

Domestic Emissions Trading Schemes: Readiness Preparation and Challenges for Implementation

**Partnership for Market Readiness (PMR)
1st Partnership Assembly Meeting (PA1)**

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Lesson #1: Setting-up market based instruments is a learning process

- **Phase 1**:** **Preparation**
Identify the role of ETS in the policy mix and interactions with other policies, analyze the options carefully (accepting that phantasy of the market will be greater than the phantasy of the designers)
 - **Phase 2**:** **Early Implementation (Piloting)**
Try it in practice (avoid long-term poisoning of the scheme from failures in the early phase)
 - **Phase 3*:** **Acceptance (piloting -> broad implementation)**
Allow regulators, regulated entities and third parties to learn to life with the scheme
 - **Phase 4:** **Large-scale impacts (broad implementation)**
Bring the scheme to its full potential, implement a design which reflects policy interactions extremely carefully
- * special relevance for market readiness measures
- ** extremely high relevance for market readiness measures

Lesson #2: Different dimensions of learning should be addressed with a balanced approach



		Legislator/ Regulator	Regulated entities	Third parties (service providers, NGOs et al.)
ETS	Capacity/ Basic skills	Phase 1**	(Phase 1**)	Phase 1**
	Experience	Phase 1**+2**	Phase 2**	Phase 1**+2**
	Acceptance	Phase 1**+2**	Phase 2**+3*	Phase 2**
ETS + „RoP/ RoM“	Infrastructure (legal, services, technical)	Phase 1**+2**	Phase 2**+3*	Phase 1**+2**
	Policy mix, Policy interactions	Phase 1**+3*+4		Phase 3*+4

Lesson #3: It is about quantity controls, it is about high quality and trusted data

- **A market-based instrument for an immaterial commodity (emission allowance) must be based on high-quality and accountable data**
 - Markets should trust in the data
 - Third party verification of data and transparency are key
- **Time consistency is more important than precision (at least in the beginning)**
- **Clear guidelines are necessary for monitoring as well as for verification (including accreditation)**
 - Monitoring and reporting provisions are important
 - Procedures and institutional arrangements are key
- **Data issues should be addressed parallel to the design phase**
- **Memo item: The data issue is a key determinant for the definition of the scope of the scheme**

- **Cap setting is key for the scheme**
 - Cap creates the primary price signal
 - Clear procedures (and institutional arrangements) are important ('Chinese walls' between cap-setting & allocation)
 - Interactions with other policies and measures must be reflected
- **Allocation is the key challenge for the scheme**
 - Highly controversial (because it is also a distributional issue)
 - It is not only about distribution, allocation is essential for incentives (price signal)
 - distributional effects between incumbents ('early action') and incentives
 - distributional effects & incentives for incumbents vs. new entrants

Lesson #5: Finding the right balance between flexibility and simplicity

- **Complexity and flexibility should be limited as much as possible**
 - Regulated entities ask for special provisions and flexibility, this leads to complexity
 - Complexity mostly decreases transparency
 - Complexity incentivizes gaming
- **Designing schemes with reduced complexity requires courage and experience as well as broad stakeholder involvement (... and some Enlightenment at least)**

