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# Carbon Market Expo 2008

## Introduction to Emissions Trading

**3-5pm, 29 October 2008**

### **Speakers and panelists**

Brett Janissen, AETF — ET basics

Katherine Lake, Baker & McKenzie — international experience

Tony Beck, AETF — domestic update & issues

### **Issues for business**

Sara Gipton, CEO Greenfleet

James Harkness, ACCIONA Energy



Asia-Pacific Emissions Trading Forum

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# ***Emissions Trading 101: basic principles***

***Carbon Market Expo 2008  
Gold Coast Convention Centre***

***Brett Janissen  
Executive Manager, AETF***

***29 October 2008***



# Overview

- **Attractions of ET**
  - economic
  - policy
- **Basic elements**
  - Key design features
  - cap & trade
  - baseline- credit



# ET attractions - economic

- **Promotes economic efficiency**
  - non-prescriptive
  - transparent
  - creates private 'asset'
  - price-based incentive for abatement (behaviours & technology)
- **Market responsive**
  - integrates with existing market structures
  - moves with resource demands
  - suited to futures markets (ie. expectations)
- **Suited to delivering on quantity targets at least cost**
  - Kyoto obligations

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# Attractions of ET - policy

- **Links to agreed national emission targets**
  - **Kyoto Protocol (1997)**
    - developed country targets (2008-12)
    - links to developing country action (CDM)
- **Delivers economic benefits of price - based approach — plus**
  - builds constituency
  - links readily to forestry & other credits
  - free allocation possible (not ‘another tax’)
  - ... but can allocate by **auctioning** too

# ET basics - cap & trade

- Define emission 'units'
  - ... permits, entitlements, credits, allowances, AAUs, ERUs, RMUs, CERs
  - 1 tonne of CO<sub>2</sub> (equivalent)
- Assign liability for emissions output
  - surrender 1 permit per tonne of CO<sub>2</sub>e
- Allow ownership & transfer
  - legal rights and obligations
  - distribution = allocation (eg. free, auction, etc)
- Limit availability
  - CO<sub>2</sub> price =  $f(\text{scarcity})$
  - 'assets' =  $f(\text{allocation, price})$
  - 'liability' =  $f(\text{emissions, price})$

= Measurement

= Coverage

= Allocation

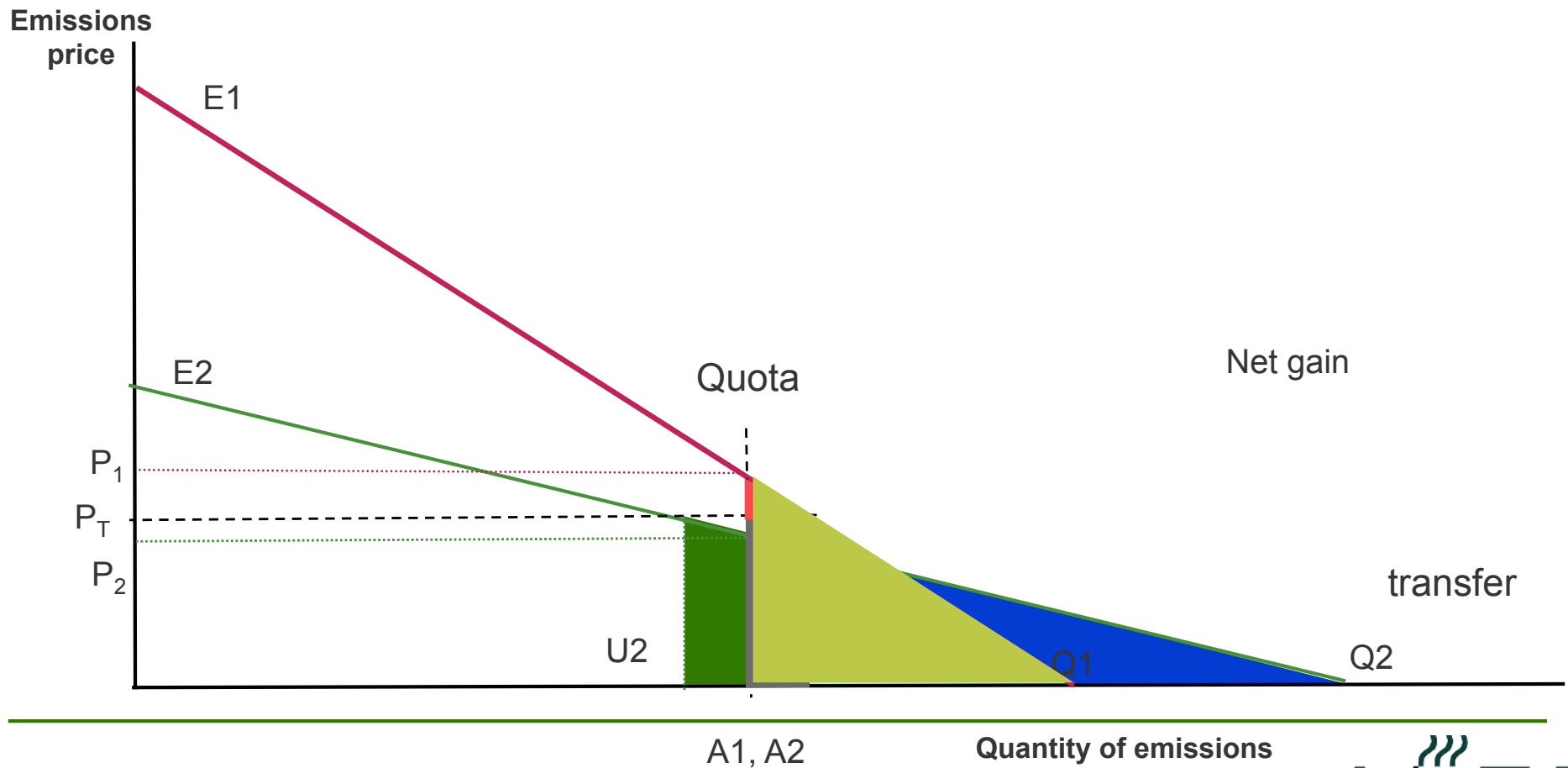
= Emission 'cap' (or target)

Aim for broad coverage, low on-costs, high certainty and consistency

# Economic gains & transfers

Economic loss – post trade

Economic loss – no trade



# Baseline & credit

- **Commonly, a voluntary inducement**
  - 'credits' = payment to reduce emissions below BAU
  - based on abatement projects (emission reduction)
- **Who pays?**
  - voluntary mkt = concerned companies, individuals
  - Kyoto (CDM) = countries (emitters) with target obligations
- **Issues**
  - measurement — what is BAU, how much reduction achieved overall?
  - incentives — to expand emissions (and be paid to stop)
  - effectiveness — less reliable than cap & trade
  - on-costs — of achieving acceptable standards
- **?Role within or alongside a cap & trade framework?**

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