

Measures for the Administration of National Carbon Emission Trading (Trial) (Draft for Comments)

Section 1: General Provisions

Article 1 (Legislative Purposes and Basis) These Measures are formulated for the purpose of promoting the construction of ecological civilization, better fulfilling the United Nations Framework Convention on Climate Change and the Paris Agreement, fully leveraging market mechanisms in addressing climate change and promoting low-carbon development, strengthening the control and management of greenhouse gas (GHG) emissions, and regulating national carbon emissions trading and related activities.

Article 2 (Scope of Application) National carbon emissions trading and related activities refers to activities such as the trading of emission allowances and other products, emissions reporting and verification, emission allowance allocation, and emission allowance surrenders that are carried out via the national carbon emissions trading market. The supervision and management of the above activities shall be complied with these Measures.

Article 3 (Principles of Activities) National carbon emissions trading and related activities shall adhere to the principles of market orientation, government service, gradual progress, fairness and openness, and honesty and trustworthiness.

Article 4 (Administrative Department and its Duties) The Ministry of Ecology and Environment (MEE) shall be responsible for constructing the national carbon emissions trading market; formulating policies and technical guidelines on national carbon emissions trading and related activities; and managing, supervising and guiding national carbon emissions trading and related activities.

The ecology and environment departments of all provinces, autonomous regions, directly administered municipalities, and Xinjiang Production and Construction Corps (hereinafter referred to as the provincial ecology and environment authorities) shall be responsible for organizing and implementing national carbon emissions trading data reporting, verification, allowance allocation, surrenders and compliance, and related activities within their administrative regions, as well as performing relevant management, supervision and guidance of these areas.

The department of a people's government at or above districted city level (hereinafter referred to as the municipal ecology and environment authorities) shall be responsible for cooperating with the provincial ecology and environment authorities to implement relevant specific tasks.

Article 5 (Major Emitting Entities) Major emitting entities refer to the enterprises or other economic organizations within the industries covered by the national carbon emissions trading market with an annual GHG emissions total of 26,000 tonnes of CO₂-e or more (or where comprehensive energy consumption is around 10,000 tonnes of standard coal equivalent). Eligible major emitting entities shall, through the environmental information management platform or other methods prescribed by the MEE, conduct self-report to the competent provincial ecology and environment authorities of the location where the entities are operating in order to be included in the list of major emitting entities. Provincial ecology and environment authorities shall report all eligible major emitting entities in its administrative area to the MEE. Non-major emitting entities are not included in the management scope of the national carbon emission trading market.

Article 6 (Pilot Markets Transition) Major emitting entities that participate in the national carbon emission trading market shall no longer participate in activities such as the allocation and surrender of emission allowances for their corresponding provincial (or municipal) pilot carbon emissions trading markets at the date of the implementation of these Measures. Further relevant rules will be separately formulated and promulgated by the MEE.

Section 2: Emissions Allowance Management

Article 7 (Formulation of Allowance Allocation Methodology) The MEE shall formulate and publish its allowance allocation methodology for major emitting entities, which will jointly consider various factors such as the national GHG emissions control target, economic development, industrial structure adjustments, and emissions control of air pollutants.

Article 8 (Allowance Allocation Methodology) The emission allowances shall be mostly free allocated at the market's initial stage with paid allocation introduced at an appropriate time; and the proportion of paid allocations shall be gradually increased over time. Revenue from paid allocation shall implement a two-line

management system of revenue and expenditure, and shall be managed by national finance authority.

Article 9 (Allowance Reserve) The MEE may reserve a certain amount of emission allowances for the purposes of market stability adjustment and major project construction, etc.

Article 10 (Allowance Allocation) The provincial ecology and environment authorities shall allocate emission allowances to major emitting entities within their administrative regions in accordance with the emission allowance allocation methodologies formulated by the MEE.

