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China's climate policy documents: 1+N and updated NDC

Five main documents related to China's climate and environmental policy were released ahead of COP26:

1.*The Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy* (hereafter referred to as Working Guidance or WG) was released on 24 October 2021 by the Communist Party of China Central Committee and the State Council;

2.The *Action Plan for Carbon Dioxide Peaking before 2030* (hereafter referred to as Action Plan or AP) was released on 25 October 2021 by the State Council;

3.The white paper (WP) titled *Responding to Climate Change: China's Policies and Actions* was released on 27 October 2021 by the State Council Information Office; and

4.The *China's Achievements, New Goals, and New Measures for Nationally Determined Contributions* (hereafter referred to as NDC), alongside

5.The *China's Mid-Century Long-Term Low Greenhouse Gas Emission Development Strategy* were released on 28 October 2021.

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The Working Guidance and the Action Plan are the two main policy documents and form the core of China's new 1+N policy system to guide the fight against climate change.

1 stands for the Working Guidance,[1] presenting the overarching high-level strategy framework and principles of all forthcoming policies to set China on a path to achieve its climate goals.

N stands for a combination of new plans, the first of which is the Action Plan.[2] The Action Plan provides an important set of detailed and concrete targets for energy and other key industrial sectors. It also provides plans on other key policy areas for climate action, namely the circular economy, carbon trading and carbon sink. Another 30 documents[3] are due, focusing on detailed climate actions in key sectors (e.g. building and transport), major industries (e.g. steel and chemicals) and scientific and technological support, carbon sink capacity, statistical accounting, inspection and assessment, and fiscal, financial, and price policies.

The emphasis is primarily on domestic actions and plans. It is stressed however that "China will uphold multilateralism" (AP IV.1). The language on overseas engagements is in line with what was used in previous policy documents.[4]

The white paper[5] **aims at documenting China's "progress in mitigating climate change,** and at sharing its experience and approaches with the rest of the international community" (WP's Preface).

The NDC[6] **and the accompanying long-term strategy**[7] **define the updated NDCs**[8] and describe the achievements on the first NDCs as well as the overall strategy to peak carbon before 2030, in line with the 1+N. Given the international nature of the NDCs as part of Paris Climate Agreement, there is greater focus on international cooperation and exchanges and multilateralism on climate change compared with the 1+N (NDC's Chapter IV).

All the new policy documents touch upon cross-cutting themes. These include the need to foster innovation and the use of technology. They also emphasize building capacity and awareness across all stakeholders, including people and civil society, building an enabling environment for investments and international cooperation across different items of the climate agenda (e.g., standards, exchanges of knowledge), and a coherent set of policies and regulations.

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1. http://www.xinhuanet.com/english/download/2021-10-24/fulltext.docx
2. http://www.news.cn/english/2021-10/27/c_1310270985.htm
3. https://www.theguardian.com/environment/2021/nov/08/china-calls-for-concrete-action-not-distant-targets-in-last-week-of-cop26
4. *Issue Brief - China's 14th five-year plan, UNDP China, 23 June 2021.* https://www.cn.undp.org/content/china/en/home/library/environment_energy/issue-brief---china-s-14th-five-year-plan.html
5. http://english.scio.gov.cn/whitepapers/2021-10/27/content_77836502.htm
6. https://www4.unfccc.int/sites/ndcstaging/Pages/Party.aspx?party=CHN&prototype=1
7. https://unfccc.int/documents/307765
8. *China's updated NDC goals are as follows. China aims to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060; to lower CO2 emissions per unit of GDP by over 65% from the 2005 level; to increase the share of non-fossil fuels in primary energy consumption to around 25%; to increase the forest stock volume by 6 billion cubic meters from the 2005 level; and to bring its total installed capacity of wind and solar power to over 1.2 billion kilowatts by 2030.*

KEY TAKEAWAYS:

Building on recent climate pledges. The overall 1+N climate policy system, the NDC and the long-term strategy build on the climate targets and pledges announced over the last year and a half. These include peaking carbon emissions before 2030 and achieving carbon neutrality before 2060 (announced in September 2020), the updated NDCs (announced in December 2020 and officially submitted ahead of COP26) – which represent an important upgrade from the first NDCs submitted in 2016[9], the 14th five-year plan (released in March 2021), and the recent pledge to stop financing coal powerplants overseas (September 2021).

Rich in details and additional clarifications. The wide range of areas and scope covered by the documents is noteworthy and welcome. Together with the upcoming sectoral action plans, the 1+N provides China with a concrete roadmap for its 2030 and 2060 climate goals. The Action Plan includes several new concrete targets on energy and key industrial sectors, such as iron and steel, non-ferrous metals, petrochemicals and chemicals, building materials, and transport (see Annex for a detailed list).

Clear reinforcement of climate commitments. This appears even more relevant amid the recent energy challenges in parts of the country.

> The 2030 and 2060 climate targets are defined as "a major strategic decision" taken by the top leadership, a "natural choice for China" (WG I.1).
>
> China's firm commitment "will ensure" that the goals are achieved as planned (WG II.2).

