Advices on China's Carbon Emission Trading Scheme

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2013 has witnessed the inception of China's carbon market since it began to launch nationwide the ETS (Emission Trading Scheme) which is due to be set up in 2016-2017. And this project started from pilot places and will be rolled out nationwide.

1. Status Quo of China's ETS

(1) The Overview of the Emission Trading Scheme

Before 2012, the Emission Trading Scheme mainly consisted of UTES, EU or New Zealand. However, a growing number of developing countries joint in, making it a 35-country and 7-city combination. The global ETS taking up roughly 15% of the GDP and 48% of the population which can be translated to mean that two persons out of every five are involved in the Emission Trading Scheme.

(2) The Pilot Project of China

First is the coverage area. China has set up 7 pilot projects, encapsulating the metropolitan Shanghai, Beijing and Shenzhen, which enjoy a dominating GDP and a developed industrial system, and the less privileged places, such as Hubei and Chongqing. Based on these 7 pilot projects, China aims to find a feasible way and roll it out national wide.

Secondly is the individualized ETS. Every pilot projects has embarked since 2013-2014 and set up its individualized rules, such as rate of coverage, distribution, data collection and regulations, featuring its own characters.

For example, since these cities and its belonging provinces have their own development features, the pilot place has accordingly adopted different limits on carbon-dioxide emission. They have taken in one billion of carbon-dioxide emission, lower than its European counterpart. But China's ETS system will exceed Europe's in the future. Many carbon intensive industries, like the power sector and the iron and steel industry, have been concluded, making China the second largest carbon market in

Introduction>>

In 2013, China launched nationwide the ETS (Emission Trading Scheme) which is due to be set up in 2016-2017. And this project started from pilot places and will be rolled out nationwide. To set up the national carbon emission system, China takes steps from pilot places building to un-pilot places incorporating, with the aim to make the system nationally covered. Besides, strict regulations and related infrastructure are entailed, such as CCER and standard and registration rules of the carbon trading market.

the world.

Another example goes like this. After two year's practice, most pilot projects find out their own pricing rules, among which Shenzhen has the highest price with its maximum of 113 Yuan and minimum of 20 Yuan. The pricing rule varies from the emission limit and the assessment, also subject to the time.

2. China's Experience in ETS Building

Many experiences and lessons have been gained in two year's building of ETS. The pilot project prepares China to build up its national ETS, outlining the rules and frames. The experiences China has gained are:

Firstly, the necessity of China's ETS needs attention. In the past, China only resorted to the demand control to curb the emission, such as supply reduction. However, the government had to pay the price of shutting down the factories. But in today's ETS, corporations can trade their carbon quotas by distribution.

Secondly, sophisticated policies and rules are entailed in every pilot project. Some rules have gone through the National People's Congress, which means the illegitimate operations will be heavily fined. Some other rules have also been approved by the government.

Thirdly, practical measures should be synchronized. No data was collected at corporate level before 2007, nor were the corporations able to collect its carbon emission data. They found difficulties in calculating and reporting. Therefore, the pilot project has required the corporations to calculate their carbon emission and set up various MRV standards according to different industries.

Fourthly, effective communication should be conducted between government and industry. The two parts have knotted good bond in the past two years. The newly fledged ETS entails Chinese government's good policies and the corporation adaptation, where the effective communication is a must, especially in the technical and political level. Technically, the two parts should collaborate on the surveillance, report and distribution of the carbon emission. Corporations hope their voice is heard by government, and their quota requirement and feedback are taken into account. The carbon management has make strides. In the past, corporations or the industries as a whole simply centralized on efficiency, having no idea of carbon management and trading, whereas in the past three years many corporations have employed expertise for carbon management and regulation making. From passive obedience to initiative adaption, corporation managed to control the long-term risk and conduct effective communication with the government.

Fifthly, build a transparent carbon market and carry out regular product up-dating. The carbon emission trading market in essence is a market for exchange. Once legalized, it will unexceptionally have market effects. Therefore, many financial transactions were involved in this market in the past one or two tears, such as carbon fund. This can be further conducted in the secondary market or make the carbon credits as a guarantee for bank loan.

3. Policy advices for the construction of the National Carbon Emission System

Firstly, geographically expand the pilot place until it is integrated into the global system.

Secondly, the central and the local government take turns to encourage the un-pilot place to be incorporated in the national trading system.

Thirdly, more strict and effective principles and regulations are needed. The preparation of the emission trading system is being carried out in China. At the end of last year, the National Development and Reform Commission (NDRC) published a new interim regulation on emission trade. According to this regulation, China will establish a trading market at the state level from the central government to local ones. The former will take charge of the standardized and unified management, update the interim regulations and establish a stricter compliance system. On the basis of the regulations drafted by the NDRC, the National Congress is entitled to make regulations on a broader sense in order to punish the enterprises breaking the regulations more strictly and to establish a more effective trading system.

Fourthly, the infrastructure development of the nationwide trading system should achieve the goals as follows:

(1) CCER regulation, including the one of insurance and trade. In 2012,

the NDRC published the law and regulation of CCER. Two years later, China started the trade of CCER projects. It will compensate the seven pilot projects, and unified market guidelines will be published.

(2) The nationwide unified standards of China's future carbon trading market and registration system. In the future, the amount of carbon emission will be prescribed and allocated nationwide. Since last year, the NDRC has required the data report from provincial government on the major enterprises with the carbon dioxide gas emission of over 1300 tons, thus establishing the nationwide trading system.

The nationwide unified carbon trading system regulations include a management system of two levels, namely the central government and provincial ones. The former is mainly responsible for rulemaking, including the scope of the system, quota allocation and the amount of emission limit. The latter is responsible for the execution of the rules and the emission amount of major enterprises. Meanwhile, provincial governments call for flexibility to a certain degree. For example, if the project needs to cover more industries and enterprises, stricter rules of quota allocation should be made. They can be adjusted according to those of national level, and relevant compliance rules can also be made. If the enterprises refuse to report the emission data or to pay the fees by the data reported, heavy fines can be imposed on them in accordance with the rules.

Translator/ Huang Ruixin