Does carbon emissions trading bring opportunities or challenges?

Background: Carbon emissions and regulatory requirements

China-US Joint Statement on Climate Change

According to President Xi Jinping's statement issued on 25 September 2015, China will aim to lower carbon dioxide emissions per unit of GDP by 60% to 65% from the 2005 level by 2030.[1]

G20 Summit

China committed to increasing the share of non-fossil fuels in primary energy consumption to around 20% by 2030.[2]

Background

Energy Development Strategy Action Plan

Targets include a cap on annual primary energy consumption set at 4.8 billion tons of standard coal equivalent until 2020, with coal consumption to be held at around 4.2 billion tons. The share of non-fossil fuels and natural gas in the total primary energy mix will rise to 15% and above 10% respectively, while that of coal will be reduced to under 62%.[3]

Circular on Making Improvements to Key Work Related to the Launch of the National Carbon Emissions Trading System

In 2017, China will be launching the national carbon emissions trading system, covering entities with total energy consumption of 10,000 tons of standard coal equivalent or above in any year from 2013 to 2015 in industries including petrochemicals, chemicals, building materials, iron and steel, non-ferrous metals, papermaking, power and aviation.[4]

1. 'China-U.S. Joint Presidential Statement on Climate Change', NDRC, 26 September 2015, http://en.ndrc.gov.cn/newsrelease/201509/t20150929_755626.html
2. 'China's CO2 emissions likely to peak by 2030' , Xinhuanet, 13 November 2014, http://news.xinhuanet.com/energy/2014-11/13/c_127204758.htm
3. 'China unveils energy strategy, targets for 2020', Xinhuanet, 19 November 2014, http://news.xinhuanet.com/english/china/2014-11/19/c_133801014.htm
4. 'Scope & coverage', ICAP, retrieved on 25 April 2017, https://icapcarbonaction.com/en/about-emissions-trading/scope-and-coverage

Background of China's emissions trading policy

Close to 200 signatories of the *United Nations Framework Convention on Climate Change* unanimously consented to adopt the Paris Agreement at the United Nations Climate Change Conference convened in Paris in December 2015 to set long-term goals to tackle the challenges posed by climate change. The goals include keeping the increase in global average temperature to well below 2°C above pre-industrial levels, and pursuing efforts to limit the increase to 1.5°C.[5]

China attaches great importance to low carbon development and commits to peak greenhouse gas emissions by 2030. It aims to lower carbon dioxide emissions per unit of GDP by 60% to 65%. China is actively exploring a new market-based mechanism – the emissions trading system – to control greenhouse gas emissions.[6]

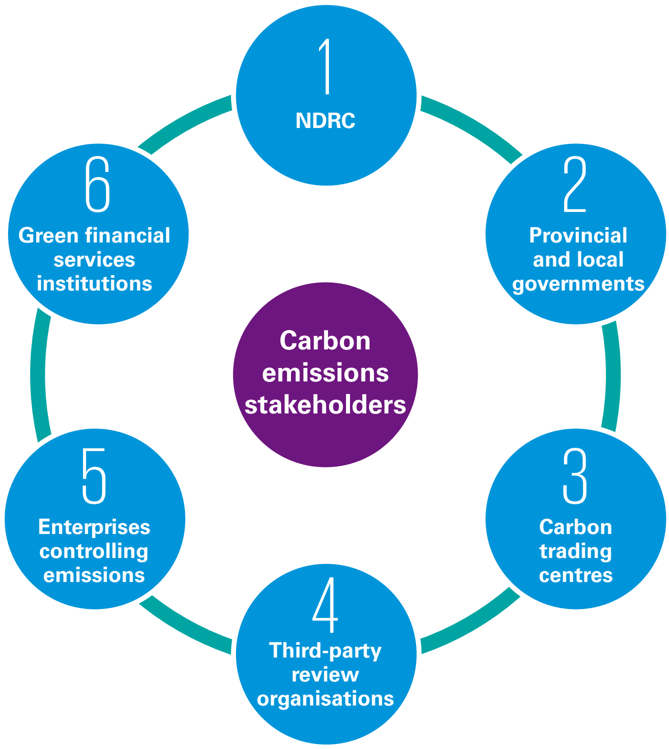
In October 2011, the National Development and Reform Commission (NDRC) issued the *Circular on the Pilot Launch of the Carbon Emissions Trading System*, and Beijing, Shanghai and Tianjin were among the seven pilot provinces/cities designated to conduct carbon emissions trading. In 2013, the NDRC started to develop a national carbon emissions trading market.