Lesson #6: Other technicalities matter and should be addressed early

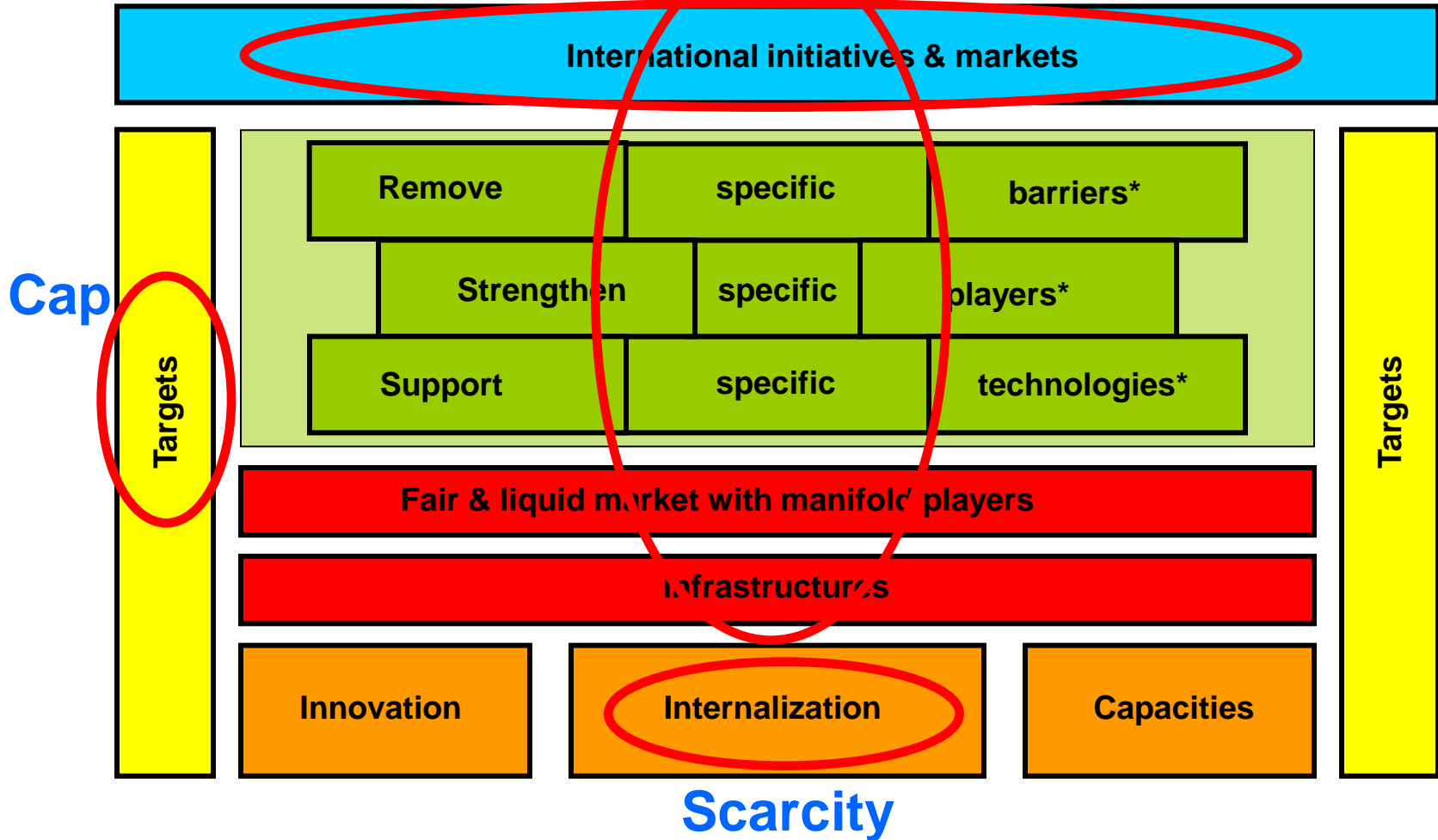
- **There are important technicalities beyond the narrow framework of the scheme which should be addressed at an early stage (to ease the phase-in for the regulated entities and to avoid crime and fraud)**
 - Many legal issues
 - Permitting and allocation
 - Compliance and enforcement
 - Taxation (VAT ...)
 - Liabilities
 - Accounting issues
 - Market oversight issues
 - Market transparency issues (publication strategies ...)
- **Respective stakeholders should be brought in early**

- **The role of economic instruments**
 - which can trigger cost-effective decentral decision-making based on relative prices
 - Fair comparison is needed: real world taxes vs. real world ETS
 - flexibility to an changing (economic) environment and to other policies
 - for those sectors which are sensitive to prices
- **The role and evolution of market-based instruments**
 - price signals created by markets
 - robust and non-distorted price signals for regulated entities
- **The interaction of ETS with other policies and measures must be carefully analyzed and balanced**

