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Preparing For Domestic Carbon Trading In China

China has played a leading role in cutting greenhouse gas emissions and providing carbon credits under a United Nations-backed trading scheme. According to the World Bank, China was involved in 73% of deals made under the Kyoto Protocol's Clean Development Mechanism (CDM) in 2007, and 84% in 2008, ranking first in the world. Under the CDM, if developed countries invest in clean energy projects in developing countries, they can receive Certification of Emission Reduction (CER) in return. They can then sell the CERs for profit, or use them to meet the emission targets under the Kyoto Protocol.

However, the government's conservative policies and financial strategies have made it difficult for the investors to advance the carbon offset commodity market. While CERs have been developed into more expensive financial products and derivatives in the world market, Chinese exchanges and brokerages are not allowed to trade CERs in the local markets. At the bottom of the global carbon-trading chain, the Chinese enterprises do not know enough to price the carbon credits, or to identify reliable buyers. The country is now afraid of losing pricing power in the carbon market.

<u>The Local Carbon Market Is To Be Established Soon</u>

In August 2009, over 800 tons of carbon credits generated during the Beijing Olympic Games were sold to the Shanghai-based Tianping Auto Insurance at $5 Per ton through China Beijing Environment Exchange (CBEEX). The CBEEX is a pioneer in this field and has cooperated with BlueNext, Europe's largest carbon credit exchange, to build a trade platform for potential European investors to purchase credits generated by Chinese renewable energy projects.

Now, Tianjin is paving the way to launch what could become Chin's first domestic carbon market, according to the Financial Times. After more than a year of preparation, The Tianjin Climate Exchange (TCX) was unveiled on September 25, 2009. The TCX, a joint venture between Chicago Climate Exchange, the municipal government of Tianjin and the asset management unit of PetroChina, has started recruiting members for a cap-and-trade scheme which it expects to begin in six to twelve months. TCX members include institutions such as CNPCAM, Tianjin Economic-Technological Development Zone, the Industrial and Commercial Bank of China, and the Construction Bank of China. Although there has been no clear legal framework for domestic carbon trading in China, and the government has not given a clear signal of approval, TCX plans to go beyond the framework launched by CBEEX and to establish a cap-and-trade scheme. Since China does not have a national cap on emission until 2012, the TCX's scheme will be voluntary, similar to the situation when Chicago Climate Exchange was launched in 2003.

Authored By:

Jingyuan Sun
(212) 634-3094
jsun@sheppardmullin.com