

Interim Regulations on the Administration of Carbon Emissions

Trading (Revised Draft)

Article 1 [Legislative Purpose] These Regulations are hereby formulated to regulate carbon emissions trading, strengthen the control and management of greenhouse gas (GHG) emissions, facilitate the goal of peaking carbon dioxide (CO₂) emissions towards the ultimate carbon neutrality goal, and promote the green and low-carbon transition of China's economic and social development in harmony with ecological civilization.

Article 2 [Scope of Application] These Regulations apply to the supervision and management procedures of national carbon emissions trading, as well as other related activities.

Article 3 [Basic Principles] National carbon emissions trading and other related activities shall follow government guidance as it relates to market regulation; observe the principles of openness, fairness, and impartiality; and ensure the control of GHG emissions is compatible with economic and social development objectives.

Article 4 [Division of Responsibilities] The competent ecological and environmental authorities of

the State Council shall be responsible for developing technical guidelines for national carbon emissions trading and relevant activities; strengthening the supervision and management of specific tasks including carbon emissions allowance allocations and GHG emissions reporting and verification; and providing supervision, management and guidance for national carbon emissions trading and relevant activities in conjunction with the competent authorities for national development and reform, industry and information technology, and energy.

The competent ecological and environmental authorities at the provincial level shall be responsible for organizing and implementing activities related to carbon emissions trading within their respective administrative regions, such as handling the allocation and surrender of carbon emissions allowances and the verification of GHG emissions reports, as well as performing supervision and management duties for such activities.

Article 5 [Scope of Coverage] The competent ecological and environmental authorities of the State Council shall recommend specific types of GHGs and sectors to be covered by the national carbon emissions trading market in conjunction with other relevant authorities of the state Council and in accordance with state-determined GHG emissions reduction targets, as well as report their recommendations to the State Council for approval before implementation.

Article 6 [Registration Agencies and Trading Agencies] The competent ecological and environmental authorities of the State Council shall propose a plan for establishing national carbon emissions registration agencies and trading agencies, and submit their proposal to the State Council for approval.

National carbon emissions registration agencies and trading agencies shall be responsible for establishing a national carbon emissions registration and trading system pursuant to the

provisions in these Regulations, as well as other provisions stipulated by the competent ecological and environmental authorities of the State Council. In accordance with these provisions, registration and trading agencies shall document the possession, surrender, retirement, and other changes in carbon emissions allowances; provide transaction settlement services; and execute unified, centralized trading at a national level.

The competent ecological and environmental authorities of the state Council shall supervise and manage national carbon emissions registration agencies and trading agencies in conjunction with the market, securities, and banking industry regulatory authorities of the State Council, as well as the People's Bank of China.

Article 7 [Key Emitting Entities] In accordance with state-determined GHG emissions control targets, the competent ecological and environmental authorities of the state Council shall develop and publicize criteria on key GHG emitting entities (hereinafter referred to as “key emitting entities”) to be included in the national carbon emissions trading market.

The competent ecological and environmental authorities at the provincial level shall also draw up a list of key emitting entities within their respective administrative regions in accordance with these criteria, and report the list to the competent ecological and environmental authorities of the state Council before making it public.

Key emitting entities shall be delisted by the provincial ecological and environmental authorities should they no longer emit any GHGs due to business suspensions, closure or other reasons, or in other circumstances where they no longer meet the criteria for key emitting entities.

Article 8 [Determining the Allowance Cap and Allowance Allocation Methods] In consultation with relevant agencies of the State Council, the competent ecological and environmental authorities of the state Council shall develop a carbon emissions allowance cap and an allocation plan in line with the national requirements and phased targets for controlling GHG emissions, as well as submit the plan to the State Council for approval before making it public.

Based on the established cap and the allocation plan, the competent ecological and environmental authorities at the provincial level shall allocate carbon emissions allowances to key emitting entities within their respective administrative regions for the prescribed year.

There are two methods of allocation for carbon emissions allowances: free allocation and paid allocation. Carbon emissions allowances shall be largely allocated for free in the initial stages of national carbon trading, with paid allocation methods introduced and expanded in due course according to national requirements.

