



# CHINA

## Final Market Readiness Proposal

March 11, 2013

# Introduction: MRP Focus and Objective

---

- ◆ develop China's national emissions trading system
- ◆ Core components targeted:
  1. Coverage Identification
  2. Main Technical and Institutional Elements
    - Data
    - Management system
    - Legal framework
  3. ETS components
    - Scope
    - Cap setting
    - Allowance allocation

# Introduction: MRP Focus and Objective

---

- ◆ Core components targeted:
  3. ETS components
    - MRV
    - Registry
    - Compliance rules
    - Price containment mechanism
    - Offset mechanism and linking
    - Market oversight
    - Participants and Trading Products
  4. Special Study on State-Owned Enterprises
  5. Special Study on the Power Sector

# Process of Revising MRP

---

- ◆ Analysis of comments by MRP development team
- ◆ Draft revisions by MRP development team
- ◆ Expert review
- ◆ Government review
- ◆ Development of budgetary proposal
- ◆ Final MRP
- ◆ Additions/Changes
  - Executive summary
  - Figure showing relationship of different BBs
  - Timetables in each BB
  - Enhanced stakeholder consultations for each BB
  - Consideration of domestic pilot experiences
  - Improvement of description

# Update on Context

---

- ◆ What is the significance of ETS for China?
  - China is determined to go for low carbon development: related national plan, governmental working report, etc.
  - Chinese government is considering addressing climate change as an important chance for transformation to green and low carbon economy: national GHG emission intensity target, enhancement of policies and actions on climate change, more active in climate change negotiation. With the objective of addressing climate change, we can coordinate policies in different fields and sectors, and push forward the transformation of energy mix which depends too much on fossil-fuel and transformation of economic developmental structure which is now non-sustainable.
  - ETS can provide an efficient and lower-cost approach for addressing climate change and realizing low carbon development: market-based resources allocation, enterprises involvement, financial development, improvement of government management, international communication.
  - There is a proposed schedule for development of Chinese carbon market: during 2011-2015, pilot program is the focus; from 2015, establishment of national market. It is going to happen that development of ETS. The only problem is how to improve it step by step. For carbon tax, there is no confirmed schedule, and disagreement still exist and it is still in process of study and coordination.

# Update on Context

---

- ◆ What is the update on actions?
  - Development of carbon trading market is being an important task in the draft of ***National Plan On Addressing Climate Change (2011-2020)***.
  - ***The Decision on Enhancement of Work On Addressing Climate Change***, in which development of ETS is a highlighted task, has been submitted to the State Council for approval.
  - In the draft of scheme of Climate Change Law, carbon trading is considered as an important part of this law.
  - Pilot Program on Carbon Allowance Trading in China is going well and making progress.
  - In the Report on the Work of Government presented by Premier Wen Jiabao in the 12th NPC, carbon trading was mentioned.
  
- ◆ What is the impact on PMR activities
  - Confirmation of high-level policies will strengthen our confidence and determination to develop Chinese carbon market, which is very important to assure the success of implementation of PMR activities.
  - Legislation on climate change will provide legal support for carbon trading.
  - Experiences and lessons from pilot regions will be very useful for implementation of PMR activities.

# Summary of Building Block 1: Policy Background

---

- ◆ Mechanism Addressing Climate Change and Greenhouse Gas Emissions
- ◆ Current Status of GHG Emissions and Key Influencing Factors
- ◆ Actions and Plans on Greenhouse Gas Emissions Control
- ◆ Carbon Market Experience

# Summary of Building Block 2: Coverage Identification

---

- ◆ Geographical coverage: the whole country
- ◆ Identification of sectors to be covered



# List of Implementation Phase Activities, BB2

Activity	Deliverable	Timing	Funding
Study and summarize the main conditions and related considering factors of sector inclusion of emissions trading scheme	Research Report on Sector inclusion of Emissions Trading Scheme	1 year	Overall Budget
Determine the Sector Inclusion Criteria of China Emissions Trading Scheme	Sector inclusion Criteria and Plan of China's National Emissions Trading Scheme (proposed draft)	1 year	Request to PA: 300,000
Complete the sector inclusion plan for China Emissions Trading			

