CHILE: DOMESTIC POLICIES THAT CAN CREATE CLIMATE FINANCE OPPORTUNITIES FOR REDD+

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CHILE IN A NUTSHELL

Population 18 M
Area: 757 k km^2 (~ Turkey)
GDP per capita: 24.6 kUSD
Main economic sectors: mining, forestry, aquaculture

- Highest GDP per capita in Latin American measured as PPP (World Bank)
- For 20 years in a row, the continent's most competitive economy (WEF)
- Rank # 10 in the world according to economic freedom (Index of Economic Freedom)
- Best country to do business in Latin America (Forbes)
- The best results in education in the continent (PISA)
- The highest ranking of the Global Talent Competitiveness Index in Latin America
- Great entrepreneurship attractor: # 19 in the Global Entrepreneurship Index
- The economy with the higher number of commercial agreements signed in the world

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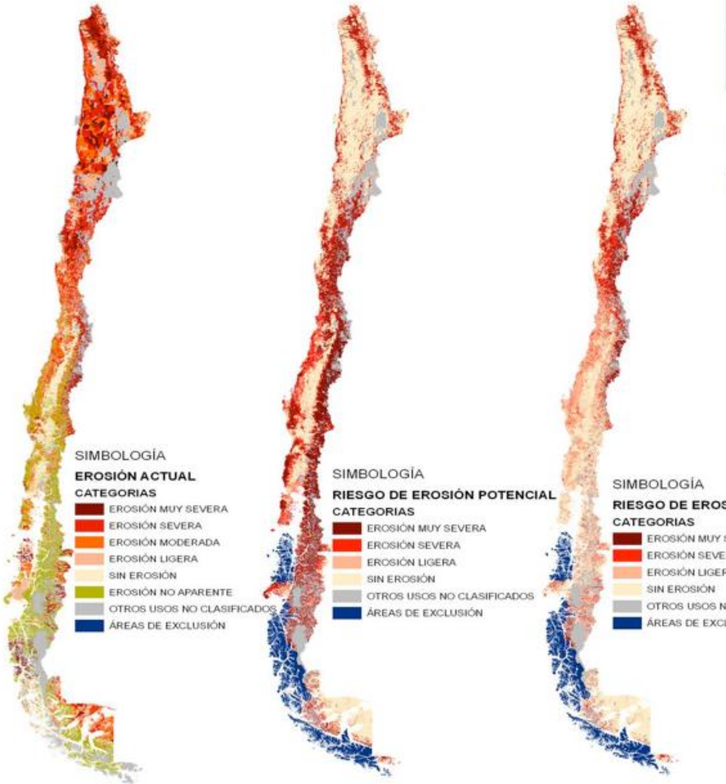
CHILEAN FORESTRY SECTOR

16+ million ha (15% forest plantations and 85% natural forests): but wood supply for the industry comes from 95% + of the forest plantation areas

40 years ago our plantation sector did not exceed 400 thousand hectares. In one generation forestry became Chile's 2nd largest export sector (6 USD b)



Ministerio de Agricultura
Gobierno de Chile

ciren

InnovaChile CORFO

A successful policy of incentives for afforestation (DL 701) transformed a reality characterized by land degradation and erosion, in a competitive sector worldwide

