Mexico

General Information

Summary

<table>
<thead>
<tr>
<th>Status: ETS in force</th>
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<td>Jurisdictions: Mexico</td>
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The Mexican Pilot ETS started operating in January 2020. It was mandated by Transitional Article 2 of the 'General Law on Climate Change' (as amended in July 2018) and is regulated by implementing regulation finalized in 2019. The Pilot ETS will help test system design and will run for two years, plus one year of transition to the full operational ETS. It aims to enhance the quality of emissions data and build capacity in emissions trading for covered entities, ultimately improving the design of the operational phase from 2023 onwards. The rules for the 2022 transitional phase are yet to be announced. Together, the Pilot phase (2020-2021) and the transition phase (2022) constitute the "test program" of the Mexican ETS.

The Pilot covers direct CO2 emissions from entities in the energy and industry sectors generating at least 100,000 tCO2 per year. Approximately 300 entities are covered by the Pilot, corresponding to ~40% of national emissions.

The Mexican Pilot ETS is designed to pose no economic impact on regulated entities; however, in case of noncompliance, entities lose the opportunity to bank unused allowances into the next compliance periods within the Pilot. Moreover, noncompliant entities will receive fewer allowances during the operational period of the national ETS (two fewer allowances for each nondelivered allowance during the Pilot).

Year in Review

In 2020, Mexico developed its ETS Registry (Sistema de Seguimiento de Derechos de Emisión). As of early 2021, the first allowance allocation into accounts in the Registry is underway, after a small delay to the original deadline due to the impact of the COVID-19 pandemic.

In 2020, the country continued the development of offset provisions in priority sectors (forestry, agriculture, livestock, transport). Moreover, the Ministry of Environment and Natural Resources (SEMARNAT) is preparing a registry for mitigation outcomes from voluntary and regulated sources (such as offsets, early action offsets, Internationally Transferred Mitigation Outcomes (ITMOs), or voluntary projects, among others), referred to as the "second branch" of the National Emissions Registry (RENE). The eligibility rules for the use of offsets within the ETS are being developed based on a mapping of activities and projects that could be used for this purpose.

In terms of stakeholder engagement, the Consultative Committee of the Pilot ETS has had three sessions as of January 2021 and its rules of operation are being developed. The Consultative Committee is the formal technical forum for consultation, orientation, social participation, and advice for the Pilot ETS. Its members are: representatives from the ministries of Finance, Environment and Natural Resources, Energy and Economy; a representative from the National Institute of Ecology and Climate Change; a representative of the Confederation of Industrial Chambers; a representative from the Coordinating Business Council; five representatives of the regulated sectors; a representative from financial institutions or exchanges; and two representatives from civil society and two from...
universities, with voice but no vote in the Committee. As well, several capacity-building activities also took place during 2020, such as advanced training courses and a number of smaller courses aimed at regulated entities.

Different studies and analyses are also being developed, such as:

- an analysis of the interaction of the ETS with other carbon pricing instruments in the country (at both national and subnational levels);
- an evaluation framework that reviews different methods, criteria, metrics, and international experiences on the evaluation of ETSs; and
- an analysis of the Mexican climate policy framework and its suitability to engage in international cooperation through Article 6 of the Paris Agreement.

<table>
<thead>
<tr>
<th>Overall GHG emissions (excluding LULUCF)</th>
<th>Emissions: 733.8 MtCO₂e (2017)</th>
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<tbody>
<tr>
<td>Overall GHG emissions by sector (in MtCO₂)</td>
<td>Sector Name</td>
</tr>
<tr>
<td>Energy (522.4)</td>
<td>522.4</td>
</tr>
<tr>
<td>Industrial Processes (58)</td>
<td>58.0</td>
</tr>
<tr>
<td>Agriculture, Forestry and Other Land Use (106.7)</td>
<td>106.7</td>
</tr>
<tr>
<td>Waste (46.7)</td>
<td>46.7</td>
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**GHG reduction target**

**BY 2030:** 22% below BAU GHG emissions baseline (NDC, included in the ‘General Law of Climate Change’)

**BY 2050:** 50% below 2000 GHG levels (aspirational, included in the ‘General Law of Climate Change’)

**Carbon Price**

*Current Allowance Price (per t/CO₂e):* No information available yet.

