International Carbon Action Partnership
ETS Detailed Information

China - Hubei pilot system

General Information

Summary	**Status:** ETS in force **Jurisdictions:** Hubei On 2 April 2014, Hubei was the sixth pilot ETS in China to start trading. 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. Until now, Hubei has been one of the most active markets among the pilot ETSs in terms of trading. On 3 January 2017, the Hubei Development and Reform Commission (Hubei DRC) issued its allowance allocation plan for 2016 vintage compliance. The inclusion threshold has been lowered for some sectors and allocation methods have been adjusted using historical carbon intensity rather than grandfathering and stricter benchmarks for several sectors. In addition, companies covered by both Hubei ETS and the upcoming national ETS will be pre-allocated with a certain amount (equivalent to ten percent of their 2016 initial allocation) of National Emissions Allowances, which can only be used for future trading rather than 2016 compliance. According to the 2016 compliance notice by Hubei DRC on 6 July 2017, Hubei ETS will continue to run after the National ETS commences, and the valid Hubei allowance surplus from previous years can be traded and used for compliance in Hubei ETS in later years. The Hubei allowance transition to the National ETS will be based on rules to be defined by the National Development and Reform Commission (NDRC). In December 2017, Hubei was selected to lead the development of the registry for the National ETS. In January 2018, Hubei DRC announced the allocation plan for 2017 vintage. It expands the coverage, from 236 (2016) to 344 entities, by reducing the threshold for some industrial sectors to 10,000 tons coal equivalent (tce), thus equating the threshold across all covered sectors. Hubei Pilot ETS Implementation Plan (Chinese) Interim Measures for Management of Emissions Trading in Hubei Province (Chinese) Hubei DRC -Allocation Plan for Vintage 2017 (Chinese)
Overall GHG emissions (excluding LULUCF)	**Emissions:** 463.1 $MtC0_2e$ (2012)
Overall GHG emissions by sector	No information available yet.
Overall GHG reduction target	**By 2020** (13th Five Year Plan): 19.5% reduction in carbon intensity compared to 2015 levels.
Type of ETS	Mandatory
Cap and trajectory	**Type of Cap:** Absolute

	257 MtCO2e (2017)
Carbon Price	*Current Allowance Price (per t/CO2e):* CNY 15.34 (USD 2.38) (secondary market price as of 16 January 2018)

ETS Size

Emissions covered by the ETS	35%
GHG covered	CO2
Sectors covered and thresholds	Power and heat supply, iron and steel, non-ferrous metals, petrochemicals, chemicals, chemical fiber, cement, glass and other building materials, pulp and paper, ceramics, automobile and general equipment manufacturing, food, beverage and medicine producers. **Inclusion threshold:** Annual energy consumption more than 10,000 tce in any year between 2014 and 2016 for all sectors while in vintage 2016 it was only for the power, steel, non-ferrous, chemicals, petrochemicals, building materials and pulp and paper sectors and a higher level, 60,000 tce, was set for other sectors.
Number of liable entities	344 (2017) The accounting boundary for emissions is set at the company-level (legal person).
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	Due to the late start, compliance for 2013 and 2014 were combined in one phase. A one year compliance period is put in place since 2015 (by 30 May each year theoretically while in practice there have been some delays). For vintage 2016, the compliance deadline was postponed for two months to 31 July 2017.
Trading period	Five years (2013-2017)* *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	Free allocation of 2017 vintage allowances through benchmarks for power, heat, co-generation and cement (except the entities using outsourced clinker); historical carbon intensity method for glass and other building material, pulp and paper, and ceramics sectors; grandfathering based on previous three years' historic emissions for all other sectors. Ex-post allocation adjustments are possible, especially for those sectors that use benchmarks and historical intensity (first receive half of the total allowance based on previous year's actual emission data or historical emission baseline and then using the actual production data to update allocation). The total cap also includes a new entrants reserve as well as government reserve for potential market adjustment.

Flexibility

Banking and borrowing	Banking is allowed during the pilot phase, but only for allowances that were traded at least once. Borrowing is not allowed.
Offsets and credits	**Quantitative Limit:** Domestic project-based carbon offset credits — China Certified Emission Reduction (CCER) — are limited to 10% of the annual allocation. **Qualitative Limit:** CCERs must come from rural biogas or forestry projects in the key counties under the national poverty alleviation plan in urban agglomeration areas of the middle reaches of the Yangtze River (within Hubei) and that were generated between 1 January 2013 and 31 December 2015.
Provisions for price management	8% of the total cap is kept as government reserve for price management. In case of market fluctuations, severe imbalances between supply and demand or liquidity issues, the Hubei Development and Reform Commission (DRC) - 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 DRC shall take action. Furthermore, the exchange limits day-to-day price fluctuations to between -10% and +10% respectively (between 15 July and 25 December 206 the limit was temporarily adjusted to between -1% and +10% as a response to the decreasing carbon price at that time).

Compliance

Monitoring, Reporting, Verification (MRV)	**Reporting Frequency:** Annual reporting of CO_2 emissions. **Verification:** Third-party verification is required. **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.
Enforcement	Penalties for failing to submit an emissions or verification report on time range from CNY 10,000 (USD 1,480) to CNY 30,000 (USD 4,439). Trade participants that manipulate the market face up to CNY 150,000 (USD 22,195) 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 22,195).

Other Information

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

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