

The EU ETS as a Policy Instrument

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What has the EU ETS Done?

- Put a non-trivial price on carbon
- Reduced CO₂ emissions in affected sectors
- Produced no perceptible adverse trade or macro-economic effects (just a price!)
- Demonstrated feasibility of a multi-national trading system
- Been successfully adapted and extended

The EU ETS from here on out

- EU-wide cap is reduced by 1.74% annually starting in 2013
 - Works out to slightly less than 50% of 2005 by 2050
- Significantly increased auctioning from 2013 on
 - No free allocation to EU15 electric utilities starting in 2013
 - Phase-out of free allocation for electric utilities in new member states by 2020
 - Industrial free allocation phased out progressively from 2013 to 2027 starting at 80% of 2005 level
- Successful differentiation of “auction rights” among member states
- Aviation to be included from 2011 (including non-EU carriers from 2012)
- “Graduation” policy for CDM credits (offsets)
- Presumed new review and amendment by 2020 at end of third compliance period (2013-20)

And Yet...

- The EU ETS is commonly seen—in Europe—as woefully inadequate, if not a failure
- Lets dismiss willful mis-characterization by opponents

So, what is the problem?

- Generally: It is not doing enough!
 - Some impatience and naïveté in this stance
 - Failure to produce preconceived ideas of the effect of a carbon price
 - Alternative energy developers want more than a price
- Positions coalesce in “floor price” argument
 - But the “floor” usually seen as higher than any average price observed to date
 - Also, contracts-for-differences to support projects

What has the EU ETS not done?

- Confront the allocation problem as in US
- Limited to free allocation vs. auctioning
- No discussion of revenue use
 - Brussels doesn't tell sovereign nations how to spend their money
 - 27 different experiments starting in 2013
 - In few auctions to date, mostly devoted to general revenue
- Does allocation clarity help or hinder?

Where is Cap-and-Trade?

- Flagship US SO₂ program is defunct
 - A victim of legal literalism
- Annual and seasonal NO_x programs are dying
- RGGI has become a (low) CO₂ tax
- California CO₂ proposal is under double threat
- EU ETS is all that is left, but unhappiness reigns
- Do we really think that the alternative, old-time command-and-control, will do better?