

# Latest Development of China's National ETS

DUAN Maosheng  
China Carbon Market Research Center (CCMC)  
Tsinghua University  
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# 1. Revision and Finalization of the System Design

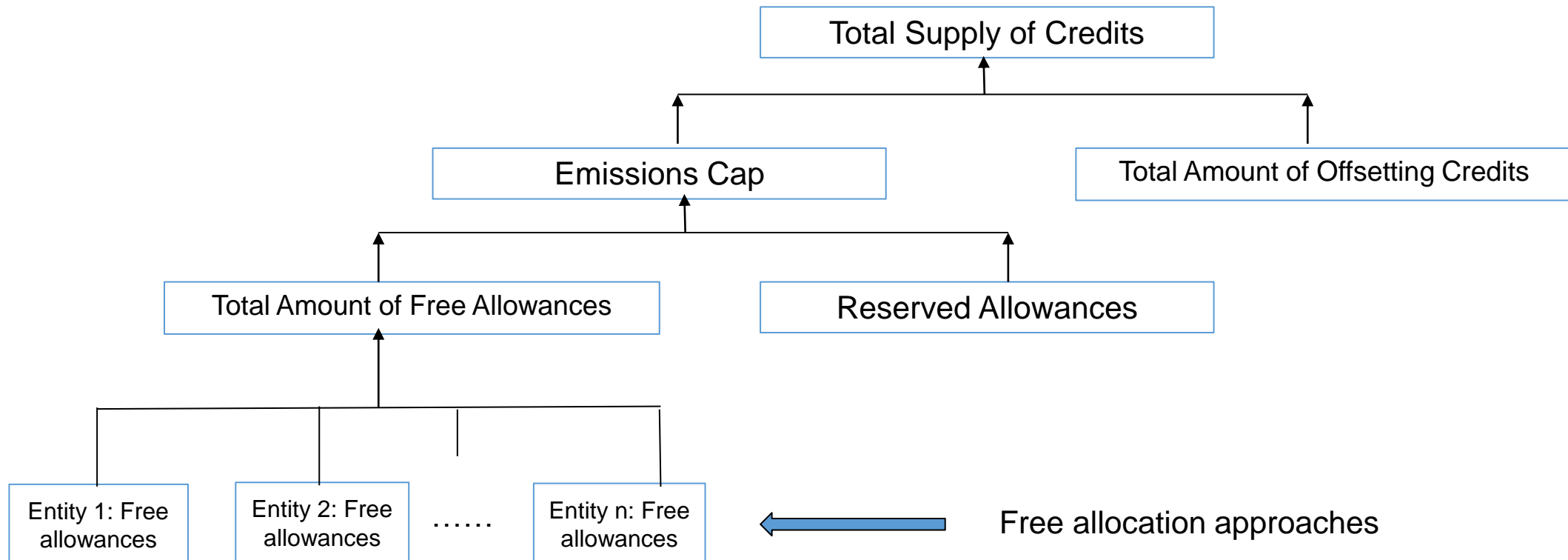
- *Interim Measures on Carbon Emissions Trading* issued in 2014 by National Development and Reform Commission (NDRC), the then ETS authority
- *Measures on Carbon Emissions Trading (trial)* issued in December 2020 by Ministry of Ecology and Environment (MEE), adjusting the basic framework of the national system
- *Implementation Plan on Allowances Cap Determination and Allowance Allocation for 2019-2020* issued in 2020 by MEE
- State Council regulation development still under way
- First compliance period started and actual transactions expected to happen in June 2021

## 2. Coverage of the National System

- Power generation is the first sector covered
- Only CO<sub>2</sub> covered at this stage
- Both direct and indirect emissions from electricity and heat consumption are covered
- Power companies with annual emissions higher than 26,000 tCO<sub>2</sub> in any year between 2013-2019
- For year 2019-2020, 2225 power companies covered with estimated annual emissions more than 4 billion tCO<sub>2</sub>
- Captive power generation facilities covered, but those using mainly biomass and waste gas, etc. tentatively exempted
- More sectors will be covered in the future

# 3. Emissions Cap Setting of the National System

- Nominal cap (control cap) vs. de facto cap
- De facto cap will mainly be intensity-based and affected by the specific allocation approaches, actual output of the covered entities and also possibly future prices



## 4. Allowance Allocation under the National System

- Allowance will be mainly allocated for free, and auction will be introduced at appropriate time
- Benchmarking approach will be the first choice at the initial stage, but based on current rather than historical production of the covered facilities, in order to address policy restraints and development uncertainties
- A two-step allocation process: 1) ex-ante initial allocation based on historical output (e.g. 70% of 2018 output for the power generation sector initially); 2) ex-post adjustment when current production data is available
- Four benchmarks for the power sector: one for gas units, two for conventional coal units ( $\leq 300\text{MW}$  and  $>300\text{MW}$ ), and one for non-conventional coal units

## 5. Other Rules

- CCERs could be used for offsetting purpose up to 5% of the verified emissions
- Limited financial penalty due to policy constraints
- Allowance shortage is capped at 20% of verified emissions for year 2019-2020
- Information disclosure, supervision by and tip-off from the public
- Installations covered by the national system will no-longer be covered by the regional systems
- Future revision of the system design according to the carbon emission peaking target, e.g. cap setting and allocation approaches

# Thanks

[duanmsh@tsinghua.edu.cn](mailto:duanmsh@tsinghua.edu.cn)