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ACT ON THE ALLOCATION AND TRADING OF GREENHOUSE GAS EMISSIONS ALLOWANCES

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CHAPTER ON GENERAL PROVISIONS

Article 1 (Purpose)

The purpose of this Act is to effectively achieve the national greenhouse gas reduction objective thereby reducing emissions of greenhouse gases through the introduction of market-based compliance system with trading mechanisms for greenhouse gas emissions allowances pursuant to Article 46 of the Framework Act on Low Carbon, Green Growth.

Article 2 (Definitions)

The terms used in this Act shall be defined as follows:

1. “Greenhouse gases” means the greenhouse gases defined in Article 2, Subparagraph 9 of the Framework Act on Low Carbon, Green Growth (hereinafter referred to as the “Framework Act”);
2. “Greenhouse gas emissions” or “GHG emissions” means greenhouse gas emissions defined in Article 2, Subparagraph 10 of the Framework Act;
3. “Emissions allowance” or “allowance” means the permitted amount of GHG emissions allocated to each GHG-producing entity within the limits of total

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emissions budget established under Article 5 (1) 1 of this Act to achieve the targeted reduction in GHG emissions specified in Article 42 (1) 1 of the Framework Act (hereinafter referred to as the “national GHG reduction targets”);

4. “Commitment period” refers to a five-year performance evaluation period used to track and manage the usage of allowances allocated to GHG-producing entities to determine the entity’s compliance with this Act, in light of the national GHG reduction targets;
5. “Compliance year” refers to a one-year performance evaluation period set apart within a commitment period used to track and manage the usage of allowances allocated to GHG-producing entities to determine the entity’s compliance with this Act, in light of the national GHG reduction targets;
6. “One ton of comparable CO₂ equivalents (tCO₂-eq)” means one ton of carbon dioxide, or an amount of other greenhouse gases specified in Article 2, Subparagraph 9 of the Framework Act with the same global warming potential as one ton of carbon dioxide.

Article 3 (Fundamental Principles)

The Government shall establish and implement a system for the allocation and trading of emissions allowances (hereinafter referred to as “emissions trading system”), consistent with the following fundamental principles:

1. The Government shall comport with the principles proclaimed in the United Nations Framework Conventions on Climate Change and other relevant protocols and shall consider international negotiations on climate change;
2. The Government shall consider the impact of the emissions trading system on the international competitiveness of economic sectors;
3. The Government shall maximize the emissions trading system’s market mechanisms to effectively achieve the national GHG reduction targets;
4. The Government shall ensure that trades of emissions allowances are conducted fairly and transparently in accordance with the general rules of market

operation;

5. The Government shall establish and implement policies that does not contravene international standards, in consideration of the emissions trading system's potential linkage with the international carbon markets.

CHAPTER ESTABLISHMENT, ETC. OF MASTER PLAN FOR EMISSIONS TRADING SYSTEM

Article 4 (Establishment, etc. of Master Plan for Emissions Trading System)

- (1) The Government shall establish a quinquennial master plan covering a ten-year period concerning the operation of emissions trading system (hereinafter referred to as “master plan”) to effectively carry out the prescribed purpose this Act, defining medium- and long-term policy objectives and guidelines for the emissions trading system.
- (2) A master plan shall include the following matters:
 1. Current domestic and international status and future prospect of the emissions trading system;
 2. Basic outline for operation of the emissions trading system;
 3. Specific operating guidelines for the emissions trading system in each commitment period reflecting the national GHG reduction targets;
 4. Projections of GHG emissions due to overall economic growth, new and additional investments, and expansion of facilities (referring to GHG-producing facilities or a part of such facilities; the same shall apply hereinafter) in each sector and industry;
 5. Economic implications from the operation of emissions trading system, such as the price fluctuation of energy and other commodities;

6. Measures of support for domestic industries, with consideration given to trade intensity, carbon intensity, etc.;
 7. Design for linkage with international carbon markets and international cooperation;
 8. Other matters regarding the effective operation of the emissions trading system, including procurement of financial resources, cultivation of professionals, and organization of educational and promotional activities;
- (3) When the competent authority under Article 8 demands the Government to revise a master plan or the Government deems it necessary to revise a master plan because of international negotiations on climate change and other international protocols, the Government may revise the master plan after examining the validity and feasibility of the intended revision.
- (4) When the Government intends to establish or revise a master plan, it shall seek participation of and take comments from relevant central administrative agencies, local governments, and interested parties.
- (5) A master plan and its revisions, other than revisions defined as minor modifications by Presidential Decree, shall be finalized through deliberation by the Presidential Committee on Green Growth under Article 14 of the Framework Act (hereinafter referred to the “Committee on Green Growth”) and the Cabinet Council.

