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China moves to put a price on carbon

Angus Grigg, Ben Potter and Lisa Murray

Shanghai/Melbourne | China will launch a national emissions trading scheme (ETS) by the end of the year, joining major regional economies India and South Korea in putting a price on carbon and placing further long-term pressure on Australian coal exports.

While the scope of the proposed trading scheme will be more modest than Beijing had planned, it marks another major step in China's evolution from climate change laggard.

Zhang Xiliang from Tsinghua University, who has advised the government on the scheme, said it would begin with power generators at the very minimum and be expanded to encompass eight key sectors by 2020, including steelmaking and aluminium.

"We will launch the national emissions trading scheme this year," he told *The Australian Financial Review*.

China's move comes as the Turnbull government continues to tear itself apart on energy policy and as Australia's major regional trading partners move rapidly to reduce their reliance

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on fossil fuels. Coal is Australia's second-biggest export to China, a trade worth $8 billion last year.

India doubled its coal tax to 400 rupees ($7.76) a tonne last year and its draft national electricity plan calls for a halt in construction of new coal-fired plants and an investment of more than $US300 billion in renewable energy capacity during the next decade.

South Korea, meanwhile, has introduced a tax on coal imports – $US20 to $US25 a tonne – and an emissions trading scheme. In its forecasts, coal's share of electricity generation will fall 15 percentage points to 25 per cent by 2030.

Philippines President Rodrigo Duterte has threatened to tear up the Paris climate agreement but, despite this, is debating whether to introduce a coal tax of above $US10 a tonne.

Peter Castellas, chief executive of the Carbon Market Institute, which counts Qantas, Orica, Origin Energy and Wesfarmers among its members, said the centre of gravity for global carbon pricing was shifting to the Asia-Pacific region. He said the share of global emissions subject to a trading scheme would double to 20 per cent once the Chinese scheme was operational and this would affect Australia's energy-intensive exports, which will effectively be subject to a carbon price even in the absence of a national ETS in Australia.

"[They will] sit directly in the supply chains of Chinese companies that will have a carbon price in this market" he said. "It's a significant change."

While China has not set a date for launching its ETS, there is speculation it could provide an update around the time of the annual United Nations climate change conference, which will take place from November 6 in Bonn, Germany.

Early last year, the Chinese government identified eight sectors that would be covered by the scheme; petrochemicals, construction materials, chemicals, iron and steel, non-ferrous metals, pulp and paper, power generation and aviation. But after concerns were raised about the economic impact on some of these industries, the list was whittled down to three for the scheme's start; power generators, cement and aluminium. The scheme is being overseen by the National Development Reform Commission (NDRC). It has been speculated the scheme will initially cover just the power generators with scope to be expanded over time.

Even if that's the case, the China ETS will still be more than twice as large as the European Union's at the outset.

"It is still uncertain how many sectors will be covered in the early stages but power generation will definitely be covered," said Mr Zhang, who is director at Tsinghua University's Institute of Energy, Environment and Economy, which is advising the NDRC on the scheme.

Another source told the *Financial Review* the NDRC was ready to go with three sectors, but was waiting on approval from the State Council, China's cabinet and senior Communist Party leaders.

A so-called "cap and trade" scheme works by the government placing a "cap" on annual emissions and then allowing companies that fall below their designated limit to sell permits, while those above the limit would need to buy permits.

"By starting slowly [on the ETS], it suggests the NDRC is taking it very seriously and wants to make sure everything is well prepared," said Princeton Peng, chief executive of Climate Bridge, a firm running emissions reduction programs in China.

"The most important thing is making it happen."

China has already been experimenting with seven ETS pilots. These have been developed since 2013 in Beijing, Chongqing, Guangdong, Hubei, Shanghai, Shenzhen and Tianjin, with varying success. Together, these cities and provinces account for about a quarter of China's gross domestic product.

Tim Buckley from the Institute for Energy Economics and Financial Analysis in Sydney said the region was moving very quickly and Australia was once again getting left behind.

"Australia's current energy policy position looks extremely untenable when viewed from the international perspective, particularly with respect to our key trade partners across Japan, South Korea, China, Taiwan and prospectively India," he said.

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