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Korea ETS

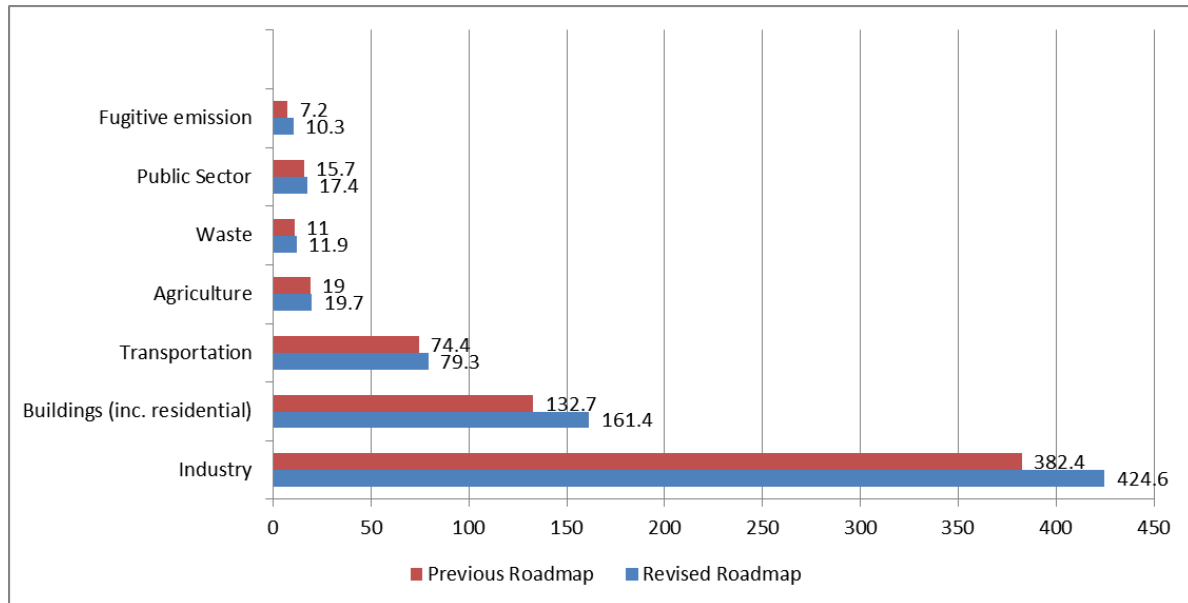
2030 Greenhouse Gas Reduction Roadmap and Phase 2 Allocation Plan

South Korea's GHG roadmap and second phase allocation plan have been approved by the Cabinet and the Green Growth Committee in an assembly held last month.

The revised roadmap increased the domestic reduction to 32.5 percent out of the nation's 37 percent commitment to the Paris Agreement. This translates to an additional reduction of 57.6 million tons from the previous roadmap. The government plans to realize these reductions through various reduction plans in the energy, industry, building, transportation and other GHG-emitting sectors. The remaining 4.5 percent will come from cooperative approaches such as the use of international carbon credits and reduction through forest sinks. Concrete plans on

how to utilize the international offsets and LULUCF will be made in accordance with the outcomes of the Paris negotiations.

Figure 1. Roadmap Comparison (by reduction targets)



The biggest reductions will come from the industry for about 98.5 million tons through improving industrial processes, replacing power sources with low-carbon fuels, and employing energy efficient and innovative technologies. About 64.5 million tons will be cut through strengthening energy efficiency standards in the commercial and residential sectors and green retrofitting of existing buildings. Complementing other sectoral targets will be the supply of 3 million electric vehicles by 2030 in addition to other low-carbon plans in the transportation sector which will reduce an estimated 30.8 million tons.

Meanwhile, the original target for the power generation and collective energy sector has been slashed by 24 million tons to reflect policy changes. The sector is now expected to reduce 68.1 million tons utilizing the technology of carbon capture

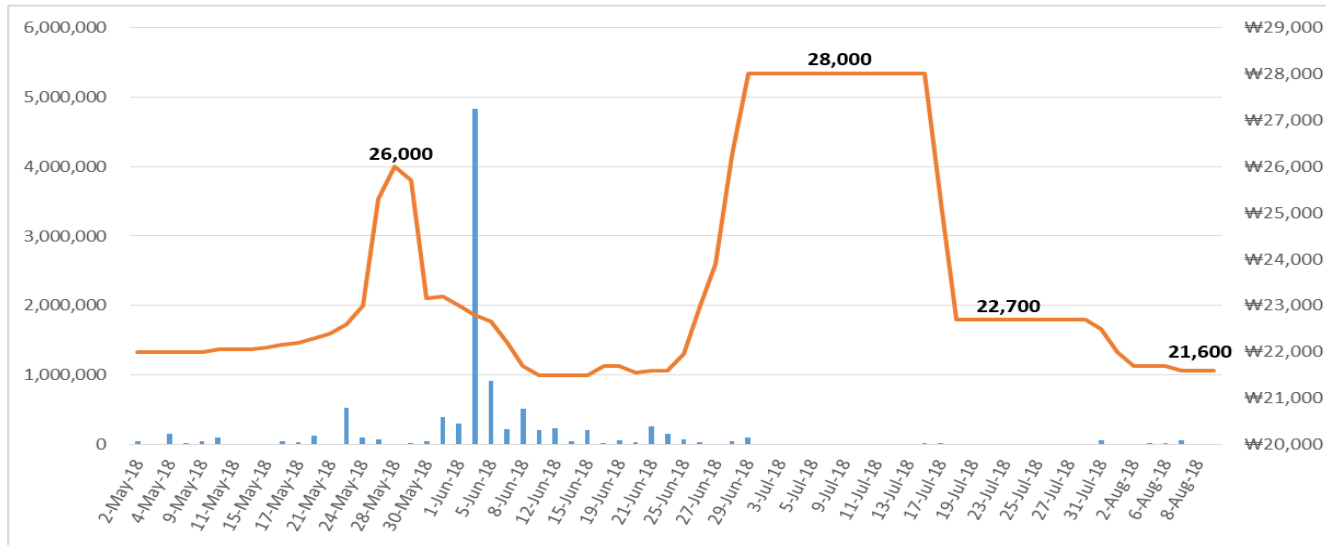
utilization and storage (CCUS), improving the power generation infrastructure and enhancing the energy mix.