Major emitting entity that disagrees with the result of its allocation of emission allowances, may file an appeal with the competent provincial ecology and environment authority, and the provincial ecology and environment authority shall respond in a timely manner.

Article 11 (Allowance Adjustment) For significant changes in GHG emissions due to the shutdown, corporate restructuring, productivity changes, or manufacturing process changes of major emitting entities, the provincial ecology and environment authorities shall adjust the allocation of free allowances in accordance with the MEE's regulations.

Article 12 (Registration and Settlement Agency) The MEE shall establish and manage a national carbon emissions registration and settlement system (hereinafter referred to as the registration and settlement system).

As authorized by the MEE, the administrative agency for the registration and settlement system (hereinafter referred to as the Registration and Settlement Agency) shall be responsible for the implementing of and supervision on the registration, banking, and settlement of national carbon emissions rights.

Article 13 (Registration and Settlement System) The registration and settlement system shall record information relevant to carbon emission rights' holding, transferring, surrendering for compliance purposes, and retirement, therefore realizing effective settlement and management for national carbon emission trading. The information within registration and settlement system on entities' national carbon emission rights holdings shall be considered as the official record.

Article 14 (Registry Account Management) The registration and settlement system shall set up different accounts with corresponding functions for

different stakeholders, including the MEE, provincial ecology and environment authorities, major emitting entities, and organizations and individuals. After the above accounts are set up, they can begin performing operations of emission allowance management within the system.

Article 15 (Allowance Retire Management) Major emitting entities, organizations, and individuals can voluntarily retire its owned emission allowances in name of public interests through the registration and settlement system.

Article 16 (Data Linkage) The registration and settlement system shall interlink with the environmental information management platform to ensure data's timely and secure interaction.

Section 3: Emissions Trading

Article 17 (Trading Products) *Trading products* refers to emission allowances and other products in the national carbon emissions trading market.

Article 18 (Trading Participants) Major emitting entities and other qualified institutions and individuals are defined as trading participants within the national carbon emission trading market.

Article 19 (The Exchange) The MEE shall be responsible for the establishment and management of the national carbon emission trading system (hereinafter trading system).

As authorized by the MEE, trading system management agencies (hereinafter the exchange) shall be responsible for the centralized and unified trading in and the supervision of the national carbon emission trading market, as well as establish service bodies and provide member services for the national carbon market.

Article 20 (Trading Methods) Trading of products that are subject to these regulations shall be exclusively conducted within the trading system, with trading methods including but not limited to open price bidding and negotiation.

Article 21 (Trading, Settlement, and Surrender) Registration and settlement agency shall execute capital settlement and surrendering based on the transaction result submitted by the exchange, as well as make the according changes in the national carbon trading registration records, while adhering to the principle of full settlements for each transaction.

Article 22 (System Linkage) The trading system shall be linked with the

registration and settlement system to ensure data's timely and secure interaction between systems.

Article 23 (Market Regulation Mechanism) The MEE shall establish national carbon emission trading market regulation mechanisms to ensure the market's stability.

Section 4: Emissions Verification and Allowance Surrender

Article 24 (Development and Submission of Monitoring Plan) Major emitting entities shall develop a GHG emissions monitoring plan (hereinafter referred to as the Monitoring Plan) in accordance with relevant technical specifications issued by the MEE, which prioritizes the use of laboratory test for fossil fuels' net calorific power and their carbon content. The Monitoring Plan shall be filed to the competent provincial ecology and environment authorities of the location where the entities are operating for the official records through the environmental information management platform or other methods specified by the MEE.

Article 25 (Implementation and Adjustment of the Monitoring Plan) Major emitting entities shall implement monitoring activities in line with the filed Monitoring Plan on record. In the event of a major modification to the Monitoring Plan, the entity shall promptly report the changes to the competent provincial ecology and environment authority of the location where it is operating.

