

China - Fujian pilot ETS

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: Fujian</p> <p>The province of Fujian launched its ETS in September 2016; it is the eighth regional pilot ETS in China. To date, it has completed four compliance years, achieving 100% compliance except in the first year. Unlike other Chinese pilots, which were mandated jointly by the National Development and Reform Commission (NDRC), the mandate for the Fujian ETS came from the State Council with the endorsement of the ‘National Ecological Civilization Pilot Area (Fujian) Implementation Plan.’ The NDRC approved the Haixia Equity Exchange in Fujian as one of nine trading platforms for trading Chinese Certified Emission Reductions (CCERs), demonstrating NDRC’s recognition of the regional market.</p> <p>The system covers nine sectors: electricity, petrochemical, chemical, building materials, iron and steel, nonferrous metals, paper, aviation, and ceramics. Given the prominence of the forestry sector in Fujian, its ETS pilot has a special focus on carbon sinks. In 2017, the Fujian government outlined a plan to promote forestry offsets projects in the province. By 2020, the selected counties in the province are required to develop forestry projects covering two million acres of forests, achieving an expected one million tonnes of emission reductions annually.</p> <p>In early 2019, the ETS-related responsibilities in Fujian completed the transition from the Fujian DRC to the Fujian Provincial Department of Ecology and Environment (DEE), as a result of the governance restructuring across China.</p>
<p>Year in Review</p>	<p>In August 2020, the Fujian government amended the ‘Interim Measures for the Administration of Carbon Emissions Trading in Fujian Province,’ fine-tuning its reporting, verification, and market oversight system.</p> <p>As a province dedicated to promoting its forestry-based offsets, by the end of October 2020 the Fujian ETS had traded 2.6 million tonnes of forestry offset credits, with a total turnover of over CNY 38 million (USD 5.5 million), overachieving the province’s target of forestry offsets set in 2017.</p> <p>The Fujian ETS finished its compliance work for 2019 at the end of October 2020, reporting a 100% compliance rate for its 269 covered entities from nine sectors.</p> <p>The latest publicly available detailed allocation plan, which dates from 2019, covers two years: 2018 and 2019. This plan was released by the Fujian DEE in June 2019. Almost 50% of the regulated entities are architectural ceramics companies. Since then, no detailed allocation plan has been released publicly.</p> <p>In late November 2020, Fujian published a notice on the pre-allocation of carbon emission allowances for the 2020 compliance year. The notice specifies that 269 covered entities are covered under the Fujian ETS. Following the allocation rules (see “Allocation” section), the entities receive 70% of the number of allowances based on their 2019 production data</p>

	<p>as pre-allocated allowances for 2020. The actual production data is then used to update allocation ex-post.</p> <p>According to the Chinese national ETS rules, regional markets that have already 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 Fujian and the national ETS will be covered under the regional carbon market in 2020 and moved to the national one from 2021 onwards.</p>
Overall GHG emissions (excluding LULUCF)	Emissions: 240.0 MtCO ₂ e MtCO ₂ e (2014)
Overall GHG emissions by sector (in MtCO ₂)	No information available yet.
GHG reduction target	BY 2020: 19.5% reduction in carbon intensity compared to 2015 levels
Carbon Price	<i>Current Allowance Price (per t/CO₂e):</i> 17.24 CNY (USD 2.50) (updated prices available here)

ETS Size

Covered emissions	0.60
GHGs covered	CO ₂
Sectors and thresholds	<p>Electricity, petrochemical, chemical, building materials, iron and steel, nonferrous metals, paper, aviation, and ceramics.</p> <p>INCLUSION THRESHOLDS: Energy consumption 10,000 tonnes of coal equivalent (tce)/year for any year between 2013 and 2016.</p> <p>In the future, the Fujian system may extend its coverage to smaller emitters, i.e., those with energy consumption of 5,000 tce or more.</p>
Point of regulation	<p>Downstream</p> <p>Both direct and indirect emissions from electricity and heat consumption are covered.</p>
Number of entities	<p>255 (2018)</p> <p>269 (2019)</p> <p>269 (2020)</p>
Cap	<p>~220 MtCO₂ (2019)*</p> <p>The cap includes three elements: existing entities' allowances, new entrants reserve, and market stability reserve.</p> <p>* There is no public data on the total cap, or the number of its three elements. This number is based on an estimate developed by experts.</p>

Phases & Allocation

Trading periods	<p>2016-ongoing*</p> <p>*In the short term, the existing Chinese regional carbon markets are expected to operate in parallel with 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: Benchmarking is applied to the electricity, cement, aluminum, and plate glass sectors.

The other sectors are allocated allowances based on historical intensity. These entities can also apply for more allowances for early mitigation actions.

