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Asia/Pacific

China's CDM status forced to the fore of talks

Concerns that the UN's Clean Development Mechanism (CDM) has effectively stopped funding Chinese wind farms have been shrugged off by Chinese renewables developers, but the mechanism's future is still seen as one of the most inflammatory issues on the bargaining table in Copenhagen.

Many experts also believe the mechanism will be shaken up at the

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COP15 climate change summit in Copenhagen, and that the changes will hold the most relevance for the renewable-energy industry.

The CDM allows rich-world investors to generate carbon offsets by ploughing money into low-carbon projects in developing countries, but despite **the furore last week over Chinese projects being refused funding** , developers there insist the sector remains highly profitable regardless of its CDM status.

In early 2009, the CDM's executive board began delaying or rejecting applications from Chinese wind developers, based on a claim that China had lowered its feed-in tariff for wind projects.

According to the board, that demonstrated that the projects were commercially viable in the absence of CDM funds — running counter to one of the programme's key principles.

Confirmation this week that the UN board assessing CDM projects had rejected 10 wind farms further raised fears that future projects may find it difficult to get approval.

But wind developers and analysts tell *Recharge* that regardless of the future of the CDM, the Chinese wind industry will continue to develop at a rapid pace.

Zhou Xiaole, manager of investor relations at China Wind Power, a small but fast-growing Hong Kong-listed developer, says most projects are already highly profitable even without the CDM funds, and will become more so in the years to come.

"Some projects reach an [internal rate of return] of 15%, even without CDM," he says.

Zhou explains that not only has the Chinese government confirmed its intention to keep its wind tariffs stable for the foreseeable future — contrary to the CDM's line of argument in rejecting applications — but the rapidly tumbling price of equipment is also fattening returns for investors.

"Wind turbines cost more than 6,000 yuan [about $880] per kilowatt last year, but now they're down to around 5,000 yuan. And they will keep going down as efficiencies increase," he says.

Many Chinese wind developers are already working on the assumption that their projects will be made ineligible for CDM funding under a post-2012 climate treaty expected to emerge in Copenhagen.

It explains why interest in registering Chinese wind projects under the CDM has been on the wane in recent months, says Allan Zhang, director of carbon markets at PricewaterhouseCoopers in Beijing.

Developers are put off by the long waiting process for validation, which has left hundreds of projects queued up. "Chinese companies are less enthusiastic about the whole thing," he says.

The recent furore over Chinese wind farms underscores the importance of increasing transparency within the CDM, says Andreas Arvanitakis, senior analyst at **market researcher Point Carbon** .

The number of projects and the amount of money flowing through the CDM have grown exponentially over the past few years, but so too has the confusion over how the executive board is chosen, and on what basis it makes its decisions.

Arvanitakis expects the CDM will see a substantial shake-up in Copenhagen, “although a number of changes people are expecting to see still face an uphill battle”.

He predicts that the CDM’s decision-making process will become more formulaic and easier to understand, but the mechanism for nominating board members will remain highly politicised and murky.

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Published: Friday, December 11 2009

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