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IMPACT CARBON

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Korean Market

November's latest market data shows a heavy demand, primarily from the power sector, for Korean carbon allowances as poor liquidity continues to drive the prices at record high levels.

The price of carbon credits played at around KRW 20,000 – 21,000 for 8 months but the lingering uncertainty over the forthcoming allocation plan for Phase II affected the market's stability. In September, the spike was triggered when the government announced the delay of the Phase II allocation plan which should have been issued in June. During a series of public fora, the Ministry of Environment said that the reduction intensity would increase in the Phase II and this caused entities to secure their emissions, to avoid shortage, either by buying in large quantities or banking their emissions rather than selling them to the market. This resulted to an imbalance in supply and demand and the surge in prices as entities rushing to secure permits are willing to pay higher amounts for the scarce volume being sold in the market.

Starting this month, the price of carbon credits skyrocketed by 25% surpassing KRW 5,000 within just ten days of trading (Nov 8 – Nov 22). On the 22nd the price rose to KRW 27,000 per ton and up to KRW 28,000 on the 23rd, marking the highest since the market began in January 2015. As the penalty for non-compliance is based on the current market price, the penalty price has also risen to an exorbitant amount.

Not only Korean allowance units saw a surge in prices, the Korean Offset Credits (KOCs) also started increasing this month moving from KRW 22,000 to KRW 28,000 in just three trading days. Meanwhile, Korean Carbon Units (KCUs) remain stable at KRW 20,800.

Analysts predict that if this scenario continues without government intervention, the price could go as high as KRW 30,000 and industries and market experts are worried that the market bubble will put additional burden on entities that are already governed by emission rights limitations.

In the 24th of November, the government hosted another public forum which expected quotas for each company to be released and recent price hikes to be discussed. During the forum, the government distributed a draft allocation plan detailing its proposed emission allocation in 2018 and slight changes on the Phase II implementation period.

The government proposed to increase the CO2 cap in 2018 while the allocations for 2019 and 2020 will be decided next year to reflect the changes in the government's environment and energy policies. Auctioning and benchmarking allocation are also postponed by a year and could start by 2019 as improvements on the energy roadmaps are considered.

The government also does not intend to release stabilization reserves into the market as of the moment as it continues to closely monitor the market condition. If the government confirms that there is indeed an insufficient and fundamental problem in supply, it will intervene to minimize the market impact.

Around 986,000 KAUs have traded outright on the exchange since November 1st, with a similar volume negotiated bilaterally and cleared on the market.

FOREX: USD 1 = KRW 1,083 (2017 Nov. 31) (Korea Customs Service)

Issue of the Month

One major event that happened during the COP23 was the unveiling of an international coal alliance named “Powering Past Coal Alliance” to declare a phase-out of coal from power generation before 2030. This is led by the UK and Canada and joined by different countries, provinces, states and cities from around the world. The alliance is not legally binding and aims to pursue coal phase-out through disseminating information, sharing best practices and technologies, and supporting clean power policies and investments. The alliance hopes to expand to 50 members by next year’s UN climate talks in Katowice, Poland.

Although Korea is not an official signatory to the alliance, the current administration’s energy policy is working towards scaling back the country’s reliance on coal and focusing the shift toward natural gas and renewable energy. The energy roadmap will raise the ratio of renewable energy to 20% by 2030 through increasing investment in research and development and providing additional support to alternative energy industries. The government will shut down coal power plants aged over 30 years in the next five years and the remaining power plants will be required to cut CO_2 emissions by 40% in 2022 and 58% in 2030 to meet the national emission reduction target. The remaining ongoing construction of coal plants are being negotiated to be redeveloped as LNG plants. The government will no longer authorize new licenses to build or operate coal plants.

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