

# Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

The 14<sup>th</sup> National People's Congress and the 14<sup>th</sup> National Committee of the Chinese People's Political Consultative Conference (Two Sessions) held in this March have set overall goals for China's green and low-carbon development. Also, the *2023 Draft Plan for National Economic and Social Development* stated that China will ensure the smooth running of the second compliance cycle of the national ETS. Furthermore, the Ministry of Ecology and Environment (MEE) issued the allocation plan for the second compliance period of the national ETS, which sees decrease in the CO<sub>2</sub> emission benchmarks.

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 our research results about the development of voluntary emission reduction programs and climate-related information disclosure in China.

## 2023 Two Sessions

- **2023 Report on the Work of the Government.** On March 5<sup>th</sup>, previous Chinese Premier Li Keqiang delivered the *2023 Report on the Work of the Government* (Hereinafter as the *Report*) on behalf of the State Council. The *Report* summarized China's achievements in green and low-carbon development over five years. In terms of consumption of green products, consumption of new-energy vehicles increased by 93.4% in 2022, while the government also establish incentive mechanism to promote the purchase of green home appliances and green building materials in rural area. In terms of carbon emission intensity, energy consumption and CO<sub>2</sub> emission per capita fell by 8.1% and 14.1% respectively from 2018 to 2023. Over the past five years, the government has promoted the development of new energy vehicles, photovoltaic, wind power and other emerging industries to promote the optimization of industrial structure. Meanwhile, the installed capacity of

renewable energy has increased from 650 million kilowatts to 1.2 billion kilowatts, and the proportion of clean energy consumption has increased from 20.8% to more than 25%. The *Report* also propounded recommendations for the government's work in 2023, including promoting green transition of development mode, promoting clean and efficient use of coal, accelerating the construction of new energy systems, improving policies to support green development, and promoting energy conservation and carbon reduction in key areas.

- **Plan for National Economic and Social Development.** On March 5<sup>th</sup>, the National Development and Reform Commission delivered the *Report on the Implementation of Plan for National Economic and Social Development 2022 and Draft Plan for National Economic and Social Development 2023*. This file introduced the recent achievements and future works of industrial low carbon development, and efforts on addressing climate change.

During 2022, China finished the construction of the “1+N” policy framework for China's climate goals, issued implementation plans and supporting measures for achieving peak carbon emissions in major fields, and made steady progresses on the [10 key tasks](#) for realizing Carbon Peaking. The national ETS was well functioned, and China's CO<sub>2</sub> emissions per unit of GDP dropped by 0.8%. China also played an active role in negotiations and talks at COP27.

In 2023, China will back the development of green and low-carbon industries, and continue to resolutely stop the disorderly development of energy-intensive projects with high emissions and backward production capacity. A revised catalog of green industries will be released, and the policy framework for promoting the development of green industries will be further improved. Meanwhile, China will take active and prudent steps toward the goals of reaching peak carbon emissions and carbon neutrality. The [10 key tasks](#) for reaching peak carbon emissions will be advanced in a well-planned and phased way. China will enhance control over the amount and intensity of energy consumption, particularly of fossil fuels while gradually turn the “core” of this regulate mechanism to “carbon”. Another important task is to improve the carbon emissions statistics and accounting system, improve the national ETS, and punish data fraud behaviors on carbon emissions. China will also remain actively involved in global governance in response to climate change.

- **MEE will Put Efforts to Promote Green Transition of Socio-economy.** On March 5<sup>th</sup>, Huang Runqiu, the minister of MEE met the press after the opening meeting of the first session of the 14<sup>th</sup> National People's Congress. He stated that from 2012 to 2022, CO<sub>2</sub> emission per unit of GDP fell by 34.4% in China, and China has been the world's largest consumer of renewable energy. According to Huang, MEE would put more efforts to synergistically reduce

carbon emission and pollutants, while promote the low carbon transition of industrial structure, energy structure and transportation system.

