

# The EU ETS: A Model Global Trading Regime?

A. Denny Ellerman  
Massachusetts Institute of Technology

Climate Change Policy:  
Insights from the US and Europe

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# Cap-and-Trade in a Multinational Setting

- Focus is on the multinational, not the “ideal” single-country C&T system
- The EU is neither a strong federation nor homogeneous
  - The Commission, Directives, and Treaties
  - East-West and North-South divides
- If you didn't like the highly decentralized 1<sup>st</sup> period, you won't like an international system

# The Problems that Weren't

- Cross-border financial transfers
  - Highly dispersed trading of differences
  - Clear net flows: to UK from France, Poland
  - But still very small sums
- Institutional capacity
  - Challenge not restricted to the East
  - Still, non-negligible problem that required time
  - Yet, all managed to meet criteria; no big frauds

# Cross-border Flows

	EUAs (millions)	Euros (millions)		EUAs (millions)	Euros (millions)
<b>EXPORTERS</b>			<b>IMPORTERS</b>		
<b>EU15</b>	<b>89.7</b>	<b>434.2 €</b>	<b>EU15</b>	<b>(216.5)</b>	<b>(939.7 €)</b>
France	41.9	203.3 €	United Kingdom	(107.0)	(457.5 €)
Netherlands	13.4	59.1 €	Spain	(41.2)	(279.2 €)
Finland	9.1	76.0 €	Italy	(35.3)	(168.8 €)
Portugal	6.8	9.2 €	Germany	(29.7)	9.1 €
Belgium	6.5	47.4 €	Austria	(2.3)	(37.1 €)
Denmark	6.3	8.1 €	Ireland	(1.0)	(6.2 €)
Sweden	3.5	16.0 €			
Greece	1.1	11.8 €			
Luxembourg	1.1	3.3 €			
<b>EU10</b>	<b>128.0</b>	<b>507.3 €</b>	<b>EU10</b>	<b>(1.2)</b>	<b>(1.8 €)</b>
Poland	52.6	93.1 €	Slovenia	(1.2)	(1.8 €)
Czech Rep	27.7	200.9 €			
Slovakia	12.0	65.8 €			
Estonia	11.7	75.5 €			
Lithuania	10.9	32.2 €			
Hungary	9.5	29.1 €			
Latvia	3.1	10.4 €			
Cyprus	0.5	0.3 €			
<b>EU25</b>	<b>217.7</b>	<b>941.5 €</b>	<b>EU25</b>	<b>(217.7)</b>	<b>(941.5 €)</b>

# Lessons and Challenges: Trial periods & sector scope

- Trial periods would be useful for all
  - Resolves infrastructure and data issues
  - Reassures existing systems about integrity
- Partial coverage first?
  - Not the ideal, but more important/realistic
  - Major reductions are in electricity sector
  - Inclusion of industrial sectors deals with trade and leakage issues

# Lessons and Challenges: Defining a Center

- The indispensable role of the EU Commission
  - Dealing with cap inflation: special powers
  - Educating and facilitating
- An adventitious and available institution
  - Subsequent centralization an EU phenomenon?
- What could serve on a global scale?
  - Players only and limited delegations

