

# Welcome to EDF China Carbon Pricing Newsletter

Dear friends and colleagues,

China places a pivotal role of international cooperation in addressing climate change. This past April and May, China signed joint statements with France, Brazil, and Central Asian countries, indicating a future of extensive cooperation to address climate change. China has also made important progress in areas such as the development of the voluntary carbon market, the construction of carbon peaking and carbon neutrality standard systems, and the implementations of green finance.

EDF is continuing to explore diversified solutions to improve the national ETS and facilitate the robust low carbon transition in China. This newsletter summarizes the updates on policies and latest news of national ETS and local carbon markets, as well as our support on organizing the “2023 China International Conference on Climate Investment and Finance”, and our research results about the market mechanisms of the national ETS.

## International Cooperation on Climate Change

- **France-China’s Cooperation on Climate Change.** On April 7<sup>th</sup>, the Chinese and French governments released the *Sino-French Joint statement* (Hereinafter as the *Joint Statement*), which addressed various global challenges, including climate change. The *Joint Statement* emphasized that China and France would work together to implement their national determined contributions under the Paris Agreement. In addition, both countries would encourage dialogues on green and sustainable finance between agencies and development banks, central banks, regulators, and financial authorities, with the aim of sharing their experiences and promoting the establishment and improvement of standards, specifically in the area of standardizing non-financial information. The two countries would also collaborate in the fields of technology, building, and energy, to jointly explore the development and application of carbon-neutral technology, to promote energy conservation and decarbonization of buildings and to encourage sustainable urban development. The two countries will cooperate to

promote a low-carbon transition in the energy system, and use tools such as the fair energy transition partnerships to promote a fairer energy transition in developing countries.

- **Brazil-China's Cooperation on Climate Change.** On April 15<sup>th</sup>, the state leaders of Brazil and China issued the *Brazil-China Joint Statement on Combating Climate Change* (Hereinafter as the *Statement*) to jointly address climate change. In the *Statement*, the two countries decided to establish a subcommittee on Environment and Climate Change under the China-Brazil High-level Coordination and Cooperation Committee to broaden, deepen and diversify bilateral cooperation. The *Statement* pointed out that the international scientific community has shown unequivocally that human activities are changing the global climate system and creating new challenges to sustainable development to developing countries. Therefore, developed countries should bear historical responsibilities, take the lead in strengthening climate actions, achieve climate neutrality before 2050, and provide sufficient and predictable climate funds to support developing countries' sustainable development.
- **Central Asia-China's Cooperation on Climate Change.** On May 19<sup>th</sup>, the China-Central Asia Summit was held in Xi'an, China, during which the heads of state jointly signed the *China-Central Asia Xi'an Declaration* (Hereinafter as the *Declaration*). The *Declaration* stated that China and Central Asia will promote the comprehensive and effective implementation of the Paris Agreement, based on the principle of "common but differentiated responsibilities", and work together to build a global climate governance system that is beneficial to all. In addition, the *Declaration* calls for enhanced cooperation in green technologies, with a focus on agriculture, energy, and infrastructure, to mitigate the impact of climate change. Furthermore, China and the Central Asia will co-explore the possibility of establishing a database of key green investment projects, make China's investment in not only Central Asia but also along the Belt and Road region much "greener".

## **National Carbon Market**

- **GHG Voluntary Emission Reduction Methodology.** On March 28<sup>th</sup>, the Ministry of Ecology and Environment (hereinafter as the MEE) issued the *Letter on the Open Call for Methodological Proposals for Voluntary Greenhouse Gas Emission Reduction Projects*, inviting proposals from organizations and institutions who have capacity on developing the GHG reduction methodologies. The *Letter* aimed to stimulate a wider range of industries and enterprises to participate in reducing GHG, and support the development of renewable energy, forestry carbon sinks, methane utilization, and other projects that are vital for

mitigation. Proposed methodologies could be a revision of an existing methodology or a new one, and should facilitate the reduction or elimination of GHG emissions. However, relevant organizations cannot propose methodologies for sectors that have mandatory emission reduction obligations. Furthermore, the *Letter* was accompanied by *Outlines for Compiling Methodologies of Voluntary Greenhouse Gas Emission Reduction Projects*, this document is a basis for relevant organizations to compile GHG voluntary emission reduction project methodologies. It specifies the main principles of methodology preparation, applicable fields, and also provides a sample methodology.

