

Updated February 2024

## Chile ETS at a Glance

Years in operation	Chilean ETS is not in operation yet, as it is currently under consideration. However, a regulatory and public policy framework that allows for an Emissions Trading System (ETS) to be implemented is enacted now. The Framework Law on Climate Change lays the foundation for developing carbon pricing instruments to reach the country's goals and address climate change.
Overall cap & trajectory	Information has yet to be available. However, the Ministry of Environment is tasked to specify GHG emissions limits following Article 14 of the Framework Law on Climate Change. These emissions limits may be set at a sectoral level in an aggregate form, similar to a cap, or at an installation level. Surplus emissions reductions from regulated entities may be certified and used by other regulated entities for compliance purposes, according to Article 15 of the Framework Law on Climate Change.
Target(s)	<p>Information has yet to be available (to be defined).</p> <p>However, when defining the targets for the Chilean ETS, the country's NDC targets must be considered:</p> <ul style="list-style-type: none"> <li>• Peak of GHG emissions by 2025.</li> <li>• Absolute GHG emissions of 95 MtCO<sub>2</sub>e (excluding LULUCF) and reduction of at least 25 % of total emissions of black carbon as compared to 2016 by 2030.</li> <li>• Carbon budget of 1.100 MtCO<sub>2</sub>e between 2020 and 2030.</li> </ul> <p>In addition, the Framework Law also makes the 2050 carbon neutrality target and the NDC commitments binding in law.</p>
Emissions reduced to date	N/A
Sectors covered	<p>Information has yet to be available.</p> <p>However, the country already has experience with the green tax (also known as carbon tax), which covers the power, heat, industry mining, petrochemistry, pulp and paper, agroindustry, beer, wood, and fishing sectors. These regulated industries are likely to be covered by the emerging ETS.</p>
GHGs covered	All information on specific GHGs covered under the ETS has yet to be available.



	The Framework Law on Climate Change and the green tax are stated in general CO <sub>2</sub> e emissions. However, the GHGs covered by the ETS will likely be the same gases included in the scope of the country's NDC.
# of covered entities	Information has yet to be available.
Allocation method	Information has yet to be available. However, the allocation by sector, technology, or activity is bound to be defined by the Ministry of Environment according to Article 14 of the Framework Law on Climate Change.
Trading rules	No information on trading rules is available yet.
Use of offsets and linking	<p>Information has yet to be available.</p> <p>In September 2023, Chile published regulations setting out the rules for using offsets against the carbon tax of USD 5/tCO<sub>2</sub>e set in 2017. Some of these rules on emissions offsets are likely to be included in the ETS for regulated entities. Find further information in the Major Developments section.</p> <p>In addition, the Framework Law on Climate Change allows the use of ITMOs generated from Article 6 to comply with the emissions caps.</p>
Penalties for non-compliance	Information has yet to be available.
Use of revenues	<p>Information has yet to be available.</p> <p>However, some revenues are highly probable to be collected for the use of public funds or treasury.</p>

## Major Development

### Carbon tax and offsetting mechanism

Chile has a USD 5 carbon tax in operation since 2017, regulating approximately 31 % of total emission sources in the country. In September 2023, the Ministry of Environment approved Regulation No° 43.664, establishing the obligations and procedures for evaluating, verifying, and certifying emission reduction

projects to offset the carbon tax in the country. Some of the key points include:

- Regulated entities can offset all or a portion of their carbon tax-covered emissions.<sup>1</sup>
- For offsetting, there may be a maximum of three years between the year of reduction of the emissions used to compensate and the year in which the taxed emissions are generated.

<sup>1</sup> February 2024 is the deadline for taxpayers to present approved carbon credits for offsetting the carbon tax.



- Carbon credits must be additional, measurable, verifiable, and permanent.
- The mitigation initiatives generating eligible carbon credits shall be aligned with the country's NDC.
- Emissions may only be offset by implementing projects to reduce emissions of the same pollutant.
- Offset projects must be located within Chile. Entities seeking to compensate for their particulate matter emissions must invest in projects located in the same area as the emitting installation.
- Methodologies and programme standards should be approved or developed by the Ministry of Environment. Projects and VVBs should be assessed and authorized by the public entity. This information will be publicly available in a registry.
- The Superintendence of the Environment will be the one in charge of administering the registry system.

Later, through the "Resolución Exenta N° 1420/2023", dated December 19th, 2023, the Chilean Government partially recognized UNFCCC's Clean Development Mechanism (CDM), VERRA's Verified Carbon Standard, and Gold Standard Foundation's Gold Standard for the Global Goals as external certification programmes or standards. The government also recognized the Validation and Verification Bodies (VVB) and approved the methodologies validated and accepted by those standards. Partial recognition implies that:

- Approval of projects and related emissions reduction certificates can be requested for projects implemented by September 29th, 2023, with at least one emissions reduction certificate by a recognized external standard verified in 2020, 2021, 2022 and/or 2023.
- In the case of power generation projects connected to the National Electric System non implemented by September 29th, 2023 and lacking

emissions reduction certificates by a recognized external standard verified in 2020, 2021, 2022 and/or 2023, related emissions reductions will not be considered additional if they contemplate technologies representing 5 % or more of the gross installed capacity in the National Electric System.