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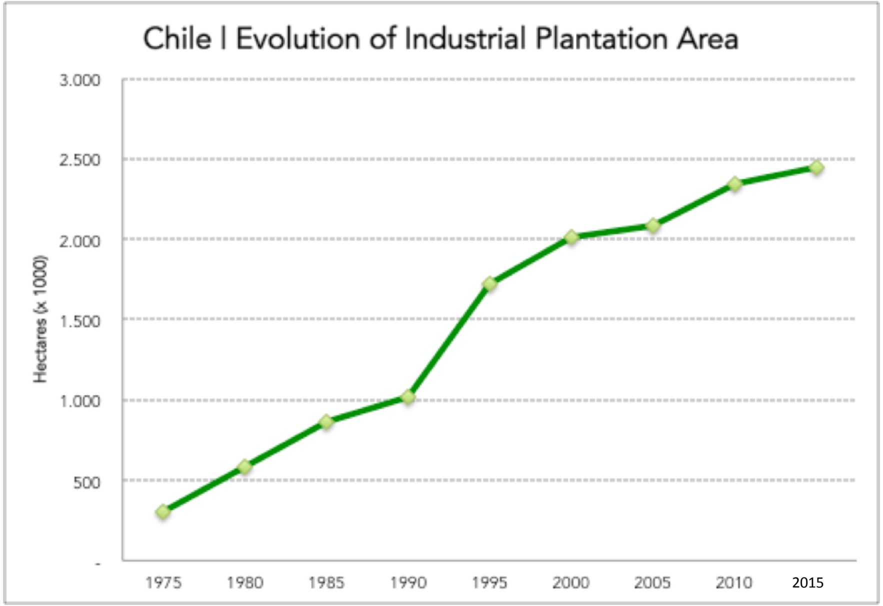
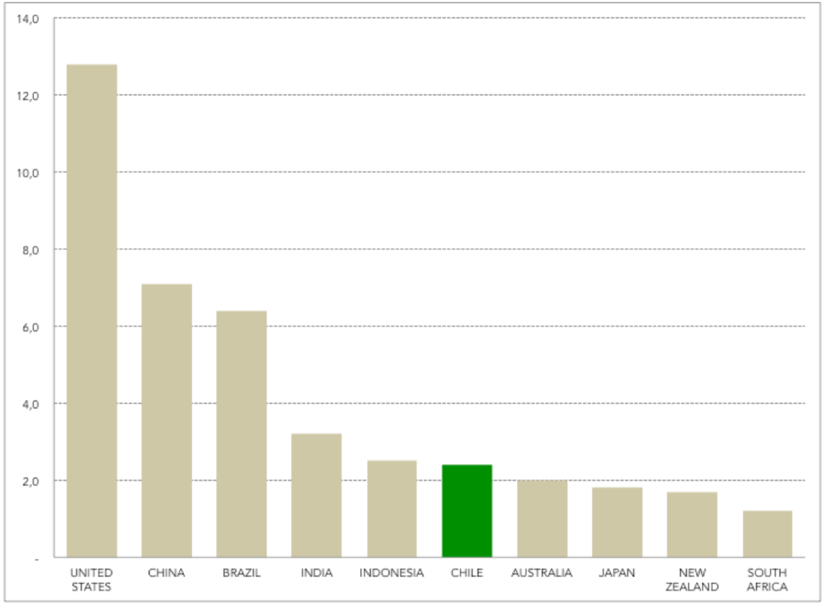
CHILEAN FORESTRY SECTOR

There are 111 million ha of forest plantations worldwide, but only 48% correspond to high-yield industrial plantations





