

Emissions Trading Scheme in Korea

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Yong-Gun Kim
Korea Environment Institute



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1-1. Low-Carbon Green Growth

□ **Low-Carbon Green Growth Paradigm**

- Adopted as a Low Emission Development Strategy for Korea
- Achieving sustainable growth while reducing GHG emission and other environmental pollution at the same time
- Also contributing to global efforts to mitigate, and adapt to, climate change

□ **Institutional arrangements for LCGG**

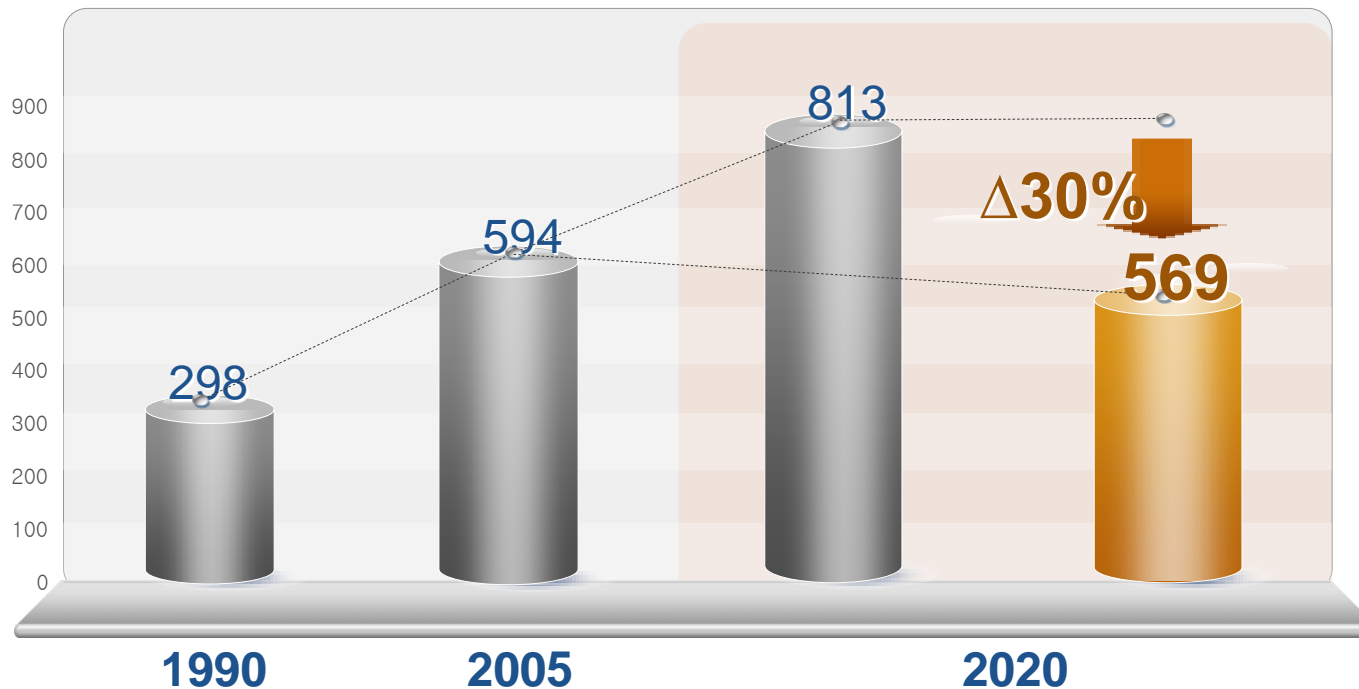
- Presidential Committee on Green Growth launched in Feb 2009
- National Green Growth Strategy and 5-year Plan prepared
- National mid-term GHG reduction target declared
- Framework Act on LCGG went into effect in 2010
- Global Green Growth Institute established
- Emission Trading Law passed National Assembly in May 2012



1-2 National Mid-Term Reduction Target

□ Unconditional, Voluntary target of 30% reduction from BAU

- Sectoral, year-by-year GHG emission reduction targets are defined
- Operationalization of BAU and MRV procedure are being designed



2. Target Management System – Overview

- ❑ **TMS: major policy instrument to meet the mid-term GHG reduction target**
 - Set emission caps on large emitters and oblige them to meet their targets
- ❑ **TMS started in 2012 and covers 68% of total national GHG emission**
 - 490 companies are designated in 2011



