

The Spanish commitment with the Latin American region in matter of CDM

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Executive summary

The commitment to the Kyoto Protocol is an essential and priority part of the Spanish government's environmental program. The strategy of the commitment lies essentially in domestic policies and measures of reduction. Additionally it also includes the use of flexibility instruments, in particular Clean Development Mechanisms (CDM). For the first commitment period Spain must achieve 100 million tons of CO₂ reduction.

CDM is considered as a key instrument in international actions against climate change because of its contribution to both the establishment of a low carbon economy and the generation of wealth and prosperity in local communities. Governments decide on which projects to support and thus have an important role to play in the efficiency and the success of these

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kinds of environmental policies. The criteria applied by the Spanish public authorities distinguish between the kind of projects, the geographic areas of interaction and the position of international negotiations. Preference is given to projects concerning energy and sustainable management of waste. For political, strategic and commercial reasons Latin America seems to be the preferred area for interaction.

In this context the efforts of the different ministries involved and their territorial approach are mentioned throughout this paper. The most relevant political issue in the region is the creation of the Latin American Office of Climate Change Network (RIOCC), but special attention must be paid to the strong interaction in funds of carbon managed by multilateral financial institutions. This shows an indication of the preference for Latin America, the use of instruments of support for foreign trade, the bilateral relation with governments and national authorities designated by the Latin American countries, etc.

1. Spanish strategic vision of CDM

When on May 8th 2002 the Spanish Parliament unanimously approved the confirmation of the Kyoto Protocol, the set of derived obligations was formerly enacted and the commitment of the European Union to its actions against climate change was supported.

Like the rest of countries included in Annex B of the Kyoto Protocol, Spain has committed itself to a restriction of emission growth. For Spain, this means in concrete a limitation to 15% over the emissions in the base year 1990. In addition to the commitments coming from the United Nations Frame Convention on Climate Change, the complementary obligations derived from the Protocol are added.

The amounts of emissions allowed that were assigned to the different European Member States when adopting the Protocol, follow from an agreement on the redistribution of efforts. However, the agreement reached by the Ministries of Environment in 1998 and aiming for a rather equal distribution of efforts (given the knowledge about actual emissions at that

time) has not performed as expected¹. An increasing number of analysts² therefore believe that Spain will aim for more equity being present in (a possible) post-Kyoto regime.

Anyhow, the Spanish Government feels a strong engagement with the word given and the obligations already enacted. The commitment to the Kyoto Protocol is therefore essential in its governmental program: since April 2004 it has been one of the most significant action items of the term.

The Spanish government essentially relies on domestic policies and reduction measures, but additionally invokes the flexibility instruments provided for in the Kyoto Protocol in order to reach the required emission reduction. In this context the 'Plan Nacional de Asignación' (Spanish National Allocation Plan - NAP)³ was developed, which states that the total volume of allowances needed for the first period of the Kyoto Protocol commitment adds up to 100 million tons, i.e. 7% of the emissions in the base year.

This number results from the basic scenario approved by the government as an essential reference in the process of adoption and application of the NAP 2005-2007. According to this reference, the emissions' average in the period of Kyoto may not exceed 24% of the emissions of the base year (15% from the Protocol, 7% from mechanisms and 2% by national drains). The purchase of 100 million tons through flexible mechanisms requires also a huge budgetary effort and should be accompanied by a coherent strategy, part of a wider framework. Different options should, for instance, be evaluated from both a strictly commercial and a strategic-political point of view.

It is clear that an institutional framework is needed that contributes to the proper working of the system. In concrete:

¹ Note that the emissions per capita in Spain in 2003 (25 points below the Kyoto target- were still slightly below the average emissions per capita of the EU 15.

² Note as an example the recent report of the Wuppertal Institute "Taking the lead: post-2012 Climate targets for the North3. Wuppertal Papers n°155, nov 05, where a bigger differentiation between the targets set for the countries now included in Annex 1 of the CMNUCC (United Nations Framework Convention on Vlimate Change) is defended and Spain is pointed out to must (together with Greece, Portugal, and New Zealand) be part of a subgroup with not such demanding targets as the current ones in terms of effort.

