

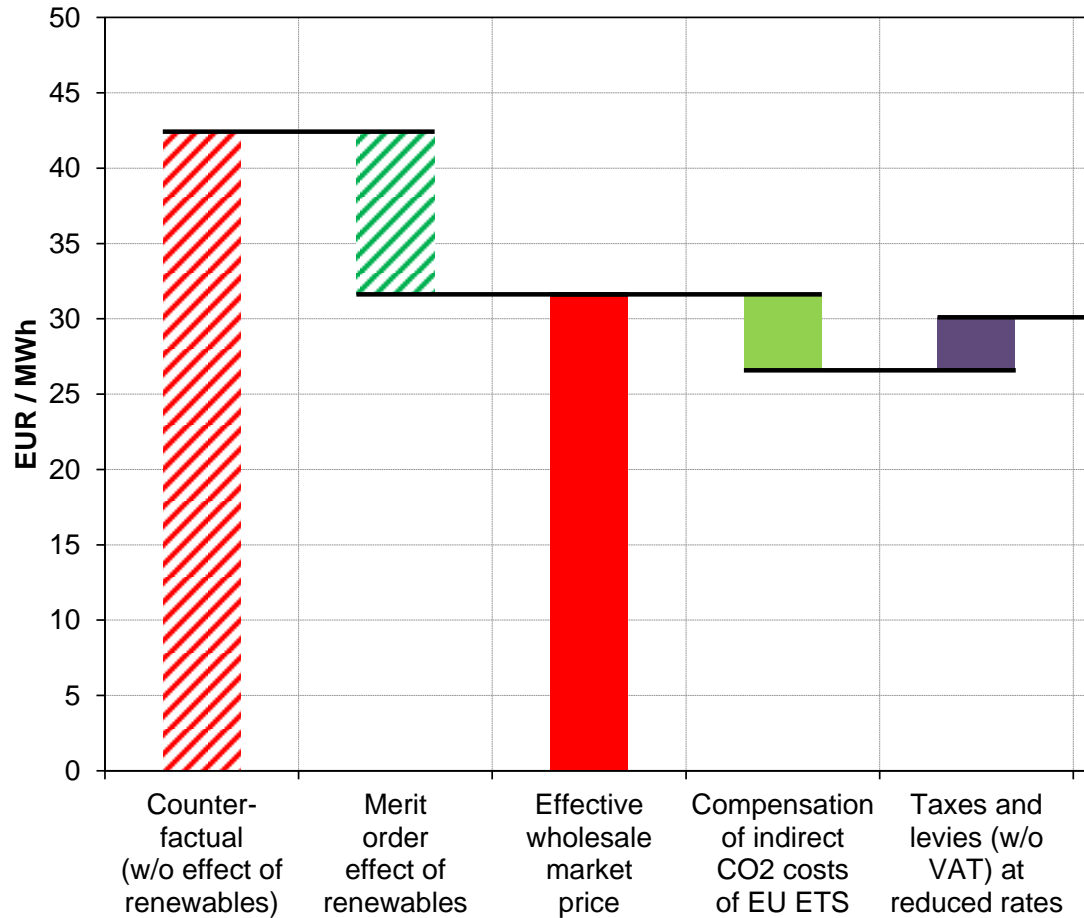
# Combined analysis of technical and policy options

**Partnership for Market Readiness (PMR) Technical Workshop  
» Post-2020 Mitigation Scenarios and Carbon Pricing Modelling «**

