**Center for Clean Air Policy
Climate Change Initiative
Grant #DE-FG-36-96GO10154
Final Report**

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Purpose of Grant

The purpose of this document is to provide a final report on work performed by the Center for Clean Air Policy under US Department of Energy Grant # DE-FG-36-96GO10154. Under the grant the Center was to engage in activities related to joint implementation, namely identification of projects, location of potential project investors and coordination of project submissions to the US Initiative on Joint Implementation (USIJI.) The Statement of Work for the grant indicated that the Center would identify two new projects during the grant period, contact 25 or more potential investors for the projects and submit to USIJI a proposal for at least one project.

Results

We were successful in meeting the goals described in the Statement of Work. Most importantly, we were able to help guide a carbon sequestration forestry project in Panama, the Caobocorp project, through the USIJI application process. The project was accepted by USIJI in 1997. We helped the project to develop its pro forma financial statements, quantify GHG impacts, develop a financial structure, identify potential investors and complete its USIJI application.

We worked with a number of other projects as well, including an innovative renewable energy/carbon sequestration project in Costa Rica (Biodiversifix), two biomass projects in the Czech Republic (Aktiva and Sublima) and a number of biomass projects in Hungary. Services provided to these projects included analysis of financial feasibility, estimation of project greenhouse gas impacts and marketing to project investors. The analytical work on Biodiversifix was particularly innovative, in that it involved the merging of a forestry project with a renewable energy project for the purpose of improving the financial appeal of the forestry project. Our marketing efforts included visits to a large number of private investors, primarily electric power generators, and participation in climate change and renewable energy conferences in the US and abroad (e.g., the Sino-US Bilateral Roundtable on the AIJ Pilot Phase held in Beijing, China.) These projects were unsuccessful in attracting investors and gaining USIJI approval.

We believe that there were two primary reasons that we were unable to bring more projects through to closure. The first is the lack of credit during the AIJ pilot phase. (The pilot phase of AIJ (Activities Implemented Jointly) was established in 1995 by the Parties to the Framework Convention on Climate Change.) The purpose of a carbon market is to make greenhouse gas emission reduction projects more attractive by creating a financial value for the emissions reductions benefits provided. This financial value does not exist under current market conditions, however, because the international

community of nations has not yet implemented restrictions on greenhouse gas emissions and because the countries that signed the UN Framework Convention on Climate Change decided that greenhouse gas emissions credits would not be awarded during the AIJ pilot phase. In short, the projects with which we were working were not made more profitable by the fact that they were reducing greenhouse gas emissions.

The second problem we encountered was the insistence from the Czech government to providing host country approval for projects. While we were successful in the past in getting its approval for the Decin project, the first fully-funded and operational JI project in the world, the Czech government was reluctant to consider any other projects while uncertainty over the Framework Convention rules for JI was unresolved.

Conclusion

We believe that the work we accomplished during the grant period provided a great deal of useful information about the market for greenhouse gas emission reduction projects. We gained useful insights into the logistics and costs associated with greenhouse gas project development and approval; the barriers to implementation that projects face; the needs of investors, and the fact that credit for emission reductions is essential; ways that the project approval process may be simplified and improved; and other elements that must be in place to make projects happen. We judge the project to be a success because we were able to learn these lessons and have been able to disseminate them, and because we were able to help bring the Caobocorp project through to USIJI approval.

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