

ASIA CLEAN ENERGY FORUM

China CDM Fund – An Innovative Approach to Supporting Clean Energy

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Background

- Clean Development Mechanism (CDM) established under the Kyoto Protocol
- Managed by UNFCCC
- PRC ratified Kyoto in 2002
- CDM trades Carbon Emission Reductions (CERs)
- CDM promotes transfer of project financing and technology to developing countries

CDM as a Mechanism to Promote Clean Energy

1. CDM is a market mechanism for transfer of financing and technology to clean energy projects.
2. CDM Fund is a separate entity established in PRC, with contributions through levy on CERs
 - Specifically designed to use levy to 'support domestic climate change-related activities'

Background

- Two concerns related to CER transactions under the CDM:
 - certain CDM projects (e.g., HFC) have a high CER value but low development impact
 - high CER market values could serve as a perverse incentive, stimulating operation of and further investment in polluting industries.
- 12 October 2005 “Measures on Operation and Management of Clean Development Mechanism Projects” (Decree 37).

CDM Fund

- Decree 37 introduced a levy on the CER revenues generated by various CDM projects
- Funded from levy on CERs
 - 65% from HFC/PFC projects
 - 30% from nitrous oxide projects
 - 2% from other projects (EE, RE, CMM/CBM, small scale reforestation)

CER Background

- Asia currently dominates CER generation (home to 75% projects and 80% of CER generation to 2012)
- PRC is currently home to 35% of all approved CDM projects (next biggest is India at 27%)
- Based on approved projects, PRC will generate 54% of all CERs by 2012

HFC

- HFC projects are small in number (19 to date, 11 in PRC) but have high greenhouse impact (11,700 times CO₂)
- 77% of HFC CERs are from PRC
- HFC is 28% of PRC estimated CER generation
- CER generation in PRC to 2012 from HFC alone is 3 times total CER generation from Africa/Middle East and same as Central/South America
- HFC projects constitute 15% all CERs approved to date

CDM Fund Design

- Decree 37 established the CDM Fund to manage the levy collected from CDM projects.
- Objective to ‘support domestic climate change-related activities’
- Used to promote domestic CDM projects and other climate change-related mitigation and adaptation projects and activities
- Will support technical assistance, grants and loan financing.
- Sector focus will include clean energy

CDM Fund Design

- CDM Fund established under Ministry of Finance
- Governing Board comprising
 - NDRC
 - MOF
 - Ministry of Science and Technology
 - Ministry of Foreign Affairs,
 - Ministry of Environmental Protection
 - China Meteorological Bureau
 - Ministry of Agriculture

Fund Design

- Non-profit, government fund
- Size will depend on CDM projects, could be up to \$3 billion; the value of the fund capital will be maintained and only the return from investments will be used in the form of financial products
- Currently under internal discussion
 - % of fund used for project investments
 - % used for project grant assistance
 - % used for capacity building of ministries that lead PRC's climate change-related activities, and the development of project pipeline
- Have not commenced support for projects or technical assistance

Replicability

- Unique rationale because of the large share of HFC projects
- Government levy on CERs probably not replicable
- If financial products developed by the CDM Fund are later assessed to be successful, may be replicable as a government-funded support for climate change activities

External Assistance

- The World Bank supported draft operational strategy, and advance payment from Prototype Carbon Fund.
- ADB TA 4812-PRC *Support for Establishing a CDM Fund* (\$800,000), June 2006, to be completed in 2008
 1. CDM Fee Collection Mechanism
 2. Governance Structure and Capacity Building
 3. Operations Manual
 4. Information Dissemination
- Proposed TA *China Clean Development Mechanism Fund Capacity Building* (\$ 800,000), waiting fund allocation

Thankyou

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