

Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

As we enter the second half of the year, both the national carbon market and local carbon markets across China have begun to initiate regulatory measures pertaining to compliance for this year. These include the accounting of carbon emissions, allowance allocation, and allowance surrendering arrangements. Furthermore, the infrastructure and regulatory framework of China's voluntary emission reduction market are being continuously improved, and it could be relaunched within 2023, according to the Ministry of Ecology and Environment (MEE).

EDF is continuing to explore diversified solutions to improve the national carbon market and facilitate the robust low carbon transition in China. This newsletter summarizes the updates on policies and latest news of national carbon market and local carbon markets, as well as our research result on the carbon price trajectory on China's national ETS.

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National Carbon Market

- **A State Council-level carbon market management decree is on track to be released.** On June 6th, the General Office of the State Council issued the *2023 Annual Legislative Work Plan of the State Council*, which includes the *Interim Regulations on the Administration of Carbon Emission Trading* (Hereinafter as the *Regulations*) drafted by the MEE. This *Regulations* will establish a unified framework for the coverage of the national ETS, the determination of covered entities, the allocation of allowances, the

supervision carbon emission data quality, the compliance of covered entities, and the trading mechanism. It will promote the orderly and healthy development of the national ETS and provide a strong legal guarantee for the achievement of China's "dual carbon" targets.

- **Improved Institutional framework for CCER Market.** On July 7th, the MEE publicly solicited opinions on the *Administration Measures for Voluntary Greenhouse Gas Emission Reduction Trading (Trial Implementation)* (Hereinafter as the *Measures*), and the solicitation period is one month. The *Measures* have made three optimizations for China Certified Emission Reduction (CCER) trading, firstly, the methodologies for CCER projects will be collected and selected by the MEE before being released; secondly, the MEE, together with the State Administration for Market Regulation, will conduct administrative approval for the market access of verification agencies; thirdly, a nationally unified trading institution will be established to carry out nationwide CCER trading. The *Measures* also stipulates two important time requirements in the development of CCER projects, firstly, only projects commencing construction after June 13th, 2012, could be registered; secondly, emission reductions should be generated after September 22nd, 2020, and within 5 years before the date of project registration.
- **Issues relating to the submission of 2021 and 2022 allowances of the national ETS.** On July 17th, the MEE issued the *Circular on the Surrender of Carbon Emission Allowances during the 2021 Compliance Period and 2022 Compliance Period of the National ETS* (Hereinafter as the *Circular*). As per the *Circular*, covered entities can use CCER for compliance, and the offset ratio shall not exceed 5% of the allowances that should be surrendered. For entities at risk of non-compliance, their allowances will be temporarily managed by the provincial competent authorities until mandatory compliance is achieved. Meanwhile, for entities that undertake major livelihood protection tasks and cannot fulfil their compliance obligations, they can apply to the MEE for borrowing of the 2023 allowance. In addition, the *Circular* states that, the 2019-2022 allowance, 2021 allowance, and 2022 allowance held by covered entities can all be used for compliance of the 2021 and 2022 compliance period, and can also be used for trading.

Local Carbon Markets

- **Shanghai.**
 - On May 29th, the Shanghai Municipal Bureau of Ecology and Environment released the *2022 Carbon Emission Allowance Allocation Plan* for Shanghai and the *List of Covered Entities of*

Shanghai Emission Trading System, according to which 378 entities from industry, transportation, building and data center are covered by Shanghai ETS. The total amount of allowances in this compliance period is 100 million tonnes.

- On June 7th, the Shanghai Municipal Bureau of Ecology and Environment released the *Circular on Adjusting the Carbon Emission Accounting Methods for the Green Electricity Purchased by Covered Entities in Shanghai ETS* (Hereinafter as the *Circular*). According to the *Circular*, entities participating in Shanghai ETS may choose to separately account for the carbon emissions of purchased green electricity, by adjusting the emissions factor of purchased green electricity to 0 tCO₂/10⁴kWh, while the emissions factor for other purchased electricity remains unified at 4.2 tCO₂/10⁴kWh.
- On June 8th, the Shanghai Municipal Bureau of Ecology and Environment released the *Circular of Submitting 2022 Annual Carbon Emission Report and 2023 Annual Carbon Emission Monitoring Plan* (Hereinafter as the *Circular*). The *Circular* states that covered entities should compile the 2022 annual carbon emission report based on relevant requirements and submit the report by June 30th, 2023. Meanwhile, covered entities should prepare the 2023 annual carbon emission monitoring plan based on relevant requirements, and major changes in carbon emission boundaries, scopes of emission, main emission facilities, main products, etc. should be explained in the monitoring plan, which should be completed by June 30th, 2023.

