

Mexico

General Information

ETS Description

The Mexican 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, covering around 40% of national GHG emissions and 90% of emissions reported in the National Emissions Registry (RENE).^{*} Allowances are allocated through grandparenting based on historical emissions, which are verified annually.

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 implement its main components as a public policy mitigation instrument, and to contribute to the NDC and other national mitigation goals. The Pilot Program also aimed to enhance the quality of emissions data and build capacity in emissions trading, ultimately improving the design of the operational phase from 2023 onwards.

The Pilot Program was designed to pose no economic impact on regulated entities; however, in case of noncompliance, entities lost the opportunity to bank unused allowances into subsequent compliance periods of the Pilot, and receive fewer allowances in the first allocation of the operational phase.

^{*}According to SEMARNAT.

ETS Status

in force

Jurisdictions

Mexico

Year in Review

In 2022, the third allocation took place. The Ministry of Environment and Natural Resources (SEMARNAT) analyzed and revised the first compliance period and found that participants achieved a 93% compliance rate.

The rules for the operational phase starting in 2023 are yet to be announced. SEMARNAT is expected to publish them in the first half of 2023.

The country is expected to implement its domestic crediting mechanism and is considering the development of offset protocols in priority sectors. Moreover, SEMARNAT is preparing a registry for certified emissions mitigation, reduction or absorptions from national mitigation projects (such as offsets, early action credits, Internationally Transferred Mitigation Outcomes, or voluntary projects), referred to as the “second component” of RENE. 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.

The Consultative Committee (COCOSCE) of the Pilot ETS had nine sessions in 2022 and constituted four working groups: cap and allocation, offset credits, electricity sector, and legal and accounting. In addition, different studies and analyses are being developed by the federal government in preparation of the regulation of the operational phase, including: an analysis to help define the cap, a study on benchmarking and competitiveness, and an analysis of the current regulatory framework and evaluation of changes to be made.

Sectoral coverage

Industry

Power

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

736.6

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)

Average secondary market price: MXN 0 (USD 0)

Size & Phases

Covered emissions (2019)

40.00%

GHGs covered

Direct CO₂ emissions from fixed sources

Phases

PILOT PHASE: 2 years (2020-2021)

TRANSITIONAL PHASE: 1 year (2022)

OPERATIONAL PHASE: From 2023

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, 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 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 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.

Point of regulation

Point source

Number of entities

~289 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 based on the 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. No auctions had taken place as of the end of 2022, although preliminary activities for the implementation of auctions are currently being prepared.

Use of Revenues

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

Flexibility & Linking

Offsets and credits

QUALITATIVE LIMITS: Two types of flexibility instruments are foreseen, both of which will generate offset credits eligible for use under the ETS: 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 will be domestic projects that have been validated and verified under internationally or domestically recognized protocols (still to be specified). 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 expected to continue generating offsets 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 operationalize the offset and early action provisions in the Pilot ETS. The Ministry is also preparing a registry for certified emissions mitigation, reduction or absorptions from national mitigation projects (such as offsets, early action credits, Internationally Transferred Mitigation Outcomes (ITMOs), or voluntary projects, among others), which is referred to as the “second component” of 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.

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

If participants have fulfilled their surrender obligations, any remaining allowances may be banked for use in subsequent compliance periods within the Pilot. Allowances issued in the Pilot are valid only for the Pilot, although SEMARNAT is tasked with assessing the feasibility 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.

Links with other Systems

The “General Law of Climate Change” foresees possible linkages between the Mexican ETS and those 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 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

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 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 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. RENE <https://www.gob.mx/semarnat/acciones-y-programas/programa-de-prueba-del-sistema-de-comercio-de-emisiones-179414>

Enforcement

The Pilot Program was designed to pose no economic impact on regulated entities; however, in case of noncompliance, entities lost the

opportunity to bank unused allowances into subsequent compliance periods within the Pilot. Moreover, noncompliant entities receive fewer allowances in the first allocation of the operational phase of the ETS (two fewer allowances for each nondelivered allowance during the Pilot).

Compliance Period

From 1 January to 31 December. SEMARNAT is evaluating the surrender date according to the experience obtained during the pilot.

Market Regulation

Market Design

MARKET PARTICIPATION: For the Pilot, the Regulation did not foresee the participation of entities in the ETS other than 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 2022, 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 2022, transactions can only take place via negotiation between participants.

LEGAL STATUS OF ALLOWANCES: Allowances in the Mexican ETS Pilot were “administrative instruments”. They 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. As well, an evaluation of the Pilot, supported by the COCOSCE, will be conducted to determine if adjustments to the ETS design are necessary. This evaluation process may involve consultations with civil society and academia.

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.

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

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