Preparation of an Emissions Trading System (ETS) in Mexico

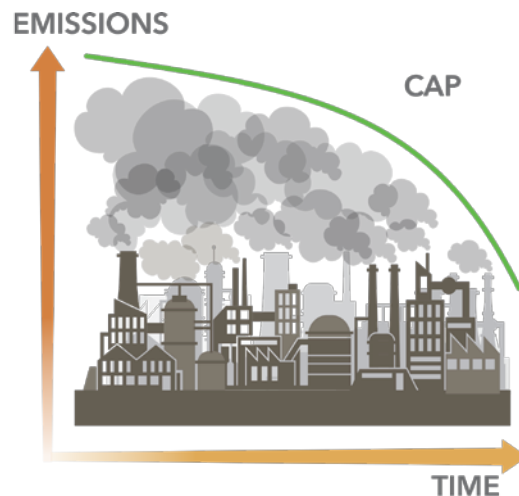## ▶ Context: Mexico is pursuing an ambitious energy and climate change policy

In the context of the Paris Agreement, countries have defined national targets for reducing greenhouse gas emissions in order to keep global warming well below 2° degrees. Against this background, Mexico has set a national target to reduce 22% of greenhouse gases until 2030 compared to a reference case without climate action. The country is currently defining well-suited policies and measures for achieving these targets. It is clear that the energy and transport sectors are key for reducing emissions: They are responsible for around three quarters of the country´s emissions. Finding cost-efficient instruments will be crucial in order to reduce emissions while at the same time fostering economic growth. This is why the German and Mexican governments have agreed to collaborate on establishing an Emissions Trading System in Mexico.

▶ Our approach: Strengthening capacities and advising on the design of an Emissions Trading System in Mexico

On behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) as part of the International Climate Initiative (IKI), the *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* supports the mexican government to develop the necessary institutional preconditions and technical capacities of both public and private actors for establishing and implementing an Emissions Trading Scheme (ETS) in Mexico.

The project is focusing on the following lines of work:

• Scientific analyses and policy recommendations to inform and support the Mexican decision-making on the design of the Emissions Trading System, such as what sectors will be covered by the system or what the overall allowed emissions limit will be.
• Capacity building and stakeholder engagement for other line ministries, companies and financial institutions so that they can assume their roles and responsibilities in the market.
• International dialogue and exchange with jurisdictions that already have similar systems in place in order to facilitate learning.

EMISSIONS — **CAP** — **TIME**

Benefitting from international lessons learnt:
These lines of work are facilitated through expert delegations, study trips, technical analysis and studies, as well as trainings, workshops and knowledge exchange. Germany has over ten years of experience with Emissions Trading, which is why the objective of the collaboration is to benefit from German and European good practices and lessons learnt.

Contributing to the Mexican climate targets:
An Emission Trading Scheme is a market-based instrument that is based upon the principle of "cap and trade". A limit of overall emissions in one or more economic sectors is defined and is reduced each year. Within this limit, companies can decide to buy and sell

