



PREPARATION OF AN EMISSIONS TRADING SYSTEM (ETS) IN MEXICO

As of: February 2021

Mexico intends to involve the private sector in the implementation of its NDCs through the introduction of an Emissions Trading System (ETS). However, there is still a lack of expertise and institutional capacity to continue the development of and implement an ETS. Therefore, the project creates the institutional and technical conditions to be met by stakeholders from the public and the private sector and civil society. In doing so, the project develops knowledge-based recommendations for action to guide the Mexican decision-making processes on ETS design. The project strengthens the different stakeholders involved through capacity development and promotes cooperation between them. Besides, the project relies on international knowledge transfer to enable the Mexican stakeholders to learn from other countries and regions that already have an ETS and to disseminate the lessons learned in Mexico.

State of implementation/results

- Building on the work of the Climate Alliance and with the support of the project, the adaptation of the Climate Change Act (LGCC) came into force in July 2018, which envisages the introduction of an ETS from 2022 and a three-year pilot from 2019.
- Results of technical and legal advice on the project will be incorporated in the development of the legal framework and in the negotiations with the private sector. A three-year pilot phase focuses in particular on the preparation and capacity development of the private sector and helping to generate high-quality carbon data for decision-making. The project continues to support the implementation of the meetings of the public-private working group on emissions trading, in whose legal framework and design elements are discussed (since 09/2017). This is flanked by further training measures for industry representatives who are showing increasing interest and want to prepare for an ETS (basic

PROJECT DATA

Country/Countries:

Mexiko

Implementing organisation:

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Political partner(s):

- Ministry of Environment and Natural Resources (SEMARNAT) - Mexico

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BMU grant:

€ 4,200,000

Duration:

09/2017 till 02/2023

Website(s):

<http://iki-alliance.mx/en/portafolio/preparatio-n-of-an-emissions-trading-system-ets-in-mexico/>





and advanced courses since 02/2018, sector training from 11/2018, study trip 10/2018, development of information materials and factsheets).

- The basic elements of the ETS pilot phase are based on analyzes of the project on sector coverage, cap-setting, competitive impact, institutional design, legal framework and integration with other policy instruments in the field of energy, in particular the clean-energy certificate system. These basic elements were officially presented to government and industry representatives in a joint conference of the Mexican Ministry for the Environment (SEMARNAT) and GIZ (06/2018). The studies will be published jointly by SEMARNAT and GIZ by the end of the year. Currently, recommendations for the allocation of emission rights are being developed (07 / 2018-11 / 2018), which are to be used by SEMARNAT for regulation.
- With SEMARNAT, Central Bank, Ministry of Finance and Banking Supervision, the link between financial market regulation / financial actors and emissions trading in Mexico is analyzed to identify regulatory needs for a secondary market (10 / 2018-04 / 2019).
- SEMARNAT intends to use the former German registry software for the pilot phase and was advised on the necessary technical adjustments. At the same time, the possible use of a blockchain-based commercial register will be exploratively analyzed for the follow-up phase (blog article) (07 / 2018-04 / 2019).
- Building on the work of the project, the Adaptation of the Climate Change Act (LGCC) came into force in 2018, which provides for the introduction of an ETS from 2023 and a three-year pilot phase from 2020.
- The results of the project's more than 23 technical and legal analyses were directly used for the regulation of a pilot phase of a Mexican emissions trading scheme. This was published in the Federal Gazette in October 2019. The pilot phase serves in particular to prepare the private sector and to generate high-quality emissions data for decision-making. Through continuous dialogue and training activities with the private sector (including study visits, sector-specific training with the main sectors such as steel and cement as well as the electricity sector),





successful cooperation relationships have been strengthened, which have led to the finalisation of the ETS Regulation. In preparation for the follow-up phase of the ETS, the issue of emissions reporting is to be particularly strengthened. To this end, national verification bodies, among others, will be trained in verification processes.

- The technical studies on, among other things, sector coverage, cap-setting, competitive impact, allocation methods; and the interlinkage with other policy instruments such as the CO₂ tax and the clean energy certificate system have been published as official government publications. Analyses and recommendations for action on cap and allocation have been used to establish the relevant legal documents (cap, allocation). Analyses for the development of benchmarks and an auction mechanism for the subsequent phase were started in 2019. A quantification of the socio-economic benefits of an ETS is intended to help communicate the instrument to a broad audience.
- The project also supported the establishment of a government website on the ETS pilot, on which studies and various information materials developed by the project, such as brochures and fact sheets, are available to the public in a transparent manner. With the aim of disseminating knowledge on the topic, didactic tools were developed, such as an ETS role-playing game, which was disseminated in universities and regional courses. Within the framework of a university competition, an ETS board game developed by the project has brought the topic closer to almost 200 students in a playful way.
- The project supported the Ministry of Environment in mainstreaming emissions trading in other sectors and institutions. Cross-institutional workshops with the participation of international experts were organised. In addition, an interministerial ETS Academy was organised with the Partnership for Market Readiness and the International Carbon Action Partnership. With SEMARNAT, the Central Bank, the Ministry of Finance and banking supervision, the link between financial market regulation and ETS was analysed in order to identify the need for regulation. Representatives from government, the private sector and academia were brought together and trained during a second study trip to





Germany in 2020.

