

Rescuing EU Emissions Trading: Mission Impossible?

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When the European parliament (hereafter, parliament) rejected a temporary tightening of the EU emissions trading system (ETS) in April 2013, it became clear that EU climate policy is at a crossroads, particularly its “cornerstone,” the ETS. Established in 2003, the system started in 2005 but was not functioning very well, so significantly altered rules for the 2013–2020 phase were adopted in 2008, introducing a more centralized and market-streamlined system.¹ It is now the largest carbon trading market in the world, with a turnover of some 90 billion euros in 2010. It covers around 50 percent of EU GHG emissions, and some 10,000 installations are included in the system.

Although the changes adopted in 2008 can be characterized as a “governance revolution,”² subsequent events have provided strong indications that the revolution was far from complete. After several years with a volatile and rather low carbon price, it has become clear that the system is both considerably over-supplied and malfunctioning. For example, in February 2012 the CEO of the German power giant E.ON declared the ETS as “bust and dead.”³ This led the European Commission (hereafter, commission) to put forward an ETS tightening proposal in November 2012, including both temporary and more permanent elements.⁴

The process has been complicated. The plenary in parliament rejected the temporary proposal in April 2013, before subsequently making a turnabout in July 2013. The measure is now adopted, but there is broad consensus that deeper, structural reform will be very challenging. Symptomatically, the main measure proposed in January 2014, a market stability reserve, only kicks in after 2020, if adopted. Hence the ability of EU institutions to improve and reform the system would seem to have decreased significantly compared to the heyday of 2008. Scientific evidence shows that the need for climate action has increased, and the financial crisis and reduced activities and emissions have made it

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1. See Skjærseth and Wettestad 2010; Van Asselt 2010; Wettestad 2013.

2. Carbon Trust 2008.

3. Point Carbon 2012a.

4. Commission 2012.

economically less demanding to tighten targets—so this weakened capacity to reform appears puzzling. Is it really the case that reforming the ETS is a “mission impossible”? In the past, the ETS has made central leaps forward thanks to EU “entrepreneurs” creating and utilizing political windows of opportunity.⁵ An important sub-question then becomes: is it possible to envisage the creation of a similar dynamic again?

Analytical Framework

This article explores the change that has taken place in the ability of the EU system to adopt improvements and reforms of its “flagship” Emissions Trading System. When the ETS was established back in 2003 it was hailed as the “new grand experiment.”⁶ From the start, it was clear that the EU was entering new regulatory territory and that it would be necessary to adapt, alter and reform the system over time, as practical experience accumulated. The ability to reform hinges on the capacity of the commission to produce specific and timely reform proposals, and the capacity of member states in the Council, in co-decision with the European parliament, to adopt the necessary reforms. The gradually increasing co-decision powers of parliament are among the most striking recent institutional developments within the EU.⁷ There is a growing tendency for final compromises to be hammered out through talks involving the commission, the council, and parliament.⁸ The 2008 climate and energy package was finalized through such three-party talks.⁹

How then can we explain the change in the ability of EU institutions to adopt ETS reforms? A basic distinction can be made between EU “internal push” explanations and “external pull” explanations. Here I draw on three complementary internal sub-perspectives and one external perspective as helpful devices in focusing upon the key influential variables. The first internal perspective comes from liberal intergovernmentalism.¹⁰ As with most complex theories, weight can be given to different sub-dimensions. Here I will highlight how this theory emphasizes the key role of member-state positions and related distributions of power for understanding EU policy development.

Specific attention will be paid to the positions of three central member states that generally represent the spectrum of ETS positions: the UK, Germany, and Poland. The UK can be seen as a sort of ETS frontrunner; Germany has been more ambivalent towards emissions trading, and Poland can be seen as a major ETS laggard.¹¹ To what extent and how have member-state positions changed in the period up to 2013? In a liberal intergovernmentalist perspective, a central proposition could be that ETS reform has become a “mission complicated” due

5. See Kingdon 1984; Boasson and Wettestad 2013.

6. Kruger and Pizer 2004.

7. Burns and Carter 2011.

8. For information on the trialogue procedure see EU 2012.

9. Boasson and Wettestad 2013.

10. Moravcsik 1998; Moravcsik and Schimmelfennig 2009.

11. Skjærseth and Wettestad 2008; Wettestad 2011.

to increasing disagreements among member states and no qualified majority for reform (at least 255 out of 345 votes in the council).

