



# China Carbon Market Report 2014

----A Blue Book on Fact Findings and Opinions

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# Introduction

- 1. A Road to ETS**
- 2. Legal Framework of China ETS**
- 3. Markets of the 7 Pilots**
- 4. Challenges Ahead**



# A Road to ETS

## ETS or Carbon Tax?

### Conventional Analysis

	Carbon Tax	ETS
<b>System Cost</b>	<b>Low</b>	<b>High</b>
<b>Equity</b>	<b>High</b>	<b>Low</b>
<b>Likelihood of Fraudulence</b>	<b>Low</b>	<b>High</b>

# A Road to ETS

## Why We Prefer ETS in China ?

	<b>Carbon Tax</b>	<b>ETS</b>
<b>Industrial Position</b>	<b>Equals to a Fine</b>	<b>Offers a Way out</b>
<b>Cost Share for GHG Reduction</b>	<b>Covered Emitters</b>	<b>Every Participants of ETS</b>



# Legal Framework of China ETS

## National Level

- ❖ The 12th-5year-Plan for Economy Development (NPC)
- ❖ National Plan for Coping with Climate Change (State Council)
- ❖ Working Plan for the 12<sup>th</sup>-5year-Plan GHG Control (State Council)
- ❖ Guiding Opinions for Further Improving Healthy Development of Capital Market (State Council)
  
- ❖ Documents of National Congress of CCP (Shibada)
  
- ❖ Administrative Regulation for CDM Projects (NDRC)
- ❖ The Interim Regulation of Voluntary Greenhouse Gases Emission Trading in China (NDRC)
- ❖ Carbon Accounting Methodologies and Guidelines for the 10 Industries (NDRC)

# Legal Framework of China ETS

## Pilot Level

	Legal Docs ( Highest Order of Legislature)
<b>Beijing</b>	Decision on establishing a Cap-and-Trade System (Local Congress)
<b>Tianjin</b>	Interim Administrative Regulation of Carbon Emission Trading (Municipal Gov.)
<b>Shanghai</b>	Pilot Regulation of Carbon Emission (Municipal Gov.)
<b>Chongqing</b>	Interim Administrative Regulation of Carbon Emission Trading (Municipal Gov.)
<b>Shenzhen</b>	Shenzhen Special Economic Zone Administrative Provisions of Carbon Emission (Local Congress)
<b>Guangdong</b>	Pilot Regulation of Carbon Emission (Provincial Gov.)
<b>Hubei</b>	Interim Regulation of Carbon Emission Administration and Trading (Provincial Gov.)

