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Korea ETS

The Korean government has recently released the draft amendments to the scheme concerning the auction procedures and overseas business reduction projects, also known as carbon offset projects. The draft rules are under a three-week consultation period until the 26th of March.

Compliance entities, offset developers and other market participants are still negotiating clearer and definitive regulations for the offset rules. Based on the released documents, a project's offset eligibility is subject to ownership or operatorship rules of which at least 20% must be acquired by the Korean company in a "Type A" GHG reduction project. "Type A" projects are assumed to be of large-scale types and mostly electricity and energy-related. Another eligible project is that of a project that distributes or sells a GHG reduction product which

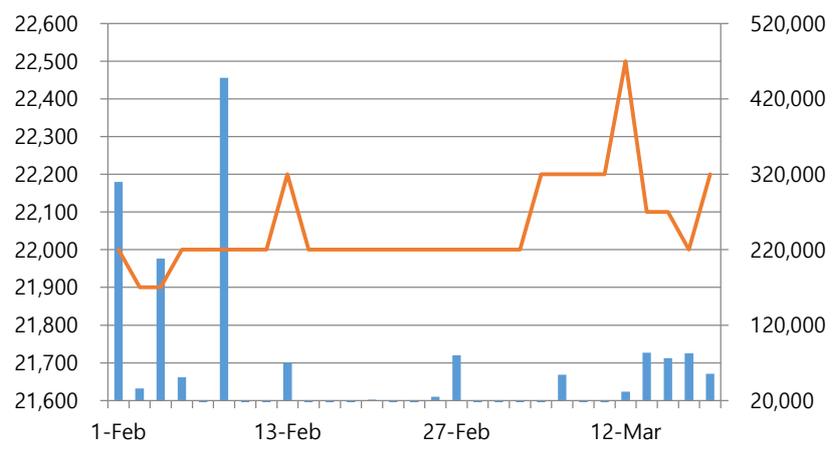
is only valid if implemented in Least Developed Countries (LDCs). Projects that are implemented and co-funded with international organizations and local or foreign central governments are also listed as an eligible carbon offset project.

In terms of the introduction of auctioning by 2019, the government has set a number of conditions for an entity's participation. These include limit on buying volume, auction schedules, minimum quantity of bid and the responsibilities of setting the auction floor price and auction of market stabilization reserves.

Korean Market Update

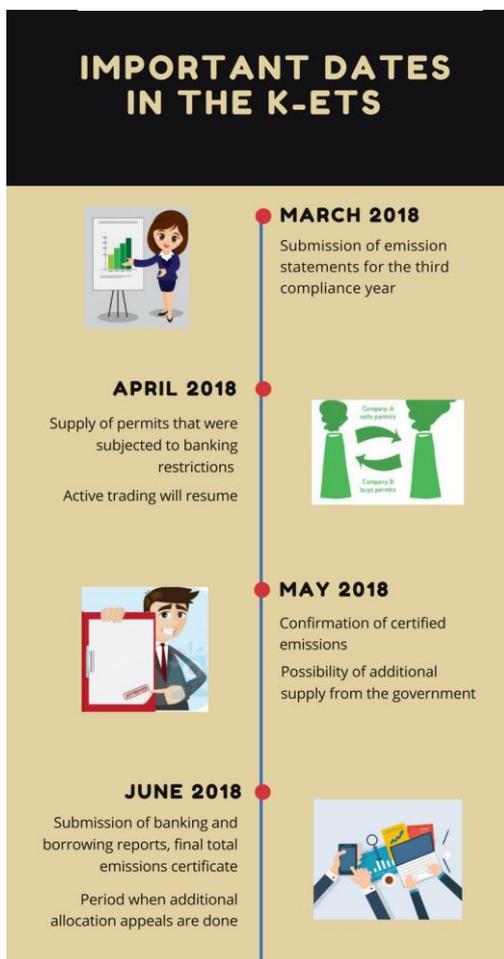
South Korean allowance prices (KAU17) have stayed near its resistance level of KRW 22,000 since January with only little divergences between KRW100-500 going mostly above the line. From February to mid-March 2018, daily transaction exchanges totaled to 25 days. KAU18, with a closing price of KRW 22,000, traded for one day in early February with 26,000 tons.

Figure 1. KAU17 Daily Closing Price and Volume (February - mid-March 2018)



During this period, total traded volume amounted to 1.7 million tons with 62% of the exchanges going through bilateral deals. OTC transaction records until February 2018 shows that out of the accumulated 9.6 million tons, 6 million tons are KAU17 ⇔ KAU18 SWAP deals. SWAP is the preferred mode of transaction by many large companies carrying surplus permits. Supply coming to the market is still limited and buyers are adhering to the advice of the government to refrain from chase purchases and wait until fresh supplies come to the market.

Figure 2. K-ETS Important Dates



The figure on the left shows the timeline of events until the Korean compliance deadline in June 2018. The months of March to June cover the busiest season in the ETS when compliance entities submit various kinds of statements to the government. This is a period where additional supply of permits are expected to flow into the market due to factors such as banking restrictions, surplus after statements submission, and the supply of government reserves. Thus, full-scale market trading is expected until the end of the compliance deadline.

This is also a period of fluctuating market prices because of the bulk of small transactions by small and medium compliance entities. According to Carbon-i's forecast, there is a possibility that prices will slightly rise this month albeit the limited supply as the submission deadline of emission statements draws closer. Price volatility will likely increase from April and May with prices estimated to be KRW 22,000 (± 10) but is expected to stabilize near the level of KRW 20,000 after the provision of government reserves.

CORSIA

The European Union, Norway and the United States have given their support to the CORSIA Package that contains the technical rules for the implementation of the scheme. While the US voiced that no substantive changes be made on the text, the EU and Norway have communicated their proposed amendments in advance shall discussions on the draft text are re-opened.

European Union

The EU, stating in their [reply letter](#) that although not completely satisfied with some of the proposal's elements, strongly urges the adoption of the package without further amendments but in the event that discussions are re-opened suggests the tightening of a number of elements as follows:

- Ensure, through proper wording, that the emission unit eligibility criteria and (sustainable aviation fuels) SAF sustainability criteria are mandatory and legally-binding
- Define a clear vintage date for eligible units proposing to set it after December 31, 2016
- Establish an enhanced SAF sustainability criteria ensuring environmental integrity
- Ensure that third-party verification is implemented in accordance with an internationally recognized standard
- Allow public access to information in the Central Registry and include additional data and reports on offsetting obligations of airline operators

Norway

Like the EU, Norway supported the adoption of the Package while showing strong opposition to any changes that will weaken the scheme's implementation elements. The country

further suggested setting the cut-off date for eligible units by the end of 2019.

United States

The US has also responded expressing its general support to the CORSIA Package recommending that no substantive changes be made on key provisions including MRV requirements, SAF sustainability criteria and some aspects of the emissions unit criteria. The official document also indicated that “should any elements of the package be reopened or reconsidered, the United States reserves the opportunity to provide our preferred edits to the text for consideration.”

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