

A photograph of the Santiago skyline with snow-capped mountains in the background. The image shows a cityscape with several tall buildings in the foreground, and a range of large, rugged mountains covered in snow in the background under a clear blue sky.

Emissions trading in Chile?

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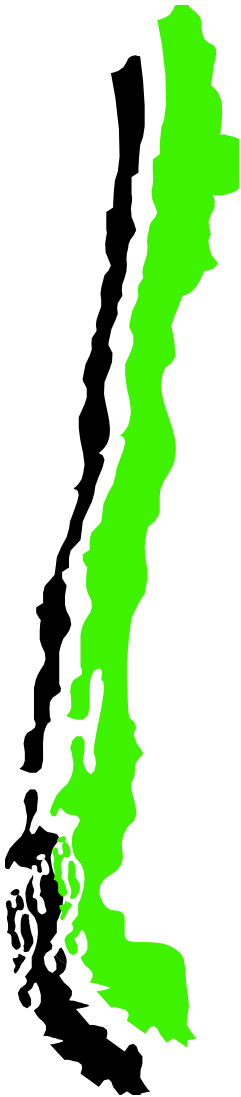
Presentación en Santiago, Chile

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- Sweden
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Context for an ETS in Chile



- Growing open economy
- Strong institutions
- Energy sector profile
 - Split grid
 - Fossil fuel dependency
 - High energy prices
- Relatively small number of large market players in key sectors (energy, industry)
- High levels of inequality
- Past experience with market mechanisms
- Unclear forestry sector mitigation potential
- Agricultural emissions low

Integrated prototype for an ETS in an emerging economy

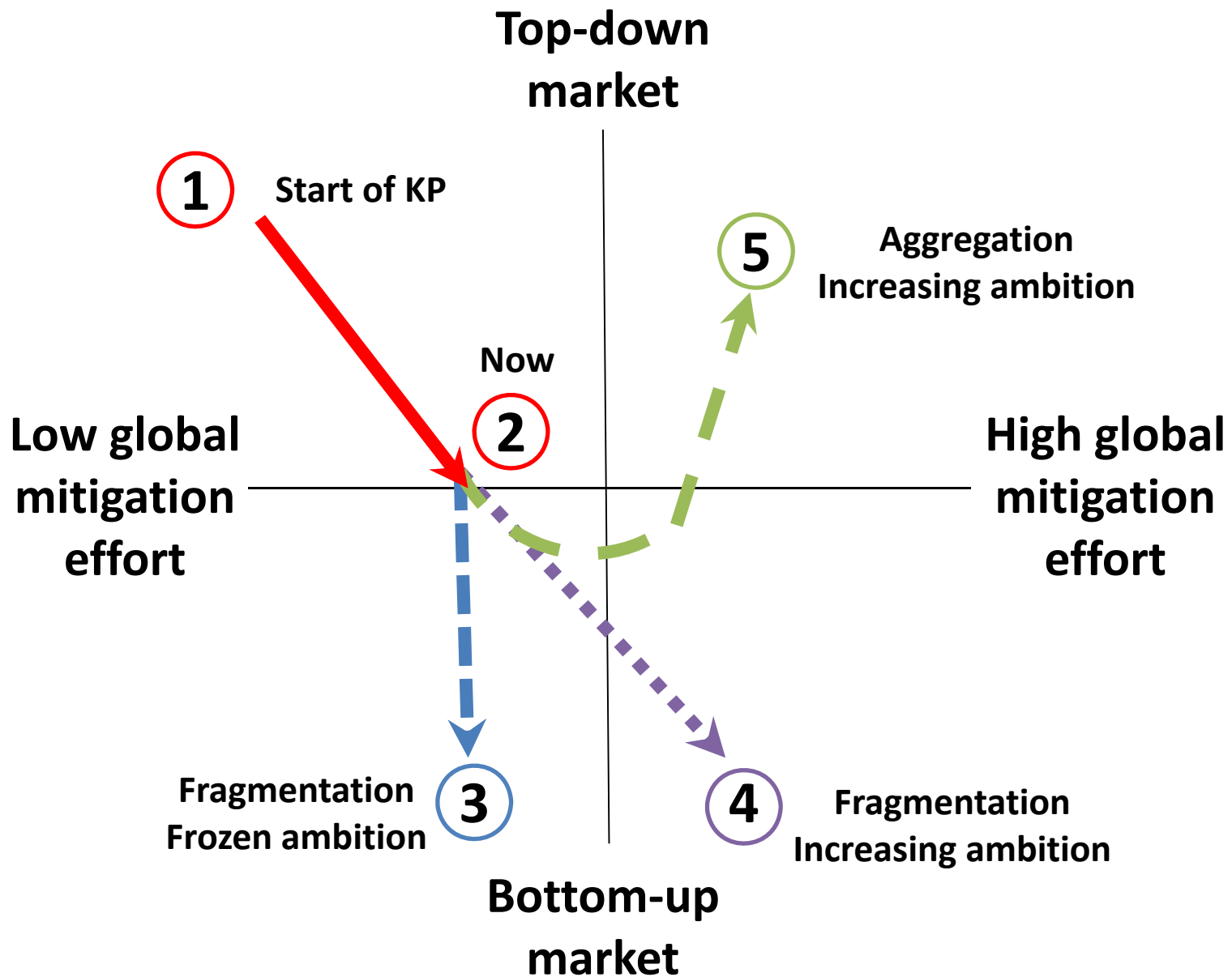
- Not a proposal – but a starting point for discussion
- An integrated package for:
 - Sectoral coverage and point of obligation
 - Allocation
 - Phases based on linking and price control/stabilisation options