³ Royal Decree 1866/2004, on September 6th, where the 'Plan Nacional de Asignación 2005-2007' (National Plan of Assignment) is approved.

- a) any project promoter should be able to obtain an approval letter from the State;
- b) the Government should have a view on the potential of third party countries to become a host for projects;
- c) promotion and advise should be structured and brought to companies and consultants;
- d) the public opinion, non-governmental organizations and local and regional administrations should be provided with a way to evaluate this new line of operation and with a warranty of environmental relevance of public efforts in carbon markets.

From a rather strategic perspective, the strong bid in favour of CDM (especially in Latin America) is to be highlighted. CDM has been designed by the Spanish Government as a purchasing plan of credits in carbon markets.

The reasons motivating this preference for CDM are numerous. A first one is related to the key function of CDM in the international action against climate change. The Spanish government shares the belief that the achievement of the Kyoto Protocol is indissolubly attached to the success of CDM. In addition, there is no other element in the international scene that aligns the interests of industrialized and developing economies so well. CDM actually can make important contributions to something that is considered today as an exception: an economy low in carbon, generating simultaneously wealth and prosperity in local communities. The involvement of Governments in the promotion of development of low carbon policies is however a necessary prerequisite for success and thus for significant reductions on a global scale.

The first of the Directives for the public implementation of flexibility mechanisms, approved by the Spanish National Climate Council in their meeting of April 29th 2005⁴, positions CDM as the preferred flexibility mechanism over two other mechanisms and highlights the need of directing it towards the promotion of sustainable development targets. The Directive

⁴ The 'Consejo Nacional del Clima' (National Climate Council) is a consultive organ of the Ministry of Environment where autonomous regions, local entities, scientific community, NGOs, labour unions and consumers, employers and State administration are represented. It approved some directives for the operation of the designated national authority where the relation of this organ with the autonomous communities is shaped as well as the operation proceedings and information of their work and as more general directives, the characteristics that public inversion should have in carbon markets. These directives can be consulted in: <http://www.mma.es/oecc/and.htm>

obviously does not exclude other options for purchasing credits, but it declares a very strong preference for CDM. This becomes, *inter alia*, clear in

- a) the larger relative weight of credits from CDM in comparison with other call options⁵;
- b) the comparison of the results from both other mechanisms with respect to sustainability and effects on local population⁶.

The Government has set up a priority list for a specific type of investment projects, namely those favoring energy savings and efficiency and those guaranteeing the environmentally correct management of waste. It has been proved that these projects are exactly the ones generating a larger and more direct benefit in the local community where the project is developed.

In this respect, the idea of giving a main role to the person responsible for the planning in the host countries, is supported. The local government should remain involved and has the right to express its preferences concerning developments in the society. Furthermore, host countries should be able to attract public or private money from third party countries under attractive conditions. In this way, the principles whereto aid organizations have been devoting themselves for decades would be approached: the favouring of the presence in the market and the ability of attracting private capital in order to support a well-determined development model, so that projects become viable, and generate reliable benefits for the local community.

All this would provide another strategic advantage called “mainstreaming”. The climate change and the adoption of measures to fight it is not something that can remain exclusively in the hands of people responsible for the environment. Since the problem has to be tackled on a society level, it is absolutely necessary that those who plan, propose and decide on energy and transport, forestry, agricultural, industrial, hydraulic and touristic policies, know and care about climate change and its effects. Governments should become aware of the instruments at their disposal and strategies should be developed to face a environmentally clean future. CDM must be

⁵ To our opinion, the highest risk of non-fulfilment of this premise is, as it will be further indicated, the limited capacity of the international community to meet the challenge and promote the generalization of quality projects in enough quantity to satisfy the demand of all those prepared to invest.

