



Issues for a Domestic Emissions Trading Regime

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Current state of play

- Decision that, during 2008-2012, a comprehensive domestic emission trading (DET) regime, covering as much of the economy as possible, interfaced with the international emissions trading system will be the central policy instrument
- Option that DET could begin earlier than 2008
- Range of options being considered for price signalling instruments pre-2008 (one option: low-level C charge together with pilot trading system)
- Other ‘complementary’ measures also required



Design and implementation issues for a DET regime

- The unit of trade: a certificate
- Point of obligation and coverage
- Allocation of certificates
- Administration systems:
 - ◆ Registry system
 - ◆ Monitoring and reporting system for emissions
 - ◆ Domestic compliance and enforcement
- Secondary market exchange

The unit of trade: a certificate

- Definition of a certificate consistent with unit of assigned amount
- Certificates would be:
 - ◆ units of 1 tonne of CO₂ equivalent
 - ◆ electronic with a unique serial number
 - ◆ issued in advance of each period (but not valid before start of that period)
 - ◆ valid until used to offset emissions (bankable)
 - ◆ freely transferable - can be held by anyone

Point of obligation and coverage

- Legal requirement for firm at point of obligation to hold and surrender certificates to offset emissions
- Point of obligation could be at:
 - ◆ production or import of fuel/other inputs (upstream)
 - ◆ point of actual emission (downstream)
 - ◆ targetted at either point of input or emission depending on nature of sector (targetted)
- Point of obligation doesn't necessarily determine who bears costs

Coverage of emissions

■ Upstream approach:

- ◆ CO₂ from fossil fuels and industrial processes
- ◆ most minor GHGs (PFCs, HFCs, SF₆)
- ◆ up to 36% of 1990 emissions

■ Downstream approach:

- ◆ med-large point sources for fossil fuels and industrial processes
- ◆ some point source non-CO₂ (waste CH₄ and PFCs)
- ◆ up to 24%

■ Targetted approach up to 41%

■ However, 58% of emissions small, diffuse sources of non-CO₂ GHGs

Allocation of certificates

- Options include:
 - ◆ grandparented based on e.g. past emission levels
 - ◆ competitive auction process
 - ◆ or a mix to capture benefits of both
- Potential for phasing in auctions over time
- Can differ from point of obligation
- Can affect both magnitude and distribution of costs
- Potential for competitiveness concerns to cause delays



Administration systems

■ Registry system

- ◆ records and tracks certificates holdings

■ Monitoring and reporting system for emissions

- ◆ obligation on firms to monitor and report at least annually emissions (inputs) with accepted accuracy
- ◆ information publicly accessible

■ Domestic compliance and enforcement

- ◆ must hold enough certificates in compliance account to offset emissions (e.g. annually)
- ◆ short grace period to come into compliance

Registry system

- Primary domestic functions to record:
 - ◆ initial holder of certificates
 - ◆ 'real time' changes in holdings
 - ◆ certificates retired to offset emissions
- Information on holdings publicly accessible
- 2 types of accounts: general (anyone) and compliance (firms with obligations)
- Could link with electronic trading on exchange
- Can track international transactions involving units of assigned amount



Secondary market exchange

- Initially brokers brings together buyers and sellers
- Exchanges reduce search and transaction costs and provide information (price/quantity) and basis for forward markets
- Rules could be set by participants
- Government unlikely to have operational role beyond possible market oversight