

**CHINA'S WINDFALL FROM THE
KYOTO PROTOCOL**

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Executive Summary

The Kyoto Protocol, the first international treaty to set detailed obligations for industrialized nations to reduce their greenhouse gas (GHG) emissions by 2012, is in reality yielding huge benefit for China, the world's second largest GHG emitter.

In contrast to the US' withdrawal from the Kyoto Protocol, China's active participation in the international cooperation on global warming has proved to be a diplomatic success, winning applause from both developing countries and developed countries.

China's active participation in climate change cooperation is closely related to its concern to preserve a favorable international image as a "responsible major power."

China is potentially the largest beneficiary of the Clean Development Mechanism (CDM), a market-based flexible mechanism stipulated by the Kyoto Protocol that allows industrialized nations to buy certified emission reductions produced by projects in developing countries to offset their obligations, commonly known as international "carbon trading".

The UN predicts that China will become a major carbon credits provider by 2012, because its marginal cost for emission reduction is relatively low compared to many other developing countries. According to the World Bank, China captured \$3 billion of the world's \$4.8 billion in CDM subsidies last year for dozens of projects.

China can not only reap remarkable revenue from participating in global carbon trading and selling certified emission reductions to organizations in developed countries, but also receive overseas fund and technology aid through CDM projects.

Due to the absorption of foreign investment and advanced technology in the implementation of CDM projects, scholars foretell CDM programs will boost the country's GDP by 0.03 percent in 2010, 0.34 percent in 2020 and 0.52 percent in 2030.

Plagued by serious pollution problems, the Chinese government now regards the Kyoto Protocol and imminent compulsory emission-cutting as a forceful push to enhance environmental protection.

In the long run, the Kyoto Protocol can depress international energy demand and hence lower energy prices. This should be beneficial to major energy consumers like China.

With more pressure from the European Union and environmental NGOs, will China shoulder legally binding emission reduction tasks in the next treaty? The prospect that a country will forgo the windfalls that it is currently enjoying to take up an onerous task within such a short time is unlikely.