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
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

Dec. 2009: 40-45% carbon intensity reduction goal by 2020

2012: Voluntary Emissions Guidelines and draft pilot Guidelines

Dec. 2014 NDRC Regulations on national carbon market launch

Nov. 2011: Emissions Trading Pilots Announced

June 2013: Shenzhen ETS “Launch”

2016?

2018?

2020?
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

Deng Xiaoping, Shenzhen

IETA
China pilot ETSs 1159 mtCO₂e (2015)

- Shenzhen: 32 mt (June)
- Shanghai: 160 mt (November)
- Guangdong: 408 mt (December)
- Chongqing: 125 mt (April)
- Beijing: 50 mt
- Tianjin: 160 mt
- Hubei: 324 mt

National ETS

Source: CDC Climat Research
## Allocation Approaches

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<td><strong>Chongqing</strong></td>
<td>all covered sectors*</td>
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<td>power (50%), cement and long process steel, new</td>
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<td>cement, petrochemical, iron, steel</td>
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<td><strong>Shanghai</strong></td>
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* 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
Pricing from Jan. 2015

![Graph showing pricing from Jan. 2015 for Beijing, Guangdong, Hubei, Shanghai, Shenzhen, and Tianjin. The graph compares the highest and lowest prices in yuan.]

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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