⁶ Therefore the huge interest that the green investment schemes arouse as an alternative that guarantees environmental returns and promotion of sustainable development in the purchase operations of assigned quantity units.

seen as a guide for today's decisions concerning economic development and emissions. If mechanisms like CDM are working properly, major support will more easily be found for a constructive approach beyond 2012.

The question may be posed why Latin America is the preferred area. There are some obvious explanations: the historical, traditional and cultural relations connecting Spain with Latin America make this continent the region of preference. However, far more reasons exist beyond these obvious links: commercial reasoning, acknowledgement of acquired abilities, useful efforts and a constructive attitude of Latin American countries in the United Nations Framework Convention on Climate Change (CMNUCC) and the Kyoto Protocol, the stability of their democratic governments and economies (in full development) which do gain a lot from this opportunity etc. In short, mechanisms like CDM definitely serve mutual interests when applied to this region.

In order to illustrate all the above, it might be convenient to review some significant data on energy demand forecasts and carbon markets management, provided by the International Energy Agency and the World Bank.

According to the World Energy Outlook 2004⁷ of the International Energy Agency (IEA), the demand for primary energy in the region Africa-Latin America and the Middle East will in 2050 be equal to 344% of the demand in 2000. The demand for natural gas at a worldwide level will be doubled by 2030, thereby exceeding the demand for coal. The growth in gas demand will be most prominent in Africa, Latin America and Asia Pacific. The increase in demand is expected to be accompanied by a significant increase in price. Increasing gas prices will impact the decisions that currently (from here to 2015) are taken by the persons in charge for energy, industrial and development policies in Latin America.

Certainly, economical considerations will be fundamental when deciding on technologies to apply for energy generation, what raises the suggestion that conventional fossil-fuel technologies might be preferred in most cases. Even when natural gas and renewable energy make considerable progress, any additional increase is expected to be covered by conventional thermal plants.

In parallel, societies with economies in full growth (like those from many

countries in the Latin American region) will require higher mobility and will therefore increase the demand for land and air transport substantially.

Again according to the IEA forecast⁷, dependence on oil and gas could partially be replaced by biomass and other renewables. If all 'green' opportunities are taken, up to a total of 40% of primary energy demand could be handled by renewables in 2050.

Until 2005, Latin America has represented 35% of the carbon markets. Nevertheless, the World Bank, in its forecasts for the evolution of the carbon markets, highlights the loss of relative weight of Latin America in those markets. The most revealing fact is that the concentration of emission reductions in only three countries (China, India and Brazil) could contribute to almost 90% of the world's certified emission reductions in the following years.

The reasons that lead to this concentration are numerous, but three are to be emphasized: the scale of generation (by project), the methodological certainty of the reductions in function of the type of projects and the involvement of the host government in the promotion and use of CDM as an instrument for financing.

For the Latin American countries, the ability to maintain a relevant position in the market involves searching for solutions that make the implementation attractive (for scale and certainty of the reductions). Unlike other countries, few South American countries offer projects for eliminating industrial gases. There are indeed three major sector priorities in the corresponding lists of projects: carbon dioxide emissions from energetic origin, methane and forest management. All of them offer large benefits for the promotion of local communities' welfare, public health and environmental targets (additional to existing targets of fighting climate change).

This explains to a major extent the strong regional demand for innovative initiatives as the so-called programmatic CDM or the promotion of a portfolio of project activities.

Currently the offer is insufficient with the emphasis laying on 'small' projects. It could be improved using not yet explored approaches concerning territories, projects, sectors and public policies:

⁷ "Energy to 2050, Scenarios for a sustainable future", IEA

- *Territorial:* major viability to an urban diary in the region (massive transport, methane in sewage water and rubbish dumps and efficient electric consumption – lighting and heating/cooling of ways and public buildings –).
- *Sectoral:* Promoting efficiency patterns in intensive sectors in energy consumption.
- *Programmatic or Public Policies:* Based on the development of CDM projects through national policies or programs.