Article 5 (Establishment, etc. of National Allocation Plan)

- (1) The Government, to effectively achieve national GHG reduction targets, shall formulate a plan to allocate emissions allowances at least six (6) months before the beginning of each commitment period (hereinafter referred to as “national allocation plan”) stating the following matters:
1. Total amount of GHG emissions permitted in a given commitment period (hereinafter referred to as “total permitted emissions”) reflecting national GHG reduction targets;
 2. Total quantity of emissions allowances issued for a given commitment period and for each compliance year in light of total permitted emissions;

3. Sectors and industries subject to the allocation of emissions allowances;
 4. Standard to allocate emissions allowances for each sector and industry, and the quantity of allowances allocated to each sector and industry;
 5. Standard to allocate emissions allowances in each compliance year, and the quantity of allowances allocated for each compliance year;
 6. Applicability thresholds and methods for allocating emissions allowances to subjected entities under Article 8;
 7. Method for allocating emissions allowances in the event where emissions allowances are allocated in return for financial consideration pursuant to Article 12 (3);
 8. Criteria for recognition of early reduction credit under Article 15;
 9. Quantity of emissions allowances in reserve under Article 18 and the criteria for distribution of emissions allowances in reserve;
 10. Banking and borrowing of allowances under Article 28 and guidelines for recognition and operation of offset credits under Article 29;
 11. Other matters specified by Presidential Decree as necessary for the allocation and trading of emissions allowances for the pertinent commitment period.
- (2) When ascertaining the matters listed under paragraph (1), the Government shall examine whether conditions surrounding each sector and industry are suitable for the application of emissions trading system and consider implications on international competitiveness, etc.
 - (3) If the Government deems it necessary to revise a national allocation plan due to sudden changes in the domestic or global economic conditions, technological advancement, etc., it may revise the national allocation plan after examining the validity and feasibility of the intended revision.
 - (4) When the Government intends to establish or revise a national allocation plan, it must hold a public hearing to take comments and opinions from interested parties and shall reflect the opinions presented during the hearing, if accepted as valid and legitimate, in the national allocation plan.
 - (5) A national allocation plan and its revisions, other than revisions defined as minor modifications by Presidential Decree, shall be finalized through deliberation by

the Committee on Green Growth and the Cabinet Council.

Article 6 (Establishment of Emissions Allowance Allocation Committee)

The Emissions Allowance Allocation Committee (hereinafter referred to as the “Allocation Committee”) shall be established within the Ministry of Strategy and Finance to deliberate and mediate issues related to the emissions trading system regarding:

1. National allocation plans;
2. Market stabilization measures under Article 23;
3. Coordination and assistance for policies relating to the validation of emissions under Article 25 and the offset credits under Article 29;
4. Linkage to international carbon markets and international cooperation pursuant to Article 36;
5. Other issues related to the emissions trading system that the Committee Chairperson deems necessary to bring before the Allocation Committee for deliberation and mediation.

Article 7 (Composition and Operation of the Allocation Committee)

- (1) The Allocation Committee shall consist of one Chairperson and no more than 20 members.
- (2) The Minister of Strategy and Finance shall serve as the Chairperson of the Allocation Committee, and members shall be comprised of:
 1. Public officials of vice-minister class designated by the heads of the Ministry of Strategy and Finance, the Ministry of Education, Science and Technology, the Ministry for Food, Agriculture, Forestry and Fisheries, the Ministry of Knowledge Economy, the Ministry of Environment, the Ministry of Land, Transport and Maritime Affairs, the Prime Minister’s Office, the Financial

Services Commission, and other relevant central administrative agencies specified by Presidential Decree;

2. Persons commissioned by the Minister of Strategy and Finance from the group of highly experienced and deeply knowledgeable people in the field of Low Carbon, Green Growth, including climate change, energy, natural resources, and emission trading systems.
- (3) The Chairperson of the Allocation Committee shall represent the Committee and shall direct and supervise all affairs of the Committee.
- (4) The term of office for members commissioned under Paragraph (2) 2 shall be two years and may be renewed once.
- (5) The Allocation Committee shall have one secretary, as appointed by Presidential Decree.
- (6) The secretary shall carry out administrative affairs of the Allocation Committee, including preparation to draft a national allocation plan, in compliance with the Chairperson's order.
- (7) Other matters necessary for the composition and operation of the Allocation Committee outside the scope of this Act shall be prescribed by Presidential Decree.

CHAPTER DESIGNATION OF SUBJECTED ENTITIES AND ALLOCATION OF EMISSIONS ALLOWANCES

SECTION 1 Designation of Subjected Entities

Article 8 (Designation of Subjected Entities)

- (1) The head of the central administrative agency authorized by Presidential Decree (hereinafter referred to as the “competent authority”) shall designate and

announce certain business entities, among GHG-producing entities that belong to a sector or an industry subject to the allocation of emissions allowances according to the relevant national allocation plan established pursuant to Article 5 (1) 3, that meet one of the following applicability thresholds below, as entities subject to the allocation of emissions allowances (hereinafter referred to as the “subjected entity”) by not later than five months before the beginning of each commitment period:

1. A business entity, among target-managed entities defined in Article 42 (5) of the Framework Act (hereinafter referred to as “target-managed entities”), which produces 125,000 tons or more of comparable CO₂ equivalents (tCO₂-eq) per year for the last three years or possesses a facility producing 25,000 tons or more of comparable CO₂ equivalents (tCO₂-eq) per year for the last three years;
 2. A target-managed entity that does not fall under subparagraph 1, but voluntarily files an application for designation as a subjected entity.
- (2) Detailed matters necessary for the designation and announcement of subjected entities and the application process under Paragraph (1) shall be prescribed by Presidential Decree.

