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# Free Allocation of Emissions Rights and the Linking of ETSs

A Comparative  
Analysis of the EU  
ETS and former AUS  
CPM

# Structure of Presentation

- ❖ Why it matters?
- ❖ Case-study 1: free allocation in the EU ETS 1st and 2nd Trading Periods
- ❖ Case-study 2: free allocation in the EU ETS 3rd Trading Period *vs* former AUS CPM
- ❖ Conclusions

# Why it Matters?

- ❖ IPCC AR5: “The heat is on. We must act”
- ❖ International cooperation: OECD and transitional non-OECD countries



## 73 Countries and Over 1,000 Businesses Speak Out in Support of a Price on Carbon

Leaders from across government and business are sending a clear message to the world this week that climate change is a risk that cannot be ignored, and, importantly, that they are ready to work together to bring down emissions. [Read More »](#)

[Supporters List](#) | [Carbon Pricing Leaders](#) | [What Is Carbon Pricing?](#)

*A US Prime Minister Tony Abbott*

## Emissions Trading Being Discarded?

*“There is no sign – no sign – that trading schemes are increasingly being adopted. If anything trading schemes are being discarded not adopted”*

(8 June 2014, Canada)





*ETS Map*


<https://icapcarbonaction.com/ets-map>

‘The reach of carbon pricing is steadily increasing’

