

Mexican Emissions Trading System

General Information

ETS Description

The Mexico ETS, the first in Latin America, started in January 2020. It covers direct CO₂ emissions from fixed sources in the energy and industry sectors emitting at least 100,000 tCO₂ per year, representing around 40% of national GHG emissions and 90% of emissions reported in the National Emissions Registry (RENE).^{*} Under the Mexico ETS, participating entities must surrender allowances for all of 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, expected to begin in 2024.

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 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 has been published.

^{*} According to SEMARNAT.

ETS Status

in force

Jurisdictions

Mexico

Year in Review

In 2023, the fourth allocation took place. 84% of participants complied with their surrender obligations in 2023.

The rules for the operational phase are yet to be announced. The Ministry of Environment and Natural Resources (SEMARNAT) is expected to publish them in 2024. In the meantime, the regulation of the pilot remains in force.

A consultation document on the Strategy of Sustainable Finance Mobilization of the Ministry of Finance proposes to improve the coherence between different carbon pricing instruments between 2023 and 2030, as well as to develop the auctioning mechanism and determine the fiscal treatment of allowances. In the medium term, it proposes to develop the tools needed for the auctioning mechanism.

The country is expected to implement its domestic crediting mechanism for certified emissions mitigation, reduction, removals, capture or absorptions from national mitigation projects. 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.

Sectoral coverage

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

714 MtCO₂e (2021)

GHG reduction targets

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

By 2050: 50% below 2000 GHG levels (aspirational, included in the “General Law of Climate Change”)

Current Allowance Price (per t/CO₂e)

No information on secondary market prices during 2023 available

Size & Phases

Covered emissions (2019)

40.00%

GHGs covered

Direct CO₂ emissions from fixed sources

Phases

PILOT PHASE: Two years (2020 and 2021)

TRANSITIONAL PHASE: One year (2022)

OPERATIONAL PHASE: From 2024 (The regulation of the Pilot Program remains in force until the regulation for the operational phase has been published).

Cap or total emissions limit

A cap limits the total emissions allowed in the system.

PILOT (2020-2021):

2020: 271.3 MtCO₂

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, 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 (2020-2021): 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 CO₂ 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 tCO₂.

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

Point of regulation

Point source (all sectors)

Type of entities

Installations of the power and industry sectors with annual direct emissions from stationary sources of at least 100,000 tCO₂.

Number of entities

~295 currently*

* According to SEMARNAT.

Allowance Allocation & Revenue

Allowance allocation

PILOT (2020-2021): 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 tCO₂ 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 CO₂ 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 has to 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.

OPERATIONAL PHASE: 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

Offset credits

The use of offset credits will be allowed.

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 (still to be specified) will be eligible. Emission reductions related to all GHGs will be eligible, except for those related to direct CO₂ 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 26-29 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 Pilot will not be eligible for banking into the operational phase. Moreover, 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, though the General Law of Climate Change provides for linkages with other systems.

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 emissions trading. 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 in the region.

Compliance

Compliance mechanism

Covered entities must surrender one allowance per tCO₂ 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)

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

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.*

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

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 of at least 25,000 tCO₂e 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. Articles 87 and 88 of the General Law of Climate Change provide the general framework for GHG reporting to RENE.

* According to SEMARNAT.

Enforcement

The Pilot Program is designed to pose no economic impact on regulated entities; however, noncompliant 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 nondelivered allowance during the pilot).

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

Market Regulation

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 2023, 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 2023, 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

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 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; 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](#)

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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