



Mexico

Emissions targets and implications for business

Mexico has committed to reducing emissions by 22% by 2030 against its business as usual projection or 36% conditional on an agreement in Paris

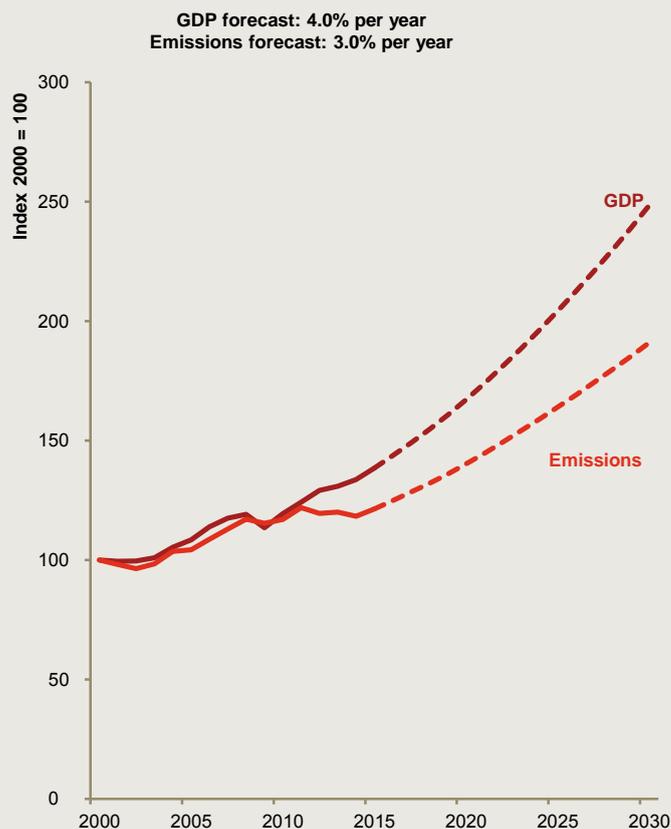
What is Mexico's contribution...

1. The General Law on Climate Change of 2012 was the first of its kind in the developing world, and has since been substantiated by specific policies and targets.
2. **A target for 35% of electricity to be from clean energy sources by 2024** is stated in the Special Programme on Climate Change (PECC 2014-2018).
3. **A carbon tax of \$3.50/tCO₂** was introduced in 2014.
4. **Reporting obligations** for emitters of over 25 thousand tCO₂ - National Emissions and Emissions Reductions Registry – also came into force in 2014.
5. It is the only country so far to set targets for reducing black carbon emissions: 51% and 70% (conditional on an agreement in Paris) against BAU.
6. Targets for **deforestation rates of zero by 2030**.
7. Adaptation measures are aiming to protect strategic infrastructure and communities from the adverse impacts of climate change.

...and what are the implications for business

- In the next three years, **renewable energy targets could stimulate \$6bn of investment in wind and \$2bn in solar PV.**
- In the next five years, **Mexico may become the strongest solar PV market in Latin America.**
- But grid connection issues, unclear rules of the wholesale electricity market reforms and continuing retail electricity subsidies create uncertainty for investors.
- Although unlikely to be a significant proportion of business costs, **the carbon tax will raise \$1bn in government revenue.**
- Mandatory reporting, coupled with the carbon tax, may enable a carbon market in the near future.
- Private sector compliance with emissions reporting needs to be increased.
- Air quality, traditionally a greater concern than greenhouse gases, will remain a priority issue for government and industry.

GDP, energy and related emissions



Our absolute emissions trend is based on combining the GDP forecast above with the average decarbonisation rate so far this century



GDP: Since 2000, Mexico's GDP has grown at 2.1% per year on average and currently stands at \$2,125bn. The economy shrank by 4.7% in 2009, but this was followed by solid growth of 5.1% and 4.0% in subsequent years. Recently, growth has slowed to 1.4% and 2.1% in 2013 and 2014 respectively.



Renewable energy: Currently renewable energy makes up 6% of Mexico's energy consumption. Hydro dominates this and consumption increased by 39% between 2013 and 2014. Geothermal and Wind contribute small additional amounts.