# Summary of Building Block 3: Main Technical and Institutional Elements

---

- ◆ Data demand, availability and statistical system needs
- ◆ Management System
  - competent authority
  - coordination mechanism among government agencies
  - an expert committee
- ◆ Legal framework
- ◆ Additions/Changes
  - Analysis of data gap

# List of Implementation Phase Activities, BB3

Activity	Deliverable	Timing	Funding
<p>Identify data demands in building the China ETS, and analyze the gaps between relevant available statistical data and demanded data.</p> <p>Develop proposal on statistics for the China ETS.</p>	<p>(1) An analysis report on the multi-level data demands of the China ETS;</p> <p>(2) Proposed methods of establishing statistics system for the China ETS.</p>	1 year	<p>Overall Budget</p> <p>Request to PA 500,000</p>
<p>Look into the building and operation of management systems in overseas ETSs, understand their basic elements, structure and functions and evaluate the practices and lessons learned in these ETSs combined with an evaluation of the domestic ETS pilot programs.</p> <p>Make policy recommendations for a management system governing China's national emissions trading market based on the actual situation in China.</p>	<p>(1) Report on the management system for the ETS</p> <p>(2) Proposal on the Management System of the China ETS</p>	1 year	<p>Overall Budget</p> <p>Request to PA 150,000</p>

# List of Implementation Phase Activities, BB3

Activity	Deliverable	Timing	Funding
<p>analyze the practices in overseas ETSs, and domestic ETS pilot programs, as well as the problems encountered, experience and lessons learned in building the legal framework</p> <p>make recommendations for the basic legal framework and produce proposed laws of the China ETS.</p>	<p>A research report on the basic legal system for the China ETS;</p> <p>Administrative Rules for the China ETS (draft proposal).</p>	<p>2 year</p>	<p>Overall Budget</p> <p>Request to PA 150,000</p>

# Summary of Building Block 4: Components for the Design of China ETS

---

## ◆ Scope:

- Gases
- Coverage criteria
- Installations vs. enterprises

## ◆ Cap setting

- Top-down
- Bottom-up in connection with allocation
- Coordination with other policies, e.g. provincial intensity targets, and of two approaches
- Consideration of new-entrants

# Summary of Building Block 4: Components for the Design of China ETS

---

- ◆ Allowance allocation
  - National level allocation
  - Provincial level allocation
  - Combined allocation
  - Grandfathering, updating, benchmarking, vs. auctioning
- ◆ MRV
  - Sector-specific guidelines
- ◆ Registry
  - One central registry vs. provincial registries

# Summary of Building Block 4: Components for the Design of China ETS

---

- ◆ Compliance rules
  - Options and choice
- ◆ Price containment mechanism
  - Necessity
  - Mechanisms
- ◆ Offset mechanism and linking
- ◆ Market oversight
  - Scope
  - Authorities
- ◆ Participants and Trading Products

# Summary of Building Block 4: Components for the Design of China ETS

---

## ◆ Additions/Changes

- Initial analysis on absolute and intensity cap
- Initial analysis on different cap setting approaches
- Initial analysis on linkage between cap setting and allocation
- Proposed research on linkage with other policies
- Initial thinking on possible allocation approaches
- Legal basis of compliance regime
- Avoidance of double counting in case of offsetting
- Proposed research on financial issues relate to the ETS



# List of Implementation Phase Activities, BB4

Activity	Deliverable	Timing	Funding
<p>Analyze the major emission sources and their emission mechanisms of the covered sectors;</p> <p>Determine the types of gases covered; Develop coverage standards for enterprises/installations</p>	<p>(1) A research report on the scope of ETS (types of gases, enterprises/installations);</p> <p>(2) Covered Gases under China ETS (proposed draft);</p> <p>(3) Incorporating Standards for the Enterprises/Installations under China ETS (proposed draft).</p>	1.5 years	<p>Overall Budget</p> <p>Request to PA 500,000</p>
<p>Research into methodology of setting caps in other ETSs;</p> <p>Research into Chinese specifics in setting emission caps;</p> <p>Put forward Proposal of Cap Setting for China ETS</p>	<p>(1) Study Report on Methodology of Cap Setting for China ETS;</p> <p>(2) The Cap Setting Program for China ETS (Proposed Draft)</p>	1.5 years	<p>Overall Budget</p> <p>Request to PA 700,000</p>

