



Partnership for Market Readiness

Template for Expression of Interest and Market Readiness Capacity Questionnaire

October, 2012

The ***Expression of interest***, which includes an official cover letter and policy statements, provides an opportunity for a country to formally seek for support through the PMR and express its interest in using market instruments as a potential mechanism to achieve climate mitigation actions within its national political context.

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 ECONOMY AND FINANCE

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

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

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

Our First National Strategy on Climate Change was elaborated in 2003. Since then, however, the scope of action has widened and the work tools have evolved. This rapid evolution made us realized that our National Strategy was falling short and that we needed to improve it. That is the reason why we are preparing a revised version for period 2012 – 2021 that will be completed soon. Improvements, revised objectives and indicators, as well as new lines of action have been incorporated, so it is now a much more complete strategy.

In the frame of the UNFCCC, Peru advocates the need for every Party to contribute, according to the Convention principles, to the global mitigation. Consequently, voluntary mitigation goals have been submitted by Peru in the sectors of LULUCF, energy and solid waste, which are equivalent to a 40% reduction of national GEI emissions for year 2021 as compared to 2000.

During the last decade, regulations were established to promote the incorporation of environmental considerations into those productive sectors identified as major emitters. Accordingly, various policies were implemented, including the following: the establishment of the Selective Consumption Tax on Fuels, which Introduces the principle of proportionality to the degree of harm from contaminants they contain; the implementation of the Gas Conversion Program, that promotes the shift from old vehicles to new ones that consume gasoline and natural gas (GNV); the promotion of Public – Private Infrastructure Investment Project with high impact on reduction of emissions of greenhouse gases (wastewater treatment plants, renewable electricity generation, expanded use of natural gas, improvement of urban transport, etc.); and the application of a lower social discount rate to those projects whose externality is the reduction of greenhouse gases released into the atmosphere.

In addition, projects focused on diversifying the energy matrix; improving solid waste management; and developing renewable energy were encouraged.

Furthermore, the strategy has also focused on identifying new areas with potential on emission reduction by analyzing different causes (social, legal, technological, etc.), so we can develop and

apply new and improved policies. For this purpose, a project has started to device mitigation plans and scenarios (MAPS). It has already produced a revised GHG inventory and will identify optimal sectoral tracks to attain low emission development. Peru has also incentivised the generation of projects under the Clean Development Mechanism (CDM) and under the programme on Reducing Emissions from Deforestation and Forest Degradation in developing countries, including conservation and sustainable forest management and increasing carbon stocks (REDD +).

Finally, Peru is currently working on a draft of our Low Emission Development Strategy (LEDS).

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

The economic sectors in which our mitigation strategy is focused are: Energy, Transport, Industry, Forestry, and Waste, in which several international cooperation agreements initiatives are being developed in order to establish NAMA's schemes .

In the energy sector, several initiatives have been introduced, including tax incentives, to promote the use of natural gas, and the generation of renewable energy. An important portion of the electricity generated nationwide is hydroelectric, however thermal generation has increased in the last years due to i) increased demand; and ii) the impact of drought on hydro based power generation. Keeping in mind both effects and National energy security, Peru has promoted Actions for Unconventional Energy Generation Projects to encourage the use of technologies for harnessing wind, solar, biomass and biogas energy.

In the transport sector, the most important actions on mitigation are the normative and fiscal efforts to increase imports of new vehicles (new regulations on used car imports have also been imposed); the construction of efficient public transport infrastructure like segregated high capacity corridors in Lima Metropolitana; the encouragement of natural gas usage through the replacement of fuel in urban transport units and taxis through a micro-credit system, the removal of diesel-based vehicles, the implementation of vehicular technical inspections. Finally, Peru has reduced fuel subsidies.

In the fishng and industry sectors regulatory measures have been put into practice. Although these policies were primarily intended to improve the competitiveness, efficiency and clean production in both sectors, it is expected that those initiatives generate GHG emissions reductions. This is the case of the promotion of technological innovation in the manufacturing sector, the technical standards of boilers and the environmental obligations in the fisheries and canneries.