- TMS is introduced as a stepping stone towards ETS



2. Target Management System – Procedure

❑ Designation of Covered Entities

- Installation emitting over 25,000 tCO₂-eq /year in 2012
- Extending TMS coverage: e.g. 20,000 tCO₂-eq /year in 2013 and 15,000 tCO₂-eq/year in 2015 gradually

❑ Setting Targets

- Keep consistency with the national mid-term target
- Based on average of last 3 years emission records, with adjustments through negotiations between the government and covered entities

❑ Implementation Plans and Performance Evaluation

- Implementation plans submitted for government's review each year
- MRV - GHG Inventory & Research Center, 3rd Party verification
- Administrative and financial penalty on non-compliance



3. Emission Trading Scheme – Development

❑ **Oct 2010**

- Draft Law proposed by PCGG

❑ **Nov 2010 ~ Feb 2011**

- Public hearings and meetings with Industrial Groups & NGOs

❑ **Apr 2011**

- Submitted to National Assembly

❑ **Feb 2012**

- Approved by Special Committee on Climate

❑ **May 2012**

- Approved by Legislation & Judiciary Committee of National Assembly
- Passed with Bipartisan Support in the Plenary Session of National Assembly

❑ **Nov 2012**

- Entry into force with promulgation of Presidential Decree



3. Emission Trading Scheme – Core Elements

❑ **Start date & Duration of phases**

- 1st Phase starting on Jan 1st 2015
- Each Phase lasting for 5 yrs, except 1st & 2nd phases with 3 yrs

❑ **Procedure**

- Basic Planning → Allocation Plan → Designation of Entities
→ Allocation of Permits → MRV → Submission of Permits

❑ **Allocation of Emission Permits**

- Free allowance: 100% (1st period), 97% (2nd period) and less-than 90% thereafter
- Allocation criteria: National and sectoral targets, historical emissions and technology, growth expectations
- 100% free allocation to trade-exposed carbon-intensive sectors to be identified through the same criteria as EU ETS (based on cost burden and trade dependency ratio)



3. Emission Trading Scheme – Core Elements

❑ Participants of ETS

- Installations emitting over 25,000 tCO₂-eq /year or Entities emitting over 125,000 tCO₂-eq/year
- Voluntary participants via opt-in procedure

❑ Measures for Market Stability and Dynamic Efficiency

- Stability measures (Sudden rise or fall of prices or trades): Allocation of Government reserves; temporary price cap/floor; regulation on holdings, banking, borrowing and offsets
- Banking within and between commitment periods
- Borrowing within commitment periods up to 10%
- Early action credits up to 3%

❑ Penalty

- Up to 3 times average market price in the previous year
- No more than KRW 100 thousand(U\$113)/tCO₂-eq



3. Emission Trading Scheme – Core Elements

❑ **Offset (Domestic/International)**

- Limited (<10%) use of offset credits meeting international standards
 - Foreign offsets less than 50% of total offset limits (to be determined by Committee) and not allowed in 1st and 2nd periods.
- Linking with international carbon market via international agreements

❑ **Transaction Infrastructure**

- Designate or establish Trading platform
- Registry for unit accounting, trading and emission inventory
- Strict MRV system, with 3rd party verification, adapted from TMS infrastructure

❑ **Financial Support & Tax Credits**

- Support for businesses vulnerable to competitive disadvantage
- Financial incentives and tax credits for green technologies



4. Preparing for Implementation

❑ **Basic Plan of ETS implementation to be established by Dec. 2013**

- Cap setting, sectoral allocations
- Power sector regulation
- Domestic offset rules

❑ **Allocation Plan to be released by June 2014**

- Allowance allocation to entities, reserves, offset limits, new entrant and closure rules

❑ **Refinement of national reduction targets**

❑ **Carbon tax and other mitigation measures**

- CAFE, RPS, RFS, Vehicle tax/subsidy, Carbon Footprint, Carbon Point



5. Lessons Learned and Challenges Ahead

❑ **Success factors**

- Strong commitment by the President and cooperation by the opposition parties (Democratic Party and Progressive Party)
- Target Management System as a transitional step

❑ **Major hurdles before**

- Inter-Ministry conflict over division of labor
- Opposition from industries based on international competitiveness concern and carbon leakage from unilateral GHG regulation

❑ **Critical challenges ahead**

- Setting a right cap: from a sound national cap to installation-level caps, via sectoral and/or corporate-level caps
- Electricity sector: direct and/or indirect regulation, fixed vs intensity allocation
- EITE sector competitiveness concerns: free allocation and/or border adjustment, international harmonization, particularly with adjacent big economies