Policy

Interview: China ETS could set tone for others

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China's carbon scheme could give a push to climate legislation in other countries, Ieta said.

News last month that China intends to begin a pilot emissions trading scheme came as climate legislation stalls in other big-emitting economies such as Australia and the US.

If China is serious about its scheme, it could have an impact on the legislative process elsewhere, according to David Lunsford with the international Emissions Trading Association (Ieta), a lobby group.

"A domestic market in China would be a major boost for the market-based approach to pricing emissions," Lunsford told Point Carbon News.

"A China ETS could set a new tone for other nations to push proposals forward during what has been a challenging year for passing climate policy," he said, adding that more details on China's scheme would be welcome.

In the aftermath of the Copenhagen summit last December, and as nations struggle to bounce back from the financial crisis, the will to cut emissions has slumped and chances of international climate talks to achieve a breakthrough this year appear remote.

Reports that China plans a domestic carbon market have thus come as a surprise to some observers, although the actual set-up of the scheme is not clear.

An agreement that China should set up its own scheme was allegedly made at a meeting held by the National Development and Reform Commission (NDRC) on 20 July, and was conveyed to state-owned media by an anonymous participant at the meeting.

Lunsford stressed that the news has not yet been officially confirmed. However, the NDRC has republished the news reports on its website.

According to the reports, China plans to introduce the scheme within its next five-year plan, which begins in 2011.

Provinces

As no detailed decisions have been made yet on how a Chinese ETS might look, it remains unclear whether participation in the pilot scheme will be based on sectors of the economy or geography.

Officials from the Energy Research Institute, a subsidiary of the NDRC, have argued that since the western part of the country is poorer and less industrialised, it would make sense to pick cities or provinces in the east to join the pilot scheme.

The city of Wuhan last week applied to the NDRC to participate in the ETS, while Shanghai has been touted in local media as a favourite to be included because of its relatively sound industrial data and its financial services infrastructure.

"Over the past months the Guangdong and Hubei provinces and several cities were selected to be pilot areas to realise the low carbon economy," Lunsford said.

"Such pilot zones and the fact that environmental exchanges have emerged in Tianjin, Beijing and Shanghai further suggest that province-level ETS implementation could take place in the 12th five-year plan."

Linking such provincial measures into a nationwide programme would optimise emission reductions, he said, although such a system would take longer time to develop.

China is also planning a low-level carbon tax, but Lunsford saw no problem in a tax and an ETS coexisting.

"One could expect that China will opt for hybrid measures in its quest for a low carbon economy, using taxes, trading and command and control approaches to reduce GHG emission levels and persuade foreign investment into green growth," he said.

Future

How a domestic scheme would affect China's ability to supply rich countries with emission reductions in the future would depend on the design, according to the Ieta expert.

Rules for monitoring, reporting and verification (MRV) would be one important factor.

"Given clear policy signals, a stable foreign investment environment and market operating infrastructure that encourages widespread participation, foreign interest in a China ETS should be significant," he said.

As China readies domestic efforts to cut emissions while it continues to see proposed clean development mechanism (CDM) projects rejected by the UN – last week's CDM executive board meeting stopped 18 Chinese projects – Lunsford remained convinced China has a big role to play in the future carbon market.

"To prevent the worst effects of climate change, the world needs to decarbonise the emissions growth of China, which will be a monumental task that requires hundreds of billions of dollars of new investment across the economy," he said.

"So long as the government gears itself with internationally acceptable MRV, engages with the international community on CDM reform and the design of potential new market mechanisms, and greater demand for international reductions are instituted in major economies around the world, China will continue to deliver substantial amounts of reductions to carbon markets," Lunsford added.

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