

# **Institutional problem on Operation of Clean Development Mechanism in China**

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## **1. BACKGROUND AND PURPOSE**

Under the Kyoto Protocol, which is existing international framework on climate change, it is only Clean Development Mechanism (CDM) that can involve China in international effort to limit GHGs. CDM in China should be operated effectively both for mitigating climate change and achieving sustainable development in developing countries. In this sense, it is essential to look at domestic institution for CDM in China. This thesis aims to evaluate China's domestic institution for operating CDM, and discuss the institutional problems to be resolved for more effective CDM operation.

## **2. APPROACH TO THE PROBLEMS**

CDM is the mechanism that transfer Certificated Emission Reductions (CERs) to developed countries from developing countries, and monetary and technology to developing countries from developed countries, through projects for GHGs emission reduction aiming of achieving sustainable development in developing countries. These objectives are reflected in China's domestic CDM institution. Furthermore, domestic institution is affected by national circumstances concerning CDM. Therefore, I evaluate the effectiveness of China's institution for CDM, identify some major problems through eliciting international CDM system and national circumstances concerning CDM, and show how these requirements are reflected in construction and operation of China's institution for CDM.

## **3. EXAMINATION OF CHINESE INSTITUTION FOR CDM**

International institution for CDM requires Chinese institution for CDM to contribute to GHGs emission reduction, and to transfer of CERs. Through establishment of facilitation of Chinese institution for CDM, CDM procedure in China became clear for foreign investors, which built momentum for rapid growth of the number of project. However, the institution requires the investors and the hosts to decide the price of CERs before starting domestic review process of CDM project. China prohibits foreign capital participation as the host. In addition, there is no guarantee for transfer of issued CERs to the investor because the host holds property right on CERs. These are significant risks for investors.

On the other hand, national circumstances require Chinese institution for CDM to contribute to sustainable development in China. The Chinese institution for CDM and the domestic circumstances suggest that sustainable development should be achieved through CDM projects of energy and pollution abatement field, project in poorer areas, and transfer technology and finance through CDM projects. In this perspective, the government has a large discretion to decide whether the project contributes to sustainable development in China. And, CDM institution plays a role to lead projects toward the energy and pollution abatement by setting priority fields and surcharge preference. These institutional designs show China's demand for ensuring transfer of technology and finance. Actual CDM operation has succeeded in leading projects to priority fields.

## **4. CONCLUSION**

Chinese institution for CDM operation is generally functioning well in the light of requires from Chinese institution for CDM. But this research has found following institutional problems; the rule of setting CER price, restriction of foreign capital participation, property right of CERs, and unclear criterion for defining sustainable development. While these elements serve favorable for promoting sustainable development, the risks for investors exist. It needs to reconstruct a better balanced system both for the investor and the host.