

China's National Emissions Trading System



On 19th December 2017, China's National Development and Reform Commission confirmed and launched its long-awaited emissions trading system (ETS).

Initially, it will cover the power sector, and is to be extended later to cover seven other sectors: petrochemical, chemical, building material, iron and steel, nonferrous metal, paper making, and aviation.

The ETS is a way of introducing a carbon price. It supports China's Paris Agreement commitments to peak emissions by 2030 and reduce the carbon intensity of the economy by 60-65% by 2030 from 2005 levels.

What is an emissions trading system (ETS)?



Under an ETS, the government sets a limit on greenhouse gas emissions. The cap may differ between sectors. Typically, the cap is reduced gradually to help reach emission goals. If an entity under the scheme out-performs its own emissions quota under that cap, it can sell its unused quota to other parties within the emissions market. Emissions trading is a form of carbon pricing.



What you should know about China's ETS

The ETS will initially apply to emissions from coal and natural gas power plants producing more than 26,000 tonnes of carbon dioxide equivalent per year. This means almost all of China's power plants, run by around 1,700 companies, are included in the launch.

It will cover a total of 3-3.5 billion tonnes of carbon emissions, or 34-39% of China's total emissions. This establishes China's program as the largest carbon market in the world.

While the ETS has been confirmed and launched, key details are still awaited regarding the technical infrastructure and systems for the scheme, as well as when trading will actually begin.

The coverage of the ETS will gradually be expanded to cover the other seven specified sectors. The timetable for phase-in of these sectors is still awaited.

Some expect the program to reach full implementation by 2020, by which time more than 5 billion metric tons of carbon emissions will be covered, or 15%+ of global carbon emissions.

The ETS launch was preceded by seven regional pilot emissions trading schemes which have been operating since 2011 in Beijing, Chongqing, Guangdong, Hubei, Shanghai, Shenzhen and Tianjin. With China's ETS online, there are now 19 carbon trading systems operating globally, covering almost half of the world's economic output.

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