

# Mexican Emissions Trading System

## General Information

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### ETS Description

The Mexico ETS, the first in Latin America, started its pilot phase in January 2020. It covers direct CO<sub>2</sub> emissions from fixed sources in the energy and industry sectors emitting at least 100,000 tCO<sub>2</sub> per year, representing around 30% of national GHG emissions and 90% of emissions reported in the National Emissions Registry (RENE).<sup>\*</sup> Under the Mexico ETS, covered entities must surrender allowances for all their covered emissions. Allowances are allocated through grandparenting based on historical emissions, which are verified annually. The level of free allocation is expected to be reduced from the first year of the operational phase, anticipated to begin in 2026.

The Mexican ETS started with a Pilot Program with two phases: a pilot phase between 2020 and 2021, and a transition phase in 2022. The Pilot Program aimed to test system design, contribute to the NDC 3.0 and other national mitigation goals, enhance the quality of emissions data, and build capacity in emissions trading, ultimately improving the design of the operational phase.

The regulation of the Pilot Program (“the Agreement on the establishment of the preliminary basis of the Pilot Program of the Emissions Trading System”) remains in force until the regulation for the operational phase is published.

<sup>\*</sup> According to SEMARNAT.

### ETS Status

in force

### Jurisdictions

Mexico

### Year in Review

In 2025, the sixth compliance year concluded. 88% of participants presented a positive verification report to the Ministry of Environment and Natural Resources (Secretaría de Medio Ambiente y Recursos Naturales, or SEMARNAT) for their 2024 emissions, and 86% complied with their surrender obligations. Between March and June 2025, participants verified their 2024 emissions.

In March 2025, SEMARNAT was restructured. This restructure created the Undersecretary for Sustainable Development and Circular Economy (Subsecretaría de Desarrollo Sostenible y Economía Circular), in charge of, among other things, the coordination and operation of the ETS.

In August, the first ordinary meeting of the Consultative Committee of the Emissions Trading System (COCOSCE) took place. The meeting discussed the regulation for the first operational phase of the ETS, as well as allowance allocation, obligations of the electricity sector, offsets and legal aspects.

In September, the government published the 2025 to 2030 Sectoral Program of Environment and Natural Resources. Its line of action 4.1.3 includes putting into operation the first phase of the ETS and guaranteeing the effective operation of the voluntary carbon market, as well as the alignment with other carbon pricing instruments.

In November 2025, the Intersecretarial Commission of Climate Change approved Mexico's NDC 3.0, which was later presented during COP30. The NDC 3.0 sets an unconditional emissions cap of between 364 MtCO<sub>2e</sub> and 404 MtCO<sub>2e</sub> by 2035, and a conditional goal of between 332 MtCO<sub>2e</sub> and 363 MtCO<sub>2e</sub> by 2035.

### Sectoral coverage

Mining and extractives

Industry

Power

## Emissions & Targets

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### Overall GHG Emissions excl. LULUCF (MtCO<sub>2e</sub>)

756.7 MtCO<sub>2e</sub> (2024 preliminary)

### GHG reduction targets

**By 2030:** Unconditional 35% below BAU GHG emissions baseline (NDC 2.0)

**By 2035:** Unconditional emissions cap of between 364 MtCO<sub>2e</sub> and 404 MtCO<sub>2e</sub>. Conditional goal of between 332 MtCO<sub>2e</sub> and 363 MtCO<sub>2e</sub>. Both options reflect an approximate 583 MtCO<sub>2e</sub> reduction from current levels. (NDC 3.0)

**By 2050:** Net zero emissions (NDC 3.0)

## Size & Phases

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### Covered emissions (2024)

30.00%

### GHGs covered

CO<sub>2</sub>

### Phases

**PILOT PHASE:** Two years (2020 and 2021)

**TRANSITIONAL PHASE:** One year (2022)

**OPERATIONAL PHASE:** From 2025 onwards

### Cap or total emissions limit

An absolute cap limits the total emissions allowed in the system and is fixed ex-ante.

### PILOT:

**2020:** 271.3 MtCO<sub>2</sub>

**2021:** 273.1 MtCO<sub>2</sub>\*

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

- auctions reserve (equivalent to 5% of the cap, for regular auctions, which have not yet happened);
- 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 function 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 extension in the sectoral allocation for regulated entities categorized as “others”.

