Clean Transportation Program Brief

September 2016

Corporate Average Fuel Consumption and New Energy Vehicles Credits Joint Management Method Draft (for public consultation)

This new draft regulation release by the Ministry of Industry and Information Technology (MIIT) has been awaited for since China has announced its intention to consider the ZEV-credits regulation adaptation to China as part of the US-China Climate Change Dialogue in September 2015[1]. New Energy Vehicles (NEVs), the equivalent of the US's ZEV, include battery electric vehicles (BEVs), Plug-in Hybrids Electric Vehicles (PHEVs) and Fuel Cell Vehicles (FCVs).

A coalition of researchers and NGOs have been advocating for decoupling NEV credits from the CAFC regulation mainly because of the limited management capacity of MIIT over the existing CAFC regulation, the two regulations take different technology-forcing pathways, and the potential offsetting of CAFC ICE vehicle efficiency technology upgrading targets by low-quality NEVs manufacturing.

The National Development and Reform Commission (NDRC), the ministry governing Climate Change and Emissions Trading Systems (ETS) in China, has also recently announced its intention to include an NEV-credits mechanism as an independent trading system under its 4-year old emissions trading platform[2], shedding some uncertainty as for which ministry should and would oversee China's NEV credits.

The CAFC credits mechanism will enter into effect after the release of the final regulations; the NEV credits mechanism is planned to be implemented as of 2018. Here are its highlights:

Implementation scope: national.

Regulated entities: all domestic vehicle manufacturers and vehicle importers, including ICE vehicles and new energy vehicles (NEVs).

Management principles: CAFC and NEV credits will be calculated independently, and corporate CAFC and NEV credits performance will also be separately evaluated.

CAFC credits calculation method: according to the gap between the actual annual FC and the targeted annual FC and volume that the corporate vehicles produced or imported (as detailed in GB 27999), equal with FC gap × Vehicle volume.

All corporations manufacturing ICE vehicles are required to meet the target, while small manufacturers (with an average of three years manufacturing or an importation volume of below 2,000) are given a looser

1 *https://www.whitehouse.gov/the-press-office/2015/09/15/fact-sheet-us-—-china-climate-leaders-summit*

2 *http://www.cnemission.com/article/news/DomesticNews/201608/20160800001158.shtml*

requirement.

NEV credits calculation method: according to the gap between actual and required volume of NEVs credit.

Manufacturers and importers with vehicle volume exceeding 50k are required to comply according to their manufacturing or importation volume of the same year. The 2018, 2019 and 2020 NEV credits target (NEV credits are 2-5 times than car production or importation volume as the below table) is 8%, 10% and 12% of total production/importation volume.

(Passenger vehicle type)	Range (km)				
	80≤R＜150	150≤R＜250	250≤R＜350	R≥350	R≥50
BEV	2	3	4	5	/
PHEV（including REEV）	/	/	/	/	2
FCV	/	/	4	5	/

For example, a 100k car manufacturer will need to achieve 5k credits in 2019, translated to a minimum of 1k BEV volume with range equal to or exceeding 350km, or a maximum of 2.5k BEVs with range between 80 and 150km, or a of volumes and ranges anywhere in between.

CAFC credits management: (1) a determined percentage of CAFC credits can be banked for up to 3 years; (2) negative CAFC credits can be compensated for in 4 ways: CAFC credits produced and accumulated by the company over a 3-year period, NEV credits gained own through NEV manufacturing, CAFC credits acquired from other companies affiliated within the same auto group, NEV credits purchased from any other companies who generate excess NEV credits; (3) the ratio of CAFC and NEV Credits value in 2016 and 2017 is 1:1; (4) all CAFC credits transferred and NEV credit purchased from other companies can only be used for compliance during the same year.

NEV credits management: (1) NEV credits can be traded freely, but can't be banked and used for other years; (2) negative NEV credits can be offset by purchasing positive NEV credits from other manufacturers; (3) purchasing of NEV credits may only be used for compliance during the purchasing year.

Supervision and penalties: MIIT will supervise the CAFC and NEV credits and determine the entities that will mange compliance, which will employ a black-list method for encouraging compliance. Companies that do not meet their CAFC credits and/or NEV credits requirement will be required to halt vehicle production or importation.

The full release:
http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057585/n3057592/c5259691/content.html?from=groupmessage&isappinstalled=0

iCET have been involved in the designed of China's first CAFC standard and have been tracking the standards development and implantation since. An annual CAFC report is released every summer for the past six years, alongside an expert panels discussion in which automotive sector leaders and auto media outlets also participate. An executive summary of 2016vCAFC Report is available online for free: http://www.icet.org.cn/english/reports.asp?fid=20&mid=21

iCET have been advocating for ZEV-credits like regulation development in China since 2013. Among its efforts in this area are:

- ✓ A translation of the ZEV credits regulation to Chinese, policy overview, a Tesla Motors case study, and a qualitative analysis of the policy development and its potential linkage to CAFE; available for free, online: http://www.icet.org.cn/english/reports.asp?fid=20&mid=21

- ✓ iCET has conducted several highly successful campaigns for an independent ZEV-credits scheme in China through stakeholder engagement from both China and the US at both high-level events (2016 Climate Leader Summit, 7th Earth Temple Forum), close door meetings (e.g. in Shenzhen, Beijing, Chongqing, Shanghai and Hefei) and media sessions; related news items available online: http://www.icet.org.cn/english/newsroom.asp?fid=16&mid=17

- ✓ A qualitative analysis summarized through a Q&A format policy suggestions brief for advising adaptation guidelines of the US ZEV-credits to the case of China's NEV development; available for free online: http://www.icet.org.cn/english/reports.asp?fid=20&mid=21

- ✓ Three years after iCET introduced the California's Zero Emission Vehicles (ZEV) credit trading concept into China, NDRC has officially announced its plans to adopt the scheme in China and asked for comments towards implementation. MIIT will announce its own ZEV and CAFÉ credits related plan soon. iCET is instrumental in jump-starting the ZEV process in China.

- ✓ iCET advocacy to the US government is believed to have contributed to the inclusion of ZEV in the US-China Climate Change Dialogue announced in September 2015: https://www.whitehouse.gov/the-press-office/2015/09/15/fact-sheet-us-–-china-climate-leaders-summit