The second explanatory perspective used here builds on literature on supranationalism and multi-level governance.¹² These analytical perspectives generally give far more attention and weight to the role and positions of EU bodies like the commission and parliament than is the case with liberal intergovernmentalism. Such lenses are helpful for zooming in on characteristics like internal agreement within these bodies and the role they play in building broader networks and alliances.¹³

Studies of the “revolutionary” changes that were discussed and implemented for the ETS in 2008 also drew attention to the organizational context of the broader climate and energy package, in theory opening up cross-issue integrative linkages, and with some linkages being made.¹⁴ Hence, a central proposition here could be that ETS reform has become a “mission complicated” due to increasing disagreement within and between EU bodies and an institutional context less conducive to issue linkages.

The third perspective is inspired by new institutionalist literature, which draws attention to the role of industries, and their role within broader organizational fields.¹⁵ Such fields are characterized by a symbiotic relationship between cultural-institutional phenomena, EU organizations, governments and industries, inducing actors to think similarly.¹⁶ The ETS targets energy producers and energy-intensive industries, and the positions of these key target groups carry substantial weight in discussions on ETS design.

Different industries will be characterized by different institutional logics and hence different positions regarding EU climate policy design.¹⁷ In earlier discussions, the positions of energy producers have differed significantly from those of energy-intensive industries, with the former far more positive about the development of EU policy in this issue area.¹⁸ Hence, a central proposition under new institutionalism could be that ETS reform has become a “mission complicated” due to increasing reluctance within key industries.

Let us then turn to the question of influences external to the EU. Studies of EU environmental policy have begun to pay greater attention to how the external environment, the climate regime in particular, affects EU policy-making.¹⁹ These studies show that the international developments and EU internal processes are linked. They also indicate that developments on the global stage may affect the ETS-internal dynamics along several pathways. Three key global

12. Stone Sweet and Sandholz 1997; Hooghe and Marks 2001.

13. Bache and George 2006; Boasson and Wøttestad 2013.

14. Skjærseth and Wøttestad 2010; Wøttestad 2013.

15. Fligstein 2008.

16. Fligstein and Stone Sweet 2002: 1207.

17. Boasson and Wøttestad 2013.

18. Wøttestad 2009.

19. Cass 2005; Wøttestad 2005; Oberthür 2006; Skjærseth and Wøttestad 2008; Oberthür and Pallemaerts 2010; Oberthür and Dupont 2011; Wøttestad, Eikeland and Nilsson 2012; Boasson and Wøttestad 2013.

factors are the development of the global climate negotiations, the development of global flexibility mechanisms like the Clean Development Mechanism (CDM) to which the ETS is formally linked, and the development of the climate policies of central other global actors like the US and China.

In order to understand the important issue of political windows of opportunity, we need to examine how external developments have been used tactically by main EU policy entrepreneurs. This dynamic has been crucially important on earlier occasions. When the Bush administration withdrew the US from the Kyoto Protocol in 2001, this opened a window for commission entrepreneurs, who subsequently rallied around the adoption of an EU ETS to save the Kyoto Protocol.²⁰ In 2007 and 2008, the need to bring a strengthened ETS to the negotiating table at the 2009 Copenhagen climate summit expanded the window for commission entrepreneurs seeking a reformed ETS.²¹ Hence, a central proposition here could be that ETS reform has become a “mission complicated” due to the development of EU-external factors that provide no backing for EU reform entrepreneurs.

For this study, data were collected from EU, national policy and interest group documents, secondary news sources like ENDS Daily, and through a string of semi-structured interviews with central analysts and stakeholders engaged in EU policy-making, including central representatives of the commission, parliament, member states delegations in Brussels, and key industries (power producers and energy-intensive industries).

The Development of the ETS: From Frontrunner to “Bogeyman”?

