



Renegotiating the power sector's CO₂ emission quota: an empirical perspective on indirect EU energy policy innovation

*Innovation and learning in energy policy:
new pathways to sustainability?*

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Organisational study of EU-ETS policy change

- Organizational approach of public action
 - Account for multiple rationalities, informal interactions and environment, look for facts over discourse
 - Qualitative and empirical focus
- Empirical research design
 - Focus on one concrete issue: power sector allocation
 - New power sector CO2 allocation rule biggest EU-ETS policy change
 - Electricity largest EU emitter w. 25% total GHG emissions and 50% ETS
 - Reconstruct formal decision-making with public documents
 - 2005-2007 « ETS Review » stakeholder consultation
 - 2008 Climate Energy Package codecision process
 - Observe social process empirically
 - Observation/participation
 - Interviews with participants
 - Requests for documents and archives



EU-ETS as indirect energy policy innovation

- Ambiguous status of energy in EU policy
 - Energy at root of European project but remains a MS prerogative...
 - European Coal and Steel Community, Euratom treaty
 - EU pw sector a« patchwork » of national tech./econ. “arrangements”
 - ... until EU energy policy framework in 2006 and competence in 2009
 - “Competitiveness, Environment, Security of supply”
 - Lisbon treaty
- Indirect and incremental “europeanisation” of energy policy
 - Competition and internal energy market
 - 1996, 2003, 2008 electricity Directives
 - Environment and climate policy
 - Command & control: 1996 IPPC Directive
 - Econ. instruments : CO2 tax proposal; 2003 and 2008 EU-ETS Directives



Incremental EU-ETS learning/innovation process

- EU carbon tax failure stresses acceptability problem
 - **Pay emissions** (price set by institutions)
 - Efficient but rejected by industry and key MSs (unanimity required)
 - US Acid Rain, Kyoto, show pol. feasibility of emissions trading over tax
- Focus on acceptability results in controversial EU-ETS 1
 - **Pay emissions** (market price) (-) **Free Allocation by MSs**
 - Inefficient but “most fundamental pol. compromise” (qualified majority)
 - EU-ETS 1.1 test phase and “review” reveal problems w. free quotas
 - Distortions, overallocation, « windfall profits » require fix in EU-ETS 1.2
- EU ETS 2 removes free allocation for electricity
 - **Pay emissions** (market price)
 - Differentiation due to “carbon leakage” in industry, “windfall” in power sector
 - “winners becoming losers”, ETS 2 more efficient?



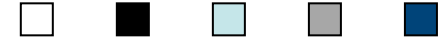
EU-ETS “2” still prioritises acceptability...

- « Windfall » debate makes auctioning for power acceptable
 - Key “framing” role of ind. consumers, Commission, academics, NGOs
 - « Punishes » CO2 intensive generators for gaming EU-ETS 1 system
 - « No impact on electricity price »
 - Power producers generally accept auctioning
- Auctioning interesting for many EU actors
 - Transfers €12-30bn/y. carbon rent from generators to MSs
 - Redistribution opportunities incentivize support beyond ETS participants
 - Relative benefit for low carbon (RES, nuclear: 45% of EU sector)
 - Restores “flagship” EU climate policy instrument’s credibility
 - More efficient, limits distortions and overallocation
- Complex compromise preserves MSs’ energy policy interests
 - Derogation preserves coal-based NMSs (art 10c)
 - DE secures new coal (side agreement)
 - DE, FR, UK low carbon technologies/projects benefit



...but strengthens EU energy policy objectives

- A broader and deeper field
 - ETS auction a central element of Climate Energy Package
 - Auction rights/revenues change the nature and scope of “regulatory game”
 - Increased overlap/cooperation between environment and « high politics » energy issue
 - Increased involvement of Commission in energy policy
 - Framing of energy debate
 - Underrated role in codecision
 - Key role in implementation phase (art 10c, NER300...)
- Reinforces the general EU energy policy framework
 - Incentivizes market integration
 - Drives technological choices/investment over longer term



