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Capacity Building for the Establishment of Emissions Trading Schemes in China

Shanghai ETS

Highlights

- Shanghai is the only pilot region that adopted different inclusion thresholds for industrial and non-industrial sectors (20,000 tons/year and 10,000 tons/year respectively).
- Shanghai is the only pilot region that included the aviation and port sectors in its ETS.
- Shanghai government can hold some allowances for the purpose of stabilizing the carbon market. Thus, it can release or purchase allowances in order to balance demand and supply.

Legislation

Shanghai has issued "Shanghai city carbon trading managerial rules (draft)" for collecting public opinions on 12 July 2013. The "managerial rules" were approved by Shanghai Municipal People's Congress and issued by Shanghai municipal government on 18 November 2013.

Included sectors

In total, there are 191 enterprises being included in the Shanghai ETS, with a differentiated inclusion threshold for industrial and non-industrial sectors.

Industrial sectors: iron, petrochemical, chemical, nonferrous metals, electric power, construction material, textile, papermaking, rubber, chemical fibre sectors. Enterprises in these sectors whose average carbon emissions between 2010 and 2011 exceeded 20,000 tons/year are included.

ER Target in 2015	19% of CO2 intensity reduction compared to 2010
Emission coverage	Approximately 45% of Shanghai's gross emissions
Launch date	26 November 2013
Reporting required enterprises	Enterprises whose carbon emissions between 2012 and 2015 exceeded 10,000 tons/year are obliged to report.

Non-industrial sectors: aviation, sea port, airport, railway, commerce, hotel, financial entities. Enterprises in these sectors whose average carbon emissions between 2010 and 2011 exceeded 10,000 tons/year are included.

The aviation sector (Shanghai-based) has been included in Shanghai's ETS, which is unique in China. Another unique sector covered in Shanghai's ETS is ports, covering the emissions from fossil fuel consumption, electricity consumption and on-site transportation.

It can be seen that Shanghai is very ambitious on its ETS design, and the related metdologies are already in place.

Allowance Allocation

According to "Shanghai 2013 – 2015 allowance allocation managerial rules", allowances will be allocated to enterprises according to their historical emission levels between 2009 and 2011 as well as previous emission reduction efforts conducted by enterprises. Two measures will be applied: The benchmarking method will be applied to the power, aviation, port and airport sectors; the grandfathering method is applied to other sectors.

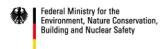
Another feature of allowance allocation is that SH-DRC has issued all allowances for the pilot implementation period (2013 to 2015) to enterprises at the start of ETS.











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Besides, according to clause 4.7 of the "Notice for the implementation of ETS in Shanghai city", Shanghai government can hold some allowances for the purpose of stabilizing the carbon market.

Offsetting

Based on the "Shanghai city carbon trading managerial rules", the limit of CCER use for enterprises is 5% of their total allowance. In addition, the "managerial rules" also indicate that voluntary carbon credits generated within the boundary of the included enterprises in ETS cannot be used for offsetting in Shanghai. However, the "managerial rules" do not specify whether the CCERs generated outside of Shanghai will be accepted.

Market Participants

Shanghai announced that they will accept involvement of financial institutions in its ETS. Several banks have announced to cooperate with Shanghai Exchange and to contribute to Shanghai's ETS development, such as Industrial Bank and SPD bank.

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Non-compliance

Non-compliance regulations are always a key component of a legal document. Shanghai government has decided to apply a capped fine in case of non-compliance. The maximum amount of fine is between CNY 50,000 and 100,000.

In addition to the monetary punishment, Shanghai government plans to use media to create reputational pressure on non-compliant enterprises and to limit the approval of energy saving audit for new investments of these enterprises.

It is believed that neither the monetary punishment nor the other punishments are enough to create significant impacts for compliance to ETS regulation in Shanghai. Comparing the same clause of Shanghai's "managerial rules" to Shenzhen's "managerial rules", it seems that Shenzhen's "non-cap approach" for punishment is more suitable for the ETS development. The punishment with a low cap in a legal document will limit the effectiveness of a regulation.