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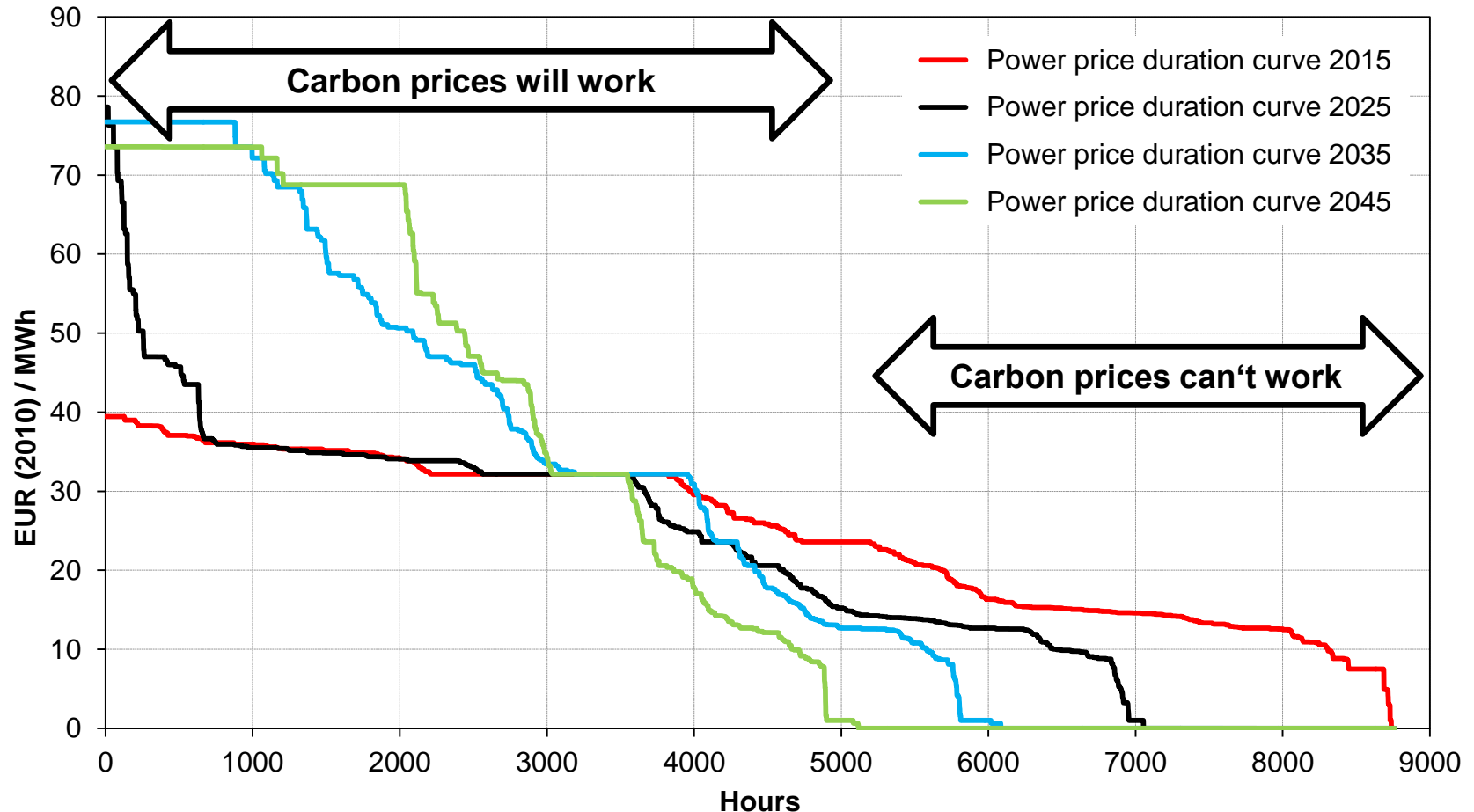
- **Strong interrelations from climate to other policies**
  - energy policy (strategic sector in most countries, characterized by long-lived assets, specific industry structures and industry regulation)
  - economic/industrial policy (competitiveness, targeted structural change, targeted structural conservation, economic integration)
  - distributional policy (social and economic structures)
- **Sector fundamentals for the (planned) scope of policy mechanisms**
  - sectors in a competitive environment (with/without ability to pass-through carbon costs – relevant for the competitiveness)
  - sectors in a regulated environment (with/with limited/without ability to recover carbon costs – relevant for effectiveness & efficiency)
  - sectors with limited responses to prices (by many reasons)
- **“Tinbergen approach” (one target = one instrument) vs. explicit policy integration: many differences but a common challenge, managing the complexity and policy coordination**
- **Not to forget: political cultures & traditions & political windows**

