FINANSDEPARTEMENTET

ETS-partnerships
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Why join ETS's ? (or expand EU-ETS)

Objective:

- ETS sometimes more acceptable than carbon tax Case: Norwegian petrol. Sector
- ETS has very little uncertainty in emitted quantity, but larger uncertainty in carbon price
  Can be remedied by adoptive tax
- Establish same carbon price
  - in all participating sectors
  - in the countries joining
  Trans national cooperation on carbon taxes uncommon and difficult
- Deep markets
  - some countries have too few actors for a working market
- Reduce arbitrage
  - CDM/JI would move to the most profitable place

<u>Pitfall</u>:
Use this tool to tackle problems unrelated to climate

Types of ETS - Partnerships

A. Both parties have Kyoto obligations
  Ex:
    EU – NZ
    and
    ((EU – Norway))

B. Only one has a Kyoto obligation
  Ex:
    EU – California
    CDN – USA

C. None of the parties have Kyoto obligations
  Ex:
    Texas – Mexico
    USA - India

Attributes necessary for all ETS-systems, also purely national

Legal obligation: emitters allowance obligation
(federal/subfederal) (may a subfederal introduce such an obligation)

System attributes:

- Separate Cap or part of an overall Cap.
  In present context: Separate or part of Kyoto
- Measurable emissions
  an estimated 90% of GHG may be covered , same standard as for carbon tax
- Enforceable system
  important with uniform standard across cooperating sectors and countries
- Allowances freely tradeable
  essential
- No/Small opportunities for adverse incentives by:
  a) 100 % auctioning or
  b) true grandfathering (where the emitter may not influence the amount of future free allowances by own actions)
  c) a combination of ”high” auctioning and “almost” true grandfathering.

Case C:

USA - Australia

a) Decision on scarcity

Agree on the sum total amount of allowances to be allocated (cap)

b) Sector coverage

Total amount depends on included sectors (does not need to be the same sectors in both countries)

c) Allocation

i) 100% auctioning or

ii) initial split.

a) If between industrialized countries and not possible with final split, updates based on actual emissions (new subsidies to sectors covered by the ETS would be temporarily prohibited)

b) If agreement between Industrial & Developing Country: Initial split may include a element of transfer of income.

Case B

Only one of the countries with a Kyoto – obligation

EX: (CDN – USA)

- Negotiate a sum allowances for the Non-Kyoto partner (function of sector coverage and update as in C, and estimated supply of CDM/JI)
- CDM and JI has only value to the party with Kyoto obligations.
- It is safe to assume that the CDM/JIs owned by firms located in a non-Kyoto country in any case will find their way to a Kyoto-country. (or bank)

Main assumptions for cooperation for Case A:
(Not relevant for internal EU-EEA)

I. Full respect for the Kyoto–agreement

II. National Sovereignty as to the mix of measures to fulfil Kyoto–agreement

III. Free allowances are a question of state aid and climate efficiency. Rules to be coordinated with general economic integration.

Case A
Countries with Kyoto obligations

EU - NZ

Fulfilling the general conditions and mutual recognition suffice.

Which implies:

- No restrictions on CDM/JI (a successful restriction would create different market prices)
- No mandatory need for NAP
- Any sectors fulfilling the general criteria could be included. System works without an obligatory list.
- Rules on state aid should restrict the amount of allowances for free.
- Burden sharing no necessary issue

Conclusions

- Joint ECS systems have the potential to play a dominant role for climate. Up to 90% of all GHG may be covered. Many countries may be induced to join.
  One way to implement a Kyoto agreement is to give all emitters an allowance obligation. The Kyoto obligation is then in full passed on to the emitter.

- Same carbon price in all countries and sectors is a good basis for climate efficiency.
  This is also the main content of burden sharing between industrialized countries.

  However, it is the Cap and only the Cap which decides the effect on climate

- The system therefore has to have an appropriate scarcity
  - Present Kyoto–period. Oversupply of allowances.
  Norwegian proposal to cut 10% should be seen in that light.
  - Next period.
  Concentrate on Cap not distribution of free allowances.