The Early Years: 2003–2007

The first ETS Directive was adopted in mid-2003 (Directive 2003/87). It established a three-year pilot phase I (2005–2007) to precede the main commitment period of the Kyoto Protocol (2008–2012), i.e., phase II. The ETS was initially established as a system in which member states would have considerable power and flexibility, generally characterized as a decentralized system. Key decisions about the amount (the “cap”) and allocation of allowances were in the hands of the member states, who drew up National Allocation Plans (NAPs). The overall cap on emissions then became the aggregate of national caps. The commission was a core actor in the establishment of the system, but was given more of a backseat watchdog role in the subsequent national allocation processes and first phase of implementation.

Allowances were mainly handed out free of charge,²² and the system was rather narrow in scope. It targeted first and foremost the power sector and some selected energy-intensive industries (such as refineries, cement, steel, and pulp

20. Wettestad 2005.

21. Skjærseth and Wettestad 2010.

22. In the pilot phase, member states were allowed to sell up to 5 percent of their allowances. This limit was increased to 10 percent in the 2008–12 period. Christiansen and Wettestad 2003.

and paper), with an initial regulatory focus on CO₂ emissions. As to the links between the ETS and global climate institutions, a specific linking directive was adopted in 2004.²³ A central element in this later Directive was opening up the possibility to import credits from third countries through the Kyoto Protocol's clean development mechanism (CDM) from 2005, and joint implementation (JI) credits from 2008. The link was initially based on a loose "less external credits than domestic abatement" rule, but was tightened in 2006. No "banking" (saving) of unused allowances could take place between phases I and II, but such banking was allowed in phases II and III.

The "Revolution" in 2008

At the beginning of 2008 the commission put forward a proposal for a significantly changed ETS for the 2013–2020 phase. Main proposed changes included a significant centralization and harmonization of the system, with a single cap for the ETS and harmonized rules for the allocation of allowances. Furthermore, the basic principle and method of allocation would be auctioning, gradually phased in from 2013 onwards.²⁴ Stakeholder inputs had made it clear that a majority of both member states and industries were quite positive about the prospects of a substantially changed ETS. These sentiments were fundamentally rooted in unprecedentedly high societal support for new and more effective climate policies. Public perceptions of climate change had changed markedly: in 2003, 39 percent of respondents to a Eurobarometer survey had cited climate change as their main worry: this rose to 45 percent in 2005 and to 57 percent by 2007.²⁵ This offered a window of opportunity for the commission to put forward its "revolutionary" ETS proposal, accompanied by a climate and energy policy package.²⁶

In addition to stakeholder inputs, this proposal was based on extensive impact assessments, mainly of the ETS itself and placing the ETS in the context of the broader climate and energy package.²⁷ These assessments covered a number of issues but gave short shrift to the level of the cap and the possibility of a significant oversupply of allowances—probably due largely to the fact that the overall level of ambition had already been set in the 20/20/20 targets adopted in 2007. In addition, at this point in time, it was not totally unrealistic to expect the Copenhagen climate summit in 2009 to result in a more ambitious post-2012 global agreement, hence paving the way for the EU to opt for a 30 percent reduction target for 2020 and an automatic related tightening of the ETS.

Negotiations on the revised ETS were part of the comprehensive climate and energy package and there was of course lively debate on the ETS revision. Most actors, however, and certainly the member states, focused on other issues

23. Directive 2004/101/EC.

24. Skjærseth and Wettstad 2010.

25. Commission 2008a.

26. Wettstad 2013.

27. Commission 2008b, c.

than the cap and the linear reduction factor. In part, this can be explained by the fact that the main level of ambition had already been set in March 2007, when the 20 percent emissions reductions target was established in the midst of a wide-ranging “climate craze” and hype. Setting the specific ETS target in 2008 became a more technical exercise of calculating the relative contributions of the ETS and non-ETS sectors to achievement of the overall 20 percent target. The focus in 2008 was very much on several issues of distribution and fairness: between the comparatively poor newcomers to the EU from Eastern Europe and the richer EU 15, between power producers and energy-intensive industries, and between EU industries and their less carbon-constrained global competitors.²⁸ This was also a time when the economic prospects seemed good.