Clear prioritization of climate at the top of China's policy/governance structure:

> **Strengthened top-down approach:** "The CPC Central Committee will strengthen its centralized, unified leadership". The Leading Group on Carbon Peaking and Carbon Neutrality *"will guide and coordinate these efforts, make overall plans and systematic steps, and take a holistic approach to major issues and major policies"* (WG XIII.34 and (AP VI.1). NDRC, meanwhile, is tasked to "organize the implementation of the Action Plan" (WG XIII.35).
>
> **Accountability:** The CPC committees and governments are all held responsible (WG I.2), as well as local CPC committees and government at all levels (WG XIII). Oversight and performance assessment on all local authorities on climate targets will be tightened (WG XIII).

Positive signals moving forward:

> ***"The share of non-fossil energy consumption will be over 80%"* by 2060** (WG II). This is a new target and the first figure to detail the carbon neutrality announcement with a 2060-horizon, highlighting the importance of phasing out fossil fuel to become carbon neutral.
>
> **Petroleum consumption *"will reach its peak plateau"* during the 15th five-year plan** (2026-2030), another new target (WG V.11). This, coupled with the target to phase down coal consumption domestically also during

9. https://www4.unfccc.int/sites/ndcstaging/Pages/Party.aspx?party=CHN&prototype=1

the 15th five-year plan (FYP)[10], reinforces the evidence for a CO2 emissions' peak before 2030. On the other hand, there is no clear signal for accelerated actions within the 14th FYP (2021-2025).

While "clean" coal is included in the *Action Plan*, as it was in the 14th five-year plan, the *Working Guidance* has no specific reference to "clean" coal. This is possibly a recognition that the strategic importance of coal in the long term needs to decrease. In the short to medium term, i.e., up to 2030, the Action Plan does acknowledge that coal will continue playing a role in the energy sector, likely due to the recognition of the high share of coal in the energy mix leading to energy security concerns.

The establishment of *"a system to control the total volume of CO2 emissions"* (WG V.9) may open the door to actual emission caps alongside the current emission intensity targets. The Action Plan, on the other hand, does not include specific quantitative targets, but states that China *"will improve systems for keeping energy consumption under control in terms of both volume and intensity, with especially strict controls on intensity and reasonable controls on volume"* (AP III.2) and *"will implement a system for controlling both carbon intensity and total carbon emissions, taking the former as the priority"* (AP VI.3).

Focus on CO2 Measurement, Report and Verification (MRV). "We will speed up efforts to improve carbon emissions verification, accounting and reporting standards for regions, industries, businesses, and products and establish a unified, well-regulated carbon accounting system" (WG XI.28) and "enhance statistical and monitoring capacity" on energy consumption, CO2 emissions and carbon sink (WG XI.29).

Emphasis on standards, including the establishment of a *"sound system of standards for green finance"* (WG XII), with the aim to ensure consistency with international standards for the energy and key industrial sectors by the 15th FYP period. China also aims to *"take an active part in formulating relevant international standards"* (WG XI.28).

"Give full play to the role of market mechanisms[11], and create effective incentive and restraint mechanisms" (WG II.2), with a detailed section on developing a market-based mechanism. This is an encouraging sign for the development of an effective national emissions trading system (ETS), a key tool to accelerate investment and innovation in low carbon sectors.

Public financing: On the government side, there is a shift in focus away from brown investments and toward the need to encourage *"the participation of nongovernmental capital and motivate market entities"*. Emphasis is given to the key role of state-owned enterprises that *"will scale up green and low-carbon investment"* and innovation, supporting monetary policy through cheap[12] and enhanced availability of long-term credit (by "policy-backed financial institutions"), tax incentives and developing a market-based mechanism (WG XII).

Focus on strengthening internal coordination and policy effectiveness: *"We will remove the contents in existing laws and regulations that are incompatible with the task of carbon dioxide peaking and carbon neutrality and strengthen integration and coordination between laws and regulations"* (WG XI.27).

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10. The Action Plans expands on the matter: "We will pick up the pace in cutting coal consumption, strictly and rationally limit the increase in coal consumption over the 14th Five-Year Plan period and phase it down in the 15th Five-Year Plan period. Severe restrictions will be placed on new coal power projects, and newly constructed units will meet the most advanced international standards for coal consumption" (AP III.1.a).

11. The Chinese version of the Working Guidance appears less assertive with "let the market mechanism play the role".

12. On 8 November 2021, the People Bank of China announced the creation of a Carbon Reduction Tool that provides low-cost capital to financial institutions, which then can lend to enterprises for carbon reduction purposes.
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4384182/index.html

POINTS FOR FURTHER REFLECTION AND CLARIFICATION:

Issue #1: China may still need more front-loaded and ambitious actions that would include peaking emissions and coal consumption as soon as possible to keep the possibility of meeting the 1.5°C target of the Paris Agreement alive. This would also need to entail clearer indications on how to balance the trade-off between economic growth and CO2 emission targets.

