

JBIC's Activities for The Climate Change

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JBIC's Policy Addressing Global Warming

Japan Bank for International Cooperation, JBIC, is a government agency with a mandate to conduct policy-based lending for Japan's external economic activities. The operations consist of two parts; namely International Financial Operations and Overseas Economic Cooperation Operations. International Financial Operations aim to promote Japanese exports, imports and economic activities overseas and contribute to the stability of international financial order. And Overseas Economic Cooperation Operations aim to assist developing countries for economic and social development. It is usually in the scheme of Japanese ODA.

About 90% of JBIC loans go to projects in the developing countries. Those regions are having rapid development and population growth but on the other hand, shortages in resources to be allocated to anti-pollution and environmental conservation measures cause to increase cases of environment destruction. In addition, global warming due to the sharp rise in carbon dioxide emissions and reduction in forests is of growing concern as cross-border issues.

If we, including people living in the developing countries, are lead to comfortable and sustainable lives, there must be harmony between economic development and environment conservation. Then we are asked whether we could control our capability in order to construct a rich human society with environmental conservation. In line with this, JBIC is encouraging appropriate consideration of environment in a project and supporting to promote environmental conservation projects or projects to contribute to the protection of the global environment.

The efforts for Kyoto Mechanism are one of major issues in JBIC operations. As you know, the agreement on the Climate Change to reduce greenhouse gases (GHG) was made in Kyoto, Japan in 1997 and it is called Kyoto Protocol. Japan ratified it on June, 2001. The Kyoto Protocol is strongly expected to be effective within this year or early next year after Russia would ratify it.

Once it becomes effective, Japan has an obligation of GHG emissions reduction of 6% below 1990 levels for the first commitment period of 2008 to 2012. According to The Climate Change Policy Program announced by Japanese government, all state and local governments, industries and general public must share in efforts to prevent the global warming. But it is clear that the achievement is not so easy for Japan without utilizing Kyoto Mechanism which takes a role of supplemental measure to the domestic efforts. And it is a fact that CDM/JI projects under Kyoto Mechanism have been already planned and implemented. JBIC supports the private sector and the

host countries to develop CDM/JI projects and also contributes to the obligation of GHG emissions reduction of Japanese government.

Contribution to Anti-global Warming in The Past

We would like to introduce the past projects which contributed to anti-global warming although they may not be CDM/JI projects.

For example, there are the Thermal Power Plant projects in Mexico and Vietnam to reduce environmental stress caused in power generation by switching to natural gas, which releases less CO₂ compared to other energy source such as coal or oil. In Rumania and the Philippines, we have Co-generation projects to economize on fuel and to reduce CO₂ emissions through efficient use of energy by using the co-generation system.

In Egypt, as one of the renewable energy projects, we have Zafarana Wind Power Project and many examples of hydropower projects in other countries. The forest conservation and forestations projects are to secure CO₂ absorption and prevent a rise in CO₂ concentration in the air. JBIC financed such projects in India and China in a scheme of people's participation under the cooperation with NGOs in order to ensure the project sustainability.

Furthermore, JBIC financed the subway construction projects in Cairo, Bangkok and Beijing to improve efficiency in transportation and reduce CO₂ emissions through development of mass transit systems.

Only in the ODA projects in the past 5 years, JBIC extended the loans of about 9 billion US\$ for more than 60 projects. However, all of them is not to meet CDM/JI projects. Because the requirement for CDM/JI projects is not only the contribution to anti-global warming but another criteria must be cleared.

JBIC's Efforts for CDM/JI Projects

JBIC is now enhancing its efforts for CDM/JI projects as well. JBIC participated into PCF, Prototype Carbon Fund, which was established by the World Bank in 2000 to support a project reducing GHG emissions. JBIC committed 10 million US\$ for PCF and it is the major contributor in the public sector. JBIC has a responsibility as a participants' committee member to supervise the PCF portfolio management. Many people are tackling with CDM/JI projects by trial and error but the experience of PCF must be very useful for us because PCF copes with the prototype and very advanced and challengeable tools to create CDM/JI projects. JBIC also utilizes such know-how and technology which are acquired through those experiences for the future activities. Then It was the first time for Japanese government agency that JBIC got the Verified Emission Reduction of 5,540 tons from the Chacabuquito Small Hydropower Project in Chile on June 2003 through PCF. After necessary procedure to register the project to the CDM Executive Board, JBIC can officially get CER, the Certified Emission Reduction.

