International Carbon Action Partnership
ETS Detailed Information

Korea Emissions Trading Scheme

General Information

Summary	**Status:** ETS in force **Jurisdictions:** Republic of Korea On 1 January 2015, the Republic of Korea launched its national ETS (KETS), the first nationwide Cap-and-Trade program in operation in East Asia. The ETS covers approximately 599 of the country's largest emitters, which account for around 68% of national GHG emissions. The KETS covers direct emissions of six Kyoto gases, as well as indirect emissions from electricity consumption. The KETS will play an essential role in meeting Korea's 2030 NDC target of 37% below BAU emissions. The end of 2017 marked the completion of the first phase of the KETS. The second phase will run from 2018-2020 and will see some key changes. Auctioning will be introduced and benchmark-based free allocation will be expanded from three sectors (cement, oil refining and domestic aviation) to between seven to nine sectors. Following limited trade of allowances in phase one, a market maker will be introduced in an effort to enhance trade activity and market liquidity. Finally, offsets from international credits which are developed by domestic companies will be allowed at a maximum of five percent and there will be an increased number of approved offset project methodologies. Website of the Korean Ministry of Environment Presentation by the Korea Environment Corporation at the ICAP Side Event at the UNFCCC COP19 (November 2013)
Overall GHG emissions (excluding LULUCF)	**Emissions:** 690.6 $MtCO_2e$ (2014) Official data of the Greenhouse Gas Inventory & Research Center of Korea (GIR)
Overall GHG emissions by sector	Sector Name — MtCO2e Fuel combustion (excl. Transport) — 506.4 Transport — 88.7 Fugitive emissions — 4.2 Industrial processes — 54.6 Agriculture — 21.2 Waste — 15.4
Overall GHG reduction target	**BY 2020:** 30% below BAU. **By 2030:** 37% below BAU (536 MtCO2e). This represents a 22% reduction below 2012 GHG levels.
Type of ETS	Mandatory with voluntary opt-in
Cap and trajectory	**Type of Cap:** **Phase one (2015-2017):** 1,687 MtCO2e, including a reserve of 89 million tCO2e for market stabilization measures, early action and new entrants.

	2015: 573 MtCO2e, 2016: 562 MtCO2e, 2017: 551 MtCO2e **Phase two (2018-20):** 2018: 538.5MtCO2e. Caps for 2019 and 2020 will be announced in 2018.
Carbon Price	*Current Allowance Price (per t/CO2e):* KRW 22,000 (approx. USD 20.66) (secondary market price of 1 January 2018)

ETS Size

Emissions covered by the ETS	0.68
GHG covered	CO2, CH4, N2O, PFCs, HFCs, SF6
Sectors covered and thresholds	**Phase one (2015-2017):** 23 sub-sectors from steel, cement, petro-chemistry, refinery, power, buildings, waste and aviation sectors. **Inclusion thresholds:** Company >125,000 tCO2/year, facility >25,000 tCO2/year
Number of liable entities	599 business entities including 5 domestic airlines as of November 2017. Business entities eligible for the allocation of emissions allowances specified in the relevant allocation plan under Article 5 (1) 3.
Point of regulation	Downstream

Phases & Allocation

Compliance period	One year
Trading period	**Phase one:** Three years (2015-2017) **Phase two:** Three years (2018-2020) **Phase three:** Five years (2021-2025)
Allocation	**Phase one (2015-2017):** 100% free allocation, no auctioning. Most sectors will receive free allowances based on the average GHG emissions of the base year (2011-2013). Three sectors (grey clinker, oil refinery, aviation) will be allocated free allowances following benchmarks based on previous activity data from the base year (2011-2013). During Phase one about 5% of total allowances are retained in a reserve for market stabilization measures (14 MtCO2e), early action (41 MtCO2e), and other purposes including new entrants (33 MtCO2e). In addition, any unallocated allowances and withdrawn allowances will be transferred to the reserve. **Phase two (2018-2020):**97% free allowances, 3% auctioned. **Phase three (2021-2025):**Less than 90% free allowances, more than 10% auctioned. Energy-intensive and trade-exposed (EITE) sectors will receive 100% of their allowances for free in all phases. EITE sectors are defined along the following criteria: 1. additional production cost of >5% and trade intensity of >10%; or 2. additional production cost of >30%; or 3. trade intensity of >30%