### **Sectors and thresholds**

**PILOT PROGRAM:** The Pilot ETS covered 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 industrial sector includes automobile manufacturing, cement, lime, chemicals, food and beverages, glass, iron and steel, metals, mining, petrochemicals, and pulp and paper, as well as other industrial sub-sectors generating direct CO<sub>2</sub> emissions from stationary sources at or above the threshold.

**Inclusion thresholds:** The Pilot ETS covers installations with annual direct emissions from stationary sources amounting to at least 100,000 tCO<sub>2</sub>.

**OPERATIONALPHASE:** Sectors and thresholds are not expected to change during the operational phase

### **Point of regulation**

Point source (all sectors)

### **Type of entities**

Installations

### **Number of entities**

~300 (2025)\*

\* According to SEMARNAT.

## **Allowance Allocation & Revenue**

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### **Allowance allocation**

**PILOT PROGRAM:** The Pilot featured free allocation with the following specifications:

**Initial allocation:** Entities receive free allowances equivalent to 100% of their most recent verified emissions. New entrants receive free allowances based on their verified emissions in the year in which they first crossed the 100,000 tCO<sub>2</sub> threshold. For participants that have not yet verified their emissions, initial allocation is done based on their historical emissions as reported to RENE.

**Ex-post adjustment:** An adjustment allocation is carried out from the general reserve for those participants that did not receive a quantity of free allowances equivalent to their verified emissions.

Participants may request additional allowances when an expansion in their production results in additional direct CO<sub>2</sub> emissions from stationary sources.

**Plant closures:** When an installation closes permanently, it may have to surrender the allowances that it has for the compliance period of the year before its closure. As well, it should return the free allowances received for the compliance period in which it closes. Whether the installation must only surrender allowances, return allowances, or both, depends on the date of the year in which it closes. SEMARNAT then cancels these allowances.

**Auctions:** SEMARNAT may auction allowances from the auction reserve. As of December 2025, no auctions have taken place.

**OPERATIONALPHASE:** Free allocation is expected to be reduced from the beginning of the operational phase. SEMARNAT is in the process of developing the auctioning mechanism.

### **Use of Revenues**

SEMARNAT is developing institutional arrangements to manage revenues during the operational phase.

## Flexibility & Linking

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### Offset credits

The use of offset credits will be allowed in the operational phase.

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

**Offset credits:** SEMARNAT will establish a domestic program for the generation of offset credits that can be surrendered for compliance. Domestic projects that have been validated and verified under internationally or domestically recognized protocols will be eligible. Emission reductions related to all GHGs will be eligible, except for those related to direct CO<sub>2</sub> emissions.

**Early action:** Offset credits generated by mitigation projects operating in Mexico under recognized protocols before the pilot came into force (2020) can be eligible for use in the ETS. SEMARNAT issues offset credits only if a certificate of cancellation is presented and if they were not used for other compliance purposes. These projects will be expected to continue generating offset credits during the operational phase.

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

SEMARNAT is currently working on the regulations to implement the offset and early action provisions in the Pilot ETS. The eligibility rules for the use of offset credits within the ETS are being developed based on a mapping of activities and projects that could be used for this purpose.

Articles 89 and 90 of the General Law of Climate Change provide the general framework for the registry of mitigation outcomes, whereas articles 26 to 29 of the RENE regulation provide additional specifications on the projects that can be registered, such as the procedure for registration and basic information on which certificates from international registries are to be accepted.

### Banking and borrowing

Allowances allocated during the Pilot will not be eligible for banking into the operational phase. For the operational phase, banking will be allowed between phases and compliance years.

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.

### Links with other Systems

The Mexico ETS is not linked with any other system. However, the General Law of Climate Change provides for linkages with other systems.

### Other carbon pricing instruments in the jurisdiction

**Carbon tax:** National carbon tax

**Carbon taxes (state level):** Colima, Durango, Guanajuato, Mexico City, Morelos, Querétaro, San Luis Potosí, State of Mexico, Tamaulipas, Yucatán, Zacatecas

## Compliance

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### Compliance mechanism

Covered entities must surrender one allowance per tCO<sub>2</sub> emitted for all their covered emissions.

