



FORES



## ***What's happening on emissions trading in China?***

**Joint report launch held at the European Parliament on the 24<sup>th</sup> April 2012:**

**Sandbag Climate Campaign:** Turning the Tanker: China's changing economic imperatives and its tentative look to emissions trading.

**Stockholm Environment Institute / FORES:** China's Carbon Emissions Trading: An Overview of Current Developments.

### Event Agenda:

Introduction by **Mr Peter Liese MEP** & **Mr Chris Davies MEP**  
Introductory remarks, **Mr Xiangfeng Li**, First Secretary, Mission of the People's Republic of China to the EU  
Overview of Chinese ETS pilots: **Mr Karl Hallding**, Head of China Programme, Stockholm Environment Institute  
EU China ETS cooperation: **Mr Damien Meadows**, Head of Unit International Carbon Markets, European Commission  
Challenges faced by ETS pilots: **Baroness Worthington**, Founder and Director, Sandbag Climate Campaign Discussion  
Closing remarks, **Mr Bas Eickhout MEP**  
Event ends

The event started with an introduction by **Mr Chris Davies MEP** and **Mr Peter Liese MEP** in which the importance of China was emphasised. The European Union is moving to tackle climate change and has implemented a range of policies, including the EU emissions trading scheme (ETS), to lessen its emissions. Nevertheless, climate change is a global problem and as such all countries must implement meaningful policies to ensure the worst effects of climate change are avoided. The size and importance cannot be overstated. Acting on climate change would be pointless without China's contribution to tackling the problem. Both MEPs welcomed the launch of these two timely reports and hoped it would engender continued and better understanding and sharing of information between the European Union and China.

### **Mr Xiangfeng Li, First Secretary, Mission of the P.R. China to the EU.**

Mr Li shared his personal views on emissions trading in China. He was clear in highlighting that China is embarking on a learning experience. China has committed itself to developing seven regional pilot emissions trading scheme but the outcomes and success of these pilots are still yet to be clarified. The pilot projects are busy preparing operations, deciding on the scope as well as trying to better understand the impact on society.

Mr Li mentioned that as the biggest emissions trading scheme in the world, the EU ETS, was vital for China in learning how best to go about implementing such a mechanism. While the EU ETS is important for China to study it was reiterated that China faces many different challenges. Three particular challenges Mr Li personally felt were important included: firstly, knowing how to deal with a carbon price. He noted that the carbon price in the EU ETS is currently languishing at an all time low. With such a low price a fundamental question arises: what are the market objectives of an emissions trading scheme? Secondly, the inclusion of aviation into the EU ETS has caused much confusion, as well as problems. No country would object if the EU decided to incorporate EU emissions into the scheme but the inclusion of emissions from all flights landing and taking off from the EU has proved problematic for non-EU countries. Lastly, there remains a challenge in developing and handling the relationship between business which will be incorporated into pilot projects and the institutions which will regulate them. Mr Li was plain in clarifying that at this moment in time only pilots were planned and it was too early to talk about the national emissions trading scheme.

### **Mr Karl Hallding, Senior Research Fellow and Head of China Programme, Stockholm Environment Institute.**

Mr Hallding stressed the need to better understand the drivers of China's motives for acting to reduce emissions. While climate change is an issue that China takes very seriously, their primary motives to reduce emissions are led by energy security and resource concerns. Energy security was one of the key drivers of the 11<sup>th</sup> five year plan (FYP), which saw tough energy efficiency targets implemented. The end of the 11<sup>th</sup> FYP in 2010 ideally positioned China to

re-package their energy policy in the 12<sup>th</sup> FYP alongside a climate change narrative, thus allowing them to take on a carbon intensity target. Furthermore China understands that its traditional command and control measures are becoming less effective and there is a need to transition to using more efficient policy tools. The 12<sup>th</sup> FYP initiates this transition with the introduction of innovative policy tools, including emissions trading.

It's important to note that no carbon trading is currently taking place in the pilot emissions trading projects, despite there being a number of active exchanges. There is some movement of voluntary and clean development mechanism (CDM) credits but this is not related to the pilots. The pilots are there to start to prepare the ground for a national ETS by developing the infrastructure and seeing how different ETS models would work in China's various regions. Guangdong is currently the most advanced pilot. Perhaps unsurprising given its reputation for being a bold hub for market reform used to setting trends. Mr Hallding finished by likening China to 'the world', combining both rich and poorer regions in a complex mix, which brought an array of challenges.

**Mr Damien Meadows, Head of Unit International Carbon Markets, European Commission.**

Mr Meadows echoed comments made in the introduction about the importance of China acting to combat climate change. Every country has a responsibility and the EU has moved to take on its own. The EU ETS has been operational since 2005 and much has been learnt. Reliable emissions data was singled out as being of paramount importance to the functioning of an emissions trading scheme. He reminded the room that data and monitoring takes time to collect – the EU also started off with limited information.

