Emission trading, linking, offsetting .... how do they interact with complementary policies and support mechanisms?

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Felix Chr. Matthes
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ETS as a “domestic” policy tool
- Effective Carbon pricing as key feature
- What scarcity signals can ETS provide
  - ETS as (important) medium-term clearing mechanism!
  - ETS as mechanism to provide long-term scarcity signals?
- In which sectors ETS really will make the difference
  - Downstream vs upstream (cost pass-through?!) 
  - Economy-wide vs partial
    - Real world abatement costs
    - Inframarginal distributional effects
  - Innovation & infrastructure-related emission abatement
- What is the necessary regulatory framework
  - Data quality
  - Governance accountability (and quality …)
• **ETS as a key tool of global climate policy**
  – Accountable cap(s) as key feature
  – What are the regulated (and trading) entities
    • States only
    • Private entities – to what extent
• **What are the links – what is the potential of linking?**
  – Linking of ETS!!!
    • Level of ambition
    • Environmental integrity
    • Market integrity
  – Offsets???
    • Integrity (additionality) of project-based offsets and their alternatives
    • Substitution of of domestic policies (in host donor parties)?
An inclusive policy mix will be key - especially under uncertainties

Locked potentials
- Regulation, incentives
- complementary to carbon pricing (ETS, etc)

Competitive potentials:
- Carbon pricing (ETS for large large point sources, taxes for diffuse sources
  (Exceptions: large uncertainties on quantities)

Innovation- and infrastructure-intensive potentials:
- Regulations, incentives, infrastructure roll-out
- complementary to carbon pricing (ETS, etc)
An inclusive policy mix requires consistent design & analytical capacities

<table>
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<tr>
<th>2005 emissions ETS</th>
<th>2020 emissions Baseline</th>
<th>1/3</th>
<th>1/2</th>
<th>2/3</th>
<th>ETS Baseline Electricity in add'l renewables in 2020 from other support schemes</th>
<th>multilateral target</th>
<th>unilateral target</th>
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</thead>
<tbody>
<tr>
<td>1.5</td>
<td>2.0</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>Complementary P&amp;M for renewables will deliver abatement</td>
<td>Cap safeguards the total</td>
<td>2.0 EU ETS cap</td>
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CO2 price triggers more abatement
Climate policy = ETS & more

\[ T \cdot (I^2+C) \cdot I \cdot m \, (F,L, P) + s(B,P,T) + (I_i+M_i) \]
Thank you very much

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