## Energy Transition

- **Low Carbon Transition of Energy Industry.** On August 6<sup>th</sup>, the National Energy Administration released the *Guiding Opinions on Energy in 2023*, which stated that China would accelerate the planning and construction of the new energy system, promote the development of clean energy industries, accelerate the green transition of economic development, and modernize and upgrade the energy industry to achieve secure, green and efficient energy development. To achieve these objectives, China will gradually increase the proportion of non-fossil fuel energy in total energy consumption to 18.3% by 2023, and the share of installed capacity for non-fossil fuel energy would be raised to around 51.9%. In addition, wind and photovoltaic power generation would account for 15.3% of total electricity consumption, reducing energy consumption intensity by around 2% in 2023 compared with that in 2022.

## Standard Systems

- **Carbon Peaking and Carbon Neutrality Standards System.** On April 21<sup>st</sup>, the Standardization Administration of China, along with 10 other authorities, jointly released the *Guidelines for Constructing Standard System of Carbon Peaking and Carbon Neutrality* (Hereinafter as the *Guidelines*). According to the *Guidelines*, by the year of 2025, China will develop or revise more than 1000 national standards and industry standards to improve the consistency with international standards. China will also enhance its cooperation with organizations such as IPCC and ISO, and substantively participate in the development of at least 30 international standards on green and low-carbon development. The *Guidelines* proposes a standards system that consists of four sub-fields: general standards, carbon reduction standards, carbon removal standards, and market mechanism standards.

- In the field of general standards, the *Guidelines* emphasizes the development of standards for carbon emissions accounting and verification, low-carbon management and evaluation, and carbon information disclosure.
- For carbon reduction standards, standards of improving energy efficiency and reducing carbon emissions, promoting the use of non-fossil fuels, developing new energy systems, ensuring the clean and low-carbon utilization of fossil fuels, and promoting resource recycling and reutilization, are in the top priority.
- As of carbon removal standards, efforts are made to accelerate the development and deployment of standards for carbon capture, utilization and storage. Accelerating the development of standards for green finance, carbon markets, and evaluation of ecological product has been prompted in the file as to improve the market mechanism.

## Green Finance

- **Central SOEs are encouraged to issue climate-related bonds.** On May 6<sup>th</sup>, the State-owned Assets Supervision and Administration Commission promulgated the *Measures for Managing Bond Issuance by Central State-owned Enterprises* (Hereinafter as the *Measures*). The *Measures* encourages central state-owned enterprises (SOEs) to leverage significant reforms in the capital market, and to efficiently serve major national strategies through the issue of technological innovation bonds, carbon neutrality bonds, and carbon peaking bonds. The *Measures* requires central SOEs to actively take their social and functional responsibilities, promote the green and low-carbon transition of central SOEs leveraging financial tools and methods, and devote great efforts to facilitate the achieving of China's climate goals.

## Local Carbon Markets

- **Tianjin**
  - On March 28<sup>th</sup>, Tianjin Ecology and Environment Bureau issued the *Circular to Start the Work of Reporting, Verification and Compliance of 2022 Carbon Emission in Tianjin Municipality* (Hereinafter as the *Circular*). The *Circular* applies to enterprises with annual greenhouse gas emissions exceeding 20,000 tonnes of carbon dioxide equivalent. According to the *Circular*, covered entities should prepare carbon emission reports and data quality control plans in accordance with relevant regulations. The Tianjin Ecology and Environment Bureau

should carry out the verification of submitted 2022 carbon emissions reports and allocate allowances based on the verification results, and covered entities must complete the submission of allowances by June 30<sup>th</sup>, 2023.

- **Fujian**

- On April 6<sup>th</sup>, the Department of Housing and Urban Rural Construction of Fujian Province and Fujian Development and Reform Commission jointly issued the *Implementing Program for Carbon Peaking in Urban and Rural Construction Sector of Fujian Province* (Hereinafter as the *Program*). According to the *Program*, carbon emissions in the Fujian's urban and rural construction sector should reach their peak by 2030, primarily through the construction of green and low-carbon cities and villages. By 2025, green buildings should account for 100% of newly built urban buildings, and during the 14th and 15th Five-Year Plan periods, more than 16 million square meters of existing public buildings should be renovated to conserve energy. In addition, the replacement rate of renewable energy in urban buildings should reach 8%, and the coverage rate of roof-top solar photovoltaics in newly built public buildings and factories should reach 50%.

