

# The development of the Chinese ETS – views from an exchange perspective

**Manuel Moeller**

European Energy Exchange (EEX) AG

Senior Expert Business Development

[manuel.moeller@eex.com](mailto:manuel.moeller@eex.com)

15 November 2017

## EEX Group at a glance

- EEX Group is the commodity arm of Deutsche Börse. It combines five exchanges and two clearing houses in North America, Europe and Asia and connects more than **500 participants from 30 countries**. 450 employees work for EEX Group in one of the 15 locations worldwide.
- Our product range covers **Energy** (Power, Natural Gas, Oil, Coal); **Environmental** (Emission Allowances, GOs); **Agricultural** (Dairy, Potatoes); **Metal** (Iron Ore) and **Freight** (Dry Bulk) markets.
- EEX exchange is a **regulated market** in Europe for energy and commodity products (spot & derivatives). Clearing and settlement of all EEX transactions is conducted by European Commodity Clearing AG (ECC), which belongs to EEX Group.
- EEX is **active in carbon markets since 2005**, offering emissions trading based on the EU ETS (EUA, EUAA) and on the Kyoto framework (CER). EEX has particular track-record as service provider for public authorities.

## EEX's views on the Chinese carbon market

- Operating for more more than a decade, **EU ETS** has developed into a liquid and fully mature market, characterized by
  - Large and diverse number of participants active on daily basis, contributing to a liquid market
  - Robust price signals, mirroring supply/demand balance, with price discovery for years in advance
  - Different trading venues (exchanges, brokers,..) and broad range of trading instruments available to market participants, fulfilling different needs
- National **Chinese ETS** (CNETS) only at the beginning – different starting conditions compared to EU (e.g. degree of power market liberalisation, data availability)
- Some **general ingredients** have shown to be important for an ETS to work:
  - Clear and consistent legislative framework → *stability*
  - Sound processes for monitoring, verifying and reporting (MRV) emissions data → *reliability*
  - Safe and reliable market infrastructure → *trust*
- At the same time, a **liquid market for CNETS** will be crucial to deliver robust price signals → facilitate investment decisions and cost-effective mitigation action; necessary prerequisites include
  - Adequate cap and scarcity of allowances
  - Role of exchanges: pooling of liquidity; high level of transparency; stringent rules and tight supervision; elimination of credit risk (clearing)
  - Broad level of participation

# How can international participants contribute and support

- Businesses in China and other regions are already, and increasingly, intertwined
  - Int'l companies will have direct compliance obligations in China through local entities, JVs
  - Int'l companies are already active or interested to invest in Chinese renewables sector
- On the one hand, international participation is thus inevitable; on the other hand, it can also actively support the development of a well-functioning CNETS by providing
  - **Liquidity**
    - Sufficiently large number of trading participants and diversity of players (i.e. mix of different trading motives) are important prerequisite for trading activity to unfold
  - **Experience**
    - Foreign operators have long-term experience and developed different strategies to manage (and hedge) their compliance obligations
    - Can be a source of learning for Chinese domestic players, especially in light of power market reform
  - **Services**
    - Foreign financial players have long-term experience in providing funding and trading services to clients
- Effectiveness of CNETS can benefit from broad participation – both within China as well as from foreign participants