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Amendment of the Enforcement Decree of the Emission Trading Act

- Enhancing the effectiveness of the emission trading system through expanded market participation and strengthened management of corporate emission allocations

The Ministry of Environment (Minister Kim Wansup) announced that a partial amendment to the Act on the Allocation and Trading of Greenhouse-Gas Emission Permits (hereinafter referred to as the “Emission Trading Act”), which contains improvements to the greenhouse gas emission trading system, was approved at the Cabinet meeting on January 31 and will take effect from February 7.

A significant feature of this amendment is that it stipulates measures to enhance the functionality of the greenhouse gas (GHG) emission trading market to encourage companies to achieve substantial reductions in GHG emissions.

Firstly, the definition of “market participants” who can participate in the emission trading market, which was previously limited to allocated companies, market makers, and emission trading intermediaries, will be expanded to include investment traders, collective investment managers, trust companies, banks, insurance companies, and fund managers.

In addition, the convenience of emission trading will be significantly improved by allowing emission trading intermediaries to handle the trading and reporting of emission permits on behalf of market participants.

To maintain order in the emission trading market and protect the public interest, the criteria for the government to take market stabilization measures in the event of price declines will be strengthened*, ensuring that emission permit prices reflect the latest market conditions and preventing them from being traded at excessively low prices.

* (Previous) 60% of the average price over the previous two years (annual average) → (Revised) 70% of the average price over the most recent two years (moving average)

To prevent unfair trading practices related to emission permits in the trading market due to the expansion of market participants, the Ministry of Environment can now request the Financial Supervisory Service to cooperate in inspecting emission permits trading activities and financial status of market participants.

Furthermore, in the future, practices where companies sell surplus emission permits without making efforts to reduce greenhouse gases and gain excessive unjust profits will be prevented at the source.

In the past, when emissions decreased due to facility shutdowns or closures, companies were able to profit by selling surplus emission permits without actually making efforts to reduce emissions.

However, in this amendment, the criteria for allocation cancellation have been raised to eliminate the causes that hinder reduction efforts, and improvements have been made to effectively reduce greenhouse gases.

* (Previous) Cancellation when emissions decrease by more than 50% of the allocation → (Revised) Differential cancellation when emissions decrease by more than 15%

Kim Jeong-hwan, the Director General of Climate Change Policy and International Cooperation at the Ministry of Environment, stated, “The success of the emission trading system, which manages 74% of national GHG emissions, is directly linked to the achievement of the NDC.” He added,

“With this amendment to the enforcement decree, we hope to secure the effectiveness of companies’ GHG reduction efforts and further activate the emission trading market.”