### Compliance Period

One calendar year. SEMARNAT is evaluating the surrender date of allowances based on the experience obtained during the pilot.

### Monitoring, Reporting, Verification (MRV)

**FRAMEWORK:** Articles 87 and 88 of the General Law of Climate Change provide the general framework for GHG reporting to RENE.

Verified annual CO<sub>2</sub> emissions are reported both to the RENE (in addition to other obligations that regulated entities must report to the RENE) and to the ETS registry.

A monitoring plan is expected to be required in the operational phase from all regulated entities as a part of their obligations.

**MONITORING:** Under RENE, emitters with annual emissions of at least 25,000 tCO<sub>2</sub> in the energy, industrial, transport, agricultural, waste, commercial, and services sectors are required to report the six key GHGs identified by UNFCCC, as well as black carbon, chlorofluorocarbons (CFCs), hydrochlorofluorocarbons (HCFCs), halogenated ethers, halocarbons, and their mixes.

**REPORTING:** Annual self-reporting based on electronic templates prepared by SEMARNAT. Reporting is done electronically through the Annual Operating Statement (Cédula de Operación Anual).

**VERIFICATION:** Verification by independent accredited verifiers is required by the end of June of the subsequent year.

Reporting and verification should be made according to the criteria and procedures of the RENE\*. Verification bodies need to be accredited to the Mexican Accreditation Entity and approved by the Federal Environmental Protection Agency (Procuraduría Federal de Protección al Ambiente). Verification organisms need to comply with the standards ISO 14065 (requirements for organizations conducting verification), ISO 14064-3 (verification and validation of GHG reports) and ISO 14066 (competence requirements for GHG validation teams and verification teams).

\* According to SEMARNAT.

### Penalties and enforcement

The Pilot Program is designed to pose no economic impact on regulated entities; however, non-compliant entities lose the opportunity to bank unused allowances into subsequent compliance periods within the pilot and will receive fewer allowances in the first allocation of the operational phase of the ETS (two fewer allowances for each non-delivered allowance during the pilot).

Sanctions are expected to be implemented in the operational phase of the ETS.

## Market Regulation

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### Market Stability Provisions

None

### Market Design

**MARKET PARTICIPATION:** Under the pilot rules, market participation is limited to compliance entities and those that provide offset credits. SEMARNAT is designing and developing the process and rules to allow participants without obligations.

### MARKET TYPES:

**Primary:** As of the end of 2025, there had been no auctions in the Mexican ETS pilot. SEMARNAT is preparing institutional arrangements to implement auctions during the operational phase.

**Secondary:** There is no exchange that trades allowances. As of the end of 2025, transactions can only take place via negotiation between participants.

**LEGAL STATUS OF ALLOWANCES:** Allowances in the Mexican ETS Pilot are “administrative instruments” and are not considered financial instruments. They are expected to remain as such in the operational phase.

## Other Information

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### Institutions involved

**SEMARNAT:** Ministry in charge of implementing the ETS.

**COCOSCE:** Formal technical forum for consultation, orientation, social participation, and advice for the Pilot ETS. Its members are

representatives from SEMARNAT as well as the ministries of Finance, 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; and representatives of the regulated sectors.

## **Regulatory Framework**

[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 of 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](#)

[Mexico Emissions Trading System](#)

[Update to the National Strategy on Climate Change](#)

[Strategy of Sustainable Finance Mobilization of the Ministry of Finance](#)

[General Organization Manual of SEMARNAT](#)

## **Evaluation / ETS review**

Article 10 of the Agreement on the establishment of the preliminary basis of the Pilot Program provided for SEMARNAT to annually review the Pilot, publishing reports on topics such as price behavior and emissions reductions achieved. SEMARNAT developed an internal evaluation on the ETS's components during the Pilot, in order to improve and update the regulation of the operational phase.

Moreover, an evaluation of the Pilot, supported by the COCOSCE, has been conducted to determine if adjustments to the ETS design are necessary.

COCOSCE's working groups have developed different recommendations to the Federal Government on the cap and allocation methods, offset credits, as well as key topics on the energy sector and legal recommendations.

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