

# EDF China Carbon Pricing Newsletter 2023 Highlights

Dear friends and colleagues,

In this special edition, we summarized the most significant carbon pricing policies in China for the year 2023. This includes the allowance allocation plan, MRV regulations, and compliance provisions for the second compliance period of the national ETS. Additionally, it includes the administrative measures, methodologies, institutional setup, and trading rules for the national voluntary carbon market, and the development of green finance.

EDF has also contributed our efforts to the development of China's carbon pricing mechanism in 2023. This includes conducting research to improve the mechanisms of the national ETS, the national voluntary carbon market, and climate finance. In addition, EDF has been involved in building China's carbon pricing capacity and participating in international exchanges and cooperation in this field.

## **Management Provisions for the Second Compliance Period in the national ETS:**

- On February 7<sup>th</sup>, the Ministry of Ecology and Environment (MEE) issued the *Circular of Management Requirements of Green House Gas Emission Reports of Power Generation Enterprises for 2023-2025*. Covered entities must submit timely reports meeting MEE's data quality requirements, while retaining key data. Third-party verification agencies and relevant authorities will assess report quality, timeliness, and compliance. MEE also launched the National Carbon Market Information Portal (<https://www.cets.org.cn>), integrating functions like report disclosure, data retention, third-party verification, and regulatory review.
- On March 15<sup>th</sup>, MEE issued the *2021 and 2022 Implementation Plan for the Allowance Allocation (Power Generation Industry)*. The national ETS remains intensity-based, and allowances are allocated freely. The benchmarks for power and heat supply units are reduced by 5% to 19%. Covered entities receive pre-allocated allowances equal to 70% of their 2021 emissions. In the second compliance period (2021-2022), if allocated allowances are under 80% of annual CO<sub>2</sub> emissions, they will be adjusted to 80% to ensure no entity falls short by more than 20%. Entities with a 10% or higher shortfall can borrow up to 50% of the shortfall from pre-allocated 2023 allowances to address operational challenges.
- On July 17<sup>th</sup>, MEE issued the *Notice on the Surrender of Carbon Emission Allowances during the 2021 Compliance Period and 2022 Compliance Period of the National ETS*. Covered entities can use CCER for compliance, limited to

5% of their emission. Entities unable to fulfill compliance obligations due to major livelihood protection tasks can apply to borrow 2023 allowances. Covered entities can use 2019-2022, 2021, and 2022 allowances for compliance and trading during the 2021 and 2022 compliance periods.

- On October 18<sup>th</sup>, 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*. It covers petrochemical, chemical, building material, iron and steel, non-ferrous metal, paper-making, and civil aviation sectors. Enterprises with annual GHG emissions over 26,000 tons of CO<sub>2</sub>e must submit reports by March 31<sup>st</sup>. Reports should include emissions at the enterprise and facility levels. Off-grid non-fossil fuel electricity emissions are considered 0, while emissions from purchased non-fossil fuel electricity are calculated using the national grid emission factor of 0.5703t CO<sub>2</sub>/MWh for 2022.

### **Improved Institutional framework for Voluntary GHG Emission Reduction Projects:**

- On October 19<sup>th</sup>, MEE released the *Measures for the Administration of Voluntary Greenhouse Gas Emission Reduction Trading (Trial)* 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, four new methodologies were released on October 24<sup>th</sup>. Second, the MEE, together with the State Administration for Market Regulation, 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 25<sup>th</sup>, MEE released the *Notice on Work Arrangements of Voluntary Greenhouse Gas Emission Reduction Program*. The National Center for Climate Change Strategy and International Cooperation (NCSC) will assume the national registration institution; the China Beijing Green Exchange (CBGEX) will assume the national trading institution. Regarding the carbon credits issued before March 14<sup>th</sup>, 2017, they can be used to offset in the national ETS before December 31<sup>st</sup>, 2024, and will be expired since January 1<sup>st</sup>, 2025.
- On November 16<sup>th</sup>, 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, registration and trading of voluntary emission reduction projects and carbon credits.

## Central SOEs are Encouraged to Issue Green Bonds:

- On December 8<sup>th</sup>, the China Securities Regulatory Commission issued the *Circular on Supporting Central State-owned Enterprises in Issuing Green Bonds*. The Circular aimed to facilitate the issuance of green bonds by central state-owned enterprises (SOEs) and encourage funding for industries like energy conservation, environmental protection, clean energy, and green infrastructure. It also promoted the disclosure of environmental, social, and governance (ESG) information by central SOEs and the incorporation of ESG factors into issuer ratings by credit rating agencies.

## EDF Efforts

- **On the development of the national ETS**
  - EDF collaborated with industry associations, Tsinghua University, MEE-affiliated research institutes, to support the expert consultation on allowance allocation and MRV methodologies for the sectoral expansion of the national ETS. During June and July, 4 carbon intensive industries organized workshops focusing on specific research topics and task assignments related to their inclusion in the national ETS.
  - 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 and the Directorate-General for Climate Action of European Commission. The conference summarized the achievements of China's national carbon market and discussed the positive role of the China carbon markets in controlling GHG emissions, developing climate finance, and promoting enterprises to reduce emissions.
  - MEE held the side event with the topic of China Carbon Market Development and Outlook at China Pavilion during the UNFCCC COP 28, which was supported by EDF. The event was organized with the invitation of high-level international and domestic officials and experts from European Commission and the MEE. Vice Minister ZHAO Yingmin put forward the priorities in the next step of the national carbon market, includes launching China's national voluntary carbon market, improving the legislative system, and leveraging the function of carbon market in achieving China's climate commitments.
- **On the development of the national voluntary carbon market**
  - EDF partnered with Guangzhou Emission Exchange to publish a research achievement on the development of CCER program based on CORSIA mechanism. The report presented a comparative analysis the design and implementation of CCER and CORSIA, aiming to improve the CCER program. It also discussed the international application and internationalization process of CCER, serving global climate governance and providing ideas and recommendations for its future development.
  - EDF provided support to the NCSC and the CBGEX for the readiness of registry and trading systems of CCER. EDF also partnered with Beijing University of Technology on improving the regulation of CCER market, which facilitated the issuance of the *Measures for the Administration of Voluntary Greenhouse Gas Emission Reduction Trading (Trial)*.

- EDF supported CBGEX to conduct a survey regarding China's high-quality carbon credits criteria. This survey encompassed crucial aspects such as the additionality of carbon credit projects, the authenticity and accuracy of the generated carbon credits, the governance of carbon credit projects, and the contribution of carbon credit projects to China's climate targets and other sustainable development goals.
- **On the development of climate finance**
  - EDF supported the 2023 China International Conference on Climate Investment and Finance in April. The conference focused on promoting a high-quality, low-carbon transition in China by exploring the synergy between the carbon market and climate investment and financing. It fostered dialogue among stakeholders from emission industries, the carbon market, and financial sectors.

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 "14<sup>th</sup> 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 14<sup>th</sup> 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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