
Market Readiness Proposal (MRP) of China

Summary of Expert Group Feedback

Country: China

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behalf of the Expert Group**

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Outline of Presentation

1. Brief description of PMR Expert Feedback Process for China
2. Overall impression of the MRP
(mainly based on earlier draft sent to Experts)
3. Key suggestions/issues raised by the Expert Group for MRP and future work
(mainly based on earlier draft sent to Experts)
4. Key challenges going forward

1. Brief description of PMR Expert Feedback Process

PMR Expert Group

- Richard Baron (IEA)
- Young Gun Kim (South Korea)
- Frank Jotzo (Australia)
- Felix Matthes (lead) (Germany)

Feedback Process

- Chinese version of the Draft MRP submitted to the Secretariat on Aug 31; English version to the Expert Group (Sep 9)
- Written feedback provided by the experts to the Secretariat (Sept 13)
- Expert group conference call (Sept 14)
- Consolidated feedback provided to country team (Sep 16)
- One and half day in-country meeting to discuss feedback and strategies to advance the MRP (Sep 17 and 18)
- Revised MRP provided to PMR Secretariat & Expert Group (Sept 30)

2. Overall Impression of the Draft MRP by the Expert Group

- Draft MRP recognized as “an impressive document”, laying out “ambitious program” for future work, and demonstrating “good knowledge and deep understanding” of concepts, theory and practice of ETS
- General recommendations:
 - Policy mapping for selected sectors is an important process at the early stage of ETS design
 - Importance to integrate the experience of pilots into the design process of a national ETS
 - Importance to examine various options for dealing with responsibility between the central government and sub-national governments
 - Drawing experience from other ETS such as Australia scheme and California scheme, in addition to the EU ETS

3. Key Suggestions/issues raised by the Expert Group for MRP and future work (1/10)

- Building Block 1 Big Picture and Policy Context
 - Include projection of future emissions and reduction scenarios
 - Experience and lessons from SO₂ trading would be relevant and useful for design of a national ETS
- Building Block 2 Target Area and Rationale for focus on sectors (“Coverage”)
 - Specify energy and climate policies and measures which will or could interact with the ETS and must be reflected in the various design elements of an ETS (such as cap setting and allocation)
 - Criteria for selection of covered sectors
 - In addition to EU ETS, examine Australia and California scheme which have the broadest coverage, including novel ways of extending carbon pricing such as through upstream permit liability and carbon price equivalent charges

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (2/10)

- Building Block 3 Core Technical and Institutional/regulatory Components

Data

- The analysis of data should reflect the bottom up dimension (statistical data from companies) as well as the top down dimension (data used for cap setting, allocation and compliance)
- A strong focus should be set on the bottom up dimension of data collections which require verification from the beginning as well as comprehensive methodologies and procedures to ensure precision and consistency over time.

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (3/10)

- Building Block 3 Core Technical and Institutional/regulatory Components

Management system

- The analysis on the management system should reflect different dimension in jurisdictions with shared responsibilities and power between and among government agencies/central and provincial governments
- Analysis on where to build on existing structure and legislation; where to build new structures and legislation
- The institutional dimension should also cover the capacity building for standardization, accreditation, oversight, etc.

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (4/10)

- Building Block 3 Core Technical and Institutional/regulatory Components (cont'd)

Legal Framework

- Identify what existing regulations can be used for ETS and what new regulations are needed.
- Assess what law/rules/procedures are needed for operationalizing ETS
- Assess which legislation needs to be approved by which level of authority (e.g legislative body, government agency, etc)

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (5/10)

■ Building Block 4 Components for design of a domestic ETS

Scope

- Consideration of point of regulation (“upstream” or “down stream”)
- Challenges for defining “covered entities”: installation vs. company

Setting a cap

- Tremendous challenges on how to set a cap under conditions of rapid economic growth and structural change
- Need to assess individual covered sectors, including contribution of other policies (e.g. EE)
- Options for dealing with national cap in relation to sub-nationals
- Tremendous challenges to deal with new entrants (however, NER also offers options to deal with growth uncertainties)
- Always separate cap setting from allocation

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (6/10)

- **Building Block 4 Components for design of a domestic ETS(cont'd)**
 - Allocation**
 - Need for free allocation and distributional considerations (e.g. auction)
 - Auction revenue can be used for providing incentives and compensation
 - Potential risk of national methodology for allowance allocation but implementation by local government
 - Regional equity, leakage and new entrant reserve
- **MRV/MVR**
 - Importance for companies to develop a monitoring plan.
 - Transparency should be ensured in reporting.
 - Incentives should be given to companies to provide reliable data.
 - Early testing and education for third party verifiers would be critical.
 - Experience can be drawn from the implementation of China's EE target

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (7/10)

■ Building Block 4 Components for design of a domestic ETS(cont'd)

Registry

- EU ETS experience from decentralized registry management to centralized registry provides good lessons to China.
- Registry should mirror responsibility (e.g. who responsible for allocation, who should be responsible for registry.)
- Consideration should be also given how “far” a registry can track “trading”.

Price containment mechanisms

- Link analysis to cap setting
- Conduct modeling analysis
- Consideration of different types of price management mechanism, such as fixed price, price floor, price ceiling, changing price floor and ceiling, flexible permits supply

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (8/10)

■ Building Block 4 Components for design of a domestic ETS(cont'd)

Offsets

- Issues to address: whether and how China will allow CERs into ETS and how CCERs (a domestic voluntary scheme) and in which sector such scheme can be lined to ETS

Linking

- Understanding China's likely situation in linked markets will require quantitative modeling

Market Oversight and compliance

- Importance of defining legal nature of “allowance” and application of the financial regulation to carbon market and trading
- Defining penalty rate links to the overall legal approach to penalty in China.

3. Key Suggestions/issues raised by the Expert Group for MRP and future work (9/10)

- Building Block 5 Study on state owned central enterprise participants
 - Key question: how does China's ETS need to be designed in order to give SoEs undistorted incentives for emission reductions given the existing institutional and regulatory framework
 - Caution against any special treatment that is based on "ownership"

3. Specific Suggestions/Key issues raised by the Expert Group for MRP and future work (10/10)

- Building Block 6 ETS for electricity sector
 - A huge challenge to apply a market instrument to a heavily regulated sector.
 - The MRP could analyze the current regulatory framework to identify necessary changes that are required for a reform. Discuss strategic objectives both in the short-term and long-term. Describe different options.
 - Important to look into practice in other schemes such as California and South Korea.
- Building Block 7 Organization and Consultation
 - Consultation process is an important process to build coalition and raise awareness.
 - Experience from other schemes offers valuable examples

4. Key challenges going forward

- Preparing for a national ETS
 - Advanced top-level decisions create solid grounds
 - Maintaining a process parallel learning and convergence at different levels
 - National goals and circumstances
 - Pilot schemes at provincial and municipal level
 - (wide range of) international experiences
 - Maintaining a process of parallel capacity (and institution) building in different stages and at different levels
 - Policy makers
 - Regulators
 - Regulated entities (very heterogenous)
 - ETS service providers
 - other stakeholders
 - Embedding ETS in the overall policy framework and considering policy interactions

Thank you very much 非常感谢! 欢迎指教!

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