

China - Hubei pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Hubei</p> <p>The Hubei Pilot ETS was launched in April 2014; to date, it has concluded five compliance years. Hubei has been one of the most active regional markets in China in terms of trading and has the second-largest market size when considering spot trading only, after Guangdong. When spot forward trading is also considered, Hubei has the largest market share as of end 2018, with its total secondary market transaction volume and value both accounting for over 60% of the sum of all pilots together. The system initially covered 138 of the most carbon-intensive companies in the province, accounting for approximately 35% of the province's total carbon emissions.</p> <p>Hubei has expanded its scope several times. In 2016, it lowered the thresholds of seven sectors from 60,000 to 10,000 tce and in 2017 further lowered the thresholds of all the other sectors to 10,000 tce. A government reserve with 8% of the total cap is available for market stabilization, and the government can also intervene in cases of market fluctuations, severe supply-demand imbalances or for liquidity reasons.</p> <p>According to the compliance notice by the Hubei Development and Reform Commission (DRC) in July 2017, the Hubei Pilot ETS will continue to run after the National ETS commences. However, only allowances that were traded can be banked into later years. The transition of Hubei allowances into the National ETS will be based on rules to be defined by the national competent authority. In December 2017, Hubei was selected to lead the development of the registry for the national ETS.</p>
<p>Year in Review</p>	<p>In early 2019, the ETS-related responsibilities in Hubei completed the transition from DRC to the Department of Ecology and Environment (DEE) of Hubei, as a result of the governance restructuring across China.</p> <p>The 2018 allocation plan was released by the Department of Ecology Environment of Hubei in July 2019. The key changes compared to the previous year's plan include a tighter allocation rule, expanding coverage to the water supply sector, and change of the allocation method of heat and cogeneration from a benchmark approach to one based on historical intensity.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 463.1 MtCO_{2e} (2012)</p>
<p>Overall GHG emissions by sector</p>	<p>No information available yet.</p>
<p>Overall GHG reduction target</p>	<p>BY 2020: 19.5% reduction in carbon intensity compared to 2015 levels</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO_{2e}):</i> CNY 32.05 (USD 4.64) (updated prices available here)</p>

ETS Size

Emissions covered by the ETS	0.45
GHG covered	CO2
Sectors covered and thresholds	<p>Power and heat supply, iron and steel, nonferrous metals, petrochemicals, chemicals, textile, cement, glass and other building materials, pulp and paper, ceramics, automobile and equipment manufacturing, food, beverage, and medicine producers, and water supply.</p> <p>INCLUSION THRESHOLDS: Annual energy consumption more than 10,000 tce in any year between 2015 and 2017.</p> <p>Until 2015: Annual energy consumption more than 60,000 tce in any year between 2010 and 2011.</p>
Point of regulation	<p>Downstream.</p> <p>Both direct and indirect emissions are covered.</p>
Number of liable entities	<p>338 (2018)</p> <p>No information available yet.</p>
Cap	256 MtCO2 (2018)

Phases & Allocation

Trading period	<p>2014-2019*</p> <p>*In the short term, the existing Chinese regional carbon markets are expected to operate 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.</p>
Allocation	<p>Free Allocation: Free allocation of 2018 vintage allowances through benchmarks for power and cement (except the entities using outsourced clinker).</p> <p>Historical emissions intensity for heat, co-generation, glass and other building materials, and the pulp and papers sectors; grandparenting based on previous three years' historic emissions for all other sectors.</p> <p>Ex-post allocation adjustments are possible, especially for those sectors that use benchmarks and emissions intensity.*</p> <p>The total cap also includes a new entrants reserve, as well as a government reserve for potential market stability measures.</p> <p>Auctioning: In November 2019, through two separate auctions 5 million allowances were made available from the government reserve. The auctions operated with a reserve price set at the weighted spot market price from 30 October 2017 to 30 October 2019.</p> <p>The first auction was restricted to compliance entities. Two million allowances were offered with 1.49 million sold at an average price of CNY 24.65 (USD 3.50). Remaining allowances were made available to covered entities as well as other market participants. The total auction volume was 3.51 million tonnes, including 0.51 million that was left from the first auction. The average price was CNY 24.49 (USD 3.48).</p> <p>*In this case, entities first receive half of the total allowance based on the previous year's actual emission data or historical emission baseline; the actual production data is then used to update allocation ex-post.</p>

Flexibility

Banking and borrowing	Banking is allowed, but only for allowances that were traded at least once. Borrowing is not allowed.
Offsets and credits	<p>Quantitative Limit: The use of domestic project-based carbon offset credits (CCERs) is limited to 10% of the annual initial allocation for each entity.</p> <p>Qualitative Limit: CCERs must come from rural biogas or forestry projects in the key counties under the national or provincial poverty alleviation plan in urban agglomeration areas of the middle reaches of the Yangtze River (within Hubei). CCERs must have been generated between 1 January 2013 and 31 December 2015.</p>
Market Stability Provisions	<p>Reserve: 8% of the total cap is kept as a government reserve for market stabilization.</p> <p>Intervention: In case of market fluctuations, severe imbalances between supply and demand or liquidity issues, the Hubei EEB—in consultation with an advisory committee consisting of government institutions and other stakeholders—can buy or sell allowances in order to stabilize the market. Specifically, if the allowance price reaches a low or high point six times during a 20-day time span, the Hubei EEB takes action.</p> <p>Exchange: The exchange limits day-to-day price fluctuations to between -10% and +10% respectively.</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 validation is carried by government-assigned experts and random checks are conducted by fourth-party verifiers. Special attention is also given to those only with mandatory reporting obligation while its reported emissions are close to 26,000 tCO₂.</p> <p>FRAMEWORK: The Hubei DRC has released a guiding document on monitoring and reporting that includes sector-specific guidance for the following sectors: power, glass, aluminum, calcium carbide, pulp and paper, automobile manufacturing, iron and steel, ferroalloys, ammonia, cement, and petroleum processing.</p>
Enforcement	Penalties for failing to submit an emissions or verification report on time range from CNY 10,000 (USD 1,512) to CNY 30,000 (USD 4,535). Trade participants that manipulate the market face up to CNY 150,000 (USD 22,673) in fines. Furthermore, companies that fail to surrender enough allowances to match their emissions will be deducted twice the amount of allowances from next year's allocation and are fined one to three times the average market price for every allowance, with a maximum limit of CNY 150,000 (USD 22,673).

Linking

Links with other Systems	No information available yet.
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Other Information

Institutions involved	Department of Ecology Environment of Hubei Province (competent authority);
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	China Hubei Emission Exchange (trading platform and registry)
Evaluation / ETS review	No information available yet.
Revenue	<p>Since beginning of program: CNY 122.74 million (USD 17.45 million)*</p> <p>Collected in 2019: CNY 122.74 million (USD 17.45 million)</p> <p>*One auction of four millions allowances took place in 2014 for which information surrounding the revenue is not available. The objective of the auction was to discover the market price and enhance market liquidity, rather than as a way of allowance allocation.</p> <p>No information available yet.</p>
Implementing Legislation	<p>Hubei Pilot ETS Implementation Plan</p> <p>Interim Measures for Management of Emissions Trading in Hubei Province</p> <p>Hubei DRC – Allocation Plan for Vintage 2017</p>

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