# List of Implementation Phase Activities, BB4

Activity	Deliverable	Timing	Funding
<p>Study the allowance allocation methods adopted by other ETSs;</p> <p>Study the specific conditions to be considered in China in the process of allowance allocation</p> <p>Complete The Guide of Initial Allowance Allocation Methodology in China ETS (Proposal)</p>	<p>(1) Research Report on Methodology of Allowance Allocation for China ETS;</p> <p>(2) Guidance on Allowance Allocation Methods for China ETS (proposed draft)</p>	2 years	<p>Overall Budget</p> <p>Request to PA 700,000</p>
<p>Propose sector-specific Guidelines on Monitoring, Reporting and Verifying Greenhouse Gas Emissions of Installations</p>	<p>(1) sector-specific Guidelines on Monitoring Emissions from Installations (proposed draft);</p> <p>(2) sector-specific Guidelines on Reporting of Emissions from Installations (proposed draft);</p> <p>(3) sector-specific Guidelines on Verification of Emissions from Installations (proposed draft)</p>	2.5 years	<p>Overall Budget 3,230,000</p> <p>Request to PA 1,230,000</p>

# List of Implementation Phase Activities, BB4

Activity	Deliverable	Timing	Funding
Analyze and identify the relations between the national registry and local registries	(1) Research Report on the Relations between National Registry and Local Registries;  (2) Framework Plan of China National Registry (proposed draft).	2 years	Overall Budget 8,100,000  Request to PA 200,000
Identify key issues for a compliance mechanism for ETS;  Summarize the experience of ETS pilot program in local areas and relevant pollution-discharge right trade;  Propose a compliance mechanism for China	(1) The Research Report on the Compliance Mechanism of ETS covers;  (2) Plan for the Compliance Mechanism for China ETS (proposed draft)	2 years	Overall Budget  Request to PA 200,000

# List of Implementation Phase Activities, BB4

Activity	Deliverable	Timing	Funding
<p>(1) Study the implementation of the price containment mechanism in ETS at home and abroad;</p> <p>(2) Propose a Plan of Implementing Price Containment Mechanism in China ETS</p>	<p>(1) Research Report on Price Containment Mechanism in ETS;</p> <p>(2) Plan of Implementing a Price Containment Mechanism in China ETS (proposed draft).</p>	2 years	<p>Overall Budget</p> <p>Request to PA 200,000</p>
<p>(1) Study the offset and linking mechanism of domestic and overseas emissions trading systems</p> <p>(2) Study China's actual situation regarding the offset and linking mechanism of ETS</p> <p>(3) Propose a design plan of the offset mechanism for China emissions trading scheme</p> <p>(4) Study the basic requirements for linking China emissions trading scheme with others</p>	<p>(1) Report on the Design of the Offset Mechanism for China Emissions Trading Scheme (Proposal)</p> <p>(2) Report on the Analysis of Basic Requirements for Linking China Emissions Trading Scheme with Other Systems</p>	2 years	<p>Overall Budget</p> <p>Request to PA 200,000</p>

# List of Implementation Phase Activities, BB4

Activity	Deliverable	Timing	Funding
<p>(1) Identify important issues relevant with the emissions trading market oversight;</p> <p>(2) Propose a market oversight plan on China emissions trading scheme that includes content, authorities, targets and rules of oversight</p>	<p>(1) Research report on market oversight of emissions trading</p> <p>(2) The Market Oversight Plan on China Emissions Trading Scheme (Proposed Draft)</p>	2 years	<p>Overall Budget</p> <p>Request to PA 200,000</p>
<p>(1) Study various participants and trading products</p> <p>(2) Understand how foreign financial institutions participate in ETSs</p> <p>(3) Define the function positioning of domestic emission exchanges in China's emissions trading market</p> <p>(4) Propose guiding opinions on participants and trading products of China's emissions trading market</p>	<p>(1) Research report on participants and trading products of the emissions trading scheme;</p> <p>(2) Policy Recommendation on Treatment of Participants and Trading Products of China Emissions Trading Scheme (Draft)</p>	2 years	<p>Overall Budget</p> <p>Request to PA 200,000</p>

