

CARBON MARKET BUSINESS BRIEF

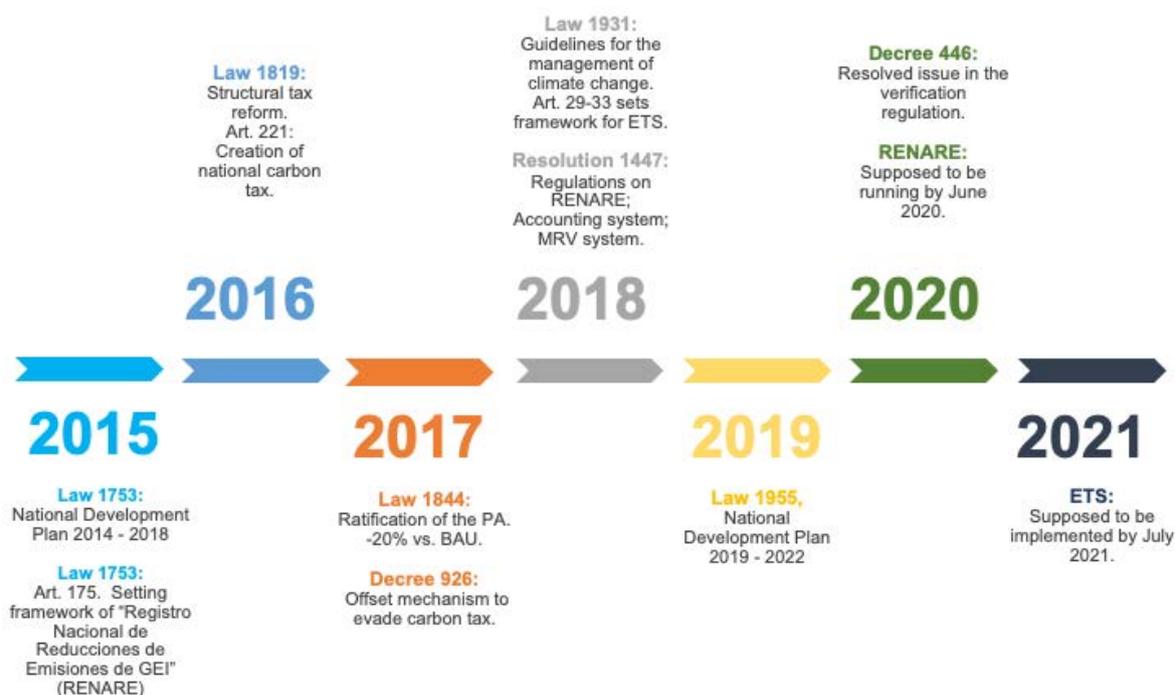
COLOMBIA

COLOMBIA ETS AT A GLANCE

Years in operation	<p>Under development. General rules were set out under Law 1931 of 2018 – Art 29 a 33. According to Colombia’s Ministry of Environment and Sustainable Development (MADS), the deadline for the ETS rulemaking is July 2021.</p> <p>Supported by the Partnership of Market Readiness (PMR), the structuring process has been advancing and a first draft will be made public for comments during Q3 2020.</p>
Overall cap & trajectory	No information available yet.
Target(s)	Colombia ratified the Paris Agreement by Act 1844 of 2017 in which a series of longer-term climate targets were set, including a 2030 GHG emission reduction goal of 20% below BAU baseline, rising to 30% if international support is provided. In the short term, by 2022 the country could see an estimated GHG emissions reduction of 36 million tCO ₂ e, with respect to the national reference scenario, between 2018 and 2022.
Cumulative emissions reduced to date by the ETS	N/A
Sectors covered	To be determined
GHGs covered	No information available yet.
# of covered entities	No information available yet.
Allocation method	<p>MADS will set the annual caps and determine the conditions to acquire allowances through an initial auction.</p> <p>Allowances may be granted directly to regulated agents who meet the requirements established by MADS.</p>
Trading rules	N/A
Use of offsets and linking	<p>It is expected that the same rules as for the carbon tax (Decree 926) will apply: domestic carbon credits with vintages not older than five years. Priority will be granted to the forestry sector.</p> <p>Additionally, the National Government may recognise the tonnes of emissions that have been paid - compensated - for via carbon tax as allowances acquired at auction.</p>
Other features	MADS will communicate publicly the criteria for granting the allowances and will present an annual report on the monitoring and operation of the ETS to Colombia’s Congress.

Penalties for non-compliance	MADS will sanction regulated agents with fines for non-compliance with obligations.
Use of revenues	MADS will create a separate account in the National Environmental Fund (FONAM) for the revenues obtained by the ETS. These revenues will be used for GHG mitigation and climate change adaptation initiatives.

MAJOR DEVELOPMENTS



Colombia's national carbon tax was introduced in 2016. The following year, Decree 926 created the offset mechanism as an alternative compliance option, which increased demand for Colombian carbon credits and Colombian emission reduction projects.

The national carbon tax covers approximately 27% of Colombia's emissions and the 2020 price is at 17, 211 Colombian pesos per tonne CO₂e (US\$4.63).

In 2018, Colombia passed Law 1931 – Strategies and Guidelines for the Management of Climate Change – in which articles 29 to 33 establish the framework for a new national ETS. In the same year, MADS passed Resolution 1447, which created and regulates RENARE – Colombia's national registry for GHG mitigation activities. The resolution also created an accounting system for GHG reductions and creates an MRV system of mitigation actions at the national level. RENARE, expected to be operational in fall 2020, represents key transparency mechanism to measure progress towards Colombia's NDC.

In March 2020, MADS passed Decree 446 to resolve a legal issue that only allowed one national auditor to verify and certify emission reductions eligible for compliance.

Currently, MADS intends to modify some of the rules of Resolution 1447, considering the need to adjust this regulatory framework to the current requirements of the Colombian market. These modifications include an extension of the eligibility of national carbon credits with 2010-14 vintages.

There will soon be a hybrid solution of the carbon tax and the ETS in Colombia, which will require a proper harmonisation of these instruments in order for the private sector to properly engage.

MARKET COMMENTARY

According to Colombia's National Directorate of Taxes and Customs (DIAN), some 32 million carbon credits were surrendered between 2017 and 2019 to comply with the pricing system (2017: 7.7 million; 2018: 11.9 million; 2020: 12.5 million). The yearly potential demand is approximately 40 million credits, meaning that only about a quarter of the demand has been met to date.

As a result of low supply, the market price of national carbon credits has been fluctuating somewhere between 80% and 95% of the tax price, around US\$4.

Most likely, there will be a significant decrease in compliance credit demand for 2020, due to COVID-19 impacts; however, a delta between offer and demand is still expected.

USEFUL LINKS

[Law 175 of 2015](#)

[Law 1819 of 2016](#)

[Law 1844 of 2017](#)

[Decree 926 of 2017](#)

[Law 1955 of 2019](#)

REFERENCES

[ICAP News: Colombia approves climate law](#)

[ICAP: ETS Detailed Information – Colombia](#)

[ICAP ETS Map](#)

[Presentation of Francisco Charry, Director of Climate Change \(MADS\) at the 1st ASOCARBONO congress in November 2019](#)

[Law 1931 of 2018](#)

[Decree 446 of 2020](#)

[Resolution 1447 of 2018](#)

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