

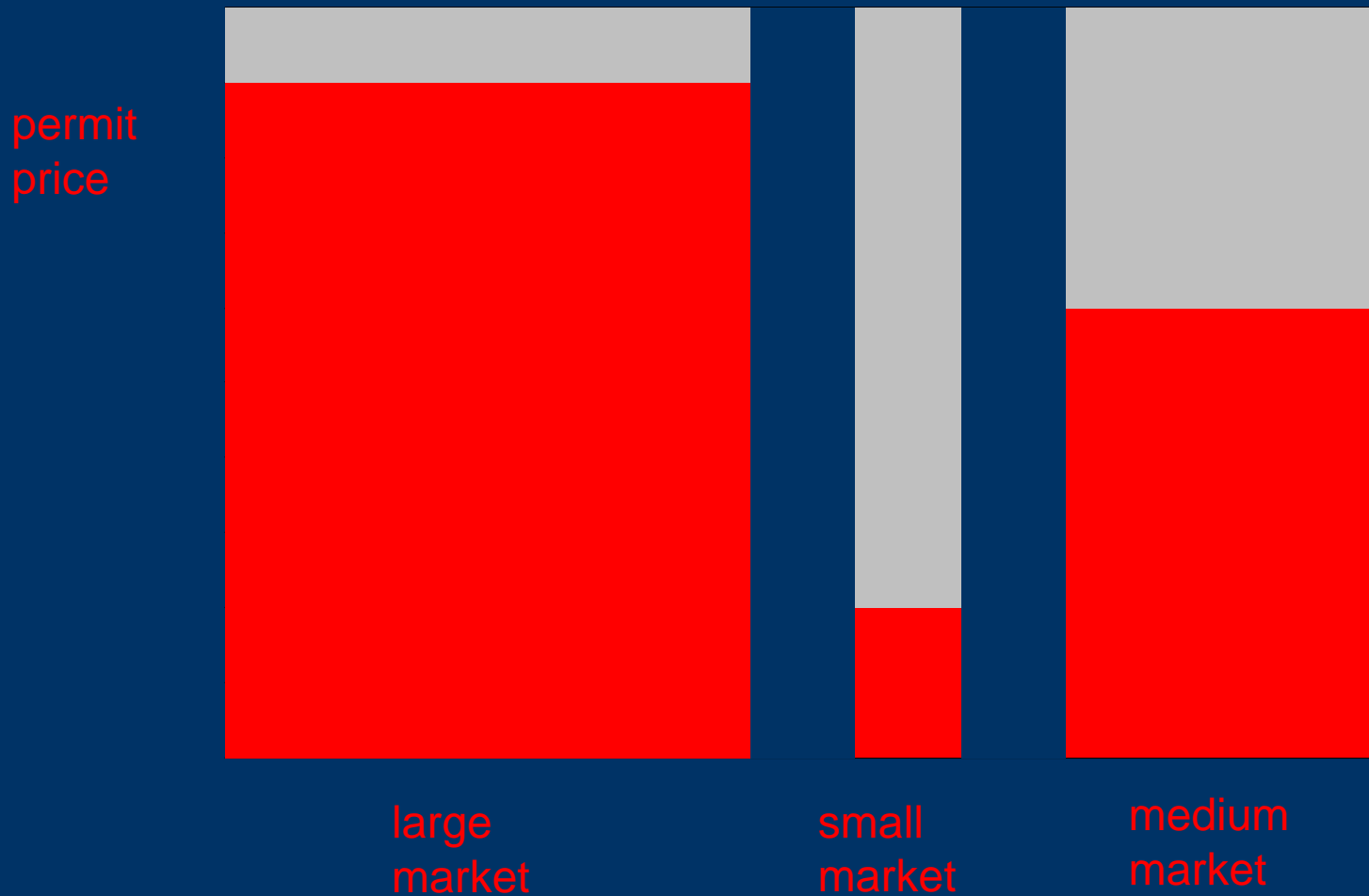
Frank Jotzo

Linking emissions trading schemes, and permit prices

Forum on international linking of emissions trading