Article 9 (Designation of New Entrants as Subjected Entities)

- (1) The competent authority may designate and announce business entities that newly become subject to Article 8 (1) 1 (hereinafter referred to as “new entrants”) during an ongoing commitment period due to the construction of a new facility or the alteration or expansion of an existing facility as subjected entities.
- (2) Detailed matters necessary for the designation and announcement of new entrants as subjected entities under Paragraph (1) shall be prescribed by Presidential Decree.

Article 10 (Exclusion from the Target Management System)

All target-managed entities designated and announced as subjected entities under Article 8 (1) or 9 (1) shall be excluded from application of Article 42 (5) through (9) and Article 64 (1) 1 (limited to violations of Article 42 (6) or (9)) through 3 of the Framework Act from the year in which emissions allowances are allocated thereto under Article 12 (1).

Article 11 (Emissions Allowance Registry)

- (1) The competent authority shall keep a registry for emissions trading system (hereinafter referred to as the “emissions allowance registry”) to register, record, and manage the allocation and trading of emissions allowances and to track GHG emissions from each subjected entity.
- (2) The emissions allowance registry shall be managed and operated by the competent authority.
- (3) The emissions allowance registry shall document:
 1. The total quantity of emissions allowances for each compliance year and for each commitment period;
 2. The allowance accounts under the names of subjected entities or other eligible persons, natural or legal, and the quantity of allowances held in each account;
 3. The account for the management of emissions allowances in reserve under Article 18 and the quantity of reserved allowances;
 4. Amounts of GHG emissions validated by the competent authority in accordance with Article 25;
 5. Other Matters specified by Presidential Decree as those necessary for the effective and stable allocation and trading of emissions allowances.
- (4) The emissions allowance registry shall be managed in an electronic mode compatible with the Integrated Information Management System for Greenhouse

Gases established under Article 45 of the Framework Act.

- (5) A person who registers an allowance account in the emissions allowance registry in accordance with Article 20 may request the competent authority to issue a certificate verifying information contained in the registry, such as the quantity of emissions allowances held in the account and other information specified by Presidential Decree.
- (6) Detailed matters necessary for the management and operation of the emissions allowance registry shall be prescribed by Presidential Decree.

SECTION 2 Allocation of Emissions Allowances

Article 12 (Allocation of Emissions Allowances)

- (1) The competent authority shall allocate total emissions allowances for a commitment period and yearly emissions allowances for each compliance year to each subjected entity in accordance with the national allocation plan. However, with regard to a new entrant, the competent authority shall allocate allowances for remaining commitment period starting from the first applicable compliance year immediately following the new entrant's designation and announcement as a subjected entity.
- (2) The standard to allocate emissions allowances under Paragraph (1) shall be prescribed by Presidential Decree, taking into consideration:
 1. Subjected entity's demand for allowances in each compliance year;
 2. Quantity of early reduction credits under Article 15;
 3. Subjected entity's surrender of allowances pursuant to Article 27;
 4. Trade intensity and carbon intensity of each subjected entity;
 5. Propriety regarding the quantity of emissions allowances allocated among subjected entities;
 6. GHG reduction technology available in each sector and industry and international competitiveness of each sector and industry;

7. Degree of contribution by each subjected entity to the achievement of national GHG reduction targets through investments in new and existing equipments and facilities operated by the subjected entities;
 8. Performance of target-managed entities under the Target Management System pursuant to Article 42 (6) of the Framework Act.
- (3) Emissions allowances allocated under Paragraph (1) may be for free or for financial consideration. The proportion of free allocation shall be regulated by Presidential Decree, taking into consideration the impact of free allocation on the domestic industries' international competitiveness, implications on national economy, global sentiment toward climate change as in international negotiations, and the performance evaluation of the preceding commitment period.
- (4) Notwithstanding Paragraph (3), all allowances may be allocated free of charge to subjected entities belonging to a particular industry, if the industry's trade intensity exceeds a threshold level prescribed by Presidential Decree, or if the industry's production cost exceeds a threshold level prescribed by Presidential Decree due to expenses related to GHG reduction incurred in an effort to comply with this Act.