## National ETS

- **GHG Emission Reports of the National ETS.** On February 7<sup>th</sup>, MEE issued the *Circular of Management Requirements of Green House Gas Emission Reports of Power Generation Enterprises for 2023-2025* (Hereinafter as the *Circular*), which clarified the information disclosure standards for enterprises covered by the national ETS. According to the *Circular*, covered entities should prepare and submit reports to authorities timely, and the data quality should meet MEE's requirements, while key data should be retained. There should be third-party verification agencies and relevant authorities to assess the quality, timeliness and compliance of the reports. The *Circular* also launched the National Carbon Market Comprehensive Portal (<https://www.cets.org.cn/>), which integrates a number of functions such as report disclosure, data retention, third-party verification and regulatory review.
- **Allocation Plan for the Second Compliance Period.** On March 15<sup>th</sup>, MEE issued the *2021 and 2022 Implementation Plan for the Allowance Setting and Allocation (Power Generation Industry)*. Compared with the previous compliance period, the national ETS remains intensity-based, and all allowances are distributed freely, but the CO<sub>2</sub> emission benchmark for power supply and heat supply of generating units are reduced by between 5% and 19% respectively. For each covered entity, the pre-allocated allowances are 70% of its verified emission in 2021, and the total national allowance is obtained by adding up the allowances of every covered entity. During the second compliance period (2021-2022), if a covered entity's freely allocated allowances make up less than 80% of its annual CO<sub>2</sub> emissions, then their freely allocated allowances will be adjusted upwards to 80% of its annual CO<sub>2</sub> emissions, which means any entity will not short by more than 20%. Meanwhile, covered entities that face a shortfall of 10% or more in allowances and struggle to close that gap for operational reasons can apply to borrow from pre-allocated allowances for 2023, though they cannot borrow more than 50% of the shortfall.

## Green and Low Carbon Development

- **China's Green Development in the New Era.** On January 19<sup>th</sup>, Information Office of the State Council issued a white paper - *China's Green Development in the New Era* (Hereinafter as the *White Paper*). The *White Paper* systematically summarized the initiatives and achievements of China's green development over

the past decade, elaborated on the core concepts and practical experiences of China's green development, introduced China's efforts and achievements in building a modernization society in which people and nature live in harmony, and introduces China's concepts, actions and contributions in actively participating in global governance in respond to climate change.

## Climate Statistics

- **Guarantee the Authenticity and Accuracy of Climate Statistics.** On January 19<sup>th</sup>, MEE published the *Measures for the Management of Ecological and Environmental Statistics* (Hereinafter as the *Measures*), which includes statistics relating to climate change. It aims to strengthen and standardize the management of ecological environment statistics, guarantee the authenticity, accuracy, completeness and timeliness of relevant statistics, and leverage statistics in supporting ecological environment protection and addressing climate change. The *Measures* clarified the statistical tasks undertaken by relevant departments and the working mechanisms. The responsibilities and obligations of ecological and environmental departments, entities under statistical survey, and relevant personnel have also been specified, and this will ensure the quality of statistical data and prevent data fraud.

## Policy innovation on Carbon Neutrality-Practice from other authorities

- **Monetary Tools to Support Green Developments.** On January 29<sup>th</sup>, the People's Bank of China circularized a decision to extend the implementation period of three structural monetary policy tools, including the carbon emission reduction facility (CERF), in order to incentivize financial institutions to increase their support for green development. First, the CERF will be extended to the end of 2024 and will cover some provincial and foreign financial institutions, seeking to expand policy benefits and advance international cooperation in green finance. Second, the special central bank lending for clean and efficient usage of coal will last until the end of 2023. The above two tools will work together in 2023 to promote the transition to a green and low-carbon economy on the basis of the security of energy supply. According to the governor of the People's Bank of China, since the launch of CERF in 2021, the central bank has issued more than CNY 300 billion of relending and the central bank has supported commercial banks to issue loans over CNY 500 billion, driving a reduction of 100 million tonnes of carbon emissions in 2022.
- **Top Court's Action on Climate Change.** On February 16<sup>th</sup>, The Supreme People's Court issued the *Opinions on Completely and Accurately Implementing*

*the New Development Concept and Providing Judicial Services to Promote Carbon Neutrality* (Hereinafter as the *Opinions*), aiming to provide legal support for the “dual carbon” climate targets. The *Opinions* clarifies that judges should balance the relationship between development and emission reduction of enterprises in case handling. It stipulates that courts nationwide need to guide enterprises to save energy and reduce carbon emissions through technological transformation in dealing with relevant cases, urging them to promote the green and sustainable growth. It also requires courts to efficiently solve desert-related disputes and lawsuits involving large-scale wind power and photovoltaic power generation bases. Considering the number of carbon trading cases is rising, the *Opinions* also explain how courts should hear cases related to carbon trading under various specific circumstances.

