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POINT CARBON

China’s Hubei to launch CO2 market in July

BEIJING, April 26 (Reuters Point Carbon) – The Chinese province of Hubei will on July 1 force 153 companies to curb their emissions of carbon dioxide, becoming the second of seven regional governments to launch a carbon market over the next year, documents seen by Reuters Point Carbon showed.

According to a presentation made this week by researchers at Wuhan University, who have helped design the scheme, manufacturers and energy companies that consume more than 60,000 tonnes of coal equivalent per year will face curbs designed to slow but not cut emissions.

In line with the federal government’s policy of prioritising economic growth, for the first three years all companies will be allocated enough permits to allow them to increase production annually, but if they exceed that allocation they must buy additional allowances in the market.

The scheme is meant to help Hubei meet its goal to cut the amount of carbon it emits per unit of GDP by 17 percent from 2010 levels by 2015 while helping China conserve energy, improve air quality and meet its U.N. pledge to cut the carbon intensity of its economy by up to 45 percent by 2020.

To incentivise a shift away from more carbon intensive manufacturing, 20 percent of the permits will be handed out to plants based on how efficient they are, while the remaining 80 percent of the permits will be allocated to companies based on their historical emissions.

But to put a higher price on emitting CO2, after the first three years the government will auction 10 percent of the permits, rising to 30 percent in 2018 and 100 percent in 2030, unless the central government launches a national market with a different set of rules.

To keep compliance costs down, companies will be allowed to use offset credits issued by the central government equal to 10 percent of their allocation, and regulators will hold a reserve of permits equivalent to 2 percent of the total issued that it will release into the market if prices get too high.

The Wuhan University presentation said the provincial government plans to verify historical emissions data by May and allocate permits for the first year of the scheme in June.

AVOIDING EU PITFALL

In a bid to conserve energy and meet its goal to cut the emissions relative to economic growth, China, the world’s biggest emitting nation, announced plans in 2011 to launch seven pilot carbon markets before the end of this year.

Hubei, which has a population of 57 million and annual GDP of $305 billion, will be the second area to launch a carbon market after the city of Shenzhen launches its trading system on June 17.

Of the seven, Hubei has released the most details of its design, giving investors and emitters an idea of how a future federal market might look.

“In some areas there are design improvements compared to the current EU Emissions Trading Scheme,” said Tomas Wyns, a Brussels-based analyst with the Center for Clean Air Policy and an advisor on the design of the Hubei scheme.

Wyns said Hubei will introduce rules aimed at avoiding an oversupply of permits that have forced carbon prices to record lows in the EU market, the world’s largest.

Unlike the EU, which sets its carbon caps up to a decade in advance, Hubei will set caps annually based on previous year’s production levels.

Meanwhile, for the three-year pilot period, Hubei will force companies to surrender or sell surplus permits each year, and at the end of the period all unused permits will be cancelled.

That is in contrary to EU rules that allowed emitters to bank permits into the future, leaving the scheme oversupplied with more than a billion permits, or half the total annual allocation, since 2008.

The other five regions of Beijing, Chongqing, Guangdong, Shanghai and Tianjin are expected to finalise their markets before the end of the year.