



Mexico's future carbon market pilot in a nutshelland a bit of Colombia

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The Carbon Trust is an independent, expert partner of leading organisations around the world, helping them contribute to and benefit from a more sustainable future through carbon reduction, resource efficiency strategies and commercialising low carbon technologies.



We have worked with:

- 65% of FTSE 100 Companies
- 3,000 public sector bodies
- 75,000 small businesses

To deliver:

- 60mt CO2 emissions saved
- \$2bn spend on energy efficient equipment
- \$7.1bn energy waste avoided



Amendment to the General Climate Change Law (2012)



Amendments related to Mexico's cap and trade (Sistema de Comercio de Emisiones)

- Establishes the mandate “to implement a cap and trade system”
 - With the collaboration and agreement of the private sector
 - Without affecting the competitiveness of regulated sectors
- Previous to the implementation of the C&T system, the Secretary of Environment will establish a pilot:
 - Regulation must be published ten months after the publication of the Amendment (May 2019 at the latest)
 - Duration of the pilot: 36 months
 - With no economic effects

Published
on July
13th, 2018

What does this amendment entail?



- ✓ **CHANGES IN THE FOLLOWING REGULATION:**
National GHG Emissions Register (Spanish acronym: RENE)

- ✓ **CREATION OF 2 NEW LEGAL INSTRUMENTS:**
 - ✓ Verification standard;
 - ✓ Regulation of the carbon market pilot



General overview of the National Emissions Register



- **SOURCES:** Stationary and mobile
- **TYPE:** Direct and Indirect emissions
- **THRESHOLD:** > 25,000 tons CO₂e/year, per facility or company
- **MRV:** Verification every 3 years
- **FINES:** 2,200 USD - 13,500 USD (for not submitting the GHG report); 13,500 USD - 45,000 USD (for any forged, counterfeit, altered, or falsely made document)

Changes in the RENE regulation



Regulation will be harmonized with the new C&T legal framework

MRV

- Annual verification for entities regulated and every 3 years for the rest of the entities
- Verification requirement PRIOR to the report to the RENE
- Verification standard to establish the procedure to be carried out by the Verification Bodies (Spanish acronym: OC-VV-GEI)
- General requirements for the registration of mitigation projects or activities

Preliminary scope for Mexico's C&T pilot

What does it include?

Duration: 3
years

Regulated entities in the pilot	➔	Energy and industry sectors *
Threshold to participate	➔	100,000 ton CO ₂
Type of GHG emissions covered	➔	Direct
Enforcement	➔	TBD
Flexibility mechanisms	➔	Banking
Offsetting	➔	Yes
Secretarial Agreements	➔	Cap, allocation method, registry
Point of regulation	➔	Facility
Overlap with other instruments	➔	Clean Energy Certificates will be recognized as part of the mitigation goal; Carbon tax undefined

Fugitive emissions not considered

Carbon policy interactions



Four options for Mexico

Carbon tax is set at USD\$3.50 per CO₂ combusted fuel translated into a mass-based rates for individual fossil fuels, except NG

1. Limited C&T (i.e. include sectors not regulated by the carbon tax)
2. C&T solely (Carbon tax is replaced by C&T)
3. Overlapping C&T and carbon tax (two different prices)
4. Hybrid ETS: ETS + price floor



A few words about the cap



It will be based on the 5% reduction goal committed by the industry sector in the NDC

**Greenhouse gases
NDC's mitigation goal**

-22%

UNCONDITIONAL GOAL

-36%

CONDITIONAL GOAL

	Baseline				Uncondicional	
	2013	2020	2025	2030	2030	Δ
TRANSPORT	174	214	237	266	218	-18%
ELECTRIC GENERATION	127	143	181	202	139	-31%
RESIDENTIAL & COMMERCIAL	26	27	27	28	23	-18%
OIL & GAS	80	123	132	137	118	-14%
INDUSTRY	115	125	144	165	157	-5%
AGRICULTURE	80	88	90	93	86	-8%
WASTE	31	40	45	49	35	-28%
SubTOTAL	633	760	856	941	776	-18%
LULUCF	32	32	32	32	-14	-144%
TOTAL	665	792	888	973	762	-22%

GHG emissions per threshold



Number of facilities

How many entities will be covered?



- Energy supply
- Oil and gas
- Automobile manufacturing
- Cement
- Chemical
- Food and drinks industry
- Glass
- Steel
- Cal
- Metal
- Mining
- Petrol refining
- Other manufacturing
- Petrochemicals
- Pulp and paper
- Textile

Next steps for Mexico's carbon market pilot regulation



- **REGULATORY PROCESS THAT INCLUDES:**

- Consultation process * started on October 19th throughout 20 days
 - ✓ Cost and benefit analysis of the new regulation
 - ✓ Analysis of regulatory impact
- After consultation process, the publication in the Official Gazette (Spanish acronym: DOF) will follow ~ November 2018

Regulatory process is carried out by the National Commission of Regulatory Improvement (Spanish acronym: CONAMER)

Incoming administration starts on **December 1st**

*Link to the consultation: <http://www.cofemersimir.gob.mx/portales/resumen/46117>

AMLO's agenda on climate change in a nutshell



OPPORTUNITIES

- Josefa Gonzalez, the incoming Secretary of Environment and Natural Resources, has stated the importance of working towards the NDC's goals
- NATURAMLO acknowledges the importance of carbon-pricing instruments
- There is a regulatory and legal framework in place in Mexico

RISKS

- The announcement of the construction of two refineries has cast a shadow over the climate agenda

Andres Manuel Lopez-Obrador (AMLO)

National
Development
Plan 2019-
2024 to be
published in
February
2019

Colombia's C&T



LEGAL BASIS: CLIMATE LAW

- On 27 July 2018, Colombia adopted a climate law, which outlines provisions for the establishment of a National Program of Greenhouse Gas Tradable Emission Quotas (in Spanish: Sistema de cupos y créditos)

SCOPE

- To be defined in secondary regulation
- Creation of the National Program of Tradable Allowances (Spanish acronym: PNCTE) aiming at
 - Determining allocation via grandfathering and auctions
 - Verification and certification of GHG reductions within the Reduction Register framework

A quick overview of Colombia's C&T



- Government may recognize the tons of CO₂ already paid within the carbon tax framework as part of the allowances obtained in auctions
- Penalties for not compliance may include monetary fees the Minister of Environment will establish in the secondary regulation
- An annual report showing the status of the C&T system will be presented to the Climate Change System

New administration has sanctioned continuity of the C&T

Deadline to design secondary regulation: July 2021

Thank you!



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