

Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

The 20th National Congress of CPC held in October delivered a systematic plan for green and low carbon development in China. After that, a series of documents were released on low carbon transition for key industries as well as the work arrangements for the national ETS in the next compliance period.

EDF is continuing to explore diversified solutions to improve the national ETS and facilitate the robust low-carbon transition in China. This newsletter summarizes the updates on policies and latest news of national ETS and pilot carbon markets, as well as a special coverage on our support of organizing China Pavilion in UNFCCC COP 27.

Climate Change

- **Highlights of “Carbon” from the 20th CPC Congress.** President Xi emphasized that China will gradually transit the “dual-control” on total and intensity from energy consumption to carbon emission. He also announced that China will get actively involved in global governance in response to climate change and will improve the statistics and accounting system and the carbon emissions trading system.
- **2022 China Climate Change Annual Report.** On October 27th, the Ministry of Ecology and Environment (MEE) issued the latest white paper “China’s Policies and Actions for Addressing Climate Change 2022 Annual Report”, which covers five sections: China’s new deployment and top-level design, climate change mitigation, climate change adaptation, improvement of policy system and supportive policies, as well as participation in global governance. The report systematically introduces China’s progress in addressing climate change since 2021 and shares China’s practice and experience in addressing climate change, thereby enhancing the understanding from the international community.
- **SOEs Drafting Plans for Peaking Carbon Emissions.** The State-owned Assets Supervision and Administration Commission (SASAC) of the State

Council convened an online meeting with state-owned enterprises (SOEs) to set out the work arrangements toward China's national climate goals, namely peaking carbon emissions by 2030 and reaching carbon neutrality by 2060. Meanwhile, the SASAC also asked the SOEs to cover explanations of energy conservation, environmental protection, and the alignment with national climate targets in their enterprise development strategies.

Low Carbon Transition Paths for Key Industries

- **Carbon Peaking Roadmap for the Building Materials Industry.** On November 8th, the Ministry of Industry and Information Technology (MIIT) issued an action plan outlining regulation for carbon emissions in the building materials sector, targeting an industry wide carbon emissions peak by 2030. According to this plan, by 2025 the energy consumption per unit product of cement, glass and ceramics will be continuously decreased, while the unit comprehensive energy consumption of cement clinker should be reduced by more than 3%. By 2030, there will be breakthroughs in green and low carbon technologies to build up a green, low-carbon and circular industrial system, ensuring the achievement of carbon peaking for China's building materials sector before 2030.
- **Carbon Peaking Roadmap for the Nonferrous Industry.** On November 15th, the MIIT released an action plan of carbon peaking for nonferrous metals industry before 2030. According to the plan, by 2025, key progresses will be made in the R&D and application of low-carbon-emissions technologies, with recycled metals accounting for over 24% of the total supply of nonferrous metals in the country. The proportion of renewable energy used in electrolytic aluminum will account for 25% and 30% respectively by 2025 and 2035. The plan also emphasized the inclusion of key nonferrous products into the national carbon market, optimization of green finance standards, formulation of transition finance, development of robust evaluation standards for green finance, establishment of standards for emission limitation and carbon asset management.

National ETS

- **MEE Press Conference.** On October 27th, MEE held the regular press conference with the following key takeaways:
 - **A Review of the National ETS.** The market operated well with a trading volume of 196 million tonnes of carbon emission allowances, and CNY 8.58 billion of cumulative turnover by October 22nd. Typical cases of data quality were disclosed to the public and investigations were carried out to address these issues.

- **Further Actions to Strengthen the National ETS.** Actions will be taken as follows: improving the legal and policy system of the national carbon market, especially promoting the release of ETS management decree and relevant rules and technical guidelines; strengthening data quality by establishing regular supervision mechanism and cracking down the illegal behaviors; further strengthening market function by expanding the ETS to cover more industries and diversifying trading products; improving China Certified Emission Reductions (CCER) mechanism by formulating corresponding measures and regulations; conducting capacity building for market participants on ETS regulations and technical guidelines.
- **Progress of Restarting Voluntary Emission Reduction Mechanism.** MEE will work to reform the CCER mechanism as it follows: revision of *Interim Measures on the Management of the GHG Voluntary Emission Reductions*; formulation of CCER regulations for project development, MRV, registration, trading, project development methodology; construction of CCER infrastructures, including registry and trading systems, to ensure stable operation of CCER mechanism.
- **Carbon Footprint Evaluation.** Future works include: first, development of accounting methodologies for key industrial products; second, establishment of carbon emission database; third, formulation of relevant regulations supported by research on carbon footprint and carbon labeling; fourth, mutual recognition of evaluation system adaptable to new situation and new rules of international trades.
- **Climate Investment and Finance.** Five measures are suggested: first, establishing a communication platform involving government, banks, and enterprises while support the development of database of qualified climate-friendly projects; second, promoting the implementation of carbon accounting and information disclosure in climate investment and finance pilots; third, fostering climate friendly financial institutions by conducting evaluation and promoting innovative investment and financing tools based on carbon emission reductions; fourth, enhance capacity building for pilots' financial institutions and enterprises so as to incorporate "climate" factors into their strategy and decision making process; fifth, encouraging pilots' cooperation with international organizations and searching for funding source from international capital market and financial institutions.
- **Draft Allocation Plan for Upcoming Compliance Period.** On November 3rd, MEE released the [*Draft for Comments of 2021 and 2022 Implementation Plan for the Allowance Cap Setting and Allocation \(Power Generation Industry\)*](#) (Hereinafter as *Plan*) for public consultation. The *Plan* sets December 31st, 2023,

as the deadline for the second compliance period of the CEA market, covering both 2021 and 2022. It introduces the concept of the “surplus-deficit balance value”, which is an important basis for establishing the effective benchmark for both power supply and heat supply, for general coal-fired power generators with a capacity greater than 300MW, the target emission reduction is about 0.12% for 2021 and about 0.62% for 2022.