# And not to forget: Preventing entities from gaming different mechanisms from different policies



# Beyond market failures: market design failures

## Climate strategies based on options /w low STMC

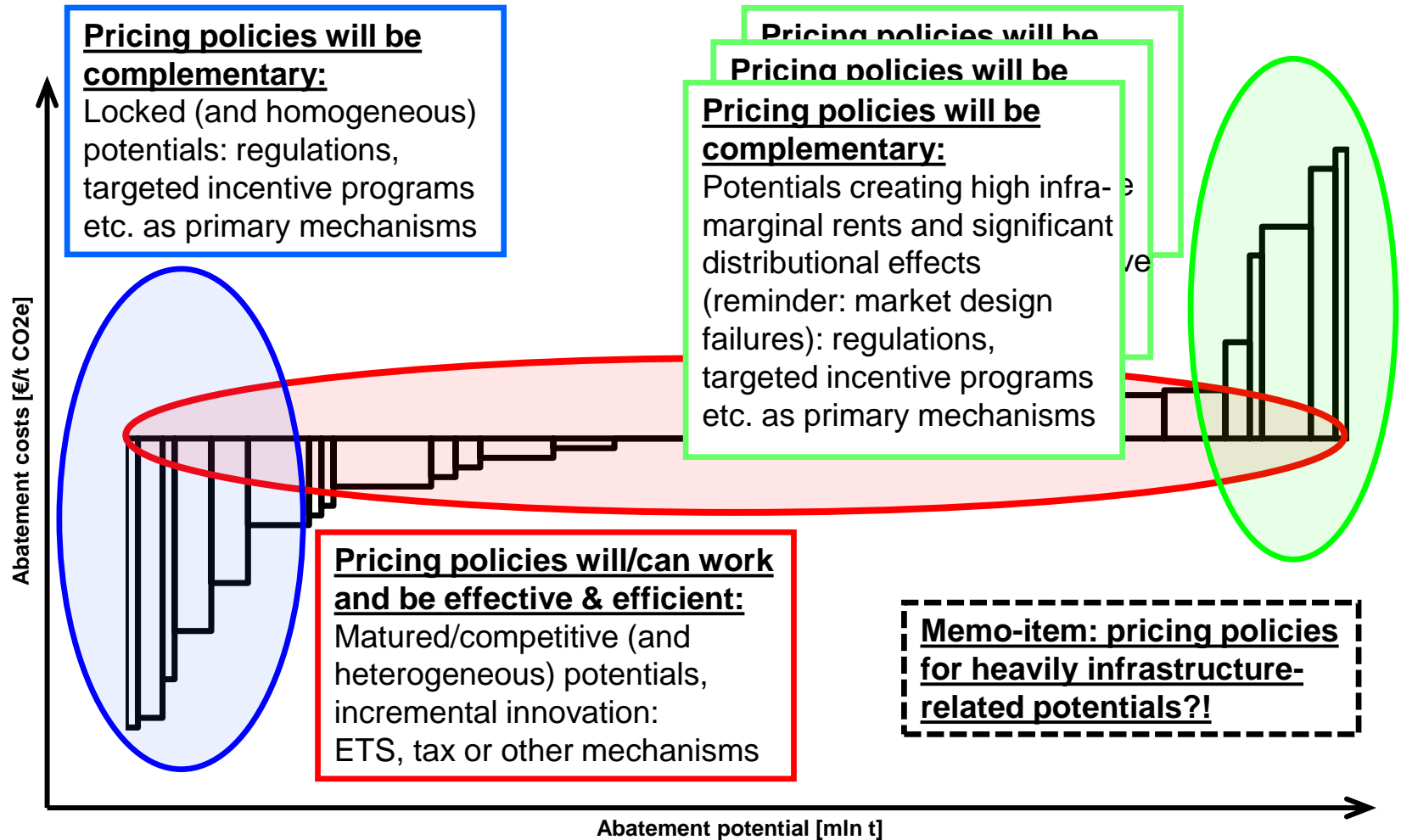


- (Economic) characteristics of the capital stock
- Time horizon / levels of ambition over time
- Primarily addressing investments and/or operations

- **Effects of complementary policies to climate/carbon pricing policies**
  - reinforcing effects, emission abatement from other policies (e.g. energy efficiency, renewables etc.)
  - countervailing effects for emission abatement (subsidies, regulatory barriers)
  - distorting effects (influencing economic efficiency in a broader framework)
- **Effects on other policies or policy goals**
  - distributional effects (e.g. free allocation, windfall profits, spending of tax or auctioning revenues)
  - reinforcing effects (e.g. spending of tax or auctioning revenues for innovation, industrial policy)
  - ancillary benefits (e.g. other environmental benefits, energy security)
  - fiscal policy implications
  - competition policy & sector regulations