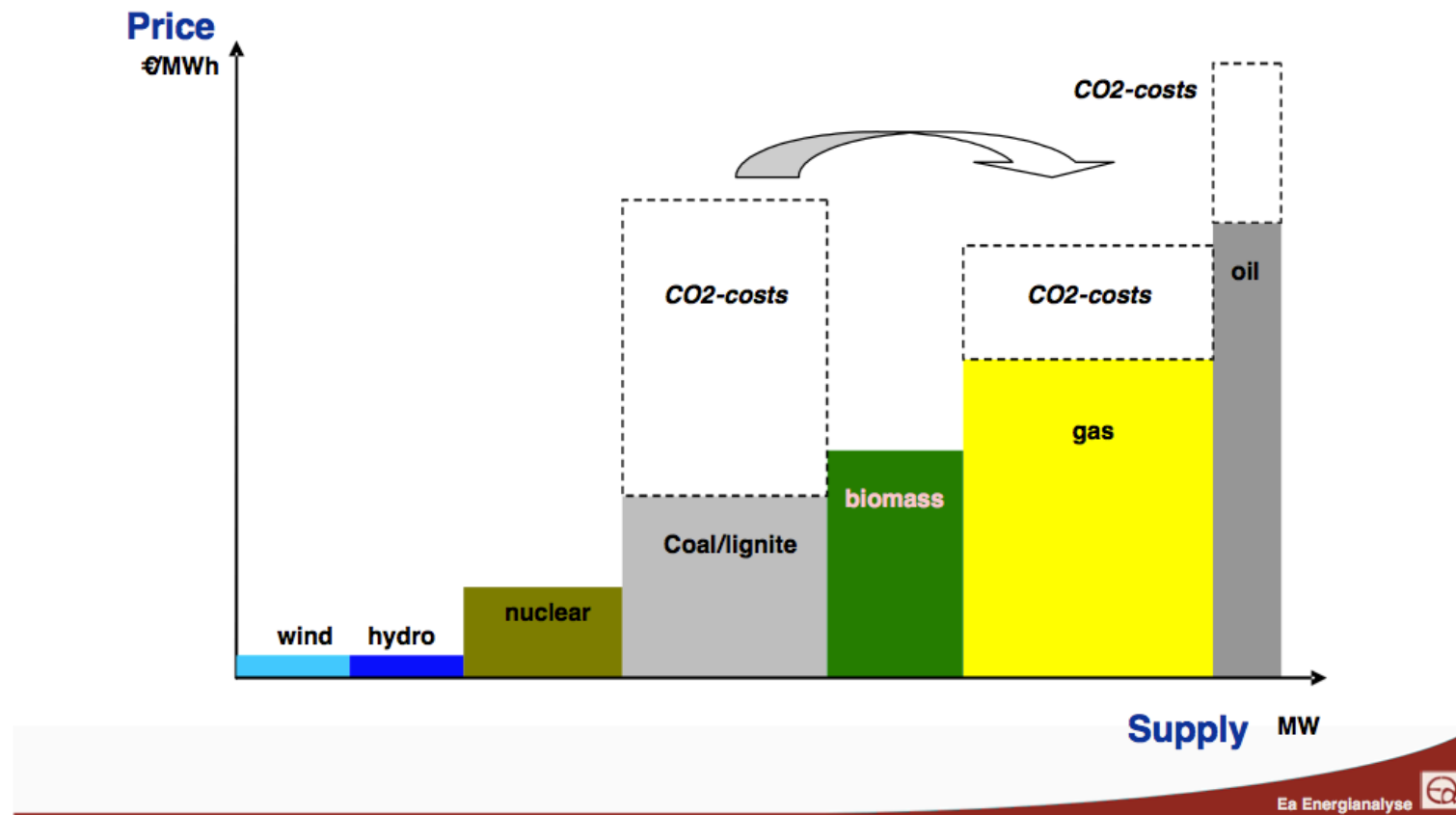
Thank you!



