

CARBON MARKET BUSINESS BRIEF

MEXICO

MEXICO ETS AT A GLANCE

Years in operation	<p>Mexico ETS is yet to begin. In 2020, the pilot phase will launch and it is estimated to be fully operational in 2023. There are three phases for operationalisation:</p> <ul style="list-style-type: none"> • Pilot phase (2020-22) • Transition phase: (2022-23)* • Operational phase: 2023 onwards, along with the Paris Agreement <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: 271,300,000 tonnes of CO₂ (1% CO₂ reduction over the emissions reported in the Emissions National Registry)</p> <p>2021: 273,100,000 tCO₂</p> <p>2022: N/A</p> <p>2023: N/A</p>
Target(s)	2030 GHG emission reduction by 22% below BAU baseline and 50% below 2000 GHG levels by 2050
Cumulative emissions reduced to date by the ETS	No data available yet
Sectors covered	Facilities with direct annual emissions of 100,000 tCO ₂ and above: energy (electricity generation and fossil-fuel extraction and production) and industry (cement, chemicals, automobiles, glass, steel, metallurgical, mining, petrochemicals, pulp and paper subsector, among others)
GHGs covered	CO ₂
# of covered entities	Approximately 300 entities are covered by the pilot, representing around 37% of national emissions.
Allocation method	Grandfathering on the basis of historic emissions. There will be a reserve for new entrants (10% of the cap), a reserve to adjust supply if needed (5% of the cap), and an auction reserve (5% of the cap).
Trading rules	N/A
Use of offsets and linking	The use of offsets is not yet defined, and there is limited information. However, the potential use of offsets will be limited to 10% of the compliance obligation and carbon credits from non-ETS sectors.
Other features	Banking will be only allowed if participants are in compliance with their surrender obligations, and only under the conditions of their remaining allowances for subsequent use. Allowances issued in the pilot phase will only be valid in that phase, with potential to be banked into the national ETS.

Penalties for non-compliance

Non-economic penalties for non-compliance to encourage participation are included (e.g., the potential reduction of free allocation from 2023).

Use of revenues

No information available yet.

MAJOR DEVELOPMENTS

The implementing regulation of the Mexican pilot specifying the requirements was published in October 2019. In November 2019, caps for 2020-21 were published together with the allowance allocations. The system registry is expected to be operational by June 2020 together with the offset protocols and the auction platform.

MARKET COMMENTARY

The Mexican ETS is a mechanism included in the General Law of Climate Change, as an instrument explicitly addressed to reduce emissions in the most-cost competitive way. However, it will interact with other federal public policies, such as the existing carbon tax and the clean energy certificates market, and local regulations, such as the recently published tax on emissions in Baja California, all of which also aim to achieve environmental improvements.

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.

Supporting systems (ie, registry, trading platform) are yet to be defined. Once the systems are ready, SEMARNAT will be able to auction allowances from 2021 from the auction's reserve, although auctions are yet to be implemented depending on the evolution of the market.

USEFUL LINKS

[Mexico GIZ](#)

REFERENCES

[EDF Mexico case study](#)

[ICAP archives](#) and [fact sheets](#)

[SEMARNAT Cap announcement](#)

[Federal Official Gazette: Emissions Trading System Pilot Phase](#)

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