# Summary of Building Block 5: Key Study on the Participation of Central Government Managed SOEs in China ETS

---

## ◆ Why SOEs

- Powerful impetus for economic growth in China
- Major sources of GHG emissions in China
- Tremendous challenge to reach their 12<sup>th</sup> FYP GHG emissions reduction targets
- Distinctive characteristics in comparison with other modern enterprises
- Issues encountered for effective involvement of SOEs in the 7 ETS pilots
- In-depth focused study on their participation in national ETS

# Summary of Building Block 5: Key Study on the Participation of Central Government Managed SOEs in China ETS

---

## ◆ **Revise contents after Sydney meeting**

- Overview of SOEs, study the characteristics of SOEs, reveal the influences of these features on ETS, and discuss ETS incentive for SOEs
- Analyze main elements for SOEs' participation in China ETS , make suggestion to national ETS:
  - *Coverage and scope*
  - *Allowance allocation*
  - *Monitoring, Reporting and Verification (MRV) System*

# List of Implementation Phase Activities, BB5

Activity	Deliverables	Timing	Funding
<p>(1) Study the characteristics of SOEs by literature research and field study and analyze the influences of these characteristics on ETS;</p> <p>(2) Write Report on the characteristics of SOEs and ETS incentive for SOEs</p> <p>(3) Research on the impacts of the SOEs' characteristics on allowance allocation</p> <p>(4) Make suggestion on the design of allowance allocation for the effective involvement of SOEs in national ETS</p> <p>(5) Research on the influences of the SOEs' characteristics on MRV system</p> <p>(6) Make suggestion on the design of the MRV system for effective involvement of SOEs in national ETS</p> <p>(7) Workshop and expert consultations</p>	<p>(1) Report on the characteristics of SOEs and ETS incentive for SOEs</p> <p>(2) Report on the coverage and scope of China ETS Involving SOEs</p> <p>(3) Report on Allowance Allocation for the Effective Involvement of SOEs in China ETS</p> <p>(4) Report on the MRV System for Effective Involvement of SOEs in China ETS</p>	<p>3 years</p>	<p>Overall Budget</p> <p>Request to PA 500,000</p>



# Summary of Building Block 6: Analysis on Key Issues of China's Power Sector Participating in China ETS

---

- ◆ Background
- ◆ Project Objective
- ◆ Design of Key issues of China's Power Sector Participating in China ETS
- ◆ Language Improvement

# List of Implementation Phase Activities, BB6

Activity	Deliverable	Timing	Funding
<p>(1) Identification of the coverage of emissions trading scheme for power sector;</p> <p>(2) Suggestions on cap setting for power sector in emissions trading;</p> <p>(3) Allocation plan of allowance for power sector</p> <p>(4) Scheme for the monitoring, reporting and verification mechanisms of emissions of power sector</p> <p>(5) Suggestions on the coordination of pricing and dispatching mechanism with emissions trading in power sector</p>	<p>(1) Coverage of emissions trading scheme for power sector</p> <p>(2) Suggestions on cap setting for power sector in emissions trading</p> <p>(3) Allocation plan of allowance for power sector</p> <p>(4) Scheme for the monitoring, reporting and verification mechanisms of emissions of power sector</p> <p>(5) Suggestions on the coordination of pricing and dispatching mechanism with emissions trading in power sector</p>	<p>3 years</p>	<p>Overall Budget</p> <p>Request to PA 500,000</p>