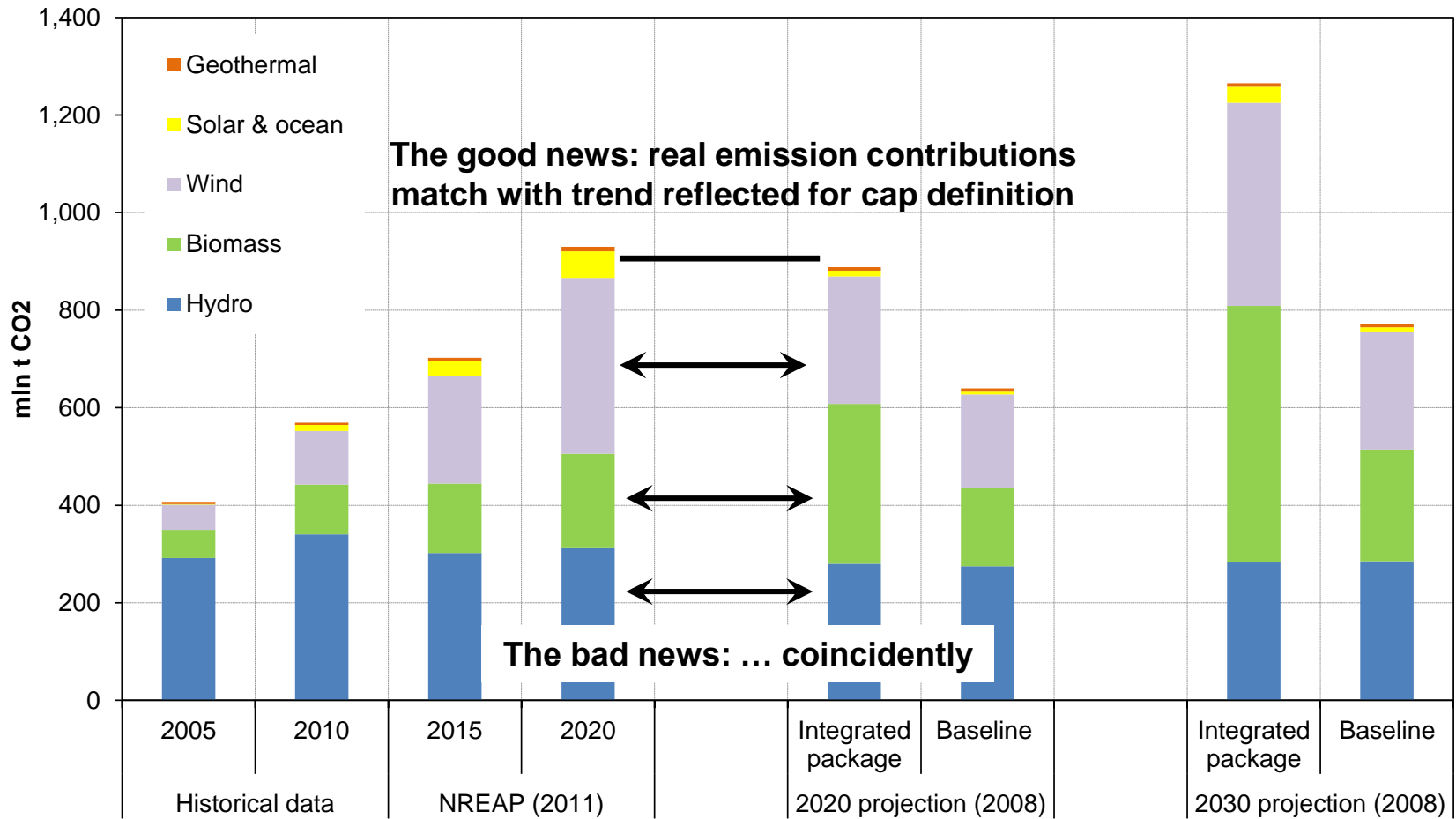
- **Policy coordination by design of the policy mix**
  - comprehensive policy planning: systematic design of policy mixes
  - reflecting all dimensions (effectiveness, economic efficiency and distributional issues)
  - reflecting low-carbon investments and carbon-minimizing operations

