Shenzhen ETS Pilot Scheme: Design Features and Implementation

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Chinese ETS pilots
ETS Design: A Framework

- **Scoping the scheme coverage**
  *Defining the threshold, either energy input or emissions output*

- **Permit allocation**
  *Grandfathering and/or auction, etc*

- **Price regulation**
  *Allowances reserve, price floor and/or ceiling, etc*

- **Monitoring, reporting and verification**
  *Centralised (hands-on) or decentralised (hands-off, e.g. third party verifier)*

- **Compliance**
  *Surrendering permits and offsets credits, penalty provision*
Shenzhen ETS Pilot: Design Features

• **Scheme coverage:**

• entities with 5000 tons of CO$_2$ eq and above; public buildings with floor area 20 000 m$^2$ and above and government office buildings with floor size 10 000 m$^2$ and above; voluntary participants

• Number of liable entities: 635
• Permit allocation:
• Allocation is one-time for three years;
• A combined method of grandfathering, auction, and fixed price
• During the first trading period (2013-2015) grandfathering should be no less than 90%; auction should be no more than 3% of each year’s total permits allocated
• New entrants: 2% of each year’s total permits will be set aside for new entrants to the market
• Permits allocated to liable entities are adjustable based on previous year’s actual emissions and production
• The increased permits to liable entities are up to 10% of the total permits allocated in that year
• **Price regulation:**

• Allowance reserve

• Reserve permits can be sold to entities at a fixed price (when market price is too high) and can be increased through purchasing from the market at a fixed price (when market price is too low)

• Limit on purchasing, up to 10% of each year’s total tradeable permit
• MRV
• Third party verifiers, accredited by relevant authority in Shenzhen
• Liable entity cannot appoint the same verifier for verification for a consecutive three years.
• Compliance
• Surrendering permits and offsets
• Offsets can be used up to 10% of liable entity’s liability
• Penalty for non-compliance
Implementation

• Started trading on 18 June 2013
• Permit price

Source: China’s Emissions Exchange