

## A. Expression of interest

### Partnership for Market Readiness (PMR)

#### Expression of interest in participating in the PMR

*Countries seeking support from the PMR are requested to prepare a cover letter, including a short statement confirming the country's interest in participating in the PMR. The cover letter should be accompanied by an Annex containing the following information:*

**1. Name of the government agency submitting expression of interest**

MINISTRY OF ENERGY

**2. Name and contact information of designated PMR Government focal point**

Mr. Jaime Bravo Oliva, Chief of the Sustainable Development Division

E-mail address: [jbravo@minenergia.cl](mailto:jbravo@minenergia.cl)

Phone: 562 -3656876

**3. Domestic mitigation action:** outline what are the purposes and main objectives of your country's mitigation strategy.

The main purpose of Chile's mitigation strategy, outlined in its National Climate Change Action Plan, is "to work towards becoming a low-carbon economy as a means of promoting sustainable development in Chile as well as a means of contributing to global efforts to reduce GHG emissions". To achieve that, the Action Plan establishes the following guidelines: update of greenhouse gas inventories; assessment of the country's GHG mitigation potential; generation of mitigation scenarios in key emitting sectors; and formulation of a national plan for GHG mitigation and related sectoral mitigation plans, which will be underway by 2012.

In line with this overall mitigation purpose, Chile committed to take nationally appropriate mitigation actions to reduce the growth rate of its GHG emissions by 20% deviation below the "Business as Usual" by 2020, using 2007 as the base year. This commitment, stated by President Piñera during his first State of the Nation, was submitted to the UNFCCC Secretariat on August 23 2010, in response to Annex II of the Copenhagen Accord. To accomplish this goal, Chile will need a relevant level of international support. In addition, a robust coordination process within key sectors including governmental institutions and the private sector will also need to be established.

This ambitious aspiration, which is completely voluntary based on the fact that Chile is still a developing nation, will be achieved by three strong lines of action that promote clean energies as well as address forest degradation. These lines of action are: Non conventional renewable energy, energy efficiency and sustainable forest management.

- a. Provide an overview of domestic mitigation policies and plans and the status of the implementation - at both the national and sub-national levels.

Energy:

There is no direct or explicit guidance of domestic policies and plans implemented by the Ministry of Energy regarding the issue of climate change. However there are various instruments and programs the Ministry has made available to the energy industry, which dealt with the mitigation of GHG emissions from within their areas of application. These instruments and programs, which fell in the so called "early mitigation" actions category coined during the process to negotiate a new legally binding agreement for all Parties to the Convention, are an essential component of the mitigation package that will enable the country to fulfill its GHG limitation growth commitment set by President Piñera. For non conventional renewable energy, Chile has in place a renewable portfolio standard requiring, by this year, that generation utilities provide at least 5%

of the electricity sold to come from renewable energy sources. This requirement goes up every year until reaching 10% by the year 2024. Currently, based on a goal that President Piñera has set, the Ministry of Energy is working to increase this requirement up to 20% by 2020. Additionally, a number of policies and programs are in place that foster the market penetration of NCRE technologies that show a big potential in Chile, such as solar, wind, geothermal, biofuels and mini hidro.

At the same time, the Ministry of Energy has adopted energy efficiency as its workhorse in its policy to reduce emissions. After 5 years of a successful performance, the Award winning, National Energy Efficiency Program (PPEE) has evolved into the Chilean Energy Efficiency Agency (AChEE), a public-private initiative that will have more flexibility to implement EE programs and carry out EE projects, leaving the policy making aspect to the Ministry.

Also, a labeling system has been established for appliances, now expanding to cars and housing. In addition, the ISO 50.001 standard for energy management was just adopted and in the next few months, the Ministry will issue a series of Minimum Energy Performance Standards, also known as MEPS for light bulbs and industrial electric motors.

Finally, the Government has spent many million dollars on subsidies and pilot projects aimed at overcoming the initial barriers for technologies to entry the market, especially on housing retrofitting, electric motors and public street lights.

We have to emphasize the importance of international cooperation, especially on the design of these policies and the implementation of these programs. We have carefully studied the international experience and analyze the examples that are more appropriate to our reality. An example of that is a bill proposal in the making, which will introduce a net metering system in the country.

- b. Briefly identify the key sectors targeted by the mitigation strategy.

The study on a national ETS briefly outlined in section 5 will define the key sectors targeted by the mitigation strategy. As of now, indicators to identify and select the sectors are being developed.

**4. Market Instruments<sup>1</sup>:** briefly outline experience to date with relevant market instruments as well as future plans.

