

China - Tianjin pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Tianjin</p> <p>Tianjin launched its pilot ETS in December 2013 and has concluded seven compliance years so far. The system covers: heat and electricity production; iron and steel; petrochemicals; chemicals; oil and gas exploration; papermaking; aviation; and building materials. Covered entities account for 50-60% of the city's total emissions. Despite not having any financial penalties in place, Tianjin has achieved full or close to full compliance since its launch.</p> <p>2019 saw changes to the governance of the Tianjin ETS as well as to the design of the system. With regards to governance, responsibility for the Tianjin ETS was moved from the Tianjin Development and Reform Commission (DRC) to the Ecology and Environment Bureau (EEB). With regards to design, the Tianjin ETS was expanded to also cover enterprises from the building materials, papermaking, and aviation sectors that previously only reported. Furthermore, allowance auctions were also held for the first time in 2019. These changes have indicated the regional EEB's commitment to further improve the effectiveness and robustness of its regional carbon market.</p>
<p>Year in Review</p>	<p>The Tianjin EEB released the 2019 allocation plan at the end of that year. The main allocation methods are historical intensity and total emission-based free allocation through grandparenting. Entities receive 50% of their pre-allocation based on 2018 emissions data and the remaining as ex-post adjustments on the basis of real production data. The plan also states that entities covered by the national Chinese ETS within the compliance period will be excluded from the compliance in the Tianjin Pilot ETS; in this case, the regional government will also withdraw the corresponding allowances issued for these entities.</p> <p>In June 2020, the Tianjin municipal government released the latest version of the 'Tianjin Interim Measures for the Administration of Carbon Emissions Trading,' which is the regulative document released every few years providing the legal basis for its regional carbon market. The document extended the Tianjin Pilot ETS until 30 June 2025. As well, the document introduces the following main changes:</p> <ul style="list-style-type: none"> • relocating the responsibility of the regional ETS from the Municipal DRC to its EEB; • adding air pollution control as one of the purposes; • explicitly excluding covered entities under the operational national ETS from the Tianjin Pilot ETS; and • strengthening enforcement measures: companies failing to surrender enough allowances to match their emissions will face deduction of double the amount of the gap in the next year's allocation, and third-party verifiers found to not comply with regulations will be banned for three years. <p>Following the first auction in 2019, the Tianjin pilot held two auctions in 2020. The first auction for the 2019 compliance year was held in June, with two million allowances sold at</p>

	<p>prices between CNY 17.31 (USD 2.51) and CNY 21.55 (USD 3.12). The second, held in August, sold 812,573 allowances at CNY 26.24 (USD 3.80).</p> <p>In September 2020, the Tianjin pilot completed its 2019 compliance period with a 100% reported compliance rate, becoming the first Chinese pilot to conclude the 2019 compliance process.</p> <p>In December 2020, Tianjin released its 2020 allocation plan*. According to the Chinese national ETS rules, regional markets that already have allocated allowances for 2019 and/or 2020 for the power sector will remain under the regional system for those years. This implies that the power sector entities that are overlapping between Tianjin and the national ETS will be covered under the regional carbon market in 2020 and moved to the national one from 2021 onwards.</p> <p>*This document, however, is not publicly available.</p>
Overall GHG emissions (excluding LULUCF)	Emissions: 215 MtCO ₂ e (2012)
Overall GHG emissions by sector (in MtCO ₂)	No information available yet.
GHG reduction target	BY 2020: 20.5% reduction in carbon intensity compared to 2015 levels (13th Five-Year Plan) BY 2025: pledged to peak its CO ₂ emissions by about 2025 (Tianjin Work Plan for Controlling Greenhouse Gas Emissions During the 13th Five-Year Plan Period)
Carbon Price	<i>Current Allowance Price (per t/CO₂e):</i> 22.64 CNY (USD 3.28) (updated prices available here)

