

China's Pilot and National ETS's

BPMR Korea

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Climate Challenges, Market Solutions

*“We will step up efforts against air pollution, promote ecological progress, **establish a carbon trading market at a faster pace.....”***

-Vice Premier Zhang Gaoli, September 23, 2014



Global Carbon Markets: 2014-2015



-  CDM Host Countries as of July 1, 2013 (UNEP Riso Centre, data from the CDMPipeline)
-  Existing Emission Trading Schemes
-  Emission Trading Scheme in Progress
-  Countries with provincial-only Emission Trading Schemes
-  Linkages



B-PMR's China Missions



2013

- Shenzhen & Guangdong
- Shanghai

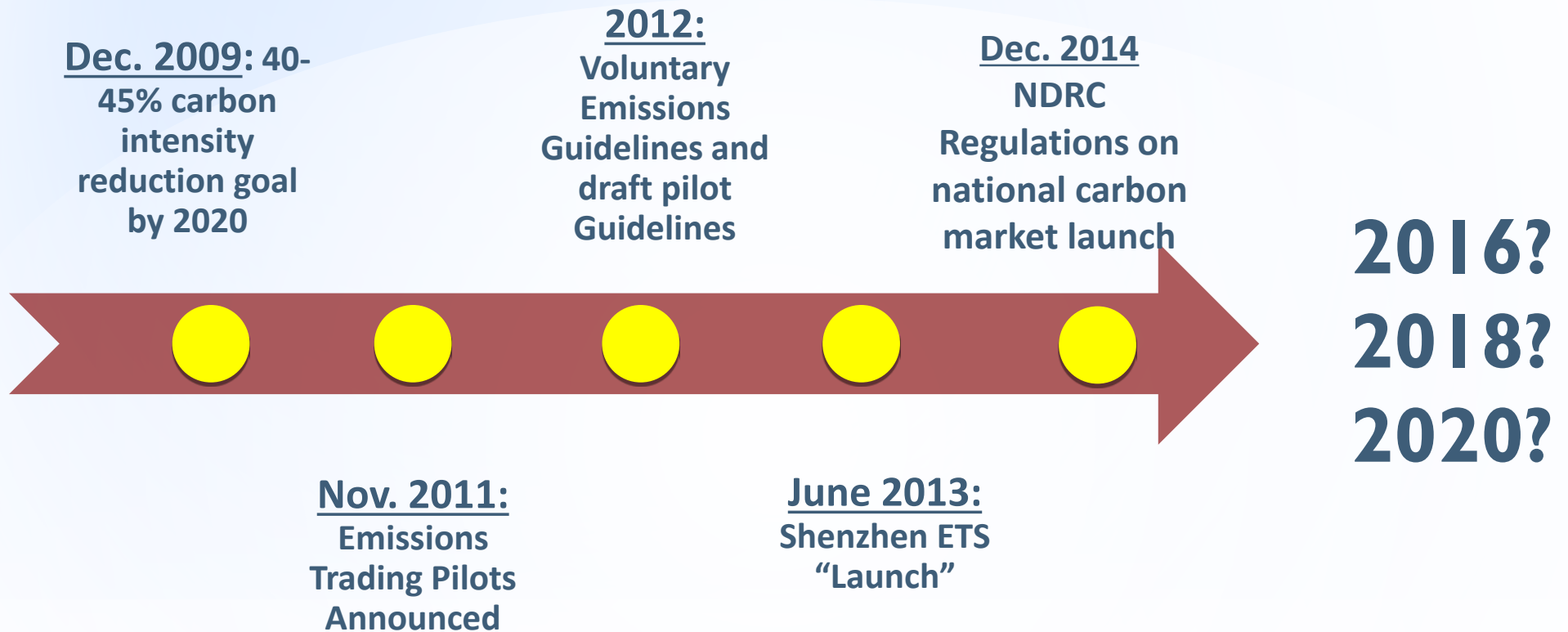
2014

- Beijing & Tianjin
- Return to Shenzhen & Guangdong

Other Missions

- Korea
- Kazakhstan
- Mexico
- South Africa

China steps toward a national ETS

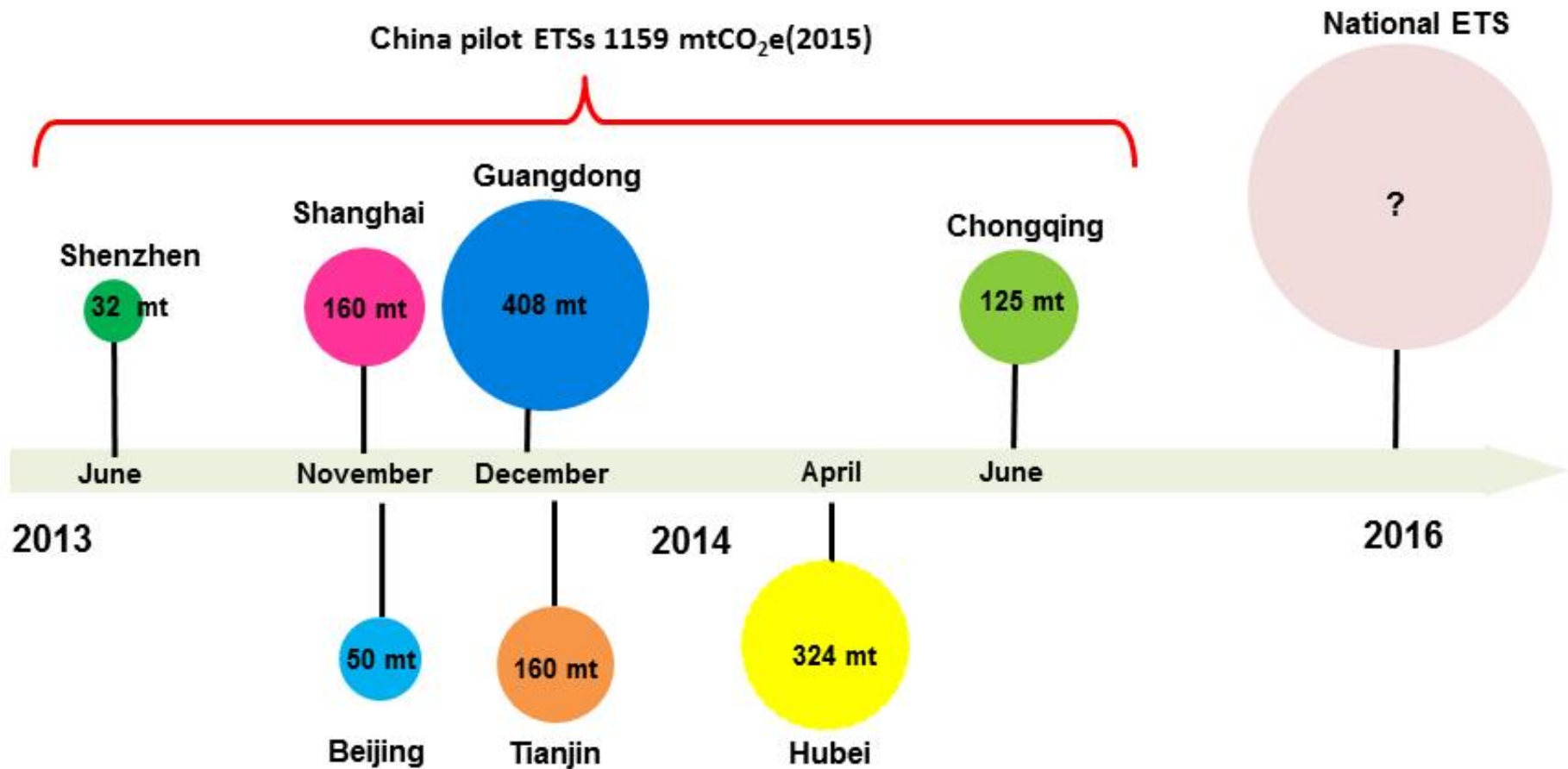


The pilots represent ...

- 256 million people (18% of total population)
- 27% of 2010 national GDP
- 3.5% of the global economy
- Strategic economic hubs
- Traditional industrial bases
- Accelerating coal plant closures



Market Size



Source: CDC Climat Research



Deng Xiaoping, Shenzhen

Allocation Approaches

	Free allowances		Auctioning
	Grandfathering	Benchmark	
<i>Beijing</i>	all covered sectors	new entrants and expanded capacity	small proportion of allowances
<i>Chongqing</i>	all covered sectors*	-	no
<i>Guangdong</i>	power (50%), cogeneration, mining in cement, petrochemical, iron, steel scrap processing	power (50%), cement and long process steel, new entrants	Auctioning is used as a complementary method (2015 floor price is ¥25 for the first auction of the year, climbing to ¥40 for the final one)
<i>Hubei</i>	all covered sectors	-	3% of this reserve can be auctioned (floor price ¥20)
<i>Shanghai</i>	industrial, manufacturing and public buildings	energy, airlines, ports and airports	Auctioning is used as a complementary method only to fulfill compliance obligation (2014 price floor: ¥46)
<i>Shenzhen</i>	-	all covered sectors	Auctioning used as a complementary method only to fulfill compliance obligation (2014 price floor: ¥35.4)
<i>Tianjin</i>	all covered sectors	new entrants and expanded capacity	small proportion of allowances