The Spanish government understands that the ‘exploration’ of these alternatives could offer a very convenient result as a larger emission reduction at a lower cost could be achieved, maintaining or raising the environmental reference parameter and promoting the participation in the public sector at different levels.

Therefore, these options are part of the projects which, still with an experimental nature, the Spanish Government is willing to support financially, technically and politically.

2. Initiatives developed by Spain

As noted, Spain does not only consider CDM as a means to facilitate the achievement of its engagements in the Kyoto Protocol. CDM is also seen as a cooperation instrument, giving priority to drive sustainable development in host countries, thereby intensifying economical and technological cooperation.

To make this approach effective, the Spanish Government has started different bilateral and multilateral initiatives, particularly directed to Latin America.

2.1. The Latin American Climate Change Offices Network (RIOCC)

The creation of the Latin American Climate Change Offices Network probably represents the initiative with the highest importance for the region. The objective was to develop an instrument of permanent dialogue

facilitating the identification of and consensus on the priorities, negotiation positions and difficulties between countries involved. The RIOCC works under the guidance of the Latin American Environment Ministers, to whom it reports. Meanwhile, the Ministers present the most relevant conclusions to the Latin American Summit.

The initiative was proposed by Spain in the meeting that took place from 27th to 30th September 2004 in Cartagena de Indias (Colombia), with participation of representatives of the climate change offices from 17 countries, from the Colombian and Spanish business sector and from regional and multilateral institutions. This meeting was followed by four other technical meetings and three Minister Meetings, favouring the progressive consolidation of the initiative.

The RIOCC has proved to be a very useful tool for the exchange of experiences, positions and common proposals. The work program includes activities in the following areas.

1. Observation and systematic investigation. The activities aim at strengthening the current regional observation systems. Within the activity framework developed by the National Meteorological Institute (INM), the activities that can be carried out by the Latin American Network of Directors of Meteorological and Hydrological Services can be distinguished. On the other hand, and within the framework of the CMNUCC, the Spanish Climate Change Office (OECC) defends the interests of Latin America in the negotiations of the Global Cooperation Observation System (GCOS), thereby studying the possible participation of the region in the Cooperation Mechanism of the GCOS. Furthermore, the contribution to the identification and execution of regional investigation projects will be studied in cooperation with the technological and scientific world, universities and study centres in each one of the participating countries.
2. Framework for capacity promotion. The target is to exchange information or experience in methodological aspects. The emphasis lays on national registers, surveillance systems, verification and certification of emission reduction units as well as on the exchange of information or experience in clean technologies.

3. Adaptation. The scientific and technical aspects of adaptation include matters as vulnerability studies (in case of shared resources and regional ecosystems) or development of methodologies for adaptation in common activities (agriculture, cattle farming, tourism, etc.).
4. CDM. A team will be developed to support starting CDM projects in the Latin American region. A starting point could be to create a portfolio with projects in countries in the region or to elaborate a summary document concerning the criteria and the national procedures for the approval of CDM projects. Another possibility is the establishment of a computer forum for technical cooperation in order to facilitate design or operational matters of the projects. Both the private and public sector will provide different approaches and useful input to the topic and will contribute to the signing of *Memoranda of Understanding*.
5. Climate Change and supporting development. Since climate change is both an environmental and a development problem, it is important that programs supporting development take into account key aspects of the actions undertaken against climate change and the adverse impacts both approaches may generate. The OECC and the Spanish International Cooperation Agency of the Environment and Foreign Affairs Ministries and Cooperation of Spain are currently undertaking actions to facilitate this integration.
6. Other activities aimed at institutional strengthening and Education and Disclosure. Training of technicians, creation of an electronic forum for communication between offices and information exchange, integrated in the current initiatives of the Latin American Conference Secretary, are considered as activities contributing to institutional strengthening.

