

## Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

As we enter into the year 2022, we together saw the first compliance period of China national ETS closed successfully with 99.5% allowance submit obligation being fulfilled, announced by the Ministry of Ecology and Environment (MEE) while the spot price has spiked at RMB 62.29 yuan (USD 9.79 dollars) but eventually settled on Dec 31<sup>st</sup>, 2021, at RMB 54.22 yuan.

It is noticed that the total volume of CEAs traded in the market from July 16<sup>th</sup> until Dec 31<sup>st</sup>, 2021 had reached around 179 million, with a significant share of that-135.5 million-in December, and the total turnover of the spot market was RMB 7.66 billion yuan.

In this newsletter, we will brief you on the latest progress on the national ETS and pilot carbon markets while also introducing the update on relevant policies on climate finance and information disclosure. And EDF also released reports partnered with acknowledged academics on BRI carbon market and the carbon pricing mechanism in China.

### **National ETS**

- **Data Quality**

On Oct. 25<sup>th</sup>, 2021, in order to establish a long-term mechanism to enhance data quality management, the MEE issued the file, which is titled "Improve Supervision and Management of Data Quality in the National Emissions Trading System", pointed out that a working stream for regular verification and random inspections should be established to strengthen supervision and management of key emission entities, verification technical service agencies, consulting agencies, and inspection and testing agencies in the power generation industry. Also, a penalty mechanism for false reporting and concealment of relevant data will be set up.

- **Compliance**

On Oct. 26<sup>th</sup>, 2021, the MEE issued the "Notice on Implementation of the Surrender of Carbon Emission Allowances in the First Compliance Cycle of the National Emissions Trading System", which clarified the focal points during the compliance procedure, and the specific requirements on the usage of CCER to meet compliance obligation. This not only laid a solid foundation for the covered entities to make a strategic trading plan but also got the entities prepared for further carbon asset and resource allocation.

- **GHG Accounting and Reporting**

On Dec. 2<sup>nd</sup>, 2021, the MEE issued the "Guidelines for Accounting and Reporting of Corporate Greenhouse Gas Emissions (Power Generation, 2021 Revision)" (draft for comments). This revision focuses on standardizing the accounting and reporting of GHG emissions from key emission entities of the power generation industry (including self-provided power plants) covered in the national ETS, strengthening the process management of corporate carbon emissions data, and refining the key points for each link. The above measures are dedicated to compressing the space of data fraud, improving operability, and ensuring fairness and unity. At the same time, this revision also clarified issues such as legal person boundaries.

### **Extensions: Relevant Policy Updates**

- **Information Disclosure**

On Dec. 11<sup>th</sup>, the MEE officially released the "Measures for the Administration of Environmental Information Disclosure on Enterprise Level", which stated that large emitters will be obligated to publicly disclose emissions data after the above regulations enter into force on Feb. 8<sup>th</sup>, 2022. The listed companies and bond issuers that have violated environmental regulations within the past year will also have to comply with the regulations.

- **Climate Investment and Finance**

On Dec. 21<sup>st</sup>, 2021, the "Climate Investment and Financing Pilot Work Plan" was released by the Ministry of Ecology and the Environment, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Housing and Urban-Rural Development, the People's Bank of China, the State-owned Assets

Supervision and Administration Commission, the China Banking Regulatory Commission, the General Office of the China Securities Regulatory Commission and the Office of the State Administration of Management. It targets at interpreting strategic decisions on carbon peaking and carbon neutrality at the local level and investigates differentiated climate investment and financing systems, mechanisms, organizational forms, service methods, and management systems. Detail targets include carbon finance(loans, etc.), the low carbon project database, carbon accounting, and the development of the carbon market.

## **Pilots**

- Shanghai. On Dec. 7<sup>th</sup>, 2021, the Shanghai branch of the People's Bank of China, the Shanghai Banking and Insurance Regulatory Bureau, and the Shanghai Municipal Bureau of Ecology and Environment jointly issued the "Guidelines for the Operation of Loans Pledged by Carbon Emission Allowances in Shanghai" (hereinafter referred to as the "Guidelines"). The Guidelines put forward 20 rules in terms of qualifications, valuation on the carbon emission allowance, carbon emission allowance pledge registration, pledge disposal, etc., clarifying the various links and processes of carbon emission allowance pledge, and supporting financial institutions to actively innovate in the field of carbon finance practice.
- Guangzhou. The Ecology and Environment Department of Guangdong issued the "Allocation Plan of Carbon Allowance, 2021" on Dec. 27<sup>th</sup> 2021, covering cement, steel, petrol-chemical, papermaking, aviation, data center, textile, and so on, while power generation is excluded as it is covered by the national ETS. 178 key emission entities and 29 newly established projects are required to meet compliance obligation, the total amount of allowance mount to be 252 million tonnes.

## **EDF Efforts**

- **Leverage market mechanism to promote low carbon transition along the BRI:** In recent years, the use of carbon market mechanisms to realize the effective allocation of production factors for carbon emissions has risen as an important link in the global efforts on addressing climate change, as well as in the international cooperation on low-carbon development. As of this context, EDF partnered with

Tsinghua University to research the significance and feasibility of establishing carbon markets along the Belt and Road area. [The study](#) reviewed the status of socio-economic development and emissions and analyze, both qualitatively and quantitatively, the feasibility of carbon market establishment in major BRI countries and regions.

- **Carbon pricing in China:** ETS is an indispensable tool for China to achieve the “2030 & 2060” goals. The carbon price is at the core of a carbon market as effective price signals can incentivize the rational allocation of resources, promote the transformation and upgrading of enterprises, and reduce the cost of emission reduction for the whole society. On this background, EDF cooperated with Shanghai Environment and Energy Exchange to take the study on analyzing the pricing mechanism of China’s pilot carbon markets and major factors which are influencing carbon pricing at the national market level. Based on the above summary, [the report](#) also draws on international practices to make policy suggestions, in the hope to optimize the pricing mechanism of the national ETS.

Please feel free to share the newsletter with other acknowledged experts and to whom may be interested.

As always, please do not hesitate to let us know if you would like to follow up on the above topic on China’s ETS and anything else you may wish to know. We would love to hear from you wish you a Happy Spring Festival in advance.

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2021 is the first year of the “14th Five-Year Plan”. China’s MEE stated that a Nationwide ETS with complete institutions, active trading, strict supervision, and high transparency will be built during the 14th Five-Year Plan period. EDF will continue to follow up on the construction of China Nationwide ETS, bringing you first-hand news and insightful analysis. For more information or to get in touch with an EDF spokesperson, please contact EDF China at [China@edf.org](mailto:China@edf.org).

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