

Possible Design for a National Greenhouse Gas Emissions Trading Scheme:

Permit Allocation

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Design issues for permits

- Annual permits
- Secure property right
- Allocate for future years by 'date stamping'

Banking and borrowing

- Banking permitted – unlimited?
- No borrowing

Questions?

Permit allocation principles

- Distributional issue
- Assistance for those most adversely affected
- Avoid perverse incentives or market power
- Lessons from the EU ETS

Permit allocation proposals

- Free allocation to some generators
- Free allocation to trade exposed, energy intensive industry
- Remaining permits auctioned

Permit allocation to generators

- Free permits given in proportion to likely losses
 - Only to *adversely affected* generators
 - Such generators get *some* permits for free, not all
 - Generators obtain other permits via auction or market
- Generators can sell permits upon closure
- No free permits to new entrants (definition?)
- Detailed allocation formula to be developed in next phase of work

Questions?

Permit allocation to trade-exposed, energy-intensive industries

- Aim is to neutralise effect of ETS on energy costs
- Eligible for free permit allocation, if:
 - Energy costs above a threshold
 - Prices for outputs set by international competitors
 - Energy costs will rise due to scheme
 - Competitors face no comparable emission constraints
- Sell permits to liable parties

Permit allocation to trade-exposed, energy-intensive industries

- New entrants eligible for free permits
- Free permit allocation, possibly based on:
 - Own-site energy intensity baseline (eg 2002-2005), first 10 years
 - Best Australian practice baseline (eg 2015-2018), second 10 years
- Allocation phased out when competing nations are subject to similar constraints

Questions?

Auctioned permits

- Households and small users will also bear costs of increased electricity prices due to the ETS
 - could be assisted via auction revenue
- Auctioned permits = total permits minus allocation to generators and trade exposed firms
- Auction revenue to be shared among States and Territories on a basis yet to be determined
- Auction design explored in next phase of work

Questions?