- The approved methodologies are the ones currently operating for the recognized standards. In case the methodologies are not currently operating, have a new version or have been consolidated in another consolidated methodology, they will be approved if they were operating when the related project was approved by the recognized standard.

### Law on Climate Change

A key element in Chile's way to achieving its goals and addressing climate change is the 2022 approval of the Framework Law on Climate Change, which turns binding the targets established in the NDC and the Long-Term Climate Strategy while laying the foundation for the development and implementation of different carbon pricing mechanisms, including a potential ETS. Article 37 of the Framework Law provides the basis for developing fiscal, financial, and market-based mechanisms, such as a regime of emissions cap or a potential ETS. At the same time, Article 14 of the Law establishes that emissions removal or reductions from projects developed within the national territory may be used for compliance with the respective emissions standards.

Additionally, the Energy Agenda 2022-2026 establishes that an ETS pilot project will be developed for the energy sector to evaluate the role of this instrument in achieving emissions reductions and a just transition, with the support of the World Bank PMI program, estimated to start by the end of 2023.

Furthermore, the Chilean Long-Term Climate Strategy, consisting of over 400 specific





mitigation measures and presented at COP26 in Glasgow, is also binding under the country's Framework Law on Climate Change.

### Article 6 Market Readiness

Another key element in Chile's progress towards carbon neutrality and achieving its goals is the recent international agreement on carbon trading under Article 6.2 with Singapore. Besides its previous agreements

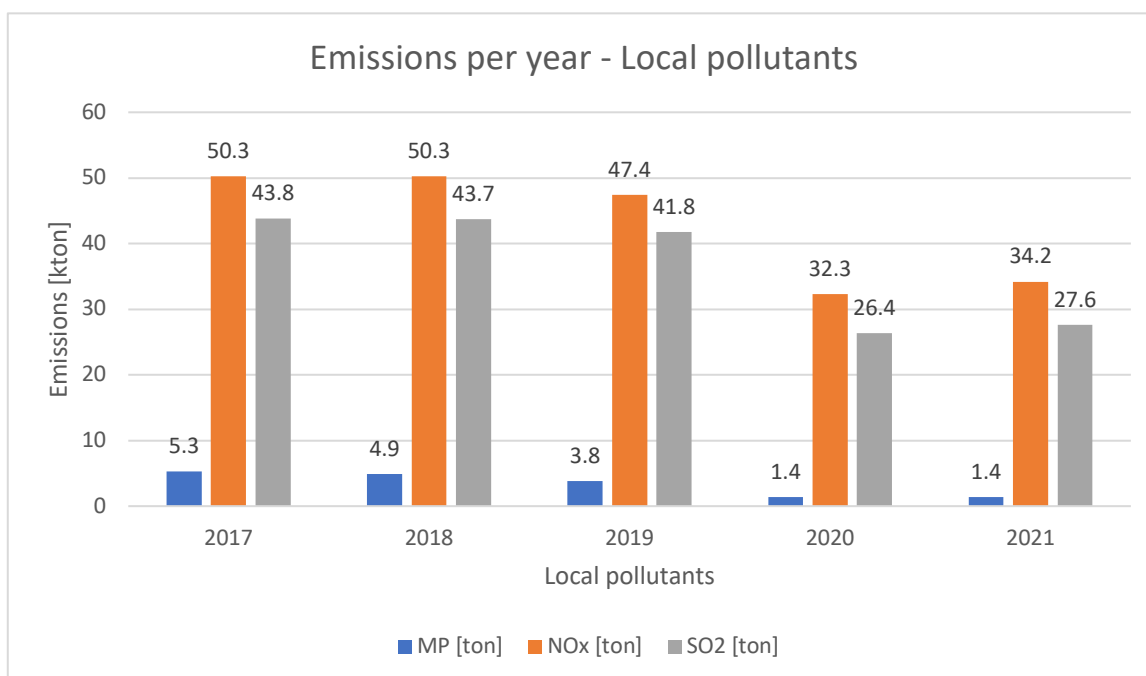
with Japan under the Asian country's Joint Crediting Mechanism (JCM) in 2015 and with Switzerland regarding carbon credit transfers in 2022, Chile signed in August this year a Memorandum of Understanding on carbon trading under Article 6.2 of the Paris Agreement, including plans to explore potential third-party countries collaboration. Currently, Chile is also considering an Article 6 bilateral agreement with New Zealand.