Rationale(s) for an ETS

Could be one or more of the following:

1. Concern about climate change and reducing emissions
2. Opportunity to generate revenue and leverage international climate finance
3. Response to international political/trade or consumer pressure
4. Co-benefits

International market scenarios



Spectrum for ETS design



Capped ETS with full linking

International market sets the price

Domestic-only ETS with price control

Government sets the price

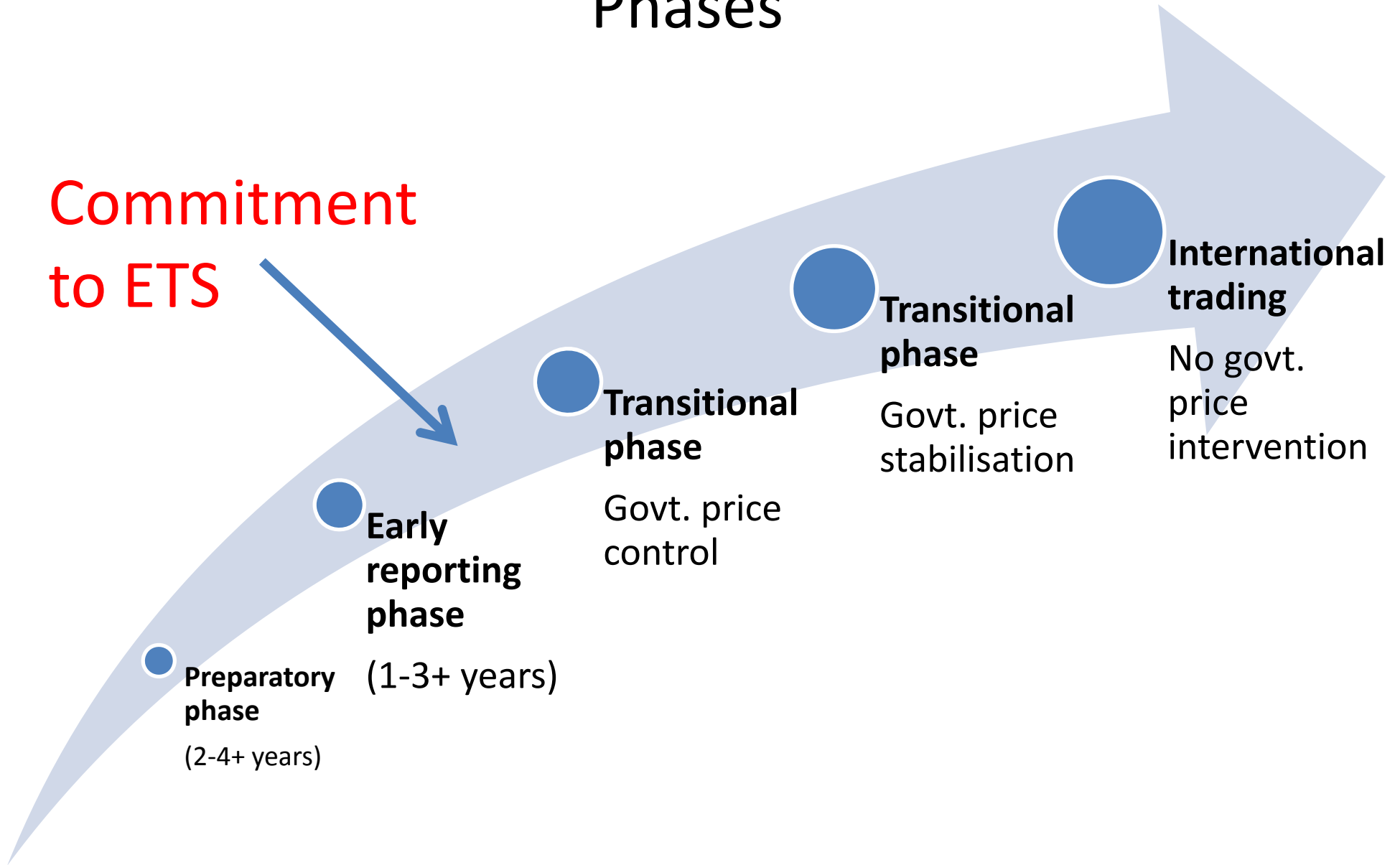
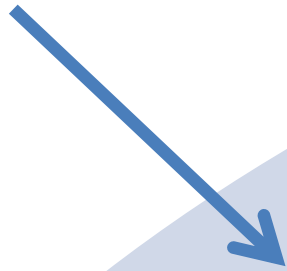
In the current world...

Selling units could generate revenue for Chile, but:

- Full selling linkages could bring high prices – with high adjustment costs – but also high price risk.
- A low initial price can drive long-term transformation if the future direction of pricing is signalled clearly and credibly.

Phases

**Commitment
to ETS**



Sectoral coverage and point of obligation

Start with:

Stationary energy and transport

Obligation at point of fuel production/import

Industrial processes – cement, lime and steel

Obligation at point of emissions

Forestry (reforestation)

Landowner obligation

Allocation

Allocation can affect distribution of gains / burden and price (and liquidity)

Four objectives for allocation

1. Reduce leakage (fugas) by lowering price pressure
2. Smooth transition
3. Participation and compliance
4. Equity

Allocation

Grandparenting

- Compensation for stranded assets
- Can address equity and political issues
- Fixed total amount spread over a number of years