Article 9 [Responsibilities of Key Emitting Entities] Key emitting entities shall control GHG emissions, deliver truthful carbon emissions reports, surrender carbon emissions allowances in full and in a timely manner, disclose information on transactions and related activities in accordance with the law, and accept the supervision and management of the competent ecological and environmental authorities at or above the municipal level.

In accordance with the GHG emissions accounting and reporting guidelines developed by the competent ecological and environmental authorities of the state Council, key emitting entities

shall prepare annual GHG emissions reports specifying the quantity of their GHG emissions as well as report this information to the provincial ecological and environmental authorities for their place of business before March 31 of the following year.

Key emitting entities shall be responsible for the truthfulness, completeness, and accuracy of their GHG emissions reports.

The original emissions records and the management records for the data in GHG emissions reports shall be maintained for at least five years.

Article 10 [Emissions Verification] The competent ecological and environmental authorities at the provincial level shall organize an official verification within 30 working days of the date of receiving a GHG emissions report from a key emitting entity, and they shall inform key emitting entities of the verification results within 7 working days after the conclusion of the verification. The verification results shall be used as the basis for determining key emitting entities' required surrenders of carbon emissions allowances.

The competent ecological and environmental authorities at the provincial level may entrust technical service agencies to carry out verifications through government procurement. These verification agencies shall be responsible for the truthfulness, completeness, and accuracy of the verification results.

Article 11 [Objection Handling] Key emitting entities that object to the verification results may file a request for review to the competent provincial ecological and environmental authorities within 7 working days of the date of receiving verification results. The competent provincial ecological and environmental authorities shall make a review decision within 10 working days from the date of receiving the request.

Article 12 [Allowance Surrenders] Based on their verified GHG emissions totals, key emitting entities shall surrender carbon emissions allowances for the previous year to the competent provincial ecological and environmental authorities in a timely manner.

The amount of carbon emissions allowances surrendered by key emitting entities shall be equal to or greater than their actual GHG emissions for the previous year, as verified by the competent provincial ecological and environmental authorities.

Key emitting entities may keep spare carbon emissions allowances for future use, if any, after fulfilling their obligations for allowances surrenders, or purchase additional carbon emissions allowances via the national carbon emissions trading market to fulfill this obligation..

Key emitting entities can also sell their legally obtained carbon emissions allowances.

Article 13 [Certified Voluntary Emission Reductions] The Chinese government encourages enterprises and public institutions to achieve the replacement, sequestration, or reduction of GHG emissions by implementing offsetting projects pertaining to renewable energy deployment, forestry-related carbon sinks, methane capture and utilization within Chinese territory.

Entities implementing projects mentioned in the preceding paragraph may request that the competent ecological and environmental authorities of the State Council certify the GHG

emissions reductions produced by their projects. Certified GHG emissions reductions shall be registered by the competent ecological and environmental authorities of the State Council.

Key emitting entities can purchase registered and certified GHG emissions reductions to offset a certain percentage of their verified carbon emissions.

Specific measures and relevant technical specifications for the certification and registration of GHG emissions reductions shall be formulated by the competent ecological and environmental authorities of the State Council.

Article 14 [Trading Products] Within the national carbon emissions trading market, trading products primarily refers to carbon emissions allowances. Other trading products may be added in due course with the approval of the State Council.

Article 15 [Trading Participants] Trading participants in the national carbon emissions trading market include key emitting entities, as well as other institutions and individuals that meet the relevant national rules for emissions trading.

Article 16 [Forms of Trading] Carbon emissions trading shall be conducted within the national carbon emissions trading system, either by party-to-party transaction agreements, one-way bidding procedures, or other channels that are compliant with the relevant national regulations.

Article 17 [Entities Prohibited from Trading] The competent ecological and environmental authorities at any level of government; national carbon emissions registration, trading, and verification agencies; as well as their employees shall not hold, buy, or sell carbon emissions allowances, and shall relinquish any previously obtained allowances in their possession in accordance with the law.