2.2. Memoranda of Understanding for the promotion of the mechanism of clean development of article 12 of the Kyoto Protocol

So far, Spain has signed Memoranda of Understanding (MoU) for the promotion of the Mechanism of Clean Development with 16 countries, 15

countries of the Latin American region (Argentina, Brazil, Colombia, Mexico, Panama, Uruguay, Dominican Republic, Bolivia, Ecuador, Chile, Costa Rica, Paraguay, Guatemala, El Salvador y Peru) and Morocco.

Memoranda of Understanding generally aim for the formalisation of starting clean development mechanism projects in order to facilitate the commitment in the Framework Convention on Climate Change and the Kyoto Protocol.

The specific targets are the following.

- Exchanging information (between signers) on criteria, proceedings for approval and directives;
- Promoting technology transfers in order to reduce greenhouse gas emission effects and to increase the net reductions of these gases;
- Increasing technical cooperation for improvement of capacities of the guest party;
- Creating an exceptional space for bilateral work, with the companies' participation.

In the framework of the MoU, Monitoring Committee Meetings are held with the objective to evaluate opportunities for identification of CDM projects. Evaluations can be based on considerations about the promotion of technology transfers and the collaboration in breaking technical and institutional barriers, which can arise when implementing projects.

Interested companies are expected to attend these meetings, in order to take considerations from both the public and the private sector into account, to register CDM projects and to subsequently get credits for greenhouse gas reduction emissions.

2.3. Available purchase instruments

In order to obtain the target of purchasing the necessary credits in the international markets, the Spanish Government signed in November 2004 an agreement with the World Bank to invest 205 million euro in order to obtain 40 million tons CO₂ for 2005. This initiative has a triple target.

2.3.1. First target

First, the creation of a **Spanish Carbon Fund** for the purchase of 34 million tons net CO₂ for 2005. The project receiving countries will be exclusively countries belonging to the CMNUCC, devoting special attention to the Latin American region.

Concerning the nature of projects, the characteristics will be compatible with the international standards prescribed for CDM and the mechanisms of AC, with sustainable development strategies and with the fight against poverty within the host countries. Priority will be given to projects concerning energy efficiency and renewables.

Finally, the Fund will be open to the participation of the Spanish private sector under the conditions established between the Government and interested companies.

2.3.2. Second target

The second target, taking part of two of the ‘multidonor’ funds of the World Bank, aims at the execution of sustainable environmental projects in more innovative activity areas and in rather marginal regions. Consequently, they are less attractive and exhibit higher risks.

The two ‘sponsoring’ Funds are:

1. The BioCarbon Fund, for obtaining 2 million net tons of CO₂. These carbon credits result from projects that capture carbon in forests and ecosystems. The target is to prove how drain projects can create additional benefits, as well in social as in environmental fields. Benefits can be measured and certified and contribute to the sustainable development of the host country.

With the starting up of CDM & AC projects, Spain promotes, by means of the BioCarbon Fund, the commitment to the Framework Convention on Climatic Change and the Biodiversity and Desertification Conventions, and drives sustainable development in rural zones. These rural zones would otherwise remain excluded from the carbon market.

2. Carbon Fund for Common Development, which will receive 4 million tons. It aims at financing carbon credits for small scale projects in poor countries with a very low development level. The key element of these projects is the generation of certifiable benefits, which is considered as a crucial characteristic for Spanish investments.

2.3.3. Third target

Third, the contribution to the **Technical Assistance Program** (with 2,5% of the Spanish contributions to the World Bank Funds, i.e. 5M €) is considered.

The program is designed according to the special features and needs of each country. It aims to develop capacities in order to get developing countries with transition economies effectively involved in market based mechanisms of the Kyoto Protocol by means of alleviating projects and confiscating greenhouse gas emissions.

In this way the program reaches the aim of identifying, approving and financing projects for investment in clean and environmental friendly technologies (especially concerning climate change) and for support of sustainable development.

Together with this initiative and the World Bank in order to instrumentalize mechanisms that ease the commitment of the 100 million tons foreseen, the government has signed in October 2005 an agreement with the *Corporación Andina de Fomento (CAF)* (Andean Corporation of Public Works) for the purchase of 9 million net tons CO₂ based on CDM projects in the Latin American and Caribbean region. These projects define those technologies promoting sustainable energy systems, energy savings, energy efficiency and renewables as priority technologies for the Spanish portfolio.