In January 2016, the NDRC issued the *Circular on Making Improvements to Key Work Related to the Launch of the National Carbon Emissions Trading System*, and the national carbon emissions trading system is expected to be formally launched in October 2017. Furthermore, it is expected that related legislation will be enacted in 2017.

During the 13th Five-Year Plan period, the national carbon emissions trading system will cover 7,000 to 8,000 major enterprises in eight key industries including power, iron and steel, chemicals, building materials, non-ferrous metals, papermaking, petrochemicals and aviation, with total emissions of nearly 4.5 billion tons. In 2017, power, building materials, non-ferrous metals and aviation industries will be the first to be covered by the carbon emissions trading system, given their larger proportion of emissions and relatively better data. The other industries will gradually be included in the trading system in the coming years.[7]

5. 'The Paris Agreement', UNFCCC, accessed on 25 April 2017, http://unfccc.int/paris_agreement/items/9485.php
6. 'China-U.S. Joint Presidential Statement on Climate Change', NDRC, 26 September 2015, http://en.ndrc.gov.cn/newsrelease/201509/t20150929_755626.html
7. 'National carbon trading market likely to be launched at the end of the year', Idea Carbon, 26 April 2017, http://www.ideacarbon.org/archives/39092

Overview of the key work of carbon emissions stakeholders



1 The NDRC develops carbon emissions regulations and emissions trading management rules, and compiles the 13th Five-Year Plan work plan. It also organises the development of a unified national carbon emissions trading market.

2 The Provincial Development & Reform Commissions refine and organise carbon emissions trading, start to compile energy consumption lists, and uniformly review various emissions sources.

3 Provincial carbon trading centres are established in pilot provinces, with emissions trading rules formulated, related activities organised and related experiences shared to prepare for the launch of the unified national emissions trading system.

4 Third-party institutions selected by local authorities will review the emissions data of companies which have completed their accounting and reporting processes.

5 Companies reduce emissions through technological transformation, account for emissions reduction costs and derive gains from emissions trading. They should develop carbon asset management capabilities, covering personnel training, accounting treatment and information disclosure, and connect with green financial services.

6 Innovative carbon finance and green finance can be used by banks and other financial institutions for green projects such as environmental protection and energy efficiency, clean energy, and clean transportation.

Assess the impact on your company by considering the following questions:

1 Is your company a covered entity in the national carbon emissions trading scheme?
- Does your company belong to one of the eight industries mentioned above?
- Has your company's total energy consumption reached 10,000 tons of standard coal equivalent or above in any year from 2013 to 2015?

2 If yes, has your company developed any strategies in response to carbon emissions trading?
- Through carbon reduction, carbon emissions trading provides the company with an opportunity to cut costs and generate tradable carbon credits.
- Where carbon reduction is not achieved, carbon emissions trading may increase the company's costs and weaken its competitiveness.
- Carbon emissions trading sets stricter requirements on the accuracy and timeliness of carbon emissions reports to meet compliance requirements and support management's decision-making.

Major challenges faced by companies

Challenges faced by companies generally include:

- Precise interpretation of the national carbon emissions trading policy
- A clear understanding of risks and opportunities arising from the emissions reduction policy, changes in market environment and pressure from stakeholders
- Capability build-up in response to emissions trading, including knowledge, skills and resources
- Design and implementation of appropriate processes and controls within the organisation to obtain, prepare and analyse all relevant information.

How can KPMG help?

In view of the above challenges, KPMG can help you in the following areas:

Strategy

- Help you understand and profit from disruptive change in the low carbon economy
- Help you identify the risks and opportunities associated with carbon pricing, and assist you to devise strategic plans (e.g. scenario analysis of carbon prices) to reduce the cost of carbon pricing
- Determine action plans for the emissions trading programme
- Calculate total carbon emissions and intensity
- Develop and identify potential emission reduction strategies and measures
- Identify and reduce climate-related risks in operations and supply chain

Compliance

- Help you understand and comply with carbon reduction and reporting legislation in China and other countries

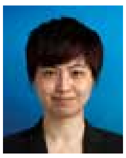
Reporting

- Implement effective processes and IT solutions to gather, analyse and report carbon data across your organisation
- Assess the carbon data collection and reporting processes, including the establishment of effective internal controls
- Share the best industry practices and experiences in carbon reporting
- Provide independent third-party assurance on carbon data
- Advise on accounting treatment

Finance

- Provide advice on issuing green bonds to raise capital and emission reduction and/or energy efficiency innovation
- Provide independent third-party assurance for green bonds, e.g. use of proceeds
- Help you explore ways to benefit from clean technology and investments in low carbon innovation.

Contact us



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