Article 26 (Development and Submission of Emission Report) Major emitting entities shall develop their previous year's GHG emission reports in accordance with the technical specifications for enterprise GHG emissions accounting and reporting issued by the MEE as well as their filed Monitoring Plan, and submit them to the competent provincial ecology and environment authorities of the location where the entities are operating. Emission reports shall be submitted by March 31 of each year through the environmental information management platform or other methods specified by the MEE.

Major emitting entities shall be responsible for the authenticity, completeness and accuracy of their emission reports.

Article 27 (Verification Implementation) Provincial ecology and environment authorities shall, in accordance with the relevant provisions of the MEE, implement the verification of major emitting entities' GHG emission reports in a

"double random and one open" method (i.e. through random selection of inspection subjects and inspectors; the latter then discloses the results to the public). The results of the verification shall be reported to major emitting entities as a basis for their emission allowance surrenders, and also shall be reported to the MEE.

Article 28 (Commissioning of Verification Implementation) Provincial ecology and environment authorities may commission technical service agencies to provide verification services through government procurement.

Article 29 (Verification Result Appeal) Major emitting entity that disagrees with the results of its verification result, may file an appeal with its competent provincial ecology and environment authorities, which shall be resolved in a timely manner.

Article 30 (Allowance Surrender) Major emitting entities shall surrender emissions allowances, which total no less than the verified carbon emissions amount of the previous year, to the competent provincial ecology and environment authorities of the location where the entities are operating.

Article 31 (Offset Mechanism) Major emitting entities may use China GHG Voluntary Emission Reduction Program (CCER), or other emission reduction standards certified by the MEE, to offset up to 5% of their verified emissions. 1 CCER unit can be used to offset the emissions of 1 ton of CO₂ equivalent.

CCER credits shall be derived from emissions reduction projects including renewable energy, carbon sequestration, methane utilization, and other emission reduction projects that are generated outside the scope of major emitting entities participating in the national carbon emission trading market.

Section 5: Supervision and Management

Article 32 (Responsibilities of Municipal Authorities) With the authorization from the provincial ecology and environment authorities, municipal ecology and environment authorities may supervise major emitting entities' activities within its administrative areas, including formulating and implementing Monitoring Plans, developing and submitting GHG emission reports, accepting emission reports' verification, and completing allowance surrender.

Article 33 (Supervision and Guidance) The ecology and environment authority at a higher level may supervise, inspect and instruct ecology and environment

authority at a lower level in the supervision and management of national carbon emissions trading and related activities. In cases of violations of these measures, the ecology and environment authority at a higher level shall pursue legal rectification in accordance with the law.

Article 34 (Regulatory Priorities) The provincial and municipal ecology and environment authorities shall determine the priorities and frequency of inspections based on major emitting entities' environmental credit records and verification results. When conducting inspections at the provincial and municipal levels, the ecology and environment authorities shall emphasize monitoring and inspecting major emitting entities' recorded emissions, reports, and allowance surrenders, and shall report the number of emission allowances surrendered to the MEE in a timely manner. Major emitting entities shall comply with all supervision and inspection.

Article 35 (Authorities' Information Disclosure) The MEE, as well as provincial and municipal ecology and environment authorities, shall be responsible for promptly and proactively disclosing information on the administration of national carbon emissions trading and related activities; they themselves are also subject to social supervision. The information to be made public includes but is not limited to:

- 1) The type of GHGs, industries, and thresholds of identifying major emitting entities shall be covered by the national carbon emissions trading market;
- 2) The list of annual major emitting entities;
- 3) The emission allowances allocation methodology;
- 4) Regulations for the registration, trading and settlement of emission allowances, including regulations of other trading products as well as regulations for institutions and individuals acting as trading participants;
- 5) Technical specifications for accounting, reporting and verification of emissions;
- 6) Compliance regulations for surrendering emission allowances;
- 7) Provisions for the use of CCER as offset in national carbon emissions trading market;
- 8) Annual emission allowances surrender status of major emitting entities;
- 9) Information regarding the supervision and management of national carbon emissions trading;

10) Other information related to carbon emissions trading that is required to be made public.