JBIC is also planning to establish Japan Carbon Fund in near future. This Fund will be established with some Japanese private companies and support CDM/JI projects in Asia and other regions to buy Carbon Units like PCF. It is not a time to explain the volume of Fund or its details but JBIC has a confidence to manage the Fund well with the experience so far.

In this way, there is a supporting measure to get CER. However, what is advantage of JBIC is to be able to provide various kinds of financial tools for the project execution. As I explained before, JBIC financed many projects for anti-global

warming in the past. JBIC provided export-import loans, overseas investment loans for Japanese companies, project finance, ODA loans and other for those projects. For receiving such loans from JBIC, the borrower or the project executing agency shall be required to consider the environmental and social aspects in the project according to the JBIC guideline. That is concerned to the project necessity and sustainability which are required for CDM/JI projects as well. Since ODA loans has a characteristic to support the self-efforts of developing country based on its own development plan we always continue a dialogue and construct a good relationship with the host country. This is also an advantage of JBIC.

Furthermore, through the Japan Carbon Fund expected in near future or JBIC's internal budget, we are ready to help a host country to prepare Project Design Documents (PDD) and other transaction costs as necessary so that CDM projects can be realized.

For Promotion of CDM/JI Projects

Honestly speaking, CDM/JI projects are still unclear to accelerate its procedure. We have to certify the additionality for CDM/JI projects but that is a very difficult job. A few baseline methodology was approved by the CDM Executive Board so far. In addition, the shortage of basic knowledge on CDM is not denied for the officials of host country and the Designated National Authorities have not been established in some host countries. Those are the crucial risks of CDM projects for the investor and it must be a big reason why CDM projects would not realized only with the efforts of private sector.

For example, we sometimes discuss that an investor can decide the project investment when the profit from CER is added. In other words, CDM may be realized only when the investor can recognize the project attractive with the profit from CER. However, if the price of CO₂ is about 5US\$/t, which is currently applied, it is difficult to improve the Financial Internal Rate of Return of the project very much. In case of that, the investor may think that the project shall be viable even without CER because he tries to minimize the investment risk.

Since many CDM projects do not have a sufficient Internal Rate of Return it is not easy for the investor to use his own budget or to borrow money from the bank. Nevertheless Kyoto Mechanism is to utilize the market mechanism, from a view point of the project financial viability, it is seemed that there is a limitation to implement CDM project only with the private sector activity in the market.

Although CDM project is executed in a developing country the shortage of knowledge and the insufficient institutions in the host country leave the investor in a difficult situation to promote a concrete CDM project. In addition, taking into consideration of the usual country risk in a developing country, we can say that the sufficient condition has not been settled yet to execute the new and unknown project in a developing country. It means that the investor must be careful of that very much.

Therefore, we can find the significance that the government agency like JBIC should support Kyoto Mechanism meanwhile until the activities get on the track even if CDM/JI projects in principle expect the private sector activities with market mechanism. This point should be recognized again for all countries and officials concerned to Kyoto Protocol. We have to say that it is a time to accelerate CDM/JI projects with a public-private partnership.

For the officials of developing countries, we would like them to make the necessary capacity building to promote those projects as soon as possible and JBIC is ready to

support such efforts for the capacity building. There are various agencies in Japan other than JBIC to support CDM/JI projects JBIC can be a facilitator among them. So that we always welcome your contact to JBIC

Conclusion

Repeating again, JBIC makes efforts for CDM/JI projects by overcoming various kinds of risks to utilize the know-how and technology acquired so far and a good relationship with the host countries. In the process of that, JBIC would like to respect the dialogue with the host country and recognize the benefits of each other. When we talk about the global environment it is sometimes discussed in the different positions between the developed and the developing countries. The issue of global warming is not exceptional. But we cannot find a good solution in such conflict. Finally I would like to emphasize that it is important for our common future tackle with the global environmental issue together with people in the world.

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