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# The EU emissions trading 'revolution' in 2008

## A failed policy innovation?

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# Structure

- Focus: the ETS ‘revolution’ in 2008; as policy innovation
  - **Invention**, diffusion, evaluation
- Explaining invention
  - Internal and external factors
- Brief notes on diffusion and evaluation
- ‘A failed innovation’?



# The ETS 'revolution' in 2008

- The EU ETS post-2012 was radically changed in 2008:
  - Centralization, harmonization, market streamlining
- Particular attention to cap-setting model
  - Length: from 4 to 8 years; linear continuation
  - Breadth/scope: more gases, sectors
  - Depth: common cap, 21% by 2020 (2005)



# The ETS 'revolution' in 2008

- Jordan / Huitema on 'policy innovation'
  - 'process/product to develop new, widely adopted and impactful policies when existing ones are perceived as under-performing'
- Three dimensions:
  - Invention // Diffusion // Evaluation



# The ETS 'revolution' in 2008

- 'Failed innovation'?
  - Price volatility after 2009/allowance surplus/low carbon price from 2011 on
- Widely diverging perceptions, even among NGOs
  - EDF: success! – Carbon Trade Watch: failure!
- Important, but not obvious, what we can learn from the EU ETS



# EU internal factors shaping invention

- Law: 20/20/20 by 2020 adopted in 2007
- Politics: ETS price crash and ‘shock’ in 2006
  - cf. ‘under-performing existing policy’
- Economy: this was *before* the financial crisis
  - Excluded from the modelling
  - Due to ‘politics’
    - Commission officials did not want to be seen as ‘wicked messengers’



# External factors shaping invention

- The Copenhagen summit in 2009
  - The EU hoped improved internal climate policy would help bring about a positive outcome
- Some continued US inspiration
  - Waxman–Markey inspired the introduction of a more long–term linear trajectory



# Notes on diffusion and evaluation

- Limited diffusion abroad?
  - Little interest in California
  - Which conclusions do China draw?
- Evaluation: limited critical re-appraisals so far?
  - Still, the Market Stability Reserve proposal can be seen as learning
    - Also about policy interaction..





# A failed policy innovation?

- Weaknesses:
  - Exclusion of economic fluctuations from modelling
  - Not sufficient attention to policy interaction?
- But too early to really conclude
  - ETS started a decade after the UNFCCC...
- EU ETS as the ‘new grand experiment’
  - Limited possibility to learn from others



# A failed policy innovation?

- Unfortunate circumstances
  - A deep financial crisis set in end of 2008..
- Global set-backs; both Copenhagen, the US..
- So in order to draw right lessons:
  - Keep history in mind
  - Keep differing governance challenges in mind
    - The EU very different from China
  - Combine insights from different disciplines

