

CDM Projects in Chile

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Clean Development Mechanism (CDM) projects in Chile have the potential for revenues of US\$ 5-8 per ton of CO₂, which is higher than the current world-wide average of US\$ 3.5 per ton. This fact is due to an advantageous investment climate in Chile and the existence of a national productive sector interested in participating in CDM project implementation.

In 2003, participation of Chile in the world carbon market was 7 % of the total of US\$ 106 million at a world-wide level. The first CDM project approved in the country is the installation of the hydroelectric plant Chacabuquito, located near the city of Los Andes, 45 km northeast of Santiago in Chile. This project is implemented in cooperation with the Japanese company Mitsubishi and it involves a total transaction of around US\$ 7 million worth of carbon bonds. The Company "Guardia Vieja" which is responsible for the installation received an amount of US\$ 950.000 from the Prototype Carbon Fund (PCF) of the World Bank. This amount is equivalent to 112.607 tons of carbon dioxide, avoided by replacing coal and gas electric plants by a renewable resource.

In Chile, the National Commission for the Environment (CONAMA, www.conama.cl), a governmental agency devoted to the country's environmental issues, is in charge of the promotion and certification of projects that could accede to Clean Development Mechanisms. Currently, CONAMA is preparing a portfolio of projects, such as solar energy production, improvement of the urban transport system in Santiago including the extensions of the subway transport, reforestation, control of methane from landfills and others. This portfolio is scheduled to be completed by the end of 2003.

In average one ton of CO₂ is sold for US\$ 3.5. But, CONAMA authorities have indicated that for Chilean projects it would be possible to achieve revenues between US\$ 5 to US\$ 8. This higher price is due to investment advantages in comparison with other developing countries. These advantages include the internationalization of Chile's economy (ranked "low risk"), the control of the fulfillment of bonds contracts as well as the existence of a productive sector interested in participating in this market.

Chile has initiated contacts for promoting CDM projects with several countries like Japan, Holland, Canada, Denmark and the United Kingdom. In the case of Denmark, a meeting promoted by both governments was carried out this year with the purpose of connecting Chilean opportunities of supplying carbon bonds with potential demand of Danish companies. Denmark already offered to finance feasibility studies for future CDM projects. In the case of Germany, the main interest lies in renewable energy projects, which could serve to finance transfer of technology, taking advantage of the recently established commercial agreements between Chile and the European Union.

Through the implementation of CDM projects Chile will experience large benefits in the areas clean energies, transport and forestation. Today, several projects are in the process of approval:

- The Company Metrogas, a distributor of natural gas to domestic networks, has applied for ten co-generation projects.
- Agrosuper, one of the main companies in the poultry industry, has applied for a methane emission reduction project.
- A potential CDM project is concerned with the forestation of 5000 hectares in an eroded zone.

Preliminary evaluations have shown that forestation projects of 100 hectares could accede to CDM. These projects would allow rural families to mainly earn their living from the forest during a period of 20 years. If this experience is successful, this mechanism would be an important promoter for the forestation of eroded countryside with a consequent delay in the desertification process in vast areas of Chile's continental territory.



Figure: Chacabuquito hydroelectric power station with an installed capacity of 26 MW.