Linking

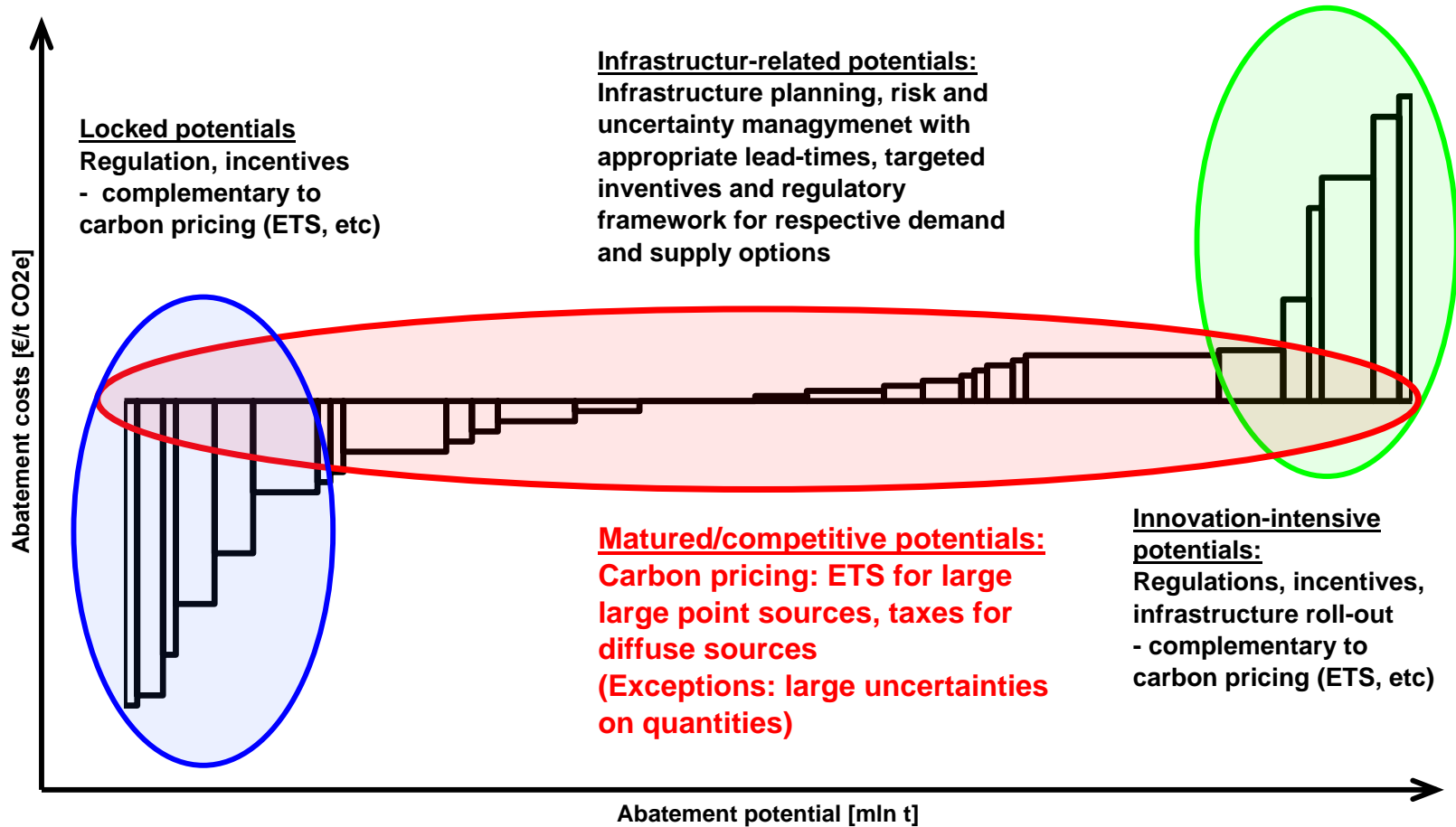
Allocation

Auction revenue spending

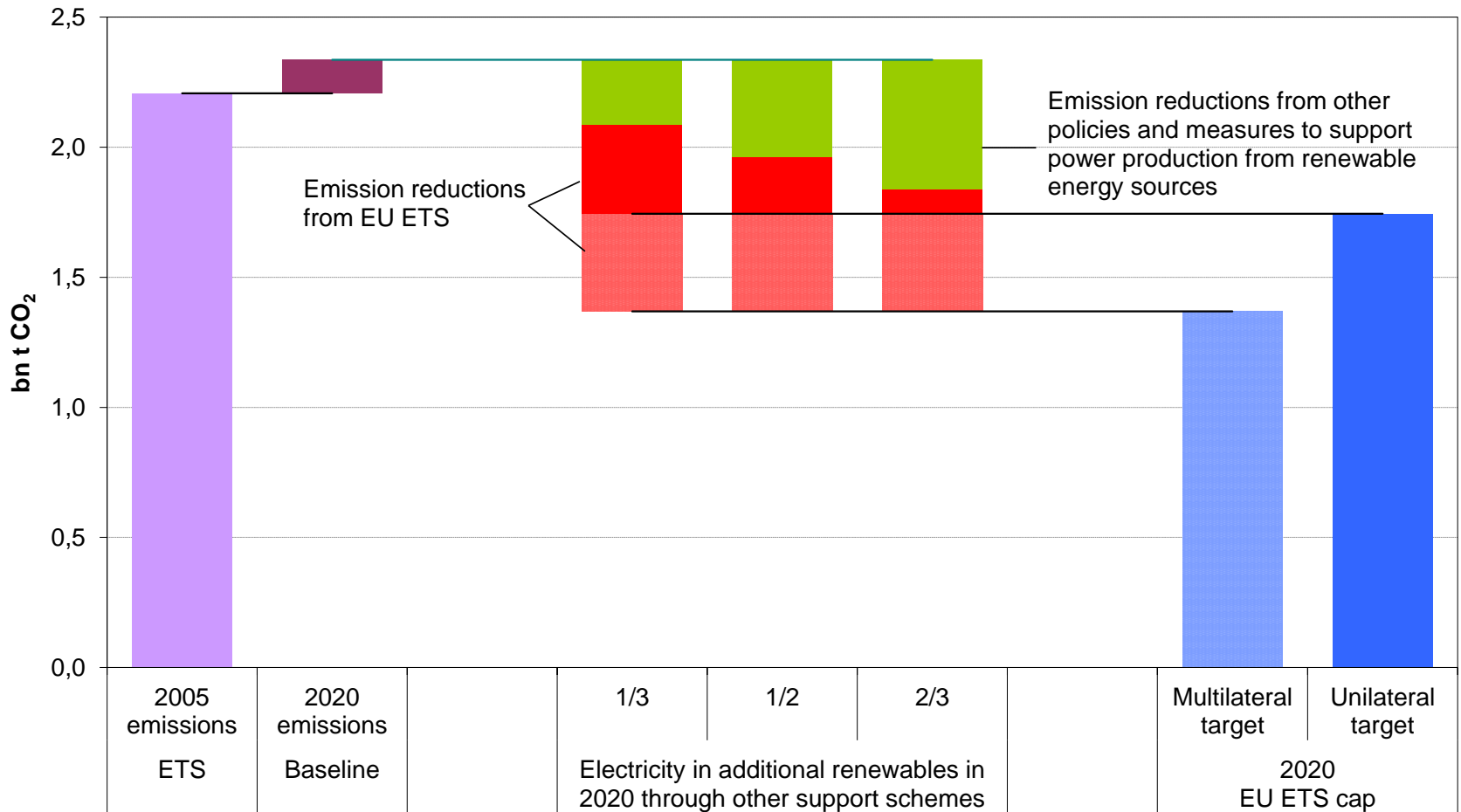


* Evaluate, modify & eliminate specific policies, if necessary

Lesson #7: EU ETS is a central pillar of an comprehensive & ambitious policy mix



Lesson #7: Interaction of policies must be reflected carefully



**Thank you
very much**

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