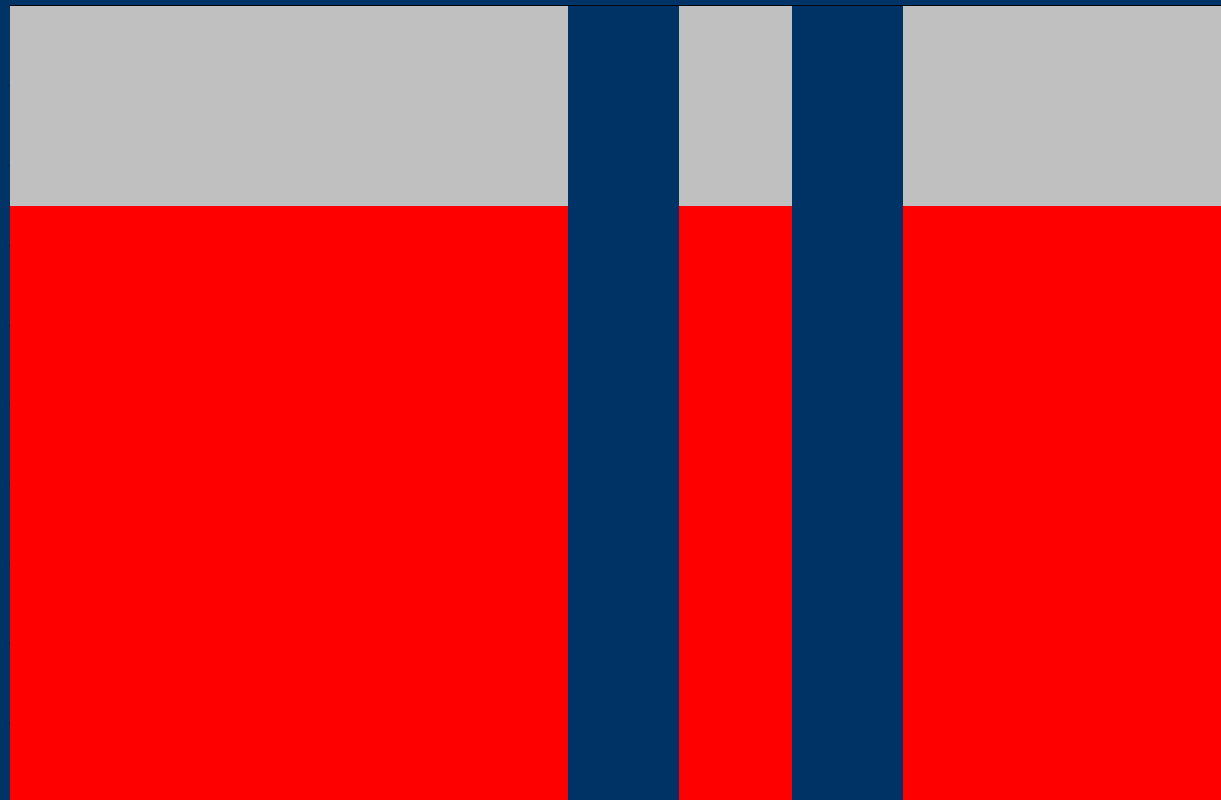
ANU-EERH, 15 April 2008

Large markets determine the price



Large markets determine the price

