

China - Shenzhen pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Shenzhen</p> <p>The Shenzhen Pilot ETS began in June 2013 and was the first of the Chinese pilot ETSs to start operation. It is the only Chinese pilot at the sub-province level, and it covers a broad scope across the energy, industry, building, and transport sectors. The Shenzhen Pilot ETS covers a total of ~700 entities. A unique feature of this pilot ETS is its legal basis: although the majority of pilots are regulated by subnational government orders by the executive body of the government, the Shenzhen Pilot ETS is regulated by a dedicated ETS bill passed by its municipal legislator, the Shenzhen People’s Congress. This provides more legal stability.</p> <p>Shenzhen is one of the most active regional markets in China, despite its relatively small size compared to other pilots. As of July 2018, its accumulated transaction amount had reached CNY 1.091 billion (USD 160 million), with total volume of 35.7 million tonnes, which made it one of the few pilots in China to reach CNY one billion (USD 145 million). By end of 2020, Shenzhen’s cumulative trading volume and turnover amounted to 58.06 million tonnes and CNY 1.378 billion (USD 200 million) respectively. Shenzhen ETS pilot is open to diversified market participants, including covered entities and institutional as well as individual (domestic and foreign) investors.</p> <p>Shenzhen also has pioneered cross-regional cooperation. In 2014, Shenzhen and Baotou signed the ‘Memorandum of Strategic Cooperation on the Construction of Carbon Trading Systems.’ As a consequence of this, six companies in Baotou City of the Inner Mongolia Autonomous Region were covered by the Shenzhen Pilot ETS on a voluntary basis for one compliance year starting in June 2016.</p> <p>In early 2019, the ETS-related responsibilities in Shenzhen completed the transition from the Development and Reform Commission to the Ecology and Environment Bureau (EEB)*, as a result of the governance restructuring across China.</p> <p>*EEB’s predecessor was the Human Settlements and Environment Commission</p>
<p>Year in Review</p>	<p>In May 2020, Shenzhen EEB released the ‘Notice on Carrying out ETS Work for Compliance Year 2019’ which included an updated list of covered entities and adjusted the reporting, verification, and compliance schedule. However, Shenzhen’s allocation plans since 2013 have not been made publicly available.</p> <p>Due to the COVID-19 pandemic, the Shenzhen ETS postponed the 2019 compliance deadline for its system from the end of June to the end of September 2020. In October 2020, the Shenzhen EEB announced three companies had failed to comply, while announcing that the remaining 704 covered entities had successfully completed their 2019 compliance, achieving another high compliance rate of over 99%.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 83.45 MtCO_{2e} (2010)</p>

Overall GHG emissions by sector (in MtCO ₂)	No information available yet.
GHG reduction target	BY 2020: 45% reduction in carbon intensity compared to 2005 (13th Five-Year Plan) BY 2022: pledged to peak its GHG emissions by 2022 (political pledge made by Shenzhen government leader in 2015)
Carbon Price	<i>Current Allowance Price (per t/CO₂e):</i> CNY 23.91 (USD 3.46) (updated prices available here)

ETS Size

Covered emissions	0.40
GHGs covered	CO ₂ only
Sectors and thresholds	Power, water, gas, manufacturing sectors, buildings, port and subway sectors, public buses, and other non-transport sectors. INCLUSION THRESHOLDS: Annual emissions of 3,000 tCO ₂ e/year for enterprises; 10,000m ² for large public buildings and government buildings.
Point of regulation	Downstream Both direct and indirect emissions from electricity, heat, cooling, and steam consumption are covered.
Number of entities	707 (2019) 706 (2020)
Cap	31.45 MtCO ₂ (excluding buildings, 2015) for the existing entities. In addition, the government sets aside reserves for the new entrants (2%) and market stability measures (2%).

