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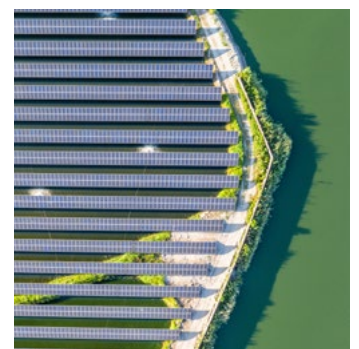
# COP26 – China’s preparation to date:

China is the world’s number one greenhouse gases (GHGs) emitter and plays a major role in global climate change mitigation. With the notion of “ecological civilisation” being included in the overall planning of the country<sup>1</sup>, and “green” development as one of the key principles for development<sup>2</sup>, China is actively promoting a low carbon transition from within the country and recognises climate change as a key concern both internally and internationally.

China has made a number of pledges to address climate change. In its nationally determined contributions (NDCs) submitted to the United Nations in 2016, China pledged to peak carbon dioxide emissions by 2030, lower carbon dioxide emissions per unit of GDP by 60% to 65% from the 2005 level; and increase the share of non-fossil fuels in primary energy consumption to around 20% - aiming to achieve all of these pledges by 2030. In September 2020, during a speech at the UN General Assembly, President Xi Jinping announced China’s commitment to reach carbon neutrality by 2060, to accomplish this, concrete efforts need to be taken now which drastically curb emissions in this relatively short timeline.<sup>3</sup>

Ahead of the UN Climate Change Conference (COP26) scheduled in Glasgow in November

1. The five aspects of overall planning involves development in economy, politics, culture, society and ecological civilisation.
2. The five principles for development are promoting the innovative, coordinated, green, open and shared development.
3. It was mentioned by government officials on a number of occasions that a policy document, including the timeline, roadmap and policy toolkit, to achieve the emissions peak and carbon neutrality will be released very soon in 2021 - to be updated if necessary.



2021, China, the EU and Canada co-convened the 5th Session of the Ministerial on Climate Action in March 2021, attended by 35 countries and internationally organisations. China and the United States have issued a Joint Statement Addressing the Climate Crisis after China Special Envoy for Climate Change Xie Zhenhua and US Special Presidential Envoy for Climate John Kerry had talks from 15 to 16 April 2021 in Shanghai. The joint statement provides that both countries intend to develop their respective long-term strategies aimed at carbon neutrality/net zero GHG emissions before the COP26.

### Launch of China's national ETS

A recent major advancement of China's climate governance is the launch of a national emissions trading scheme (ETS).

Previously, China had launched regional ETS pilots in 3 provinces (Hubei, Guangdong and Fujian) and 5 cities (Beijing, Tianjin, Shanghai, Chongqing and Shenzhen) between 2013 and 2016, paving the way for the launch of a national ETS.

In December 2020, China published the *National Carbon Trading Management Measures (For Trial Implementation)*, which marked the official launch of the long-expected national ETS. In July 2021, the national ETS became truly operational as the entities covered by the national ETS were able to trade carbon emission allowances (CEA) in the Shanghai Environment Energy Exchange.

The national ETS, despite of its initial phase, is currently the largest ETS in the world, covering more than 2,000 entities with aggregate annual emissions exceeding 4 billion tons of CO<sub>2</sub> equivalent. In the long term, it is expected that China's national ETS will either be linked with the regional ETS pilots, or as the national ETS expands to other high-emitting sectors, it will be able to absorb some or all of the regional ETS pilots.

The national ETS has the following features:

- The national ETS at its initial phase covers entities of the power sector with annual emissions of 26,000 tons CO<sub>2</sub> or above, or comprehensive energy consumption of 10,000 tons of standard coal and above, in any year between 2013 and 2019. GHGs other than CO<sub>2</sub> are not taken into account in the national ETS at this stage.
- Benchmarking is the main allocation method. The amount of allowances allocated to each entity is calculated based

on its actual output of the year multiplied by various emissions benchmarks, which depend on the types of the power generation, the method of cooling, heat supply, load ratio, etc. All allowances are allocated for free, though it is contemplated that auctions may be introduced at a later stage.