Mr Meadows stressed that simplicity is one of the key lessons the European Union has to share. The EU is working with other countries in developing emissions trading schemes and it's looking forward to engaging with China more on this topic. Mr Meadows finished by explaining that despite the issues faced by the EU's scheme at the moment, emissions trading is still the key policy in terms of pricing carbon.

**Baroness Worthington, Founder and Director, Sandbag Climate Campaign.**

Baroness Worthington began by explaining Sandbag's motivation for writing a report on emissions trading in China and remarked on how quickly things had moved in less than two years since Sandbag's first trip to Beijing. While not proposed as a comprehensive overview of Chinese environmental policy; the report intends to act as a starting point for those wishing to better understand why and how China is changing to adopt progressive policy instruments to tackle growing environmental concerns. There remains a misconception in Europe about what is happening in China regards environmental issues – this needs to change.

Huge challenges remain in China but the establishment of pilot schemes is a very positive step. China has already announced pilot projects to be implemented in five municipalities - Beijing, Chongqing, Shanghai, Shenzhen and Tianjin - and two provinces - Guangdong and Hubei from 2013. Details are steadily emerging as to what these pilots may look like. Baroness Worthington also shared her personal experience of meeting with those involved in developing the pilots in China. She spoke of her excitement at meeting a highly competent and engaged group of people who were grappling with some difficult issues. These included the setting of appropriate absolute emissions limits, the need for separate markets for up- and down-stream emissions, and the need for price containment measures, especially since energy prices are regulated in China so there needs to be greater price certainty for price regulations to be adapted. The fact that the pilots were potentially short in duration meant that they would be chiefly about learning by doing and gathering data. A national scheme was expected in 2016.

With the introduction of emissions trading in New Zealand, Australia, South Korea, and now the pilots in China, Baroness Worthington speculated that it would not be long before the centre of the global carbon market shifted to the East. She also commented that the EU needed to fix its own policy as it was becoming increasingly difficult to promote it as world leading given the over-supply of emissions allowances and low carbon price.

The discussion was then opened to the floor for questions and comments, including from:

**Dr Matthew Brown, Head of Energy and Climate Change, Confederation of British Industry**, who hoped that the reports succeeded in their goal of informing people about what is happening in China with regards to emissions trading. He was also interested to better understand the timeline for the pilots and national ETS. He stressed that UK industry was looking for more guidance on what would be the level of ambition in the EU ETS in 2030. **Ms Vicky Pollard, European Commission** spoke of the need to manage expectations. The pilots are still in their infancy and it's likely

that some will be less successful than others. The important thing is that the pilots guide the development of the national scheme. **Ms Linda McAvan MEP** shared her experience of the administrative burden of the EU ETS, explaining it was not as cumbersome as many people believed. She reiterated the Commission's point about simplicity to ensure smooth administration. The EU ETS is still developing and the EU continues to learn. The effects of the EU ETS are important for China's pilots. When the EU ETS faced problems, China must think if the same could happen to their scheme in the future and how similar issues could be avoided. The EU ETS could provide a good demonstration role. **Ms Lina Li, Carbon Market Expert, Ecofys**, shed a range of thought on the possible challenges faced by those tasked with setting up the pilot schemes, including: the difficulties of setting a cap, possible price control mechanism and engaging with industry unfamiliar with the concept of emissions trading. Again the need for managing expectation was mentioned. The pilots are in their infancy and it is not clear at this stage what an emissions trading scheme beyond 2015/2016 might look like.

**Mr Bas Eickhout MEP** concluded the session by reinforcing some of the key messages that had emerged: that clearly China was serious in its efforts to tackle climate change, and that, though challenges remained, it was less and less credible for Europe to use inaction in other parts of the world to justify inaction at home.

### **REPORTS and PRESS RELEASES**

**Sandbag Climate Campaign:** Turning the Tanker: China's changing economic imperatives and its tentative look to emissions trading.

**Report available at:** <http://www.sandbag.org.uk/reports>

**Press release available at:**

[http://www.sandbag.org.uk/site\\_media/pdfs/press\\_releases/PR\\_Turning\\_the\\_Tanker\\_Sandbag.pdf](http://www.sandbag.org.uk/site_media/pdfs/press_releases/PR_Turning_the_Tanker_Sandbag.pdf)

**Stockholm Environment Institute / FORES:** China's Carbon Emission Trading: An Overview of Current Developments.

**Report available at:** <http://www.sei-international.org/publications?pid=2096>