In the forestry sector, which is the sector that has received the most attention, progress has been made in the institutional and policy framework. Actions to restore and maintain forest ecosystems have been implemented by the Central Government, Regional Governments and Civil Society. More technical and financial support (both national and international) is still required, though. The National Government, represented by the Ministry of Environment, is running two highly relevant projects in this sector: i) the National Conservation Forests for Climate Change Mitigation, an ambitious proposal to stop deforestation and to successfully achieve sustainable conservation of 54 million hectares of forest; and ii) the community forest conservation component, which through direct and conditional cash transfers seeks to preserve, in the following five years, at least 10.5 million hectares of Amazonian forests located on lands entitled to indigenous communities.

Regarding the process of reducing deforestation, REDD + projects are a promising tool for the country, not only to mitigate emissions, but to improve local economies, promote private investment and preserve key environmental services. In March 2011, after a joint effort with the agriculture and economy ministries, civil organizations, organizations of indigenous peoples and other stakeholders, the Readiness Preparation Proposal (R-PP) for the preparatory phase of REDD + was completed. This document is now the basis for the construction of the REDD + Strategy Peru. Other related initiatives

include the "Strengthening technical capacity for the implementation of a REDD Strategy in Peru", which is been executed since 2011, and supports the preparation phase for REDD + with the design of methodologies for MRV, which will be fed with the experiences in the pilot regions of San Martin and Madre de Dios. A plan to guide investments in initiatives related to REDD + is also being developed, this exercise has been supported by the Forest Investment Program (FIP), framed in Phase II of REDD + (implementation phase). International support has been offered by CIF-FIP (50 million US\$) to Peru as a pilot country to support avoided deforestation projects and transformational concomitant changes through a forest investment plan.

In the waste sector, 71.2% of the solid waste generated nationwide, is disposed in dump sites or burned, thus adversely affecting environmental sustainability. To address this problem, Peru is implementing the National Plan on Solid Waste (PLANRES, for its acronym in Spanish), intended to reduce national production of solid waste and control environmental and health risks generated by it. The National Government is also implementing the Development Solid Waste Management Systems Programme in priority areas which aims to improve systems of collection, treatment and disposal of waste.

4. Market Instruments¹: Please 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 November 1998, Peru has been actively engaged in promoting and implementing projects under the Protocol's Clean Development Mechanism (CDM). MINAM is the Designated National Authority (DNA) and has awarded 82 national letters of approval to CDM projects that meet the criteria of sustainable development. The number of projects approved by year has been increasing, from 1 in 2001 to 22 in September 2012.

Currently, 11 of these 82 projects have already received payments for putting into the international market Certified Emission Reductions (CER). Together, these 82 projects represent a reduction of over 95 million tons of CO₂eq. The most frequent projects are hydroelectric plants (60%), followed by fuel switching (8%) and solid waste (6%). Peru is considered one of the most attractive countries for investment in CDM projects globally.

Emissions reduction potential by sector under the CDM

Sector	Projects	Potencial
Energy and Industry	<ul style="list-style-type: none"> • Energy efficiency measures: Change of fuels by increasing energy efficiency • Modification of industrial processes • Usage raw materials with less carbon content • New renewable energy sources • New natural gas plants of combined cycle 	There are 101 CDM projects in the country's portfolio, with a reduction potential of 21,041,966 tons of CO ₂ eq/year. These projects represent an investment of approximately US \$ 6,901 mill.
Transport	<ul style="list-style-type: none"> • Use of more efficient fuels • Use of fuels with lower carbon content • Measures of efficiency in mass transportation • Modal shift of transport 	There are 4 CDM projects in the national portfolio with a reduction potential of 1,435,434 tons of CO ₂ eq/year. These projects represent an investment of US \$

¹ 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.

