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China tests water for carbon market to discourage emissions

By Lucy Hornby in Beijing

A proposed national Chinese carbon trading scheme is likely to see carbon prices trade at a level that helps to cut emissions slightly but is not high enough to yield dramatic reductions, according to a survey of the potential price for carbon in the world's largest polluter.

A national scheme is still far off but experimental trading has begun on China's only existing carbon market – a pilot project in the southern boomtown of Shenzhen, on the border with Hong Kong. Several other pilots are due to open in the next two years as China tests the water for a market-based system to discourage polluting emissions.

A survey of financiers, regulators, academics and industry players showed that half expect a national scheme that unifies experience from the various pilots to be launched by 2018, said survey author Frank Jotzo of the Crawford School of Public Policy at Australian National University.

Exchange-traded prices by that point would reach 53 yuan per ton of carbon dioxide, according to average expectations among respondents. China is also expected to impose a carbon tax by that time. Survey respondents estimated the tax could equal about 7 yuan per tonne in 2016 but rise to 32 yuan per tonne by 2025.

That would put carbon prices in China well below current Australian levels of about A$24 a tonne but above European costs. Benchmark European prices are at 4.79 euros per tonne, down 28 per cent since the start of the year.

"If the price of carbon is somewhere between 50 to 100 yuan you might get a 10 to 20 per cent reduction [in carbon emissions] but it's not enough to get a peak and decline. It would have an effect but the effect is unlikely to be of the magnitude to allow a turnround," Dr Jotzo said. He added that other regulatory measures might also be in place by that point to help push polluters to reduce emissions.

Poll respondents also expected the carbon price to have only a moderate impact on investment decisions.

Carbon markets allow companies to buy permits to emit carbon dioxide from those that burn less fossil fuels. They thus help set a price on emissions, a mechanism that aims to encourage companies to reduce such pollution and invest in cleaner technologies.

One of the factors hampering China's carbon trading pilots is that so far, they cannot offer futures pricing. Being able to anticipate carbon prices a few years ahead influences executives' decisions about what types of mitigation equipment to invest in, or whether to buy emissions permits instead.

"We need to take it step by step. At best this is an experiment, so give it time to succeed or fail," said Lin Boqiang, director of the China Center for Energy Economics Research at Xiamen University. He noted that the Shenzhen exchange still has very limited trading, low volumes, and underlying uncertainty over the allocation of emissions quotas.

Shenzhen's China Emissions Exchange debuted with two transactions at 28 yuan and 30 yuan per tonne. It was the first among up to eight regional trading platforms slated to start operating in the next two years, to help the government decide in 2015 whether to set up a nationwide carbon market.

In its first 100 days, the Shenzhen exchange booked 185 trades, comprising 113,000 tonnes of carbon worth 7.25 million yuan. Trade was conducted at 75 yuan a tonne on Thursday, down from a peak of 92.95 yuan hit in early September. Industry insiders caution that volumes in the Shenzhen pilot are still too thin to draw conclusions from the price.