Source: FAO; INDUFOR

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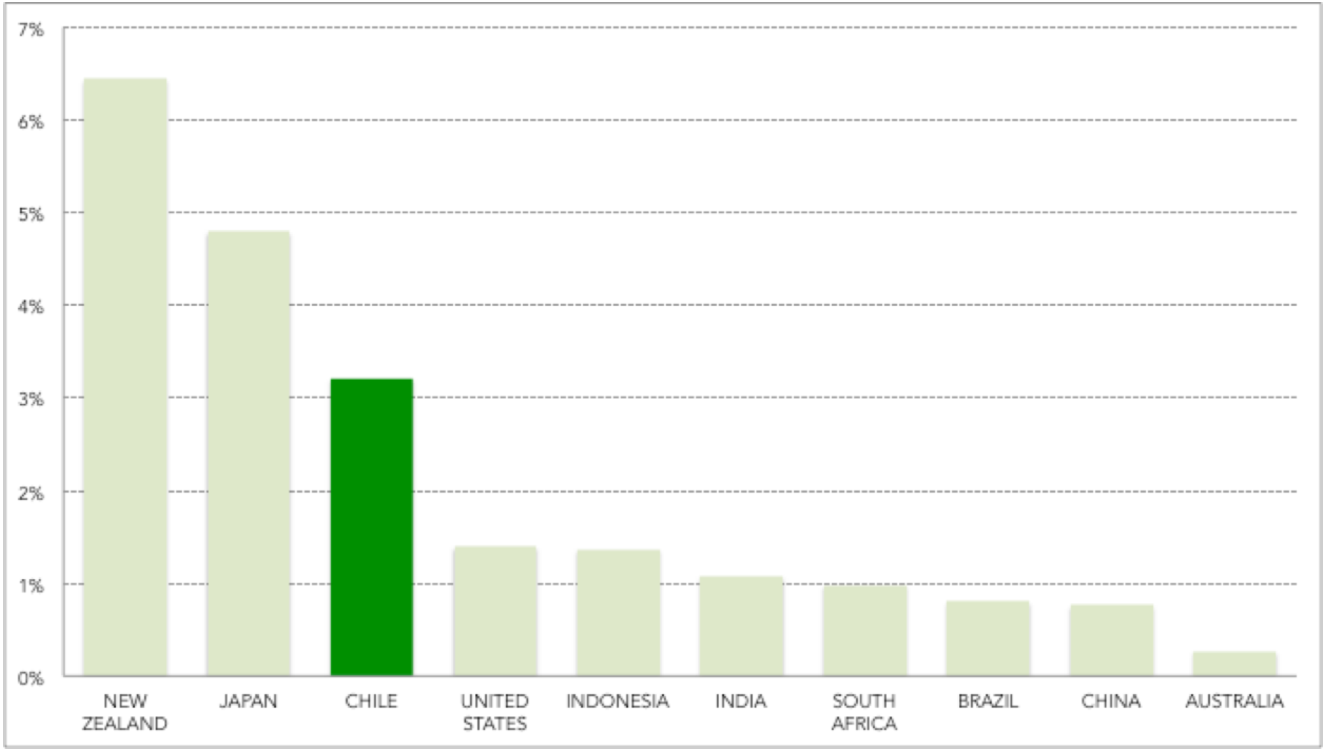
CHILEAN FORESTRY SECTOR

From the list, half of the countries are among the seven largest (area) worldwide.

Thus, Chile has become a global player in the forestry sector with a very limited area planted.



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Had Chile designed a regulatory system that would promote markets for environmental services (and payments per perfomance) in the past?

The answer is no.

What has changed?

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1. Know how in the context of carbon projects design and implementation

2. Carbon pricing in Chile

3. New tax reform open the space of new projects

4. A complementary incentive system

5. Some responses from the Private sector

6. The way that we will make it work

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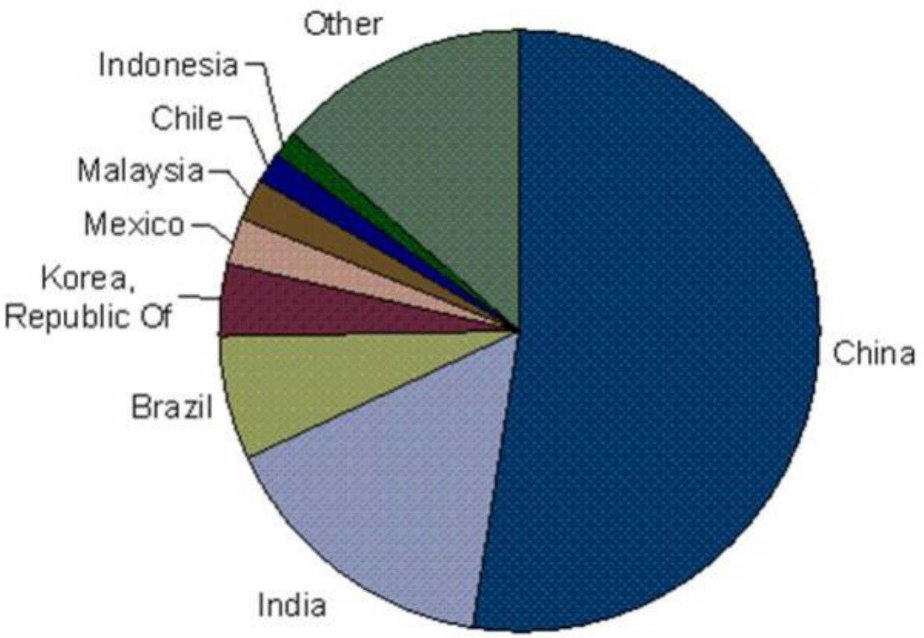
KEY TAKEAWAYS

1

DURING THE CDM BOOMING DAYS, CHILE BUILD A SOLID KNOW HOW

Despite having a relatively small economy compared to China, India, Mexico, Brazil, Indonesia or other countries alike, Chile quickly positioned itself as a preferred destination for investment in emission reduction projects (source: PointCarbon).

