

Shenzhen ETS

Highlights

- Shenzhen adopted the game theory method (known as “Gaming Method”) for allowance allocation which means that the enterprises can participate in the allowance calculation and allocation process. This design is unique in China.
- The building sector is included in the ETS as an incentive scheme. Buildings with high energy efficiency will be remunerated but non-compliance will not be punished.
- Shenzhen is the only region that will include the transportation sector in its ETS, Taxi and bus companies will be covered from 2014 onward.
- Shenzhen government may adjust the allowance of an enterprise after a commitment year (ex-post adjustment) according to its actual carbon intensity of the year.

Legislation

Since Shenzhen is a Special Economic Zone, it has the legislative power for its own territory. This gives Shenzhen more freedom and flexibility on establishing local legislations, thus providing significant advantages to Shenzhen in terms of designing its ETS legal framework compared to other pilot regions. Consequently, Shenzhen is the first pilot region that released the ETS legal documents in China.

Included sectors

26 sectors including 635 enterprises, are obliged to participate in the pilot ETS, e.g. Electricity, Manufacture and Electronics and so forth.

ER Target in 2015	21% of CO2 intensity reduction compared to 2010
Emission coverage	Approximately 40-45% of Shenzhen’s gross emissions
Launch date	18 June 2013
Reporting required enterprises	Enterprises whose annual emissions are between 3000 and 5000 tons of CO2e are required to report their emissions annually.

The building sector is included in Shenzhen’s ETS. However, it is rather an incentive scheme than a mandatory cap-and-trade scheme. Shenzhen plans to set “caps” for approximately 200 large public buildings, whereas there is no punishment towards non-compliance.

As an incentive for emissions reduction, a building’s owner can sell remaining carbon emissions - in the form of credits - to Shenzhen government if the building’s total carbon emissions amount is below the “cap”. Since Shenzhen plans to include the building sector in its mandatory ETS scheme in the future, the current approach can be considered as a preparation for a smooth transition to the inclusion.

In addition to the building sector, Shenzhen plans to include the transportation sector in its ETS from 2014 onward. Shenzhen government is planning to curb the growth of private car possession by improving its public transportation capacity through promoting electric bus and taxi. To be specific, bus and taxi companies will get a cap and they can either replace their existing vehicles by electric vehicles to meet their carbon emission targets or buy allowances from the market.

Inclusion Threshold

Shenzhen features the lowest inclusion threshold at 5,000 tons/year of carbon emissions, which means enterprises in the included sectors whose carbon emissions exceed 5,000 tons/year are to be included in the pilot ETS.

Moreover, enterprises whose annual emissions are between 3,000 and 5,000 tons of CO2e are required to report their emissions annually.





Capacity Building for the Establishment of Emissions Trading Schemes in China

Allowance Allocation

Initial allocation: 83% of the total allowance has been allocated to enterprises free of charge.

Auction: Up to 3% of the total allowances will be auctioned.

New entrants: 2% of the total allowances can be allocated to new installations of obliged enterprises. New entrants with more than CNY 20 million investments on fixed assets are obliged to report their emissions during the design as well as construction phase.

Post-adjustment: In Shenzhen, allowances issued for free can be adjusted up (by as much as 10% of the total allowances) or down (no maximum) based on actual emissions and production data after the commitment year.

Price containment reservation: In order to stabilize the carbon price, Shenzhen government will reserve 2% of the total allowances. The allowances will be used if abnormal fluctuation occurs. To be specific, the government will release the allowances to the market if the market price is too high, or vice versa. This approach is not only adopted by Shenzhen government in China, some other pilot regions announced a similar design as well.

Offsetting

According to the “Shenzhen city carbon trading managerial rules (draft)”, the offsetting limit is 10% of the total allowance. Shenzhen government allows CCER generated outside of Shenzhen to be traded in the carbon trading platform in Shenzhen.

Market Participants

Shenzhen allows private persons to participate in the carbon trading. Moreover, Shenzhen plans to open its carbon market to foreign investors. Shenzhen is currently applying for the approval from the Administration of Foreign Exchange to include foreign investment.

Shenzhen announced that they will accept the involvement of financial institutions in its ETS. However, it is not clear to what extent financial institutions can participate in the carbon trading.

