

Emissions Trading Scheme for Low-Carbon Green Growth in Korea



18, May 2012

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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

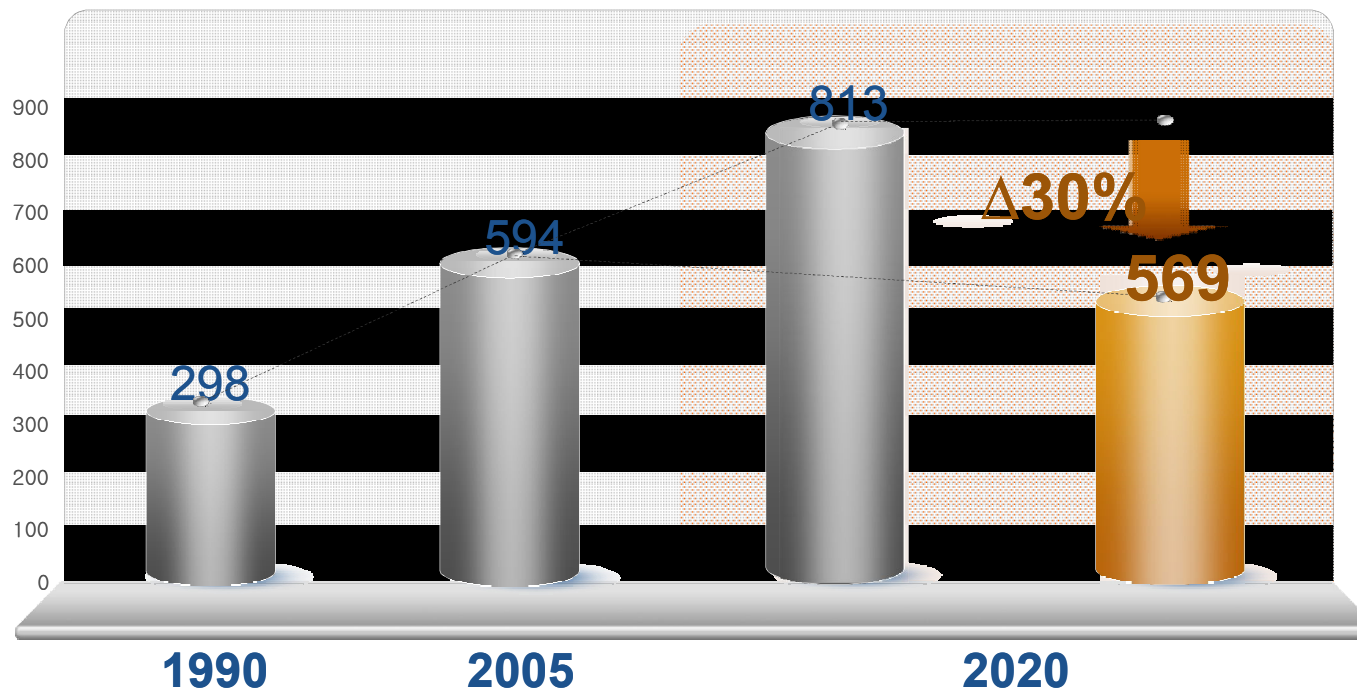
□ Institutional arrangements for LCGG

- 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**
 - Cover 490 companies in 2011



- **TMS is a Precursor to ETS in Korea !**



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



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

- Over 95% free allocation during 1st & 2nd phase
- Future Allocation determined by Presidential Decree
- 100% free allocation to trade-exposed carbon-intensive sectors



3. Emission Trading Scheme – Core Elements

□ Participants of ETS

- Installation 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

- Government reserve, additional issuance of permits
- Banking within and between commitment periods
- Borrowing only within commitment periods

□ 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 use of offset credits meeting international standards
- 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 adapted from TMS infrastructure

❑ **Financial Support & Tax Credits**

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



4. Further Work in 2012

Drafting Presidential Decree

- Detailed allocation methodology
- Rules for offsets and early action credits
- Definition of trade-exposed carbon-intensive sectors
- Allocation Committee, Trading authority, Registry
- Emergency measures

Consultation with Stakeholders

Promulgation of Presidential Decree by November 2012