Roundtable on the Evolution of GHG Emissions Trading in China

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GreenStream in China
GreenStream in China
The Seven Sisters

- Prompt operationalization of the Pilots
- Registration of CCER projects
- MRV protocols developed
- Increased capacity in both private and public stakeholders
- Continued strong political support
- Exchange based spot trading

- Coverage of just 7% of Chinese total GHG emissions
- Very low market liquidity
- Firm (not installation) based data
- Non-involvement of financial sector
- Limited compliance regimes without legal foundation (except for Shenzhen)

<table>
<thead>
<tr>
<th>City</th>
<th>Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenzhen</td>
<td>59 yuan</td>
<td>11,733</td>
</tr>
<tr>
<td>Tianjin</td>
<td>20 yuan</td>
<td>200</td>
</tr>
<tr>
<td>Guangdong</td>
<td>41 yuan</td>
<td>0</td>
</tr>
<tr>
<td>Beijing</td>
<td>53 yuan</td>
<td>2,200</td>
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<td>Shanghai</td>
<td>39 yuan</td>
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<tr>
<td>Hubei</td>
<td>23 yuan</td>
<td>92,088</td>
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<tr>
<td>Chongqing</td>
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<td>0</td>
</tr>
</tbody>
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Coverage of just 7% of Chinese total GHG emissions

Allowance Price Information – Week 35 2014
The Challenges & Opportunities of the Chinese Pilots

- China’s CO₂ intensity (t/1000 USD) is seven times the EU-28
- The political direction of the 12th Five Year Plan provides macro certainty
- Cumulative emissions covered by the Pilots are nearly 50% of the coverage of the EU ETS
- Energy consumption and associated GHG emissions will continue to grow in absolute terms
- The implementation of a carbon price creates an ecosystem based around the compliance obligations of covered entities including an offsets market
- Carbon pricing is still subject to the strictures of the Chinese economy (regulated electricity, the dominance of SOEs & financial restrictions)
- Fragmentation/Localisation due to the nature of conceded informality of “shidian” policy making
- Allocation models still grandfathering based (often with weak data sets) and transitioning to benchmarking a herculean task
- Trading opportunities limited by lack of futures contract (and the consequent lack of liquidity)

Is the policy tool being implemented to enable the market to drive behavioural change?
Establishing a National ETS in China

Source: Market Readiness Proposal of China to PMR
Business Partnership for Market Readiness (“BPMR”)

[Logos of various companies]
The BPMR in China

- Initial “Mission” to Shenzhen & Guangdong in February 2013 with strong political support by Vice Mayor Tang Jie in Shenzhen and by the Guangdong Low Carbon Development Promotion Association.
- 2nd Mission to Shanghai in October 2013, with notable contributions from the floor by CITIC, Bao Steel, PetroChina and others. Over 160 participants.
- 3rd Mission to Beijing and Tianjin in February 2014, with opening remarks by Sir David King, UK Special Representative for Climate Change
- Next Mission is a follow-up to Shenzhen and Guangdong in October 2014
- Other BPMR events have been conducted in Seoul, Astana, Warsaw, Cologne and Mexico City
Under a market-based mechanism the covered entities usually pass on the compliance cost to the end consumers. How does this affect the competitiveness of the companies?

Energy efficiency measures provide long-term mitigation solutions but require substantial capital investment while purchasing offsets is a short-term solution but cost-effective and simple. Which approach is the best according to you?

Under a market-based mechanism the covered entities usually pass on the compliance cost to the end consumers. How does this affect the competitiveness of the companies?

How can top management of a compliance entity be persuaded to take an interest in carbon trading?

Is MRV carried out by real-time monitoring or by regulatory authority? If it is monitored by regulatory authority, how will it be insured that the company is not involved in undesirable practices, such as manual change of the emission data or manual change of the parameter of the monitoring equipment?

I want to know in Europe, how is the allowance being allocated to companies? Is it based on the historical emission data? If it is based on the historical data, does it mean if a company did well in the first year, then they have to better in the second year, does it mean they will face more pressure from emission reduction?

Is there simulation software available to practice trading? What kind of strategies does your company practice while trading instruments?

I want to know whether [BP] have a new organization under the group involved in the carbon asset management; for example a carbon management department or carbon trading department and what is the function of the organization?

During the third phase of the EU ETS a huge surplus of emission allowances exists, will the government come forward and purchase them?