permit
price

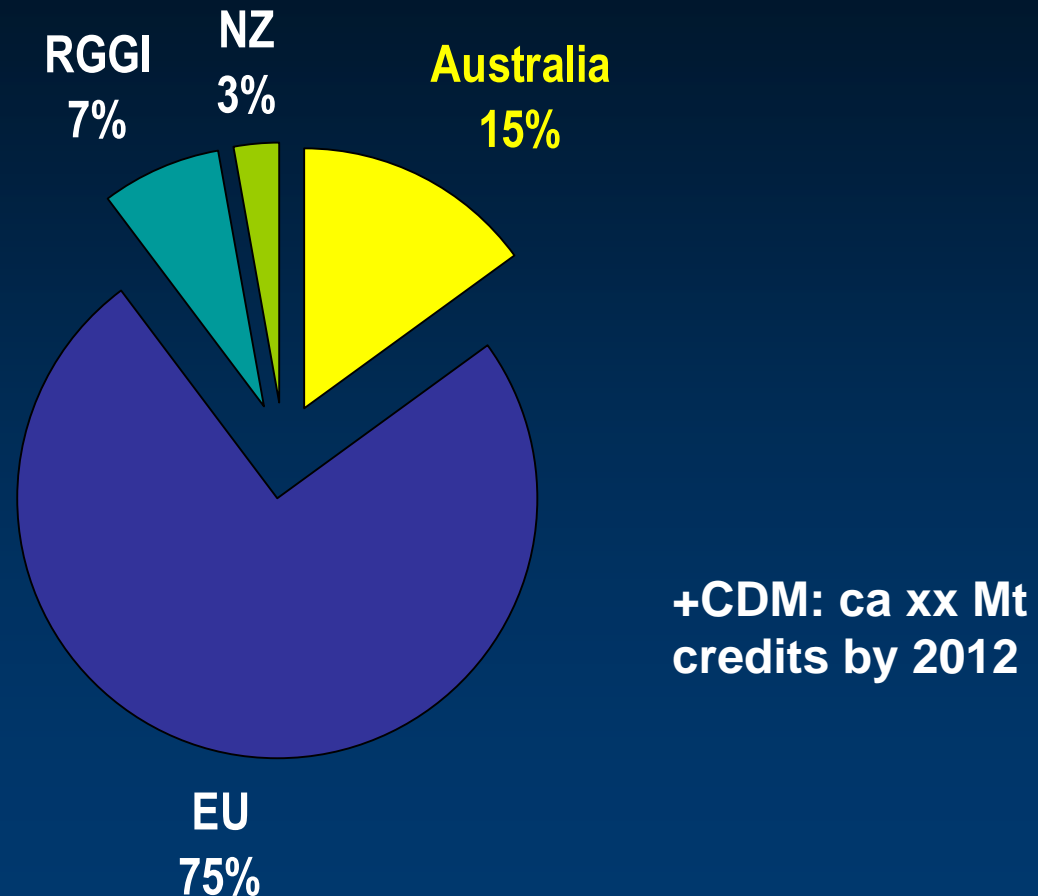


large
market

small
market

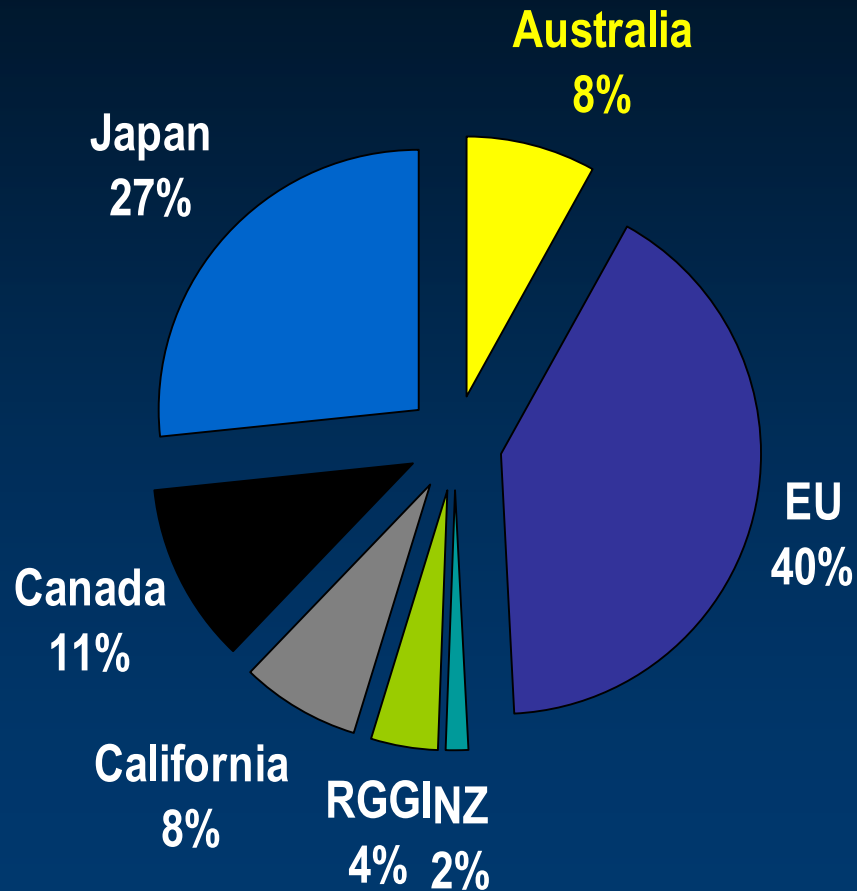
medium
market