# A comprehensive and well-designed policy mix needs comprehensive and well-designed analysis



# Policy interactions: Support of RES & the EU ETS

## Merits and limits of coordination by planning

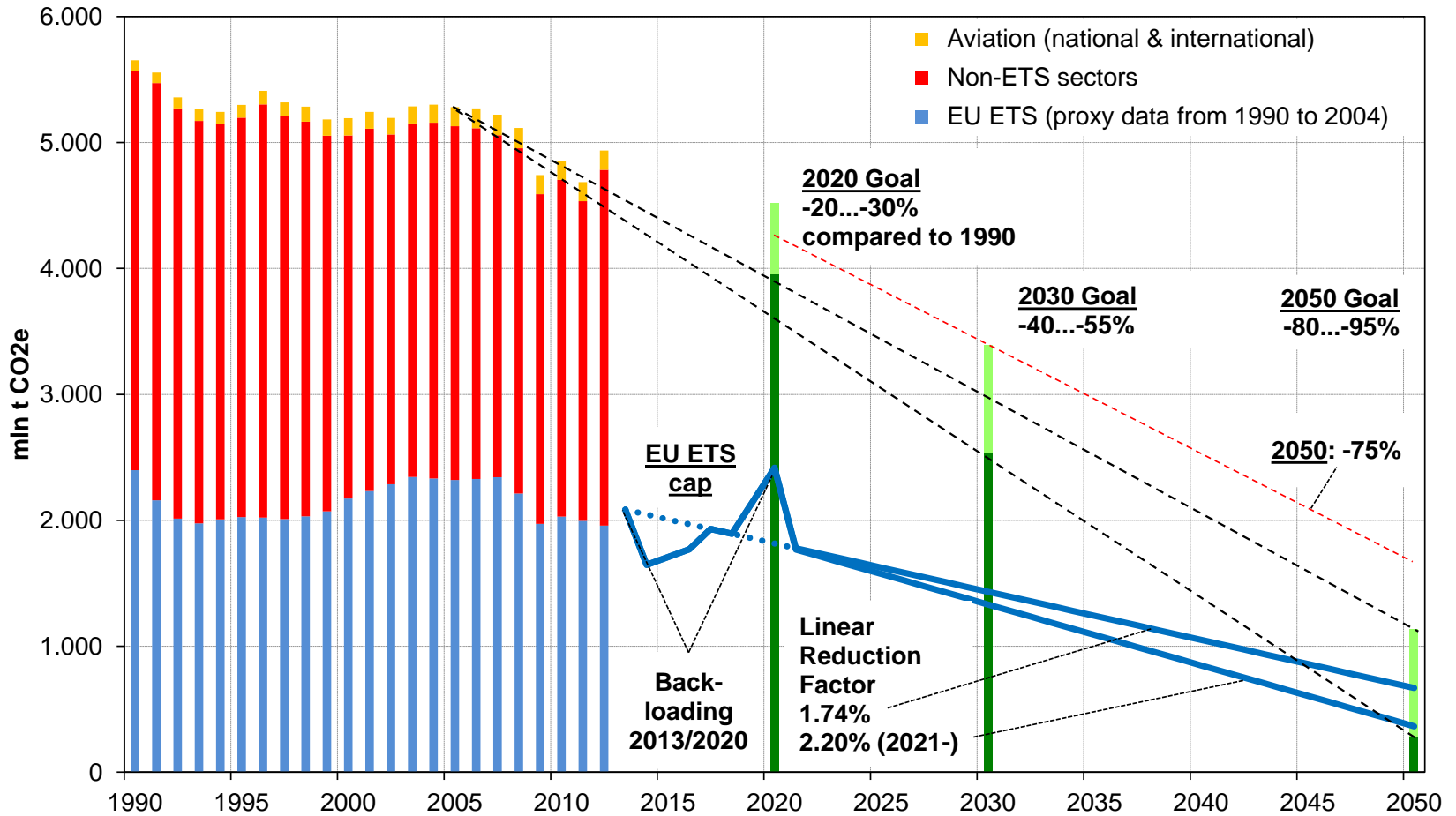




- **Policy coordination by careful ex ante planning**
  - reflection of interactions in the design of policy mechanisms
  - significant uncertainties remain (policy uncertainties, macroeconomic uncertainties, fuel market environment, technological progress)
  - suitable for short revision cycles
- **Policy coordination by designing responsive carbon pricing tools**
  - price control with quantity-based elements (tax instruments with offsetting instruments)
  - quantity control with explicit price elements (price floors etc.)
  - quantity control with quantity/scarcity-based price elements (MSR of the EU ETS, exchange rates)
  - other flexibility designs (conditional allowance cancellation, etc.)
- **Policy coordination by integrating the longer-term horizon**
  - explicitly: long-term caps (if appropriate and possible)
  - complementary: other framing options (long-term contracts etc.)

