

Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

From October to November, significant institutional improvements were made to China's voluntary carbon market. These improvements included the release of a new top-level design document, the publication of four new voluntary GHG emission reduction project methodologies, the designation of registration and trading institutions, and the issuance of the registration rules, trading rules, and guidelines for project design and implementation. These improvements mark the relaunch of China's national voluntary carbon market and will fully leverage the role of the voluntary carbon market in promoting China's carbon peaking and carbon neutrality goals.

EDF is committed to exploring multifaced solutions to improve the national ETS and facilitate a robust low-carbon transition in China. This newsletter provides an overview of policy updates and the latest developments in both the national ETS and local carbon markets, as well as our efforts in supporting the hold of the first high-level carbon market conference in China.

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National Carbon Market

- **Submission and Verification of GHG Emission Reports of Key Emission Industries.** On October 18th, the Ministry of Ecology and Environment (MEE) issued the *Circular on the Submission and Verification of Greenhouse Gas Emission Report of Enterprises in Key Emission Industries for the Period 2023-2025* (Hereinafter as the *Circular*). The *Circular* covers enterprises in the petrochemical, chemical, building material, iron and steel, non-ferrous metal,

paper-making, and civil aviation industries with annual greenhouse gas (GHG) emissions exceeding 26,000 tons of CO₂e. Relevant enterprises are required to submit GHG emission reports for the previous year by March 31st each year, which should include GHG emissions at the enterprise level and the facility level. The emissions from off-grid non-fossil fuel electricity generated and consumed by enterprises shall be calculated as 0, and the emission of non-fossil fuel electricity purchased by enterprises from the electricity market shall be calculated based on the national grid emission factor, which is 0.5703t CO₂/MWh for the year 2022. Moreover, provincial-level MEE subsidiaries are responsible for completing the verification of emission reports for the cement, electrolytic aluminum, and iron and steel industries by September 30th each year, and for other key emission industries by December 31st each year.

- **Improved Institutional framework for Voluntary GHG Emission Reduction Projects.**

- On October 19th, the MEE released the *Measures for the Administration of Voluntary Greenhouse Gas Emission Reduction Trading (Trial)* (hereinafter as the *Measures*), which sets out the rules for trading and other activities related to voluntary emission reduction. The *Measures* clarifies the rights, obligations and legal responsibilities of all stakeholders involved, including project owners, validation and verification bodies, registration institution and trading institution, as well as the administrative responsibilities of ecology and environment authorities and market regulation authorities.
- The *Measures* have made three optimizations for China's national voluntary carbon market: first, the methodologies for voluntary emission reduction projects will be consolidated and released by the MEE, and four methodologies were released on October 24th, including afforestation carbon sink, grid-connected solar thermal power generation, grid-connected offshore wind power generation, and mangrove vegetation creation. Second, the MEE, together with the State Administration for Market Regulation (SAMR), will conduct administrative approval for the market access of validation and verification bodies. Third, unified registration institution and trading institution will be established to conduct nationwide registry and trading.
- On October 25th, 2023, the MEE released the *Notice on Work Arrangements of Greenhouse Gas Voluntary Emission Reduction Program*, according to which, the National Center for Climate Change Strategy and International Cooperation (NCSC) will assume the role of the national registration institution before its official establishment; the China Beijing Green Exchange (CBGEX) will assume the national trading

institution before its official establishment. Regarding the registered carbon credits before March 14th, 2017, they can be used to offset in the national ETS before December 31st, 2024, and will be expired since January 1st, 2025.

