Case Assessment - Prospect of Linking China ETS with Australia ETS

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Outline

1. Conditions of linking
2. Strategic Steps and approaches
3. Case Assessment - Analysis of linking China ETS with Australia ETS
1. Conditions of linking
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- Necessary Harmonization of key design elements between systems
  - Types of caps: absolute cap or relative cap
  - Stringency of cap
  - Stringency of cap enforcement
  - Offset provision
  - Cost containment measures

- Political Desirability is a key to success of linking

- Necessary legal framework and institutional arrangement
  - Legislations for establishing linking
  - Legislations on implementing linking
2. Strategic Steps and approaches
2. Strategic steps and approaches for establishing linking

- **Step 1: Building basic foundation for linking in learning phase**
  - Minimizing risk of incomparability between systems
    - Designing absolute cap of ETS
    - Considering periodical review and adjustment of caps
    - Structuring common enforcement framework
      - surrendering allowances plus penalty
    - Designing absolute cap of ETS
  - Effectively implementing compliance and enforcement mechanism
  - Building up necessary legal foundation

- **Step 2: Assessing linking opportunity**
  - Assessing Benefits vs trade-off
  - Identifying linking partners and prospect of linking
    - Government attitudes
    - Extent of Similarity in design features between systems
    - Trading relationships
2. Strategic steps and approaches for establishing linking

- **Step 3:** Pave the road towards linking
  - **Sub-step 1:** Reaching MOU on linking arrangement
  - **Sub-step 2:** Negotiating harmonization of regulations
    - **What should be comparable**
      - Comparable stringency of MRV
      - Consistent cap enforcement
      - Harmonize cap-setting approaches
      - Allocation mode related to industrial competitiveness
      - Mutual recognize principles and standards of offset credits
    - **What should be common**
      - System design- auction and execution, price cap & safe valve
      - Implementing infrastructure
      - Market oversight & surveillance of daily operation
2. Strategic steps and approaches for establishing linking

- **Sub-step 3: Reaching linking agreement**
  - Respective commitments to actions for achieving harmonization of linked systems
  - Provision of accounting for future changes in system design
  - Institutional set-up and procedures for operation of linked systems

- **Sub-step 4: Amending respective regulations based on finding of negotiation**
3. Case Assessment - Analysis of linking China ETS with Australia ETS
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Feasibility Study

- Political context and countries’ circumstances
  - Active governments’ opinions on linking
  - Cooperation on climate change and carbon market
  - Close trading relationship

- Compatibility of two systems’ design
  - Stringency of Cap
    - Type of cap: could be comparable
    - Cap-setting: substantial risk
  - Stringency of cap enforcement: likely different
  - Eligibility of offset credits: likely different

- Capacity for implementation of MRV: different

- Legal framework for implementation of linking
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Possible solutions to key issues

- Establish mechanism for review and adjustment of cap
- Design Strict compliance framework in initial stage
- Adopt flexible and progressive cost containment measures
- Build up necessary legal framework for implementation of ETS and linked systems
- Carry out extensive and intensive capacity building

Timetable for linking China ETS with Australia ETS
Thank you!