

How Did the EU Do It?

A. Denny Ellerman

Massachusetts Institute of Technology

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Massachusetts Institute of Technology
Center for Energy and Environmental Policy Research

Key Features of the EU ETS

- Classic cap-and-trade system
 - The only uniform price in the EU
- A multinational system
 - 27 sovereign nations plus EEA (except Switzerland)
- Highly decentralized implementation
 - Each member state sets own cap, allocates allowances, & enforces compliance
- Motivated by, but independent of, Kyoto
 - Embedded in EU law & not dependent on the KP entering into force

Europe in Search of a Role

- An opening for Europe as bipolar geopolitics disappear after 1990
- The ultimate “soft power”: climate policy
 - Europe: “environmental conscience of the world”
- Anti-Americanism: from “red” to “green”
 - “Le plus grand pollueur du monde”
 - Inhibits anti-market critique from the left
- All converge with US rejection of KP in 2001
 - From COP6 (Hague) to COP7 (Marrakech)
- A newly optimistic Europe on the move

By the Way, What is a Market?

- The environmental policy backdrop
 - Tough laws but lax implementation
 - Gov't and business work it out (quietly)
 - Lack of citizen enforcement/suits
- Business opposition to a tax (esp. in UK)
 - Markets are presumed “friendly” to business
- Disbelief and deprecation
 - Another grand but impractical EU ambition
 - Will never be implemented effectively

A Few Good Men

- The DG-Env Team with UK and Dutch help
 - Scarred by 1990s carbon tax debacle
 - Economics and law oriented, understood cap-and-trade
- Fully exploited the EU's institutional quirks
 - Qualified majority rule *vice* unanimity
 - A relatively new field: No old dogs to teach new tricks
 - Full use of existing EU mechanisms to educate, coordinate, and bring along the less savvy
 - Conditional acceptance: Back-channels & few rejections
- Technically competent and politically astute development and implementation of policy
 - Fewer mistakes than their policy opponents

Helpful Design Features

- Nearly full deference to member state prerogative
 - Required by EU structure (not necessarily so in US or Canada)
- But central ability to reject (but not to approve) NAPs
 - An unusual delegation to the Commission
 - Circumscribed by explicit criteria in EU ETS Directive
- Mandatory participation at price of mandatory auctions
- Automatic penalty & central registry provisions
 - The only specified penalty in EU law
 - Central (duplicate) registry allowed blocking of trades by a non-compliant member state
- Sequential compliance periods and explicit review
- Ability to finesse allocation (still left to MSs)

Broader Lessons

(With references to US experience)

- The Importance of Political Accident
 - EU: A rare moment of optimism, self-identification & capacity
 - US SO₂: Solution for a Republican dilemma
- The Exhaustion of other Alternatives
 - EU: No other central instruments
 - US SO₂: 10 yrs of deadlock on acid rain proposals
 - US NO_x & RECLAIM: End of the road for “Command-and-Control” under the Clean Air Act
- Avoiding Divisive Mega-Issues
 - All: A technical (environmental) issue, not social engineering
 - All: Distributional aspects of allocation not recognized