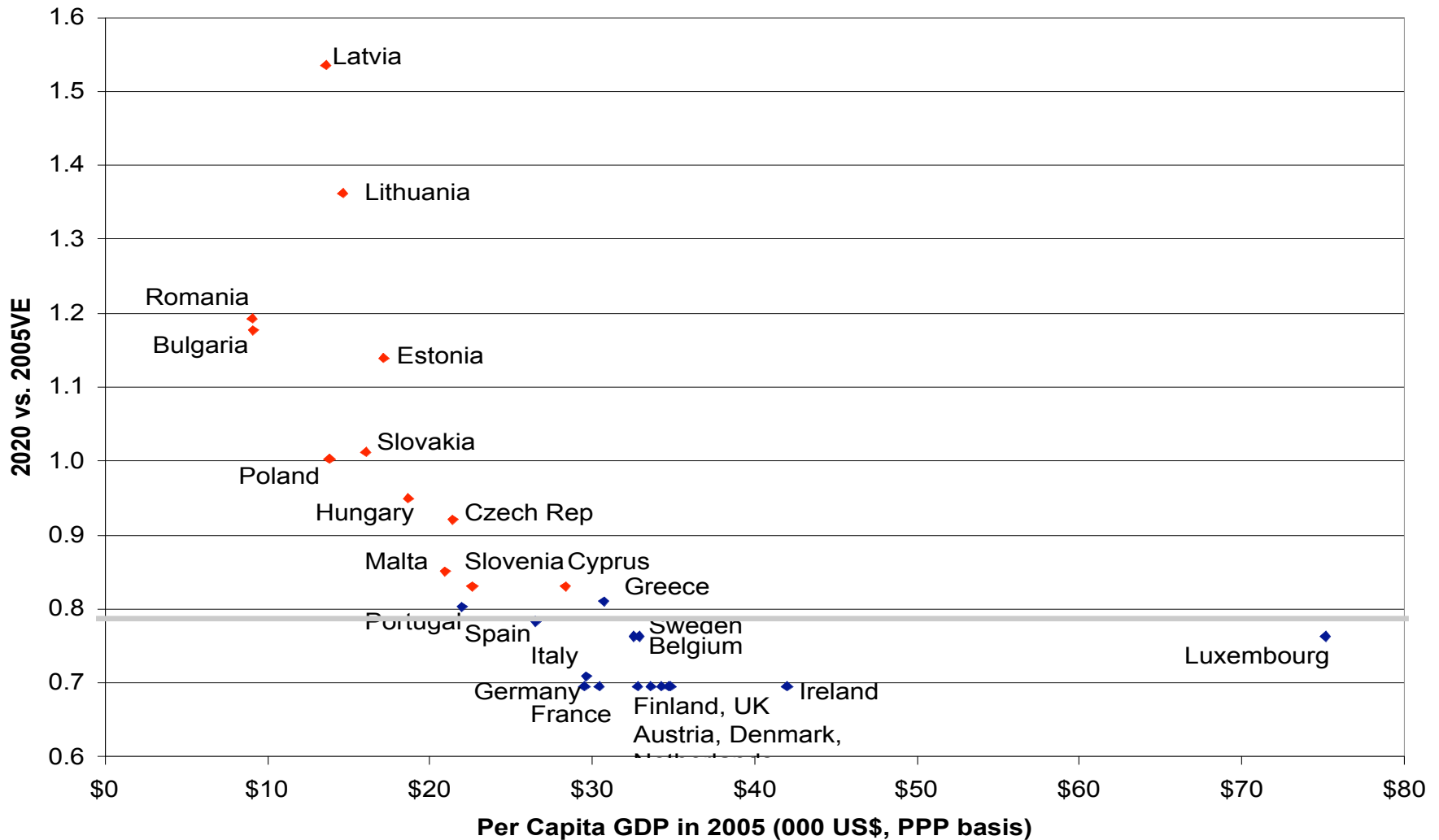
# Lessons and Challenges: Club Benefits

- Varying commitments and sincerity of commitments and yet all belong. Why?
- The broader benefits of the EU
  - Part of the package; no variable geometry
- Another fortunate, almost accidental feature
- What will serve on a global stage?
  - Linkage is the essence of diplomacy
  - Many dimensions possible, but it will be needed

# Lessons and Challenges: Stringency, Differentiation & Harmonization

- A “broad then deep” strategy
  - All inclusive, non-demanding beginning
  - Increasing differentiation with greater stringency
  - Participation of the less committed in decisions
- The new problem of harmonization
  - Equality vs. differentiation
  - The EU solution: auctioning harmonizes all
  - Differentiate through auction rights

# Differentiation in the EU ETS in 2020



# The EU ETS: A Global Prototype?

- Pre-existing institutions made it a lot easier for the EU ETS
- But technical competence, politically astute implementation & accident were important
- Do we build the global institutions, or can they arise out of bottom-up, bilateral deals?
- None of these challenges are unique to trading regimes