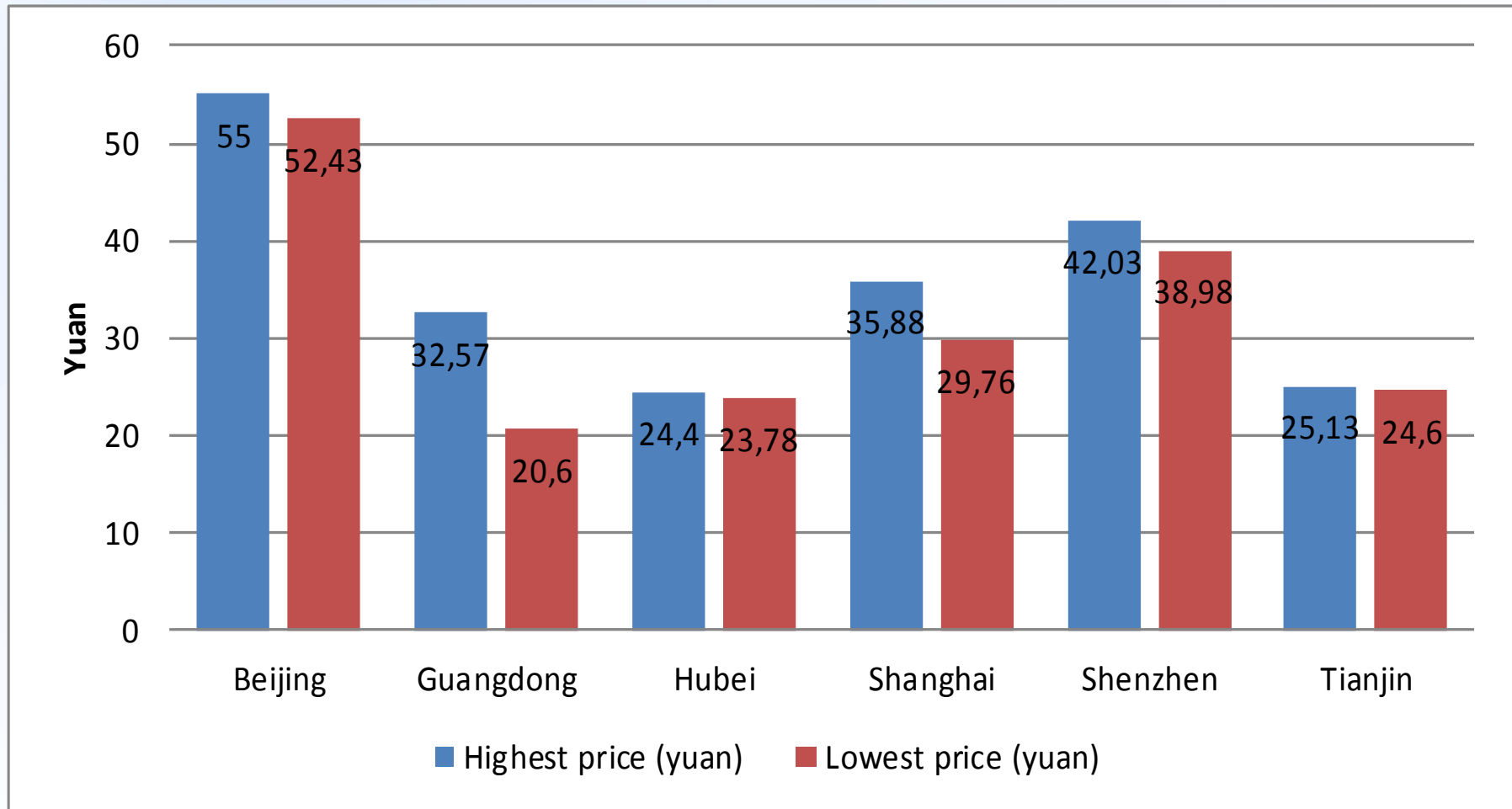
* *Chongqing is using current-emissions based updating. Allowances are going to be determined ex-post after production data has been shared*

Source: Ecofys, April 2014, and ICAP, February 2015



Deng Xiaoping, Shenzhen

Pricing from Jan. 2015



Source: China carbon, <http://chinacarbon.net.cn/wp-content/uploads/2015/02/China-Carbon-Market-Review-January-2015.pdf>, January 2015



Deng Xiaoping, Shenzhen

Observations from recent Missions

Chinese markets in midst of evolution

They've come a long way in 18 months

Shenzhen

- Liquidity is low – growing pains
- Character- many small players
- Complex adjustment to intensity
- Unfamiliar with how to tap market for advantage, esp. for small positions
- 3 year term may impact forward view
- Possible expansion could tighten supply – or lengthen it
- Uncertainty on transition to national
- Not much “market maker” activity
- No futures or options – just spot market or forwards

Guandong

- Liquidity is low - growing pains
- Character- fewer participants, but large positions (and challenges)
- Big industrials conservative
- Some still testing systems – and concerned about making 1st move
- Slow internal approval processes
- Possible expansion to more sectors may broaden numbers
- Uncertainty on transition to national system
- Not much “market maker” activity
- No futures or options – just spot market or forwards

Thank you

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