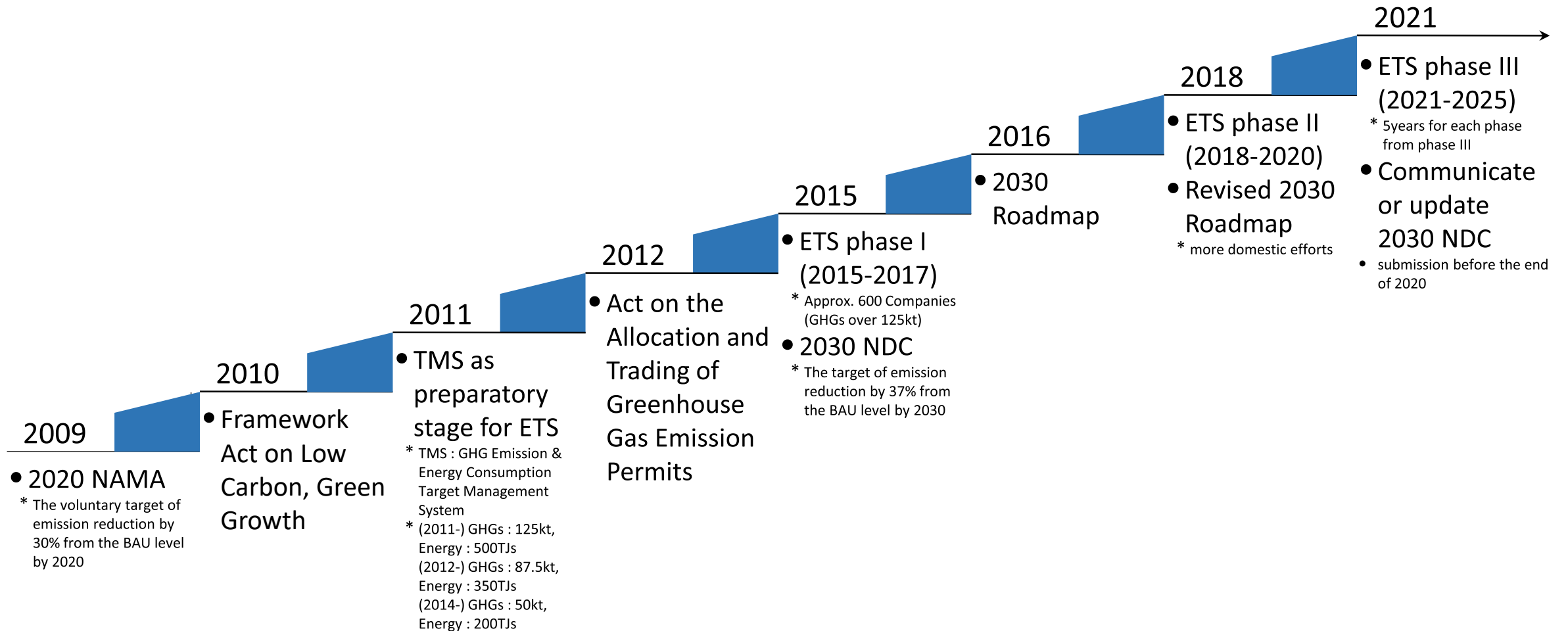


Current Status and Issues of the Korean ETS

3 October 2019

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History of Korean Carbon Pricing Mechanism



100% free allocation through GF and BM methodologies

100% free allocation

- As it was 1st time introducing the ETS in Korea, 100% free allocation was intended to:
 - stabilize K-ETS and build experiences,
 - ensure compliance of entities and related players

Allocation methodologies

- GF methodology was applied to most of the sectors
- BM-based methodology was applied to refinery, aviation and cement industries

Performance in Phase I

Phase I was soft-landed time for stabilizing the ETS operation in Korea

Allowances, offsets & emissions

Emission Cap

- 1,690 Million tCO₂eq for the Phase I (3 years)

Verified Emissions

- 1,669 Million tCO₂eq for the Phase I (3 years)

Offset

- 15 Million tCO₂eq until September 2018

Trading

Traded Volume

- 86.2 Million tCO₂eq in total

Traded Value

- 1.7 Trillion KRW in total (approx. 1.4 billion USD)

Carbon Price

- 20,279 KRW (approx. 17 USD)

Change in Phase II

Launch of auctioning

- 3% of the allowances would be allocated through auctioning in Phase II

Wider application of BM methodology

- BM based methodology was applied to 4 more industries (power, group energy, industrial complex, waste) along with 3 initial industries (refinery, cement, aviation)

Market maker

- Invited public financial institutions as market maker from June 2019
- Risk of low market liquidity could be reduced

Overseas credits

- Emission reductions from mitigation projects abroad with direct participation of Korean entities has been accepted as offset credits from 2018

Accepting participation of 3rd parties is planned for Phase III

- Preparation of policy measures to prevent market abuse or interference
- Maximize the benefit of market functions

ETS covers about 70% of national GHG emissions

- ETS is major GHG mitigation policy to meet the NDC target
- The government operates Target Management System to manage SMEs not covered by ETS

Allocation plan based on the NDC and indicative emission limits in the roadmap

- '2030 National GHG reduction roadmap' includes multi year indicative emission limits which are cascaded down to achieve NDC mitigation target
- Emission cap is set up based on these emission limits presented in the roadmap

Rigid energy prices

- Under the current energy pricing system, not easy to reflect the carbon costs into the energy price
- That's one of the reason Korean ETS includes both scope 1 and scope 2

Paris Agreement Article 6 and ETS

- ETS gives allowances yearly to the participating entities but Korean NDC has single year target
- This disharmony makes it difficult to design ETS to allow utilize of article 6 credits

Thank You



Ministry of
Environment