

# Review of China's National Emissions Trading System

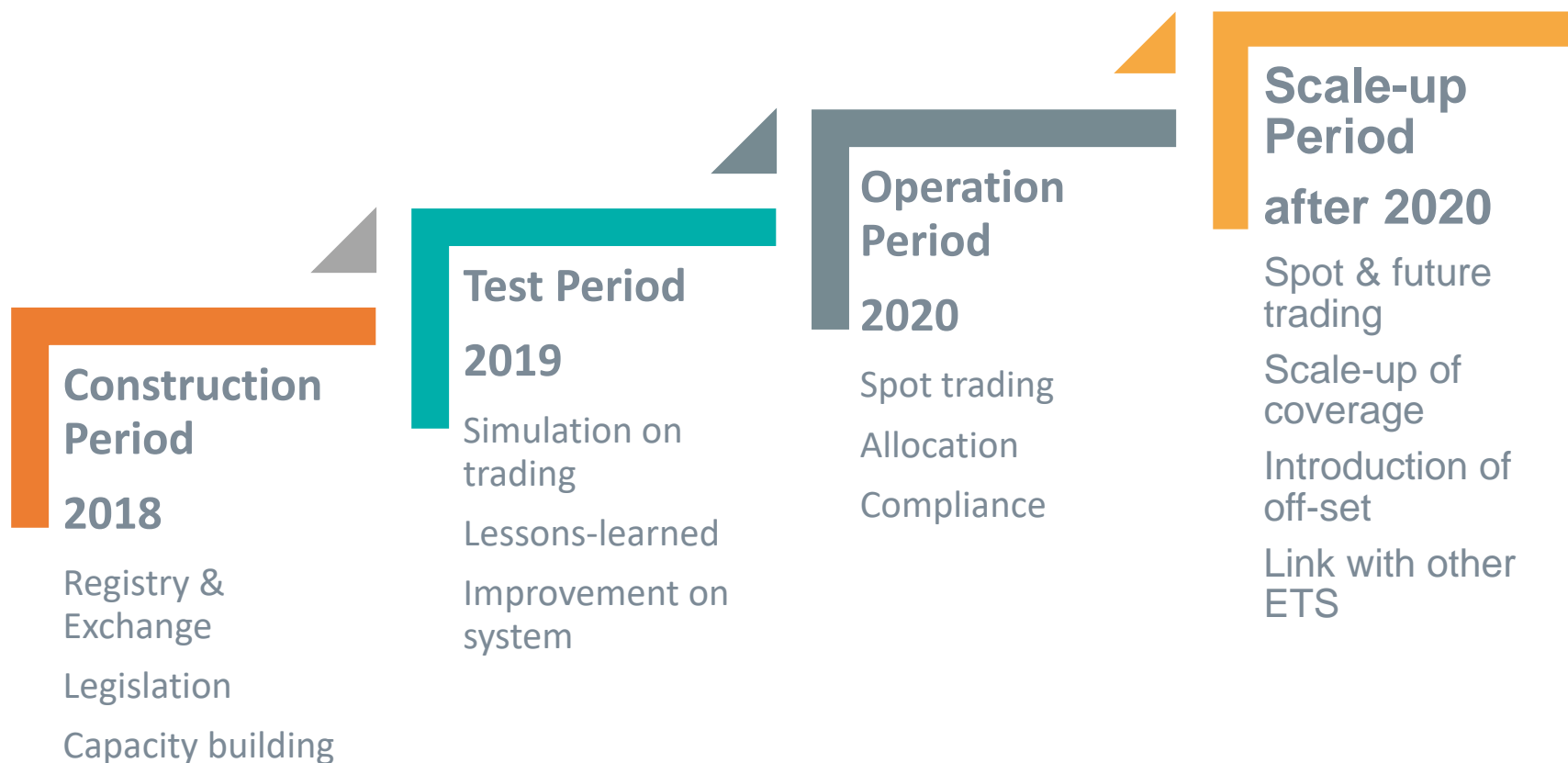
