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FEATURED Q&A / Special Reprint

How Significant is Carbon Financing for Latin America?

Q Energy projects in Latin America developed under the U.N.-administered Clean Development Mechanism (CDM) could generate \$3.9 billion worth of carbon credits by the time the Kyoto Protocol expires in 2012, Jem Porcaro, a senior vice president at Carbon Neutral, told Business News Americas last month. Will carbon markets provide a significant source of financing for project developers in Latin America? How effective have carbon markets been at promoting clean energy investment in the region, and what does the future hold?

A Maria Coor, associate in the environmental practice at Arnold & Porter LLP: "New investment in sustainable energy in Latin America has been increasing, but carbon finance cannot take most of the credit. A 2009 U.N. report shows a steady climb in clean energy investment in the region, from \$4.3 billion in 2006 to \$12.3 billion in 2008, \$10.8 billion of which represents projects in Brazil, driven mostly by that country's sugar cane ethanol industry. With over 800 Clean Development Mechanism projects in Latin America, carbon financing can take some credit for the increase in clean energy investment; however, government stimulus packages and private initiatives account

for most of the growth. There were great expectations that U.N. Climate Change Conference in Copenhagen this past December would result in an agreement that would stimulate clean energy investment. Unfortunately, Copenhagen did not put any wind behind the sails, or turbines, of project developers in Latin America. There are mixed predictions about what the next Conference of the Parties, scheduled for later this year in Cancún, will bring. Given the outcome of Copenhagen, clean energy investors should focus their gaze northeast of Mexico, to Washington, where pending U.S. climate change legislation presents a much more likely, tangible source of carbon finance stimulation. The U.S. House of Representatives has already passed proposed legislation and the Senate is currently considering two different proposals. All of these proposals establish a U.S. carbon market, support offsets from international projects and have great potential to increase the role of carbon finance in clean energy development in Latin America."

Editor's note: the above is a continuation of a Q&A published in the February 22-26 issue of the Inter-American Dialogue's weekly Energy Advisor. It originally appeared on page 4 of the March 15-19 issue of the Energy Advisor.

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