

Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

The China National Emissions Trading Scheme (ETS) is now open for business after the system's core pieces have been put in place. The release and promulgation of the Measures for the Administration of National Carbon Emission Trading (Trial) and the 2019-2020 Implementation Plan for National Carbon Emission Trading Total Allowances Setting and Allocation (Power Generation Industry), by the Ministry of Ecology and Environment (MEE) is an important step in the world's largest ETS and a crucial component for China to achieve early carbon peaking and eventual neutrality. According to the Administration of National Carbon Emission Trading (Trial), the first compliance cycle of the national ETS (power generation industry) is through January 1st to December 31st 2021, which will cover the emission of 2019 and 2020 for the 2,225 key entities in the industry.

As China aims to "have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060" in September, Chinese President Xi Jinping delivered a speech via video at the Climate Ambition Summit on December 12th to announce some further commitments for 2030: China will lower its carbon dioxide emissions per unit of GDP by over 65 percent from the 2005 level, 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 the 2005 level, and bring its total installed capacity of wind and solar power to over 1.2 billion kilowatts.

We will follow up with a Special Edition in the coming week on the launch, including the translation of the above two released documents and our in-depth analysis.

✓ **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

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

○ 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), while the average clearing price was 27.57 yuan, with a total trading volume of 1,788,909 tonnes.
- Shanghai organized the second batch of allowance auction this year on October 30th, and the average clearing price was 44.27 yuan, 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, with a total of 242 entities from six industries (power, iron and steel, cement, petrochemical, papermaking, and aviation) covered.
- By October 30th, 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 326 million yuan.

▪ 2020 Allowance Allocation

- **Tianjin.** Ecology and Environment Department of Tianjin released the allowance allocation plan for 2020 on December 17th, 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 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**
 - 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.

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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.

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