

China - Guangdong pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Guangdong</p> <p>The Guangdong Pilot ETS was launched in December 2013 and is the largest of the Chinese ETS pilots. It currently covers the power, cement, steel, petrochemical, papermaking, and aviation sectors, accounting for more than 60% of the province's emissions. This is the result of an expansion of its scope back in 2016, which introduced two new sectors (domestic aviation and paper) and adjusted allocation methods. In 2017, the Guangdong Pilot ETS had 50 new entrants.</p> <p>The Guangdong Pilot ETS has one of the most active markets among Chinese pilots with the largest market share. Unlike other pilots, Guangdong auctions a small share of allowances.* The auctioning has been moved from mandatory (2013) to voluntary participation (since 2014) and has been held ad hoc (rather than quarterly) since 2017. Guangdong and Shenzhen are the only two Chinese pilots open to foreign investors. In November 2016, Guangdong 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. As of 2018, it had 72 institutional investors.</p> <p>*It was mandatory for enterprises to purchase 3% of their allowances from auctions in 2013 before receiving the remainder for free. Since 2014, the non-free allocation rate has been raised to 5% for the power sector and 3% for the remaining sectors.</p>
<p>Year in Review</p>	<p>The 2018 allocation plan was released by the Guangdong Development and Reform Commission (DRC) in July 2018. No significant changes were implemented compared to the allocation plan of the previous year.</p> <p>Much like the governance transition at the national level (see China National ETS factsheet), the ETS-related responsibilities in Guangdong provincial level moved from the DRC to the Ecology and Environment Bureau in October 2018.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 610.5 MtCO₂e (2012)</p>
<p>Overall GHG emissions by sector</p>	<p>No information available yet.</p>
<p>Overall GHG reduction target</p>	<p>BY 2020: 20.5% reduction in carbon intensity compared to 2015 levels</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO₂e):</i> CNY 15.10 (USD 2.28) (weighted average trading price in 2018; updated prices available here)</p>

ETS Size

Emissions covered by the ETS	0.60
GHG covered	CO ₂
Sectors covered and thresholds	Power, iron and steel, cement, papermaking, aviation, and petrochemicals. INCLUSION THRESHOLDS: 20,000 tCO ₂ /year or energy consumption 10,000 tonnes coal equivalent (tce)/year.
Point of regulation	Downstream. Both direct and indirect emissions are covered.* *The electricity market in Guangdong has undergone some changes following the national power sector reform process. In 2019, about a third of the total electricity consumption in Guangdong will be included in the electricity trading market. Guangdong also plans to launch an electricity spot market.
Number of liable entities	249 (2018), existing entities 39 (2018), new entrant entities No information available yet.
Cap	422 MtCO ₂ e (2018), among which 23 MtCO ₂ e are kept as government reserves for new entrants and market stability.

Phases & Allocation

Trading period	2013-2018* *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	Free Allocation: Mainly free allocation based on grandparenting, historical intensity, or benchmarking. Benchmarking is applied to coal and gas-fired electricity generators (including heating, as well as combined heat and power), as well as to some industrial processes in the aviation, cement, paper, and steel sectors. Ex-post adjustments based on real production data of the respective compliance year are also applied. Auctioning: Guangdong auctions a small share of allowances as a way of allowance allocation. During the first compliance year (2013), entities were required to purchase allowances in auctions in order to become eligible to receive their freely allocated allowances. This requirement was terminated in 2014. Since 2014, free allocation percentages remain the same, i.e., 95% for the power sector and 97% for the remaining sectors. A total of two million allowances are available for auction annually. Quarterly auctions were held until the 2016 vintage while for 2017 and 2018, auctions were ad hoc. No auction took place in 2018.

Flexibility

Banking and borrowing	Banking is allowed. Borrowing is not allowed.
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Offsets and credits	<p>QUANTITATIVE LIMIT: Carbon offset credits (CCERs) are allowed. As a mechanism that encourages the public to reduce carbon emissions, Pu Hui Certified Emission Reductions (PHCER) are also allowed during 2017 and 2018. In 2018, entities are allowed to make use of 1.5 million offsets (CCER and PHCER) towards compliance obligations.</p> <p>QUALITATIVE LIMIT: Of the annual compliance obligation met by offsets, at least half must be from CO₂ or CH₄ reduction projects. At least 70% of offsets need to come from within the Guangdong province. Pre-CDM credits are not eligible. Credits from hydro and from most fossil fuel projects are also not eligible.</p>
Market Stability Provisions	<p>Reserves: The Guangdong province set aside 5% of all allowances for government reserves for new entrants and market stability. The specific rules for market stability are provided by its Trial Measures for ETS.</p> <p>Auction Floor Price: Auctions under the Guangdong Pilot ETS are subject to an auction floor price. Initially in 2013, it was set at CNY 60 (USD 9.07), and then it was lowered to CNY 25 (USD 3.78) and increased to CNY 40 (USD 6.05) in steps of CNY 5 (USD 0.76) with each quarterly auction. In 2015, the floor price was 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. In 2017, the policy reserve price was set at 100% of the weighted average price for allowances over the previous three months. The policy reserve prices for the four auctions for the 2016 compliance period are as follows: (21 June 2016 – 20 June 2017) were CNY 9.37 (USD 1.42), CNY 11.27 (USD 1.70), CNY 16.09 (USD 2.43), and CNY 15.15 (USD 2.29).</p> <p>Offset Auctions: Guangdong also introduced auctioning for PHCERs with an auction price floor set by the Emissions Exchange Guangzhou on behalf of the project developers. In the latest auction (19 November 2018), the floor price was set as CNY 12.32/tonne (USD 1.86) (which is set at 80% of the weighted average price for allowances over the previous three months).</p>

Compliance

Compliance Period	One year
Monitoring, Reporting, Verification (MRV)	<p>REPORTING FREQUENCY: Annual reporting of CO₂ emissions.</p> <p>VERIFICATION: Third-party verification is required. In addition, further assessment of all validation reports was carried out by the government. On-site cross re-verifications were also conducted by third parties for all compliance entities with questionable verification reports as well for randomly selected entities. These have been shifted to fourth-party assessment and verification since the 2016 compliance period.</p> <p>FRAMEWORK: The Guangdong DRC has released guidelines for monitoring and reporting for the compliance and reporting sectors.</p> <p>OTHER: In addition to the ETS participants, all legal entities with energy consumption of more than 2,000 tce have to report their emissions. Verification is not required.</p>
Enforcement	Penalties for failing to submit emissions or verification reports on time range from CNY 10,000 (USD 1,512) to CNY 50,000 (USD 7,558). 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 7,558). Other non-financial penalties include negative impacts on access to bank loans and subsidy programs.

Linking

Links with other Systems	No information available yet.
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Other Information

Institutions involved	Guangdong Ecology and Environment Bureau (competent authority); Emissions Exchange Guangzhou (trading platform)
Evaluation / ETS review	No information available yet.
Revenue	Since beginning of program: CNY 804 million (USD 122 million) Collected in 2018: No revenue in 2018 (no auctions took place in 2018) Guangdong has been exploring the establishment of a Low Carbon Development Fund that would use auctioning revenues to promote further mitigation actions, carbon finance, and low-carbon industry development. The set-up and function of this fund is still under discussion between Guangdong DRC and Guangdong Finance Department. Currently, the revenue flows into the general provincial budget.
Implementing Legislation	Guangdong Pilot ETS Implementation Plan Trial Measures for Emissions Trading in Guangdong Guangdong DRC – Allocation Plan for Vintage 2018

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