# Markets of the 7 Pilots

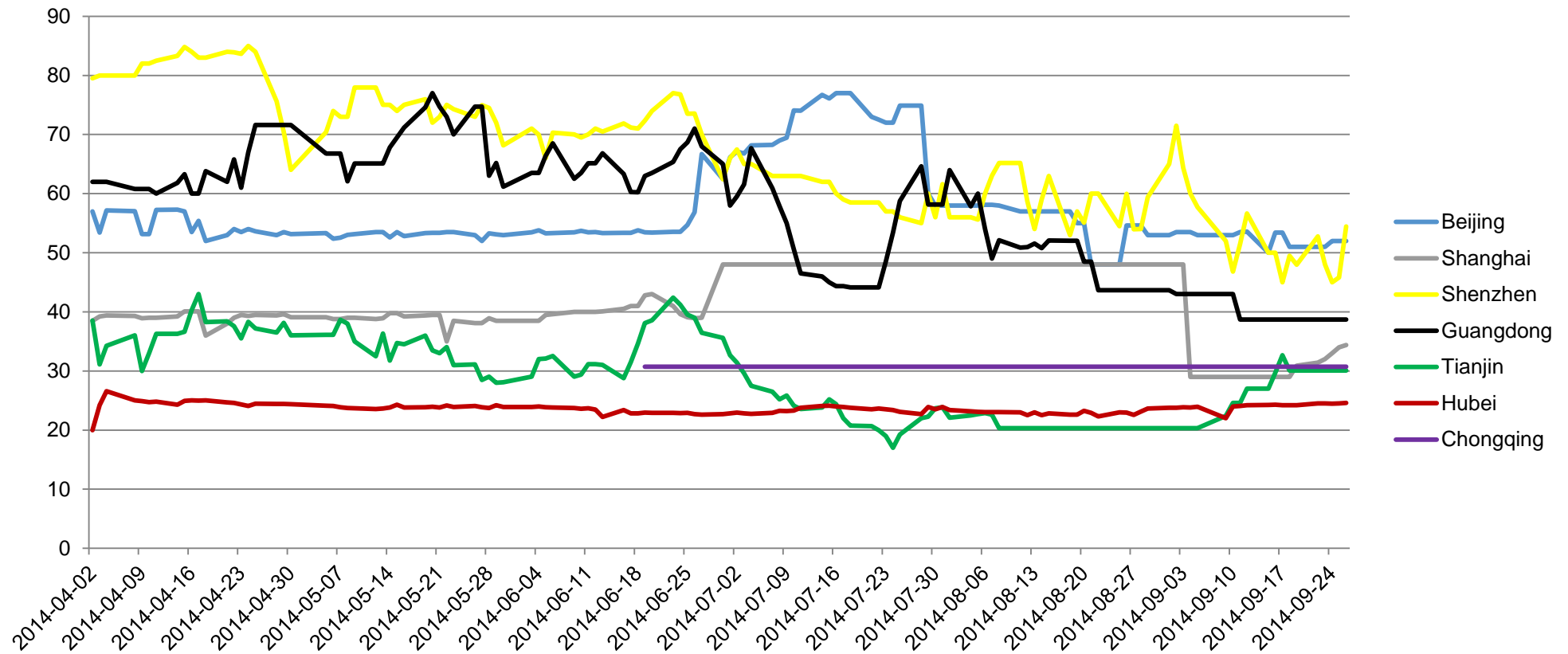
## Basic Figures: 21million tons, 1.1billion RMB

Pilots	Covered Emitters	Annual Cap Million Ton	Trade Volume Million Ton	Trade Amount Million ¥
Guangdong	242	388	1.29(11.1)	70.6(667)
Hubei	138	324	5.28	125
Shanghai	191	160	1.55	60.9
Tianjin	114	160	1.06	21.9
Chongqing	240	130	0.145	4.46
Beijing	490	78	2.03	100
Shenzhen	832	30	1.66	113

