

## CHINA

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## China 'exploiting Kyoto loophole'

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Factories in China and carbon traders are exploiting a loophole in climate change regulations that allows them to make big profits from greenhouse gas emissions trading.

Chemical plants that reduce the amount of polluting HFC gases they release into the atmosphere receive "carbon credits" in return. Such credits can fetch \$5 to \$15 on the international carbon market.

The equipment, known as "scrubbers", to reduce HFC gases is cheap to install, at \$10m-\$30m (£5m-£15m) for a typical factory, according to industry estimates. Installing such equipment can generate millions of carbon credits, because HFC-23 is a greenhouse gas many times more potent than carbon dioxide.

Mark Woodall is chief executive of Climate Change Capital, which has a portfolio of about 50m certified emission reductions, or carbon credits, worth up to \$750m, derived from Chinese HFC projects. He said: "They were deals that could be done relatively quickly and did not need a large amount of capital. These projects have a good track record of delivering the credits because of the low methodology and low technology risk."

The practice is perfectly legal but effectively allows the factories and the companies through which they trade carbon credits to make big profits. The eventual buyers of the credits are governments in developed countries that have agreed to cut their greenhouse gas output under the Kyoto protocol.

From 2008, companies covered by the European Union's emissions trading scheme will also be able to buy carbon credits from developing countries.

But some carbon specialists are uneasy that the use of credits generated by HFC reductions is distorting the market. Tristan Fischer, chief executive of Camco International, a carbon trader, told the Financial Times: "HFCs are controversial."

He said regulations to force factories to fund HFC reduction from profits might work better than allowing them to benefit from the carbon markets, or "perhaps the World Bank should fund the installation of scrubbers".

About 60 per cent of "certified emissions reductions" issued under the Kyoto protocol are estimated to be from HFC reduction projects, although the gas makes up a small fraction of industrial greenhouse gas emissions.

Mitchell Feierstein, head of emissions products at Cheyne Capital Management UK, the fund management company, said: "Carbon dioxide and methane clearly represent the majority of the problem. We believe a proportional amount of investment should be focused on technologies...to curb emissions."

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