International Carbon
Action Partnership

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Press Release – **for immediate release**

Launch of Chinese national carbon market caps off milestone year for emissions trading

- **China overtakes EU with world's largest carbon market, covering more than three billion tons of CO_2e**
- **2017 significant year for emissions trading with key reforms in EU, North America and New Zealand**
- **26 ICAP Members pledge to strengthen action on climate change through renewed cooperation on carbon markets**

On 19 December 2017, China launched its national Emissions Trading System (ETS), which overtakes the European Union ETS as the world's largest carbon market. Regulating around 1700 companies from the power sector (including heating), the Chinese market covers more than three billion tons of CO2e in its initial phase (2017-2019), accounting for about 30% of national emissions. Allowances are expected to initially be handed out for free based on sub-sector benchmarks with ex-post adjustments, while detailed allocation rules are yet to be published. Under the oversight of the National Development and Reform Commission (NDRC), which will operate the national carbon market jointly with the provincial governments, the Chinese carbon market is expected to see continuous improvement over the coming years, such as strengthening domestic capacity and improving data quality. The market will also gradually expand to cover additional sectors, such as iron and steel.

"*It is impressive that China has managed to launch a national ETS in such a short timeframe. The first phase will allow market participants time to familiarize themselves with the ETS, and give regulators the opportunity to improve system design and management. The rapid development of China's system provides a convincing narrative for other emerging economies and developing countries interested in carbon pricing*" states **Lina Li**, an expert on carbon pricing developments in China at the Secretariat of the International Carbon Action Partnership (ICAP), a network of governments working on emissions trading.

The launch of the Chinese ETS caps off a landmark year for emissions trading. 2017 saw the completion of major ETS reforms in Europe, North America and New Zealand. Last month, European leaders agreed on crucial reforms for the EU ETS for the next phase (2021-2030). Covering almost half of the EU's emissions, the EU ETS has been the central pillar of EU climate policy since 2005 and plays a major role in reaching its 2030 target. The next phase will see a number of changes to the system, including a new Market Stability Reserve to help address the oversupply of allowances in the market.

In a move of bipartisan unity, Californian legislators voted to extend the Golden State's cap-and-trade program until 2030. The bill also contains several changes to the program's offsets, allocation mechanism, as well as a new price stability mechanism. This puts California in a good position to achieve its much more aggressive target of reducing emissions an additional

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40% by 2030. Over on the east coast, the nine Northeastern and Mid-Atlantic State that comprise RGGI also committed to tightening their cap an extra 30% below 2020 levels. With the creation of an Emissions Containment Reserve and modifications to the existing Cost Containment Reserve, prices in RGGI would fluctuate within a price band between USD 6-13 (increasing annually by 7%), giving investors and regulated companies an additional level of market certainty.

Policymakers in New Zealand also published the long-awaited results of a review of their system, which had started in 2015. These changes will give New Zealand greater control of their allowance supply, increase market predictability and help them achieve their targets under the Paris Agreement. Details on these broad sweeping proposals, including auctioning allowances and allowing a limited use of offsets, are expected in 2018.

"*2017 has proven emissions trading to be a flexible and robust policy instrument that can operate in very different economic and policy conditions*" states **Dr. Constanze Haug**, head of the ICAP Secretariat, "*continued exchange through international fora like ICAP also helps to generate ETS best practices*." ICAP brings together jurisdictions that have or are interested in emissions trading systems (ETS) to share best practices and stimulate transnational policy learning on emissions trading. The Partnership, which counts 35 members and observers across four continents, marked its tenth anniversary with a symposium on the future of emissions trading last September. This culminated with a high-level joint statement in which 26 national and subnational governments, including EU Member States, Mexico, the Republic of Korea, California and Tokyo, pledging to strengthen action on climate change through renewed cooperation on carbon markets.

About ICAP

The International Carbon Action Partnership brings together regional, national, and sub-national governments and public authorities from around the world to discuss important issues in the design of emissions trading schemes (ETS) and the way forward to a global carbon market. 35 national and subnational jurisdictions have joined ICAP as members or observers since its establishment in 2007. Further information: www.icapcarbonaction.com

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