

## February/March 2024

### Dear friends and colleagues,

In February, the State Council officially released the *Interim Regulations on the Administration of Carbon Emission Trading*, marking a further improvement in the legal framework of China's national ETS. At the same time, in March, the Ministry of Ecology and Environment released the draft of the MRV Guidelines for the aluminum smelting industry, signaling substantial progress in the expansion of the national ETS. Furthermore, during the National People's Congress, Premier Li Qiang explicitly pointed out the need to promote the expansion of the national ETS in 2024, as well as to improve the green financial system and enhance the capability for carbon emission accounting and verification. And, for the first time, China planned to establish a carbon footprint management system in the *Report on the Work of the Government*.

EDF is committed to exploring multifaced solutions to improve the national ETS and facilitate a robust low-carbon transition in China. This newsletter provides an overview of policy updates and the latest developments in both the national ETS and local carbon markets, as well as our efforts to support the sectoral expansion of the national ETS.

## National Carbon Market

- **The State Council-level Carbon Market Management Decree is Officially Released.** On February 4th, the State Council released the *Interim Regulations on the Administration of Carbon Emission Trading* (Hereinafter as the *Regulations*) which currently stands as the highest-level national regulation for the national ETS and is set to officially take effect on May 1st, 2024. The *Regulations* governed the responsibilities of various participants in the national ETS, allowance allocation, supervision of the quality of carbon emission data, compliance, and market operations. Additionally, the *Regulations* emphasized the importance of data quality, requiring covered entities and third-party verification bodies to ensure the authenticity, completeness, and accuracy of emission data and related verification reports. Competent authorities are also mandated to supervise and inspect data quality. Moreover, any cases of data falsification will result in strict punishments for all involved parties in accordance with the *Regulations*, including fines of up to millions of RMB, suspension of production, and a lifetime ban on engaging in the business of carbon emission verification.
- **Voluntary Carbon Market Development and Carbon Emission Data Quality Control will be a focus of the MEE in 2024.** On March 8th, Minister HUANG Runqiu of the Ministry of Ecology and Environment (MEE) addressed the press following the plenary session of the second session of the 14th National People's Congress. He highlighted the MEE's plans for 2024, including the further implementation and development of China's carbon markets, with a specific focus on the recently launched voluntary carbon market, to actively support China's transition to a greener economy. Additionally, the MEE will enhance its oversight of third-party environmental service agencies, imposing stringent penalties for the falsification of carbon emission data, holding both the organizations and individuals involved accountable.
- **Draft Guidelines for the GHG MRV of Aluminum Smelting Industry.** On March 14th, the MEE released the *Greenhouse Gas Measurement, Reporting, and Verification (MRV) Technical Guidelines for the Aluminum Smelting Industry*. The MEE sought feedback from provincial and municipal environmental authorities as well as 12 other relevant entities. As outlined in the preliminary guidelines, the major sources of GHG emissions from aluminum smelting enterprises are identified as: (1) CO<sub>2</sub> emissions from energy utilized as raw materials; (2) Perfluorocarbon emissions resulting from anode effects; and (3) CO<sub>2</sub> emissions arising from electricity consumption during the aluminum electrolysis process. Additionally, to avoid the double counting of the environmental attributes of green electricity, the latest grid emission factor is set at 0.5942 tCO<sub>2</sub>/MWh, which excludes grid-connected non-fossil fuel electricity. Furthermore, the verification agencies are tasked with meticulously examining the monitoring boundaries, methods, data, and quality control measures pertinent to key emitting entities.

## Local Carbon Markets

- **Policy Updates in Allowance Allocation and Management at Local ETSs.** From February to March, updates were made to the allowance allocation and management regulations of local ETSs. Shanghai pilot has released its allowance allocation plan for the 2023 compliance period, setting the total allowance at 105 million tons; Shenzhen pilot has updated the latest list of covered entities, with the number reaching 746, an increase of over 10% compared to the previous compliance period; Beijing pilot has released the *Management Measures for Carbon Emission Trading in Beijing Municipality* based on the State Council-level *Regulations*.

