Allowance Allocation under Emissions Trading Schemes in China

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1. Allocation Rules Vital to the Success of China’s Emissions Trading Systems

- Seven pilot systems and one national system with unified rules
- Experiences and lessons from the pilots vital to design of the national system, including allocation approaches and processes
- Critical impacts of allocation methods on stakeholders’ acceptance of the system
1. Allocation Rules Vital to the Success of China’s Emissions Trading Systems

• Issues considered in the allocation rules development
  ✓ general ones, e.g.
    ➢ economic efficiency
    ➢ competitiveness concerns
  ✓ unique ones, e.g.
    ➢ significant uncertainties of economic and industrial development
    ➢ heavy regulation of the electricity and heat generation sector
    ➢ interactions with other relevant policies such as energy efficiency policies
    ➢ huge regional disparities
2. Allocation Approaches Utilized

- Allocation approaches: auctioning and free allocation
- Nine allocation methods adopted in China’s ETS pilots or schemes in other regions
  - one-off allocation methods, i.e. those without ex-post adjustment
  - dynamic allocation methods, i.e. those with ex-post adjustment
- One-off allocation methods
  - Auctioning
  - Grandfathering based on fixed historical emissions
  - Benchmarking based on fixed historical output
2. Allocation Approaches Utilized

- **Dynamic allocation methods**
  - Grandfathering based on dynamic historical emissions
  - Benchmarking based on dynamic historical output
  - Grandfathering based on real output and fixed historical emissions intensity
  - Grandfathering based on real output and dynamic historical emissions intensity
  - Benchmarking based on real output
  - Real emissions-based
2. Allocation Approaches Utilized

• Vital role of current production-based approaches in the systems in addressing policy restraints, development uncertainties and political objections
• Shifting from historical output-based benchmarking to current production-based benchmarking
• Current production-based benchmarking preferred the most
• Ex-ante initial allocation and ex-post adjustment when current production data available
• Challenges related to ex-post adjustment
  ✓ Verification of key parameters, such as current production
  ✓ Possible abuse of power by the authorities
3. Allocation Process Cycle: One Example

Submission of annual emissions reports
- By March 15

Allocation of allowance for the current year
- By June 30

Retirement of allowances, including offsetting credits
- By June 20

Surrender of allowances, including offsetting credits
- By June 30

Submission of emissions verification reports
- By April 30

Submission of emissions and verification reports by municipal/prefectural authorities
- By May 15

Adjustment of free allowances
- By May 31
Thanks

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