China - Hubei pilot ETS

General Information

Summary	**Status:** ETS in force **Jurisdictions:** Hubei 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. Hubei has also expanded its scope several times. In 2016, it lowered the thresholds of seven sectors from 60,000 to 10,000 tonnes coal equivalent (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. 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.
Year in Review	The 2017 allocation plan was released by the Hubei DRC in January 2018. The key change compared to the previous year's plan is a tighter allocation rule. By lowering thresholds for some sectors, it also increased the total number of covered entities from 126 (in 2016) to 344 (in 2017). Much like the governance transition at the national level (see China National ETS factsheet), it is expected that ETS-related responsibilities in Hubei will be moved from the DRC to the Ecology and Environment Bureau. The process is ongoing and is expected to conclude by early 2019.
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:** 19.5% reduction in carbon intensity compared to 2015 levels
Carbon Price	*Current Allowance Price (per t/CO2e):* CNY 21.23 (USD 3.21) (weighted average trading price in 2018; updated prices available here)

ETS Size

Emissions covered by the ETS	0.45
GHG covered	CO2
Sectors covered and thresholds	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, and food, beverage, and medicine producers. **INCLUSION THRESHOLDS:** Annual energy consumption more than 10,000 tce in any year between 2014 and 2016. **Until 2015:** Annual energy consumption more than 60,000 tce in any year between 2010 and 2011.
Point of regulation	Downstream. Both direct and indirect emissions are covered.
Number of liable entities	344 (2017) No information available yet.
Cap	257 MtCO2e (2017)

Phases & Allocation

Trading period	2014-2018* *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:** Free allocation of 2017 vintage allowances through benchmarks for power, heat, co-generation, and cement (except the entities using outsourced clinker). Historical emissions intensity for glass and other building materials, pulp and paper, and ceramics sectors; grandparenting 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 emissions intensity.* The total cap also includes a New Entrants Reserve, as well as a government reserve for potential market stability measures. *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.

Flexibility

Banking and borrowing	Banking is allowed, but only for allowances that were traded at least once. Borrowing is not allowed.

Offsets and credits	**QUANTITATIVE LIMIT:** The use of domestic project-based carbon offset credits (CCERs) is limited to 10% of the annual initial allocation for each entity. **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.
Market Stability Provisions	**Reserve:** 8% of the total cap is kept as a government reserve for market stabilization. **DRC Intervention:** In case of market fluctuations, severe imbalances between supply and demand or liquidity issues, the Hubei 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 takes action. **Exchange:** The exchange limits day-to-day price fluctuations to between -10% and +10% respectively; between 15 July and 25 December 2016, the limit was temporarily adjusted to between -1% and +10% as a response to the decreasing carbon price at that time.

Compliance

Compliance Period	One year
Monitoring, Reporting, Verification (MRV)	**REPORTING FREQUENCY:** Annual reporting of CO_2 emissions. **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 tCO_2. **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 1,512) 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.

Other Information

Institutions involved	Hubei DRC (competent authority)—the responsibility is expected to be moved to the Hubei Ecology and Environment Bureau in the course of 2019; China Hubei Emission Exchange (trading platform and registry)

Evaluation / ETS review	No information available yet.
Revenue	Since beginning of program: Revenue information for the 2014 auction not available.* Collected in 2018: No auctions took place in 2018. *To date, only one auction has been held in Hubei, with four million tonnes of allowances auctioned in 2014. The objective of the auction was to discover the market price and enhance market liquidity, rather than as a way of allowance allocation. No information available yet.
Implementing Legislation	Hubei Pilot ETS Implementation Plan Interim Measures for Management of Emissions Trading in Hubei Province Hubei DRC – Allocation Plan for Vintage 2017

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