## Climate Finance

- **Sustainability Reporting Requirements for Chinese Listed Companies.** On February 8th, China's three main stock exchanges publicly requested feedback on the *Guidelines on the Sustainability Reporting (Trial)* (Hereinafter as the *Guidelines*). The aim of these *Guidelines* was to establish a framework for listed companies in China to disclose information on sustainable development and to enhance the disclosure requirements concerning carbon emissions. According to the *Guidelines*, companies included in the SSE 180, STAR 50, SZSE 100, and GEM index samples would be required to mandatorily disclose sustainability reports starting from April 30, 2026. Specifically, regarding climate change, companies should disclose Scope 1, Scope 2, and Scope 3 emissions, as well as information on climate resilience, transition plans, GHG inventories, emission reduction measures, and climate change-related opportunities.

## Other Efforts to Address Climate Change

- **Promoting the Consumption of Renewable Energy and Reducing Carbon Emissions.** On February 2nd, the National Development and Reform Commission released the *Notice on Strengthening the Connection between Green Certificate and Energy Conservation and Carbon Emission Reduction Policies to Promote Non-Fossil Energy Consumption* (hereinafter as the *Notice*). The *Notice* specified the connection between green certificates, energy consumption control, and carbon emission management, and proposed specific methods for including green certificates in the energy conservation evaluation indicators. It also consolidated the foundation for green certificate issuance and transactions, expands the scope of transactions, and standardizes the trading system. Additionally, it focused on accelerating the application and approval of renewable energy projects and the issuance of green certificates, while expanding the application scenarios of green certificates.
- **Construction of Carbon Peaking and Carbon Neutrality Standard Systems in Industry Sectors.** On February 21st, the Ministry of Industry and Information Technology released the *Guidelines for the Construction of Carbon Peaking and Carbon Neutrality Standard Systems in Industry Sectors*. By 2025, over 200 urgently needed carbon peaking standards would be formulated, focusing on general, GHG accounting, and low-carbon technology and equipment standards. By 2030, a complete standard system would be formed, accelerating the formulation of collaborative carbon reduction, emission management, and low-carbon evaluation standards. This would achieve full coverage of key industry and area standards, supporting comprehensive carbon emission peaking in the industrial sectors.
- **Green Development will be a Focus for the Government of 2024.** On March 5th, Premier Li Qiang presented the *2024 Report on the Work of the Government* (hereinafter as the *Report*) to the Second Session of the 14th National People's Congress on behalf of the State Council. The *Report* highlighted that China aims to reduce energy consumption per unit of GDP by approximately 2.5% in 2024. Additionally, the government has identified the promotion of green and low-carbon development as a key priority for 2024. This will involve initiatives such as facilitating the transition to green industry, energy, and transportation structures, as well as refining fiscal, tax, financial, investment, pricing policies, and market-based mechanisms to support green development. Furthermore, efforts will be made to strengthen carbon emission accounting and verification capabilities, establish a carbon footprint management system, and expand the coverage of the national ETS to encompass more sectors.

## EDF Efforts

- To facilitate the sectoral expansion of the national ETS, EDF has undertaken a study on the inclusion of the cement industry into the national ETS, yielding preliminary research findings. Calculations indicate that China's cement industry contributes 20% of industrial carbon emissions and 13% of the country's total carbon emissions. The inclusion of the cement industry in the national ETS is projected to effectively regulate this segment of emissions. Our research anticipates that over 1,000 cement enterprises will be incorporated into the national ETS, representing 97% of the industry's carbon emissions.
- EDF has completed a comprehensive study to analyze and summarize the factors affecting carbon prices in China's national ETS since its launch in 2021. It was found that total social electricity generation and compliance periods exert a significant influence, whereas energy prices have a relatively minor impact on carbon price. Projections indicate that as the coverage of the national ETS expands, carbon prices will persistently increase, reaching RMB 60-95 per ton by 2025. Furthermore, in 2028, upon China's attainment of carbon peaking, the anticipated carbon price is RMB 128 per ton.
- EDF and our partner collaboratively established technical specifications for the development of voluntary GHG emission reduction projects, along with templates and guidelines for project design documents (PDD). Relative outcomes have been endorsed and put into practice by regulatory authorities. During our study, we conducted a comprehensive analysis of the development process for voluntary GHG emission reduction projects, outlining the requirements at each stage. Additionally, we developed detailed PDD templates to avoid emission projects and afforestation carbon sink projects and to assist project owners in designing their projects and calculating emission reductions.

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'd love to hear from you.

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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