*World Bank Report*

EU ETS, Switzerland, New Zealand, South Korea, Kazakhstan

Quebec, Alberta, some US states, parts of Japan



*Plans for Nationwide Chinese  
ETS by 2016*

## 7 Pilot ETS in China

### 4 Regions

Beijing,

Chongqing,

Shanghai, Tianjin

Special Economic Zone

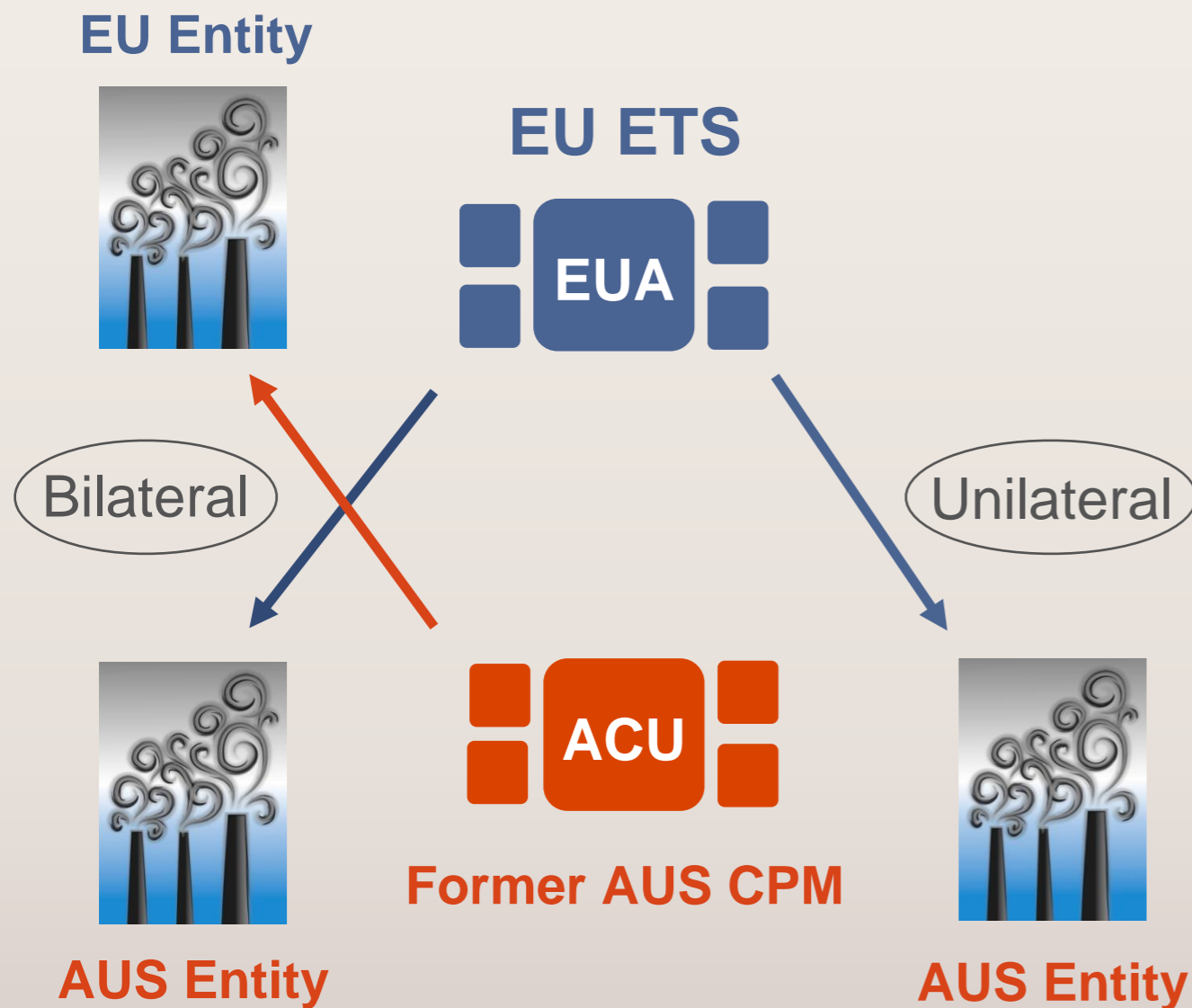
Shenzhen

### Provinces

Guangdong, Hubei

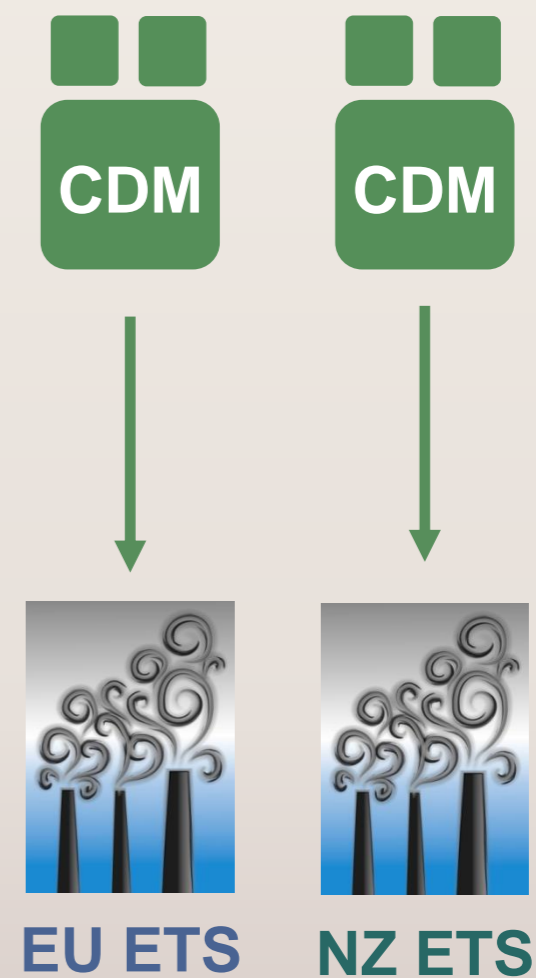
# Linking ETS

## DIRECT LINK



## INDIRECT LINK

### Developing country



# Free Allocation of Emissions Rights

- ❖ Free allocation as a benefit
- ❖ Regulatory competition: ‘race for rents’ (subsidies)
- ❖ Impacts to trade



- ETS in force
- ETS scheduled
- ETS considered



# Case-Study: EU ETS phase I & II

- ❖ Phase I (2005 - 2007) / Phase II (2008 - 2012)
- ❖ Allocation Decentralised - National Allocation Plans (NAPs)  
emissions cap and allocation
- ❖ Common features

## Grandfathering

(Phase I max 5 % auction / phase II max 10% auction)

Allocation of allowances based on historical emissions

Adoption new entrant reserves (NER) and closure provisions

Overall surplus of permits allocated to installations falling within the scope of the system

Most MS allow 100% EUAs from private

Use of different base years for specific sectors impacting allocation

NER considered as capable of influencing investment decisions (state aid) & closure provisions regarded as a production subsidy

'Race to the bottom' process. Sectors pressured MS for equivalent amounts of EUAs compared as competitors

Reviewed

# Case-study 2: EU ETS vs Former AUS CPM

## EU ETS

More generous eligibility criteria

Installations treated differently by linked ETS

Harmonised product-benchmarks: average GHG performance of the 10% most efficient installations

EU ETS installations - incentive to innovate up to efficiency levels of best available technology. Australian installations do not have similar incentive to innovate.

Assistance levels = 100% of benchmark

Declining rate (even for ELTE sectors) gives signal that assistance will phase off – incentive to innovate

Historical activity

Historical activity: harmonised criteria / Output-based: acts as a production subsidy

## Former AUS CPM

Less sectors considered carbon leakage exposed

Baselines calculated on industry average

Assistance levels: 65.1 % (moderately emissions-intensive) and 93.3% (highly emissions-intensive) in 2013–2014 (decline rate 1.3% per year)

Output-based

*EU ETS*

# Carbon Leakage List 2015 - 2019

- ❖ Assumption: EUA price €30/ t CO<sub>2</sub>
- ❖ ‘No evidence of any carbon leakage in Phase I and Phase II EU ETS’ (ECORYS, 2013)



# Conclusions

- ❖ Linking ETSs: common carbon price & cooperation between OECD and transitional non-OECD countries
- ❖ Free Allocation of permits to industry: potential to distort trade / race for rents / impact linking of ETSs
- ❖ Eligibility criteria, benchmark setting, respect for local differences, rates decreasing over time
- ❖ International trade agreements? WTO?

Thank you.



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