International Carbon Action Partnership
ETS Detailed Information

China - Guangdong pilot system

General Information

Summary	**Status:** ETS in force **Jurisdictions:** Guangdong On 19 December 2013, Guangdong was the fourth Chinese region, after Shenzhen, Shanghai and Beijing, to start its pilot ETS. Guangdong is the largest of the Chinese ETS pilots, and its covered sectors account for more than half of the province's emissions. Guangdong expanded its scope for the first time since implementation in 2016. As well as introducing three new sectors (aviation, paper and white cement), allocation methods were also further adjusted. In 2017, it saw further inclusion of 50 new entrants. The fourth compliance period was completed in June 2017 (with 100% compliance rate) for 2016 vintage. Being the only pilot (among the seven NDRC mandated pilots) with regular auctioning, Guangdong ETS has one of the most active markets among the Chinese pilots. Guangdong and Shenzhen are the only two markets open to foreign investors. In November 2016 Guangdong further increased the maximum position of institutional and individual investors from three to eight million allowances. Guangdong also allows unincorporated organizations such as funds and trusts to trade in its carbon market. Guangdong Pilot ETS Implementation Plan (Chinese) Trial Measures for Emissions Trading in Guangdong (Chinese) Guangdong DRC – Allocation Plan for Vintage 2017 (Chinese)
Overall GHG emissions (excluding LULUCF)	**Emissions:** 610.5 MtCO2e MtC0_2e (2012)
Overall GHG emissions by sector	No information available yet.
Overall GHG reduction target	**By 2020** (13th Five Year Plan): 20.5% reduction in carbon intensity compared to 2015 levels.
Type of ETS	Mandatory
Cap and trajectory	**Type of Cap:** Absolute 422 MtCO2e (2017 including 23 MtCO2e kept as government reserves for new entrants and market stability)
Carbon Price	*Current Allowance Price (per t/CO2e):* CNY 13.90 (USD 2.16 (secondary market price as of 16 January 2018)

ETS Size

Emissions covered by the ETS	0.60
GHG covered	CO_2
Sectors covered and thresholds	Six sectors: Power, iron and steel, cement, papermaking, aviation and petrochemicals. Reporting sectors: Ceramics, textiles, non-ferrous metals, and chemicals. **Inclusion thresholds:**20,000 t CO_2/year or energy consumption 10,000 tons coal equivalent (tce)/year Guangdong plans to expand its coverage while taking the developments of the local and national carbon markets into consideration.
Number of liable entities	**Total** (2017): 296 **Existing Entities**(2017): 246 New Entrants (2017): 50 The accounting boundary for emissions is set at the company-level (organizational and operational boundary).
Point of regulation	Mixed: Both direct emissions from the power sector and indirect emissions from electricity and heat consumption are included in the scheme. Electricity prices are regulated in China, and therefore a scheme based on direct emissions alone would not induce a pass-through of carbon costs via the electricity price, and would not incentivize demand-side management of electricity. The system therefore covers emissions from the power sector upstream and other sectors downstream.

Phases & Allocation

Compliance period	One year (20 June)
Trading period	Five years (2013-2017) before the national carbon market is launched in 2017* *In the short-term, the existing Chinese regional carbon markets are expected to operate in parallel to the national Chinese carbon market. Over the medium to long-term, they are expected to be integrated into the national market, once it is fully operational.
Allocation	Mainly free allocation through grandfathering or historical intensity reduction method based on 2014-2016 emissions for 2017 vintage allocation. Annual emissions reduction factor of one is applied to sectors using grandfathering (the reduction factor was 0.99 in 2016). Benchmarking is applied for coal or gas fired electricity generators (including heating, combined heat and power), aviation, cement, paper and steel industrial processes. For those using benchmarking, the pre-issuance of allowance is based on 2016 production, and the final number will be updated based on 2017 production. In 2016 and 2017, the proportion of free allocation (95% for the power sector and 97% for remaining sectors) remained the same as in 2015. The allowance auction plan was also the same as for the vintage 2015, with a total of two million allowances available for auction. Different from 2015 and 2016 where auctions were held on quarterly basis, for vintage 2017 auctions will be ad hoc. During the first compliance year (2013) participation in auctions i.e. purchasing allowances was mandatory for entities to be eligible to receive or trade their freely allocated allowances. This requirement has been terminated since 2014.

Flexibility

Banking and borrowing	Banking is allowed during the pilot phase. Borrowing is not allowed.
Offsets and credits	**Quantitative Limit:** Domestic project-based carbon offset credits — China Certified Emission Reduction (CCER) — are allowed. The use of CCER credits is limited to 10% of the actual emissions of the compliance entities. As a mechanism that encourages the public to reduce carbon emissions, Pu Hui Certified Emission Reduction (PHCER) is also allowed for offsets. For 2017 a general limit of 1.5m tons has been set. **Qualitative Limit:** Of the annual compliance obligation met by offsets, at least half must be from CO_2 or CH_4 reduction projects. At least 70% of CCERs have to come from within Guangdong. Pre-CDM credits are not eligible, as are credits from hydropower or most fossil fuel projects. Guangdong also indicated the potential for further CCER restrictions depending on the fundamental supply/demand situation of the market and further national restrictions – details have yet to be released.
Provisions for price management	Guangdong has an auction floor price. Initially in 2013, it was set at CNY 60 (USD 9), and then it was lowered to CNY 25 (USD 4) and increased to CNY 40 (USD 6) in steps of CNY 5 (USD 1) with each quarterly auction. In the third year, the floor price is set at 80% of the weighted average price for allowances over the previous three months. In 2016, there was no restriction on the declared price, but a so-called policy reserve price was set, as an effective price floor. During the first auction for vintage 2016 allowances, half a million allowances were on offer and cleared above the floor price of 9.37 CNY/ton (USD 1.39) with a settlement price of 9.88 CNY/ton (USD 1.46).

Compliance

Monitoring, Reporting, Verification (MRV)	**Reporting Frequency:** Annual reporting of CO_2 emissions. **Verification:** Third-party verification is required. **Framework:** The Guangdong Development and Reform Commission (DRC) has released guidelines for monitoring and reporting for the compliance and reporting sectors.
Enforcement	Penalties for failing to submit emissions or verification reports on time range from CNY 10,000 (USD 1,480) to CNY 50,000 (USD 7,398). Furthermore, companies failing to surrender enough allowances to match their emissions will be deducted twice the amount of allowances from the following year's allocation and are fined CNY 50,000 (USD 7,398).

Other Information

Institutions involved	Guangdong Development and Reform Commission (Competent authority) China Emissions Exchange Guangzhou (Trading platform)
Linkage with other schemes	No information available yet.

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