

## Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

Though experiencing an unintended delay, the online trading activities of the China national trading system (hereinafter as the national ETS) are still moving forward, while the overall momentum of building a more effective ETS is getting stronger and stronger.

It is noticed that numerous progress have been made in legislation and policy making during the recent two months, while more sectors are preparing for the national carbon market, detail rules on registration and trading were also released. In this newsletter, we will brief you on the details of the achievements, as well as the efforts EDF have been making on promoting key emission industry to formulate peaking and carbon neutral roadmap.

### **National ETS**

- **Legislation**

On May 27<sup>th</sup>, the General Office of the State Council released a notice, showing that the China national ETS management regulation has secured a place in the workplan this year and is waiting for State Council's approval. It means that the carbon market will adopt a national level management regulation for a more robust ETS legislation framework by the end of 2021. This built up a confident expectation for the whole market by removing policy uncertainties.

- **Market Rules**

The Ministry of Ecology and Environment (hereinafter as the MEE) officially published the rules for registry and settlement, trading, on May 19<sup>th</sup>, completing the whole policy framework of the national ETS. These rules, based on the experience gained from pilots, and the details, such as account opening, will be clarified by Hubei and Shanghai accordingly.

On June 23<sup>rd</sup>, Shanghai Environment and Energy Exchange unveiled the specific trading rules in a notice, introducing the unified trading platform,

and elaborated on transaction method, the trading hours, limits on price fluctuation and the accounts management.

- **Coverage**

The climate change department of the MEE entrusted the China Buildings Material Federation, Nonferrous Metals Industry Association, Iron and Steel Association, and China Petroleum and Chemical Industry Federation by authorization letter to formulate allowance allocation plans and benchmark setting, and to organize carbon market operation tests and make research on the monitoring, reporting, and verification. This means China is accelerating the process of ETS expansion to other key emission sectors.

- **Tests**

Testing on the systems initiate in early May, the operation of the registry and settlement system, the trading platform, as well as the link between the above infrastructures are tested. Representatives from covered entities took part in the tests and sent feedbacks to related authorities.

## **Pilots**

- Tianjin. The pre-compliance auction was hold on June 29<sup>th</sup>, which is restricted to the covered entities being short of allowances to surrender. A total volume of 757,292 tonnes were traded at 34.19 yuan/tonne, a floor price set by the local authorities.
- Shenzhen. "Shenzhen Special Economic Zone Ecological Protection Regulations" (hereinafter referred to as "Regulations") was officially released and planned to be implemented on September 1<sup>st</sup> this year.

The Regulations authorize the Shenzhen Municipal Government to set carbon emission intensity standards for key industries, and projects with carbon emission intensity exceeding the standards will be included in the negative list for industry access.

The Regulations also ask the Shenzhen Municipal Government to establish a city-wide carbon emissions trading system, and to set a limit on the annual carbon emissions of the entities covered in this system by enforcing a fixed cap.

## **EDF Efforts**

- **Pathway to achieve carbon peaking and neutrality—from industry perspective:** EDF organized a two-day closed-door workshop in Wuhan, inviting representatives from 5 key emission sectors (including power, steel, cement, petrochemical and non-ferrous) to have a thorough discussion on the pathways of achieving carbon peaking and neutrality in a cost-effective

manner, while ensuring the smooth and steady low carbon transition in these sectors and supporting the high-quality economy development in China. Solutions such as policy making, standards setting, participating in national ETS, as well as transition finance innovation are explored, and the foundation of cross industries mechanisms are formed.

Please feel free to share the newsletter with other acknowledged experts.

As always, please do not hesitate to let us know if you would like to follow up on the above topic on China's ETS and anything else you may wish to know.

We would love to hear from you.

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2021 is the first year of the "14th Five-Year Plan". China's Ministry of Ecology and Environment stated that a Nationwide ETS with complete institutions, active trading, strict supervision, and high transparency will be built during the 14th Five-Year Plan period. EDF will continue to follow up on the construction of China Nationwide ETS, bringing you first-hand news and insightful analysis. For more information or to get in touch with an EDF spokesperson, please contact EDF China at [China@edf.org](mailto:China@edf.org).

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