



MEDIO AMBIENTE

SECRETARÍA DE MEDIO AMBIENTE Y RECURSOS NATURALES

Carbon Pricing: *Mexico's* *update*

2019



Recent amendments regarding our national ETS

- Published on July 13th, 2018
- SEMARNAT shall implement an ETS
- 36 month pilot before “formal” phases
- No economic impacts
- No impact on competitiveness
- Regulation must be prepared for pilot phase



Recent amendments regarding our national pilot phase

- Include a transition period with economic impacts
- Further consultation with civil society and the academia
- Separation from clean energy credits
- Retribution for non-compliance
- Continuity of off-set after pilot test
- Integrity as a guiding principle



Mexico ETS Pilot Phase Regulation

Mandatory

- ✓ **Compliance periods (art. 6)**
- ✓ **Scopes (art. 7)**
- ✓ **Threshold for participation (art. 8)**
- ✓ **Flexibility mechanisms (art. 33-39)**
- ✓ **MRV requirements (art. 40-45)**
 - **Centralized registry (art 28)**
 - **CAP (art. 12)**
 - **Allocation (art. 16)**

Key consideration

- **Absolute CAP based on the NDC, historic information, and sector goals**
- **Allocation: free based on grandparenting to all participants (to be reduced after pilot)**
- **Offsets limit usage for compliance (up to 10%)**

