Kazakhstan’s National Emission Trading Scheme

Marrakech
23 October, 2013
Topics in this presentation

- Basis for the Kazakhstan ETS
- Basic elements of the system
- Current priorities and work
- External assistance
The basis for development of the ETS in Kazakhstan

- Energy intensive GDP
- Announced commitments to decrease GHG
- Mr. Nazarbayev, the President of the Republic of Kazakhstan, laid out:
  - The Strategic Development Plan of the Republic of Kazakhstan 2020
  - Strategy “Kazakhstan-2050”
  - The Concept of transition to Green Economy – adopted in May’ 2013 and Action Plan
Targets laid out in the “Green Economy” concept

- To decrease energy intensity of GDP by 50% by 2050 from the 2008 level;

- To reduce current CO2 emissions in electricity production by 40% by 2050;

- To increase the share of non-conventional energy sources in the electricity production by 50% by 2050
The main goals of ETS

- Development of a low carbon economy
- Improve energy efficiency
- Increase a share of RES
- To create a market mechanism which will help enterprises to modernize their production processes and facilities
- To provide a more flexible mechanism than carbon tax
Kazakhstan's status in the international negotiations

- Unable to be part of Annex B of the Kyoto Protocol for the first commitment period;

- QELROs: Kazakhstan nominated 95% by 2020 (1990 base) in Annex B of the Kyoto Protocol for the second commitment period;

- The Convention declared pledges to reduce GHG emissions by 15% by 2020 (1990 base) in the developed countries.
National ETS Legislation

- The legislation is already in place and includes three layers of legislative instrument:
  - Ecological Code
  - 17 Government Decrees
  - 13 Ministerial Orders
  + Administrative Code (to invoke penalties)

- Further development of the legislation is required over the coming months/years
Sectors of secondary legislation (decrees and orders) (1/2)

- Allocation of allowances
  - Rules on allocation, on setting up a reserve of NAP, an approval of NAP, etc;

- MRV
  - Rules on MRV, on maintaining the cadastre, methodologies for GHG calculation, templates/forms for installation passports and inventory reports, etc;
Sectors of secondary legislation (decrees and orders) (2/2)

- Offset projects
  - Rules on development, on consideration and approval, etc;

- Trading of allowances (Domestic and International)
  - Rules on trading, on maintaining the registry, on ecological (green investments), etc.
Basic elements of the system

- Cap & Trade approach with broad coverage
  - Crediting mechanism for all enterprises not covered
- National allocation plan for each year
  - Includes a “Reserve” of emissions units
- Ramping up the system over time
  - e.g., compliance in the first period (2013) is only for CO$_2$ emissions, but CH$_4$ and N$_2$O must be reported
- MRV framework
- Trading arrangements
Cap & trade

> 20 000 CO$_2$-e per year

- Sectors covered by the scheme (as per the Ecological Code):
  - Energy
  - Oil and Gas
  - Mining
  - Chemical Industry
  - Agriculture
  - Transport
2013 National Allocation Plan

- 2013 is the first year of scheme operation and is considered a “pilot” period
- Allocation principle is based on historical emissions of existing enterprises (grandfathering)
- Base year is 2010, using un-verified reports from covered enterprises
- Obligation for reduction in emissions: 0%
- Reserve for new installations: 20.6 million units
- CH4 is not included in the national allocation plan, but could be included in offset projects
## 2013 National Allocation Plan

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Number of INSTALLATIONS (enterprises)</th>
<th>Number of ALLOWANCES (millions tCO₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>55</td>
<td>84.0</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>69</td>
<td>19.7</td>
</tr>
<tr>
<td>Industry</td>
<td>54</td>
<td>43.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>178</strong></td>
<td><strong>147.1</strong></td>
</tr>
</tbody>
</table>
Challenges with NAP 2013

- Number of enterprises covered need to be excluded – calculation errors in 2010 inventory reports;
- Number of enterprises ought to be covered were not included;
- Very challenging to amend NAP – approved by Government decree.
Future National Allocation Plans

- For the first three years (2013, 2014, 2015) the allocation principle is historical emissions of existing enterprises (grandfathering)
- Unverified 2010 emissions data used for the 2013 plan
- Unverified 2011 and “Verified” 2012 emissions data used for the 2014-2015 plan
- Looking to adopt the benchmarking principle for allocations from 2016 onwards
- Reserve is created for new installations only, but function is planned to be amended to allocate also for expansions at existing installations, and for price management
NAP 2014-2015

- Will be approved by the end of 2013
- The latest version covered 166 installations/enterprises
- Reduction targets:
  - 0% for 2014 and
  - 1.5% for 2015 from the base period (average 2011-2012 data)
- Only CO2 is regulated, but methane could be used in project mechanisms
Carbon units included in the ETS

- Allowances from the national ETS - known as “quotas” in the relevant legislations
- Units from emissions reduction projects within Kazakhstan - includes energy efficiency, methane, land sector
- CERs, ERUs – theoretically possible but requires linking of registry to ITL
Installations below the 20,000 tCO2-e threshold

- These installations are under administrative regulations and must continue to submit their inventory reports (non verified)

- Sectors: oil and gas, energy, industry, agriculture, transport and housing maintenances and utilities

- They can participate in the domestic crediting mechanism and supply units
Work on the ETS continues

- Improving the national legislation;
- Designing NAP for the second and consequent periods;
- Commodity exchange selected for trading and distribution of the reserve to new installations;
- Improving the data management systems;
- Establishing the ETS Registry, linking with Exchange;
- Studying the existing carbon markets regarding the possibility of linking in the future
There is a strong focus on MRV

We are making upgrades to the MRV system:

- Developing more detail and clarity for monitoring (methodologies, templates, monitoring plans)
- Working on the reporting formats
- Working on formats of verification, and clarifying the requirements for verifiers
- Improving the arrangements for verifier accreditation to improve consistency (up to now – 8 verifier organizations accredited)
Key challenges today

- Identifying problems in the national legislation
- Increasing the availability of verifiers to avoid high prices for verification
- Establishing clear trading mechanism, incl. accounting and taxing of units, carbon price regulation
- Development of sectoral benchmarks for future NAPs
- Development and support of the ETS Registry
- Technical support for the national data management system of GHG emitters (“cadaster”)
Other challenges

- Development and approval of amendments to the legislation – complex and slow process
- Improve coordination with other existing policies (e.g. energy efficiency)
- Concerns of stakeholders on achievability of targets
- Industry preparation (e.g. training on MRV)
Assistance by other donors

- USAID:
  - Capability mapping (short 6-weeks project in 2013)
  - Enhancing capacity (new project starts in 2014)

- Norway (MFA)
  - Mitigation in oil/gas sector (2012-2013 – MRV, monitoring plan templates and guidelines)
  - Potentially assistance provided on benchmarking development for particular sectors in 2014

- Germany (BMU)
  - Punctual assistance since 2008 (initial legislation framework, MRV, review of papers/documents developed)

- EBRD
  - PETER project Phase I and Phase II
Working with the PMR

- Hoping to get assistance from international experts on the challenges we face, particularly:
  - On development of benchmarks for separate sectors in Kazakhstan;
  - On improving an allocation approach and on setting up a trading mechanism;
  - Technical assistance for data management and support of cadastre/registry.
  - Analytical work and modelling on cost effectiveness etc by sectors and sub-sectors
- Looking forward to the discussions in the PMR meetings as well as between the meetings
- Happy to share our experiences so far with designing, implementing and operating the Kazakhstan ETS
- Thank you for the invitation to be here
Thank you!

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