

CARBON MARKET BUSINESS BRIEF

MEXICO

MEXICO ETS AT A GLANCE

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| Years in operation | <p>Mexico ETS began its pilot phase in January 2020, and it will be fully operational in 2023. The Mexican ETS has three phases:</p> <ul style="list-style-type: none"> • Pilot phase (2020-22) • Transition phase: (2022)* • Operational phase: 2023 onwards <p>*The transitional period aims to enhance the quality of emissions data and build capacity in emissions trading for covered entities, ultimately improving the design of the operational period.</p> |
| Overall cap & trajectory | <p>2020: 271.3 million tCO₂ (1% CO₂ reduction over the emissions reported in the Emissions National Registry)</p> <p>2021: 273.1 MtCO₂</p> <p>2022: Still to be determined</p> <p>2023: N/A</p> |
| Target(s) | 22% below BAU by 2030 |
| Emissions reduced to date | No data available yet |
| Sectors covered | Facilities with annual emissions of and greater than 100,000 direct tCO ₂ emissions from the energy (electricity generation and fossil-fuel extraction and production) and industrial sectors (cement, chemicals, automobiles, glass, steel, metallurgical, mining, petrochemicals, pulp and paper subsector, among other industrial subsectors that generate direct emissions from stationary sources) |
| GHGs covered | CO ₂ only in the pilot phase |
| # of covered entities | Approximately 300 entities are covered by the pilot phase, representing around 37% of national emissions. |
| Allocation method | Grandfathering based on historic emissions. |
| Trading rules | N/A |
| Use of offsets and linking | The use of offsets is limited to 10% of the compliance obligation and credits from non-ETS sectors during the pilot phase. |
| Other features | <p>Banking will be only allowed if participants fulfil their surrender obligations. Allowances issued in the pilot phase will only be valid in that phase.</p> <p>There are three reserves within the cap: one for new entrants (10% of the cap), one to adjust supply if needed (5%), and an auction reserve (5%).</p> |

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| Penalties for non-compliance | In the pilot phase, there are non-economic penalties for non-compliance to encourage participation (eg, the potential reduction of free allocation from 2023). |
| Use of revenues | No information available yet. |

MAJOR DEVELOPMENTS

Although the implementing regulation of the Mexican pilot was published in October 2019 and the 2020-21 caps and allocations in November 2019, participants of the ETS only received their first allowance allocations in October 2021 and the SEMARNAT announced a 97% compliance rate for the year 2020 in April 2022.

In March 2022, the 3rd Emissions Trading Academy in Mexico was developed for high-level members of SEMARNAT, in order to keep building and strengthening capacities to handle technical issues for the implementation of the Mexican ETS: financial regulation, carbon leakage, MRV, flexibility mechanisms, among other topics. A book capturing the ETS experience of Mexico is expected to be published.

MARKET COMMENTARY

The pilot phase is intended to generate insights into the Mexican ETS design, identify any improvements for the operational phase in 2023. This initial period will allow not only to develop an indicative value for allowances but also for offsets for the flexibility mechanism. During this period, regulated participants will be able to become familiar with the dynamics of the ETS and develop the necessary in-house strategies to respond and be part of the market without compromising competitiveness.

In December 2020, SEMARNAT published the allocation rules and criteria. In January 2021, an official announcement of allowances allocation - according to historic information - was released.

The fully operational phase will start in January 2023 and facilities will potentially start trading allowances and acquiring carbon credits for compliance.

USEFUL LINKS

[Mexico GIZ](#)

REFERENCES

ICAP [archives](#) and [fact sheets](#)
[SEMARNAT Cap announcement](#)
[Federal Official Gazette: Emissions Trading System Pilot Phase](#)
[SEMARNAT statement on allocation rules – December 2020](#)
[SEMARNAT statement on allocation – January 2021](#)

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