Poland was seen as one of the main stumbling blocks. It exemplified the special situation of the newcomers from Eastern Europe, many of them with energy systems heavily reliant on coal. That meant a need to protect these coal-fired power stations from full auctioning from 2013 onwards. Still, we can note that Poland launched a proposal on an EU carbon price floor and cap in November 2008. As stated in a Polish document circulated to finance ministers, “given the high probability of significant CO₂ price volatility post-2013, there is a need to introduce some kind of safety mechanism.”²⁹ This proposal apparently drowned in the myriad of issues being debated at the time.

Thanks to previous meetings and discussions with stakeholders whose views had subsequently been incorporated, the proposal was only moderately changed in the decision-making process in 2008. In this process parliament stood forth as a staunch ally of the commission. The rapporteur was Avril Doyle from the largest grouping in parliament, the liberal-conservative European People’s Party (EPP). Her constructive work has received general praise.³⁰ The Environment Committee was, however, internally split. The majority of EPP members disagreed with the rapporteur, seeking a stronger guarantee of free allowances to energy-intensive industries.³¹ Still, in the final vote, a 44 to 20 majority in the Committee (with one abstention) supported Doyle’s position.³²

In the processes surrounding the revision of the ETS in 2007 and 2008, the power producers increasingly stood forth as supporters of the development of a much more centralized and streamlined post-2012 system.³³ They favored an EU-wide top-down approach as regards cap-setting. Furthermore, the debate about their reaping substantial windfall profits from the initial functioning of the system had weakened the credibility of their position in resisting the proposed (rather sweeping) changes to the method of allocation, with much more auctioning.

28. Skjærseth and Wettestad 2010.

29. Reuters Planetark 2008.

30. Boasson and Wettestad 2013.

31. Doyle’s proposal was that energy-intensive industries should be required to buy 15 percent of their allowances in 2013, with a gradual increase up to 100 percent by 2020.

32. Euractiv 2008; Point Carbon 2008.

33. Skjærseth and Wettestad 2010.

The energy-intensive industries held a more reluctant, cautious stand overall. They were quite open to more centralized cap-setting, but fiercely resisted the proposed shift to greater auctioning of allowances. As to the latter they were quite successful, managing to secure the continuation of their rather high proportion of free allowances in the period leading up to 2020. As before, they cited global competitive vulnerability and the danger of “carbon leakage” whereby industries would relocate to less carbon-constrained regions than the EU.

As regards the EU-external environment, the process of preparing for the global climate summit to be held in Copenhagen in 2009 provided ETS reform proponents with substantial additional tailwind. The new EU climate and energy package, with a reformed ETS as the cornerstone, was cast as a means for the EU to achieve an ambitious and comprehensive agreement in Copenhagen.³⁴ This element contributed to the window of opportunity for ETS reform that was opened and utilized by ETS reform proponents and entrepreneurs at that time.³⁵

It was written into the revised ET Directive that a satisfactory deal at the Copenhagen global climate summit in Copenhagen in 2009 would mean that the EU would raise its 2020 reduction target to 30 percent, and there would be an automatic re-assessment of the ETS cap (article 28). Furthermore, there was hope that the new Obama administration in Washington would manage to get a more vigorous climate policy adopted, preferably with a national US ETS. This would mean a further leveling of the international climate-policy playing field, and a possible transatlantic carbon market.³⁶ In December 2008 then, EU leaders adopted a significantly reformed ETS for the 2013–2020 phase, subsequently endorsed by parliament. This showed that the main EU institutions had the capacity to negotiate, agree, and adopt significant reforms and improvements of the ETS. Corporate responses could also be noted. In 2009, for instance, sixty-one company CEOs signed a declaration aiming for carbon neutrality in the EU power-sector by 2050.³⁷

An “Incomplete Revolution”? Increasing Problems After 2009

Events in 2009 and 2010, however, removed the commission’s chance to enhance the ETS automatically, linked to a move to 30 percent. The Copenhagen summit failed to produce a new and more comprehensive global agreement, and was on the whole a disappointment for the EU and its negotiating strategy.³⁸ In addition, the subsequent clarification in 2010 that a US national cap-and-trade system was not seen as feasible further eroded the ability of EU

