

# issues in allocating emissions permits

NSW Government Emissions Trading Forum

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# *allocating emissions permits ...*

Allocation of permits involves consideration of:

- § how many permits to allocate?
- § too whom?
- § on what basis?
- § for what purpose?

## *allocating emissions permits ...*

Allocation (and longevity) of permits impacts on the:

- § distribution of economic impacts
- § credibility of the policy framework over time
- § visibility and transparency of carbon prices
- § liquidity and volatility of carbon market
- § revenue and potential fiscal for fiscal reform

... may also impact on

- § incentives for long run investments
- § potential for strategic behaviour
- § efficiency of ETS, and economy more generally

## *allocating emissions permits ...*

Potential motivations for 'free allocation' of permits:

- § reduce disruption and assist structural adjustment
- § affordability (consumer prices)
- § reduce impact of sovereign risk on asset values
- § international competitiveness

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- § no national shock
- § potential regional impacts, with declines in activity from current levels, but rare
- § **regional impacts cannot be addressed by allocating permits to firms**
- § could consider trust funds for worker retraining or regional development

# *allocating emissions permits ...*

Potential motivations for 'free allocation' of permits:

- § reduce disruption and assist structural adjustment
- § **affordability (consumer prices)**
- § reduce impact of sovereign risk on asset values
- § international competitiveness

- § free allocation has little or no impact on prices
- § generators likely to pass through 60-80-100% of price increase to customers
- § **affordability improves despite higher energy prices**

# *allocating emissions permits ...*

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- § net impacts likely to be positive for some players (first year of EU ETS resulted in over €5 billion windfall gain)
- § sovereign risk argument is very weak given lead times (and turnover of shares)
- § **adverse impacts could be fully offset with only a small share of total permits**
- § any assistance should be 'one-off'

# *allocating emissions permits ...*

## Potential motivations for 'free allocation' of permits:

- § reduce disruption and assist structural adjustment
- § affordability (consumer prices)
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- § addressing competitiveness issues for trade exposed emission intensive products is a major policy challenge
- § **free allocation a useful potential mechanism**
- § implementation detail is important but difficult
- § risk of WTO challenge



# *allocating emissions permits ...*

## **Summary** - potential arguments for free allocation:

- § reduce disruption and assist structural adjustment     *û*     *allocation to firms not useful*
- § affordability (consumer prices)     *û*     *not useful or necessary*
- § reduce impact of sovereign risk on asset values     *û*     *policy case very weak, may be a case for small one-off allocation*
- § international competitiveness     *ü*     *could improve efficiency and allow greater emission reductions (details very important)*

## Arguments against:

- § some auctioning can improve incentives and effectiveness
- § complementary tax reform can reduce economic impact of emissions reductions



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