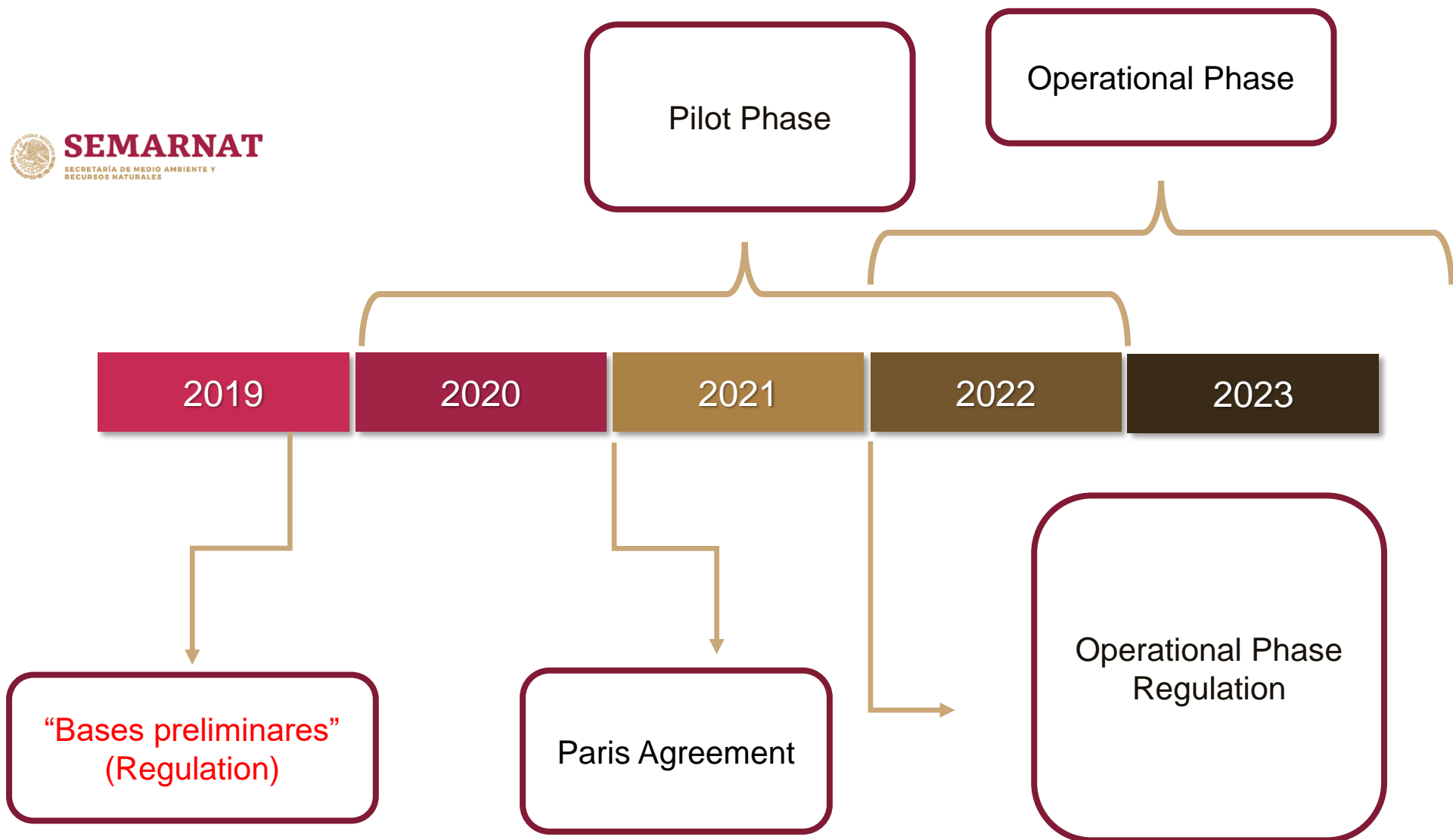


Compliance periods



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ENERGY

- a) Oil and Gas
- b) Power generation

INDUSTRY

- a) Car manufacturing;
- b) Cement and lime;
- c) Chemical;
- d) Food and beverages;
- e) Glass;
- f) Iron and Steel;
- g) Mining;
- i) Petrochemical;
- j) Pulp and paper, y
- k) Other stationary sources.



Direct Emissions

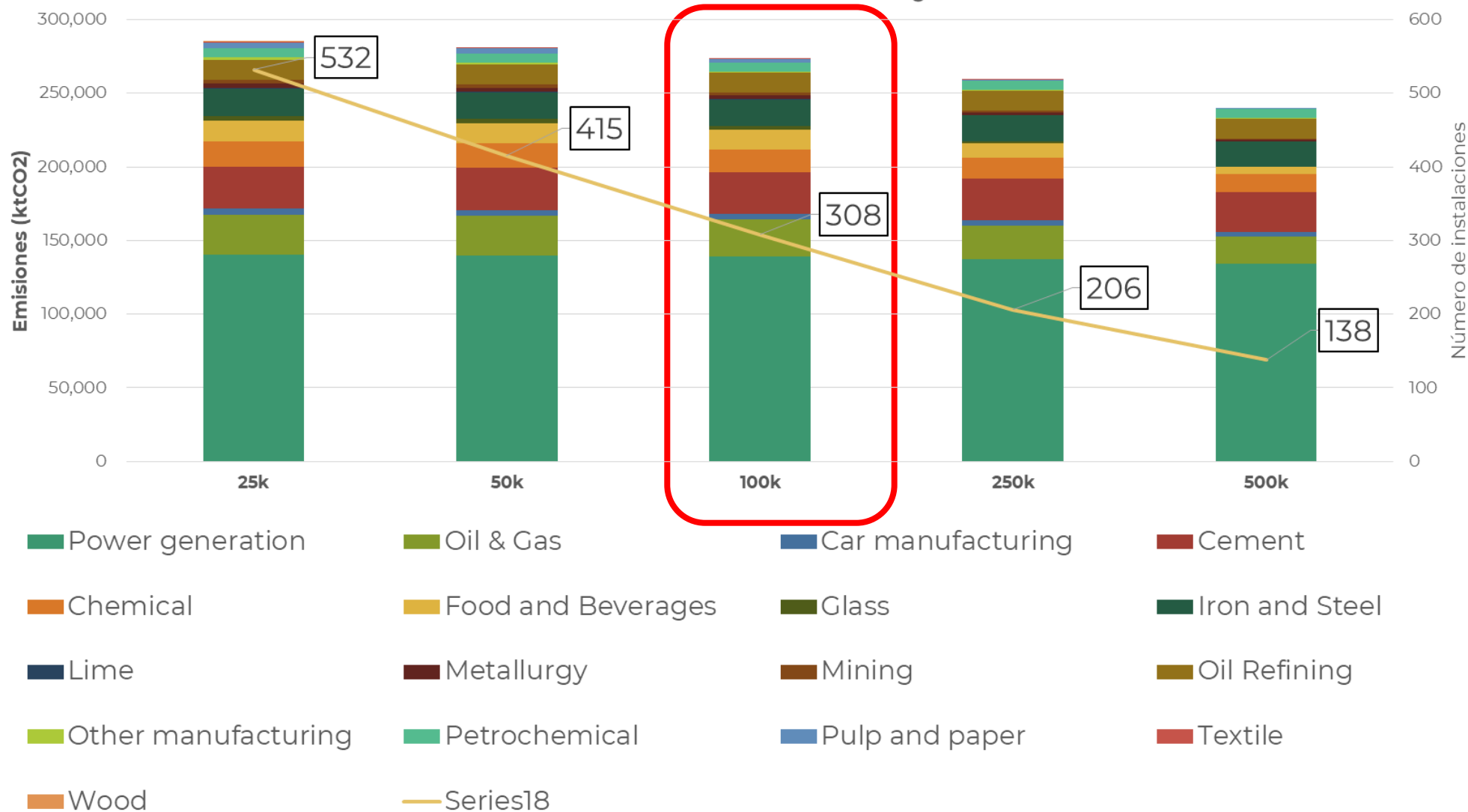
- Direct emissions from fuel consumption and industrial processes
- Indirect emissions not covered (avoiding double counting).

