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IRIS KYOTO

Innovative Risk Coverage and Financing of Projects related to the implementation of the CDM focussing on India and Morocco

Project supported by
the Synergy program
from the European Commission

Countries around the world have recognised the urgent need to take action to reduce Greenhouse Gases (GHGs) in order to address the climate change challenge. In December 1997, more than 160 other countries met in Kyoto, Japan, and agreed to targets to reduce GHG emissions. The agreement that set out those targets, and the options available to countries to achieve them, is known as the Kyoto Protocol. The European Union signed up to an agreement to reduce GHG Emissions by 8% on 1990 levels during the years 2008 - 2012. The Protocol will only become legally binding when it is ratified by at least 55 countries, covering at least 55 per cent of the emissions addressed by the Protocol.

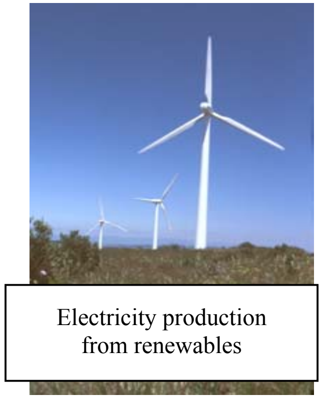
The Protocol also includes market-based instruments known as the Kyoto Mechanisms that allow countries to earn or buy credits outside their borders, including the Clean Development Mechanism (CDM) and the International Emissions Trading (IET). The CDM is a way to earn credits in the form of "certified emission reductions" (CERs) by investing in emission reduction projects in developing countries. and these credits can be used towards meeting a country's Kyoto target. IET will permit developed countries that have taken on a Kyoto target to buy and sell part of their assigned amount of CO_2 emissions among themselves.

The rationale behind emission trading is to ensure that the emission reductions take place where the cost of the reduction is lowest thus lowering the overall costs of combating climate change. This allows a Government to regulate the amount of emissions produced in aggregate by setting the overall cap for the scheme but gives companies the flexibility of determining how and where the emissions reductions will be achieved. Companies are allocated allowances. Emissions trading allows companies to emit in excess of their allocation of allowances by purchasing allowances from the market. Similarly, a company that emits less than its allocation of allowances can sell its surplus allowances.

The goal of the project IRIS KYOTO **"Innovative Risk Coverage and Financing of Projects related to the implementation of the CDM focussing on India and Morocco"**[1] is to address important project development and financing barriers to the successful implementation of the CDM, building a practical methodology for implementing real CDM projects. In developing CDM projects, risk analysis and spread, taking into account risk perception and aversion of private players and their related requirements in terms of returns must be revisited, looking not only at the classical project risks but also those related to the mobilisation of carbon finance.

[1] IRIS KYOTO, started in April 2003 and lasting 24 months, involves 5 countries: France, Morocco, India, England ad Germany.

The IRIS KYOTO consortium studies three types of projects :



Electricity production from renewables

Energy efficiency in industry and agriculture

Mass urban transport

The project will be phased as follows :

- Better define / qualify and quantify specific risk management and financial limitations,
- Define the added opportunities brought by the CDM through the sale of CERs and the involvement of new players,
- Identify tools and opportunities, through real projects in the pipeline, to work out appropriate risk allocation and mitigation instrument and therefore facilitate the financing of CDM projects in the following sectors: renewable energy schemes, energy efficiency in industry and agriculture and mass urban transport,
- Provide sets of recommendations to multilateral and bilateral agencies, governments and private stakeholders on how to use public funds (grants, soft loans and commercial loans) together with private cash flows to minimise risk,
- Disseminate the project recommendations via a series of workshops, website, CD-ROM and publications.

Consultations, discussions and brainstorming sessions will address the viewpoints of the various players. Four workshops will be held: two in Brussels, one targeted to financial partners and on instruments (2004), the other one to disseminate the project results; in Morocco and India, sector specific and with strong involvement of local players, particularly aiming at national capacity building.

If you wish to participate to the IRIS KYOTO project or simply be updated on the project progresses, please send back the following form :

The information given in this document does not necessarily represent the opinion of the EU

Company - Organisation: .... Activity : ....

NAME : .... First name : ....

Function or Department : ....

Address : ....

....

....

Tel. : .... Fax : .... E-mail : ....

Your organisation / company is interseted in CDM projets ? Yes / No Why ? ....

From your experience, what are the risks perceived with such projects and which mitigation measures are used ?

....

You wish to : participate if the opportunity allows for it ☐ be updated ☐ on the project IRIS KYOTO