# Summary of Building Block 7: Project Management: Organization, Communication, Consultation and Engagement

---

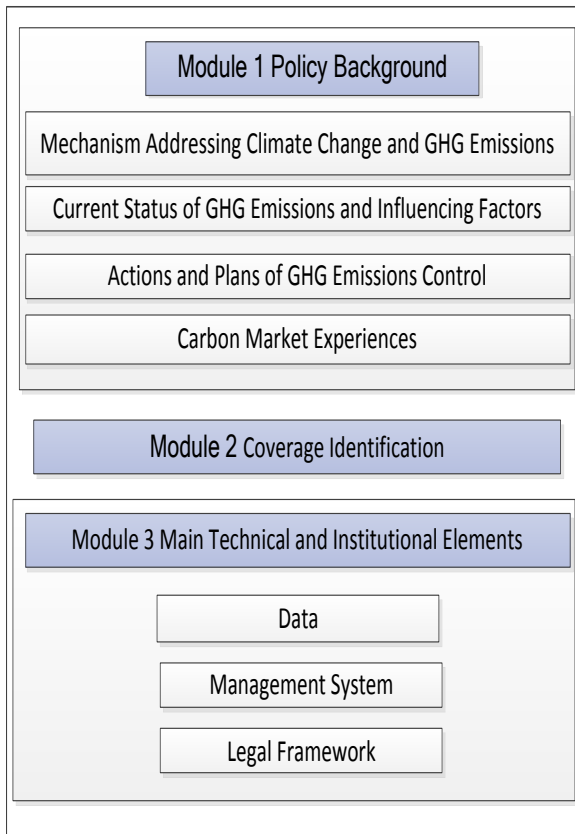
- ◆ Enhance Coordination among Relevant Ministries at the Central Government Level
- ◆ Strengthen Dialogue with Local Governments and Key Stakeholders
- ◆ Outreach to the General Public
- ◆ Expert Consultation

# List of Implementation Phase Activities, BB7

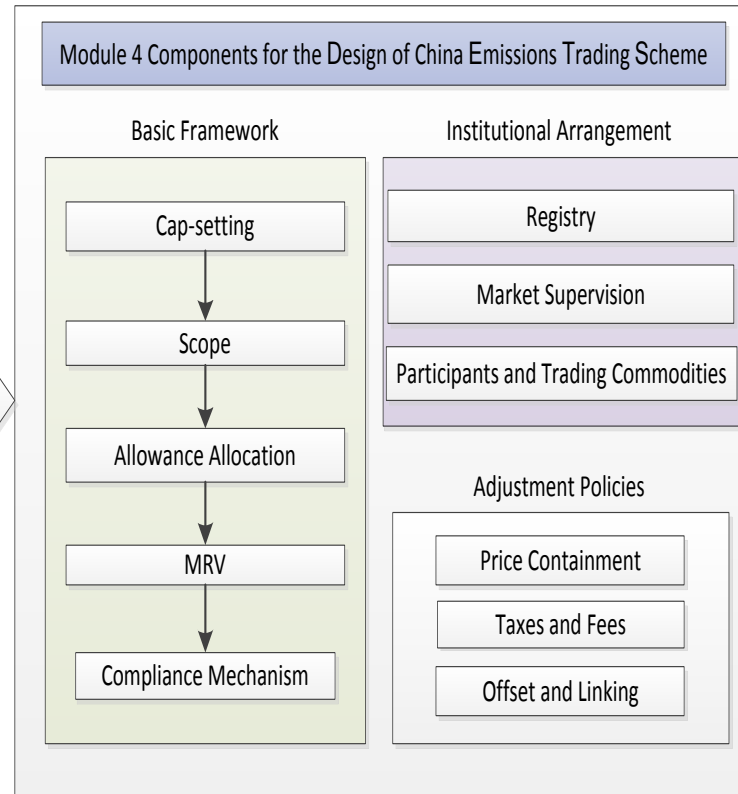
Activity	Deliverable	Timing	Funding
Project management	Project Management	3 years	Overall Budget
			Request to PA 240,000
Enhance Coordination among Relevant Ministries at the Central Government Level	(1) Consultations		Overall Budget
Strengthen Dialogue with Local Governments and Key Stakeholders	(2) Workshops		Request to PA 1,330,000
Outreach to the General Public	(3) Coordination		
Expert Consultation	(4) Communication		