- a. Provide a brief description of experience to date with market-based instruments, e.g., type of instrument, dates of implementation, scope, and key outcomes.

Clean Development Mechanism.

Since the Kyoto Protocol was adopted in 1997, Chile has been actively engaged in promoting and implementing projects under the Protocol's Clean Development Mechanism (CDM). During the negotiation and approval process of the Marrakech Accords (2001)<sup>20</sup>, Chile played a leading role in advancing the launch of the Mechanism by proposing an interim implementation phase in 1998. During this interim phase the CDM was organized as outlined in the Marrakech Accords, including the specification of the Executive Board to its methodology panels and accreditation of designated operational entities<sup>21</sup>. Even before the Protocol entered into force, this interim structure facilitated the registration of the first CDM projects with the Executive Board.

<sup>1</sup> Without prejudging future developments on market instruments, this question refers to instruments providing a price signal that create an incentive to use or invest in climate-friendly technologies and/or processes. Such market instruments can include domestic instruments (e.g., emissions trading and non-GHG based schemes such as renewable energy and energy efficiency trading systems) and international market instruments such as reformed CDM, sectoral, and NAMA crediting.

True to its interest in making prompt use of the CDM, in 2003 Chile established its Designated National Authority (DNA), which is a Kyoto Protocol requirement for all countries seeking to develop emissions reductions and capture projects through the CDM and participate in the so-called carbon market. The promotion of the CDM in Chile and abroad, the DNA's review of projects, and Chile's array of cooperation agreements with industrialized nations in areas related to the CDM have helped Chile in establishing 71 projects approved by the DNA, 40 of which are registered with the CDM Executive Board (as of December 2010). These projects imply an average reduction of 5,140,813 tons of CO<sub>2</sub> equivalent per year, or approximately 1% of all CO<sub>2</sub> equivalent emissions for 2010. Two projects were requesting registration at the end of 2010. The main activities covered by the CDM in Chile have been run-off-the-river plants, methane capture, wind farms and biomass.

#### Economic instruments under Chile's environmental regulations.

Chile's environmental regulations consider the use of economic instruments in policies and environmental management instruments. However, additional work is needed on the implementation of these types of instruments to complement the command and control measures the country uses in its environmental policies and instruments.

Chile's environmental regulations are founded upon Law 19,300 (1994), on the General Environmental Framework. The Law's article 47 provides for the use of economic type instruments as part of a range of tools designed to prevent and/or monitor pollution. The Law states: "Prevention or decontamination plans may employ the following regulatory or economic instruments, according to the specific characteristics of the case: i) Emissions regulations; ii) Tradable emission permits; iii) Taxes on emissions or user fees that shall take into account the environmental cost implicit in the production or use of certain goods or services; and iv) Other instruments designed to foster environmental improvement and reparation actions." As regards the generation of environmental standards, Articles 32 and 40 of the Law state the general procedure for the establishment of environmental quality and emissions standards, respectively. Both procedures include an economic and social assessment report related to the implementation of each standard.

Some of the economic instruments currently used in Chile are:

- Particulate matter emissions compensation system in the Metropolitan Region: Decrees No. 4 (1992) and No. 812 (1995), both issued by the Health Ministry, create and regulate a compensation system for emissions of particulate matter in Santiago, the objective of which is to support the decontamination process of a basin with problems related to excessive pollution.
- Individual transferable fishing quotas (*Cuotas individuales transferibles de pesca*), CIT: The Chilean Fishing Statute (*Estatuto de Pesca Chilena*), enacted in September of 1991, defines CIT as transferable, divisible, and not bound to vessel property. The law authorizes the application of CIT in two situations: when there has been overexploitation of a fishery or alternatively, when a new fishery is being developed.
- Technical Assistance Fund (*Fondo de Asistencia Técnica*), known as FAT, for environmental improvement and clean production projects (environmental FAT). This is a production promotion instrument that has long been applied in the country through the *Corporación de Fomento de la Producción, CORFO* (Chile's Economic Development Agency), and which has been provided with an environmental specialisation to support processes for improving environmental management in productive sectors.
- Eco-labeling for ozone and organic agriculture: the first was part of a national program to implement The Montreal Protocol on Substances that Deplete the Ozone Layer (1987) ratified by Chile through Decree No. 238 (1990) issued by the Ministry of Foreign Affairs.
- At this time, a legislative proposal that creates a system of decontamination bonds is

proceeding through the National Congress. This legislative proposal is structured as a framework law that seeks to combine two structural objectives for the country's sustainable development: the consolidation of a growth strategy with environmental protection.

- b. To the extent that one (or more) specific market instrument is already identified for future implementation, provide a brief overview of the status of development/implementation and its relevance to the country's overall mitigation strategy.