This agreement incites the start of the Carbon Latin American Initiative.

2.4. Other instruments for supporting investments

On the other hand, the Spanish Government, with the intense participation of the different competent Ministries, has supported the use of transversal instruments to promote foreign investments of Spanish companies in a

CDM-perspective. Hence, the following actions are fully operative:

1. In relation to *technical assistance*:
2.
 - a. The Viability Studies Fund, funding project viability studies, when bilaterally agreed on by the two governments;
 - b. The consultancy funds in Multilateral Financing Institutions;
 - c. The Fund for Assisting the World Bank, wherein Spain has invested 5 million €.
3. In relation to *additional financing*:
 - a. The credits of the Fund for Development Support, that can be assigned to finance parts of CDM projects;
 - b. The lines of the Official Credit Institute for financing foreign investments: Proinvex, line ICO-CAF;
 - c. The financing lines of COFIDES (Spanish company for financing the development), that has created an investment fund in specific risk capital called FINCARBON. Thereby Spanish promoters and their CDM and Joint Application projects are financed.
4. Concerning insurance products:

CESCE (Spanish insurance and exportation credit company) works on an investment policy for risks in projects related to the Kyoto Protocol, which should cover both the risk of unforeseen emission generations and of certification.
5. Another interesting initiative is the incorporation of a new clause related to the Kyoto Protocol in the debt conversion agreements. This clause allows directing investments to CDM projects. This initiative was already carried out in both Uruguay and Ecuador. In the latter mini-hydro projects will be carried out which will generate RCEs for Spain.
6. Efforts are made to mobilize the Private Banks in this kind of projects of the Kyoto Protocol.

2.5. Institutional consolidation

The governmental strategy concerning flexible mechanisms of the Kyoto Protocol demands the consolidation of the most relevant institutional elements.

The first measure adopted in this field was the creation of the Designated National Authority (AND) within the Royal Decree law 5/2004, of August 27th ⁸. The AND is responsible for the emission of approvals for clean development mechanism and joint application mechanism projects.

The AND is an interministerial commission with representatives from the Ministries of Foreign Affairs and Cooperation, Economy and Treasury, Tourism and Trading and Environment, a representative from the group of the autonomous communities. It is chaired by the General Secretary for the Prevention of Contamination and Climate Change and secretary functions carried out by the Spanish Climate Change Office.

The AND was entrusted for maintaining the relation with other countries, for promoting the participation of Spanish companies and for involving those autonomous governments willing to collaborate in this matter. These functions are foreseen by international regulation concerning the topic.

This ability to channel the conversation of Spain with the AND of third party countries was suitable to intensify the bilateral relations with its counterparts in Latin America. Thereby a better knowledge of difficulties in the interpretation of the rules or evolutions of projects was generated, spreading the identity, procedures and preferences of the Latin American ANDs over the Spanish companies.

Therefore, the Environment Ministry leads the countries in a variety of missions. Together with the Spanish Foreign Trade Institute (ICEX from here on) and the Spanish Environment Ministry and the Environment, Agriculture and Food Ministry of the United Kingdom, it organized a AND representatives meeting in Madrid in October 2005 to analyze common problems and possible solutions. Amongst the resolutions of that meeting, at least the following must be highlighted:

⁸ Second Additional Resolution of the Royal Decree 5/2004, of August 27th, which regulated the regime of the trading of duties of greenhouse gas emissions later replaced by the Law 1/2005, of March 9th, which regulates the regime of the trading of duties of greenhouse gas emissions.

- The high competence and knowledge of the Latin American ANDs;
- The need to articulate permanent training systems for the ANDs;
- The need for maintaining a bilateral and multilateral communication system allowing a better knowledge of solutions and difficulties that the ANDs are facing;
- The convenience of defining communication protocols between Executive Board and ANDs.

