

July 10, 2024

## **Trends in China's Policies for Energy Conservation and CO<sub>2</sub> Reduction in Industry**

Takahiko Tagami,  
Executive Researcher, Manager, Climate Change Group,  
Climate Change and Energy Efficiency Unit  
The Institute of Energy Economics, Japan

China failed to achieve its 2% reduction target in primary energy consumption per unit of GDP for 2023 and raised the target to a 2.5% reduction for 2024. In addition, the country is facing the full implementation of the EU's Carbon Border Adjustment Mechanism (CBAM) from 2026. Against this backdrop, China is rapidly moving forward with the following measures while shifting its focus to regulations: (1) strengthening its energy conservation policies; (2) responding to the EU's CBAM; and (3) promoting new emission reduction technologies.

In order to accelerate the promotion of new emission reduction technologies, on April 8 China's National Development and Reform Commission (NDRC) announced the "Measures for the Management of Central Budget Investment on Special Projects in Energy Saving and Carbon Reduction," and determined that up to CNY100 million in capital per project will be provided. Eligible projects will include large-scale CO<sub>2</sub> capture, improvements in energy efficiency and CO<sub>2</sub> intensity in industries such as steel, building materials, petrochemicals and data centers, and recycling and reusing products such as renewable energy devices following their use.

Because the energy conservation target for 2023 was not achieved, on May 14 the NDRC issued a "Notice on Implementing Thorough Energy Efficiency Diagnoses of Key Energy-Intensive Establishments" to provinces and ordered them to come up with energy conservation plans for establishments with high energy consumption and CO<sub>2</sub> emissions by the end of 2025. The plans will cover establishments with energy consumption of 10,000 tons of standard coal equivalent or higher by the end of 2024, and 5,000 tons of standard coal equivalent or higher by the end of 2025. They will cover 20,000 establishments and account for 70% of the entire country's energy consumption and CO<sub>2</sub> emissions. The NDRC is requiring for provinces to inspect 60% of those establishments

with annual consumption of 10,000 tons of standard coal equivalent or more in 2024, and all establishments covered by the notice must undergo inspection by the end of 2025. On May 29 China's State Council announced the "Action Plan for Energy Conservation and Carbon Reduction during 2024-25," and set targets for energy conservation and CO<sub>2</sub> reduction in key areas and industries – namely, to conserve energy by 50 million tons of standard coal equivalent and to reduce CO<sub>2</sub> emissions by 130 million tons, in both 2024 and 2025. China is setting a target of reducing energy consumption per unit of GDP by 2.5% in 2024. However, it is requiring a reduction of 3.5% for establishments of companies with main business revenues of CNY20 million or more. Additionally, the action plan set a target for the share of non-fossil energy sources in primary energy to be 18.9% by 2024. China is aiming to achieve these targets through actions in the steel, petrochemicals, building materials, transport, and other industries.

Meanwhile, in response to the EU's CBAM and with the aim for the internationally aligned carbon footprint standards, on June 5 the Ministry of Ecology and Environment announced the "Implementation Plan on Establishing Carbon Footprint Management System." The Implementation Plan sets standards for accounting carbon emissions for 100 key products by 2027. Initially, the Chinese accounting standards will apply to high-emissions products such as coal and natural gas, plus export products like steel, aluminum, lithium batteries, and electric vehicles. The standards will be expanded to 200 products by 2030. The accounting will play an important role in efforts for avoiding high import charges under the EU's CBAM by reducing emissions associated with product manufacturing. Simultaneously, China is seeking to expand its national emissions trading scheme to include the steel, cement, and other sectors to prevent money being siphoned off to the EU through its CBAM.

In relation to the national emissions trading scheme, on July 2 the Ministry of Ecology and Environment announced the "2023 and 2024 Total Emission Allowances and Allocation Plan for Power Generators under the National Emissions Trading Scheme (draft for public comment)" with the aim of reducing oversupply of emission allowances. Under the proposed plan, market participants would no longer be able to borrow emission allowances from the future ("borrowing"), and strict restrictions would be placed on the ability to carry over unused emission allowances to the next period ("carryover"). This is intended to bring about a "slight shortfall" in emission allowances in the market. Preparations are being made to include a further seven industries in addition to the power sector in the emissions trading scheme, and the reduction of surplus allowances is also

aimed at establishing a fair starting point for new industries to enter market.

Will such measures as outlined above lead to strengthening China's industrial competitiveness? In the EU, Mario Draghi is scheduled to announce an EU-commissioned report on competitiveness in the coming weeks. Draghi presented some of the content of that report in a speech in Spain on June 14. His recommendations for increasing the EU's productivity included (1) reducing the price of energy; (2) creating an environment for research and innovation through collective EU efforts; (3) deepening markets for mobilizing private savings, and common funding/financing at the European level; and (4) in light of deteriorating geopolitical relations, concentrating demand within the EU and developing foreign economic policy (statecraft) such as securing supply chain for key technologies. Will the approaches of the two will lead to enhanced competitiveness? Which approach will bring about more effective results?

Contact: [report@tky.ieej.or.jp](mailto:report@tky.ieej.or.jp)