## Market Commentary

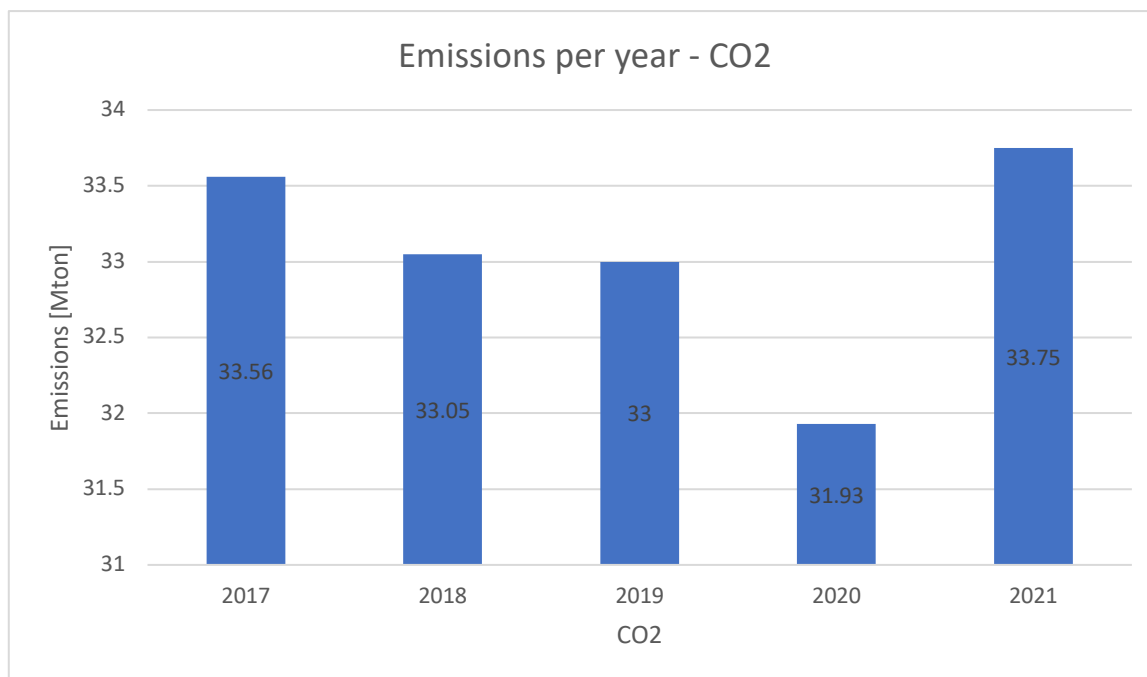
The carbon tax will likely be used as a reference for the ETS.

As mentioned, Chile has had a USD 5/tCO<sub>2</sub>e carbon tax in operation since 2017, regulating approximately 31 % of total emission sources in the country. The country expects an increased trend for its carbon tax in the period between 2025 and 2030. The National Energy Policy states that carbon prices in the country should reach USD 35/tCO<sub>2</sub>e by 2030 and USD 80/tCO<sub>2</sub>e by 2040.

Until the first semester of 2023, the green tax on stationary sources in Chile has taxed, on average, 33 million tons of CO<sub>2</sub> per year and more than 27.000 tons of local pollutants since it has been operating. Likewise, the tax has collected more than 826 million USD concerning CO<sub>2</sub> and almost 89 million USD concerning local pollutants, mainly from the "Energy Generation" sector.



Source: Ministry of Energy of Chile.



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## Useful Links

[Framework Law on Climate Change](#)

[Emissions Compensation Decree 29 September 2023](#)

[Energy Agenda 2022-2026](#)

[Energy Transition Policy of Chile 2022](#)

## References

[Chile NDC Summary - Climate Action Tracker](#)

[Chile NDC Information - UNDP](#)

[Chile ETS Description - ICAP](#)

[The six keys to the new Green Tax Compensation System - Ministry of Environment](#)

[Chile Submits Bold 2030 Climate Plan - NDC Partnership](#)

[Ministry of Energy - Chile](#)

[Ministry of Environment - Chile](#)

## Authors

Camilo Trujillo  
LAC Lead, IETA  
[trujillo@ieta.org](mailto:trujillo@ieta.org)

Juan Pedro Searle  
Head of Climate Change, Ministry of Energy of Chile  
[jsearle@minenergia.cl](mailto:jsearle@minenergia.cl)

Isabella Villanueva  
Climate Change Analyst, Ministry of Energy of Chile  
[ivillanueva@minenergia.cl](mailto:ivillanueva@minenergia.cl)

Marcos Gibson  
Article 6 Consultant, ALLCOT  
[mg.ch@allcot.com](mailto:mg.ch@allcot.com)

Arturo Vallejo Abdala  
Climate Policy Advisor, ALLCOT  
[av@allcot.com](mailto:av@allcot.com)

Diana Guzmán Barraza  
Article 6 and Global Climate Action Unit Director, ALLCOT  
[dgb.es@allcot.com](mailto:dgb.es@allcot.com)

