# Asia and Pacific Regional Workshop: Promoting CDM and Market Mechanisms

# **Experiences and Lessons from China Pilot ETSs**

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### **Outline**

- 1. Background
- 2. Status of Pilot ETSs
- 3. Planning for National Emissions Trading Wide System
- The way forward for establishing a national-wide ETS





## **Background**

- Increasing constraints on resources and environmental degradation
- Limitation of existing policy tools for achieving emission reduction target
- Need for innovative approach for achieving emission reduction goal cost effectively
- Gradually establishing a national wide ETSs during 12 FYP



## **Status of China Pilot ETSs**

- Comparison of Pilot ETSs
- First year performance
- Assessment





## **Comparison of Pilot ETSs**

#### **1.** Similarities

- Caps are set in line with the carbon intensity targets
- Each pilot has adopted an absolute cap
- Each pilot has broad sector coverage and large number of participants
- Most allowances are free allocation with ex-post adjustments
- All pilots use China Certified Emission Reduction (CCERs) as offset credits
- All pilots prohibit borrowing and all (with the exception of Hubei) allow banking between years
- The same compliance period





### **Comparison of Pilot ETSs**

#### **2.** Difference

- Different baseline determination for free Allocations
- Slightly different allocation approaches
- Different MRV methodologies
- Different limits on use of offset
- Different Compliance and enforcement frameworks
- Different price Management Measures





### **First Year Performance**

#### 1. Trading analysis

- Low Trading volume
- Disproportionately high trading volume in last month for compliance

	Cumulative Trading Volume (tCO2)	Trading volume relative to cap	
Shenzhen	1,635,786	4.94%	
Shanghai	1,553,460	0.57%	
Beijing	952,655	1.11%	
Guangdong	1,293,163	0.17%	
Tianjin	1,059,740	0.33%	



#### **First Year Performance**

#### 2. Compliance

 Achieve high compliance rate with additional supporting measures

	Compliance Deadline	Actions Taken to Support Compliance	Percentage Compliance
Shenzhen	30-Jun-2014	Auctioning allowances at half market price	99.4%
Shanghai	30-Jun-2014	Auctioning allowances at 1.2 times market price	100.0%
Beijing	15-Jun-2014	No	47.6%
Guangdong	20-Jun-2014	Deadline Extended to 15 July 2014	98.9%
Tianjin	31-May-2014	Deadline Extended to 10 July 2014	96.5%





#### **Assessment**

#### 1. Achievement

- Testing Different approaches for system design
- Laying a basic foundation for the trading infrastructure
- Building capacity
- Significant progress in environment compliance

#### 2. Issues faced by pilots

- System design
  - Small geographical scope limiting market size and liquidity
  - A large number of participants creating challenges for MRV, administration and compliance



### **Assessment**

- Reliance on free allocation reducing trading volume and market liquidity
- Lack of co-ordination between pilot regions creating barriers for future linking and transition
- No financial derivatives
- Lack of a legal foundation
- Uncertainty of future development
- Lack of understanding in emissions trading schemes
- Weak executive capacity for compliance and enforcement





## Planning for the national wide ETS

- Current Nationwide ETS Activities and Initiatives
- Roadmap and milestones for establishing the national wide ETS





# **Current national ETS activities and initiatives**

- Released Guidelines on GHG emissions accounting methods for 10 selected sectors
- Required key entities to report their verified emissions
- Completed Market Readiness Proposal (MRP) for Establishing a National Emissions Trading Scheme
- Climate Change law and management regulation on ETS are under development
- Ongoing MRV Capacity building for stakeholders





# Roadmap and Milestone for a National ETS

- Preparation stage-2014-2015: developing ETS regulation, technical standard and building infrastructure
- Phase I- 2016-2020: Testing phase-operation and further improvement of the system
- Phase II- Beyond 2020: Expanding phaseexpanding coverage and developing new trading products, exploring possibility of linking China ETS with international carbon market



# The way forward for establishing a national wide ETS

- Critical issues to be addressed
- Possible approaches
- The way forward





# Critical Issue to be Addressed for National ETS

- Quality of historic emissions data
- Capping emissions under a strong economic growth trend
- The disparity in economic development and market readiness
- Capacity for carrying out MRV
- Legal and regulatory Issues
- Coordination between policies
- Existing electricity regulations



### **Possible Approaches**

#### 1. Option 1: Implementing a centralized national ETS

- Characteristics: Central government directly design and operate the system
- Advantage: easy to manage

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Disadvantage: one rule may not fit for all

## 2. Option 2: Developing multiple regional systems based on existing pilots

- Characteristics: Region collaboratively design and operate the system
- Advantage: collaborate regional efforts to reduce carbon emissions and air Pollution
- Disadvantage: lack of political and legal framework

#### 3. Linking pilots and gradually integrating new systems

- Characteristics: Common rules for design and operation, decentralized management, centralized governance
- Advantage: gradual development and considering disparity in development levels and market readiness
- Disadvantage: weak local capacity for ETS and local trade barrier



## **Policy Recommendations**

 Establish a nationwide ETS by linking pilots and gradually integrating new systems

#### **Pre-requisites:**

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- Set out a goal of establishing a nationwide system and timetable for provinces and cities to be phased in
- Develop a set of common rules for design and operation
- Formulate policies to permit the transaction of allowances/carbon credits for meeting respective carbon intensity targets
- Build a central registry or tracking system
- 2. Establish a long-term cap that reflects long-term targets with mechanisms to periodically review and adjust



## **Policy Recommendations**

- 3. Clarify the Long-term use value of emissions allowances and credits
- 4. Establish national ETS legislation to ensure proper functioning of the ETS
  - Establish National ETS Legislation Instead of Management Regulation
  - Enhance capacity for Implementation of MRV, Compliance and Enforcement
- **5.** Address critical policy issues
  - Formulate a long-term plan to address climate change
  - Ensure that energy policy being consistent with climate change mitigation objectives
  - Reform the electricity pricing system





## **Policy Recommendations**

- 4. Enhance coordination between emissions trading and energy development, energy conservation and environmental policies
- Improve and enhance stakeholder consultation process
- 6. Provide transparent information and clear guidance to publics





# Thank you!

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