

Research Topic: The Feasibility of Developing Carbon Emission Allowances Futures in
Taiwan

Research Date: 2017/04/01 – 2017/10/31

Abstract:

The objective of this study was to evaluate the feasibility of introducing carbon emission allowances futures to Taiwan. The study included the launch timing, contract specifications, and trading and clearing mechanisms drew on the experience of major international exchanges (ICE, EEX, and CME) by referring to contract specifications, and trading and clearing rules; the trends in international carbon markets; the status quo of Taiwan carbon trading mechanisms; and its potential.

The study showed that the timing of introducing such products should correspond to the Environmental Protection Administration (EPA)'s progress in establishing the carbon-trading system. As lack of a legal infrastructure, including the regulations governing carbon-emission allowances and carbon trading, the study recommended first using Taiwan Certified Emissions Reductions (TCER) units in circulation as the underlying, and then launch a Taiwan Emission Allowances (TEA) futures following Taiwan's implementation of a national carbon cap in 2020. Given that industries subject to emissions controls will need to exercise these allowances, the study further recommended settling the contracts via physical delivery in line with international practice.

This study recommended four directions for future development: 1) the EPA should accelerate the legislation for carbon-trading system; 2) along with development of the Greenhouse Gas Reduction and Management Act and carbon-trading legislation, the competent authorities should incorporate carbon emission allowances into relevant financial legislation; 3) market maker mechanism of derivatives products should be introduced in the carbon market; and 4) the exchange should be linked to the international carbon allowances market to increase the liquidity of carbon futures market in Taiwan, improve the efficiency of carbon markets, and help industries subject to emissions controls to reduce their emissions in a cost-effective manner.