- **Guangdong.**

- On June 9th, the Department of Ecology and Environment of Guangdong Province issued the *Circular on Delaying the Allowances Surrender in the 2022 Compliance Period of Guangdong ETS* (Hereinafter as the *Circular*). The *Circular* states that the date when covered entities must fulfill their obligations has been postponed by one month to July 20th. Furthermore, covered entities which use CCER and Guangdong Carbon Inclusive Emission Reduction (PHCER) need to submit their applications by July 10th.

- **Fujian.**

- On June 9th, the Fujian Provincial Department of Ecology and Environment issued the *Draft for Comments on Implementing Program for 2022 Carbon Emission Allowance Allocation for Fujian Province*. The document states that the inclusion threshold of Fujian ETS is enterprises whose total comprehensive energy consumption reaches 5,000 tons of standard coal in any year from 2019 to 2022

in 9 major industries including power, steel and domestic aviation. The benchmarking and grandparenting approaches are adopted for the allocation of allowances in 2022 compliance period.

- **Shenzhen.**

- On June 16th, the Shenzhen Municipal Bureau of Ecology and Environment released the *2022 and 2023 Carbon Emission Allowance Allocation Plan for Shenzhen ETS*. According to the document, the total amount of allowances for 2022 compliance period and 2023 compliance period are 26 and 28 million tonnes, respectively. All allowances will be freely allocated, and the government has reserved 2% of allowances to prevent sharp price fluctuations.

- **Chongqing.**

- On June 13th, the Chongqing Municipal Bureau of Ecology and Environment issued *the Circular on Adjusting the Inclusion Threshold for Chongqing ETS*. The document indicates that starting from the 2021 compliance period, Chongqing will lower the inclusion threshold to 13,000 tCO₂/year or energy consumption of 5,000 tonnes of coal equivalent (tce)/year. This represents a decrease from the previous threshold of 26,000 tCO₂/year or energy consumption of 10,000 tce/year.

- **Beijing.**

- On June 30th, the Beijing Municipal Ecology and Environment Bureau issued the *Circular of the Auction of 2022 Annual Beijing Carbon Emission Allowances*, the auction will begin on August 1st, 2023, with a cap of 1.5 million tonnes, the reserve price of the auctioned allowance was the weighted average prices of Beijing Emission Allowance from Dec. 1st, 2022, to Jun. 21st, 2023. Covered entities of Beijing ETS, as well as other qualified entities, are eligible to participate in this auction. The bidding volume for covered entities should not exceed 15% of the total auction amount, while the bidding volume for other entities should not exceed 5% of the total auction volume.

- **Tianjin.**

- On July 3rd, Tianjin Ecology and Environment Bureau issued the *Circular on Compliance Situation of Covered Entities of Tianjin ETS During the 2022 Compliance Period*. According to the document, the 2022 compliance period of Tianjin ETS ended on June 30th, 2023. A total of 145 covered entities from 12 industries, including iron and steel, chemistry, petrochemistry, building materials, nonferrous metals, and mining, were included in this compliance period. All these

entities have fulfilled their compliance obligations, resulting in a 100% compliance rate.

Climate Finance

- **Financial Supports on the Green Development of Agriculture.** On June 16th, the People's Bank of China and four other authorities issued the *Guiding Opinions on Financial Support for Comprehensive Promotion of Rural Vitalization Accelerated Construction of Strong Agriculture Country* (Hereinafter as the *Opinions*). The *Opinions* points out that competent authorities will guide financial institutions to innovate credit products in the areas of carbon sequestration in planting, carbon reduction in breeding, and research and development of green agricultural machinery. The *Opinions* also encourages the promotion of special credit products such as forest tenure mortgage loans. Monetary policy tools such as carbon emission reduction facility will be strengthened, and financial support will continue to be provided for the construction of infrastructure such as wind power, solar energy, and photovoltaic power in rural areas.