- **Beijing**

- On April 7<sup>th</sup>, Beijing Municipal Commission of Development and Reform released the *Measures for 2023 Ecological Environment Protection Work* (Hereinafter as the *Measures*). The *Measures* specifies that Beijing will establish various implementation plans for renewable energy, energy conservation, and resource conservation to promote the development of clean energy and energy transition. Additionally, Beijing will work to develop local geothermal, heat pump, and photovoltaic systems, as well as promote the utilization of medium and deep geothermal heating, orderly develop biomass, and construct pilot wind power projects. Furthermore, the city will support the introduction of carbon peak policies in various fields, such as energy, technology, building, and transportation, and clarify the emission control paths for each sector. Additionally, Beijing will also promote the green and low-carbon transition of production and consumption, improve its green technology innovation policy, and continue to promote the popularization and application of green technology.
- On April 21<sup>st</sup>, the Beijing Municipal Ecology and Environment Bureau released the *Circular on the Management of Carbon Emissions Trading Pilot and Covered entities in Beijing in 2023* (Hereinafter as the *Circular*). According to the *Circular*, green electricity purchased by covered entities

through market mechanisms will not be included in the accounting of carbon emissions; the allocation of allowances for the compliance cycle of 2022 will be mainly free, with auction as a supplementation; and key entities of taxi industry will be included in Beijing ETS for the first time. At the same time, the *Circular* also proposed to include carbon emissions reductions from low-carbon transportation, fuel conversion of small-size passenger cars, and hydrogen fuel cell vehicle into Beijing's voluntary emission reduction program. The approved projects' emissions reductions can be used as carbon offset to be traded in Beijing ETS.

- **Sichuan**

- On April 21<sup>st</sup>, Department of Ecology and Environment of Sichuan Province, along with 16 other departments, jointly released the *Action Plan for Climate Change Adaptation of Sichuan Province* (Hereinafter as the *Plan*), which is the first provincial action plan for climate change adaptation in China. According to the *Plan*, Sichuan will conduct monitoring and evaluation projects of climate change risks, enhance the adaptabilities of ecosystem, water resource, agriculture, infrastructure, human settlements, key industries, and health sectors to climate change. Additionally, Sichuan will carry out emergency reactions to natural disasters, optimize the spatial layout of the national land, to enhance its climate resilience. By continuously conducting climate change adaptation activities, Sichuan will establish a developed climate risk management and prevention system by 2035.

- **Shanghai**

- On April 22<sup>nd</sup>, Shanghai Municipal Development and Reform Commission released the *2023 Key Works for Carbon Peaking and Carbon Neutrality, and Energy Saving and Pollution Control in Shanghai*, which set targets for reducing energy consumption and carbon emissions intensity, and place a strict control on the total consumption of coal. Shanghai will further deepen the transition of the energy system, promote the green development of industry, urban and rural construction, and transportation sectors. At the same time, Shanghai will also facilitate its low-carbon development through the development of a circular economy, scientific and technological innovation, ecological carbon sinks, and low-carbon consumption.
- On April 25<sup>th</sup>, Shanghai Municipal Commission of Economy and Informatization released the *Circular of Launching Carbon Management Pilots in Manufacturing Industry and Communication Industry in Shanghai 2023* (Hereinafter as the *Circular*). According to the *Circular*, Shanghai will encourage industries such as steel, petrochemical, and automobile to

conduct product-level carbon footprint evaluations across their entire life cycles, establish carbon footprint databases for industrial products, and promote the development of a carbon labeling system. At the same time, Shanghai will also encourage enterprises and industrial parks to establish digital carbon management platforms and, integrate functions such as carbon accounting, product-level carbon footprint evaluations and disclosures, and carbon finance to promote the industrial application of carbon footprint data. In addition, the *Circular* also encourages financial institutions to participate in the carbon finance market, develop financing and support tools for carbon market, and promote innovation in various derivatives based on carbon allowances.

## **EDF Efforts**

- EDF supported organizing the 2023 China International Conference on Climate Investment and Finance and the sub-forum Outlooks on the International and Domestic Development of Carbon Market & Climate Investment and Finance in April. At the conference, stakeholders shared the latest international and domestic progress on how the synergy development of the carbon market and climate investment and financing could promote a high-quality, low-carbon transition in China. It encouraged dialogues among stakeholders from key emission industries, the carbon market, and financial sectors. Nearly 200 participants attended the sub-forum on site, including high-level international and domestic stakeholders from MEE, World Bank, industry associations, research institutes, emission exchanges, etc. Online viewers reached around 351,000 from the [Chinese webcast](#) and 92,000 from the [English webcast](#).
- EDF partnered with Shanghai Environment and Energy Exchange to research on how to improve the trading mechanisms of the national ETS. On May 10<sup>th</sup>, Shanghai Environment and Energy Exchange invited key stakeholders and experts to review the final research report, it is concluded that at present, the national ETS should gradually include organizations without compliance obligations, such as carbon asset managers and financial institutions, to expand the market participants of the carbon market. Additionally, more carbon financial instruments, derivatives, and investment products should be developed based on spot market trading products, with allowance repurchase being emphasized in the short term. Furthermore, the national ETS needs to improve its market liquidity level by introducing allowance auctions, the top concern in the short term, and gradually introducing the market maker mechanism, and market stability mechanisms in the long term.

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 MEE 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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