Article 18 [Trading Rules] National carbon emissions trading agencies shall fully leverage the national carbon emissions trading market in guiding the reduction of GHG emissions; they shall also take effective measures to prevent excessive speculation activity and to ensure sound market development.

Any acts by any entities or individuals to manipulate the carbon emissions trading market, such as through fraud, illicit collusion, or disseminating misinformation, are strictly prohibited.

Article 19 [Information Disclosure] Key emitting entities shall promptly disclose information about their GHG emissions for the previous year after completing their surrenders of carbon emissions allowances. The competent ecological and environmental authorities at the provincial level shall also disclose information concerning the surrender of carbon emissions allowances from key emitting entities in a timely manner.

In accordance with relevant regulations, national carbon emissions registration agencies and trading agencies shall disclose information on registration, transaction and settlement activity for carbon emissions allowances in a timely manner, as well as other relevant information that may produce major changes in the national carbon market.

Article 20 [Risk Prevention and Control] The competent ecological and environmental authorities of the state Council shall strengthen risk management measures for carbon emissions trading in conjunction with other relevant departments of the State Council, as well

as jointly guide and supervise national carbon emissions trading agencies in establishing regulatory mechanisms such as a price ceiling and floor, maximum holding limits, large trader reporting rules, risk warnings, monitoring of abnormal transactions, risk reserve funds, and temporary restrictions on major transactions.

Article 21 [Government Funds for Carbon Emissions Trading] The Chinese government has established a carbon emissions trading fund. Revenue generated from the paid allocation of carbon emissions allowances to key emitting entities shall be added to the national carbon emissions trading fund, which will in turn support the national carbon market's development and other key GHG emissions reduction projects.

Article 22 [Supervision and Management] The competent ecological and environmental authorities at or above the county level may take the following measures to supervise and manage key emitting entities and other trading entities, as well as technical verification agencies:

- (1) On-site inspections.
- (2) Checking and copying relevant documents and materials, as well as investigating and inspecting relevant information systems.
- (3) Requiring explanations for any relevant issues.

The competent ecological and environmental authorities of the State Council shall establish a mechanism for sharing supervisory information and for facilitating law enforcement cooperation in conjunction with the State Council's market, securities, and banking regulatory authorities.

Article 23 [Liabilities of Competent Authorities] Where employees of the competent ecological and environmental authorities at or above the county level or other relevant government authorities responsible for supervision and management of the national carbon market have abused their powers, neglected their duties, or committed malpractices in violation of the provisions hereof, administrative or supervisory authorities shall order them to make corrections and shall impose penalties in accordance with the law.

Article 24 [Liabilities of Key Emitting Entities] Where key emitting entities have violated the provisions hereof by committing any of the following acts, the competent ecological and environmental authorities at or above the county level in their place of business shall order these entities to make corrections within a specified period of time and impose a fine of more than RMB ¥ 50,000 but less than RMB ¥ 200,000. Should key emitting entities fail to make corrections within the specified period of time, the competent ecological and environmental authorities at or above the provincial level in their place of business shall organize calculations of the actual carbon emissions of those entities as the basis for determining their required surrenders of allowances.

- (1) Failing to submit GHG emissions reports in a timely manner as required or refusing to perform the required reporting of GHG emissions.
- (2) Providing inaccurate or incomplete original emissions records and management records

for the data in the GHG emissions reports.

(3) Falsifying emissions data or records and/or other important content in the GHG emission reports.

Article 25 [Liabilities for Allowance Surrendering Violations] Where key emitting entities have violated the provisions hereof by failing to surrender carbon emissions allowances in full, the competent ecological and environmental authorities at or above the municipal level in their place of business shall order them to make corrections within a specified period of time and impose a fine of more than RMB ¥ 100,000 but less than RMB ¥ 500,000. Should the key emitting entities fail to make corrections within the specified period of time, the competent ecological and environmental authorities at or above the provincial level in their place of business shall subtract an amount of allowances equivalent to those not surrendered from the amount of allowances to be allocated to the entities in the following year.