Australia is not a large market



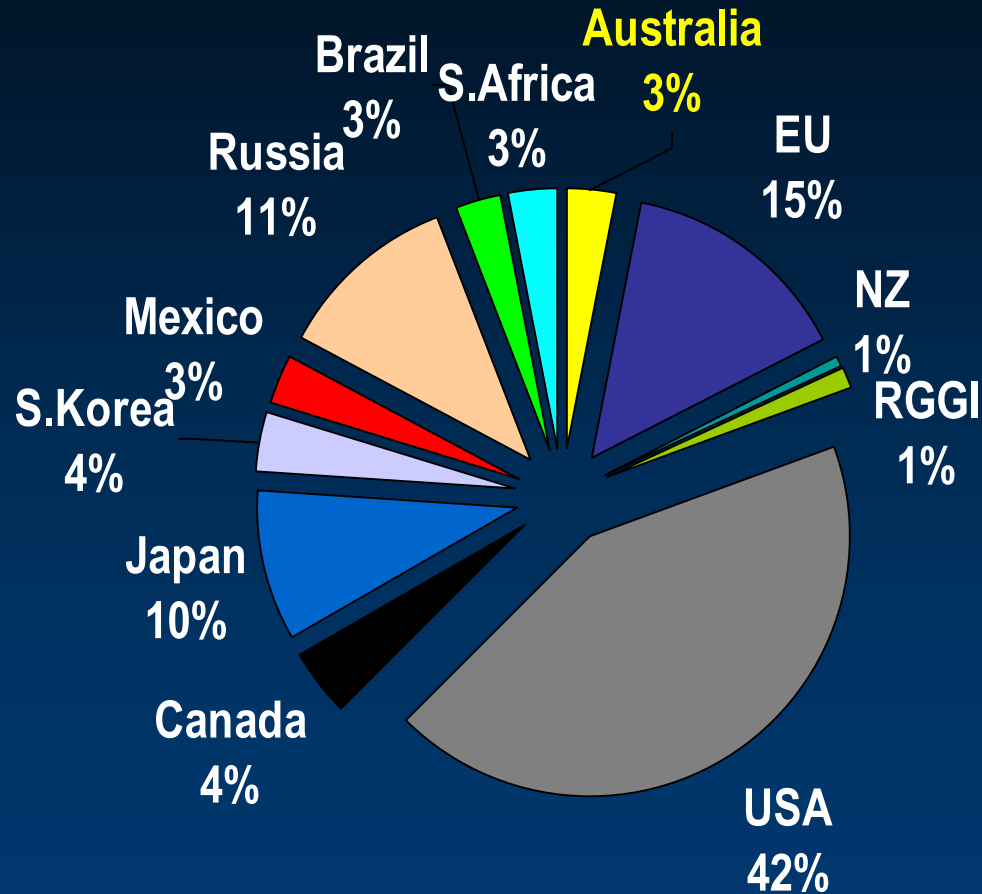
Existing/planned schemes: expected size ca 2012; others: CO₂ emissions at 2004

