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

Berlin Seminar on Energy & Climate Policy
Climate Policy Initiative (CPI)

Felix Chr. Matthes
Berlin, 18 March 2010
• 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

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<tr>
<th>Year</th>
<th>ETS 2005 emissions</th>
<th>2020 emissions Baseline</th>
<th>1/3</th>
<th>1/2</th>
<th>2/3</th>
<th>Electricity in add'l renewables in 2020 from other support schemes</th>
<th>multilateral target</th>
<th>unilateral target</th>
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CO2 price triggers more abatement
Cap safeguards the total
Complementary P&M for renewables will deliver abatement

ETS Baseline Electricity in add'l renewables in 2020 from other support schemes

2020 EU ETS cap
Climate policy = ETS & more
\[ T \cdot (I^2+C) \cdot I \cdot m (F,L,P) + s(B,P,T) + (I_i+M_i) \]

**Linking**
- International initiatives & markets

**Revenue spending**
- Remove specific barriers*
- Strengthen specific players*
- Support specific technologies*

**Fair & liquid market with manifold players**

**Infrastructures**

**Innovation**

**Internalization**

**Scarcity**

* Evaluate, modify & eliminate specific policies, if necessary
Thank you very much

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Cambridge University Press, 2010
A. Denny Ellerman, Frank J. Convery, Christian de Perthuis, Emilie Alberola, Richard Baron, Barbara K. Buchner, Anaïs Delbosc, Cate Hight, Jan Keppler
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