A pre-allocation method is adopted for the annual allowance allocation. At first, entities receive 70% of the allowances in a given year, which are calculated based on their production levels in the previous year (for example, 2019 pre-allocation is based on 2018 production data). Allocation is then adjusted ex-post to reflect the actual production in the respective compliance year.

AUCTIONING: Auctioning may take place where considered appropriate by the ETS authorities (see “Market Stability Provisions” section) and may be introduced as a method for allowance allocation over time; up to 10% of the total cap is reserved for market intervention.

In order to increase market liquidity and price discovery, the Fujian DRC organized a discriminatory (nonuniform price) auction of 50,000 allowances in 2016 from the government reserve, with the settlement prices ranging from CNY 26.50 (USD 3.84) to ~CNY 30 (USD 4.35). No further auctions have taken place to date.

Flexibility

Banking and borrowing	Banking is allowed. Borrowing is not allowed.
Offsets and credits	<p>QUANTITATIVE LIMIT: Domestic project-based carbon offset credits (CCERs) and Fujian Forestry Certified Emission Reduction credits (FFCER) are allowed. The use of CCER credits is limited to 5% of the annual compliance obligation. The limit is increased to 10% for companies that use both FFCER and CCER credits.</p> <p>QUALITATIVE LIMIT: Eligible offsets are restricted to those generated in Fujian province, from CO₂ or CH₄ projects. Hydropower-related credits are not eligible. FFCER projects, with three project types (afforestation, forest management, and bamboo management) are eligible if implementation took place after 16 February 2005 and if the project developers have independent legal personality.</p>
Market Stability Provisions	<p>RESERVE: 10% of the total cap is kept as a government reserve for market stabilization.</p> <p>INTERVENTION: According to the (trial) ‘Implementation Rules of Emissions Trading Market Management in Fujian Province,’ the Fujian Economic and Information Center under the guidance of the competent authority—in consultation with an advisory committee—can buy or sell allowances in order to stabilize the market under certain conditions. These conditions include: market fluctuations (i.e., if the cumulative increase or decrease of allowance prices for ten consecutive trading days reaches a certain percentage); severe imbalances between supply and demand; or liquidity issues. More specifically, high prices may trigger allowance auctions from government reserves through the Haixia Equity Exchange. Low prices may trigger authorities to buy allowances from the market through governmental funds.</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> <p>* This is according to the ‘Interim Measures of the Fujian ETS.’ In practice, the provincial government releases executive notices to guide the timeline of the annual compliance circle.</p>
Monitoring, Reporting, Verification (MRV)	REPORTING FREQUENCY: Annual reporting of CO ₂ emissions.

	<p>VERIFICATION: Third-party verification is required for all the annual emissions reports. In addition, further validation is carried out by government-assigned experts for ~30% of the reports to further enhance accuracy; this process is also called “fourth-party verification” in China.</p> <p>FRAMEWORK: The Fujian DRC and the Fujian Statistical Bureau jointly released a guiding document on monitoring and reporting that includes a monitoring plan template, using national measuring and reporting guidelines. In addition, the Fujian DRC and the Fujian Quality and Technical Supervision Bureau jointly released a measure for the administration of third-party verifiers, which specifies criteria for the verifiers and their staff. Both documents are still valid.</p>
Enforcement	<p>Penalties for failing to submit an emission or verification report on time, providing false information, or disturbing the verification process range from CNY 10,000 (USD 1,449) to CNY 30,000 (USD 4,347). Companies failing to surrender enough allowances to match their emissions are fined between one to three times the average market price of the past 12 months per allowance, with a maximum limit of CNY 30,000 (USD 4,347). Additionally, twice the amount of the missing allowances can be withdrawn from the account of the company or deducted from next year’s allocation. Penalties for the misconduct of trading entities and their staff, such as not publishing relevant trading information or leaking commercial secrets, could range from CNY 10,000 (USD 1,449) to CNY 30,000 (USD 4,347).</p>

Linking

Links with other systems	No information available yet.
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Other Information

Institutions involved	<p>Fujian Provincial Department of Ecology and Environment (competent authority) Fujian Haixia Equity Exchange (trading platform) Fujian Economic and Information Center (registry, market management, and MRV administration)</p>
Evaluation / ETS review	No information available yet.
Revenue	No information available yet.
Implementing Legislation	<p>Implementation Plan of Emissions Trading Market Construction in Fujian Province</p> <p>Interim Measures for the Management of Emissions Trading in Fujian Province</p> <p>2020 Amendments to the Interim Measures</p> <p>Fujian Provincial Department of Ecology and Environment—Allocation Plan for Vintage 2018 and 2019</p>

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