### ETS Size

| Covered emissions | 0.40 |
| GHGs covered | CO₂ |
| Sectors and thresholds | The Pilot ETS covers the energy and industrial sectors. The energy sector encompasses electricity generation, transmission, and distribution, as well as fossil fuel extraction, production, transport, and distribution. The industry sector includes automobiles, cement, lime, chemical industry, food and beverages, glass, iron and steel, metallurgical, mining, petrochemicals, and pulp and paper, as well as other industrial subsectors generating direct CO₂ emissions from stationary sources at or above the threshold. The Pilot ETS covers installations whose annual direct emissions from stationary sources amount to at least 100,000 tCO₂. |
| Point of regulation | Downstream |
| Number of entities | ~300. |

The broader mandatory National Emissions Register (RENE) requires mandatory reporting of direct and indirect GHG emissions for facilities with annual emissions at or above 25,000 tCO₂e (see ‘MRV’ section).

**Cap**

**PILOT (2020-2021):**

- **Year 2020:** 271.3 MtCO₂
- **Year 2021:** 273.1 MtCO₂ *

Three reserves will be filled each year with allowances additional to the cap:

- auctions reserve (equivalent to 5% of the cap);
new entrants reserve (equivalent to 10% of the cap, for new entrants as well as increases in production among existing regulated entities); and
• general reserve (equivalent to 5% of the cap, for ex-post adjustment allocation for entities with higher emissions relative to their baselines).

The reserves serve as safeguards to avoid economic impacts on regulated entities during the Pilot phase, as required by the '2018 General Law on Climate Change.'

* The increase in the cap between 2020 and 2021 is due to an increase in the sectoral allocation for regulated entities categorized as “others.”

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**Phases & Allocation**

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<tr>
<th>Trading periods</th>
<th>Pilot phase (2020-2021); and transition phase (2022) to the operational period of the ETS, which is scheduled to start in 2023.</th>
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<td></td>
<td>The schedule of implementation as contained in Annex I to the ETS Pilot regulation (Acuerdo por el que se establecen las bases preliminares del Programa de Prueba del Sistema de Comercio de Emisiones) contains compliance and allocation dates for the compliance cycle of 2020 and 2021. Emissions for 2022 will be covered by the operational period of the ETS.</td>
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<td>SEMARNAT is expected to publish the regulation of the operational period of the ETS in 2022.</td>
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<thead>
<tr>
<th>Allocation</th>
<th>The Pilot will use free allocation with the following specifications.</th>
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<td><strong>INITIAL ALLOCATION:</strong> Entities will receive free allowances based on the most recent verified emissions. New entrants will receive free allowances based on their verified emissions in the year in which they first crossed the 100,000 tCO2 threshold.</td>
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<td><strong>EX-POST ADJUSTMENT:</strong> An adjustment allocation will be carried out from the general reserve for those participants whose verified emissions in that year are higher than the free allocation received. Also, as per the 'Notice on the rules and criteria for allowance allocation,' participants may request additional allowances when an expansion in their production results in additional direct CO2 emissions from stationary sources. As per the same Notice, in the event that demand for additional allowances exceeds reserves, SEMARNAT will make a distribution of additional allowances proportional to the requested amounts.</td>
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<td><strong>PLANT CLOSURES:</strong> When an installation closes permanently, the installation may have to surrender the allowances that it has for the compliance period of the year before its closure. As well, it may need to return the free allowances received for the compliance period in which it closes. Whether the installation has to only surrender allowances, only return allowances, or both, depends on the date of the year in which it closes. These allowances are then cancelled by SEMARNAT.</td>
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<td><strong>AUCTIONS:</strong> Starting from the second year of the Pilot and depending on market behavior, SEMARNAT may auction allowances from the auction reserve.</td>
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**Flexibility**

| Banking and borrowing | If participants are in compliance with their surrender obligations, then their remaining allowances may be banked for use in subsequent compliance periods within the Pilot. Allowances issued in the Pilot will be valid only for the Pilot, although SEMARNAT is tasked to also assess the viability of allowing a share of Pilot allowances to be banked into the national ETS. |
Although the possibility of borrowing is not explicitly stated, surrender of allowances for a given compliance period is done after allocation of allowances for the subsequent compliance period takes place.