- Entities covered by the national ETS follow an annual compliance cycle, which includes monitoring, reporting, verification of emissions and surrender of allowances/credits. Entities covered by the national ETS must report their annual emissions by the end of March each year. Provisionally applicable to the first compliance cycle, the entities covered by the national ETS need to report their emissions by 30 April 2021 and surrender allowances/credits by 31 December 2021.
- The use of carbon credits certified as the China Certified Emissions Reduction (CCER) is allowed to offset up to 5% of entities' verified emissions for compliance with the national ETS. However, specific rules on the use of the CCERs in the national ETS need to be issued before CCERs can actually be used for offsetting.

For further information on China's national ETS, please see our e-bulletin [here](#).

### Low carbon transition of the energy sector

China develops energy planning under its Five-Year-Plans such as the *13th Five-Year-Plan for Energy Development* (covering 2016-2020 period), while also publishing long-term energy planning such as the *Revolutionary Strategy for Energy Production and Consumption (2016-2030)* and the *Energy Technology Revolution Innovation Action Plan (2016-2030)*.

According to the *Revolutionary Strategy for Energy Production and Consumption (2016-2030)*, during the 2021 to 2030 period, the objectives of the energy sector include: (1) the use of renewable energy, natural gas, and nuclear power will continue to grow, and the use of high-carbon fossil fuel will be greatly reduced; (2) total energy consumption will be controlled within 6 billion tons of standard coal; (3) non-fossil fuel will account for about 20% of total energy consumption, natural gas will account for about 15%, new energy demand will mainly be satisfied by clean energy sources; (4) carbon intensity, ie carbon dioxide emissions per unit of GDP, will be reduced by 60%-65% compared to 2005 level, and (5) carbon dioxide emissions will peak around 2030 with a push to peak sooner if possible.

To achieve these goals, it is envisaged that the energy sector needs reform from both the supply and consumption end. On the supply end, reforms focus on the promotion of the clean and efficient use of coal, energies such as natural gas and renewables, the development of renewable energies, especially distributed renewables. China also promotes the development of "internet +" smart energy systems which include the interconnection of the power system to oil and gas networks, an advanced storage system and the use of information technology in other aspects of the energy sector. On the consumption end, reforms focus largely on limiting the development of high energy intensity industries, implementing more stringent emissions standards, increasing energy efficiency, promoting the use of electricity in urban areas, etc. Technology and market based mechanisms are deemed highly important in all of these reforms.

### Adjustment of industrial structure

In efforts to limit the development of high energy intensity industries, the National Development and Reform Commission of China together with other departments has published annually since 2016 a "Notification in Resolving Overcapacity in Key Areas". These notifications mainly focus on eliminating outdated and inefficient production capacity in high emitting sectors such as steel, coal and thermal power because it is estimated that these sectors have excess capacity. Capacity cuts were made on illegal producers and producers not compliant with environmental, safety or industry standards. New projects in these areas are restricted.

To promote the green and low carbon transition of the economy, the Chinese government has also published the *Guiding Catalogue of Green Industries (2019 edition)* which lists industries in six areas as green industries, these include (1) industry of energy conservation and environmental protection; (2) industry promoting clean production; (3) industry of clean energy; (4) industry of ecological protection and green agriculture; (5) industry of environmental friendly infrastructure; and (6) green service industry. The catalogue does not itself grant any benefits to entities of the green industries, however, the catalogue serves as a classification system for what may constitute as green industries, to inform a range of other departments (such as financial, pricing, tax departments) which make their own policies or catalogues.

### Climate finance

In 2016, the People's Bank of China (PBOC) together with six other ministries, jointly published the Guidelines for Establishing a Green Financial System in order to direct more investments into low-carbon transition. Since then, a number of green finance products have been developed in China, including green loans, green bonds, green agricultural insurance, clean energy insurance and green trusts.

