

## First price forecasts build confidence in China's emerging carbon market

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An authoritative joint China Carbon Forum – Australian National University survey released yesterday indicates an average price by 2016 of USD 6.5 per tonne of avoided CO<sub>2</sub> equivalent emission in China's emerging carbon markets. The Survey also indicates a combined price (national emissions traded and carbon tax) of USD 12 by 2020. This means that the nascent carbon market in China is, at present, expected to yield higher prices than the ailing EU Emissions Trading Scheme.

In China today, the Government is clearly indicating a preference for a carbon price (via its emerging emissions trading scheme) over non market mechanisms to manage China's GHG emissions (for example, strict performance standards). This may not be enough by itself and the government is expected by the survey respondents to introduce a carbon tax as an additional instrument to ensure China's energy intensive reduction targets are met. Pricing carbon either through taxation or an emissions trading scheme (ETS), creates broad and efficient incentives to reduce GHG emissions. Both taxation and emissions trading have strengths and weaknesses but together they can be used to manage and reduce around 50 per cent of global GHG emissions originating from the combustion of fossil fuels.

A China government anxious not to increase cost burdens unduly on both its growing middle class of consumers and its state-owned industries is likely to be comfortable with the above carbon pricing forecasts. The upper end of the price range (USD 12 per tonne) should be high enough to attract investment in scalable high technology solutions provided investors receive signals of long-term certainty.

The political, financial and technology challenges facing China (the world's largest greenhouse gas emitter) in addressing climate change mitigation and adaptation should not be

underestimated. While China is determined to reduce reliance on coal, the only energy alternative currently scalable is natural gas. It is difficult to envisage how significant emission reductions could be achieved without rapid and widespread implementation of as yet immature technologies for removing carbon from energy production cycles. Without an international climate change agreement and binding targets it seems unlikely that the evolving China carbon markets will create sufficient confidence within the investment community and high enough prices to drive the implementation of fossil fuel use combined with carbon capture and storage.

Not unreasonably, the people of China see improvement of their polluted city living environments as a first priority. In this respect, China is moving in the right direction and the ANU-CCF report flags a growing confidence within the carbon sector that it will achieve its current aims. International action anchored around strong Chinese climate change mitigation leadership is urgently required to initiate the next step.

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