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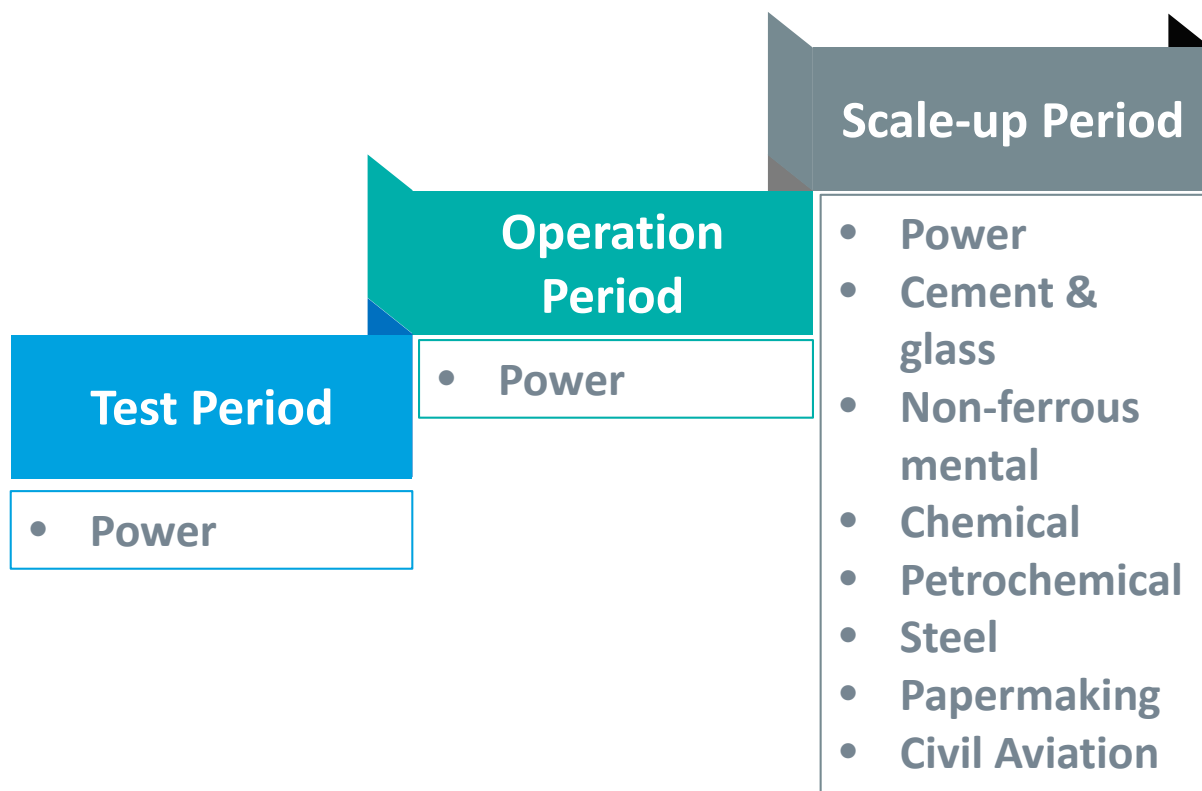
# Outline