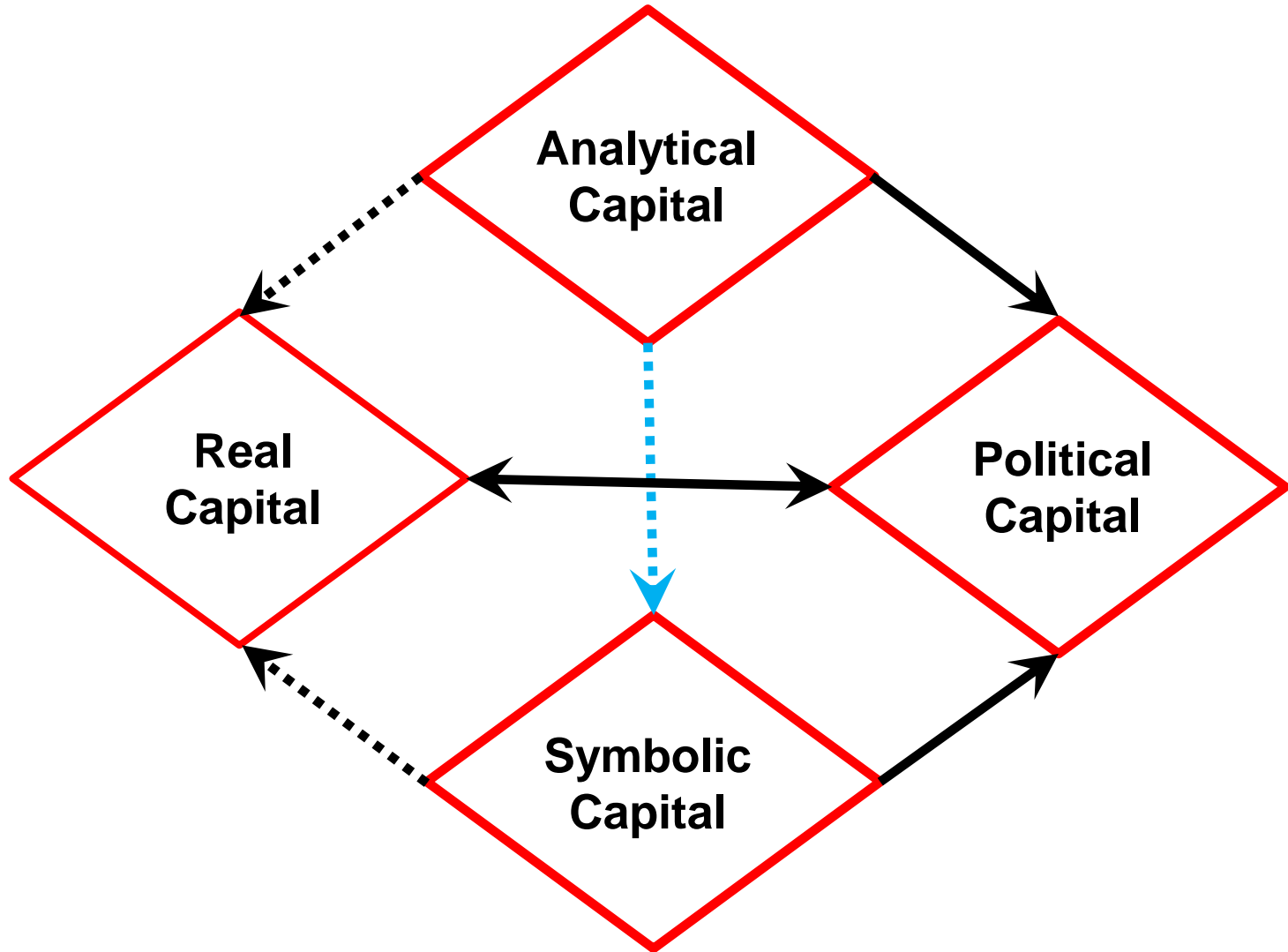
# Long-term framing to enable low-carbon investments

## Long-term caps and/or other long-term mechanisms



- **Key role of revenue recycling**
  - enabling the double or triple dividend (labor cost, removal of structural barriers, triggering innovation, addressing targeted structural change)
  - managing distributional challenges (affordability, competitiveness)
  - fostering political buy-in
  - not to forget: international integration
- **The key challenge: maintaining incentives from pricing instruments and enabling appropriate compensation strategies**
  - lock-in effects from a wide range of compensation provisions which can distort or erode the price signals (free allocation, tax deductions etc.)
  - the preferential but much more difficult approach: using (more targeted) revenue recycling approaches for compensation purposes

# And last but not least: The world beyond the analytical capital and the often missing link



**Thank you  
very much**

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