

# CARBON MARKET BUSINESS BRIEF

## KAZAKHSTAN

### KAZAKHSTAN ETS AT A GLANCE

Years in operation	<p><b>Phase 1 (pilot year):</b> 2013  <b>Phase 2:</b> 2014-15  <b>Phase 3:</b> 2018-20</p>
Overall cap & trajectory	The Phase 3 cap is 485.9 million tCO <sub>2</sub> , which targets a 5% reduction by 2020 from 1990 levels.
Target(s)	<p>By 2020: 5% reduction from 1990 GHG levels          By 2030: 15% (unconditional) to 25% (conditional) reduction from 1990 GHG levels (NDC submission)          By 2050: 40% CO<sub>2</sub> emission reduction in power sector from 2012 levels (Concept of Transition to Green Economy, 2013)</p>
Emissions Reduced to date	<p>No emission reduction occurred during first two phases due to overallocation.</p> <p>During the implementation of the first two 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. During the two-year suspension of the KZ ETS, the authorised body worked on the elimination of the identified problems.</p> <p>The results of the third phase will be available in 2021.</p>
Sectors covered	<p>Phase 1: Power sector and centralised heating. Extractive industries and manufacturing: oil and gas mining, metallurgy, chemical industry.          Phase 2: Same as Phase 1.          Phase 3: Same as Phase 1 plus the materials processing industry (production of building materials: cement, lime, gypsum, and brick).</p>
GHGs covered	CO <sub>2</sub>
# of covered entities	<p>Phase 1: 178 companies          Phase 2: 166 companies          Phase 3: 225 installations</p>
Allocation method	The allocation plan Phase 3 uses both grandfathering and benchmarking.
Trading rules	Secondary trading is allowed; direct agreements between installation operators are allowed
Use of offsets and linking	The system allows domestic offsets
Other features	Banking is allowed within one trading period but not between trading periods
Penalties for non-compliance	\$32 <sup>1</sup> per tonne
Use of revenues	All money goes to the government budget

## MAJOR DEVELOPMENTS

Kazakhstan's emissions trading system (ETS) restarted on 1 January 2018 following a two-year suspension. During the suspension, Kazakhstan made several amendments to the ETS, including the adoption of benchmarks for GHG emissions. New legislation allows installations to choose between two approaches for receiving free allowances – grandfathering and benchmarking, with the possibility of updating their free allocation with capacity changes.

By 1 April 2019, enterprises included in the national quota allocation plan submitted their 2018 emissions reports. Due to the growth of the economy in 2018, many reported a shortfall in allowances, which they had to borrow from 2019 and 2020.

Also in 2019, responsibility for climate change regulation was transferred from the Ministry of Energy's Climate Change Department to the Climate Policy and Green Technologies Department of the newly-established Ministry of Ecology, Geology and Natural Resources (MEGNR).

MEGNR initially planned to use only benchmarking to allocate quotas for GHG emissions in the next ETS phases. However, as of the end of April 2020, no relevant amendments to the Ecological Code have been made. Considering that the next NAP will be developed by the end of 2020, there is limited time for legislation changes and therefore it is unlikely that there will be any significant changes to the ETS design in the next phase.

## MARKET COMMENTARY

First carbon market activity in Kazakhstan started in June 2019 with purchase bids for a total volume of 200 000 tonnes and with the average price of \$0.12 per tonne.

In August 2019, purchase bids for another 200,000 to 2 million tonnes with the average price of \$0.12-0.24/t were submitted to the Caspian Commodity Exchange. However no deals were concluded due to a lack of sellers.

Only in December 2019 there was a first exchange of allowances since the market's relaunch. The total volume of all transactions was about 1.2 million tonnes, with an average weighted price of 431.79 tenge (\$1).

## USEFUL LINKS

[A compilation of questions to - and answers by - Kazakhstan, exported 1 December 2019, by the UNFCCC secretariat](#)

[“Caspian Commodity Exchange” official page on Facebook](#)

[ICAP's Kazakhstan fact sheet](#)

[Ministry of Ecology, Geology and Natural Resources](#)

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<sup>1</sup> 429 KZT/USD exchange rate is used throughout the document