

Discussion Paper: Possible Design for a National Greenhouse Gas Emissions Trading Scheme

Information Sheet No. 6

Permit nature

At the heart of any emissions trading scheme is the common trading 'currency' of an emission permit. It is proposed that each permit would give the holder the right to emit 1 tonne of carbon dioxide equivalent greenhouse gases (CO₂-e) in a given year ('annual permits').

Annual permits could be issued for many years in advance. This could promote investment certainty.

Each permit would be 'date-stamped' with the year in which it first became valid (its vintage). Excess permits in one year might be used for compliance in later years ('banking'). However, permits may not be used for compliance before the date they become valid ('borrowing') (see Figure 1). Borrowing raises the risk of subsequent default, and seems unnecessary if permit markets are functioning well.

If the permit has been surrendered for compliance it is then cancelled.

It is proposed that permits be structured so as to give their holders firm **property rights**. This

means that the holder of a permit has a clear right to emit greenhouse gases. It also implies that any decision by governments to take away permits should be accompanied by compensation.

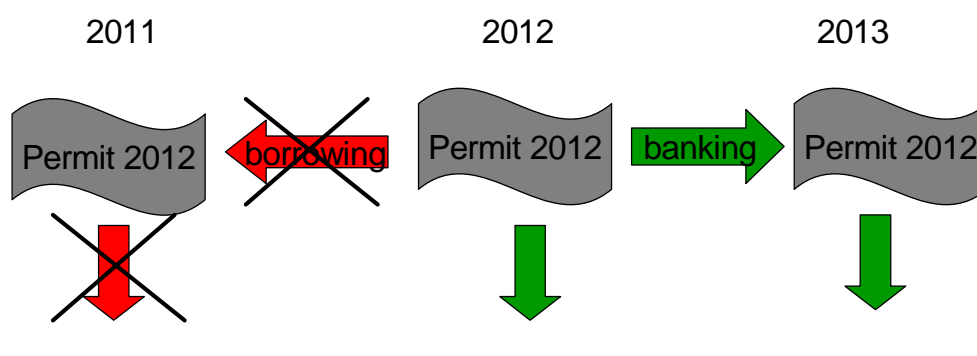
Permits themselves would only exist **electronically**, and their ownership would be logged in an electronic registry in the same way that Renewable Energy Certificates (RECs), NSW and ACT Greenhouse Abatement Certificates (NGACs) and Gas Electricity Certificates (GECs) currently exist in their own respective registries.

Two other types of certificates could potentially be used for compliance, as an alternative to surrendering permits:

- domestic offset credits
- international offset credits created under the Clean Development Mechanism.

The likely **tax and accounting treatment of permits**, including permits that have been allocated for free, would need to be assessed in detail before scheme commencement.

Figure 1: Vintage



Surrender for compliance