

## China National ETS

### General Information

#### Summary

**Status:** ETS implementation scheduled

**Jurisdictions:** China

Building on its experience of successfully piloting carbon markets in seven regions, China launched its national ETS politically in December 2017. This launch has been a goal set in 2015 at China's highest political level, which was reaffirmed by its Nationally Determined Contribution under the Paris Agreement, and the "13th Five-Year Work Plan for Greenhouse Gas Emission Control."

The provisions for the launch and incremental development of the ETS are laid out in the 'Work Plan for Construction of the National Emissions Trading System (Power Sector)' (the "Work Plan"), approved by the State Council in late 2017.

The ETS' objective is to contribute to the effective control and gradual reduction of carbon emissions in China and the achievement of green and low carbon development. The ETS is expected to regulate ~1,700 companies from the power sector (including combined heat and power, as well as captive power plants of other sectors), which emit more than 26,000 tonnes GHG or consume more than 10,000 tce per year. The Chinese system would cover more than three billion tonnes of CO<sub>2</sub>e in its initial phase, accounting for about 30% of national emissions. The scope is to be further expanded in the future.

The Work Plan foresees a three-phase roadmap for the development of the ETS:

- **First Phase:** will focus on the development of market infrastructures (roughly one year);
- **Second Phase:** foresees simulation trading (roughly another year); and
- **Third Phase:** will be the deepening and expanding phase with allowances spot trading for compliance purposes (roughly starting from 2020).

A gradual transition of the Chinese pilots is foreseen by the Work Plan. In the short term, the existing ETS pilots are expected to operate in parallel to the national market, covering the non-power sectors. Over the medium to long term, they are expected to be integrated into the national market once it is fully operational.

#### Year in Review

In March 2018, the National People's Congress of China approved the plan to restructure the State Council, including the establishment of a new Ministry of Ecology and Environment (MEE) to replace the Ministry of Environmental Protection. In addition to environmental governance, the new ministry absorbs the climate change responsibilities previously under the National Development and Reform Commission (NDRC) and takes charge of the development of the national ETS.

In 2018, the government continued to advance the work on reporting and verification of the 2016-2017 emissions data from eight emission-intensive sectors of the economy. In terms of infrastructure, 2018 also saw the establishment of plans for a national registry and

	<p>a trading system, as well as the development of a national enterprise GHG direct reporting system. Progress was also achieved in the technical preparation of the power sector with the establishment of a working group to: conduct research on the power industry participation in the national ETS, draft the refined allocation plan for the power sector and carbon market operation test plan, and compile training materials and technical guides on emissions trading. Work was also conducted on ETS design, including through consultation meetings and workshops, as well as through studies on the design of ETS elements such as allowance allocation and risk management.</p> <p>Looking to the future, the main tasks of national ETS development are: establishing and improving national ETS regulations, accelerating the development of market infrastructure, promoting reporting, carrying out verification and carbon management for key enterprises, and strengthening capacity-building activities. The simulation trading in the power sector is expected to start in the first half of 2019.</p>												
Overall GHG emissions (excluding LULUCF)	<b>Emissions:</b> 10976 MtCO <sub>2e</sub> (2012)												
Overall GHG emissions by sector	<table border="1"> <thead> <tr> <th>Sector Name</th> <th>MtCO<sub>2e</sub></th> </tr> </thead> <tbody> <tr> <td>Energy (excluding Transport)</td> <td>7,946.9</td> </tr> <tr> <td>Industrial Processes</td> <td>1,296.6</td> </tr> <tr> <td>Agriculture</td> <td>831.6</td> </tr> <tr> <td>Transportation</td> <td>702.9</td> </tr> <tr> <td>Waste</td> <td>197.6</td> </tr> </tbody> </table>	Sector Name	MtCO <sub>2e</sub>	Energy (excluding Transport)	7,946.9	Industrial Processes	1,296.6	Agriculture	831.6	Transportation	702.9	Waste	197.6
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Overall GHG reduction target	<p><b>2016-2020:</b> Reduction in carbon emissions per unit GDP by 18% compared to 2015 level (13th FYP)</p> <p><b>BY 2020:</b> 40-45% reductions in carbon intensity compared to 2005 levels (voluntary commitment under the Copenhagen Accord of 2009)</p> <p><b>BY 2030:</b> Peak CO<sub>2</sub> emissions around 2030, with best efforts to peak earlier; China also has committed to lowering CO<sub>2</sub> emissions per unit of GDP by 60-65% from 2005 levels (NDC)</p>												
Carbon Price	<i>Current Allowance Price (per t/CO<sub>2e</sub>):</i> No information available yet.												