- On November 16th, the NCSC released the *Guidelines for the Design and Implementation of Voluntary Greenhouse Gas Emission Reduction Projects*, along with the *Registration Rules for Voluntary Greenhouse Gas Emission Reduction Program*. In addition, the CBGEX issued the *Trading and Settlement Rules for Voluntary Greenhouse Gas Emission Reduction Program*. These three documents provide a comprehensive framework for the design, implementation, and registration of voluntary emission reduction projects, as well as the trading associated with these carbon credits. These measures lay a solid institutional groundwork for China's voluntary carbon market, ensure smooth trading activities, promote market integrity, and safeguard the legitimate rights and interests of all participants.
- **Voluntary Emission Reduction Market Will Create Green Market Opportunities.** On November 16th, President Xi Jinping addressed a speech at the Asia-Pacific Economic Cooperation (APEC) CEO Summit at San Francisco. He called the APEC members to continue to focus on innovation, openness and green development, as well as inclusiveness and mutual benefits, to promote regional development. In the speech, he specifically mentioned that China is committed to applying the new development philosophy with a focus on achieving innovative, coordinated, green and open development for all, and it is pursuing high-quality development and high value-added and green economic growth. A national voluntary greenhouse gas emissions reduction trading market will soon be launched, which will create huge green market opportunities.

Local Carbon Markets

- **Allowance Auction and Allowance Allocation.** Between October and November, Beijing and Shanghai pilots held separate allowance auctions. Beijing pilot held one auction for 500,000 tons of allowances with a base price of 1.05 times the weighted average spot price in the Beijing pilot from April 19th to September 28th (RMB 125.34/ton); Shanghai held two auctions, the first was for 1 million tons of allowances with a base price equal to the weighted average spot price in the Shanghai pilot from January to September (RMB 60.82/ton); the second was for 3 million tons of allowances with a base price of 1.2 times the weighted average spot price in the Shanghai pilot from January to October (RMB 74.29/ton). In addition, Hubei pilot released the *Allowance Allocation Plan in Hubei Pilot for the 2022 Compliance Cycle*, according to which, a total of 180

million tons of allowances will be allocated to 343 covered entities across 16 industries, including iron and steel, cement and chemical.

- **Shenzhen Pilot ETS will Adopt an Absolute Cap by 2027.** On November 29th, the Bureau of Ecology and Environment of Shenzhen Municipality issued the *Implementing Measures for Carbon Emission Trading to Achieve Carbon Peaking and Carbon Neutrality* (hereinafter as the *Measures*) to effectively utilize market mechanisms to support the province's climate goal. The *Measures* stated that Shenzhen ETS will adopt an absolute cap, which is the first time that a Chinese ETS has proposed such a target. Starting from 2027, the cap of Shenzhen ETS will not increase and will steadily decrease after 2030. In addition, Shenzhen will explore leveraging the cap control mechanism of ETS to help achieve its carbon peaking goal. At the same time, Shenzhen will develop the dual control mechanism on carbon intensity and emission amount for ETS covered entities, and aim to provide references for allowance allocation methods of manufacturing companies in Shenzhen ETS by 2028.

Climate Finance

- **Support the Green and Low-carbon Development through the Implementation of Inclusive Finance.** On October 11th, the State Council released the *Implementation Opinions on Promoting the High-quality Development of Inclusive Finance* (Hereinafter as the *Opinions*). According to the *Opinions*, inclusive finance can better support green and low-carbon development by guiding financial institutions to support the green transition of small and micro enterprises (SMEs) and agricultural enterprises, developing green financial products that meet the operation characteristics of SMEs, supporting green consumption in rural areas, promoting the green transition of residents' lifestyle, and enriching the green insurance system.
- **China's Climate Finance Pilots Yield Positive Results.** On October 27th, the MEE held a press conference where XIA Yingxian, Director-General of the Department of Climate Change, highlighted the significant progress made in China's climate investment and financing pilots. Financial institutions have actively pursued product and instrument innovation, thereby driving the advancement of climate investment and financing projects. For instance, the China Development Bank has issued RMB 6 billion worth of climate investment and financing bonds, providing crucial support to relevant projects in pilot cities. By the end of June 2023, these pilot cities had identified and secured nearly 2000 climate-friendly projects, necessitating a total investment of RMB 2 trillion. Notably, 108 of these projects have received financial backing, totaling RMB 54.563 billion in credit assistance.