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Secretariat of Environment and Natural Resources SEMARNAT www.gob.mx/semarnat
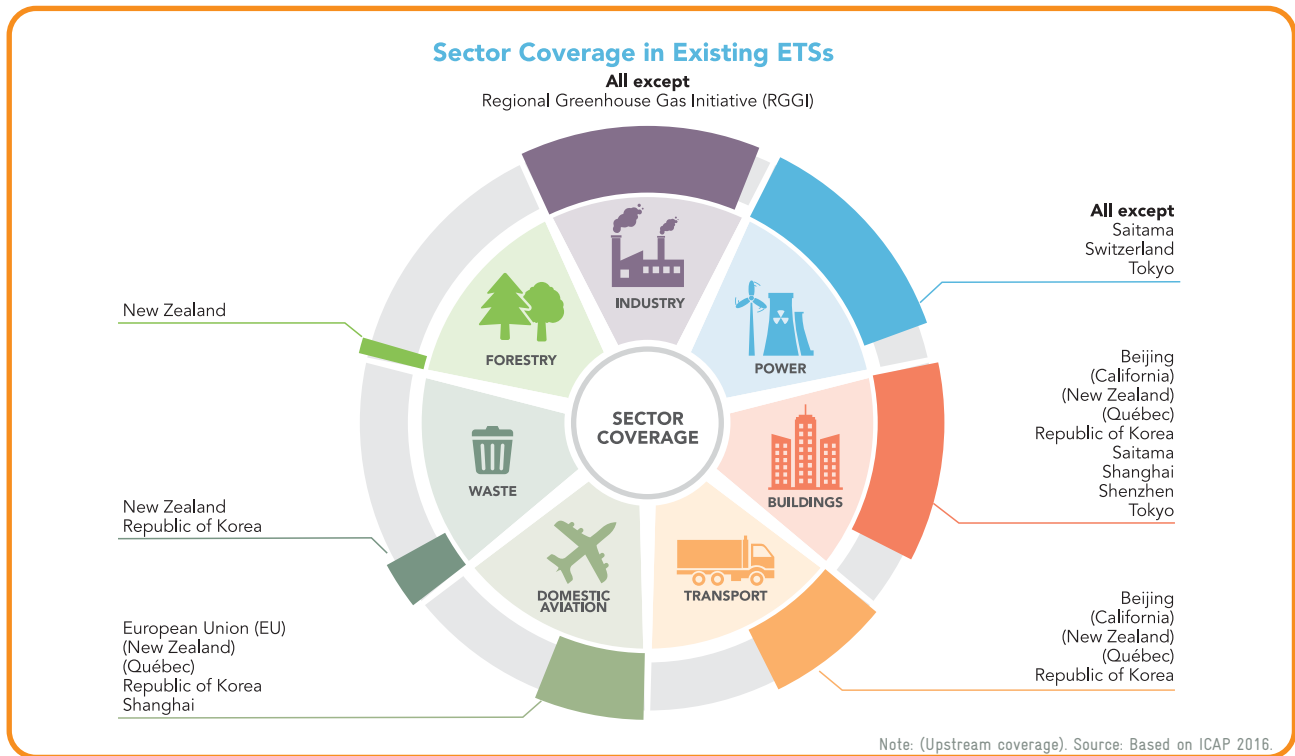**Commissioning agency**:
This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag. www.bmu.de
Duration:
09/17–09/20

On behalf of:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

of the Federal Republic of Germany

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Sector Coverage in Existing ETSs

All except
Regional Greenhouse Gas Initiative (RGGI)

INDUSTRY

FORESTRY

New Zealand

POWER

All except
Saitama
Switzerland
Tokyo

WASTE

SECTOR COVERAGE

BUILDINGS

Beijing
(California)
(New Zealand)
(Québec)
Republic of Korea
Saitama
Shanghai
Shenzhen
Tokyo

New Zealand
Republic of Korea

DOMESTIC AVIATION

TRANSPORT

Beijing
(California)
(New Zealand)
(Québec)
Republic of Korea

European Union (EU)
(New Zealand)
(Québec)
Republic of Korea
Shanghai

Note: (Upstream coverage). Source: Based on ICAP 2016.

emissions rights as these are needed in order to comply with the limit. Through this mechanism, companies have the flexibility to minimize their emissions in the most cost-efficient way and where it is cheapest. The instrument therefore contributes to changing the behavior of producers, consumers and investors so as to reduce emissions, while the inherent market mechanism provides flexibility on who takes actions and when, and what actions will be taken. At the same time, the cap assures that a country like Mexico achieves its climate targets.

First results:

Create the data basis for informed decision-making:
The GIZ has assisted Mexico in setting up a National Emissions Registry, a database the collects information on greenhouse gas emissions from all major emissions sectors like energy, industry, transport, and others. Mexican companies are obligated since 2016 to annually report their emissions. These data can now be used in order to make informed decisions on what the Emissions Trading System will look like, including inter alia the sectorial coverage or the overall emissions cap.

Support the creation of the legal framework:
German experts and government representatives have

shared with Mexican actors their hands-on experience on the key steps for setting up an Emissions Trading System. This exchange of ideas and experiences has contributed to defining a Mexican roadmap for preparing a national system. The project is also advising the government on creating the legal framework, which will culminate in an Emissions Trading Regulation being published in 2018 and a mandatory pilot phase to start in 2019.

Facilitate the stakeholder dialogue:
Recommendations on how to best involve private and public stakeholders into the decision-making process have informed the Mexican process of stakeholder engagement. This resulted not only in the establishment of a public-private Working Group on Emissions Trading, but also in building trust between the public and private sector in the negotiations around this new system.

Webpage GIZ Mexico
www.giz.de/en/worldwide/68789.html
YouTube channel GIZ Mexico
www.youtube.com/user/gizmexico
Blog IKI Alliance Mexico
http://iki-alliance.mx/en/portafolio/preparation-of-an-emissions-trading-system-ets-in-mexico/