

Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

The China National Emissions Trading System (ETS) is now open for business after the system's core pieces have been put in place. The promulgation of the [Measures for the Administration of National Carbon Emission Trading \(Trial\)](#) (the "Measures", please check the English version translated by EDF here) and the [2019-2020 Implementation Plan for National Carbon Emission Trading Total Allowances Setting and Allocation \(Power Generation Industry\)](#) (the "Implementation Plan", please check the English version translated by EDF here), by the Ministry of Ecology and Environment (MEE) is an important step for the world's largest ETS and a crucial component for China to achieve early carbon peaking and neutrality. The Measures has just come into force on February 1st, 2021, and the pre-allocation of the allowance has been done by January 29th, 2021. The first compliance period will cover the emission of 2019 and 2020 for the 2,225 key entities in the industry, and the covered entities are required to fulfill their compliance obligation by the end of 2021.

In September 2020, Chinese President Xi Jinping announced that China would scale up the nationally determined contributions (NDCs) and committed to "have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060", while President Xi elaborated and made further commitments for 2030 in his [speech](#) at the Climate Ambition Summit on December 12th 2020: China will lower its carbon dioxide emissions per unit of GDP by over 65 percent from 2005 levels, increase the share of non-fossil fuels in primary energy consumption to around 25 percent, increase the forest stock volume by 6 billion cubic meters from 2005 levels, and bring its total installed capacity of wind and solar power to over 1.2 billion kilowatts.

To achieve the commitments, the MEE has stated that "reduce carbon emission" will be the key efforts of the environmental protection work during the 14th FYP and the authority also released the [Guidelines on Coordinating and Enhancing the Work on Addressing Climate Change and Ecological Environmental Protection](#) (please check the English version translated by ClientEarth here), which have formulated requirements from six different aspects including coordination on strategies planning, policy making and legislation, system management, pilots construction, international cooperation and supporting measures.

As the fundamental market mechanism to promote low carbon transition in China, we believe that the National ETS will see a profound development during the 14th FYP, and we look forward to hearing your comments on the Measures and the Implementation Plan as well as any other recommendations on the “next step” should be taken to improve the market design.

✓ **Policy Updates**

○ **The China National ETS**

A batch of core documents have been issued for public consultation among which the first and the third one has been released officially, including:

- the “National Carbon Emissions Trading Management Measures (Trial) (Draft for Comment)”, released on November 2nd, 2020.
- the “National Carbon Emissions Registration Transaction Settlement Management Measures (Trial) (Draft for Comment)”, released on November 2nd, 2020.
- the “2019-2020 National Carbon Emission Trading Cap Setting and Allowance Allocation Implementation Plan, (Power Generation Industry) (Draft for Comment)”, released on November 20th, 2020
- the “Guidelines for Enterprise Greenhouse Gas Emission Accounting and Reporting, (Power Generation Industry) (Draft for Comment)”, released on December 3rd, 2020.
- the “Guidelines for Enterprise Greenhouse Gas Verification (Trial)” (Draft for Comment), released on December 16th, 2020.

○ **Pilots**

▪ **Auction**

- Hubei held government reserved allowance auction on December 9th (only for covered entities) and 11th (for covered entities as well as trading institutions) 2020, while the average clearing price was RMB 27.57, with a total trading volume of 1,788,909 tonnes.
- Shanghai organized the second batch of allowance auction this year on October 30th 2020, and the average clearing price was RMB 44.27, while only one covered entity subscribed for the total 118,000 tonnes.

▪ **2019 Compliance**

- The compliance of Guangdong pilot carbon market was 100% completed on November 30th, 2020, with a total of 242 entities from six industries (power, iron and steel, cement, petrochemical, papermaking, and aviation) covered.
- By October 30th, 2020, all the covered entities in the Shanghai pilot carbon markets had achieved the 2019 compliance and maintained the seven-year record of 100% completion. In

2019, the total transaction volume of the pilot market was 22.7697 million tonnes with a total turnover of RMB 326 million.

▪ **2020 Allowance Allocation**

- **Shanghai.** Shanghai Municipal Bureau of Ecology and Environment released the 2020 allowance allocation plan for its municipal emissions trading system on February 2nd, 2021, with the overall cap shrinking by a third as more than 20 coal-fired power plants are exiting to join the national market.
- **Tianjin.** Ecology and Environment Department of Tianjin released the allowance allocation plan for 2020 on December 17th, 2020, which specified the allocation method, the procedure, as well as the list of the covered entities (including 33 power sector companies) in the 2020 compliance period.
- **Guangdong.** The “Guangdong Province 2020 Carbon Emission Allowance Allocation Implementation Plan” was issued on December 4th, 2020 by the provincial ecology and environment department, covering 245 key emission entities (including 66 power sector companies) with a total cap of 465 million tonnes.
- **Fujian.** Ecology and Environment Department of Fujian province issued a notice on the pre-allocation of allowance for the year of 2020, covering 269 key emission entities (including 28 power sector companies). The notice stated that the pre-allocation quantity will be 70% of the total 2019 amount, and the allowance will be sent to the accounts by Nov 30th, 2020.

▪ **Finance**

- **Shanghai.** Shanghai Environment and Energy Exchange (the Exchange) released the “Business Rules on Shanghai Carbon Emission Allowance Pledge” on December 31st, 2020, and it was a revised edition based on the pilot experience. The pledgee includes the covered entities and the trading institutions registered in the Exchange. Banks as well as non-banks financial institutions which are legally established and effectively renewed under the laws and regulations of the People's Republic of China will be the pledgor. As one of the major carbon financial products, the allowance pledge will not only offer a tool to facilitate the entities to manage their carbon asset but also a new method for financial institutions to participate in the carbon market.
- **Shenzhen.** The Green Finance Regulations of Shenzhen Special Economic Zone (hereinafter as the Regulations), the first local regulation on green finance in China, was approved by the Standing Committee of Shenzhen Municipal People's Congress on October 29th and will come into effect on March

1st, 2021. Furthermore, the Regulations put “addressing climate change” as the highest priority and it is also highlighted the support of financial institutions to develop mortgage products based on emission rights and to participate in the Greater Bay Area carbon market. The Regulations also support the emission exchange in Shenzhen to construct a unified platform for a carbon inclusive program, to better carry out cross-border transactions of carbon assets while developing innovative trading products.

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.

As the Spring Festival is coming, we also wish you a happy OX year and all the best.

###

2020 is the final year of the “13th Five-Year Plan” and the foundation year of the “14th Five-Year Plan”. China’s Ministry of Ecology and Environment 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.

Environmental Defense Fund (edf.org), a leading international nonprofit organization, creates transformational solutions to the most serious environmental problems. EDF links science, economics, law and innovative private-sector partnerships. Connect with us via [EDF's Official WeChat Account \(Chinese\)](#), [EDF Voices](#), [Twitter](#) and [Facebook](#).