

China city dips toe in carbon cap and trade

* Tianjin scheme possible first step to nationwide trade

* Arreon confident of long-term future after pilot ends

By [Emma Graham-Harrison](#)

BEIJING, Feb 9 (Reuters) - The northern Chinese port city of Tianjin launched a small-scale energy intensity trading scheme on Tuesday with three pilot sales, taking a possible first step towards a nationwide carbon cap and trade scheme.

International heavyweights Citigroup Global Markets and Gazprom Marketing and Trading were the buyers of a first set of "Carbon Emission Allowances", for energy savings equivalent to around 4,500 tonnes of coal, from three suppliers of heating.

After validation and verification, the more than 500,000 yuan (\$73,250) deal could result in the trade of up to 11,500 CEAs, the companies involved said in a statement.

"The traded unit is carbon emission credits, but it comes from the energy intensity target," clean energy firm Arreon, which has helped define the scheme's structure, told Reuters in a written answer to questions about how it works.

"Participating entities out-performance of the energy intensity cap is 'energy saving', which can be converted to carbon reduction by applying a factor equivalent to the carbon intensity of the energy source."

This year the scheme, run by the Tianjin Carbon Exchange, will cover only some heat supply firms and hospitals, trading under targets set as part of an overall energy intensity goal handed down to Tianjin by the central government.

The role of Citigroup and Gazprom is similar to that of liquidity providers, Arreon said. The deal is worth little to such large firms, but they are likely looking to stake out a presence in what could rapidly become a very lucrative market.

Arreon CEO John Shi said he is confident that there will be a long-term future after the pilot finishes at the end of this year, because of Tianjin's commitment to becoming a low-carbon hub, and Beijing's pledge to cut carbon intensity.

"Let's just wait until half a year later, a year later," he said when asked if the scheme had a future beyond 2010.

"We want to expand this into China's first realistic, implementable, carbon intensity trading scheme. We are committed to that," he added.

The backing of a city government eager to turn the city into a clean energy hub could potentially help Tianjin see off competition from several other pilot exchanges, including ones in Beijing and financial hub Shanghai.

"As a national pilot region, the Binhai New Area will use market forces and financial innovation to develop a low carbon economy," said Deputy Mayor Cui Jindu, who has directed the creation of the market through regular meetings with the Tianjin Carbon Exchange and Arreon. (\$1=6.826 Yuan) (Editing by James Jukwey)