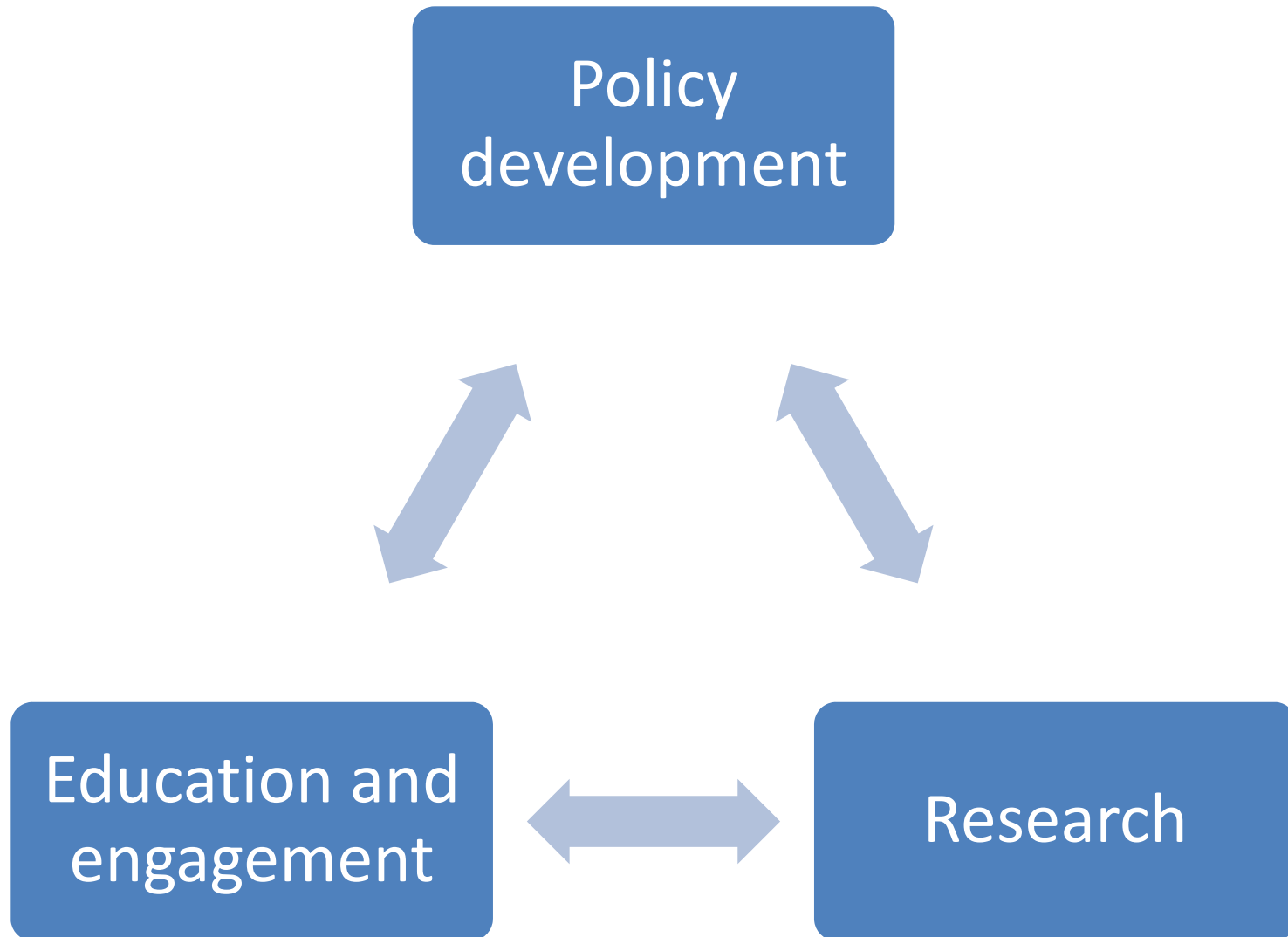
Output-based free allocation

- Strongly emissions-intensive and trade-exposed sectors only
- Phased out over a fixed period of time

Auction

- Can address equity
- Provided throughout for liquidity and price discovery
- Ramps up as free allocation is phased out

ETS design process



First policy questions

1. Rationale and objectives for an ETS?
2. When and how do you want to sell units on the international market?
3. Does the government want to control or manage domestic prices?
4. What point of obligation should apply in the stationary energy sector?

Policy development process is iterative

Key policy questions



Education and engagement



Research

+ Building institutions, technical + legal infrastructure and govt/emitter capability

Add new questions

- What sectors should be covered?
- What are your objectives with respect to the allocation of units?
 - Equity, smooth transition, leakage, participation and compliance

An effective ETS requires:

1. Clearly defined objectives
2. Tailor the design for national circumstances
3. Keep a long-term perspective but manage transitional impacts
4. Bring stakeholders along with the policy process
5. Design a robust and resilient ETS that is adaptable to an uncertain future



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