ETS Size

Covered emissions	0.55
GHGs covered	CO ₂ only
Sectors and thresholds	<p>Heat and electricity production, iron and steel, petrochemicals, chemicals, oil and gas exploration, papermaking, aviation, and building materials*.</p> <p>INCLUSION THRESHOLDS: 20,000t CO₂/year considering both direct and indirect emissions.</p> <p>*The last three sectors were added in 2019.</p>
Point of regulation	<p>Downstream.</p> <p>Both direct and indirect emissions from electricity and heat consumption are covered.</p>
Number of entities	113 (2019)
Cap	160-170 MtCO ₂ (2014)

Phases & Allocation

Trading periods	<p>2013 and ongoing*</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	FREE ALLOCATION: Mainly free allocation through grandparenting based on either base year (for example, 2018 for the allocation of 2019 allowances) total emissions (for iron and steel, petrochemicals, chemicals, exploration for oil and gas, and aviation) or on emissions

intensity (for heat and electricity production, papermaking, and building materials). Benchmarking for new entrants and expanded capacity.

Ex-post allocation adjustments are applied, especially for those sectors that use benchmarks and emissions intensity.

AUCTIONING: A small share of the annual cap could be auctioned. Participation is voluntary and the purpose of auctions is mainly to provide compliance entities with additional supply to meet their compliance demand. To date, auctions have been held on an ad hoc basis. The Tianjin EEB held its first allowance auction in June 2019. Two million tonnes were on offer with the auction clearing at CNY 14.63/tonne (USD 2.12). Following the first auction in 2019, the Tianjin pilot held two auctions in 2020. The first auction for the 2019 compliance year was held in June, with two million allowances sold at prices between CNY 17.31 (USD 2.51) and 21.55 (USD 3.12). The second, held in August, sold 812,573 allowances at CNY 26.24 (USD 3.80).

Flexibility

Banking and borrowing	Banking is allowed. Borrowing is not allowed.
Offsets and credits	QUANTITATIVE LIMIT: Domestic project-based China Carbon Offset Credits (CCERs) are allowed as well as Tianjin regional forestry offsets. The use of CCER credits is limited to 10% of the annual compliance obligation. For the 2019 compliance year, at least 50% of the credits must originate from Beijing, Tianjin, or Hubei. QUALITATIVE LIMIT: Credits must stem from CO2 reduction projects, excluding hydro. They must be realized after 2013.
Market Stability Provisions	Intervention: In case of market fluctuations, the Tianjin EEB can buy or sell allowances (on a fixed price or through auctioning) in order to stabilize the market.

Compliance

Compliance Period	One year (1 January to 31 December): covered entities have until 30 June of the following year to surrender allowances*. *The deadline was postponed in 2020 due to the COVID-19 pandemic.
Monitoring, Reporting, Verification (MRV)	REPORTING FREQUENCY: Annual reporting of CO2 emissions. VERIFICATION: Third-party verification is required. Covered entities cannot use the same verifiers for three consecutive years. FRAMEWORK: The Tianjin DRC has released a guiding document on monitoring and reporting. The document includes sector-specific guidance for the covered sectors, which EEB - as the competent authority since 2019 - is continuing to improve.
Enforcement	There are no financial penalties for noncompliance. In case of noncompliance, companies are disqualified for three years for preferential financial support and other national supporting policies, e.g., on recycling economy, energy-saving measures, and emission reductions. In addition, since mid-2020, companies and third-party verifiers face further penalties. Companies failing to surrender enough allowances to match their emissions will face deduction of double the amount of the gap in the next year's allocation. Third-party verifiers found not to comply with regulations (e.g., in the case of false verification reports) will be banned from providing verification services for three years in Tianjin.

Linking

Links with other systems

No information available yet.

Other Information

Institutions involved	Tianjin Ecology and Environment Bureau; Tianjin Climate Exchange (trading platform and registry)
Evaluation / ETS review	No information available yet.
Revenue	Since beginning of program: CNY 349.67 million (USD 50.7 million) 2020: CNY 240.88 million (USD 34.9 million) No information available yet.
Implementing Legislation	Tianjin Pilot ETS Implementation Plan Interim Measure for Management of Emissions Trading in Tianjin Interim Measure for Management of Emissions Trading in Tianjin (2020) Tianjin EEB - Allocation Plan for Vintage 2019

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