

## China - Shenzhen pilot system

### General Information

<p>Summary</p>	<p><b>Status:</b> ETS in force</p> <p><b>Jurisdictions:</b> Shenzhen</p> <p>Shenzhen was the first of the Chinese pilot ETSs to start operation on 18 June 2013. In June 2017, Shenzhen finished its fourth compliance period (with a 99% compliance rate). On 18 September 2016, the Shenzhen Development and Reform Commission (DRC) released its working plan for the 2016 vintage, including a list of new companies and the 2016 allocation plan. At the time of writing, Shenzhen had not released allocation plans for the 2017 vintage. The Shenzhen ETS covers a total of 824 entities, including 246 new entrants for the 2016 vintage. These new entrants come from industry sectors, as well as from the public transport and port sectors.</p> <p>In addition to Shenzhen-based entities, thirteen companies in Baotou, the Inner Mongolia Autonomous Region, have been covered in Shenzhen market since June 2016 and completed compliance for 2016 vintage as of 30 June 2017. However, their participation is on a voluntary basis and coverage for the 2017 vintage is not foreseen.</p> <p><a href="#">Shenzhen Special Economic Zone ETS Bill (Chinese)</a></p> <p><a href="#">Interim Measures for Management of Emissions Trading in Shenzhen (Chinese)</a></p> <p><a href="#">Shenzhen DRC – Notice of Carrying Out Emissions Trading Work for Vintage 2016 (Chinese)</a></p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p><b>Emissions:</b> 83.45 MtCO<sub>2e</sub> (2010)</p>
<p>Overall GHG emissions by sector</p>	<p>No information available yet.</p>
<p>Overall GHG reduction target</p>	<p><b>By 2020</b> (13th Five Year Plan): 45% reduction in carbon intensity compared to 2005, to reach 0.81 tCO<sub>2</sub>/ CNY 10000.</p> <p>Shenzhen has also pledged to peak its GHG emissions by 2022, as one of the first group of cities in China to endorse such peak year target.</p>
<p>Type of ETS</p>	<p>Mandatory</p>
<p>Cap and trajectory</p>	<p><b>Type of Cap:</b> Absolute</p> <p>31.45 MtCO<sub>2e</sub> (excluding buildings, 2015)</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO<sub>2e</sub>):</i> CNY 25.21 (USD 3.91) (secondary market price as of 16 January 2018)</p>

## ETS Size

Emissions covered by the ETS	0.40
GHG covered	CO <sub>2</sub>
Sectors covered and thresholds	Power, water, gas, manufacturing sectors, buildings, port and subway sectors, public buses and other non-transport sectors.  <b>Inclusion thresholds:</b> 3,000t CO <sub>2</sub> e/year for enterprises; 20,000m <sup>2</sup> for public buildings and 10,000m <sup>2</sup> for government buildings.
Number of liable entities	824 (2016)  The accounting boundary for emissions is set at the company-level (organizational and operational boundary).
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	One year (30 June)
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	Allowances are largely distributed for free. Benchmarking is applied to the water, power and gas sectors based on sectoral historical carbon intensity; while grandfathering based on the entity's historical carbon intensity is applied to port and subway sectors, public buses and other non-transport sectors. For those using benchmarking and historical carbon intensity, the final number of allowances will be updated based on actual Output.  The Interim Measure for the Administration of Carbon Emission Trading of Shenzhen indicated that at least 3% of allowances are ought to be auctioned. This provision on auction hasn't been implemented in practice yet. So far, only one auction has taken place (in June 2014).

## Flexibility

Banking and borrowing	Banking is allowed during the pilot phase. Borrowing not allowed.  Different from other pilots, Shenzhen releases its annual allowances before the compliance date of previous vintage but doesn't allow them to be used for the purpose for previous vintage compliance.
Offsets and credits	<b>Quantitative Limit:</b> Domestic project-based carbon offset credits — China Certified Emission Reduction (CCER) — are allowed. The use of CCER credits is limited to 10% of the annual compliance obligation.

	<b>Qualitative Limit:</b> Credits from hydro projects are not eligible and there are further geographic restrictions for the use of certain CCERs.
Provisions for price management	In case of market fluctuations, the Shenzhen Development and Reform Commission (DRC) can sell extra allowances from a reserve at a fixed price. Such allowances can only be used for compliance and cannot be traded. The DRC can also buy back up to 10% of the total allocation.

## Compliance

Monitoring, Reporting, Verification (MRV)	<p><b>Reporting Frequency:</b> Annual reporting of CO2 emissions with a tier approach taking into account the size of the company.</p> <p><b>Verification:</b> Third-party verification is required.</p>
Enforcement	Institutes providing false information can be fined for the difference between reported and actual emissions at the price three times the average price of the past six months. Penalties for disturbing the market order can cost up to CNY 100,000 (USD 14,797). Companies 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 Information

Institutions involved	<p>Shenzhen Development and Reform Commission (Competent authority)</p> <p>China Shenzhen Emissions Exchange (Trading platform and registry)</p>
Linkage with other schemes	No information available yet.

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