

**THE GROWING NATIONAL
CARBON EMISSION TRADING
SYSTEM IN CHINA**

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Executive Summary

1. China has attempted to better utilise market-oriented mechanisms to promote low-carbon development since 2010 when it launched pilot projects to explore institutional innovation in Greenhouse Gas emission reduction. From 2013 to 2016, eight pilot projects were launched, which helped China accumulate experience and capacity in legislation, policies and supervision.
2. Variations across China's pilot markets with respect to rules, prices and trading volumes are considerable. China launched its National Carbon Emission Trading System (NCETS) on 16 July 2021 to reduce market segmentation by setting national trading rules and standards, and expand participation of investors in more regions and number of tradeable Carbon Emission Allowances (CEAs).
3. The first batch of CEAs for NCETS was distributed only to 2,162 key companies in the electricity industry. It is also the first batch of companies that are permitted to take part in the trading and to use China Certified Voluntary Emission Reductions (CCER) to offset parts of their annual CEA payment.
4. NCETS currently supports only two forms of spot trading: agreement transfer or one-way bidding. Two locations, Hubei and Shanghai, are each responsible for the operation and maintenance of the CEA registration system and trading system. The national trading platform for CCERs is run by the Beijing Green Exchange.
5. NCETS is hence far from being a united and comprehensive trading platform to reveal fair market price of carbon. It also cannot effectively guide companies' decisions on carbon reduction and environment-related risk management or the flow of more social capital to the low-carbon (low environmental cost) field.
6. Since the launch of NCETS, the role of the local pilot carbon markets has been weakened with less transactions. Meanwhile, the trading activity in China's national carbon market has also been limited. There are still large gaps between China's

NCETS and EU carbon market in terms of trading volumes and prices, industry coverages, availability of trade types and trading format.

7. China's carbon market is expected to become the world's largest carbon emissions trading market. A robust national carbon market may support the development of other green financial products and services in China, and even the internationalisation of Renminbi.

8. China's NCETS faces several urgent challenges: (i) establish industry standards in line with the widely accepted international standards for carbon emission monitoring, measurement and verification at the national level; and (ii) improve Monitoring, Reporting and Verification governance capability and carbon control enforcement mechanisms.