Flexibility

Banking and borrowing	Banking is allowed without any restrictions. Borrowing is allowed only within a single trading phase (maximum of 10% of entity's obligation in 2015. Increased to 20% in 2016 and 2017), but not across phases. In the first compliance year of Phase two (2018), borrowing will be allowed at a maximum of 15% of an entity's obligation. From 2019, the borrowing limit will be affected by how much an entity has borrowed in the past. Specifically, the borrowing limit will be determined by the following: [Borrowing limit of previous year-("borrowing ratio" in previous year x 50%)] /entity's emission volume.
Offsets and credits	**Phase one (2015-2017):** **Qualitative limit:** Only domestic credits from external reduction activities implemented by non-ETS entities – and that meet international standards – may be used for compliance. Domestic CDM credits (CERs), and credits from domestically certified projects (Korean Offset Credits) are allowed in the scheme. These credits must be converted to Korean Credit Units (KCUs) of a specified vintage before being used for compliance. Eligible activities include those eligible under the CDM and Carbon Capture and Storage (CCS). However, only activities implemented after 14 April 2010 are eligible. As of December 2017, 35 domestic and 211 CDM methodologies had been approved. For more, reporting procedures for small offset projects (below 100 tCO_2e) will be standardized and simplified to promote reduction activities by diverse stakeholders. **Quantitative limit:**Up to 10% of each entity's compliance obligation. **Phase two (2018-2020) and Phase three (2021-2025):** In Phase two, trades of CERs from international CDM projects developed by domestic companies will be allowed, up to 5% of each entity's emission volume. In Phase three, credits of up to 10% of each entity's compliance obligation with a maximum of 5% coming from international offsets will be allowed.
Provisions for price management	The Allocation Committee may decide to implement market stabilization measures in the following cases: 1. The market allowance price of six consecutive months is at least three times higher than the average price of the two previous years. 2. The market allowance price of the last month is at least twice the average price of two previous years and the average trading volume of the last month is at least twice the volume of the same month of the two previous years. 3. The average market allowance price of a given month is smaller than 40% of the average price of the two previous years. 4. When it is difficult to trade allowances due to the imbalance of supply or demand. In 2015 and 2016, the price threshold is KRW 10,000 (EUR 7). The stabilization measures may include: 1. Additional allocation from the reserve (up to 25%). 2. Establishment of an allowance retention limit: minimum (70%) or maximum (150%) of the allowance of the compliance year. 3. An increase or decrease of the borrowing limit (currently up to 20%). 4. An increase or decrease of the offsets limit (currently up to 10%). 5. Temporary establishment of a price ceiling or price floor. In 2016, the Allocation Committee increased the borrowing limit from 10% to 20%. Furthermore, an additional nine million allowances were made available from auction at a reserve price of 16,200 KRW (EUR 12). Less than a third of allowances were sold.

Compliance

Monitoring, Reporting, Verification (MRV)	**Reporting Frequency:**Annual reporting of emissions must be submitted within three months from the end of a given compliance year (by the end of March).

	Verification: Emissions must be verified by a third-party verifier. **Other:** Emissions reports are reviewed and certified by the Certification Committee of the Ministry of Environment within five months from the end of a given compliance year (by the end of May). If the liable entity fails to report emissions correctly, the report will be disqualified.
Enforcement	The penalty shall not exceed three times the average market price of allowances of the given compliance year or KRW 100,000/ton (USD 89).

Other Information

Institutions involved	In 2016 responsibility for the KETS moved from the Ministry of Environment to the Ministry of Strategy and Finance. On 1 January 2018, responsibility was transferred back to the Ministry of Environment, while the Ministry of Strategy and Finance takes the chair of the Allocation Committee. In 2018, a market maker will also be introduced. An institution that is designed to enhance the stability of the KETS
Linkage with other schemes	No information available yet.

Disclaimer

The initial data as of December 2012 was compiled by the ICAP Secretariat for ICAP jurisdictions and by Ecofys for non-ICAP jurisdictions. Since then, the ICAP Secretariat has continuously updated the data for the ICAP and non-ICAP jurisdictions. Information compiled in the ICAP ETS Map is based on official and public information, as much as possible, and focuses on cap-and-trade systems for greenhouse gas emissions. The ETS map thus does not aspire to monitor all climate policy instruments. This website presents interim results of a continuous working process. Although the information contained therein is assembled with utmost care, ICAP and Ecofys cannot be held liable for the timeliness, correctness and completeness of the information provided.

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