In October 2020, the *Guiding Opinions on Promoting the Investment and Financing in Response to Climate Change* further emphasised that climate finance is an important part of the wider green finance system. The guiding opinions express the notion that climate finance includes financing in climate mitigation and climate adaptation, and encourages financial institutions to develop climate-friendly green financial products. Improving taxonomy in relation to climate projects and disclosure of climate information is also planned according to this guiding opinions.

In April 2021, an updated version of the *Green Bond Endorsed Project Catalogue (2021)* was issued which became effective from July 2021. A major change was the deletion from the catalogue of "clean use of coal" and a number of projects using or producing fossil fuels, which reflects that climate perspective has been taken more into account in the latest version of this green taxonomy. The 2021 version also adds carbon capture, utilization and storage (CCUS) into the catalogue.

### Disclosure requirements

On 28 June 2021, the China Securities Regulatory Commission published revised versions of the rules relating to annual reports and half-year reports of listed companies, which replaced the previous 2017 versions.

As a major highlight, all listed companies are now required to disclose in their annual reports any administrative penalties relating to environmental issues received during the reporting period.<sup>4</sup> In addition, under the general backgrounds of reducing carbon emissions, disclosure of information on the measures taken to reduce carbon emissions and the effects of these measures is now specifically encouraged (though not mandatory) for listed companies.

For further information on the ESG disclosure requirements for China's listed companies, please see our e-bulletin [here](#).

### Control of other types of GHGs

Control of GHGs other than CO<sub>2</sub> (such as reducing methane, nitrous oxide, HFCs) is taken into consideration mainly in agriculture, waste treatment and industrial sectors.

China has formally accepted the Kigali Amendment to the *Montreal Protocol on Substances that Deplete the Ozone Layer*, whose ratification will be effective from 15 September 2021. The Kigali Amendment aims to phase out the use of hydrofluorocarbons (HFCs), substances used in air conditioners, refrigeration equipment and foam insulation which have a large impact on global warming. The amendment aims to reduce the use of HFCs by at least 80% worldwide over the coming decades. China is the world's largest producer and consumer of HFCs and its efforts to implement the obligations of the Kigali Amendment are considered essential.

### Increasing carbon sinks

Increasing carbon sinks is another important aspect of climate mitigation. Chinese actions to increase carbon sinks include reforestation, forest rehabilitation, improving wetlands ecosystem, increasing soil carbon sinks by changing agricultural behaviours, and developing CCUS technologies.

### Concluding remarks

From the Copenhagen conference to the Paris conference, the external perceptions of China's role in international climate conferences evolved from an inactive player to a global climate leader.<sup>5</sup> By announcing the carbon neutrality goal ahead of the COP26, China shows to the world its ambitions in climate mitigation and exercises its responsible leadership vital to the success of global climate efforts. Now that the goal is announced, the question is left on how it will be achieved. We may not see further strengthened climate goals announced during COP26, but we can reasonably anticipate the details, roadmaps or policy approaches to achieve emissions peak and carbon neutrality being published before or during COP26. Separately it remains to be seen how China reacts to other key issues that remain to be resolved during the COP26, including among others, transparency requirements, carbon offsetting in carbon markets and climate finance.

### Key contacts



**Monica Sun**  
Partner  
T +86 10 6535 5122  
[monica.sun@hsf.com](mailto:monica.sun@hsf.com)



**Yilin Pei**  
Associate  
T +86 183 1053 4602  
[yilin.pei@hsf.com](mailto:yilin.pei@hsf.com)

4. Same as in the 2017 rules, "key polluting entities" identified by the environmental protection agencies are under more stringent disclosure obligations to disclose additional environmental information, including pollution discharge and status of pollution control facilities.

5. China's Evolving Image in International Climate Negotiation, available at: <https://www.worldscientific.com/doi/pdf/10.1142/S2377740018500112>