## ETS Size

Emissions covered by the ETS	0.30
GHG covered	CO <sub>2</sub>
Sectors covered and thresholds	<p>Power sector (including combined heat and power, as well as captive power plants of other sectors).</p> <p>The scope is expected to be gradually expanded to finally cover a total of eight sectors including: petrochemical, chemical, building materials, steel, nonferrous metals, paper, and domestic aviation. There is no specific timeline for this expansion.</p> <p><b>INCLUSION THRESHOLDS:</b> Entities with annual emissions of ~26,000 t/CO<sub>2</sub> (energy consumption of more than 10,000 tce) in any year over the period 2013-2015.</p>
Point of regulation	<p>Downstream.</p> <p>In the long run, both direct emissions from the power sector and indirect emissions from electricity (and heat) consumption are expected to be included.</p>
Number of liable entities	<p>~1,700</p> <p>No information available yet.</p>
Cap	~3,300 MtCO <sub>2e</sub> /year

## Phases & Allocation

Trading period	<p><b>First Phase (~a year as of 2018):</b> Development of market infrastructures</p> <p><b>Second Phase (~another year as of 2019):</b> Simulation trading</p> <p><b>Third Phase (~from 2020 on):</b> Expanding sectoral coverage and deepening and expanding</p>
Allocation	<p>The ETS competent authority will develop detailed allocation rules in cooperation with energy sector authorities.</p> <p><b>Free Allocation:</b> Free allocation is expected to be based on subsector benchmarks with ex-post adjustments for changes in actual production.</p> <p>In 2017, draft allocation plans for power, cement, and electrolytic aluminum were developed and trial allocation work was carried out in two provinces. Further sector-based trial allocation is expected to be carried out in the first half of 2019 in order to refine and finalize the benchmarks.</p>

## Flexibility

Banking and borrowing	Expected to allow banking across compliance phases, but not to allow borrowing.
Offsets and credits	<p>The use of China Certified Emissions Reduction (CCER) credits is expected to be allowed during the third phase.</p> <p>In 2012, the NDRC issued the 'Interim Measures for the Management of Voluntary GHG Emission Reduction Transactions' (the "Interim Measures"). These measures include guidelines for the issuance of CCERs. The acceptance of CCERs is expected to be regulated through a revision of the Interim Measures and through the development of an 'Administration Measure of Offset Scheme for National ETS' (upcoming) focusing on the quality and limits on the use of CCERs in the ETS. Specific timelines and detailed rules are yet to be published.</p>
Market Stability Provisions	Adjustment mechanisms to prevent abnormal price fluctuations, as well as risk prevention and control mechanism to prevent market manipulations are to be developed.

## Compliance

Compliance Period	One year
Monitoring, Reporting, Verification (MRV)	<p><b>REPORTING FREQUENCY:</b> Annual reporting of emissions to be submitted within a given timeline.</p> <p><b>VERIFICATION:</b> Emissions must be verified by a third-party verifier.</p> <p><b>FRAMEWORK:</b> MRV guidelines, supplementary data sheets, verification guidelines, and other guidance are available for the eight sectors expected to be covered by the ETS.</p> <p>From 2013 to 2015, the NDRC released a series of MRV guidelines covering a total of 24 sectors. Supplementary MRV data sheets for the eight sectors expected to be covered under the national ETS, as well as 'Reference Guidance on Third-party Verification of China ETS' and 'Reference Qualification on Third-party Verification Body and Verifiers of China ETS,' were all released in 2016. In 2017, new requirements on data collection, categorization, and verification were added.</p>

	<p><b>OTHER:</b> The MEE is taking efforts to develop the management measure for corporate emissions reports as well as improve the existing guidelines and technical specifications for the national ETS.</p>
Enforcement	<p>Noncompliance would result in punishment, which may include recording the noncompliance information in the national credibility information sharing platform*, although details are yet to be developed.</p> <p>*The national credibility information sharing platform, developed in 2015, integrates credibility information provided by various departments and regions across the country. As of 2018, it has achieved interconnection with 44 ministries, 31 provinces and autonomous regions, and 65 market institutions.</p>

## Linking

Links with other Systems	<p>At the initial phases of the ETS, the focus is on the domestic ETS construction (rather than linking with other systems). Once the national ETS is fully operational, China and other jurisdictions such as EU and Korea may be interested in exploring linking opportunities.</p>
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## Other Information

Institutions involved	<p>The MEE, in cooperation with other relevant ministries, is responsible for policy design and rule-making for the national ETS.</p> <p>Local DRCs implement the policies and rules set up by the central level in their respective regions, but this is expected to be moved to local Ecology and Environment Bureaus, which are the corresponding government institutions of the MEE at the regional level, in the course of 2019.</p>
Evaluation / ETS review	No information available yet.
Revenue	No information available yet.
Implementing Legislation	<p><a href="#">Work Plan for Construction of the National Emissions Trading System (Power Sector)</a></p> <p><a href="#">Notice on Key Works in Preparation for the Launch of the National ETS</a></p> <p>24 Guidelines for GHG Monitoring and Reporting for various sectors (2013, 2014 and 2015)</p> <p><a href="#">Interim Administrative Measures on Emissions Trading</a></p>

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