Other Efforts to Address Climate Change

- **Improve the Management and Application of Carbon Emission Measurement Data.** On June 13th, the State Administration for Market Regulation released the *Guiding Opinions on Strengthening the Management and Application of Measurement Data* (Hereinafter as the *Opinions*). The *Opinions* emphasizes that in the future, it is necessary to improve the construction and application of measurement data in the field of carbon emissions, and to establish a reference database of carbon emissions measurement standards. Meanwhile, the construction of online monitoring systems for energy consumption of key entities should be strengthened, to promote the effective connection and comprehensive utilization of energy measurement data and carbon emission measurement data.
- **German-China's Cooperation on Climate Change.** On June 20th, the German and Chinese governments jointly signed the *Memorandum of Understanding between The Government of the Federal Republic of Germany and The Government of the People's Republic of China on the Establishment of the Dialogue and Cooperation Mechanism on Climate Change and Green Transition*. With this declaration, both countries are making it clear that they intend to work more closely together in the fight against climate change. The memorandum of understanding therefore contains eight fields of action for cooperation, including the key field of the

decarbonization of industry, the expansion of renewable energy sources, the circular economy and the issue of sustainable financing.

- **European Union-China's Cooperation on Climate Change.** On July 4th, European Commission Executive Vice President Frans Timmermans and Vice Premier of the People's Republic of China Ding Xuexiang held the fourth EU-China High Level Dialogue on Environment and Climate (HECD) in Beijing. Noting that the impact of climate change is a huge challenge to achieve sustainable development and that the impacts of climate change will be much lower at the temperature increase of 1.5 °C compared with 2 °C, the European Union and China agreed to strengthen efforts to achieve the Paris Agreement temperature goal. National carbon markets, climate adaptation, among with other topics were confirmed as key areas of cooperation. Both sides look forward to intensifying cooperation on Emission Trading Systems. Both sides agreed to hold a dialogue on CBAM to understand and address Chinese concerns.

EDF Efforts

- During June and July, EDF collaborated with several industry associations, Tsinghua University, several MEE-affiliated research institutes, and other stakeholders to conduct research on allowance allocation and MRV methodologies for the sectoral expansion of the national ETS. Within this timeframe, the building materials industry and iron and steel industry each organized two workshops respectively; while the petrochemical industry, chemical industry, and non-ferrous industry each organized one workshop respectively. These workshops focused on specific research topics and task assignments related to their inclusion in the national ETS.
- On June 27th, the Department of Climate Change of the MEE conducted a preliminary acceptance of the registry and trading systems of CCER, and EDF has provided support to the National Center for Climate Change Strategy and International Cooperation in testing and enhancing both systems' functions. Also, EDF partnered with China Quality Certification Centre on improving the institutional framework of CCER market, which facilitated the issuance of the *Administration Measures for Voluntary Greenhouse Gas Emission Reduction Trading (Trial Implementation)*.
- On July 14th, EDF supported ICF to release the *2022 China Carbon Pricing Survey* (Hereinafter as the *Survey*). The *Survey* received 465 responses from stakeholders in relevant sectors. 84% identified as being from emitting enterprises, including at least 49% from companies already covered by either a regional ETS or the national one. The *Survey* shows China's national carbon price is expected to rise steadily, and the average price expectation

in the national market is expected to be CNY 59/t in 2022, rising to CNY 87/t in 2025 and CNY 130/t by the end of the decade. Meanwhile, the *Survey* also shows that the effect of carbon pricing on investment decisions is increasing greatly, by 2025, about three quarters of respondents expect investment decisions to be at least moderately affected. About the sectorial expansion of China's national ETS, over a third of respondents estimate that the cement and the iron and steel sectors will be ready to join the national ETS by as early as 2023, and the weighted average of expectations being that those two sectors will have joined by 2024.

- During July 20th to 21st, EDF provided support for the China-U.S. Track II Dialogue on Climate Finance 2023 organized by Tsinghua University's Institute of Energy, Environment, and Ecology. Experts from various competent authorities, research institutions, think tanks, enterprises and financial institutions in both China and the U.S. shared their insights on climate-related information disclosure, trade and carbon market, green development of third-party Countries among the Belt and Road Initiative, and how to provide Loss and Damage Fund and other climate finance. This platform has effectively fostered practical cooperation between China and the U.S. in addressing the challenges posed by climate change.

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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