Pivoter

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China to price carbon before US

Developed countries can stop worrying that taking action against climate change in their countries will result in loss of competitiveness to China, because China is expected to introduce its own carbon-pricing schemes in the coming years. So this is a very good time for other countries around the world to do the same, to level the playing field, to reduce the risk of runaway climate change and to protect the environment.

Let's hope that during their forced furlough, US federal government employees have had some time to read about what's happening in the rest of the world. Last week, the leaders of the International Monetary Fund, the World Bank, and the Organization for Economic Cooperation and Development stressed the need for carbon pricing to address climate change.

The IMF recommends pricing carbon to shore up national balance sheets and to stimulate investments in renewable and clean energy. The OECD says that credible and consistent carbon pricing must be the cornerstone of government action to tackle climate change. All this comes shortly after the Intergovernmental Panel on Climate Change issued its latest scientific assessment, which states that human influence on the climate system is crystal clear and urgent action is needed.

Even without taking account of the global environment, Chinese people and their policymakers are sick of air pollution and China is poised to introduce some major new measures.

Over the past few months, we conducted a survey (China Carbon Pricing Survey 2013) of China-based carbon market experts from the service sector, academia and government think tanks. We found the respondents were highly confident that by 2015 China will have seven pilot emissions trading schemes in operation, covering regions responsible for 20 percent of the country's energy use. A carbon-pricing mechanism covering the entire country could be operational by 2020, they said.

Chinese policy advisors are drawing lessons from carbon-pricing mechanisms in other countries, noting that volatile prices such as those seen in the European Union's emission trading system are confusing to the market. They would prefer a price signal that is significant, stable and expected to rise with the passage of time.

Respondents to our survey tended to think this would happen. More than 80 percent of the respondents said a national emission-trading scheme would be put in place by 2020. And more than half of the respondents said China would also have a carbon tax system operational by that time, with almost all of them expecting price levels to rise steadily over time. So China will probably have in place two carbon pricing mechanisms at a time when it's highly unlikely that the US will have any.

A majority of the respondents to our survey said that between 2020 and 2025, the combined price of carbon in China would be similar to or higher than that of the European trading scheme. This would be a game-changer at international climate change negotiations. Remember the 2009 Copenhagen Climate Change Conference when many countries accused China of a lack of ambition to fight climate change?

Despite the growing calls from scientists and international organizations to take action against climate change, many countries have been slow in adopting carbon-pricing mechanisms. Often there is political resistance to adopting such mechanisms, partly driven by concerns of high-carbon industries. Also, many are worried that such a mechanism would only shift emissions to other countries.

Now the onus is on Chinese policymakers to follow up the announcements with the creation of an effective national carbon-pricing scheme. The task is not easy, but if Chinese policymakers can find their way through Beijing's frequently occurring smog to adopt the new measures, it seems unlikely that more emissions will be shifting to China in the near future.

The authors jointly conducted the China Carbon Pricing Survey 2013. Dimitri de Boer is vice-chairman of China Carbon Forum, a Beijing-based nonprofit organization. Frank Jotzo is director of the Centre for Climate Change Economics and Policy at the Australian National University.