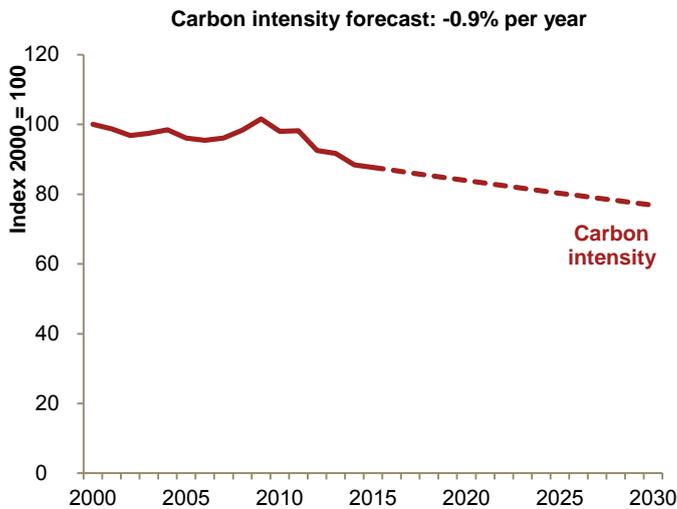


Energy: Energy consumption has risen by 31% since 2000, growing rapidly between 2000 and 2005 and more steadily since. Oil remains the largest part of the energy mix, but has fallen from a 62% share to 45%. Gas has been increasingly used to meet growing demand, rising from 26% of the energy mix to 40% in 2014. Coal is currently 8% of the energy mix, peaking at 10% in 2011 and Nuclear continues to contribute 1%.



Emissions: Mexico's emissions are 68% from power generation, 8% from industry, 12% from agriculture and 6% each from LULUCF and waste.

Carbon intensity

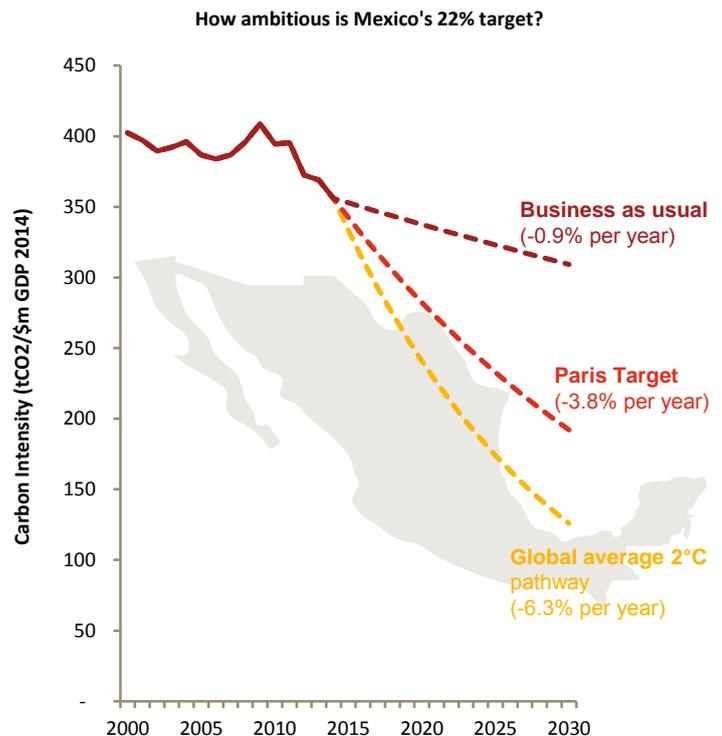


- Mexico's decarbonisation rate has averaged 0.9% since the turn of the century.
- Recent trends have been promising, decarbonising at 6% in 2012 and 4% last year, the highest rates this century.
- The 2009 global recession saw a 3% increase in Mexico's carbon intensity.
- We use the average 0.9% decarbonisation rate for our business as usual forecast opposite and below.

How ambitious is Mexico's 22% target?

Mexico's target is undoubtedly ambitious. It will have to decarbonise 2.9% faster per year than its rate this century, similar to the change required by Korea's target (2.8%). For comparison, this is also roughly the change the US achieved in its recent shale gas revolution.

Mexico also says it will peak its emissions in 2026 (not shown by our analysis of the target). This implies that in the last few years to 2030 it will move away from carbon quicker than the US did using shale gas. While 6% in 2012 and 4% in 2014 suggest it is possible, the smaller 1% decarbonisation in 2013 reveals the unpredictability of achieving the target.



Sources:

Historic GDP: World Bank, 2014

GDP Forecasts: PwC World in 2050, 2015

Energy data: BP, Statistical Review of World Energy, 2015

Historic emissions data: International Energy Agency, World Energy Outlook, 2014

International Emissions Trading Associate, The World's Carbon Markets: Mexico, 2015

International Carbon Action Partnership, Regulations for Mexico's national emissions registry announced, 2014

Renewable Energy World, The Future of Renewable Power in Mexico, 2015

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