Article 13 (Application for Allocation of Emissions Allowances)

- (1) A subjected entity shall submit an application for allocation of emissions allowances (hereinafter referred to as the "allocation application") to the competent authority at least four months before the beginning of each commitment period (or in case of a new entrant, at least four months before the first compliance year in which the allowances are allocated to the new entrant), stating the following matters:
1. Total quantity of allowances applied for the commitment period;
 2. Quantity of allowances applied for each compliance year;
 3. Yearly amounts of GHG emissions in each of the past three calendar years prior to the applicant's designation as a subjected entity;
 4. A plan for the expansion or alteration of facilities during the commitment period;

5. A plan for consumption of fuel and raw materials during the commitment period;
 6. A plan for installation of any GHG-reducing equipments and introduction of GHG reduction technologies during the commitment period;
 7. Estimated increase or decrease in GHG emissions as a result of the implementation of the plans specified in subparagraphs 4 through 6;
 8. Last year's statement on actual amount of GHG emissions prepared pursuant to Article 24 (or the statement prepared pursuant to Article 44 (1) of the Framework Act in the applicant's first-time filing of allocation application as a subjected entity).
- (2) Detailed matters necessary for the method, procedure, etc. relating to the allocation application under Paragraph (1) shall be prescribed by Presidential Decree.

Article 14 (Notice of Allocation)

- (1) When the competent authority allocates emissions allowances to subjected entities pursuant to Article 12, the authority shall promptly notify each subjected entity and shall record relevant details of allocation in the pertinent allowance account in the emissions allowance registry.
- (2) Detailed matters necessary for notification and documentation of allocation under Paragraph (1) shall be prescribed by Presidential Decree.

Article 15 (Recognition of Early Reduction Credit)

- (1) With regard to the amounts of GHG emissions reduced by a subjected entity before the allocation of emissions allowances under Article 12 (hereinafter referred to as the "early reduction credit") that is independently verified by a specialized external institution (referring to a specialized external institution defined in Article 42 (9) of the Framework Act; the same shall apply hereinafter), the competent authority may either reflect such early reduction credits during the

planning stage of a national allocation plan or allocate additional allowances to the entities with early reduction credits at the time of allocation under Article 12, as prescribed by Presidential Decree.

- (2) When the competent authority reflects the early reduction credits in the national allocation plan or allocates additional allowances under Paragraph (1), the competent authority may limit the ratio of allowances associated with the early reduction credits to a certain percentage of the total quantity of emissions allowances prescribed by Presidential Decree.

Article 16 (Adjustment to Allocated Emissions Allowances)

- (1) In any of the following cases below, the competent authority may, on its own initiative or on request, allocate additional emissions allowances to a subjected entity or adjust the quantity of emissions allowances allocated to a subjected entity for a particular compliance year:
 1. Where a revision to a national allocation plan under Article 5 (3) leads to an increase in the total permitted emissions;
 2. Where a subjected entity files an application for additional allocation or adjustment of allowances for a compliance year due to addition or expansion of facilities, a change in its product line, a modification to its business plan during a commitment period.
- (2) Detailed guidelines and procedures for the additional allocation of emissions allowances and the adjustment to the quantity of emissions allowances under Paragraph (1) shall be prescribed by Presidential Decree.

Article 17 (Cancellation of Allocation of Emissions Allowances)

- (1) In any of the following cases, the competent authority may cancel all or some of the emissions allowances allocated or adjusted under Article 12 or Article 16 (applicable only to the allowances allocated for free):

1. Where a revision to an allocation plan under Article 5 (3) leads to a decrease in total permitted emissions;
 2. Where a subjected entity closes down its entire facility;
 3. Where a subjected entity fails to start operating facilities within three months from the scheduled start date of the operation without a justifiable ground;
 4. Where a subjected entity's operation of facilities has been suspended for more than one year;
 5. Where any fraudulent or wrongful conduct associated with the allocation of allowances is discovered.
- (2) Detailed guidelines and procedure for the cancellation of emissions allowances under paragraph (1) shall be prescribed by Presidential Decree.

Article 18 (Emissions Allowances in Reserve)

The competent authority shall set aside a certain percentage of total quantity of emissions allowances for a commitment period in reserve, in anticipation of new allocation of emissions allowances to new entrants or additional allocation of allowances as a part of the government's market stabilization measures under Article 23.

TRADING OF EMISSIONS ALLOWANCES

Article 19 (Trading of Emissions Allowances)

- (1) Emissions allowances may be traded in a sales transaction or other forms of business transactions.
- (2) Emissions allowances shall be traded in a unit that converts greenhouse gases into tons of comparable CO₂ equivalents (tCO₂-eq) with GHG-specific conversion rates assigned by Presidential Decree.

- (3) Detailed matters necessary for the trading of emissions allowances, such as defining the minimum units required to carry on a trade of allowances, shall be prescribed by Presidential Decree.

Article 20 (Registration of Allowance Accounts)

- (1) A person or an entity, who intends to trade emissions allowances, shall register an allowance account in the emissions allowance registry as prescribed by Presidential Decree.
- (2) A foreign corporation or an alien resident may apply to register under Paragraph (1) only in cases permitted by Presidential Decree.

