Frank Jotzo

*Linking emissions trading schemes, and permit prices*

Forum on international linking of emissions trading
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Large markets determine the price

- Large market: Permit price
- Small market: Permit price
- Medium market: Permit price
Large markets determine the price

- Large market
- Small market
- Medium market

permit price
Australia is not a large market

Existing/planned schemes: expected size ca 2012; others: CO₂ emissions at 2004
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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 ≠ 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 e.g. 2006-07 proposals, energy industries
  - today’s EU price: € 24 ≈ 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
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