

CARBON MARKET BUSINESS BRIEF

MEXICO

MEXICO ETS AT A GLANCE

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) • Transitional phase: (2022-23)* • Operational phase: 2024 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: 271.3 million tCO₂</p> <p>2022: N/A</p> <p>2023: N/A</p>
Target(s)	22% below BAU by 2030
Cumulative emissions reduced to date by the ETS	No data available yet
Sectors covered	Facilities with annual emissions of and greater than 100,000 tCO ₂ 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
# of covered entities	Approximately 300 entities are covered by the pilot phase, representing around 37% of national emissions.
Allocation method	Grandparenting on the basis of 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>

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

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 registry system has progressed; however, as of April 2021, the start of its operation has not been announced.

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, 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.

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.

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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