

China - Shenzhen pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Shenzhen</p> <p>The Shenzhen Pilot ETS, which began in June 2013, 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 794 entities (2017). A unique feature of the Shenzhen Pilot ETS is its legal basis. While 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 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 in Shenzhen market on a voluntary basis as of June 2016.*</p> <p>*In June 2017, the companies from Baotou completed the first compliance. No further information is available on the subsequent compliance years.</p>
<p>Year in Review</p>	<p>In early 2019, the ETS-related responsibilities in Shenzhen completed the transition from DRC to the Ecology and Environment Bureau (EEB), as a result of the governance restructuring across China.</p> <p>Shenzhen is one of the most active regional markets in China, despite its relatively small size compared to other pilots. As of 25 July 2018, its accumulated transaction amount reached CNY 1.091 billion (USD 0.165 billion), with total volume of 35.7 million tonnes, which makes it the first pilot in China to reach CNY 1 billion (USD 0.151 billion). Shenzhen's allocation plans for 2017 and 2018 have not been made publicly available.</p>
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 83.45 MtCO₂e (2010)</p>
<p>Overall GHG emissions by sector</p>	<p>No information available yet.</p>
<p>Overall GHG reduction target</p>	<p>BY 2020: 45% reduction in carbon intensity compared to 2005</p> <p>BY 2022: Shenzhen has pledged to peak its GHG emissions by 2022, as one of the first group of cities in China to endorse such a peak year target</p>
<p>Carbon Price</p>	<p><i>Current Allowance Price (per t/CO₂e):</i> CNY 13.70 (USD 1.98) (updated prices available here)</p>

ETS Size

Emissions covered by the ETS	0.40
GHG covered	CO2
Sectors covered 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; large public buildings and 10,000m ² for government buildings.
Point of regulation	Downstream. Both direct and indirect emissions are covered.
Number of liable entities	794 (2017) No information available yet.
Cap	31.45 MtCO ₂ (excluding buildings, 2015)

Phases & Allocation

Trading period	2013-2019* *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	Free Allocation: Allowances are largely distributed for free. Benchmarking is applied to the water, power, and gas sectors based on sectoral historical emissions intensity. Grandparenting is applied to port and subway sectors, public buses, and other non-transport sectors based on the entity's historical emissions intensity. Allowance allocation is adjusted ex post based on output data. Although the 'Interim Measure for the Administration of Carbon Emission Trading of Shenzhen' states that at least 3% of allowances should be auctioned, this has not been implemented. So far, only one auction took place (in June 2014) in order to increase market supply.

Flexibility

Banking and borrowing	Banking is allowed. Borrowing is not allowed. Unlike other pilots, Shenzhen releases its annual allowances before the compliance date of the previous vintage but does not allow them to be used for the purpose for previous vintage compliance.
Offsets and credits	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. QUALITATIVE LIMIT: Credits from hydro projects are not eligible and additional geographic restrictions apply to the use of certain CCERs.

Market Stability Provisions	Intervention: In case of market fluctuations, the Shenzhen EEB can sell extra allowances from a reserve at a fixed price. Such allowances can only be used for compliance and cannot be traded. The EEB can also buy back up to 10% of the total allocation.
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Compliance

Compliance Period	One year
Monitoring, Reporting, Verification (MRV)	<p>REPORTING FREQUENCY: Annual reporting of CO2 emissions with a tiered approach taking into account the size of the company. A quarterly emissions report is also submitted. In addition, covered industrial entities must annually submit a statistical indicator data report.</p> <p>VERIFICATION: Third-party verification of the emissions report is required. Covered entities cannot use the same verifiers for three consecutive years. For the statistical indicator data report, the municipal statistical department may entrust the statistical indicator data verification agency to verify. In addition, further random checks of emission reports and verification reports are conducted by the government. The proportion of these checks shall 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: The Shenzhen DRC has released a guiding document on monitoring and reporting that includes sector-specific guidance for the covered sectors.</p>
Enforcement	Institutes 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 15,115). 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 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.

Linking

Links with other Systems	No information available yet.
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Other Information

Institutions involved	Shenzhen DRC (competent authority)—the responsibility is expected to move to the Human Settlements and Environment Commission of Shenzhen Municipality in the course of 2020; China Shenzhen Emissions Exchange (trading Platform and Registry)
Evaluation / ETS review	No formal evaluation has been conducted. Research on improving Shenzhen ETS has been undertaken every year, funded by Shenzhen DRC.
Revenue	<p>Since beginning of program: CNY 2.6 million in 2014* (USD 390,000)</p> <p>Collected in 2018: No auctions took place in 2018.</p> <p>*The objective of the auction was to increase market supply, and not as a means of allowance allocation.</p> <p>No information available yet.</p>

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
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