

CARBON MARKETS POTENTIAL – LATIN AMERICA

Maria Netto, 28 July 2008

Carbon markets

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KYOTO PROTOCOL
(Emissions trading,
CDM, JI)

- International mechanism
- Mandatory targets till 2012

EU ETS

- Regional market – largest
- Phase III goes beyond 2012 (till 2020)
- Allows continuity of use of CDM and JI but not clear on rules

Sub regional and
voluntary markets
(US RGGI, Wales,
Chicago)

- Small size but have doubled activity in 2008 (both in terms of demand for credits as well as value)

US "WAXMAN-
MARKEY" bill

- Would create demand till 2050
- Not clear how it will link to KP mechanisms
- Could open new opportunities as recognizing voluntary systems and accepting new types of projects (REDD)

International context

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Bali Road Map negotiations

- Demand size – Targets?
- Supply – What will be eligible?
- Scope – Reforms and use of mechanisms?

Financial crises

- Slowdown of buyers economy = lower domestic GHG emissions
- Reduced demand for CERs and ERUs

Positive signs

- EU ETS Phase III and target of 20% by 2020 = continuation of markets
- US bill = opportunity for new market
- Demand for CERs and ERUs for KP (2012) compliance continues
- Voluntary market doubled

Uncertainty

- Exact rules for use of CDM and JI in EU ETS
- Outcome of COP 15
- Extent and details of US bill
- Recognition of US bill of KP instruments

CDM potential

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Current status

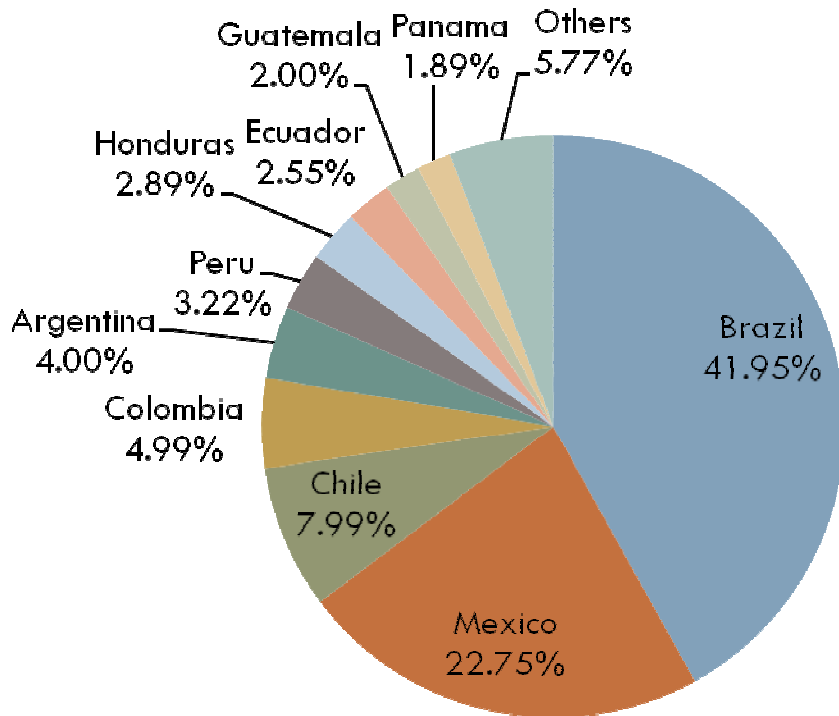
- Primary CDM market has slowed down
- Secondary market increased a lot but is very volatile
- Primes and guarantees play a more important role
- Voluntary markets became stronger
- Larger variety of type of activities registered
- Stronger concentration of projects in China (80% of projects in 2008)

CDM - investment, financial flows

- Revenues of CERs in 2008 of about \$ 6.5 bio for Primary CERs and \$ 26 bio for secondary
- Strong leverage of capital (for \$ 1 - \$ 3): CDM projects that entered pipeline in 2007 expected to result in \$ 25 - 30 bio in capital investment (even more for renewable energy and energy efficiency projects)
- The experience with the ongoing CDM shows that risks and underlying investment are at large taken by domestic capital
- Some activities may even with a high carbon price need additional incentives

CDM in Latin America

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- Active region from the beginning
- 18% of global CDM market
- 26 countries have DNAs and 20 with at least one project
- Types of projects in the region are mainly focused on:
 - Methane recovery
 - Hydropower
 - Land Fill Gas
 - Cogeneration (bagasse)
 - Biomass
 - Manure management / waste
 - Fuel Switch
- Types underrepresented include: efficiency from demand side, forestry, transport, high cost clean energy (solar, wind), industrial activities, mining.

CDM – Programme of activities (PoA)

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- Various small activities can be implemented as part of a PoA - with a large potential of GHG reductions
- Allow voluntary sectoral coordinated action
- Allow promotion of implementation of non mandatory regulation
- Opportunity in particular for some types of projects underrepresented in CDM such as demand side energy efficiency
- Methodology for energy efficiency and rules for PoA are now available – the first project on energy efficiency light bulbs from Mexico should be registered soon

CDM and carbon markets in negotiations

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Associated to discussions on incentives for “Nationally Appropriate Mitigation Actions” (NAMAs)

- For G 77 carbon markets are not enough

Reforms of regulatory system

- Issues at stake include expedite registration and validation and how to account for additionality

Scope of the supply

- Discussions over new types of eligible activities (REDD, CCS) and expansion of CDM (to sectoral, non lose targets, policy, etc.)

Progress on above will depend on the signals regarding the demand!!!

Final remarks

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- ❑ Carbon Markets will continue and have capacity to leverage investments
- ❑ Expansion of markets depends on the demand
- ❑ Access to carbon markets by project developers will depend also on rules being developed (under the Bali Road Map, EU ETS, US)
- ❑ Latin America has still a small share of the market
- ❑ A lot can be done to promote carbon markets in the meantime:
 - ❑ Promote PoAs and long term policies
 - ❑ Promote project development in underrepresented sectors
 - ❑ Promote credits and innovative mechanisms (primes and guarantees) to support underline investments and delivery capacity
 - ❑ Increase capacity of local expertise - not only to develop projects but to validate and verify them
 - ❑ Increase information sharing and transparency - because the market has great potential but is still incipient, volatile and complex.