

# 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<sub>2</sub> eq and above; public buildings with floor area 20 000 m<sup>2</sup> and above and government office buildings with floor size 10 000 m<sup>2</sup> 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

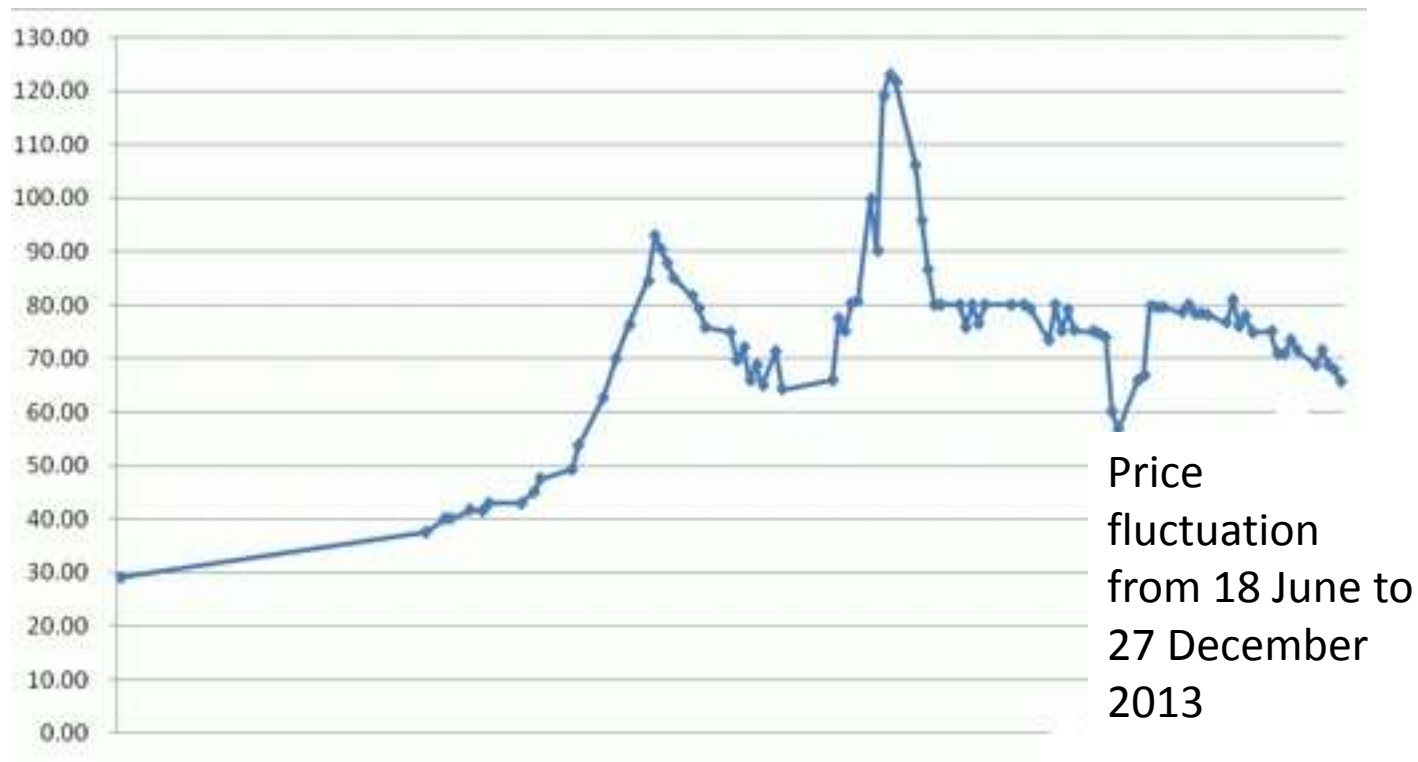
- **MRV**
- Third party verifiers, accredited by relevant authority in Shenzhen
- Liable entity cannot appoint the same verifier for verification for a consecutive three years.



- **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