This was particularly clear in the area of projects for methane capture, nitrous oxide capture and development of non-conventional renewable energy, but also in forestry. Despite the fact the country did not have a significant case of deforestation, it registered one of the first projects of afforestation in the world (forest securitization), given the existence of a very active ecosystem of generation and register of projects.



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KEY TAKEAWAYS

2

CARBON PRICING IN CHILE

Chile imposed a carbon tax to emissions generated in the thermoelectric park in 2014, the one that became effective in 2017.

The price was set up at 5 USD/tCO_2

Since 2011 Chile is part of the PMR (Program for Market Readiness) of the World Bank, but the carbon levy was not part of such effort. The main objective of the green tax was to increase the tax collection for the financing of an aggressive social program in the field of higher education (Bachelet government)

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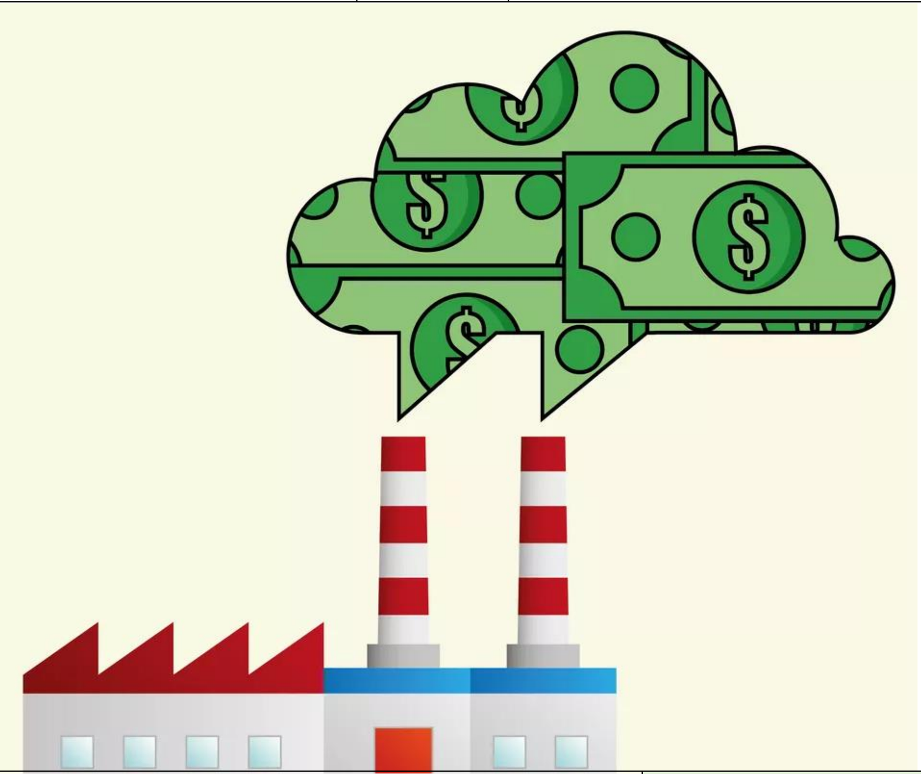
KEY TAKEAWAYS

3

NEW TAX REFORM IN CHILE: NEW PROPOSALS FOR GREEN TAXES



New government, new tax reform.