Article 21 (Reporting on Trading of Emissions Allowances)

- (1) A person or an entity who completes a trade of emissions allowances shall report such transaction to the competent authority, as prescribed by Presidential Decree.
- (2) Upon receipt of a report under Paragraph (1), the competent authority shall promptly record the details of the transaction in the emissions allowance registry.
- (3) The transfer of emissions allowances resulting from a trade of emissions allowances shall take effect at the time the details of the transaction are entered into the emissions allowance registry pursuant to Paragraph (2).
- (4) The reporting requirement under Paragraphs (1) through (3) shall apply to all trades, except where the emissions allowances are transferred through inheritance or a merger of corporations.

Article 22 (Emissions Allowance Exchange, etc.)

- (1) The competent authority may designate or establish and operate an emissions allowance exchange to promote the stability and efficiency in the emissions trading market through the arrangement of fair price and fair trade of emissions

allowances.

- (2) If an emissions allowance exchange is designated in accordance with Paragraph (1), the designated exchange shall prepare an operating regulation and obtain approval thereof from the competent authority by the opening date of the exchange. Likewise, when the exchange intends to revise its previously approved operating regulation, it must re-submit the intended revision to the competent authority for approval if the intended revision modifies essential matters specified by Presidential Decree. The operating regulation shall contain provisions concerning:
 1. Membership of the emissions allowance exchange;
 2. Methods for trading emissions allowances;
 3. Settlement and payment for traded emissions allowances;
 4. Disclosure of information on transactions of emissions allowances;
 5. Monitoring of emissions trading market;
 6. Resolution of dispute over transactions of emissions allowances;
 7. Other matters specified by Presidential Decree as necessary for the operation of emissions trading market.
- (3) As to the general prohibitions and indemnification for liabilities arising from market price manipulation, use of confidential information and other deceptive and fraudulent transactions, Article 176 (1), (2), and (3), Articles 177 (limited to cases where Article 176 (1), (2), or (3) is violated) through 179, and Article 383 (1) and (2) of the Financial Investment Services and Capital Market Act shall apply with following necessary modifications: the term “listed securities or exchange-traded derivatives” shall be construed as “emissions allowances”, the term “electronic stock brokerage firm” as “brokerage firm for trading of allowances”, the term “exchange” as “emissions allowance exchange”, and the term “financial investment firms and other institutions in the financial investment sector” as “members of an emissions allowance exchange”.
- (4) Matters necessary for the procedure of the designation or establishment of an emissions allowance exchange, the operation and supervision of an emissions allowance exchange and brokerage firms for trading of allowances, etc. shall be prescribed by Presidential Decree.

Article 23 (Stabilization of Emissions Trading Market)

- (1) If any of the following events occurs or is probable to occur, the competent authority may take market stabilization measures through deliberation of the Allocation Committee, as prescribed by Presidential Decree, to attain and maintain more stable price of emissions allowances:
 1. If the price of emissions allowances for the last six consecutive months exceeds the average price of allowances for the past two years by more than certain percentage determined by Presidential Decree;
 2. If trading volume significantly increases in a short period due to a sharp rise in demand for emissions allowances and other cause or event prescribed by Presidential Decree;
 3. If it is deemed necessary by Presidential Decree to take market stabilization measures in order to maintain order and to protect the public interest in the emissions trading market.
- (2) The market stabilization measures under paragraph (1) shall be taken in the following manner:
 1. Allocating additional allowances up to 25 percent of emissions allowances in reserve under Article 18;
 2. Setting a minimum or maximum holding limits of emissions allowances to be established through Presidential Decree;
 3. Applying any other internationally acceptable method specified by Presidential Decree.

REPORTING, VERIFICATION, AND VALIDATION OF EMISSIONS

Article 24 (Reporting and Verification of Emissions)

- (1) A subjected entity shall prepare an emissions report stating the amount of GHG emissions discharged during a compliance year according to the procedure of monitoring, reporting, and verification (MRV) system and submit it to the competent authority within three months from the end of the compliance year, as prescribed by Presidential Decree.
- (2) Article 44 (2) of the Framework Act shall apply to the reporting requirement under paragraph (1) with following necessary modifications: the term “target-managed entity” shall be construed as “subjected entity”, and the term ‘Government’ as “competent authority”.
- (3) Other detailed matters necessary for reporting and verification of GHG emissions outside the scope of paragraphs (1) and (2) shall be prescribed by Presidential Decree.

Article 25 (Validation of Emissions)

- (1) Upon receipt of an emissions report under Article 24, the competent authority shall validate the actual amount of GHG emissions discharged by the subjected entity after evaluating the adequacy of the report.
- (2) If a subjected entity fails to report on emissions in accordance with Article 24, the competent authority may, upon its own initiative, after conducting a fact-finding survey pursuant to Article 37, validate the actual amount of GHG emissions according to a guideline prescribed by Presidential Decree .
- (3) When the competent authority validates the actual amount of GHG emissions of a subjected entity under paragraph (1) or (2), it shall promptly notify the entity of the validation and shall record the details thereof in the emissions allowance registry within five months from the end of the compliance year.
- (4) The method and procedure for the validation of emissions under paragraphs (1) through (3) and detailed matters necessary for notification and recordation of validation shall be prescribed by Presidential Decree.

