

CARBON MARKET BUSINESS BRIEF

KAZAKHSTAN

KAZAKHSTAN ETS AT A GLANCE

Years in operation	<p>Phase 1 (pilot year): 1 year (2013) Phase 2: 2 years (2014-15) <i>2016-17 - system suspended</i> Phase 3: 3 years (2018-20) Phase 4: 1 year (2021)</p>
Overall cap & trajectory	<p>Phase 1: 147.2 million tCO₂ (+ new entrants reserve of 20.6 million tCO₂). This equalled a stabilisation of the capped entities' emissions at 2010 levels. Phase 2: 2014: 154.9 million tCO₂ (+ a reserve of 18 million tCO₂); 2015: 152.7 million tCO₂ (+ a reserve of 20.5 million tCO₂). This represented reduction targets of 0% and 1.5% respectively, compared to the average CO₂ emissions of capped entities in 2011-12. Phase 3: 485.9 million tCO₂ (+ a reserve of 35.27 million tCO₂). The cap is set at a 5% reduction by 2020 from 1990 levels. The cap is allocated for the overall compliance period of 2018-20; there is no yearly cap. Phase 4: (2021): 169.2 million tCO₂ (+ a reserve of 11.5 million tCO₂)</p>
Target(s)	<p>By 2030: 15% (unconditional) to 25% (conditional) reduction from 1990 GHG levels (NDC submission) By 2050: 40% CO₂ 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 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 eliminating the identified problems.</p> <p>The results of the third phase will be available after April 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 one. Phase 3: Same as Phase one plus chemical and processing industry (production of building materials: cement, lime, gypsum, and brick). Phase 4: Same as Phase 3</p>
GHGs covered	CO ₂
# of covered entities	<p>Phase 1: 178 companies Phase 2: 166 companies Phase 3: 225 installations Phase 4: 218 installations</p>

Allocation method	Benchmarking only in Phase 4. National quota allocation plan for the period of 2018-20 was based on a mixed quota allocation approach – both grandfathering and benchmarking, quotas were distributed for the installations.
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	\$32/tonne CO ₂ e ¹
Use of revenues	All money goes to the government budget

MAJOR DEVELOPMENTS

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

From January 2021, the allocation method was changed to use only benchmarking approach to allocate quotas for GHG emissions. On 2 January, President Kassym-Jomart Tokayev signed a decree adopting the new environmental code that will enter into force from 1 July 2021. Its impact on the ETS is unknown.

MARKET COMMENTARY

The first carbon market activity in Kazakhstan was 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 the lack of sellers. Only in December 2019, there was a first exchange of allowances since Kazakhstan ETS' relaunch. The total volume of all transactions was about 1.2 million tonnes. The average weighted price was around \$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](#)

AUTHOR

Stefano De Clara
International Policy Director, IETA
declara@ieta.org

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