### Offsets and credits

**QUALITATIVE LIMITS:** Two types of flexibility instruments are foreseen, both of which will generate “offset credits” eligible for use under the Pilot: offsets and early action.

**Offsets:** SEMARNAT will establish a domestic program for the generation of credits that can be surrendered for compliance in the national ETS. Eligible mitigation projects or activities are domestic projects that have been validated and verified under internationally or domestically recognized protocols (as yet unspecified). Emission reductions related to all GHGs will be eligible, except for those related to direct CO2 emissions.

**Early action:** For those projects or mitigation activities operating under recognized protocols that receive offsets before the Pilot comes into force, SEMARNAT may issue offset credits if a certificate of cancellation is presented. These projects will be allowed to continue generating offsets during the Pilot.

**QUANTITATIVE LIMITS:** Participants will be able to meet up to 10% of their compliance obligations with offset or early action credits.

SEMARNAT is currently working on the regulations to operationalize the offset and early action provisions in the Pilot ETS.

### Market Stability Provisions

No information available yet.

### Compliance

**Compliance Period**

From 1 January to 31 December. Regulated entities have until 1 November of the subsequent year to surrender allowances of a compliance period.

**Monitoring, Reporting, Verification (MRV)**

**REPORTING FREQUENCY:** Annual self-reporting based on electronic templates prepared by SEMARNAT.

**VERIFICATION:** Verification by independent accredited verifiers is required by 30 June each year.

**FRAMEWORK:** A monitoring plan is required from all regulated entities, but noncompliance has no effects on free allocation or ex-post adjustments. Verified annual CO2 emissions are reported both to the RENE (in addition to other obligations that regulated entities have to report to the RENE) and to the ETS registry.

Under RENE, emitters with annual emissions at or above 25,000 tCO₂e in the energy, industrial, transport, agricultural, waste, commercial, and services sectors are required to report the six GHGs identified by UNFCCC, as well as black carbon, chlorofluorocarbons (CFCs), hydrochlorofluorocarbons (HCFCs), halogenated ethers, halocarbons, and their mixes.

**Enforcement**

The system is designed to pose no economic impact on regulated entities; however, in case of noncompliance, entities lose the opportunity to bank unused allowances for the next compliance periods within the Pilot. Moreover, noncompliant entities will receive fewer allowances during the operational period of the national ETS (two fewer allowances for each nondelivered allowance during the Pilot).

### Linking

**Links with other systems**

The ‘General Law on Climate Change’ foresees possible linkages between the Mexican ETS and ETSs in other countries. Various cooperation activities have taken place in recent years. Mexico signed a Memorandum of Understanding with California in 2014 and with Québec in 2015 that includes cooperation on ETS. In August 2016, Mexico, Québec, and Ontario issued a joint declaration on carbon markets collaboration. Additionally, in December 2017,
Mexico—together with four countries and seven subnational governments—issued the Paris Declaration on Carbon Pricing in the Americas for carbon pricing implementation, which creates a platform for cooperation among countries in the region.

### Other Information

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<tr>
<th>Institutions involved</th>
<th>SEMARNAT; National Institute for Ecology and Climate Change (INECC)</th>
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| Evaluation / ETS review | Article 10 of the Agreement on the establishment of the preliminary basis of the Pilot Program provides that SEMARNAT will annually review the Pilot, publishing reports on topics such as price behavior and emissions reductions achieved. As well, an evaluation of the Pilot, supported by the INECC and by the Consultative Committee, will be conducted to determine if adjustments to the ETS design are necessary before the start of the operational period of the program. This evaluation process may involve consultations with civil society and academia.  
A preliminary study on different methods, criteria, metrics, and international experiences on the evaluation of ETSs is being developed, as an input for the evaluation process of the Pilot.  
Regulations for the operational period of the Mexican ETS are to be published in 2022. |
| Revenue | No information available yet. |
| Implementing Legislation | General Law of Climate Change  
Agreement on the establishment of the preliminary basis of the Pilot Program of the Emissions Trading System (implementing regulation of the pilot)  
Regulation of the General Law on Climate Change on the National Emissions Register  
Notice on the cap for the years 2020 and 2021  
Notice on the reserve and sectoral allocation of allowances for the years 2020 and 2021  
Notice on the rules and criteria for allowance allocation |
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