

China - Chongqing pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Chongqing</p> <p>Chongqing launched its pilot ETS in June 2014; to date, it has concluded five compliance years. The system covers enterprises from seven sectors: power, electrolytic aluminum, ferroalloys, calcium carbide, cement, caustic soda, and iron and steel. The 180 enterprises covered by the system accounted for ~62% of the city's total emissions in 2018. Among the eight Chinese pilots, the Chongqing ETS is the only one that covers non-CO₂ gases.</p> <p>One unique feature of the Chongqing Pilot ETS as compared to other Chinese pilot programs is that it has a clear path for cap-setting, in which an annual reduction rate is set and applied to the base-year emission level (i.e., the sum of each covered entity's highest annual emission of the year from 2008 to 2012). From 2013 to 2015, the annual reduction rate was 4.13% and afterwards 4.85%. The Chongqing Pilot ETS suffered from low liquidity in past years due to a relatively loose cap in its early years.</p> <p>2019 saw the completion of the transition of ETS-related responsibilities in Chongqing from the Development and Reform Commission (DRC) to the Ecology and Environment Bureau (EEB).</p>
<p>Year in Review</p>	<p>In April 2020, the Chongqing EEB released a notice on its ETS work for compliance year 2019, with a list of covered entities attached. The latest publicly available allocation plan dates from 2019 and is for the compliance year 2018.</p> <p>The Chongqing allocation plan differed from those of other Chinese pilots in that allowances were allocated based on entities' self-reported demand. Adjustment is made when an individual entity's self-reported demand level exceeds its highest historical annual emissions (2008-2012), by using the average of the two numbers. In addition, if the sum of the allocation for all the entities exceeds the top-down cap, a reduction factor is applied across the board.</p> <p>Following 2017, 2018 was the second year since the launch of the pilot where the cap (97 MtCO₂e) was lower than the sum of the allocation based on self-declared demanded amount (106 MtCO₂e); hence, downward adjustment to entities' allocation was made, indicating a potential allowance shortage for some companies in the market. However, 2018 saw relatively low liquidity of the Chongqing carbon market because some market investors released their holdings and increased the market supply. Since then, no detailed allocation plan has been publicly released.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: ~156 MtCO₂e MtCO₂e (2018)</p>
<p>Overall GHG emissions by sector (in MtCO₂)</p>	<p>No information available yet.</p>
<p>GHG reduction target</p>	<p>BY 2020: 19.5% reduction in carbon intensity compared to 2015 levels (13th Five-Year Plan)</p>

Carbon Price	Current Allowance Price (per t/CO ₂ e): 26.38 CNY (USD 3.82) (updated prices available here)
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ETS Size

Covered emissions	0.62
GHGs covered	CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆
Sectors and thresholds	Power, electrolytic aluminum, ferroalloys, calcium carbide, cement, caustic soda, and iron and steel. INCLUSION THRESHOLDS: 20,000 tCO ₂ /year or energy consumption of 10,000 tonnes of coal equivalent (tce)/year.
Point of regulation	Downstream Both direct and indirect emissions from electricity and heat consumption are covered.
Number of entities	180 (2018 and 2019)
Cap	97 MtCO ₂ e (2018) From 2013 to 2015, the annual reduction rate of the cap was 4.13%. From 2016 onwards, it was revised to 4.85%.

Phases & Allocation

Trading periods	2013 and ongoing* * In the short term, the existing Chinese regional carbon markets are expected to operate in parallel to the Chinese national carbon market. Over the medium to long term, they are expected to be integrated into the national market, once it is fully operational.
Allocation	FREE ALLOCATION: Free allocation through grandparenting based on historical emissions (highest number in period 2008-2012). Regulated entities submit their allowance allocation demand on a yearly basis, forming the basis of their free allocation. This value is adjusted if it exceeds the highest historical annual emissions (2008-2012) of the respective entities, by using the average of the two numbers. In addition, if the sum of the allocation for all the entities exceeds the top-down cap (see “Cap” section), a reduction factor is applied to all the covered entities.

Flexibility

Banking and borrowing	Banking is allowed. Borrowing is not allowed.
Offsets and credits	QUANTITATIVE LIMIT: Domestic project-based carbon offset credits—CCERs—are allowed up to 8% of the compliance obligation. QUALITATIVE LIMIT: Reductions must be achieved after 2010 with the exception of carbon sink projects. Credits from hydro projects are not allowed.
Market Stability Provisions	EXCHANGE INTERVENTION: Depending on transaction types, if prices vary more than 10% or 30% in one day, the Chongqing Carbon Emissions Exchange can institute price stabilization measures, such as temporarily suspending trading or imposing a holding limit.

SALE AND TRADE LIMITS: Compliance entities must not sell more than 50% of their annual free allocation.

Compliance

Compliance Period	One year (1 January to 31 December): the exact date for the covered entities to surrender allowances is set by the government on an annual basis and varies across years.
Monitoring, Reporting, Verification (MRV)	<p>REPORTING FREQUENCY: Annual reporting of GHG emissions.</p> <p>VERIFICATION: Third-party verification is required.</p> <p>FRAMEWORK: The Chongqing DRC released a guiding document for monitoring and reporting that includes methods for different emissions sources, including combustion, industrial processes, and electricity consumption.</p>
Enforcement	There are no financial penalties for noncompliance. Nonfinancial penalties may include public reporting, disqualification from energy saving and climate subsidies and associated awards for three years, and a record entered in the State-Owned Enterprise performance assessment system.

Linking

Links with other systems	No information available yet.
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Other Information

Institutions involved	<p>Chongqing Ecology and Environment Bureau (competent authority)</p> <p>Chongqing Carbon Emissions Trading Center (trading platform and registry)</p>
Evaluation / ETS review	No information available yet.
Revenue	No information available yet.
Implementing Legislation	<p>Interim Measures for Management of Emissions Trading In Chongqing</p> <p>Chongqing Allowance Allocation Management Rules</p> <p>Chongqing EEB Notice on Carrying out ETS Work for Compliance Year 2019</p>

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