Phases & Allocation

Trading periods	2013 and ongoing* *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.
Allocation	Allowances are largely distributed for free and allowance allocation is adjusted ex-post, based on output data. FREE ALLOCATION, BENCHMARKING: Benchmarking is applied to the water, power, and gas sectors based on sectoral historical emissions intensity. FREE ALLOCATION, GRANDPARENTING: Grandparenting is applied to port and subway sectors, public buses, and other non-transport sectors based on the entity's historical emissions intensity. AUCTIONING: Although the 'Interim Measure for the Administration of Carbon Emission Trading of Shenzhen' document states that at least 3% of allowances should be auctioned, this has not yet been implemented. So far, only one auction has been held (in June 2014); its purpose was to increase market supply and price stability.

Flexibility

Banking and borrowing	<p>Banking is allowed.</p> <p>Borrowing is not allowed.</p> <p>Unlike some other pilots, Shenzhen releases its annual allowances before the compliance date of the previous vintage. Nevertheless, entities are not allowed to use allowances of the following year for the purpose of previous vintage compliance.</p>
Offsets and credits	<p>QUANTITATIVE LIMIT: Domestic project-based carbon offset credits (CCERs) are allowed. The use of CCER credits is limited to 10% of the annual compliance obligation.</p> <p>QUALITATIVE LIMIT: Credits from hydro projects are not eligible, and additional geographic restrictions apply to the use of certain CCERs.</p>
Market Stability Provisions	<p>RESERVE: 2% of the total cap is kept as a government reserve for market stabilization.</p> <p>INTERVENTION: In case of market fluctuations, the Shenzhen EEB can sell extra allowances from the reserve at a fixed price. Such allowances can be used only for compliance and cannot be traded. The government can also buy back up to 10% of the total cap. Once they are bought back, allowances can be also used for the market stability auctions.</p>

Compliance

Compliance Period	<p>One year (1 January to 31 December): covered entities have until 30 June of the following year to surrender allowances.</p>
Monitoring, Reporting, Verification (MRV)	<p>REPORTING FREQUENCY: Annual reporting of CO₂ emissions to the ETS competent authority, using different tiers of emission factors depending on the size of the company. A quarterly emissions report is also submitted. In addition, covered industrial entities must annually submit a statistical indicator report covering their production data to the municipality's statistics department.</p> <p>VERIFICATION: Third-party verification of the emissions report is required. Covered entities cannot use the same verifiers for three consecutive years. In addition, the government conducts further random checks of emission reports and verification reports. The proportion of these checks must not be less than 10% of the total number of covered entities. The competent authority may assign this inspection work to a specialized agency.</p> <p>FRAMEWORK: Shenzhen has released two documents:</p> <ul style="list-style-type: none"> • a general guiding document in the form of regional standards on monitoring and reporting; and • a guiding document on monitoring and reporting of the building sector.
Enforcement	<p>Covered entities providing false information can be fined for the difference between reported and actual emissions at three times the average allowance price of the past six months. Penalties for disturbing the market order can cost up to CNY 100,000 (USD 14,491). Covered entities failing to surrender enough allowances to match their emissions are fined three times the average market price of the past six months. The missing allowances can be withdrawn from the account of the company or deducted from next year's allocation. Other nonfinancial penalties include public reporting, reporting to relevant credit information of public banks, disqualification from financial subsidies (for five years), and a record entered in the State-Owned Enterprise performance assessment system.</p>

Linking

Links with other systems

No information available yet.

Other Information

Institutions involved	Shenzhen Environment and Ecology Bureau (competent authority; registry) China Shenzhen Emissions Exchange (trading platform)
Evaluation / ETS review	No formal evaluation has been conducted. Research on improving the Shenzhen ETS has been undertaken every year, funded by the Shenzhen government.
Revenue	Since beginning of program: CNY 2.6 million in 2014* (USD 380,000) Collected in 2020: No auctions were held in 2020. *The auction's objective was to increase market supply and price stability, with the participation of covered entities being voluntary, and not as a means of allowance allocation in which covered entities have to purchase a certain percentage of their allocation via auction. No information available yet.
Implementing Legislation	Shenzhen Special Economic Zone ETS Bill Interim Measures for Management of Emissions Trading in Shenzhen Shenzhen DRC – Notice of Carrying Out Emissions Trading Work for Vintage 2016 Shenzhen EEB - Notice on Carrying out ETS Work for Compliance Year 2019

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