Other Efforts to Address Climate Change

- **China will Establish Carbon Certification Systems by 2025.** On October 17th, the SAMR released the *Implementation Opinions on Utilizing Quality Certification to Promote Carbon Peaking and Carbon Neutrality* (Hereinafter as the *Opinions*). According to the *Opinions*, China aims to initially establish a carbon peaking and carbon neutrality certification system by 2025. This system will integrate both direct and indirect carbon-related certification systems. The direct carbon-related certification system will be primarily based on carbon emission verification, encompassing certifications for product carbon labeling, carbon management and service systems. The indirect carbon-related certification system will cover certifications for green products, energy management systems, and environmental management systems.
- **China will Establish Carbon Footprint Management Systems by 2025.** On November 22nd, the National Development and Reform Commission and 4 other departments issued the *Opinions on Accelerating the Establishment of a Product Carbon Footprint Management Systems* (Hereinafter as the *Opinions*). The *Opinions* stated that China will focus on five areas to establish product carbon footprint management systems: formulating rules and standards for product carbon footprint accounting, developing carbon footprint databases, establishing product carbon labeling certification systems, promoting product carbon footprint application scenarios, and international mutual recognition of carbon footprint standards. The *Opinions* target that by 2025, China will have implemented carbon footprint accounting rules and standards for about 50 key products, and this number will increase to 200 by 2030. The issuance of the *Opinions* will promote industrial upgrading, help enterprises save energy and reduce emissions. It will also promote green consumption and expand the supply of low-carbon products. Moreover, it will help Chinese companies address trade barriers and improve the competitiveness of China's foreign trade products.

EDF Efforts

- On October 25th, EDF and the Policy Research Center for Environment and Economy (PRCEE) of the MEE concluded a study on the “Comprehensive Evaluation Methodology for Synergizing the Reduction of Pollution and Carbon Emissions in Urban Areas”. We constructed an evaluation index system that assesses the synergistic effect of pollution reduction and carbon reduction in urban areas. It consists of three primary indexes: goal synergy, pathway synergy, and management synergy, and further breaks down into 24 specific evaluation indexes. To test the effectiveness of the evaluation system, three case cities were selected: Beijing Municipality, Chongqing Municipality, and Tangshan City. Through simulation, the results demonstrated that the indicator

system holds practical significance and can be compared both horizontally and vertically. These findings are crucial as they can serve as a reference for the future implementation of a national-level evaluation system.

- On October 31st, with the support of EDF, China Electricity Council achieved a milestone in evaluating the status and performance of the power sector in the national ETS during the second compliance period. A notable outcome of this collaborative effort was the publishing of the *White Book of 2023 Chinese Power Sector Emissions Reduction Study*, key findings indicate that companies significantly improved their awareness of carbon emission reduction, and notably enhanced the efficiency with which they managed carbon emissions, through participating in the national ETS.
- On November 6th, EDF and NCSC completed the study on “Comparison of the Transparency Arrangements of the United Nations Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity (CBD)”. We analyzed the specific components and the history of the development of the transparency arrangements of the UNFCCC and the CBD. Based on the UNFCCC, we proposed a number of improvements to the transparency arrangements of the CBD, which have been submitted to UNEP with a view to enhancing the effectiveness of the implementation of the CBD.
- On November 8th, with the support of EDF, Shanghai Municipal People’s Government held the first “China Carbon Market Conference”, it gathered high-level officials from both China’s government and international organizations including the Secretary of Shanghai Municipal Committee of the CPC - CHEN Jining; Minister of the MEE - HUANG Runqiu; Special Envoy of China on Climate Change – XIE Zhenghua; and Head of Unit of Directorate-General for Climate Action of European Commission - Mette Quinn, etc.. The conference summarized the achievements of China's national carbon market and discussed the positive role of the national carbon market in controlling GHG emissions, developing climate finance, and promoting enterprises to reduce emissions.

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.

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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.

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