Article 26 [Liabilities of Verification Agencies] Where entrusted verification agencies have violated the provisions hereof by engaging in fraud, the competent ecological and environmental authorities at the provincial level shall terminate the relationship with the agencies, as well as include the violation information in the agencies' credit records and in the national credit information sharing platform for public disclosure. Where the violations are severe, the agencies shall be prohibited from engaging in GHG emissions verification for three years.

Article 27 [Liabilities of Trading Participants] Where carbon emissions trading participants have violated the provisions hereof by manipulating the carbon emissions trading market through fraud, illicit collusion, or disseminating misinformation, the competent ecological and environmental authorities of the State Council shall order them to make corrections, confiscate any illegally obtained revenue, and impose an additional fine of more than RMB ¥ 1,000,000 but less than RMB ¥ 10,000,000.

For entities that manipulate the carbon emissions trading market, a fine of more than RMB ¥ 500,000 and less than RMB ¥ 5,000,000 shall be imposed on the managing personnel involved and other directly responsible persons.

Article 28 [Liabilities for Prohibited Institutional Trading] Where national carbon emissions registration agencies, trading agencies, verification agencies, or their employees have violated the provisions hereof by engaging in carbon emissions trading, the competent ecological and environmental authorities of the State Council shall retire their currently held carbon emissions allowances, confiscate the illegally obtained revenue, and impose a fine of more than RMB ¥ 1,000,000 but less than RMB ¥ 10,000,000 for any entities involved, or a fine of more than RMB ¥ 500,000 and less than RMB ¥ 5,000,000 for any involved individuals.

Article 29 [Liabilities for Resisting Supervision and Inspections] Where national carbon emissions trading participants, registration agencies, trading agencies, verification agencies have violated the provisions hereof by resisting or obstructing supervision and inspection measures, or by perpetrating fraud during supervision and inspection activity, the competent ecological and environmental authorities at or above the municipal level, or other government authorities responsible for supervision and management affairs, shall order them to make

corrections and impose a fine of more than RMB ¥ 20,000 but less than RMB ¥ 200,000.

Article 30 [Credit Record Penalties] The competent ecological and environmental authorities of the State Council shall, together with the other relevant government authorities, establish a credit record system for trading participants and verification agencies, and incorporate their relevant credit records into the national credit information sharing platform.

Article 31 [Conjunction Clause] Any violator of the provisions hereof that causes losses to others in the process shall assume civil liability in accordance with the law.

Moreover, any violator of the provisions hereof, whose activity also constitutes a violation of public security code, shall be subject to penalties imposed by public security authorities in accordance with the law; where such actions constitute a crime, criminal accountability shall be investigated in accordance with the law.

Article 32 [Local Carbon Markets] No local carbon emissions trading markets shall be established after these Regulations enter into force. Local carbon emissions trading markets that already exist before the Regulations enter into force shall be gradually incorporated into the national carbon emissions trading market. The specific steps and plans for this transition shall be formulated by the competent ecological and environmental authorities of the state Council.

In accordance with these provisions, local carbon emissions trading markets that already exist before the Regulations enter into force shall establish a corresponding management system for the verification and surrender of carbon emissions allowances, forms and rules for trading, and risk control mechanisms, in order to strengthen supervision and management of the market.

Key emitting entities covered by the national carbon emissions trading market shall no longer participate in the local markets that cover the same GHG types and sectors.

Article 33 [Explanation of Terms] Within these Regulations, the following terms shall be defined as they are below:

(1) Greenhouse gases (GHGs): Natural and artificial gaseous substances in the atmosphere that absorb and re-emit infrared radiation, including carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

If other laws or administrative regulations have other provisions on the management of the above greenhouse gases, they shall be implemented in conjunction with the provisions hereof.

(2) Carbon emissions rights: the legal right to emit GHGs as carbon emission allowances allocated to key emitting entities for a specified compliance period.

(3) Carbon emissions allowances: One unit of carbon emissions allowances is equivalent to one emitted ton of CO₂ equivalent into the atmosphere.

Article 34 [Effective Date] These Regulations shall enter into force on MM DD, YYYY.