Article 26 (Emissions Validation Committee)

- (1) The competent authority shall establish the Emissions Validation Committee (hereinafter referred to as the “Validation Committee”) to deliberate and mediate technical issues regarding the evaluation of adequacy of emissions reports, the validation of GHG emissions pursuant to Article 25 and the recognition of offset credits under Article 29.
- (2) Matters necessary for the composition, operation, etc. of the Validation Committee shall be prescribed by Presidential Decree.

SURRENDER, BANKING, BORROWING, OFFSET, AND EXPIRATION OF EMISSIONS ALLOWANCES

Article 27 (Surrender of Emissions Allowances)

- (1) A subjected entity shall surrender emissions allowances (of most recently completed compliance year) equivalent to the validated emissions amount under Article 25 to the competent authority within six months from the end of the compliance year, as prescribed by Presidential Decree.
- (2) Upon timely surrender of emissions allowances in accordance with paragraph (1), the competent authority shall promptly record the details thereof in the emissions allowance registry.

Article 28 (Banking and Borrowing of Emissions Allowances)

- (1) A holder of emissions allowances may carry over (“bank”) the allowances to the next compliance year of the same commitment period or to the first compliance year of the next commitment period with approval from the competent authority.
- (2) A subjected entity may advance (“borrow”) some of the allowances allocated to

future compliance years of the same commitment period with approval from the competent authority, if borrowing is necessary to make timely surrender in the current compliance year pursuant to Article 27, provided that the entity has an acceptable justification specified by Presidential Decree.

- (3) The maximum usage limit of borrowed allowances in a given compliance year under paragraph (2) shall be specified by Presidential Decree.
- (4) When the competent authority approves banking or borrowing under paragraphs (1) or (2), it shall promptly record the details thereof in the emissions allowance registry. Any borrowed or banked allowances shall be deemed to have been allocated for the pertinent year under Article 12.
- (5) Detailed procedure for banking and borrowing of emissions allowances under paragraph (1) and (2) shall be prescribed by Presidential Decree.

Article 29 (Offset Credit)

- (1) When a subjected entity possesses or acquires GHG emissions reduction generated from an external project in a manner conforming to international standards (hereinafter referred to as “external GHG reductions”), it may request the competent authority to convert all or some of such reductions into emissions allowances.
- (2) Upon receipt of a request under paragraph (1), the competent authority shall convert external GHG reductions into equivalent quantity of emissions allowances at the conversion rate prescribed by Presidential Decree and shall register the conversion in the offsets registry under Article 31.
- (3) A subjected entity may surrender emissions allowances registered in the offsets register under paragraph (2) (hereinafter referred to as “offset credits”) in place of the originally allocated allowances pursuant to Article 27. In such case, the competent authority may set the maximum usage limit and the term of validity on offset credits as prescribed by Presidential Decree, taking into consideration offset credits’ impact on national GHG reduction target and price of allowances.

Article 30 (Validation of External GHG Reduction)

- (1) To be eligible for conversion into offset credits under Article 29, external GHG reductions must fall under one of the following categories and then be validated by competent authority in accordance with the guidelines and procedure prescribed by Presidential Decree and shall :
 1. GHG reductions generated in domestic or overseas sectors not governed by this Act through a GHG reduction project following the procedure of monitoring, reporting, and verification (MRV) system in conformity with international standards;
 2. GHG reductions generated through a GHG reduction project defined in the United Nations Framework Conventions on Climate Change and relevant protocols or offset projects authorized by Presidential Decree.
- (2) A person or an entity who intends to obtain validation under paragraph (1) shall file an application with the competent authority, as prescribed by Presidential Decree.
- (3) When the competent authority validates external GHG reduction, it shall promptly record the validation in the offset registry under Article 31.

Article 31 (Offset Registry)

- (1) The competent authority shall keep the emissions allowances offset registry (hereinafter referred to as the “offsets register”) to register, track and manage external GHG reductions validated under Article 30.
- (2) The offsets registry shall be managed and operated by the competent authority.
- (3) The offsets registry shall be managed in a close link with the emissions allowance registry.

Article 32 (Expiration of Emissions Allowances)

Emissions allowances allocated for a compliance year shall expire upon timely

surrender pursuant to Article 27 or six months after the last date of each compliance year, unless unused allowances have been carried over to the following compliance year before expiration in accordance with Article 28.

Article 33 (Penalties)

- (1) If emissions allowances surrendered by an subjected entity in accordance with Article 27 are insufficient to cover certified emissions under Article 25, the competent authority may impose an excess emissions penalty for the deficient quantity up to three times the average market price of emissions allowances for the pertinent compliance year not exceeding 100,000 Won for each ton of carbon dioxide.
- (2) The competent authority shall provide the person subject to an excess emissions penalty or an interested party with an opportunity to present his or her opinion before imposing the penalty.
- (3) Matters necessary for the guidelines, procedure, etc. for the imposition of an excess emissions penalty under paragraphs (1) and (2) shall be prescribed by Presidential Decree.