Article 36 (Supervision and inspection of Verification Technical Service Agencies) Technical service agencies involved in the verification process shall be responsible for the authenticity and completeness of the submitted verification results, and shall be subject to the supervision and inspection from the provincial ecology and environment authorities.

The ecology and environment authorities may supervise and inspect technical service agencies involved in verification, and the time, content, results and decision on penalties of any such inspection shall be recorded and published on the environmental information management platform.

Article 37 (Risk Management and Information Disclosure) Registration and settlement institution and the exchange shall establish risk management mechanisms and information disclosure systems, formulate risk management plans, and disclose information on registration, trading and settlement in a timely manner, as well as publish relevant information that may lead to significant changes in the market.

Article 38 (Credit-Based Supervision) The MEE and the provincial ecology and environment authorities shall record the credit rating of major emitting entities, technical service agencies, registration and settlement agency, the exchange, and other institutions and individuals that are involved in national carbon emissions trading and related activities. The supervision, management record, and administrative penalty decisions regarding each entity will be documented and published via the environmental information management platform.

Article 39 (Social Supervision) The public and news media are encouraged to supervise the national carbon emissions trading and related activities of major emitting entities and other trading participants. Major emitting entities and other trading participants shall promptly disclose information regarding national carbon emissions trading and related activities, and voluntarily subject themselves to public supervision.

Article 40 (Public Reporting) Citizens, legal persons, and other organizations have the right to report any observations of major emitting entities and other trading participants committing acts that violate these Measures to the relevant ecology and environment authorities. The authorities receiving the report shall handle the matter

in compliance with the law and provide a response to the results of the investigation in accordance with the relevant regulations, while shall keep the informant confidential.

Section 6: Legal liability

Article 41 (Administrative and Liability) Any of the following acts committed by ecology and environment authorities at any level in their supervision and management of national carbon emissions trading and related activities, shall be ordered by the administrative or supervisory authorities at a higher level for rectification, and the directly liable person shall be imposed administrative sanctions in compliance with the law; or if it is criminally punishable, the offender shall be held criminally liable in accordance with the law.

1) Unauthorized collection of fees during the emissions verification process for major emitting entities;

2) Abuse of power, negligence or misconduct during the emission verification process or in the process of allowance surrendering for major emitting entities;

3) A failure to allocate emission allowances in accordance with the regulations and thereby causing serious negative impact;

4) Failure to disclose relevant information in accordance with the law;

5) Other situations in which liability shall be investigated.

Article 42 (Handling of Failure to Conduct Self-Report) If an entity fails to conduct the self-report but meets the thresholds of and is not included in the list of major emitting entities, once found, the competent provincial ecology and environment authority of the location where the entity is operating shall promptly include the entities in the list of major emitting entities and manage the entities accordingly.

Article 43 (Penalty for Failure to Report as Required) For major emitting entity that misrepresents, conceals, or refuses to comply with its emission reporting obligations, or refuses to undergo verification and inspection, the competent provincial ecology and environment authority of the location where the entity is operating shall order rectification within a specified timeframe and impose a fine not less than 10,000 RMB nor more than 30,000 RMB. and those who fail to make corrections within a prescribed time limit, the competent provincial ecology and environment authorities shall measure the entity's emissions. The emissions amount shall not only serve as the basis for emission allowances required for submission, but also allow the provincial

ecology and environment authorities to make equivalent deductions in the allocation of emission allowances for the following year.

Article 44 (Penalty for Failure to Comply) If a major emitting entity fails to fulfill its obligation of surrendering emission allowances on time, the competent provincial ecology and environment authority of the location where the entity is operating shall order it to fulfill its obligation and impose a fine of not less than 20,000 RMB and nor more than 30,000 RMB. If the entity fails to surrender full amount of emission allowances with the time overdue, the non-compliance amount shall be deducted equally from the next year's emission allowances allocated by the competent provincial ecology and environment authorities.