- **Updated Reporting and Verification Guidelines.** On November 9th, MEE published *the Guidelines for Enterprise Greenhouse Gas Emission Accounting and Reporting (Power Generation Industry)* and *the Guidelines for Enterprise Greenhouse Gas Verification (Power Generation Industry)*, which are both updated for public consultation. The updated version of the guidelines for accounting and reporting attached much more importance to data quality, requiring covered entities to have a data quality control plan including key factors, accounting equipment, internal departments, and data gaps. The guidelines for verification require the necessity to clarify the approach of obtaining data based on the data quality control plan before determining verification steps.

EDF in COP 27—China Carbon Market: Development and Outlook

- On November 15th, MEE held the event with the topic of the *Development and Outlook of China’s Carbon Market* at China Pavilion during the UNFCCC COP 27, which was supported by EDF. The event was organized with the invitation of high-level international and domestic authorities, officials and experts from European Commission, World Bank Group, Asian Development Bank, International Energy Agency and MEE, etc., more than 300 people joining this event in person and online. During the event, both the Vice Minister ZHAO Yingmin and the Director General of Department of Climate Change Li Gao from MEE have praised EDF’s continuing work on supporting the construction of China’s carbon market, and put forward the priorities in the next step, such as improving the legislative system, strengthening data quality management, and enhancing the market mechanism, etc. EDF has supported and will always facilitate the key stakeholders in the future to find out solutions on further improve China’s national ETS.

Pilots

- Shanghai.
 - On October 26th, six departments including Shanghai Municipal Bureau of Ecology and Environment jointly released *the Implementation Plan of*

Supporting Carbon Peaking and Carbon Neutrality by Science and Technology, which proposes to carry out research on carbon market operation performance, carbon market pricing mechanism and related technical support system construction, carbon financial products and derivatives such as carbon forward, carbon swap, carbon option, carbon index, carbon insurance, carbon fund, carbon emission right pledge, etc. Research will also be conducted on adaptable climate investment and financing standard system, information disclosure and performance evaluation mechanism and system.

- Hubei.
 - On November 11st, Department of Ecology and Environment of Hubei Province released *2021 Carbon Emission Allowance Allocation Plan for Hubei Province*, which covers 339 entities from 16 industries including iron, cement, and petrochemicals. The total amount of allowances for 2021 compliance period is 1.82 million tonnes.
- Guangzhou.
 - On November 11st, People's Government of Guangdong Province published *the Implementation Plan of Establishing a Sound Mechanism for Realizing the Value of Ecological Products*, which proposed that by 2025 mechanism will be initially established to account and realize the value of ecological products. According to the Implementation Plan, the local emission trading system shall be improved further, furthermore, it is also highlighted that the carbon inclusive projects will be preferably developed in east, west and north regions of Guangdong.
- Beijing.
 - On September 27th, The People's Government of Beijing Municipality released the *Beijing Municipal Measures for the Administration of Carbon Emission Trading (Amendment) for public consultation*, which requested annual submission of carbon emission reporting by April 30th for all entities GHG emission be equal or greater than 5,000 tonnes of carbon dioxide. Each year, the pre-allocated emission allowances will be allocated before March 31st and the actual amount of allowances will be finalized before June 30th.
 - On October 14th, The People's Government of Beijing Municipality released *the Implementation Plan of Carbon Peaking for Beijing* which proposed that by 2025, the share of the city's renewable energy consumption reaches more than 14.4%, energy consumption intensity fall by 14% compared to 2020, and the decline in the regional carbon intensity will ensure completion of the national target; by 2030, the share of renewable energy consumption reaches about 25% and the level of

regional carbon intensity aligns with the national target, achieving the goal of carbon peaking by 2030 as scheduled.

- On November 23rd, Beijing Green Exchange auctioned about 2 million tonnes of carbon allowance with a price floor of CNY 117.54/tonne. 17 qualified covered entities bid for 961,138 tonnes. The clearing transaction price was CNY 150/tonne the highest, CNY117.54/tonne the lowest, CNY 117.54/tonne as the unified settlement price. The total transaction turnover was about CNY 112 million.
- Tianjin.
 - On September 28th, Tianjin Municipal People's Government published *the Implementation Plan of Carbon Peaking for Tianjin*, which proposed that by 2025, the energy intensity and carbon dioxide emissions will meet the national targets with the share of non-fossil energy consumption reaches more than 11.7%; by 2030, the energy intensity will decline significantly, the carbon intensity will reduce by 65% from the level of 2005, and the share of non-fossil energy consumption will reach more than 16%.
- Shenzhen.
 - On October 25th, Development and Reform Commission of Shenzhen Municipality and Shenzhen Municipality Bureau of Ecology and Environment jointly released *the 14th Five Year Plan of Climate Change for Shenzhen*, which proposed that by 2025, the carbon intensity and the energy intensity will both be decreased to meet the targets assigned by the state and the province. The proportion of primary electricity and other energy consumption will reach 47%; the added value of green low-carbon industries will reach CNY 200 billion; the share of green transportation travel will reach 81%; and a total of 100 pilot projects of near-zero carbon emission zones will be built.
 - On October 28th, Development and Reform Commission of Shenzhen Municipality published *the Measures to Promote High Quality Development of Green and Low Carbon Industries*, which proposed to include carbon inclusive credits and carbon emission reductions of green electricity (without being claimed as CCERs) as certified emission reductions to offset annual carbon emission allowances that should be surrendered in Shenzhen pilot.

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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