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The EU-ETS discriminates generation technologies

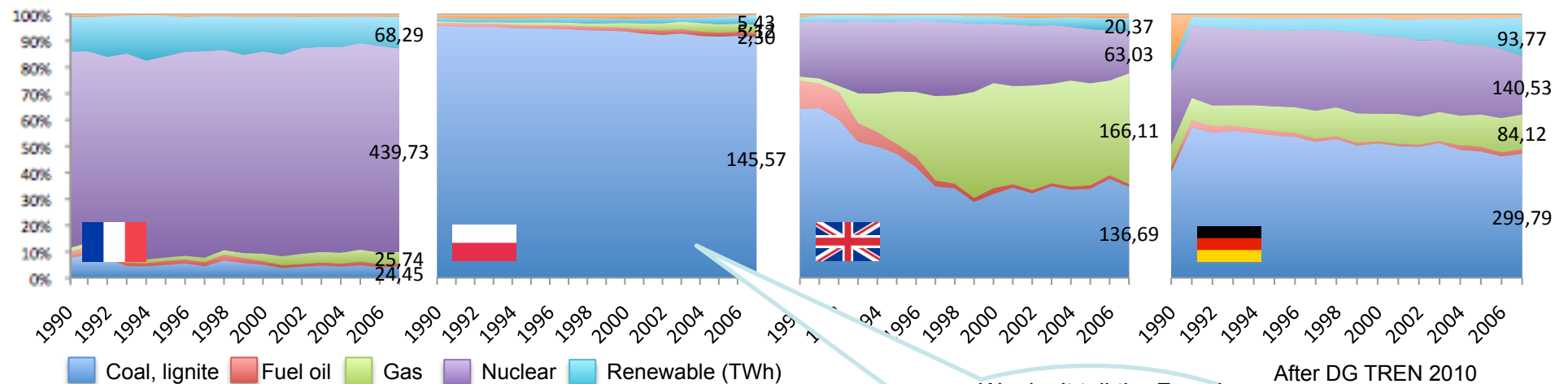
ETS: Impact on spot market dispatch



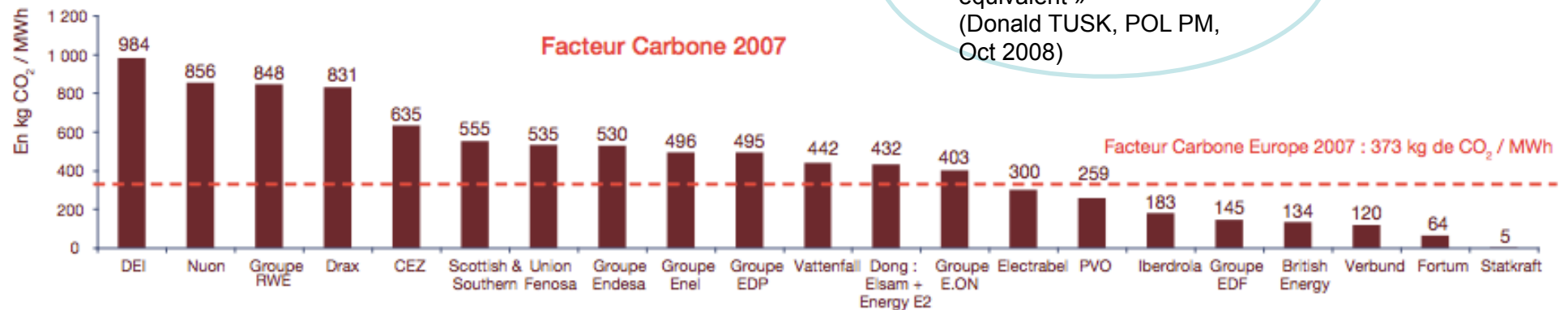
→ Internalize CO2 costs to make low emitters competitive

CO₂ intensity varies among MSs and generators

- 1990-2007 evolution of electricity mix in 4 EU Member States



- « Carbon factor » of EU electricity generators



« We don't tell the French to shut nuclear power plants and build windmills, and no one can tell us the equivalent »
(Donald TUSK, POL PM, Oct 2008)

Source: PWC 2008

EU-ETS timeline: continuous market operations but sequential and overlapping political processes