34. Skjærseth and Wettstad 2010.

35. Wettstad 2013.

36. Point Carbon 2009.

37. Scott 2012; Eikeland 2013.

38. Dimitrov 2010.

leaders to use international regulatory progress to legitimate their own initiatives.³⁹

For the member states generally, two key developments marked the years immediately after the ETS revision: the Copenhagen fiasco, and the financial crisis. I elaborate the effects of the meager Copenhagen outcome in 2009 in subsequent sections: suffice is to say here that member states cautious about climate policy did not get the guarantee that EU efforts would be matched by efforts on the part of their main economic and political competitors. As for the financial crisis, this slowed down economic activities and production levels, and brought down emissions of countries and sectors. For instance, steel production in Europe decreased by 25 percent in 2009. But that also reduced the industries' need for allowances. This development must be recognized as a central contributing factor in depressing the carbon price and creating the need for further ETS enhancement. But the growth of renewables and not least the inflow of CDM credits have also contributed to the downward pressure on the carbon price, as discussed below.

In the first years after 2008 the commission projected an overall belief in the functioning and effectiveness of the ETS, mixed with some undertones of worry. For instance in January 2010 Commissioner Hedegaard stated that "carbon trading is effective at cutting emissions," and warned against introducing a price floor or ceiling.⁴⁰ However, in May, DG Clima executives emphasized the need for the EU to go for a 30 percent target, as the potential of the ETS to spur low-carbon investment had been "severely affected for a long time."⁴¹ If the EU took on a 30 percent target, the ETS could be brought in line with this new target by going from a 21 percent to 34 percent ETS target and setting aside 1.4 billion allowances. Thus, the idea of a 1.4 billion set-aside was launched already in the spring of 2010.⁴²

The set-aside option was again floated in the 2050 low-carbon roadmap put forward in March 2011, now placed in the context of contributing to achieve EU energy-efficiency ambitions.⁴³ Leaks from the process had, however, revealed internal commission disagreements, with DG Energy reluctant about the set-aside idea.⁴⁴ Tellingly, in the roadmap there was no mention of specific set-aside figures. Responding to concerns about the carbon-price dampening effects of energy-efficiency measures in June 2011, the commission acknowledged the need to "monitor the scheme to see if allowances need to be set aside."⁴⁵ In the same month, the commission adopted a ban on the use of industrial gas credits (i.e., from CDM projects seeking to destroy HFC-23 and N₂O gases), to come

39. Wettestad and Jevnaker 2014.

40. Point Carbon 2010.

41. Euractiv 2010.

42. This figure was also put forward by British ETS watchdog Sandbag. See Sandbag 2010.

43. Commission 2011a: 11.

44. Point Carbon 2011a.

45. ENDS Europe 2011a.

into effect in May 2013.⁴⁶ This had significant short-term effects on the use of such offsets in the ETS. For instance the iron and steel sector offset around 45 percent of its emissions in 2011.⁴⁷

In autumn 2011 forces within parliament tried to help the struggling ETS by establishing a new link between energy efficiency and ETS policies. A new energy efficiency directive was being negotiated. Improvements in energy efficiency could further weaken the demand for allowances and result in a further drop of the carbon price. MEPs in the Environment Committee therefore backed the introduction of both a set-aside of 1.4 billion allowances and an increase in the linear reduction factor from 1.74 percent to 2.25 percent as amendments to the new directive 2012/27/EU on energy efficiency.⁴⁸

Prior to conclusive trilogue negotiations between parliament, council, and the commission on the new directive it became apparent in March 2012 that the member states were divided on the issue of the set-aside, with Poland putting forward the most vocal opposition.⁴⁹ So parliament-driven discussion gradually ground to a halt during the spring of 2012, ending in the adoption of a new energy efficiency directive without reference to an ETS set-aside, in June.⁵⁰