## **Pilots**

- Shanghai
  - On January 9<sup>th</sup>, eight departments including Shanghai regulatory bureau of China Banking and Insurance Regulatory Commission jointly issued the *Action Plan of Banking and Insurance Industry to Promote the Development of Green Finance during the 14<sup>th</sup> Five-Year Plan* (Hereinafter as the *Plan*). The *Plan* proposed 30 priorities in 8 areas to improve the green finance market system in Shanghai. Main objectives of the *Plan* include, by the year of 2025, banking and insurance institutions should make significant achievements in developing ESG, and a green financial system which is compatible with Carbon Peaking should be basically formed. Meanwhile, the balance of green financing should exceed CNY 1.5 trillion, the coverage of green insurance should be significantly expanded, and its amount will exceed CNY 1.5 trillion. Furthermore, Shanghai will develop financial tools including green bonds, green funds, green trusts, green capital management, and green leasing, steadily.
  - On January 28<sup>th</sup>, eight departments including Shanghai Municipal Bureau of Ecology and Environment issued the *Implementing Program for Synergistically Reduce Carbon Emission and Pollutants in Shanghai Municipality*, which focus on synergistically reduce carbon emission and pollutants in the area of energy, industry, transportation, urban and rural construction, aqua environment, soil contamination, agriculture, ecological construction, and solid waste. By the year of 2025, the pattern of synergistically reduce carbon emission and pollutants should be basically formed, non-fossil fuel would account for 20% of total energy consumption. By the year of 2030, the ability of synergistically reduce carbon emission and pollutants should be improved significantly, with

non-fossil fuel accounts for 25% of total energy consumption to help achieve Carbon Peaking.

- On February 16<sup>th</sup>, Shanghai Municipal Bureau of Ecology and Environment issued the *Priorities in Addressing Climate Change in 2023*, which defines the work objectives of Shanghai on climate change in 2023, The main target is to steadily decrease carbon emission intensity in Shanghai. The work mechanism to cope with climate change will be gradually improved, the carbon emission policy system will be more comprehensive, the carbon emission trading market will be further developed, and the carbon emission management capacity will be continuously improved. The main tasks include holding the China International Carbon Trading Conference, accelerating the establishment of a national carbon emissions trading institution, formulating and issuing the *Action Plan for Adaptation to Climate Change of Shanghai*, improving legislation related to carbon emissions management, and furthering the construction of carbon inclusion system in Shanghai.
- Chongqing
  - On January 20<sup>th</sup>, Chongqing Municipal People's Government issued the *Rules for the Implementation of Constructing Green Finance Pilot Zone in Chongqing Municipality* (Hereinafter as the *Rules*). The *Rules* stated that Chongqing will vigorously develop green credit and strive to expand its green loan balance to over CNY 600 billion by the end of 2025, with an average annual growth rate of more than 20%. By the year of 2025, the scale of green bonds should be more than CNY 90 billion.
  - On January 29<sup>th</sup>, Chongqing Development and Reform Commission and two other departments jointly issued the *Implementing Program for Carbon Peaking in Industrial Sector of Chongqing* (Hereinafter as the *Program*). By the end of the Fourteenth Five-Year Plan, more than 30 local green industrial parks and more than 300 local green factories should be built, energy consumption per unit output of industrial enterprises above state designed scale should decrease by 14.5% compared with that of 2020. During the Fifteenth Five-Year Plan, a modern industrial system featuring high efficiency, green, recycling and low carbon will be basically established to ensure that industrial CO<sub>2</sub> emissions can reach peak before 2030. Key actions of the *Program* include promoting energy transition in the steel, building materials, petrochemicals and non-ferrous metals sectors, increasing the utilization of renewable energy and electrification equipment.
  - On February 20<sup>th</sup>, Chongqing Municipal People's Government issued the *Measures for Management of Carbon Emission Trading in Chongqing* (for

*Trial Implementation*) (Hereinafter as the *Measures*). The scope of the *Measures* includes allowances allocation and surrender, registration, trading, settlement of carbon emission allowances, and the reporting and verification of greenhouse gas emissions, as well as the supervision and management of the aforementioned activities. According to the *Measures*, the allowances in Chongqing ETS are mainly freely allocated, and the trading products contain allowances, China Certified Emission Reductions and Chongqing Certified Emission Reductions. Covered entities are required to provide annual greenhouse gas emission reports, and Chongqing Municipal Bureau of Ecology and Environment is responsible for the verifications of the reports.