Article 34 (Collection of Penalties and Disposition of Delinquent Penalties)

- (1) If a subjected entity who owes an obligation to pay an excess emissions penalty fails to pay the penalty by the payment deadline, the competent authority may charge an additional fine set by Presidential Decree from the day after the payment deadline until the day before the penalty is paid in full.
- (2) If a subjected entity subject to an excess emissions penalty fails to pay the penalty by the payment deadline, the competent authority may send a letter of demand to urge prompt payment within a specified post-deadline period and may collect the penalty and additional fine pursuant to paragraph (1) in the same manner as delinquent national taxes are collected if the person fails to pay during that post-

deadline period.

- (3) Matters necessary for the procedures relating to the collection of penalties and the disposition of delinquent penalty under paragraphs (1) and (2) shall be prescribed by Presidential Decree.

SUPPLEMENTARY PROVISIONS

Article 35 (Financial Support, Tax Incentives, etc.)

- (1) In order to prevent loss of firms' competitiveness with the implementation of the emissions trading system and to encourage trading of emissions allowances, the Government may provide financial support, tax incentives, subsidies, or other necessary assistance for projects ordained in Presidential Decree, such as projects to develop and install greenhouse-gas reducing equipments and related technology.
- (2) The Government may give preferential rights to receive governmental assistances under paragraph (1) to small and medium-sized enterprises defined in Article 2 of the Framework Act on Small and Medium Enterprises.
- (3) The Government may use all or some revenues generated by allocating emissions allowances in return for financial consideration under Article 12 (3), an excess emissions penalty collected under Article 33, fees collected under Article 39, and fines collected under Article 43 to provide governmental assistance pursuant to paragraphs (1) and (2).

Article 36 (Links with International Carbon Markets)

- (1) The Government shall undertake collaborative efforts with other countries to link domestic emissions trading market with international carbon markets in accordance with the United Nations Framework Convention on Climate Change and relevant protocols, or other international agreements with countries known

- to possess reliable monitoring-reporting-verifying system for their greenhouse gas emissions trading schemes. In such cases, the Government shall focus on protection of trade secrets and other confidential information of subjected entities.
- (2) The competent authority may designate or establish and operate a professional institution that specializes in research, technological development and cooperation to link domestic emissions trading market with international carbon markets, as prescribed by Presidential Decree.
 - (3) The Government may subsidize expenses incurred in the course of the agency's ordinary business under paragraph (2).

Article 37 (Fact-finding Survey)

The competent authority may demand an subjected entity to submit a report or data, or conduct a field survey or a fact-finding survey only to the extent necessary to verify relevant facts or to review the appropriateness of the request and disposition of matters specified in any of the following subparagraphs. In such cases, the subjected entity must comply with the authority's demand or survey without a reasonable justification for refusal:

1. Allocation of emissions allowances under Article 13;
2. Recognition of early reduction credit under Article 15;
3. Adjustments to the allocation of emissions allowances under Article 16;
4. Cancellation of the allocation of emissions allowances under Article 17;
5. Reporting and verification of emissions under Article 24;
6. Validation of emissions under Article 25;
7. Validation of greenhouse gas reductions from an external project under Article 30.

Article 38 (Appeal)

- (1) A person or an entity who disputes the disposition of matters specified in the following subparagraphs may file an appeal supported by evidential materials

with the competent authority within 30 days from the day specified in each relevant subparagraph, as prescribed by Presidential Decree:

1. Designation as an subjected entity under Article 8 (1) or 9 (1): date of notification;
 2. Allocation of emissions allowances under Article 12 (1): date of allocation;
 3. Adjustments to allocation of emissions allowances under Article 16: date of additional allocation or date of adjustment;
 4. Cancellation of the allocation of emissions allowances under Article 17: date of cancellation;
 5. Validation of amounts of emissions under Article 25 (1): date of validation;
 6. Imposition of an excess emissions penalty under Article 33 (1): date of notification.
- (2) Upon receipt of an appeal under paragraph (1), the competent authority shall notify the petitioner of its decision within 30 days from the filing date of the appeal, provided that if the decision cannot be made within that period due to unavoidable circumstances, the period may be extended for not more than 30 days with proper notification of the extension to the petitioner.

Article 39 (Fees)

A person or an entity who falls under any of the following subparagraphs shall pay fees prescribed by Presidential Decree:

1. A person or an entity who files an application for issuance of a certificate under Article 11 (5);
2. A person or an entity who files an application for registration of a trading account in the emissions allowance registry under Article 20 (excluding subjected entities).

Article 40 (Delegation or Entrustment of Authority)

- (1) The competent authority may delegate or entrust a part of its authority under this

Act to the heads of another central administrative agency or an affiliated agency, as prescribed by Presidential Decree.

- (2) The competent authority may entrust a part of its affairs under this Act to a public institution or a professional institution for emission reduction as ordained by Presidential Decree.

