it is unclear if the EIB and SACE considered these facts fully as part of the due diligence of the financial deal with Iren-OLT Toscana, or if they informed the competent investigative and judicial authorities.

## Regassification plant for rent...

On April 3, 2013, a few days after the signature of the agreement for environmental compensations with the municipality of Livorno<sup>30</sup>, OLT announced that on July 1 “a public tender for regassification will be open for interested parties.”<sup>31</sup>

In other words, third actors can regassify LNG at the OLT terminal in Livorno (now called FRSU Toscana).

As specified by the company, the property and management of the plant remains with OLT Toscana<sup>32</sup>, that is liberating itself from the duty of finding supply contracts for the regassification plant, amidst a backdrop of gas consumption at the national level declining<sup>33</sup> and where 71.5 percent of the expected returns – based on the capacity of the plant – will be covered by the Italian state. OLT Toscana needs only to find interested third parties<sup>34</sup> that can operate the plant for a few months in the year to avoid a loss, given that a good chunk of the costs have already been passed on to the public, as per the ‘best tradition’ of *public-private partnerships!*

30 <http://www.oltoffshore.it/news/compensazioni-ambientali-il-comune-di-livorno-e-olt-firmano-la-convenzione>

31 <http://www.oltoffshore.it/news/info-per-conferimento-della-capacita-di-rigassificazione>

32 <http://iltirreno.gelocal.it/livorno/cronaca/2013/04/03/news/rigassificatore-ora-olt-e-pronta-a-cedere-1.6811936>

33 <http://dgerm.sviluppoeconomico.gov.it/dgerm/consumigasannuali.asp>

34 Oil majors that have shown interest include British Petroleum, Shell, Total, Gaz de France. [http://shippingonline.ilsecoloxix.it/p/economia\\_e\\_finanza/2013/04/02/APhR9dAF-rigassificatore\\_alzано\\_bandiera.shtml](http://shippingonline.ilsecoloxix.it/p/economia_e_finanza/2013/04/02/APhR9dAF-rigassificatore_alzано_bandiera.shtml)