It is hard to predict at what level emissions will peak. The policy documents include no indicator for reducing the 'absolute' level of CO2 emissions, and continue to rely on emissions intensity targets that are formulated in terms of unit of GDP. China's economic growth model, which is still heavily reliant on fossil fuels and coal, as well as growth expectations, as per President Xi's vision of doubling the economy by 2035 (implying a growth rate of just below 5%), continue to point to increases in emissions in the next few years. Finally, the Government indicated that the phase down of coal is not expected before the start of the 15th five-year plan (2026). As of the end of November 2021, coal-fired power generation in China was 1.1 TW, up 2.0% on a year-on-year basis.[13]

There is a lack of evidence to confirm that China's low carbon path is aligned with a 1.5°C scenario. Energy consumption and emissions intensity targets are broadly consistent with China's climate pledges, albeit within the lower rather than upper range. To strengthen China's alignment with 1.5°C, analysis by the Institute of Climate Change and Sustainable Development at Tsinghua University (ICCSD) estimates that non-fossil fuel energy demand should account for over 85% by 2050, versus the current target of 80% by 2060, and that a peak in coal consumption should be reached early.

Lack of details on non-CO2 emissions, as clear non-CO2 emissions targets have not been announced as yet.[14] However, commitments on methane emissions announced by China and the US in the Joint Glasgow Declaration[15] represent a welcome step in the right direction.

Issue # 2: Financing and carbon pricing. Additional or effective reallocation of financing resources to accelerate the low carbon transition remains unclear; more details are needed.

i) There is no explicit analysis and reflections in regard to addressing existing **conflicting policies and incentives,** such as fossil fuel subsidies among others.

ii) The possibility of a **"national low carbon fund for transformation"** to support traditional industries and resource-rich regions in pursuing green transformations appears at the very early exploration stage (AP V.3).

iii) The *Guidance* includes a **careful balancing act on carbon pricing:** *"we need to accelerate the development of the national market for trading carbon emission permits by gradually expanding…"* (WG XII.33), lacking however a clear signal to improve the effectiveness of the national ETS, or its coverage, in the short term.

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13. China Electricity Council, 20 December 2021. https://www.cec.org.cn/detail/index.html?3-304834
14. https://mp.weixin.qq.com/s/S_8ajdq963YL7X3sRJSWGg
15. In Chinese https://www.mee.gov.cn/ywdt/hjywnews/202111/t20211111_959900.shtm and in English https://www.state.gov/u-s-china-joint-glasgow-declaration-on-enhancing-climate-action-in-the-2020s/?utm_campaign=China%20Briefing&utm_content=20211111&utm_medium=email&utm_source=Revue%20China

ANNEX: NEW SPECIFIC TARGETS INCLUDED IN THE ACTION PLAN ARE:

For green and low-carbon energy transition:

"In trans-regional submission of power generated by new energy sources, we will strictly control the scale of supplementary coal power, and ensure in principle that no less than 50% of electricity transmitted via newly constructed lines is generated from renewable sources" (III.1.a).
During the 14th and 15th five-year plan periods, about 40 GW of installed hydropower capacity will be added, and a renewable energy system based on hydropower will be basically established in Southwest China (III.1.c).
The provincial power grid will have more than 5% peak load response capacity by 2030 (III.1.f).

For peaking carbon dioxide emissions in the industry sector:

By 2025, the domestic crude oil processing capacity will be kept within 1 billion tons, and the capacity utilization rate of production capacity for main products will be increased to more than 80% (III.3.e). Current capacity is about 900 million tons.[16]

For peaking carbon dioxide emissions in the building and construction sector:

By 2025, all newly constructed buildings in urban areas will meet green building standards.
By 2025, renewable resources will account for 8% of the alternative to conventional energy used in buildings, and we will strive to reach 50% photovoltaic coverage on the roofs of newly constructed public buildings and factories (III.4.c).

For promoting green and low-carbon transportation:

By 2030, the share of incremental vehicles fueled by new and clean energy will reach around 40% (III.5.a).
By 2030, no less than 70% of travel will be conducted through environmentally friendly means in cities with permanent populations of one million or more (III.5.a).

For promoting circular economy:

By 2025, the amount of bulk solid waste recycled annually will reach around 4 billion metric tons, rising to about 4.5 billion by 2030 (III.6.b).
By 2025, the total amount of nine major reusable resources including steel scrap, cooper, aluminum, lead, zinc, waste paper, plastic, rubber, and glass recycled will top 450 million metric tons, reaching 510 million by 2030 (III.6.c).
By 2025, a basic sorting system for urban household waste will be established, with the reclamation rate up to about 60%. By 2030, the sorting system for urban household waste will cover all cities, and the reclamation rate will rise to 65% (III.6.d).

16. https://www.bloomberg.com/news/articles/2021-10-26/china-s-climate-road-map-outlines-plan-to-cap-emissions-by-2030

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