		1,006 mill.
Waste	<ul style="list-style-type: none"> Transformation of organic waste (composting) Capture and burning of methane in landfills and oxidation ponds Closing municipal dumps Using methane as an energy source 	There are 11 CDM projects in the national portfolio with a reduction potential of 1,076,702 tons of CO ₂ eq/year. These projects represent an investment of US \$ 539 million.
Forestry	<ul style="list-style-type: none"> Reforestation on degraded lands Afforestation of new areas 	There are 27 CDM projects in the national portfolio with a reduction potential of 53,028,186 tons of CO ₂ eq/ year. These projects represent an investment of US \$ 66 mill.

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

Considering that the Peruvian experience with market-based instruments has been successful, we have decided to explore the possibility of using innovative and more promising market mechanisms to accomplish our mitigation goal.

Peru have already started to explore these market-based mechanisms as we are already carrying out an investigation about the legal and institutional feasibility of implementing a carbon market in Peru, and we are now preparing the terms of reference to investigate which the price of carbon should be in case Peru decides to implement a carbon market. The results of these two consultancies are expected to be ready in the first half of the following year.

Being part of the Partnership for Market Readiness will certainly help Peru to: i) deepen their knowledge about the most cost-effective approaches to face climate change; ii) learn about the experiences of other countries; and iii) make a decision about which are the best market-based instruments that we can put into practice.

5. Support from the PMR: Please 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, please outline the type of support that your country may be seeking from the PMR.

Peru has not yet decided if it is going to implement: i) an Emission Trading Scheme (whether it is going to be voluntary or sectoral needs also further discussion); and/or ii) a scaled-up crediting mechanism. Peru has great disparities between economic sectors. This fact has made us realized that we should not intent to apply the same financial instrument to all the economy, and that instead we should keep exploring both alternatives as we know that different instruments should be applied to different sectors.

In order to deal with this complex reality and reduce our levels of uncertainty we expect to receive PMR support in the following areas:

- Further research and design of the ETS, including the appropriate type, scope and scale. Will also be appreciated to further explore the viability of developing sectoral ETS.*
- Developing necessary institutional tools and financial instruments that will facilitate the implementation of the ETS.*
- Research on other additional /complementary mechanisms, such as a scaled-up crediting, and its applicability, and legal and institutional feasibility in Peru.*

On other relevant areas, it is evident for us that we still need further assistance, specifically for:

- *Generating additional information regarding the potential impacts of the implementation of these financial mechanisms on the economy, paying special attention to impacts on economic growth and structural adjustments of the economy.*
- *Capacity building to carry on further research on market-based instruments.*
- *Quantifying the emissions reduction that will be achieved by the system.*
- *Establishing a measurement, report and verification system (MRV) with a suitable registry system that is consistent with the requirements of international carbon markets.*
- *Provide technical assistance on pilot an ETS and/or emissions crediting.*

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 Economy and Finance together with the Ministry of Environment will lead and coordinate the work under the PMR initiative due to their competences on financial markets and climate change, respectively.

There will be, additionally, an inter-ministerial working group, which will be comprised by 5 ministries: Ministry of Economy and Finance, Ministry of Environment, Ministry of Mining and Energy, Ministry of Transport and Ministry of Agriculture. These last three ministries were included as these have been the three prioritized sectors to be involved in the PMR process.

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

Yes, there are. We are fully aware of the importance of including the private sector in the endeavour to explore market instruments. Our first approach to them will be focused on exploring their receptivity to these new ideas and on working with them to determine which would be the best market instrument to apply in their economic sector (as have been mentioned before, our economic sectors have different degrees of development and each one of them will probably need its own market instrument).

Once we have identified the most suitable course of action for each prioritized economic sector, we will immediately engage its corresponding group of non-governmental stakeholders to design the implementation plans.

8. Initiatives by other bilateral and multilateral development partners: Please 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).

As have been mentioned before, Peru has already started to explore the possibility of implementing market-based mechanisms. We are carrying out an investigation about the legal and institutional feasibility of implementing a carbon market in Peru, and we are now preparing the terms of reference to investigate which the price of carbon should be in case Peru decides to implement a carbon market. The results of these two feasibility studies are expected to be ready in the first half of the following year.

We are sure that these two documents will be important inputs for our PMR processes and we trust that their results will encourage us to keep working towards a successful implementation of pilots.

