

China's emissions trading remains undeveloped

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DALIAN — Dozens of exchanges have sprung up in recent years in various parts of China — the world's largest polluter — to handle trading of credits tied to emissions of carbon dioxide and other greenhouse gases. But some bourses that regional provinces hastily opened without establishing a legal framework for trading are not actually carrying out trades.

In April, the Jilin Environment and Energy Exchange was created in Changchun, Jilin Province, in northeast China. That month, an emissions trading bourse was established in Guangyuan, Sichuan Province — the first of its kind in the inland province.

It was in August 2008, as the Olympics were being held in the Chinese capital, that two environment and energy exchanges opened, one in Beijing and the other in Shanghai. Thus began a trend that has also been prompted by high expectations on the potential of



Wind turbines generate power as the sun sets in Gansu Province. Alternative energy will benefit greatly if carbon credit trading ever gets off the ground in China.

emissions trading. "Such trading will eventually grow into a big business, just like in Europe," an official at one exchange said.

China's exchanges handle emission allowances assigned under the Kyoto Protocol's Clean Development Mechanism as well as carbon credits, called Verified Emission

Reductions, issued by an independent third party.

The Shanghai Environment and Energy Exchange saw cumulative turnover from August 2008 through March 2011 surpass 10 billion yuan (\$1.54 billion). In 2010, one of China's paper manufacturers went through the exchange to buy carbon credits that would

permit the emission of about 22,000 metric tons of CO₂. It then allocated these credits to its five factories. To date, the China Beijing Environment Exchange has handled 58 CDM-based carbon credit contracts and 27 VER contracts.

Meanwhile, the Dalian Environment Exchange, which opened in June 2010, "has not yet started trading," according to an employee. In fact, some people say that there is even a bourse to which they make a phone call but get a message saying, "Your call cannot be completed as dialed."

Framework needed

An official at a Japanese trading company had a ready explanation about why these bourses are not doing much business. "Chinese firms do not need to buy emission rights," the official said, "because a framework for capping the emissions of individual firms has not been put in place in the country."

Another factor is that China has made little progress in improving its trading oversight

system and other mechanisms at the central and local levels, according to sources close to a Chinese emissions exchange.

However, China's planned introduction of environment taxes on polluting industries in 2013 is likely to give an impetus to emissions trading. The World Resources Institute's chief China representative told Chinese media that local companies might prefer to purchase emission credits through an exchange than pay a carbon tax, depending on how high the tax rate was.

At any rate, Beijing seems intent on jump-starting a cap-and-trade system. An official at a Japanese trading house said, "The Chinese government has selected six regions — four directly governed cities like Beijing and Shanghai as well as Guangdong and Hubei provinces — to launch pilot emissions trading schemes."

For now, attention is on how fast the nation will move to develop an environment that facilitates the trading of pollution equities.

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