As thriving as the CDM has been in Chile, in the Government there is recognition of the need for newer and more aggressive market-driven mechanisms that will have a stronger effect in the decision making of investors. This is particularly relevant now that Chile is on its way to become a developed country. And for that, the country has being proactive in studying and evaluating the best market based forms to reduce GHG emissions. This is why the Ministry of Energy is currently conducting a study on Emissions Trading Systems that will set the basis for a future Cap & Trade system. This project shows a strong belief on market based mechanisms and the country's commitment to be part of the solution of the climate change problem. The final results of this study will be available at the end of the first halve of 2011.

As of now, the primary findings are very promising since they show that Chile does have the essential fundamentals to establish an ETS in the country, these being an appropriate and solid institutional and economic foundations, a dynamic private sector and a working legal framework and that we will have to eventually link our ETS to other markets and further research will be needed. However, as our learning progresses, it becomes more clear that in order to implement a major reform like this one, the country will need further assistance for capacity building, developing new instruments that will facilitate the implementation of our future ETS and we will also require a platform to carry on a permanent discussion on all technical issues. The need to link with other markets poses additional major challenges since nothing similar has ever been implemented. We fully agree that major programs like this one need a pilot to be deployed prior to the final execution. This is where we find a link to the PMR launched by the World Bank.

**5. Support from the PMR:** provide a short summary of your current assessment of the capacity needs and gaps for which support from the PMR is being sought. To the extent that one (or more) specific market instrument is identified, outline the type of support that your country may be seeking from the PMR.

Study as Assessment

We are currently conducting a study on Emissions Trading Systems that will be a first assessment of (a) the best examples of ETS from around the world and (b) the country's institutional capacity to implement this important market instrument. From the very beginning we realized that researching and implementing such reform will be a major endeavor, so we requested and received valuable technical assistance from the International Energy Agency, as well as technical advice from experts of the U.S. EPA and the Government of New Zealand.

Although our primary findings show that Chile has most of the essential institutional components, such as appropriate institutional and economic foundations, a dynamic and well regulated private sector, and a working legal framework, we realize that further work needs to be done in order to establish the right attributions to the different institutions.

On all other areas, it is evident that we need further assistance, specifically for:

- Further research and design of the ETS, including the appropriate type, scope and scale.

- Doing research on other complementary mechanisms, such as a carbon tax, boosting programs for energy efficiency and renewable energy markets, etc.
- Developing necessary institutional tools and financial instruments that will facilitate the implementation of the ETS.
- Capacity building to carry on further research, deliver and operate the resulting ETS.
- Developing of a platform to carry on a permanent discussion on all technical issues.
- Quantifying the emissions reduction that will be achieved by the system.
- Determining the potential impact on the economy, paying special attention to impact on economic growth and structural adjustments of the economy.
- Establishing a measurement, report and verification system (MRV) with a suitable registry system that are consistent with the requirements of international carbon markets.

We are also convinced that major programs like this one will need a pilot to be deployed prior to the final execution.

Knowing what we have done and the type of work we have ahead of us, makes us realize that working with the PMR is exactly what we need in order to research, design and implement the right ETS for Chile.

**6. Institutional setting:** how would you plan to coordinate the PMR efforts at the domestic level, i.e., which Ministry would lead and which government agencies would be involved?

The Ministry of Energy will lead and coordinate the implementation of the PMR in Chile. A possible coordination figure would be a Steering Committee drawn from the Climate Change Technical Committee currently under operation, which could be further strengthened by inviting non-governmental stakeholders (such as selected private sector representatives). The SC would regularly meet to monitor and provide advice during the PMR project implementation phase. A higher level decision-making figure which would endorse the final results of the PMR for Chile (or take any other political decision relevant to the project) would be the Board of Ministers for Sustainability, where key GHG emitting sectors are represented.

**7. Stakeholder participation:** are there intentions/plans /processes to engage non-governmental stakeholders (e.g., private sector)? If so, provide brief description.

Yes. Given the crucial role that the private sector plays in climate change mitigation, and given their involvement in the use of market instruments such as the CDM, they need to be part of an initiative such as PMR. So, representatives of the main business associations in the country, which are also relevant to the implementation of potential mitigation policies, will be invited to become part of the initiative. One possible way would be through the Steering Committee mentioned under section 6.

**8. Initiatives by other bilateral and multilateral development partners:** outline any initiative(s) pursued with other international partners underway in your country that is (are) relevant to market readiness support (e.g., low carbon development strategies, MRV, etc).

There is no other bilateral or multilateral initiative underway in Chile relevant to market readiness.