The new proposal incorporates two elements on the issue of carbon taxes:

(1) it expands to any fixed source of emission that generates more than 25 thousand tonCO_2 / year (so, industries like cement, foundry facilities, pulp mills and others will be added)

(2) the use of Chilean offsets is allowed

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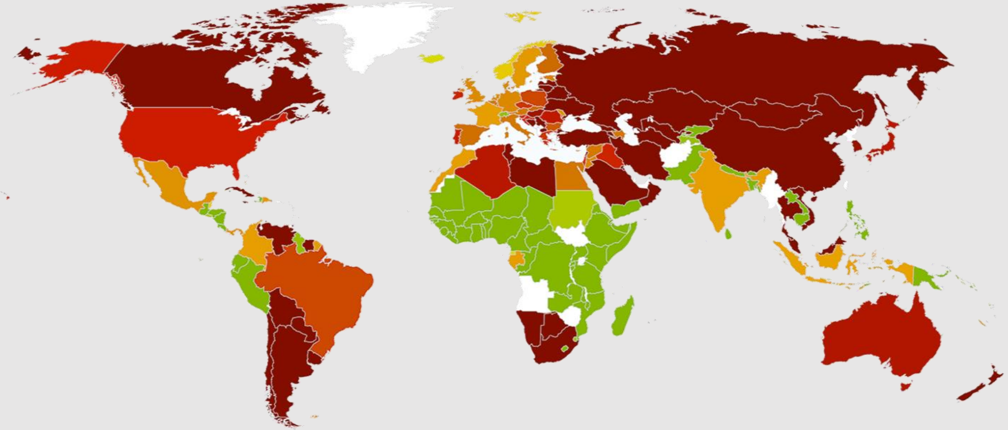
KEY
TAKEAWAYS

4

CHILE NEEDS TO RAISE ITS COMMITMENTS FOR MITIGATION OF CLIMATE CHANGE

According to a study published in Nature, Chile has one of the most lax commitments of the Paris Agreement, and the organization of COP25 in Santiago has raised the issue of increasing the ambition of decarbonization.



PAIS	Emissions (k tCO2/año)	GDP (PPP) (USDb)	Intensity (tCO2/USD)
Germany	909.404	4.188	217
Chile	109.909	445	247
USA	6.511.302	19.391	336
Spain	324.707	1.770	183
France	465.129	2.876	162
Great Britain	486.269	2.857	170
Italy	427.862	2.387	179
Japan	1.304.568	5.487	238
Maxico	605.887	2.358	257

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KEY TAKEAWAYS

4

A COMPLEMENTARY INCENTIVE SYSTEM FOR THE FORESTRY SECTOR

In the "fire storm" of summer 2017 more than 500 thousand hectares of forests, plantations and vegetation burned in the center-south of Chile

- To encourage reforestation of burned areas, CORFO (the Chilean development agency) established a system of incentives for the creation of forest investment funds
- The incentive ia a long-term loan (up to 30 years), at an attractive interest rate (50% of the one with which the main forest companies are indebted), with a leverage 2:1 or 3:1
- Money can not be used to buy land, just long term rental contracts, with land owners of no more than 400 ha

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KEY
TAKEAWAYS

5 AN AVALANCHE OF INVESTORS?

- Liquidity
- Size
- Real state profit
- Competition with large companies

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KEY TAKEAWAYS

6

A NEW MODEL FOR REFORESTATION AND RESTORATION AT LANDSCAPE LEVEL

What forestry/agriculture economic models will promote and accelerate landscape restoration, and what financial instruments / investors will fund the implementation of landscape restoration?

Bring landscape restoration into the economy

Companies need to work with communities to create shared value initiatives based around landscape restoration. These might involve **agroforestry projects, non-timber forest products, beekeeping, ecotourism and other revenue streams that complement or provide an alternative to timber production** –although before this can happen, investment is needed to restore the forests that provide these resources.

Another area to look at is working with **smaller private forest owners**, who may not have the resources to restore native vegetation or to properly manage fire risk on their property – which creates a risk for everyone. Companies could mitigate this risk by supporting them to diversify their land uses and create more resilient mosaics.

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KEY TAKEAWAYS

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A NEW MODEL FOR REFORESTATION AND RESTORATION AT LANDSCAPE LEVEL

Make the links with non-traditional sources of finance

While restoration is expensive, various sources of finance exist that can help to fund it:

(1) Both WWF and WRI run initiatives that aim to link **impact investors** to landscape restoration projects.

