



FRIDTJOF NANSENS INSTITUTT
FRIDTJOF NANSEN INSTITUTE

Revising EU emissions trading

A 'Requested Revolution'?

Jørgen Wettestad

IES, Brussels

October 29, 2008

www.fni.no

Mandate

- Focus here on two important aspects of EU ETS design:
 - Harmonisation /centralisation, i.e. division of powers between member state and EU level, with cap setting as key element
 - External interaction policy, with links between the ETS and KP CDM/JI as key element
- Prime focus here on centralisation, as most interesting *change* here in the revision process
 - The Carbon Trust: 'proposals for allocation amount to a *revolution* in the approach adopted and in the division of powers between the EU and Member States' (2008:17)



FRIDTJOF NANSENS INSTITUTT
FRIDTJOF NANSEN INSTITUTE

www.fni.no

Mandate

- Main 'tool':
 - Skjærseth, J.B./Wettestad, J. (2008), *EU Emissions Trading: Initiation, Decision-making and Implementation*, Ashgate
 - Three, multi-level 'lenses'

Structure

- Centralisation, in two stages
- Member state lenses: a 'requested revolution'?
- EU governance lenses: a 'Commission coup'?
- Global regime lenses: 'outside intervention'?
- The proposed tightening of external interaction policy
- Why tightened regime interaction policy?
- Concluding comments

Centralisation, in two stages

- **Baseline: a decentralised system**
 - caps set in National Allocation Plans (NAPs) and no common EU cap
 - 11 criteria, 'reasonable needs in light of past emissions'
 - European Commission as watchdog
- **The November 2006 change**
 - Down to three key factors: 2005 verified emissions, anticipated changes in economic growth, carbon intensity
- **The 2008 proposal**
 - Away with NAPs; a single, EU-wide cap, linked to the '20 by 2020' commitment; linear decrease principle

Centralisation, in two stages

- **Probable outcome: no 'counter-revolution' here?**
 - No member states have questioned the centralisation move?
 - Not even Poland or Italy?

Member state lenses: a 'requested revolution'?

- Hypothesis: member states changed their minds about the necessity of decentralised cap-setting and 'requested' a centralised approach from the Commission
- Fall 2006: In the Climate Change Committee, a clear call for a tougher Commission watchdog
- Catalytic event: verified over-allocation, and related spring 2006 price crash

Member state lenses: a 'requested revolution'?

- 2007 ECCP ETS review meetings
- Dominant mood: the ETS needs more centralised governance
- Decentralisation was administratively burdensome, little transparent, open to lobbying, creating collective action problems

EU governance lenses: a 'Commission coup'?

- Hypothesis: changing of the cap-setting model can be explained by the Commission acting independently, in order to save 'pet policy'
- Point of departure: the ETS was initially very much a 'Commission baby'
- Described as EU climate policy 'cornerstone' and 'flagship'
- So probably become a 'pet policy' for the Commission

EU governance lenses: a 'Commission coup'?

- Lax NAP II plans submitted in spring and summer of 2006
- Dimas, Oct. 2006: NAPs point to 15% increase!
- Although legitimised by Climate Committee statements, the November 2006 change was 'orchestrated' by the Commission
- The 2008 'revolution': NAP I and II were administratively burdensome and challenging also for the Commission!

Global regime lenses: 'outside intervention'?

- Hypothesis: changes of the cap-setting model can be seen as a response to changes in the global climate regime
- November 2006 change:
 - As KP entered into force in Feb. 2005, if the cornerstone ETS was to secure Kyoto compliance, tougher caps were needed ('push')
- January 2008 'revolution':
 - Slow progress of global negotiations made a 'streamlined' ETS extra important as leadership tool ('pull')

Summing up, centralisation

- 'Requested revolution' seems quite fitting!
- So no 'Commission coup', but Commission clearly played a significant role in 'phasing in' centralisation
- And global developments important *conditioning* factor
 - Hard to understand shifts in member states' positions and Commission anxiety without considering Kyoto compliance needs - *and*, more recently, global leadership ambitions

The proposed tightening of external interaction policy

- EU debate: 'flexibility' versus 'supplementarity'
- Linking directive: CDM can be used in pilot phase; JI from 2008
- 2006 clarification: CDM ceiling of 10% 2008-12
- January 2008 tightening proposal: almost no *new* CDM/JI credits post-2012
 - But more if 'satisfactory global agreement'

Why tightened regime interaction policy?

- Member state lenses: No 'requested revolution' here
 - Instead, earlier flexibility sceptics such as Germany have embraced the CDM
 - But debate about 'quality' CDM
- Global lenses: No 'outside intervention' either
 - CDM Chairman has expressed dismay over tightening proposal
 - EU has been main driver of CDM development

Why tightened regime interaction policy?

- So this is a 'Commission coup'?
 - The Commission is afraid that CDM may weaken incentives for internal EU abatement – and also increasingly concerned about 'CDM quality'?
 - And real uncertainty about carbon prices ahead
- If this is very much a Commission initiative, is a 'counter-revolution' probable?
 - Some states have called for more CDM
 - The Parliament's Env. Committee: a little more – and 'better'
- Will a softening here be used as one of final 'sweeteners' to get package adopted?

Concluding comments

- Multi-level lenses useful tool for unpacking complex social processes
 - Governmentalist accounts important, but not sufficient (kicking in open doors?)
- Ideally also including a sub-national level
 - But industry and ENGOs play at both national, EU-level and global 'chessboards'
- No ETS counter-revolution yet
 - But rebel attacks
- Christmas package – or Easter bunny?