Australia is not a large market



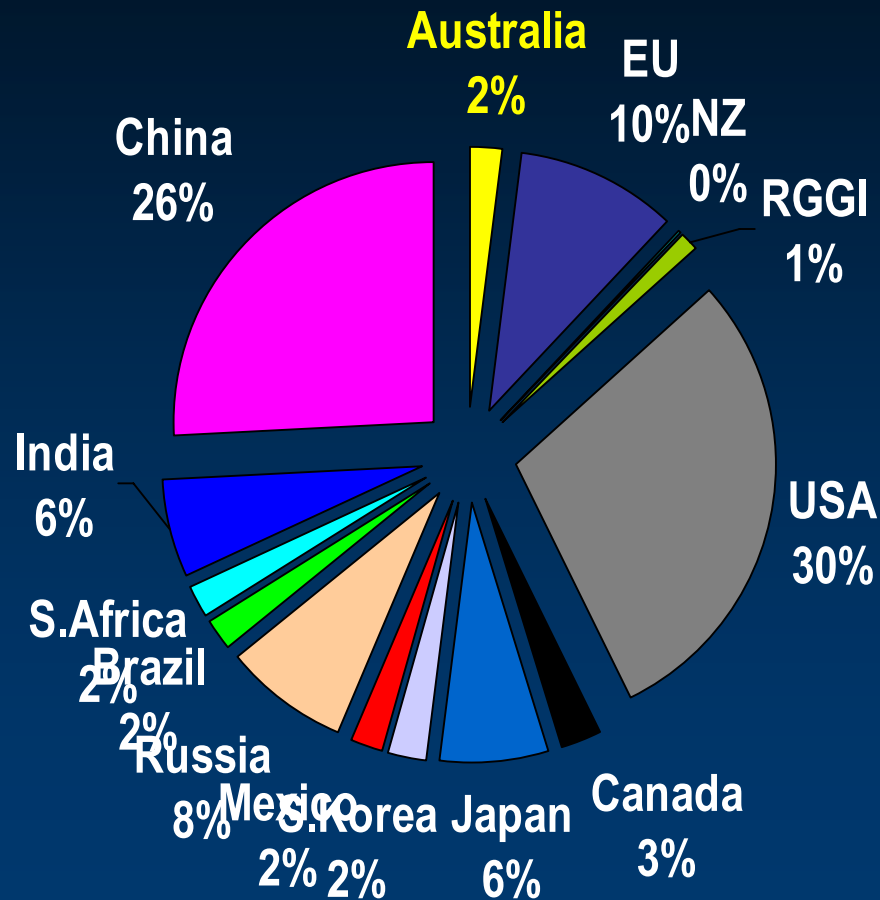
Existing/planned schemes: expected size ca 2012; others: CO₂ emissions at 2004

Australia is not a large market



Existing/planned schemes: expected size ca 2012; others: CO₂ emissions at 2004

Australia is not a large market



Existing/planned schemes: expected size ca 2012; others: CO₂ emissions at 2004

You link a little, you link a lot

- **Linking to one market means linking to all markets that this market links to**

- **eg linking to NZ**
 - **Australian emitters can comply with permits from any country NZ links to**
 - **Russian 'hot air'?**

- **eg using CDM as backstop supply**
 - **using EU price**
 - **CDM credits priced just below EU permit price**

The fear of taking someone else's price

- **Linking: National target \neq national abatement effort**
 - National policy has little control over extent of abatement action
 - Target determines only the trading position, not price or abatement
- **Price 'too high': fear adjustment pressures too great**
 - widely held view in Australia eg 2006-07 proposals, energy industries
 - today's EU price: € 24 \approx A\$40 /tCO₂
- **Price 'too low': fear incentives for low-carbon investment too weak**
 - ambitious 2050 targets require fundamental shifts in energy systems
- **'Right' price can only be judged in context of international action**
 - high price everywhere under strong action
 - lower price if agreement only on weak action

What about one-way linking?

