

China - Shanghai pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Shanghai</p> <p>Shanghai was the second Chinese region, after Shenzhen, to start its pilot ETS in November 2013 and has concluded five compliance years so far. The pilot covers more than half of the city's emissions, including power, industry, and non-industrial sectors such as building, aviation, and shipping. It is the only pilot that has achieved almost 100% compliance rate continuously since its launch. In 2016 Shanghai expanded its ETS coverage by adding the shipping sector, as well as lowering the threshold of exiting power and industries (which were included in the 2013-2015 phase) to 10,000 tCO₂/year.</p> <p>Shanghai is the most active among the Chinese pilots in terms of offset credits trading. It also pioneered allowance spot forward trading in China. In January 2017, the Shanghai Environmental and Energy Exchange and Shanghai Clearing House jointly launched the over-the-counter 'Shanghai Emission Allowance Forward' contract, with central counterparty clearing, as an innovative financial product that serves a purpose similar to carbon financial derivatives. Shanghai has also carried out various other carbon finance innovations such as repurchases, green bonds, carbon funds, carbon trusts, CCER mortgages, and allowance borrowing.</p> <p>In December 2017, Shanghai was selected to lead the development of the trading platform for the national ETS.</p>
<p>Year in Review</p>	<p>In early 2019, the ETS-related responsibilities in Shanghai completed the transition from the Development and Reform Commission (DRC) to the Ecology and Environment Bureau (EEB), as a result of the governance restructuring across China.</p> <p>The 2018 allocation plan was released by the Shanghai DRC in December 2018. No significant changes were implemented compared to the allocation plan of the previous year.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 297.7 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. The total CO₂ emissions to be limited within 250 million tonnes.</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO₂e):</i> CNY 40.46 (USD 5.86) (updated prices available here)</p>

ETS Size

Emissions covered by the ETS	0.57
GHG covered	CO2
Sectors covered and thresholds	<p>Airports, domestic aviation, chemical fibers, chemicals, commercial, power and heat, water suppliers, hotels, financial, iron and steel, petrochemicals, ports, shipping, nonferrous metals, building materials, paper, railways, rubber, and textiles.</p> <p>INCLUSION THRESHOLDS: For power and industry: 20,000t CO2/year or 10,000 tce/year; and those that already participated in the 2013-2015 phase with 10,000 tCO2/year or 5,000 tce/year. For Transport: 10,000t CO2/year or 5,000 tce/year (aviation and ports), 100,000t CO2/year or 50,000 tce/year (shipping), considering both direct and indirect emissions. For Buildings: 10,000t CO2/year or 5,000 tce/year.</p>
Point of regulation	<p>Downstream.</p> <p>Both direct and indirect emissions are covered.</p>
Number of liable entities	<p>298 (2018)</p> <p>No information available yet.</p>
Cap	158 MtCO2e (2018, including both free allocation and reserve)

Phases & Allocation

Trading period	<p>Two trading periods: first period 2013-2015, second period 2016; no specific ending year.*</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 based on sector-specific benchmarks (power, heat, manufacturers); historic emissions intensity (industry, aviation, car glass, ports, shipping, and water suppliers, generally based on 2014-2016 data); or historic emissions (buildings, commercial sector, industry with complex products or considerable change in emission boundary, and airports, generally based on 2015-2017 data).</p> <p>Ex-post allocation adjustments, e.g., on the basis of production data, are applied for those with historic intensity or benchmarking allocations.</p> <p>Auctioning: A small share of the annual cap could be auctioned. The purpose of auctions is to provide compliance entities with additional supply to meet their compliance demand. Shanghai auctioned two million tonnes from the government reserve in November 2019, with a floor price set at 1.2 times the weighted on-exchange allowance price from 1 August 2018 to 28 November 2019—CNY 48 (USD 6.83). The auction cleared at the floor price and a total of 73,421 allowances were sold (3.7% of total auction volume). An auction of two million allowances was held in July 2018. 15% of allowances were sold, at the floor price of CNY 41.54 (USD 6.28).</p>

Flexibility

Banking and borrowing	Banking is allowed both within and across compliance periods, with some restrictions for the latter. For banked allowances from the first trading period (2013-2015), only one-third can be used per year between 2016 and 2018 by compliance entities; allowances are fully bankable for institutional investors, with some restrictions for OTC deals. Borrowing is not allowed.
Offsets and credits	<p>QUANTITATIVE LIMIT: Domestic project-based carbon offset credits—CCERs—are allowed. Since 2016 the use of CCER credits is limited to 1% of the annual allocation. Between 2013 and 2015 the limit was 5%.</p> <p>QUALITATIVE LIMIT: Credits for reductions that were realized before January 2013 cannot be used for compliance. Credits from hydro projects are not allowed.</p>
Market Stability Provisions	<p>Exchange: Depending on transaction types, if prices vary more than 10% or 30% in one day, the Shanghai Environment and Energy Exchange can take price stabilization measures such as temporarily suspending trading or imposing holding limits.</p> <p>Reserve: In addition, a small share of annual cap could be kept in a reserve for auctioning before the end of the annual compliance cycle as a market stability measure (see “Auctions” section).</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. Besides this, the government also conducts quality checks.</p> <p>FRAMEWORK: The Shanghai DRC has released monitoring and reporting guidelines for the following sectors: iron and steel, electricity and heat, chemicals, nonferrous metals, non-metallic mineral products, textiles and paper, aviation, shipping, large buildings (hotels, commercial, and financial), and transport stations.</p>
Enforcement	<p>Penalties for failing to submit an emissions report or verification report on time or providing fraudulent information range from CNY 10,000 (USD 1,512) to CNY 50,000 (USD 7,558).</p> <p>Between CNY 50,000 (USD 7,558) and CNY 100,000 (USD 15,115) can be imposed for noncompliance, besides surrendering the adequate amount of allowances. Further sanctions may also be imposed, such as entry into the credit record of the company, publication on the internet, cancelation of ability to access special funds for energy conservation, and emissions reduction measures.</p>

Linking

Links with other Systems	No information available yet.
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Other Information

Institutions involved	Shanghai Ecology and Environment Bureau (competent authority);
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	Shanghai Environment and Energy Exchange (trading platform); Shanghai Information Center (registry)
Evaluation / ETS review	No information available yet.
Revenue	Since beginning of programm: CNY 18.17 million (USD 2.63 million) Collected in 2019: CNY 3.52 million (USD 0.50 million) The revenues are submitted to the general municipality budget.
Implementing Legislation	Shanghai Pilot ETS Implementation Plan Trial Measures for Management of Emissions Trading in Shanghai Shanghai DRC - Allocation Plan for Vintage 2018 Shanghai DRC - Allocation Plan for Vintage 2017

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