GHG

- Following the principle to build a simple pilot phase, ONLY CO2 is covered



Number of facilities covered by threshold





Flexibility mechanisms (offsets)

Early Action

- a) Approved activities by SEMARNAT that generated offsets credits prior to the implementation of the Pilot Phase
- b) Implemented in Mexico
- c) Verified by a third party
- d) Carbon credits received

Offset Program

- a) Approved activities by SEMARNAT that reduce emissions during the implementation of the Pilot Phase
- b) Implemented in Mexico
- c) Verified by a third party
- d) Registered in RENE



Flexibility mechanisms (offsets)

Advantages:

- Not required to hire a foreign verifier
- Lower transaction costs

Early Action

Offset program

Project 1 received **CERs** from CDM up to 2019

The Project seeks **offset credits** after January 1st 2020





MRV system y Central registry

MRVs system

- Annually
- Monitoring plan (optional during the the pilot phase)
- Emission report

Registry

1. Account management
2. Generate emission allowances
3. Assign emission rights
4. Unit transfers
5. Reporting
6. Compliance verification
7. Unit canceling
8. Banking
9. Auctions



Next steps

- Publication of the cap and allowance levels
 - Launch of the central registry
 - Beginning of the pilot phase
 - Enforcement of the MRV system
- Calendar in annex 1

Mexico Carbon tax

Design and Implementation



- In 2013 a **Tax Reform** was approved.
- This Reform established several taxes for different services and products (alcoholic drinks, cigarettes, car fuels, energizing and flavored beverages, **fossil fuels**, pesticides, among others).
- It taxes **carbon content** in fossil fuels (with some exceptions)
- Under the **Polluter Pays Principle**, the goal of the Carbon Tax is to ensure producers and alienators of fossil fuels pay some of the costs associated with the negative externalities of GHG emissions.
- Tax on fossil fuel is **applicable to production & imports**, not on emissions (upstream).
- **Natural gas was exempted** (considered by congress as a transition fuel)

Tax rates and revenue

Fuel	2019	Pesos (\$MXN) per	\$MXN / tCO ₂	\$USD / tCO ₂
Natural gas	\$0.00	m3	\$0.00	\$0.00
Propane	\$0.0726	liter	\$48.87	\$2.53
Butane	\$0.0940	liter	\$51.66	\$2.67
Gasoline	\$0.1274	liter	\$55.55	\$2.87
Kerosene	\$0.1522	liter	\$57.49	\$2.97
LP Gas	\$0.00	liter	\$0.00	\$0.00
Diesel	\$0.1546	liter	\$57.00	\$2.95
Fuel Oil	\$0.1650	liter	\$56.23	\$2.91
Oil Coke	\$0.0192	kg	\$7.12	\$0.37
Coal Coke	\$0.0449	kg	\$16.44	\$0.85
Coal Coke	\$0.0338	kg	\$13.43	\$0.69
Others	\$0.0489	kg C	\$4.89	\$0.25

From 2017 to July 2019, the revenue from the **carbon tax** reached:

\$ 38.2 billion pesos
equivalent to \$ 2 billion
US dollars



- Utilization of carbon tax revenue:
 - It is legally required to go to the general budget
 - Some argue it should go to the Climate Change Fund (established under the Climate Change Law)
- Not designed originally for NDC
 - Harmonization required (tax does not include environmental targets achievement)
 - Managed by Ministry of Finance
 - Exemption should continue? Are there still transitional fossil fuels under a 1.5 °C target?
- There is a need to review and deep down on how can coexist with other carbon pricing instruments such as an ETS.



ETS Pilot Phase Preliminary bases (October 1, 2019):

https://www.dof.gob.mx/nota_detalle.php?codigo=5573934&fecha=01/10/2019

Procedural rules of the General Law on Climate Change for the National Emissions Registry (RENE) (October 24, 2014):

http://dof.gob.mx/nota_detalle.php?codigo=5365828&fecha=28/10/2014.

General Law on Climate Change (July 13, 2018):

http://www.diputados.gob.mx/LeyesBiblio/pdf/LGCC_130718.pdf

National Emissions Registry (RENE):

<https://www.gob.mx/semarnat/acciones-y-programas/registro-nacional-de-emisiones-rene>

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Thank You

Further Questions

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