IETA's comments on the draft international credits rules for the K-ETS

About IETA

IETA is a non-profit international business organisation that promotes the establishment of a functional global framework for trading in greenhouse gas emission reductions. We seek to develop an emissions trading regime that results in real and verifiable greenhouse gas emission reductions, while balancing economic efficiency with environmental integrity. To achieve these goals, an emissions market requires scarcity, and long-term clarity and predictability of the rules, including the emission reduction target.

Established in 1999, IETA is the leading voice of the business community on the subject of carbon markets. IETA's members comprise more than 130 companies from across the carbon trading spectrum, and who are active in jurisdictions where carbon pricing policies are in place, being implemented or considered. IETA's members include global leaders in the oil, electricity, cement, aluminium, chemical, paper, technology, data verification, broking, trading, legal, finance, and consulting industries.

IETA's comments

IETA warmly welcomes the publication of the draft eligibility criteria for international credits in the Korean Emissions Trading System (K-ETS). IETA also welcomes the opportunity to comment on the draft rules, as we believe that stakeholder engagement is a key best practice for good policy making.

IETA would like to use this opportunity to congratulate the South Korean government on its efforts to strengthen the design and functioning of the K-ETS. Being the first nation-wide ETS in Northeast Asia, the K-ETS is a role model for the region. Adopting rules for the use of international credits is a key step forward for the system.

IETA strongly believes that allowing the use of international credits is in South Korea's long-term interest, because it can broaden the impact of the ETS by offering market access for high-quality international credits. It is a classic "win-win" strategy, since it encourages global participation and offers a cost-effective compliance option for regulated entities.

Therefore, we warmly welcome the fact that the Korean Government is taking steps to allow the use of international credits in the system already in the second phase, running from 2018 to 2020.

Nevertheless, in the paragraphs below, we highlight some design feature of the draft rules that we believe could be further improved.

IETA recognises that the use of international credits must operate within well-defined parameters. Allowing an uncontrolled flow of credits is not a sustainable solution for an ETS, because it may not drive sufficient investment in abatement strategies within the covered sectors. Nevertheless, we believe that the draft rules in their current form would result in an extremely low level of supply, preventing K-ETS participants to access a wider pool of lower-cost abatement options.

International units eligible for compliance under the K-ETS should include various internationally-recognised standards for emissions reduction credits generated by project-based mechanisms. We are supportive of the South Korean government's proposed approach of using credits from the Clean Development Mechanism, but we would also encourage the government to consider the use of credits issued under other internationally recognized, high-quality standards, such as ACR, CAR and VCS. REDD+ credits should also be considered, as they represent an essential resource to meet the long-term target to the Paris Agreement. The use of established third-party programs is an excellent means of using existing requirements and infrastructure to facilitate the development of a robust market that can ensure a sufficient amount of international credits are available to the market to meet total potential industry demand as early as possible.

Moreover, the fate of the CDM programme post-2020 is still being decided by UNFCCC negotiations. At the same time, supply and demand trends for international credits under the Paris Agreement are difficult to predict and will depend on the rules that are currently being drafted. Therefore, it is even more important that the K-ETS has a diversified approach to eligible credits, which should include other programs that will continue to operate and provide high-quality units.

Moreover, IETA would encourage the South Korean government to consider broadening the eligibility criteria. We believe that the current requirements would result in a very narrow pipeline of eligible projects, leading to a low level of supply of international credits. Allowing companies to access a wider pool of lower-cost abatement options will help them diversify their compliance strategy and would also result in a broader range of co-benefits associated to different types of projects. Broadening the eligibility criteria, and consequently allowing more international credits into the market, can also help Korea meet its 2020 target more cost-effectively.

Looking at the historical trends over the first years of operation in the K-ETS, the demand for Korean Offset Credits (KOC) has always been extremely high, with the eligible credits being virtually sold out. We believe that potential demand for international credits would be similarly high, and we worry that the level of supply resulting from the draft rules would not be able to meet it. Enabling more international credits to be used in the market, together with other measures such as allowing third-party trading, have the potential to alleviate the liquidity issues experienced by the K-ETS. The Korean Government should also consider the possibility of progressively increasing over time the percentage of international credits allowed in the market, if demand proves to be strong and stable.

Finally, the K-ETS framework should also contain provisions for the inclusion, in the post-2020 period, of international units developed under the Paris Agreement. Articles 5 and 6 of the Paris

Agreement pave the way for the expansion of a REDD+ framework and for the development of a new mechanism, the so-called Emissions Mitigation Mechanism. Therefore, units generated through these mechanisms should be eligible for compliance under the K-ETS.

Therefore, we would encourage the government to enhance the supply of available credits by:

- considering the use of credits from internationally recognised standards, in addition to credits generated by CDM projects,
- considering broader eligibility criteria, especially concerning the proposed conditions for owners or operators of projects, to grant access to a wider pool of credits.

As a general principle, the role of credits within the K-ETS should satisfy the following principles:

- **Integrity**: International credits, should represent real, permanent and additional reductions, and be subject to robust monitoring, reporting and verification (MRV). It is therefore essential to ensure common and consistent MRV processes. One tonne of reductions located outside South Korea should equal at least one tonne of reductions within South Korea.
- **Clear additionality**: Emissions reduction projects should meet a clear additionality standard set by determining an appropriate sectoral benchmark for the country or region. Projects with clean technologies that abate significant levels of GHG emissions should flourish as a result.
- **Credibility**: UN-issued credits, as well as internationally recognised standards, should be recognised, to ensure that qualitative criteria are guaranteed.
- **Net mitigation contribution**: The extent to which a project counts against a host country's efforts to reducing their domestic emissions should be clearly established, to assure that there is no double counting. Net mitigation could be set by project type and/or by country type.
- **Market Balance**: The use of international credits should not call into question the principle of maintaining an adequate market balance in the K-ETS and ensuring a meaningful price signal for low-carbon investment.
- **Regulatory stability**: The extent to which international credits should be allowed (volume and type) should be defined as early as possible. This offers market participants visibility on what to expect in terms of market dynamics, and it helps to avoid a sudden inflow or outflow of credits when rules are modified.
- **Compliance with UNFCCC Framework**: International credits should comply with the evolving framework established by Article 6 of the Paris Agreement.

IETA sincerely hopes that these comments will make a useful contribution to the policy making process and will help the South Korean government in drafting the final rules. Should the Korean Government deem it appropriate, IETA and its members are willing to further engage in the process of drafting the rules for international credits in the K-ETS, and to provide advice based on our expertise. IETA remains at the complete disposal of the South Korean government for any follow up or any request for further information.