

# IMPACT CARBON

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## Korean Market

After the South Korean government revealed its proposed plan on the second phase of the ETS and indicated that it considers stronger market interference measures, the price of Korean carbon allowances in the 12<sup>th</sup> of December dropped by 30.2% from its all-time high of KRW 28,000 recorded in the 23<sup>rd</sup> and 24<sup>th</sup> of November. In recent days, carbon prices are seen picking upwards trading between KRW 21,500 –KRW 22,500 as the market bounces back. The government said that there are no supply problems for the 2017 compliance year as entities lacking permits need around 40 million tons and the available amount that can be supplied is 60 million tons. In the meantime, supply and demand imbalance will remain as companies with surplus are expected to only start selling excess permits to the market after the second quarter of 2018.

Following the concerns of market participants on the demand and supply imbalance, major South Korean companies from the power, chemical, steel and cement industries has called on the government to improve the market situation. The Korea

Chamber of Commerce and Industry together with Korea Electric Power Co., LG Chem, Hanwha Chemical and Hyundai Steel submitted a petition urging the Ministry of Environment, Ministry of Strategy and Finance, and the Ministry of Industry and Commerce to get involved and resolve the market imbalance.

Korean industrial powers have also been making a move in recent months as they cancel their UN-issued CERs to be converted to Korean units (KOCs) as the offset drought continues to exacerbate the volatile market situation.

According to Carbon-i, the market analysis and research center of Ecoeye, the supply and demand imbalance is likely to continue until early next year but trading will increase and a bigger cost fluctuation is expected in the second quarter as most companies will submit their emissions volume and the government is expected to announce the additional allocation quota. Companies holding on to their surplus are expected to release their units to the market by that period.

In order to meet the demand, 6 million tons is required every month until June 2018. The government will continue monitoring the banking limitation amount and if the supply problem persists, it plans to supply a maximum 30 million tons of reserve including 14 million tons of market stabilization reserve. Prices will be on the downswing once huge volumes of units are made available in the market.

FOREX: USD 1 = KRW 1,075 (2017 Dec. 28) (Korea Customs Service)

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