PENAL PROVISIONS AND FINES FOR VIOLATION

Article 41 (Penal Provisions)

- (1) Any person who falls under any of the following subparagraphs shall be punished with imprisonment up to three years or by a fine of up to 100 million Won, or up to three times profits made or losses avoided from the violation if three times profit made or losses avoided exceeds 100 million Won:
 1. A person who impairs or influences another person's judgment by purposefully inflating or exaggerating prosperity of the emissions trading market in violation of any subparagraphs under Article 176 (1) of the Financial Investment Services and Capital Markets Act as applied through Article 22 (3) of this Act;
 2. A person wrongfully solicits another person to engage in a transaction for emissions allowances through spread of misleading or false statement or representation in violation of any subparagraphs under Article 176 (2) of the Financial Investment Services and Capital Markets Act as applied through Article 22 (3) of this Act;
 3. A person who engages, arranges or commissions a series of transactions for the purpose of fixing and controlling prices to take advantageous position in the emissions trading market in violation of any subparagraphs under Article 176 (2) of the Financial Investment Services and Capital Markets Act as applied through Article 22 (3) of this Act;
 4. A person whose conduct in a transaction or transfer of emissions allowances falls under any violation listed under subparagraphs of Article 178 (1) of the

Financial Investment Services and Capital Markets Act, as applied through Article 22 (3) of this Act;

5. A person who, for the purpose of engaging in a transaction for emissions allowances or manipulating the market price of emissions allowances, disseminates a rumor, commits a fraud, employs a deceptive trading scheme, or uses violence in violation of Article 178 (2) of the Financial Investment Services and Capital Markets Act, as applied through Article 22 (3) of this Act.
- (2) A person who falls under any of the following subparagraphs shall be punished with imprisonment up to one year or a fine of up to 30 million Won:
1. An executive or employee of the emissions allowance exchange who divulges or uses confidential information acquired in the scope of his or her employment in violation of Article 383 (1) of the Financial Investment Services and Capital Markets Act, as applied through Article 22 (3) of this Act;
 2. A full-time executive or employee of the emissions allowance exchange who has a special business interest in a member of the exchange in regard to funding, distribution of profit or loss, or other related business affairs in violation of Article 383 (2) of the Financial Investment Services and Capital Markets Act, as applied through Article 22 (3) of this Act.
- (3) A person who falls under any of the following subparagraphs shall be punished with a fine of up to 100 million Won, or up to three times profit made or losses avoided from the violation if three times profit made or losses avoided exceeds 100 million Won:
1. A person who receives additional allocation or adjustment to emissions allowances pursuant to Article 12 (1) or 16 (1) by means of fraudulent or unlawful application;
 2. A person who surrenders offset emissions allowances under Article 29 (3) through fraudulent or unlawful conversion of greenhouse gas reductions from an external project into offset emissions allowances;
 3. A person who certifies greenhouse gas reductions from an external project under Article 30 by means of fraudulent or unlawful application.

Article 42 (Joint Penal Provisions)

If a representative of a legal person (including organizations; the same shall apply hereafter) or an agent, employee, or worker of a natural or legal person violates Article 41 in the course of a business, then the natural or legal person responsible for the actor of the violation shall also be separately liable for a fine prescribed in the relevant provisions unless it is demonstrated that the natural or legal person has exercised a reasonable care and sufficient supervision to prevent such violation.

Article 43 (Fine for Violation)

The competent authority shall impose and collect a fine of up to ten million Won from a person who falls under any of the following subparagraphs:

1. A person who makes a false, fictitious, or fraudulent report under Article 21 (1);
2. A person who fails to report or makes a false, fictitious, or fraudulent report under Article 24 (1);
3. A person who fails to comply with an order of correction or supplementation regarding violations of Article 44 (2) of the Framework Act as applied in Article 24 (2) of this Act;
4. A person who fails to surrender emissions allowances in accordance with Article 27.

ADDENDA

Article 1 (Effective Date)

This Act shall take effect six months after the date of its promulgation.

Article 2 (Special Exceptions to Commitment Period and Proportion of Free Allocation)

- (1) Notwithstanding subparagraph 4 of Article 2, the first commitment period following this Act taking effect (hereinafter referred to as the “first commitment period”) shall begin on January 1, 2015 and end on December 31, 2017, and the subsequent commitment period succeeding the first commitment period (hereinafter referred to as “second commitment period”) shall begin January 1, 2018 and end on December 31, 2020.
- (2) In determining the ratio of free allocation by Presidential Decree pursuant to Article 12 (3), the proportion of free allocation for the first and second commitment periods shall be more than 95/100 of the total number of emissions allowances allocated for each respective commitment period.

Article 3 (Special Exception to the Registration of Trading Accounts in Emissions Allowance Registry)

Notwithstanding Article 20, no one, other than subjected entities and any natural or legal persons specified by Presidential Decree as necessary for the stable formation of emissions trading markets, may file an application to register a trading account in the emissions allowance registry before a date specified by Presidential Decree, which shall be no later than six years from January 1, 2015.