On the other hand, in relation with the Spanish AND, a project analysis and a workgroup were set up with the determination of the most suitable way to optimize investments and the use of public and private resources in projects capable of generating emission reductions as most significant targets. This group is chaired by the General Director of Trade and Foreign Investment of the Ministry of Industry, Trade and Tourism. Its vice-president is the General Director of International Finance, from the Ministry of Economy and Treasury. The secretary functions are carried out by the Director of the Spanish Climate Change Office and depend on representatives from the three aforementioned, the ICEX and the Diversification and Energy Savings Institute (IDAE). Depending on the sort of projects, experts are added from the Ministries of Industry, Agriculture, Forest Policy, Waste, etc.

However, probably the most relevant additional supporting instrument is the one that Spanish embassies offer by means of the Trade and Economic Offices. These are real key factors that facilitate the daily monitoring of the relation between national authorities and host countries as well as the interests of Spanish companies in projects.

To conclude, the role of the ICEX must be highlighted since it is responsible for promotion, information and communication concerning projects, business opportunities and available technologies in the field of flexible mechanisms available for the Kyoto Protocol (CDM and AC). Corresponding with the government strategy, the ICEX, specialized in the promotion of the internationalization of Spanish companies, has included the promotion of CDM in its Products Promotion Plan.

2.6. Other important actions of the Spanish policy

The collaboration of the State's General Administration with the companies interested in CDM and AC resulted in the publication of the '**Spanish guide for the use of the mechanisms based on Kyoto Protocol projects**'. The government takes advantage of the Spanish business network to facilitate the transfer of Spanish technologies (through CDM and AC) while the returns from contributions are maximized. The commitment to emission reductions is facilitated to those affected by Law 1/2005 of March 9th.

3. Conclusions

The role of CDM is essential as an instrument for the North-South collaboration (and potentially South-South, favouring the horizontal technology transfer), connecting environmental and sustainable development with the conventional patterns of official development support.

With the coming into effect of the Kyoto Protocol and all elements of the early start of CDM, an intensification of activities of the Executive Assembly of CDM is foreseen due to the large number of projects that is expected to be approved. From now on and making use of the lessons learned during this process of '*learning by doing*', CDM takes off to reach the potential it really has.

Nevertheless, in order to promote and motivate the use of CDM and to make this instrument a tool of commitment to and support for stable and credible sustainable development, its reinforcement is necessary in order to guarantee a suitable environment and to include more developing countries.

Concerning the geographical spread of project activities in the '*pipeline*', the effort that regions have put into the service of CDM is reflected by the geographical spread of project activities in the pipeline. Latin America and the Caribbean are ranked first (especially Brazil, Mexico, Chile and Honduras). Asia and the Pacific (especially India and China) follow in the list, accompanied by Africa, which shows a rather low level of market participation. The geographical spread of CDM projects reveals the need for

interventions making the less developed countries take part in this market. The importance of this instrument is determined by the need for guaranteeing a suitable environment. Therefore, CDM takes into account:

- Risks: with the risk of the eliminated PK coming into force, other new risks, post-2012 credit value, market fluctuations, national and international regulation and policy risks are pointed out. The largest part of these questions has received preferential attention in the recent Montreal summit.
- Influence of the general investment environment – CDM is only a minor component of projects financing while the price for emissions certified reduction (CER) is relatively low.
- Importance of the transaction costs (with respect to project size and market prices).

It is important to make progress in the actions against climate change and to advance in the United Nations Framework, in order to turn the mechanisms, and especially CDM, into a key tool. The definition of a continuation system after 2012 is therefore needed. In addition, reaching an agreement over a future regime provides certainty for investment decisions concerning CDM. Hence, it is worth to consider the firm impulse achieved in Montreal positively.

Spain assumes the challenge of fulfilling its target in the PK and bets on CDM as a key instrument. This becomes clear when considering the priority given to this instrument and its use in Latin America as a fundamental element in the action against climate change.

