Korea's NDC and the Latest Developments in KETS

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Hyungna Oh (Kyung Hee University, h.oh@khu.ac.kr)
Today’s Talk Plan

I. Summary of the 1st year KETS

II. Korea's NDC and its Implication to KETS
I. Summary of the 1st year KETS
1st year KETS: Governance

**Growth/Development**

- **MOTIE, MOLIT, MAFRA**
  - Engaged in the Roadmap, EPAC and Allocation
  - Sector Allocation & MRV

- **MOSF**
  - Responsible authority
  - Chair of the EPAC
  - Master/Allocation Plans
  - Coordination & Minimize negative impacts of the ETS

- **PCGG → GGC**
  - Ratifying ETS Plans
  - Legislation
  - Lead GG policies (i.e., ETS)
  - Coordination

- **MOE**
  - Responsible authority of the KETS
  - Allocation Plan & Allocating
  - Operating the KETS
  - Focusing on the (long-term) National Mitigation Plan

**Environment/Abatement**
1st year KETS: Market ①

Source: Korea Exchange

Governance change
Market stabilization measures
(Increase in Borrowing limit & Sales of reserves)
Cap: Neither over-allocation nor under-allocation
- Cap ≒ Actual emissions (0.540 BTones vs 0.543 BTones)

Trade: Extremely thin
- 45% of covered entities experienced shortage → D
- Others → S (but most surplus KAUss were banked)
- Lack of liquidity (thin market)
  * Lack of trading in an exchange market
  * Relatively active OTC trading (items: Offset credits)

Price
- Approximately $9−$25
- Lower than the level to make firms invest on low carbon projects immediately
Evaluation & Directions

► In the process of establishment
  - Better than expected
  - Impacts on GHG and economic growth (ignorable)

► Impacts of Governance changes
  - Concerns exist
  - But, it is also expected to implement (so-called) comprehensive horizontal (environment-friendly) industrial policies and to achieve Korea's NDC

► Problems: Illiquidity
  - Low transaction volume → price volatility
  - Price exploring function may not work
Evaluation & Directions ②

Sources of Illiquidity

- **Firms**
  - Do not consider the KETS as a business opportunity
  - Concerns on the following: i) possible shortage in 2016 and 2017, ii) negative impacts on free allocation in phase 2, and iii) all other sources of uncertainty
  - Lack of hedging methods including derivatives
  - Lack of trading experiences

- **KETS (Phase 1)**
  - i) Absence of the 3rd party participation and hedging methods, ii) limited opp. for offsetting, iii) banking and borrowing rule
Evaluation & Directions ③

► Emphasis: "Activating the Market"
  - Activating the market → Stabilizing the market
    ° Reducing policy uncertainties
    ° Increasing transparency of the market (information)
    ° Considering introduction of derivative markets
    ° Reducing barriers wrt non-OTC trading (KRX)
    ° Additional function of the 3 public financial institutes, as Market makers

► Allocation method: Applying BM more than before
II. Korea's NDC
Korea's NDC

- 37% by 2030 under the BAU Scenario.
  - 25.7% (Domestic) + 11.3% (International)
GHG Reduction Targets (estimated)

△0.99% (annual)

△0.45% (annual)

△0.99% (annual)

△0.31% (annual)
Implications to KETS

- Cap(s) of Phase 2 and after
  - will reflect new targets (industry and non-industry)

- Offset coverage
  - will grow
  - International offset actions done by domestic actors will be taken into consideration (-11.3% internationally)
  - Domestic offset actions in non-ETS sectors will be encouraged

- Linkage
  - G becomes interested in market linkage
Implications to KETS ②

➤ Role of KETS
- was the most important mitigation instrument
- still important but more emphasis is given to energy sector low-carbonization (nuclear, renewable, efficiency) → The role of MOTIE becomes important in the CC policy domain.

Thank you for hearing :)