The reform ball was now squarely back in the commission's court. News started to come out about the commission preparing a reform policy package including both a temporary postponement of the auctioning of some allowances and more structural reform measures.⁵¹ DG Clima's Jos Delbeke stated that ETS reform topped his 2012 to-do list.⁵² It also became apparent that, within the commission, views differed on ETS reform, with DG Enterprise in particular questioning both the need for ETS intervention and the legal foundation for postponing allowance auctioning.⁵³

In a staff working document published in July 2012, DG Clima outlined its main plans and options for further ETS tightening. Two key elements were introduced: first, postponing the auctioning of a certain amount of allowances—"backloading" in EU-speak. Stakeholders were asked to consider three main options for the exact amount of allowances to be held back: 400 million, 900 million, or 1.2 billion. Further, proposals for more fundamental ETS reforms would be launched later in 2012.

The "Carbon Market Report" was published in November 2012.⁵⁴ With regard to backloading, the commission had landed on a suggested figure of 900 million allowances to be held back from being auctioned until 2019/2020.

46. Commission 2011b.

47. Sandbag 2012a, b.

48. Euractiv 2011a; ENDS Europe 2011b.

49. Point Carbon 2012c.

50. Point Carbon 2012d, f.

51. Point Carbon 2012e.

52. EU Energy 2012.

53. Point Carbon 2012b, g.

54. Commission 2012.

An oversupply of as much as two billion allowances at the start of the third trading phase was indicated. Hence, a menu of six main options for more permanent structural enhancement of the ETS was presented:

- Increasing the EU GHG target to 30 percent in 2020.
- Retiring some allowances in phase 3, by a separate decision that would not require full-fledged revision of the 2009 directive.
- Early revision of the annual linear reduction factor. The 2009 directive had indicated that a review would start in 2020 and be finished by 2025.
- Extension of the scope of the ETS to other sectors. The example of fuel consumption in other sectors was mentioned.
- Limit the access to international credits. It was indicated that a “generous quantity limit” on the use of such credits had turned this factor into a “major driver for the build-up of the surplus.”⁵⁵
- Discretionary price-management mechanisms. Two were suggested: a carbon price floor which would “create more certainty about the minimum price, giving a better signal for investors;” and a price management reserve, to withhold or release some allowances as seen fit.

There are indications that DG Clima believed that the main stumbling block regarding the backloading proposal and subsequent structural ETS reform was getting a qualified majority of member states onboard, as the backloading ball was first passed to the Climate Change Committee in the fall of 2012. Climate Commissioner Hedegaard called the backloading proposal a “no-brainer really.”⁵⁶ Discussions in the committee, however, quickly showed that member states were split, with a probable initial blocking minority. However, surprisingly, parliament proved to be a key stumbling block. Due to the uncertainty created about the legal foundations of backloading, the commission decided in autumn 2012 that parliament needed to be consulted at an early stage.⁵⁷ Preliminary discussions had revealed substantial opposition to ETS intervention in parliament, particularly within the largest grouping the EPP.⁵⁸ A non-binding opinion adopted by the industry committee in January 2013 showed a majority to be against backloading.⁵⁹ In the environment committee in February, a first vote showed a moderate majority for backloading (38 against 25, with two abstentions).⁶⁰ However, that majority was not seen as sufficient to start dialogue talks with the council and the commission on the finalization of backloading—

55. Commission 2012: 9.

56. Point Carbon 2012h; interviews 2012.

57. Point Carbon 2012i.

58. ENDS Europe 2012b; Point Carbon 2013a.

59. ENDS Europe 2013a.

60. ENDS Europe 2013c.

a plenary vote was deemed necessary.⁶¹ The voting, held on April 16, yielded a slight majority against backloading (334 against, 315 for).⁶²

This dealt a serious blow to the ETS reform process. However the ETS has many friends in the EU, and efforts were soon underway to get the process back on track. A watered-down and “sweetened” version of the backloading proposal was then put together, and adopted by the environment committee in mid-June.⁶³ In another surprising turn of events, when the parliament plenary discussed and voted on backloading once again at the beginning of July 2013, the outcome was a supporting majority, a complete turnaround—but for the original proposal from the commission, not the watered-down version.⁶⁴ The council then adopted the backloading proposal in early January 2014.⁶⁵