# Relationship between Building Blocks

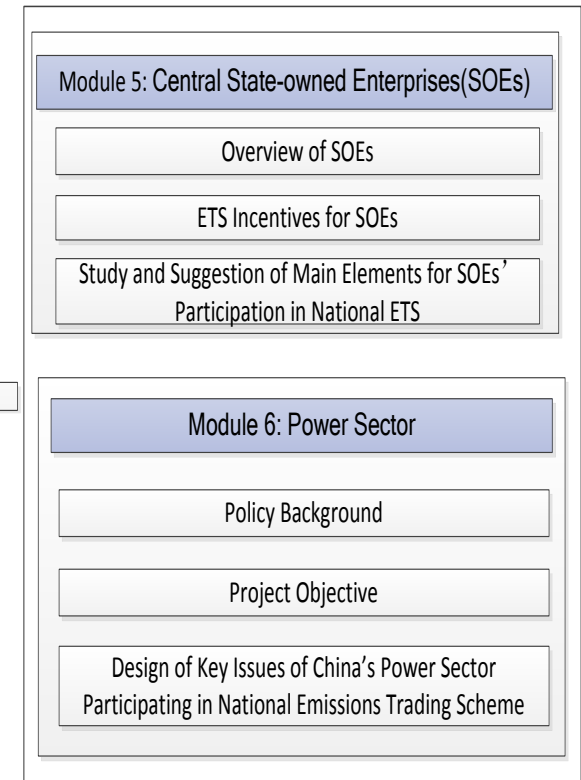
## Supporting System



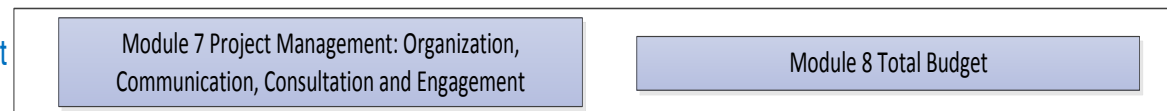
## Core Elements



## Special Issues



## Project Management



# Summary of Total PMR Funding Request for Implementation Phase

Building Block		Total Budget	Request to PMR
<b>2: Coverage Identification</b>		300,000	300,000
<b>3: Main Technical and Institutional Elements</b>	1. Data	500,000	500,000
	2. Management System	150,000	150,000
	3. Legal Framework	150,000	150,000
<b>4: Components for the design of China emissions trading scheme</b>	1. Scope	500,000	500,000
	2. Cap Setting	700,000	700,000
	3. Allowance Allocation	700,000	700,000
	4. MRV System	3,230,000	1,230,000
	5. Registry	8,100,000	200,000
	6. Compliance Mechanism	200,000	200,000
	7. Price Containment Mechanism	200,000	200,000
	8. Offset Mechanism and Scheme Linking	200,000	200,000
	9. Market Oversight	200,000	200,000
	10. Participants and Trading Products	200,000	200,000

# Summary of Total PMR Funding Request for Implementation Phase

Building Block		Total Budget	Request to PMR
5: Key Study on the Participation of Central Government Managed SOEs in China ETS		500,000	500,000
6: Analysis on Key Issues of China's Power Sector Participating in China ETS		500,000	500,000
7: Project Management and other related activities	Project coordinators	240,000	240,000
	Consultation, workshops, Coordination and Communication	1,330,000	1,330,000
<b>Total</b>		<b>17,900,000</b>	<b>8,000,000</b>

# Summary of Total PMR Funding Request for Implementation Phase

---

◆ Establishing an emissions trading scheme in China is a very complex systematic project, which requires lots of financial support. It is preliminarily estimated more than 100 million USD is needed. Until now about \$66 million has been arranged by China's central and local governments, and about \$12 million is supported by other donors, like EU, Norway etc. So we plan to apply for \$8 million from PMR. Besides above mentioned, we are planning to implement more bilateral cooperation projects on ETS with Germany, Australia, Japan etc., to get capital and technology supports from those countries.



# Summary of Total PMR Funding Request for Implementation Phase

Funding Source	Total (USD)
<b>National Government</b>	<b>\$66,000,000</b>
Funding for seven pilot ETS in China	\$60,000,000
Establishment the disaster recovery system of China's ETS registry	\$5,000,000
Designing and establishment of the registry for China's voluntary emission reduction transaction	\$1,000,000
<b>PMR</b>	<b>\$8,000,000</b>
<b>Other</b>	<b>\$11,700,000</b>
Capacity building on ETS (from EU)	\$6,700,000
Designing and establishment of the registry for China emissions trading scheme (from Norway through UNDP)	\$2,900,000
Study on the accounting guidelines and reporting format of enterprises' GHG emissions in 6 sectors (from Norway through UNDP)	\$2,100,000
<b>Grand Total</b>	<b>\$85,700,000</b>

# Summary of Total PMR Funding Request for Implementation Phase

---

