

Legal implementation of Emissions Trading

February 9th, 2022



From concept to implementation

Regulatory timeline

Inception of a carbon market

Climate Change Law

First in Latin America, establishes climate change policy and creates obligations to large emitters.



2012

Electricity Law

Created an open electricity market, a Clean Energy Certificates scheme and establishes environmental obligations to power generators.



2014 -
August

GHG Reporting Regulation

Secondary regulation for mandatory GHG reporting for the industry, including MRV requirements



2014 -
October

Regulatory background

Mexico had had experiences in carbon markets, including within the framework of the Clean Development Mechanism (CDM) of the Kyoto Protocol, Mexico hosted projects producing Certified Emission Reductions (CER); and also in the Voluntary Carbon Market, by hosting projects and generating VERs. The Climate Change Law and the Electricity Law opened the door to a compliance market.

Climate Change Law (2012)

- The Ministry of the Environment **may** implement a **Voluntary Carbon Market to promote GHG emission reductions**
- **The VCM** was opened to linking to other international carbon markets.
- **Specific Regulation (2014):** Created a Mandatory Greenhouse Gas Reporting Regulation for Scope 1 and 2 emissions.

Electricity Law (2014)

- The Ministry of the Environment **shall establish**, through regulatory instruments, **emission reduction obligations**
- The **electricity industry is obliged to participate in the market mechanisms** that the environmental authorities establish in order to mitigate emissions.

Challenges

- Exploring options for implementing an ETS within the legal framework
- Capacity building
- Financing the project
- Facing opposition

Current regulation

With the Paris Agreement, Mexico committed to economy wide targets creating the need to update the regulatory framework to establish mechanisms to promote emission reductions in all sectors.

Climate Change Law Amendments (2018)

- The Ministry of the Environment **shall** implement an **Emissions Trading System** considering the participant sectors inputs.
- **Starting with a 3-year Pilot Phase** for capacity building purposes with no economic impacts (100% free allocation)
- A next phase is planned after the pilot

Challenges

- Discussion process prior to approval
- Stakeholder engagement
- Timeline

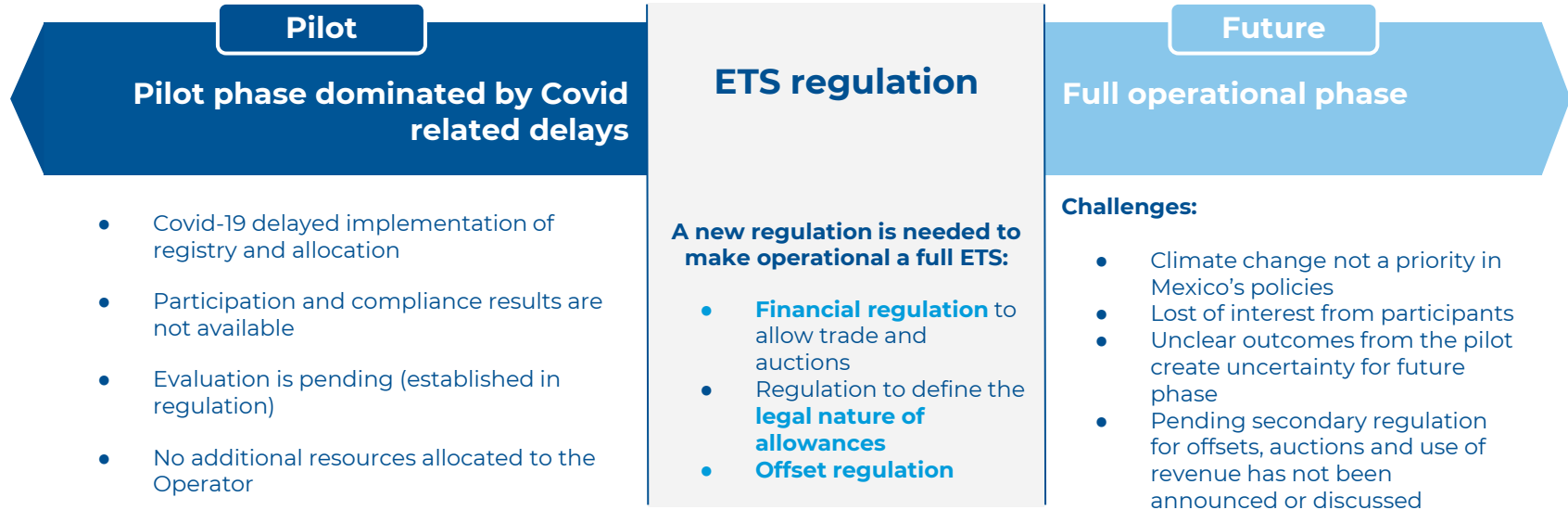
ETS Regulation (2019)

- The Ministry of Environment is the authority for the ETS
- **Scope:** Industry, Oil & Gas, and Power Generation
- **Threshold** for participation
- Compliance periods
- Flexibility mechanisms: **Offsets** (allows for the use of offsets but with pending specific regulation)

Achievements

- Law and regulation approved
- Stakeholder engagement and consensus
- Capacity building*

The transition towards a full operational market



Additional note: Government priorities not aligned with high ambitious targets, offset projects on stand-by due to lack of regulatory certainty, delays in implementation caused lost of interest from regulated entities..



Thank you

Contact



Victor Escalona

Associate Director

*Climate Policy, Finance and Carbon
Markets*

v.escalona@southpole.com



Offices & global representations:

Addis Ababa, Amsterdam, Bangkok, Beijing, Bogotá, Cape Town, Hanoi, Jakarta, London, Madrid, Medellín, Melbourne, Mexico City, New Delhi, New York, San Francisco, Singapore, Stockholm, Sydney & Zurich