Based on stakeholder responses, the commission launched the main ETS reform proposals in mid-January 2014, within the framework of proposals for a new EU 2030 climate and policy framework.⁶⁶ The key proposal was to establish a market stability reserve from 2021 on, automatically setting aside or releasing allowances dependent upon the number of allowances in circulation (and size of surplus).⁶⁷ In addition, two proposals linked to the proposed 40 percent reduction target were put forward: an increased linear reduction factor (from 1.74 percent to 2.2 percent) and no new CDM credits after 2020.⁶⁸ This meant that the commission had put aside the most politically controversial options (such as more short-term permanent retirement) and had opted for a more long-term, technical, and de-politicized approach.

Four Key Perspectives on Why Reform Has Been So Complicated

What has changed, then, more specifically? Seen through intergovernmentalist lenses, a major stumbling block is simply that member states do not agree on ETS reform and there is probably a blocking minority as regards more structural ETS reform. Back in 2008 there was not full agreement either. However, the reluctance of opponents has grown stronger, apace with the financial crisis and worries about economic competitiveness. This development has also contributed to putting key actors like Germany very much on the fence, and has weakened the drive for the majority of member states to push wholeheartedly for structural ETS reform.

Among the selected key member states, the UK has retained an ETS and climate policy frontrunner position. It has supported the need to move to a

61. EU Energy 2013.

62. Point Carbon 2013b.

63. ENDS Europe 2013d.

64. ENDS Europe 2013e.

65. ENDS Europe 2014.

66. A new climate and energy package for 2030 had been announced in the spring of 2013. Commission 2013; ENDS Europe 2013b.

67. Commission 2014a.

68. Commission 2014b.

30 percent reduction target for the EU. In 2011, a UK carbon price floor was adopted and formally introduced in the spring of 2013.⁶⁹ As to the process of ETS enhancement and backloading, the UK came out as a supporter quite early, although it was not among the very first.⁷⁰

In Germany, a key development has been the “Energiewende” in the wake of the Fukushima accident in 2011. This shift has meant greater weight given to renewables in the energy mix. As mentioned, the growth of renewables in key member states has contributed to reduce the demand for allowances.⁷¹ In the emerging debate on further ETS enhancement and particularly the issue of backloading, Germany did not signal a clear position initially. Germany is home to important energy-intensive companies opposed to ETS reform. So Germany shows perhaps the most prominent example of an important development to note here: that many EU member states did not really call for further, sweeping changes to the governance of the ETS.

Then there is Poland, which has remained a major stumbling block in EU climate policy, including the ETS. For instance, when the EU low-carbon roadmap for 2050 was discussed in 2011, Poland refused to sign.⁷² In explanation, Polish representatives have emphasized that the country gets about 90 percent of its electricity from coal and will resist anything that would target its coal industry and threaten the economy and energy security.⁷³ All in all, Poland is the most prominent example of the third important development here: that several member states, many of them Eastern European newcomers, clearly resist further changes to the governance of the ETS.

New institutionalist lenses zoomed in on industries also contribute some pieces to the puzzle. Compared to 2008 the overall positioning of the key industries is not so different: power producers are quite positive towards ETS reform; energy-intensive industries are basically opposed. But again, the financial crisis has amplified the latter’s reluctance to engage in any “tinkering with the ETS.” The surplus of allowances and low carbon price mean that they have experienced an almost-bonanza, and they want to keep these happy times as regards climate policy going for as long as possible.

Putting on supranationalist lenses, we see the division within and between the commission and parliament come into focus. Compared to 2008 this is a matter of degree, because there were divisions back then as well. The financial crisis has, however, made conflicts deeper and harsher, pushing climate change down the political agenda. The organizational context is of course different from 2008, although several processes are now underway simultaneously, and there is still the theoretical possibility of integrative issue linkages in the 2030

69. Sandbag 2012a.

70. ENDS Europe 2012b.

71. However, the increase in renewables is a separate goal in EU climate policy and generally seen as a key ingredient in the long-term low-carbon transition process.