- Tianjin
  - On February 6<sup>th</sup>, eight departments including the Tianjin Administration for Market Regulation issued the *Implementation Program for Establishing and Improving the Standards and Metrology System of Carbon Peaking and Carbon Neutrality for Tianjin Municipality* (Hereinafter as the *Program*). The *Program* focuses on the construction of carbon emission reduction standard systems in key areas of the *Implementing Program for Carbon Peaking of Tianjin Municipality*, released in 2022, as well as the construction of metrology technology systems in other emissions reduction related areas. According to the *Program*, by the year of 2025, Tianjin will release over 10 new or renovated metrological criteria, while formulate or revise over 10 metrological specifications. By then, the carbon emission accounting capacities of key emission entities should be basically built, the management and service systems of metrology should be constantly improving.
- Guangdong
  - On February 7<sup>th</sup>, the People's Government of Guangdong Province issued the *Implementing Program for Carbon Peaking of Guangdong Province* (Hereinafter as the *Program*), which focused on the emission reduction actions of 15 key sectors, including energy, industry, transportation, urban and rural construction, science and technology, 54 specific action plans have been put forward. The main targets of the *Program* are that, by the year of 2025, non-fossil energy will contribute for over 32% of energy consumption, energy consumption per unit regional GDP and CO<sub>2</sub> emission per unit regional GDP should meet the national target. By the year of 2030, non-fossil energy will contribute for about 35% of energy consumption, the total installed capacity of wind power and solar power should be more than 74 GW.

- On February 21<sup>st</sup>, the People's Government of Guangzhou Municipality issued the *Implementation Comments on Completely and Accurately Implementing the New Development Concept and Promoting Carbon Peaking and Carbon Neutrality* (Hereinafter as the *Comments*). It is highlighted that Guangzhou will promote the optimization and transition of industrial structure, energy structure, transportation system, urban and rural construction areas. At the same time, efforts should be made to solve key problems of and popularize the application of key green and low-carbon technologies, to improve the green and low-carbon policy system and the green financial system, and to encourage innovation in green financial products and tools. Guangzhou will expand direct financing channels for green and low-carbon enterprises and support qualified enterprises to issue carbon-neutral bonds and other green credit bonds. Guangzhou Municipal would also support Guangzhou Futures Exchange in promoting the construction of carbon emission allowance futures market.
- On March 2<sup>nd</sup>, People's Government of Guangdong Province issued the *Implementation Program for Guangdong's Financial Support for High Quality Development of Economy* (Hereinafter as the *Program*). According to the *Program*, Guangdong will support the green transition of financial institutions by establishing zero emission branches, improving environmental information disclosure, and developing ESG evaluation systems. Guangdong would also innovate on green intermediary services such as carbon accounting and verification, green certification, environmental consulting, green asset assessment and data services. Meanwhile, the *Program* also stated to support Guangzhou Futures Exchange in promoting the construction of futures market of carbon emission allowance, developing related financial derivatives based on the spot market.

## **EDF Efforts**

- Since the China GHG Voluntary Emission Reduction Program (CCER) was launched in 2012, the voluntary carbon market has made a positive contribution to realizing carbon emission reduction targets throughout society at low costs. In March 2020, the CCER program was approved as a supply mechanism of Eligible Emissions Units (EEUs) in the pilot phase (2021-2023) of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a key step in the internationalization of the CCER program. On this background, EDF partnered with Guangzhou Emission Exchange to carry out research on the



development of CCER program based on CORSIA mechanism. [The report](#) systematically reviewed the development history of CCER and CORSIA, and presented a comparative analysis of their design, implementation and other elements, aiming to improve the CCER program, and continuing CCER's supply of EEU's. The report also gives a prospect of the international application and internationalization process of CCER with the purpose of serving global climate governance and offers ideas and recommendations for the future development of the CCER program.

- Climate-related information disclosure is key for addressing climate change risks and promoting climate investment and finance. However, there are still multiple challenges for climate-related information disclosure in China, such as inconsistent disclosure standards, gaps in disclosure quality, and the enterprises' low enthusiasm for participation. Since pilot carbon markets and the national carbon market have been operating for a long time with well-functioned data monitoring, reporting and verification systems, which could be conducive to improve the climate-related information disclosure mechanism of China. In this context, EDF cooperated with Shanghai Environment and Energy Exchange to take the study on climate-related information disclosure based on China National ETS data management mechanism. The report analyzed the experience and characteristics of carbon market information disclosure in China, the European Union, and the U.S., and put forward relevant policy recommendations from the aspects of the standard system, disclosure platform, capacity building, and supervision and management under the current situation and challenges.
- The climate-related information disclosure of high-emitting enterprises is greatly impeded due to the lack of systematic guidelines and infrastructure construction. Meantime, the lack of high-quality climate-related statistic also limits the ability of financial institutions to support green and low-carbon transition in industries. To solve the above-mentioned problems, EDF cooperated with Shanghai Environment and Energy Exchange to establish an industry-specific framework for climate-related information disclosure. Based on the status quo of climate-related information disclosure within China, the report proposed suggestions for climate-related information disclosure for key emission industries and financial institutions to provide relevant references for climate-related information disclosure in China.

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](mailto:China@edf.org).

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