- Brief Introduction of Progress
- Overall Thoughts
- Top areas for improvement and enhancement:  
Lessons learned & Next Step
- Implications for emitters' behavior

# Timeline of China's ETS



# Perspective on China ETS: Coverage

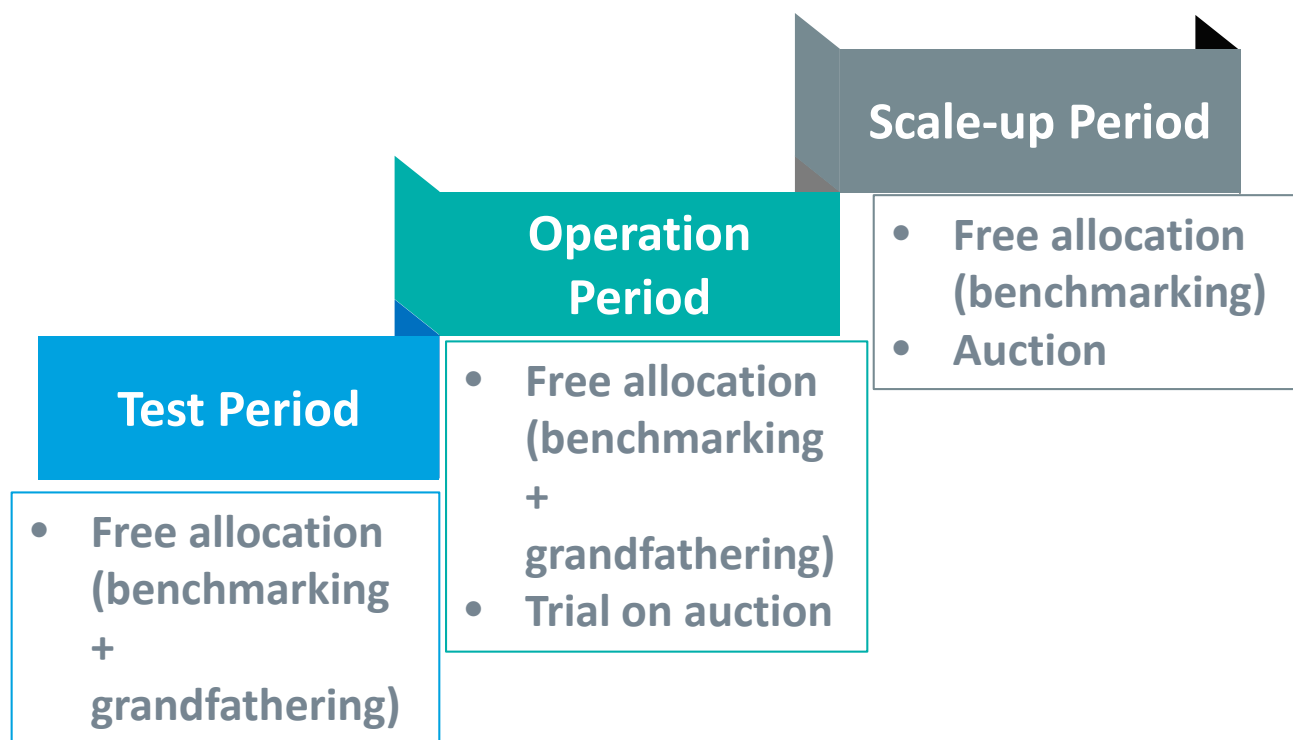


*In June 2019, MEE started preparing for registration of market players by requiring local governments to confirm the list of participating enterprises in the power sector to be covered by ETS, as well as confirming what entities or departments would be in charge of the registry at the local level.*

# Perspective on China ETS: Legislation

- In April 2019, MEE published draft Rules for the National Emission Trading Scheme for public consultation.
- This was the first set of draft rules on the national carbon market issued by MEE since the transition of the Department of Climate Change (DCC) from the National Development and Reform Commission (NDRC) to MEE.
- These rules will be the first official regulation outlining key elements of the national carbon market, and lay down a legal foundation for a functioning carbon pricing scheme.

# Perspective on China ETS: Allocation



Start to consider the consignment auctioning mechanism, to inform the auctioning design

# Overall thoughts

- The current ETS is only a preliminary first step on a long march.
- China will gradually develop its ETS (compared with decades of development of the real estate and stock markets in the context of market-oriented transition).
- Integrated policy tools—including the ETS—should be the future trend for enabling policy environment to support the low carbon transition.

# Comparison with scaled cap-and-trade system

- Advantages:
  - Compared with equally stringent cap-and trade program:
  - electricity price increases are smaller
  - adverse profit impacts are generally smaller
  - China ETS (TPS) 's emission-reduction targets adjust to macroeconomic conditions
- Disadvantages:
  - Less cost-effective than equivalently scaled cap-and-trade system (because less use of the conservation channel)

*Source: Lawrence Goulder, 2018*



# Top areas for improvement & enhancement

- Build legal basis: legislation or regulation.
- Introduce absolute emission cap for the covered sector(s). The national absolute cap might be set up later.
  - MEE is considering capping nationwide carbon emissions during the 14th FYP
- Phase out the approach of allocating allowances based on intensity benchmark. Transition to auction in power sector before 2020 and high share of auction in other covered sectors no later than 2025.
- The different regulatory roles of different governmental authorities should be further defined and played based on current or forthcoming laws or regulations
  - Integrate carbon mitigation policies (including carbon pricing) into existing regulatory frameworks, such as those on emissions statistics, permitting and monitoring, etc.

# Top areas for improvement & enhancement

- Integration with other market based instruments and other pricing measures

**Carbon tax**

**Emission trading system  
system (ETS)**

**Results-based climate  
climate finance (RBCF)  
(RBCF) framework**

**Internal carbon pricing, e.g.**

# Implications for emitters' behavior

- Near-term (before 2020)
  - Improve awareness with real prototype of policy instrument in place
  - Interaction with the development of regulatory system: implementing commitment and MRV
- Near and medium-term (2021-2025)
  - Capacity development: decision making based on comparison of abatement cost and carbon price
  - Internal management system for carbon assets
- Medium and long-term (2026 and beyond)
  - More proactive investment in R&DD to response to rising carbon price
  - Shift to lower carbon domains

Thank You!