

China - Shanghai pilot system

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 on 26 November 2013. The pilot covers more than half of the city's emissions including: Power, industrial and non-industrial sectors like building, aviation and shipping. Shanghai completed its third compliance period in June 2016 for the 2015 vintage, achieving full compliance for three years in a row. In 2016 Shanghai further expanded its ETS coverage.</p> <p>Shanghai is one of the most active markets among the pilot systems with regards to the cumulative trade volume and transaction amount.</p> <p>On 12 January 2017, Shanghai Environmental and Energy Exchange and Shanghai Clearing House (SHCH) jointly launched Over-the-Counter Shanghai Emission Allowance Forward (SHEAF) with Central Counterparty (CCP) clearing, as an innovative financial product that serves a similar purpose to carbon financial derivatives.</p> <p>In December 2017, Shanghai was selected to lead the development of the trading platform for the national ETS.</p> <p>Shanghai Pilot ETS Implementation Plan (Chinese) Trial Measures for Management of Emission Trading in Shanghai (Chinese) Shanghai DRC – Allocation Plan for Vintage 2017 (Chinese)</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 297.7 MtCO₂e 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 (13th Five Year Plan): 20.5% reduction in carbon intensity compared to 2015.</p>
<p>Type of ETS</p>	<p>Mandatory</p>
<p>Cap and trajectory</p>	<p>Type of Cap: Absolute</p> <p>156 MtCO₂e (2017)</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO₂e):</i> CNY 35.49 (USD 5.51) (secondary market price as of 16 January 2018)</p>

ETS Size

Emissions covered by the ETS	0.57
GHG covered	CO2
Sectors covered and thresholds	<p>The following sectors and entities are covered: Airports, aviation, chemical fiber, chemicals, commercial, power and heat, water suppliers, hotels, financial, iron and steel, petrochemicals, ports, shipping, non-ferrous metals, building materials, paper, railways, rubber, and textiles.</p> <p>Inclusion thresholds:</p> <p>For power and industry: 20,000t CO2/year or 10,000 tons coal equivalent (tce)/year; and those already participated in 2013-2015 phase with 10,000 CO2/year or 5,000 tce/year.</p> <p>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.</p> <p>For buildings: 10,000 CO2/year or 5,000 tce/year.</p>
Number of liable entities	<p>298 (2017)</p> <p>The accounting boundary for emissions is set at the company-level (legal person).</p>
Point of regulation	<p>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.</p>

Phases & Allocation

Compliance period	One year (30 June)
Trading period	<p>Three years (2013-2015; 2016-2018)*</p> <p>*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.</p>
Allocation	<p>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 airport, generally based on 2014-2016 data).</p> <p>Ex-post allocation adjustments, e.g., on the basis of production data, are possible.</p> <p>A smaller share of the annual cap (from the government reserve) could be auctioned. Shanghai held its allowance auction of 2m tons on 30 June 2017, with floor price of CNY 38.77 (USD 5.74), to increase the market supply. A total of 41,855 tons (2.1% of total auction volume) of allowances were sold at the floor price. Similarly, another auction was held in 2014. Both auctions were for covered entities that were in need of allowances for their compliance.</p>

Flexibility

Banking and borrowing	<p>Within the pilot phase, banking is allowed across compliance periods. For banked allowances from the first trading period (2013-2015), only one third can be used per year between 2016 and 2018 for compliance entities; fully bankable for institutional investors without Limit except for OTC deals after 9 May 2016 with one third of the Shanghai Emissions Allowances (SHEA) to be exchanged per year between 2016 and 2018.</p> <p>Borrowing is not allowed.</p>
Offsets and credits	<p>Quantitative Limit: Domestic project-based carbon offset credits — China Certified Emission Reduction (CCER) — are allowed. The use of CCER credits is limited to 1% of the annual allocation.</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>
Provisions for price management	<p>If prices vary more than 10% in one day, the Shanghai Environment and Energy Exchange can take price stabilization measures, temporarily suspend trading or impose holding limits.</p>

Compliance

Monitoring, Reporting, Verification (MRV)	<p>Reporting Frequency: Annual reporting of CO2 emissions.</p> <p>Verification: Third-party verification is required.</p> <p>Framework: The Shanghai Development and Reform Commission (DRC) has released guidelines for monitoring and reporting for the following ten sectors: Iron and steel, electricity and heat, chemicals, non-ferrous 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 1,480) to CNY 50,000 (USD 7,398).</p> <p>Between CNY 50,000 (USD 7,398) – CNY 100,000 (USD 14,797) can be imposed for non-compliance, besides surrendering the adequate amount of allowances. On top of the financial sanctions, further sanctions may be imposed, e.g., 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>

Other Information

Institutions involved	<p>Shanghai Development and Reform Commission (Competent authority)</p> <p>Shanghai Environment and Energy Exchange (Trading platform)</p> <p>Shanghai Information Center (Registry)</p>
Linkage with other schemes	<p>No information available yet.</p>

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