Wuhan Carbon Trading Roundtable Summary Report

Context

In 2011, the Chinese government adopted its 12th Five-Year Plan (2011-2015) which outlines the government's ambition and targets for low-carbon development. Internationally and domestically, China has committed to a 40-45% reduction target of its carbon intensity by 2020 from the 2005 baseline. This is translates into a 17% carbon intensity reduction target and 16% energy intensity reduction target by 2015. A portfolio of innovative mechanisms and governance approaches were announced to deliver these targets. In November 2011, the government announced a pilot greenhouse gas (GHG) ETS in Beijing, Tianjin, Chongqing, Shanghai, Shenzhen, Hubei and Guangdong. According to the government plan, these pilots should establish regional emissions trading schemes by 2013, *with the aim for a nationwide trading scheme to be adopted by 2015*. Effective design and implementation of such schemes will support China's low carbon development objectives whilst also radically altering the current debate around mitigation policy in developed regions such as Europe, the United States and Australia. Third Generation Environmentalism (E3G), working with the HMG's Foreign and Commonwealth Office (FCO) Wuhan Optic Valley United Property Rights Exchange (OVUPRE) and Wuhan Carbon Reduction Association (WCRA), organised a 'Sino-European Carbon Emission Trading Roundtable' in Wuhan on 22 February 2012 to explore the development of regional emissions trading schemes.

ETS design considerations

The main purpose of these pilot schemes is to test and identify optimal design features that would be incorporated into the national scheme. The key indicators of success that Wuhan pilot scheme aims to demonstrate are:

i) Driving investments to improve the energy efficiency of existing installations;
ii) Attracting investment in low-carbon and energy efficient new installations;
iii) Ensuring a robust price signal through trading.

Key issues discussed included:

- **Sector coverage:** The aim of the ETS is to improve efficiency in the production and use of energy. Therefore, large-scale power producers and energy intensive users are likely to be a key part of this pilot.
- **Measurable, reportable and verifiable (MRV) data:** There was strong consensus that a uniform means of measuring emissions within installations was essential to encouraging trading as well as triggering low carbon investment.

- **Distribution of allowances:** Because of the strong desire for a robust carbon price it was accepted that a proportion of allowances would be allocated through auctioning.
- **Supporting industrial sectors:** There was a view that some allowances should be given to industrial sectors for free on a limited basis and linked to some form of uniform matrix.
- **Costs to consumers:** It is considered unlikely that power companies would pass on costs to consumers given the tight regulation of electricity prices by the government.
- **Compliance and enforcement:** There was a tendency to favour stricter measures to ensure compliance than the current fines system in the EU ETS.
- **Low carbon finance**: Use of the revenue from ETS auctions was identified as a critical opportunity. Establishing a Carbon Fund in Hubei as a vehicle for low-carbon investment received positive feedback. These investments would not be limited to installations within the sectors covered by the ETS but also extended for example to household energy efficiency programmes and demand-side modernisation such as the smart grids.

For further information please contact Sanjeev Kumar and Shin Wei NG