72. Point Carbon 2011b.

73. Euractiv 2012.

policy package. Parliamentarians sought to link ETS reform and energy efficiency in 2012, but failed. In sum, all three internal perspectives offer important pieces of evidence; they are all complementary and necessary.

However, it is arguably in the interaction with the external environment that the most important changes have taken place. The failure of the global climate summit in 2009 took away the possibility of a quick, further tightening of the ETS. Subsequent progress in global negotiations has been slow, and has not provided ETS reform entrepreneurs with backing and legitimation like the dynamic achieved back in 2008. However, the establishment of the Durban Platform for Enhanced Action in 2011 has provided a certain new momentum, and a new global treaty is to be negotiated in Paris in 2015, set to enter into force in 2020.⁷⁴

Other links between the EU ETS and the external environment have only added to the problems experienced by the ETS. As noted, companies in the ETS have been allowed to use global credits for compliance, within certain limits. The inflow of such credits was moderate in 2009 and 2010. In 2011 a further tightening of access to CDM credits was adopted, to come into effect in May 2013. This spurred a rush to use such credits before they became worthless, and CDM use increased by a dramatic 85 percent in 2011, covering 13 percent of emissions that year.⁷⁵ EU firms also used substantial amounts of global offsets in 2012.⁷⁶ This inflow has contributed to downward pressure on the carbon price and the possibility of increased banking of allowances into the post-2013 phase.

Conclusion: ETS Reform is Complicated but Not Impossible

Summing up the pieces of the puzzle, the window of opportunity which opened wide for new and more ambitious climate policy back in 2007/2008 is now much more narrow. Although it temporarily reduced emissions, the financial crisis has been a central negative factor in this development. Still, it must be noted that public opinion has remained surprisingly steady. The pressing question becomes: can the window be opened again? In 2014, the chances look slim—but they do not stand at zero. The theory lenses utilized in this article can help us identify some of the central determining factors.

From the intergovernmentalist perspective, a core question is whether Poland will continue to block EU climate policy progress, including ETS reform. However, several reports point out that if the price of carbon rises, so will the revenues available to finance ministers.⁷⁷ Calculations of this kind might influence Poland and other reluctant countries. Turning to industries, an important question is whether the opposition on the part of the energy-

74. Euractiv 2011a; interviews 2012 and 2013.

75. Sandbag 2012b.

76. Point Carbon 2013c.

77. See Öko-Institut 2012.

intensive industries will persist. An economic upswing could help, but ETS reluctance within these industries has very strong roots.

Looking at matters through supranationalist lenses, we know that organizational changes can open political windows. Both a new commission and a new parliament will be elected in 2014. If the economy picks up speed and loosens its grip on the political agenda, ETS reform could be chosen as a policy flagship for the newly elected EU officials and politicians. However, analysts have predicted an overall less-green new parliament. As regards external developments, back in 2008 the then-awaited Copenhagen summit contributed political energy to EU entrepreneurs. There are new global negotiations coming up in 2015 and there have been efforts to create this dynamic again.⁷⁸ But Brussels insiders are skeptical about the possibilities here: “we’ll never get away with that again!” they suggest.⁷⁹ To conclude: the proposed reform of the ETS is a mission that is certainly complicated—but not impossible.

What can policy entrepreneurs do in these circumstances? On the one hand, many of these problems are structural and complex and not so easily softened or “fixed.” Still, I would point to the importance of a continued highlighting of the loss of auctioning revenues linked to a continued low carbon price. Over time this could increase the interest of reluctant member states in ETS reform.

Finally, will a defeat of the reform proposals lead to an abandonment of the system? My answer is no. First, the cornerstone ETS is indeed a political prestige project for the EU. Second, I see no obvious alternatives that can be quickly adopted and function as common EU policy. Third, although the system has so far functioned sub-optimally (from an environmental perspective), the ETS has already made a cognitive impact, even within the continuously over-allocated energy-intensive industries.⁸⁰ Fourth, the linear reduction factor means a gradual tightening of the system, not stopping in 2020. The system will inevitably become tighter and the inflow of global credits will also decrease. This will mean a higher carbon price that will start to function as envisaged by the initial system entrepreneurs.

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