- **Preclude linking as permit buyer (uphold higher price)**
 - simple regulatory decision not to accept overseas permits
 - domestic pressures if price higher than in major markets
- **Preclude being linked to as permit seller (uphold lower price)**
 - may be difficult to keep others from linking (only via Kyoto compliance?)
 - international pressures if price higher than in major markets



The inescapable tendency toward a global price through linking

- **buffers domestic shocks, reduces price volatility**
- **avoids trade disputes, leakage worries**
- **simplifies business esp for multinationals**
- **reduces risk of policy reversal**

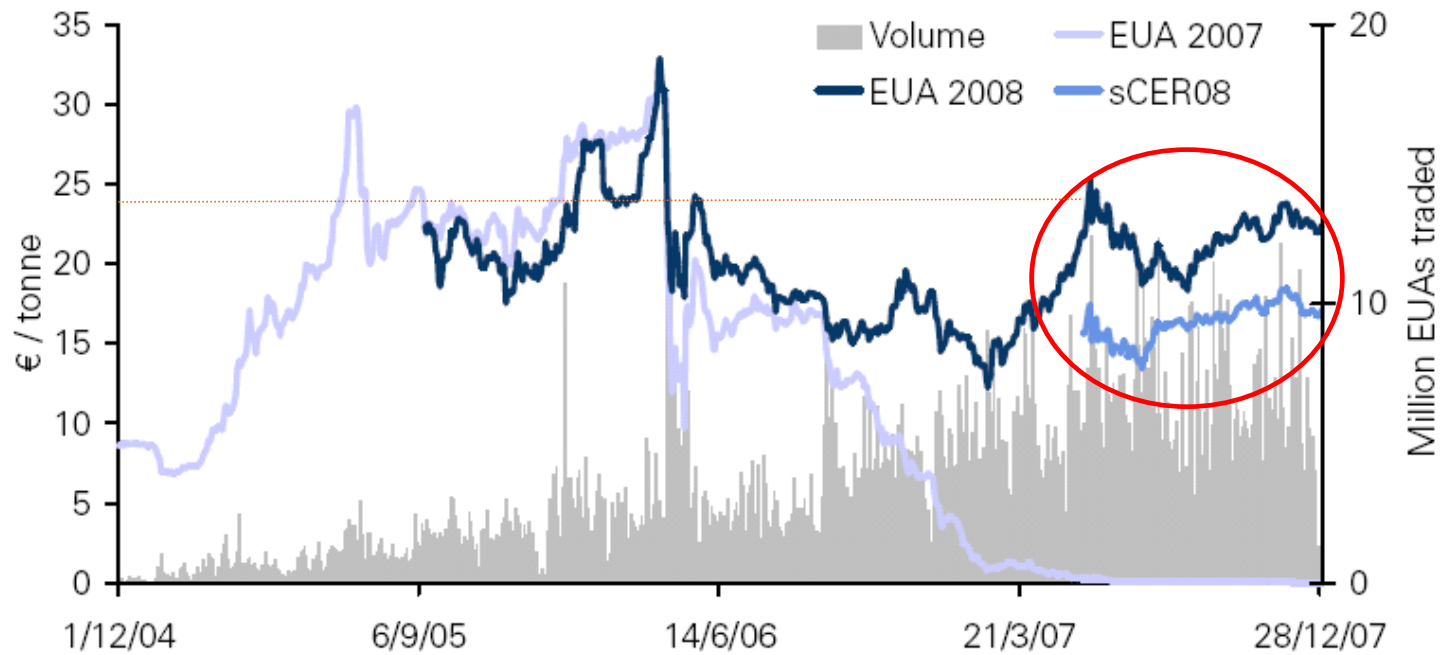
Why a global price through linking is desirable

- **Harmonised price: least cost outcome, allows more abatement**
 - *if* integrity is upheld through robust systems in participating countries
- **Linking and trading: key to draw developing countries in**
- **Role of Australia's target when internationally linked:**
 - signalling and commitment device
 - expresses 'fair share' in global effort
- **Precondition: integrity of other countries' schemes**



THE AUSTRALIAN NATIONAL UNIVERSITY

Figure 2.5: Volumes and prices in the EU ETS 2004-07
Daily OTC prices using Point Carbon's bid/offer methodology.



Source: Point Carbon's Carbon Market Trader