Article 45 (Penalties for Entities' Violations of Registration) Major emitting entities, relevant institutions and individuals who carry out registration and settlement activities in violation of these Measures shall be held liable for the consequences of their actions; the registration and settlement agency shall order them to make rectifications and take the following measures:

- 1) Circulate a notice of criticism;
- 2) Implement restrictions on the transfers of funds or trading products;
- 3) Suspend or restrict any relevant accounts;
- 4) Suspend or restrict any related operations;
- 5) Restrict relevant account functions;
- 6) Disqualify the violating parties from trading;
- 7) Terminate the involved parties' all related business.

Any perpetrators of violations of the law shall, in accordance with the law, bear civil liability for damages done to others by their illegal acts. Where an illegal act constitutes a crime, criminal responsibility shall be investigated in accordance with law.

Article 46 (Joint Disciplinary Action) For major emitting entities that have been penalized for violating any of the provisions under Articles 43 to 45, provincial ecology and environment authorities shall notify the market supervision, taxation, finance, and other regulatory authorities of the situation and make a public announcement.

Article 47 (Penalties for Trading Violations) Major emitting entities, other relevant institutions, and individuals engaged in trading that violate the provisions

outlined in these Measures shall be held liable for the consequences of their actions, and the exchange shall order them to make necessary rectifications and take the following measures:

- 1) Circulate a notice of criticism;
- 2) Implement restrictions on the transfers of funds or trading products;
- 3) Suspend or restrict trading in related accounts
- 4) Suspend or restrict any related operations;
- 5) Restrict relevant account functions;
- 6) Disqualify the violating parties from trading;
- 7) Implement suspension of membership or termination of related business.

Any perpetrators of violations of the law shall, in accordance with the law, bear civil liability for damages done to others by their illegal acts. Where an illegal act constitutes a crime, criminal responsibility shall be investigated in accordance with law.

Article 48 (Trading Participant's Appeal) Major emitting entities, other relevant institutions, and individuals engaged in trading who believe that the administrative acts of the authorities infringe upon their legitimate rights and interests may apply for appeal or initiate litigation in accordance with the law.

Article 49 (Discipline for Breach of Trust) The MEE shall establish and publish a list of non-compliant and dishonest entities who have severely violated the law and caused a breach of trust.

Section 7: Supplementary Provisions

Article 50 (Explanation of Terms) The meanings of the following terms hereof are:

“Greenhouse gases” (GHGs) refers to natural and artificial gaseous substances that absorb and re-emit infrared radiation reflected from the Earth’s surface, thus leading to a net warming effect for the planet; they include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

“Carbon emissions” refers to greenhouse gas emissions generated by energy combustion activity from fossil fuels such as coal, oil, and natural gas; other fossil fuel and industrial production-related processes; and land use, land-use change, and

forestry; as well as other greenhouse gas emissions caused by the use of purchased electricity and heat.

“Carbon emission rights” refers to legally obtained rights to emit GHGs into the atmosphere.

“Emission allowances” refers to an amount of permitted emissions of GHGs within a specified period, which are allocated to major emitting entities by the government; it is the certification and vehicle for using carbon emission rights. Each individual allowance represents of 1 tonne of greenhouse gas emissions.

“Surrender” refers to when a major emitting entity submits an amount of emissions allowances, which total no less than the verified carbon emissions amount of the previous year, to the competent provincial ecology and environmental authority of the location where the entity is operating.

The “China GHG Voluntary Emission Reduction Program” refers to voluntary GHG emissions reductions that comply with the MEE’s relevant regulations on GHG voluntary emission reduction and are registered in the program’s official registry. The program and offsets certified within it are referred to as “CCER”.

Article 51 (Promulgation and Implementation) These Measures shall come into force on the date of issuance. The Interim Measures for the Carbon Emissions Trading Management (No.17 [2014], NDRC) shall be repealed concurrently.