

STAKEHOLDER VIEWS ON INTERACTIONS BETWEEN LOW-CARBON POLICIES AND CARBON MARKETS IN CHINA: LESSONS FROM THE GUANGDONG ETS

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Overview

China has set up pilot Emission Trading Schemes (ETS) in seven cities and provinces over 2013-2014, as a new instrument to incentive emission reduction and to reach its 40-45% carbon intensity reduction target by 2020. Through a two-stage survey including a closed-form questionnaire followed by open interviews, we elicit views of stakeholders in Guangdong province and expectations on pilot carbon markets in China, with an emphasis on stakeholder perspectives of how the pilot emission trading schemes may interact with other existing or perspective low-carbon and clean energy policies. We survey 30 key stakeholders from government, industry and academia and we find that apart from government, other actors generally lack confidence in Chinese carbon markets, due to the shortage of market knowledge and market information, as well as concerns regarding uncertainties in government policy and regulation. Interactions between the carbon market and other low-carbon policies were recognized as a significant obstacle for developing carbon market in China, although, the effect and impact of such interactions was not widely understood.

Methods

Two-stage survey: internet-based self-completed questionnaire and semi-structured telecom interviews.

Results

Past studies indicated that a great majority of Chinese stakeholders would prefer a market base instrument for controlling greenhouse gas emissions. However, the survey, after the implementation of seven pilot carbon markets, generated an inconsistent finding in this context, as only one third the stakeholders felt optimistic about the Chinese carbon market. The result consists with another survey on China's carbon market in 2013 by Climate Bridge, in which only 5% of participants believe that an active carbon trading market will form before 2015. Surprisingly, the preparation stage of Chinese pilots carbon markets was relatively short compared with Korea, Quebec, California (World Bank, 2014), but very few stakeholders considered the pace was 'too fast'. That might be explained by that most Chinese stakeholders prioritise 'speed of deployment' due to fast economic transition in the last few decades.

The lack of transparency in market information disclosure, a lack of knowledge within market participants, and an immature MRV system could pose uncertainties in carbon price discovery. Stakeholders' predictions on carbon price reflect a lack of consensus. Only 17% of survey participants believe the carbon price in Guangdong pilot will increase to above 100 CNY/t CO₂ by the end of 2014 (the current average carbon price in Guangdong pilot is 60 CNY/t CO₂), and 34% of them predict the carbon price will decrease to below 50 CNY/t CO₂.

It is worth mentioning that respondents realised that the interactions between carbon market and other energy and low-carbon policies may decrease 'demand' in emission trading market, as more than one third the respondents considered the interaction as a significant challenge. However, it seems that this opinion was mostly held among the academia, as up to 75% of stakeholders from academia advocating for this statement.

There is relatively limit understanding on how other mechanisms may affect the price of carbon allowance. In theory, both a new carbon tax and a more stringent renewable target could shift the abatement curve rightwards in ETS, and reduce the allowance price. A large number of stakeholders considered renewable target is a pressure towards carbon price, whereas a majority of stakeholders suggested carbon tax could boost carbon price. In general, we found the degree of understanding on mechanism interaction is associated with the claimed time spent on energy saving and emission reduction policies. Two third (67%) the respondents who have spent more than 70% of their working time are agree with the statement, while less than one third (30%) the respondents who have spent less than 20% of their working time have the opposite opinion.

Conclusions

By using a two-stage stakeholder consultation, we identify potential challenges and limitations in understanding Chinese carbon markets. Drawing on these findings, we offer the following policy recommendations:

- Government and other key stakeholders have placed too much focus on the price and volume of carbon allowances in the China's pilot ETS schemes; stakeholders and policymakers should work to continuously assess and improve the quality of regulation, market integrity and information disclosure.
- The inability of many stakeholders to understand that other low-carbon and renewable policies would reduce the price in the carbon market, which reflects the need for greater capacity development among industry participants.
- As carbon market is not likely being the only major low-carbon policy instrument in China, a correct interpretation of carbon pricing signal is needed as a part of capacity development within industry participants.
- Alternative carbon pricing signals, such as government's shadow carbon price should be proposed along with carbon market allowance price to signal industry the short-term and long-term cost of carbon emissions.
- Regulators and carbon exchanges should provide more transparent, real-time information for market participants to facilitate price discovery.
- The Chinese government should invest heavily in MRV systems, and establish a set of best practices, to provide confidence for market participants.
- To move towards a national carbon market, more effort should be placed on improving the compatibility of carbon market pilots and studying potential international linkages.