(2) The rapidly growing market for **green bonds** offers opportunities for those that can package restoration "products" in a way that offers clarity and certainty to investors.

(3) Payments for ecosystem services were also identified as an important potential source of finance for restoration. These include **carbon markets**; the potential to access REDD+ funding to support landscape restoration should be explored.

Create a restoration "marketplace"

Forest companies are not the only companies carrying out mandatory or voluntary forest restoration: mining and power companies must compensate for any natural forest they clear.

A marketplace should be set up to manage these efforts. This would enable **restoration to be planned in a coordinated way that maximizes the environmental and social benefits**, including in the context of fire prevention. To take a simple example, it makes more sense to reforest a 150 hectare corridor that restores connectivity between areas of high conservation value than to plant three separate 50 hectare fragments. Better coordination could also reduce costs and improve sharing of best practices and resources.

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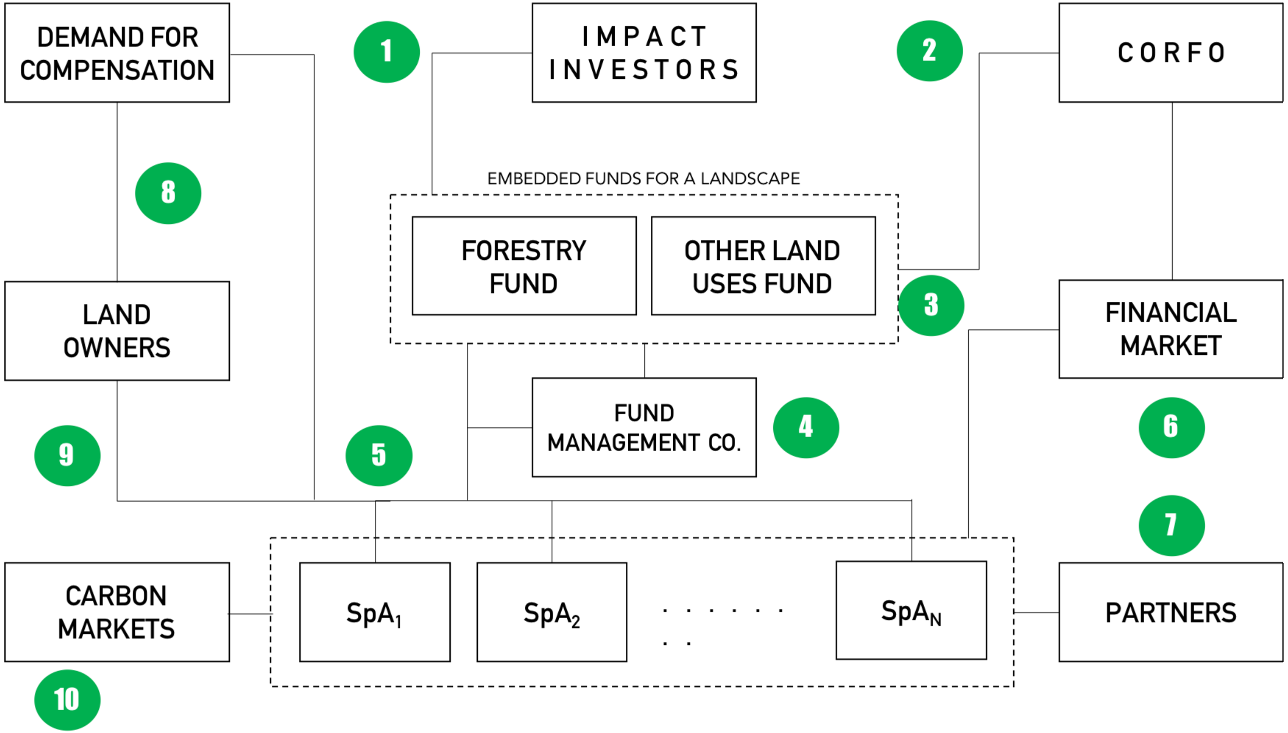
A NEW MODEL FOR REFORESTATION AND RESTORATION AT LANDSCAPE LEVEL



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