As part of the country's reduction instruments, the emission trading scheme will quantify some of these reductions by setting a stringent cap on entities' emissions. The three year (2018-2020) ETS plan set an allocation of 1,777 million tons to 591 companies. This is about 2.1% more than the emissions in the period of 2014-2016 (around 1,741 million tons) as the government considered the growth of the industrial sector.

In the second allocation plan, the quota system will be implemented. Of the total 63 industries, 26 industries - including power generation companies - are allocated 97% of the total, and the rest of the 3% must be purchased through an auction. Meanwhile, 37 energy-intensive and trade-exposed industries are allocated 100% of allowances. Entities can apply for emission permits from August 2018.

Further, the government plans to amend the "Framework Plan for Climate Change Response" by December of this year which include plans to support SMEs in the installation of reduction facilities, and the Green Growth Act next year to change the target setting method as well as establish the 2050 low-carbon development strategy in time for the submission of the updated NDC by 2020. The government also showed willingness to pursue decoupling between GHG emissions and economic growth after 2020.

Figure 2. KAU17 Trading Performance (June 2017 – August 2018)



* KAU17 trading ended on August 10th

Korean Market Update

Market Performance

Permit prices became highly volatile from May 2018 onwards due to a number of factors: MSR auction, deadline compliance, and results of the roadmap and allocation plans, among others. After peaking at KRW 28,000 by the end of June due to the compliance rush and the news of the roadmap revision, the market spiraled downwards as remaining KAU17 transactions were left for entities that applied for appeals.

Notifications of the results of allocation and cancellation appeals were announced between the 30th and 31st of July influencing the further decline in prices for the vintage 2017 allowances as companies were just given a week to finalize their banking applications and the surrender of emission rights. The market has shifted in favor of the buyers, which was evident in the remaining days, as sellers had to sell-off their carry-over surplus in a market with little demand for KAU17 permits.

July's KAU17 trading volume amounted to 164,981 tons while August had 109,461 tons. The total volume of KAU17 from February 2017 until August 2018 is 21,754,596 tons equivalent to a value of 480 billion Korean Won.

Meanwhile, KAU18 transactions remained elusive with only 4 trading days since January 2018 summing to only 475,000 tons. No transactions occurred since its last recorded trade in June 11, 2018. KAU18's current price as of publication time is KRW 21,600.

Market Outlook

Korea ETS prices are highly influenced by government policies and with the main policy instruments finally set into place, the market will likely continue in a non-changer fashion until the third or fourth quarter of this year when the results for the application of the second stage quotas are decided. With the allocation quotas to be confirmed by the end of October, it is expected that no trading will happen from the end of this month (August) until October 2018.

Paris Agreement

The [key documents](#) for the additional negotiating sessions of the UN Climate Change Conference for the Paris Agreement Work Programme (SBSTA/SBI 48.2, APA 1.6) scheduled on 4-9 September 2018 were published by the UNFCCC. A number of preparatory meetings of different groups are also scheduled to take place between 31 August – 2 September.

A note by the presiding officers encouraging all Parties to maximize the Bangkok session to accelerate their work for their preparation for the COP24 had been circulated. In the note, they highlighted the aim to “reach an agreed basis for negotiations for all PAWP items, reflecting clear and streamlined options, and with sufficient detail for the outcome of the session to be swiftly turned into draft decision text” by formulating clear concepts, identifying critical issues for resolution and focusing on the necessary

details under each PAWP item.

The note also contained questions that were, in advanced, formulated to guide the sessions in moving towards the goal of producing clearer outputs.

Under the Article 6 of the Paris Agreement, the reflection note acknowledged that good technical progress was made in the May intersessional meetings albeit the slow progress on the agenda items. The SBSTA 48.2 will use the revised informal notes agreed during the previous session as the basis for discussions. Parties are encouraged to focus on the essential issues to produce updated drafts with clear options that could be used to finalize the work in Katowice. Parties are also urged to identify matters that might entail follow-ups in the technical level of the subsidiary or supervisory bodies.

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