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The impact of the virus on China's CO₂ emissions will be negligible.

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Could the situation in China help reduce carbon emissions?

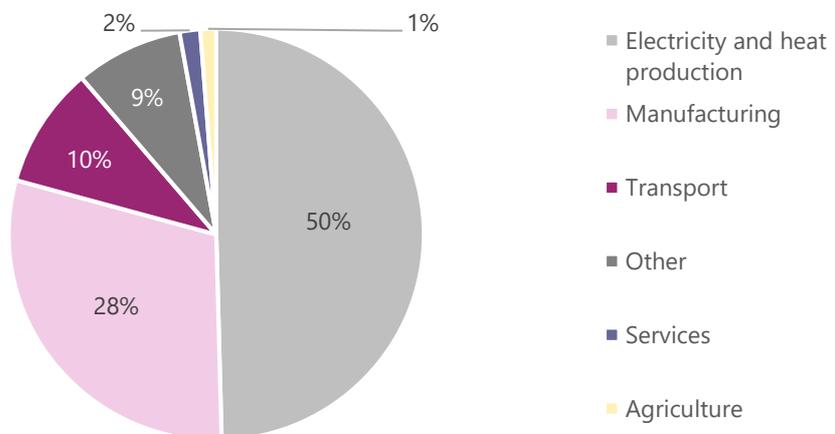
How the virus will affect China's total CO₂ emissions in 2020

As the Covid-19 virus (previously 2019-nCoV) continues to spread, China's government has taken a number of measures to limit the movement of people in the country's most affected regions. In those regions, 17 cities have been closed, public transport has been suspended, domestic and international flights and rail routes have been canceled, and a number of airports, highways, and railway stations have been closed. Authorities also decided to extend the New Year holidays in the affected regions, which has led to a halt in certain enterprises or a slowdown in their production rates.

It is worth noting that the spread of the virus has affected fuel consumption in China. According to estimates from Bloomberg Green, the demand for oil in China decreased by 20% of total consumption compared to the pre-epidemic period. According to Wood Mackenzie, the rate of demand growth for liquefied natural gas in China could halve in 2020 due to stalled production.

In view of the above, ACRA believes it is possible that CO₂ emissions in China will decrease in 2020, mainly because of the transport industry¹.

Figure 1. China's CO₂ emissions structure by sector in 2018 (9.4 bln tons)



Source: International Energy Agency

The suspension of production in certain industrial plants could contribute to reduced emissions. Quarantines have forced many automakers to halt production temporarily. Some steel companies have also suspended production or reduced production volumes.

However, ACRA believes that the halt in industrial production will not have as significant an impact on annual emissions as the decrease in transport activity. In addition, ACRA believes that production facilities were not running at full capacity before the epidemic. Moreover, it is possible to use older equipment so that

¹ According to the International Energy Agency, China's transport sector accounts for about 10% of the country's total carbon dioxide emissions (<https://www.iea.org/reports/tracking-transport-2019>).

China can quickly restore the production of commercial products immediately after localizing the epidemic.

ACRA expects that the active phase of the fight against the virus could last until the end of this April. If China manages to restore production in April-May to the level necessary to compensate for lost volume, the country's total 2020 emissions could remain at the 2019 level or decrease by 1.1-1.5% in annual terms.

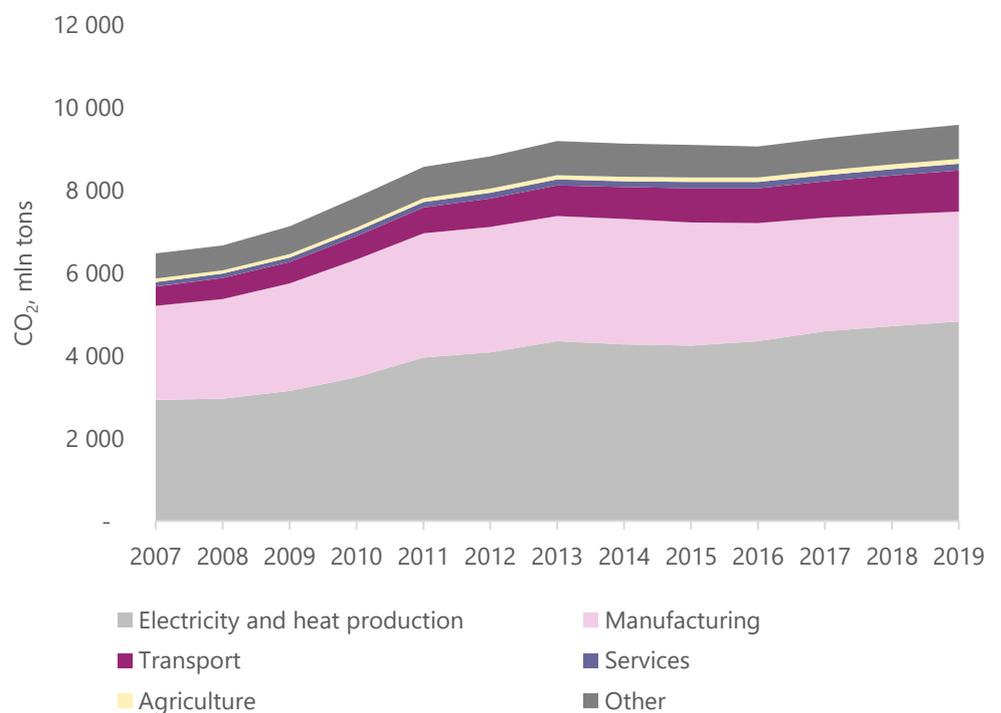
If the fight against the virus is prolonged and it continues to spread within China, emissions could decrease by 3-5% compared to the previous year. This would occur in the event of a complete shutdown of automobile, mechanical engineering, metallurgy, and chemical industry enterprises, which are located in the neighboring regions of the Hubei Province.

China is the world's leader in greenhouse gas emissions. As part of the fight against emissions, a number of Chinese provinces have launched pilot sites for the purchase and sale of quotas on excess CO₂ emissions, so-called carbon exchanges. However, despite the measures taken by China's government, the volume of greenhouse gas emissions grows each year (Fig. 2). Over the past 12 years, emissions in the country have increased by 1.5x. The completion of China's national quota trading system for greenhouse gas emissions is planned for 2020. However, ACRA believes that the epidemic will delay its launch and the motivation of market participants on pilot projects will decrease due to economic losses.

For more information, see ACRA's analytical commentary "[Coronavirus poses a problem for the Chinese economy](#)" from January 29, 2020.

The Hubei Province is considered the epicenter of the virus outbreak.

Figure 2. China's CO₂ emissions by sector



Source: International Energy Agency

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