Figures in brackets: Auction

# Markets of the 7 Pilots

## Prices

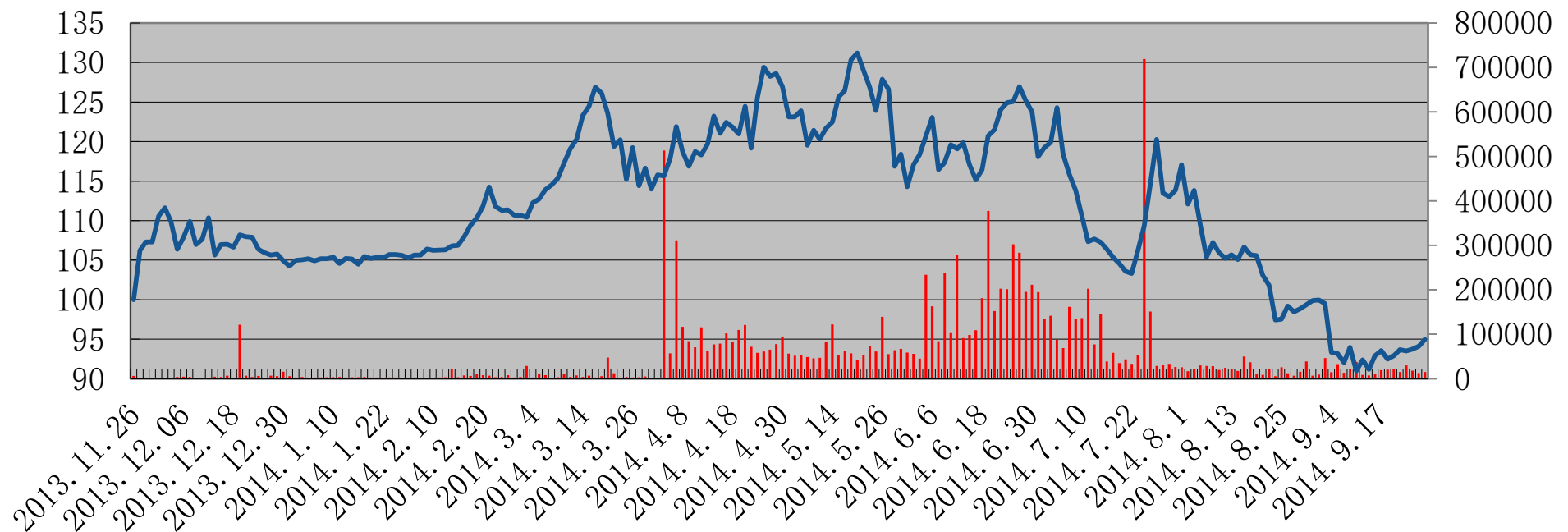




# Markets of the 7 Pilots

## China Carbon Index: Seasonal trading

China Carbon Index (CCI)



# Markets of the 7 Pilots

## Policy-Highlights

Free Allocation Methodology

Pilots	Electricity Generation Sector	Non-Electricity
Guangdong	Benchmark	Grandfather
Hubei	Grandfather(50%)+Benchmark(50%)	Grandfather
Shanghai	Benchmark	Grandfather
Tianjin	Grandfather	Grandfather
Chongqing	Grandfather	Grandfather
Beijing	Grandfather	Grandfather
Shenzhen	Benchmark	Benchmark

# Markets of the 7 Pilots

Most Caps are set according to Emission Intensity of GDP and subject to Pre-allocation and Adjustment

Pilots	Electricity Generation Sector	Non-Electricity	Adjustment Description
Guangdong	○	×	2014y, Actual KWH,
Hubei	○	○	Actual KWH & Production Subject to a 200k or 20%
Shanghai	○	×	Actual KWH
Tianjin	○	×	Actual KWH
Chongqing	○	○	Actual KWH & Production Subject to a limitation (8%)
Beijing	○	×	Actual KWH
Shenzhen	○	○	Actual KWH & Production Subject to a limitation

# Markets of the 7 Pilots

## Most Outstanding Characteristics of the 7 Pilots

Pilots	Policy Highlights
Guangdong	<ul style="list-style-type: none"><li>● Mandatory Auction in 2013 ( 3% : Ticket for Free Allowances; Floor Price Set to be at 60 ¥ /ton)</li><li>● Auction of 5% in 2014: free auction with “price ladder” (Quarter Floor Price 25,30,35,40 ¥ /ton)</li></ul>
Hubei	<ul style="list-style-type: none"><li>● 150000 ton of threshold for covered emitters</li><li>● Biggest carbon Exposure due to harsh policy, biggest trade volume and good liquidity</li><li>● Limit of 200K tons for allowance surplus; and “sell them or cancel them” policy</li></ul>
Shanghai	<ul style="list-style-type: none"><li>● Comparatively transparent</li><li>● Highest fluctuation limit of price (30%)</li></ul>
Tianjin	<ul style="list-style-type: none"><li>● Started with the Lowest legislation by local DRC</li><li>● Forward and future contract permitted</li></ul>
Chongqing	<ul style="list-style-type: none"><li>● Power to the grid excluded</li><li>● Oversupply in 2013 and 2014</li></ul>
Beijing	<ul style="list-style-type: none"><li>● Carbon exposure for most of the emitters (60%)</li><li>● Open market operation against over-speculation control</li></ul>
Shenzhen	<ul style="list-style-type: none"><li>● First pilot to have legislation by Local Congress</li><li>● Allocation according to emission intensity of GDP and Benchmark for all industries</li></ul>

# Markets of the 7 Pilots

## Other Issues

- Wide Spread of Threshold of Covered Emitters (3000tons-150000tons)
- BJ, SZ governmental buildings covered
- MRV Government Procurement



# Challenges Ahead

- ❖ An Increasing Annual Cap  
Completely following the emission Intensity of GDP or a stipulated percentage of GDP growth rate?
- ❖ From 7 pilots to a national harmonized market  
Link or start from scratch?  
Pilots' Allowances converted to National Allowance?
- ❖ Transparency  
Information release and stability of policy
- ❖ Unreasonably Separated CCER markets  
Eliminate the restriction to the CCER offset?
- ❖ Double calculation (regulation) of emissions?



**Thank you!**

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