

CARBON MARKET BUSINESS BRIEF

KAZAKHSTAN

KAZAKHSTAN ETS AT A GLANCE

Years in operation	<p>Phase 1 (pilot year): 1 year (2013)</p> <p>Phase 2: 2 years (2014-15)</p> <p><i>2016-17 - system suspended</i></p> <p>Phase 3: 3 years (2018-20)</p> <p>Phase 4: 1 year (2021)</p> <p>Phase 5: 4 years (2022-25)</p>
Overall cap & trajectory	<p>Phase 4: (2021): 169.2 million tCO₂ (+ a reserve of 11.5 MtCO₂)</p> <p>Phase 5: Proposed cap of 548.4 MtCO₂ for the overall period (+ a reserve of 89.6 MtCO₂)</p>
Target(s)	<p>By 2030: 15% (unconditional) to 25% (conditional) reduction from 1990 GHG levels (NDC submission)</p> <p>By 2050: 40% CO₂ emission reduction in power sector from 2012 levels (Concept of Transition to Green Economy, 2013)</p> <p>By 2060: carbon neutrality (net zero CO₂ emissions)</p>
Emissions Reduced to date	<p>During the implementation of the first two pilot trading periods, legislative collisions and gaps were identified regarding the regulation of GHG emissions. In particular, according to the Environmental Code of the Republic of Kazakhstan for that period, a rule was provided that allowed enterprises to receive additional quotas without reference to the rate of GHG emissions reduction and without limiting the legislative possibilities of applying for extra quotas. Due to the fact that these quotas were not issued from the Reserve of the National Allocation Plan, their available volume was not limited, which led to a surplus of quotas for many enterprises. During the two-year suspension of the KZ ETS, the authorised body worked on elimination of the identified problems</p> <p>The total volume of emission allowances in 2018-20 initially amounted to 485.9 MtCO₂, but subsequently, in 2018 and 2019, Zhasyl Damu issued additional allowances in the amount of 30.1 MtCO₂ to various companies due to expansion of capacities. However, in July 2021, 15.2 Mt were withdrawn from 42 companies due to overallocation.</p> <p>Actual emissions in 2018-20 were 473.7 MtCO₂.</p> <p>Allowances remaining at the end of the period equalled 19.8 MtCO₂</p>
Sectors covered	<p>Phase 1: Power sector and centralised heating. Extractive industries and manufacturing: oil and gas mining, metallurgy, chemical industry.</p> <p>Phase 2: Same as Phase one.</p> <p>Phase 3: Same as Phase one plus chemical and processing industry (production of building materials: cement, lime, gypsum, and brick).</p> <p>Phase 4: Same as Phase 3</p> <p>Phase 5: Same as Phase 3</p>

GHGs covered	CO ₂
# of covered entities	Phase 1: 178 companies Phase 2: 166 companies Phase 3: 225 installations Phase 4: 218 installations Phase 5: 199 installations
Allocation method	Benchmarking only
Trading rules	Secondary trading is allowed; direct agreements between installation operators are allowed at a price not lower than the level of the exchange quotation of the quota on the day of transaction.
Use of offsets and linking	The system allows domestic offsets
Other features	Banking between trading periods is not possible.
Penalties for non-compliance	KZT 15,315 (USD 34)/tCO ₂
Use of revenues	All money goes to the government budget

MAJOR DEVELOPMENTS

The Draft National Allocation Plan for 2022-25 has been developed, however it has not yet been approved as of the time of writing. In accordance with this document, Kazakhstan plans to reduce the amount of carbon credits from 151 million credits in 2022 to 125 million credits in 2025.

MARKET COMMENTARY

IHS Markit estimates that during the ETS period from 2018 to 2020, a total of about 52 transactions were made using various trading mechanisms, in which more than 7.35 million allowances were traded. In some cases, the sale and purchase of carbon credits took place between different subsidiaries of the same company.

However, it appears that market participants have informally agreed to keep the price of carbon credits at 500 tenge (US\$1.10) per tonne of CO₂ listed on the CCX exchange, thereby nullifying the market-based mechanism.

USEFUL LINKS

[ICAP's Kazakhstan fact sheet](#)

[KazEnergy report 2021](#)

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