

# **Implications for Policy Design. EU politics post-Copenhagen**

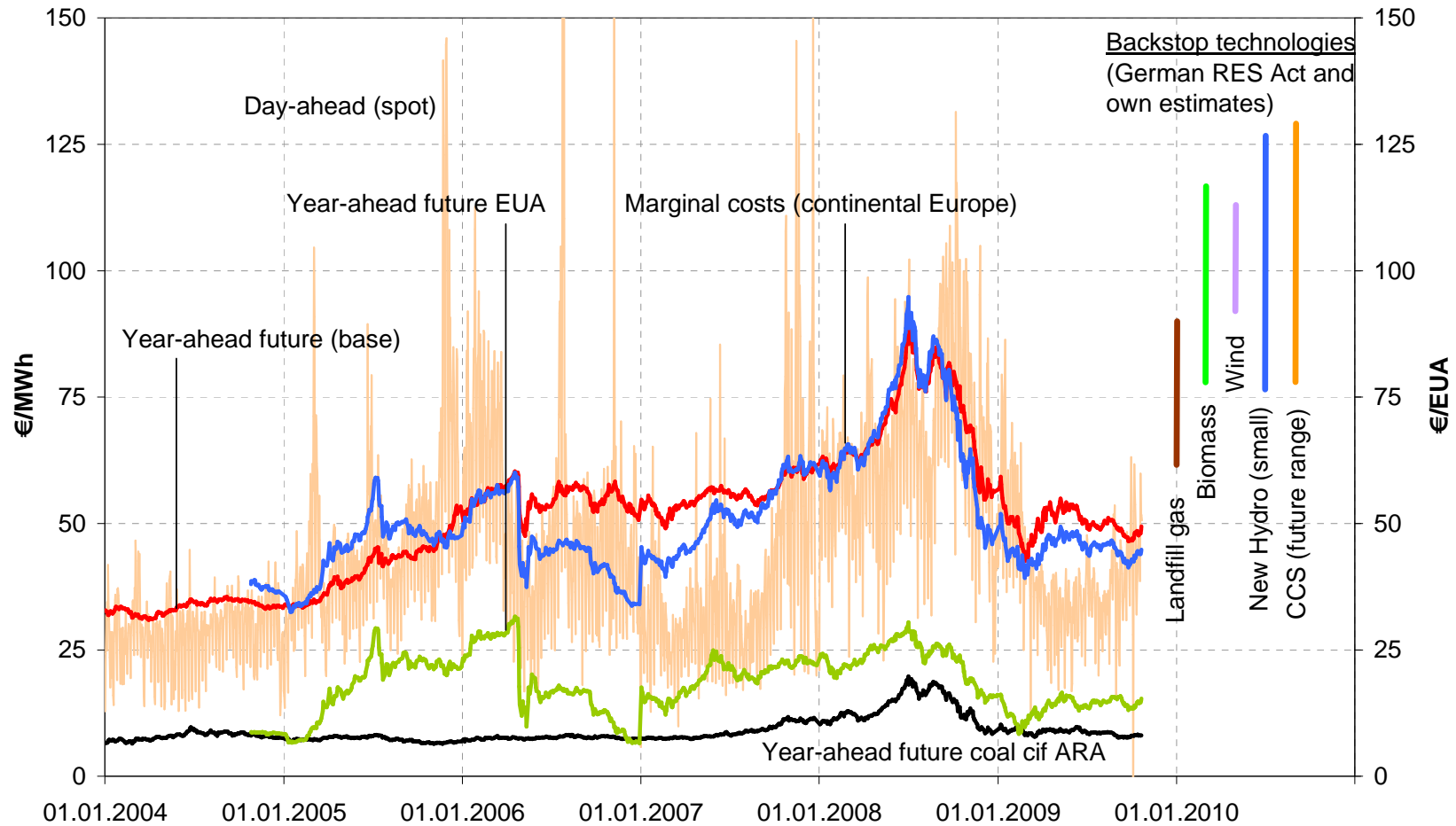
**Climate Policy Initiative (CPI) / Climate Strategies Round Table  
„Carbon Pricing and Investment Responses“**

**Felix Chr. Matthes  
Berlin, 5 February 2010**

## The real-world framework for policy design

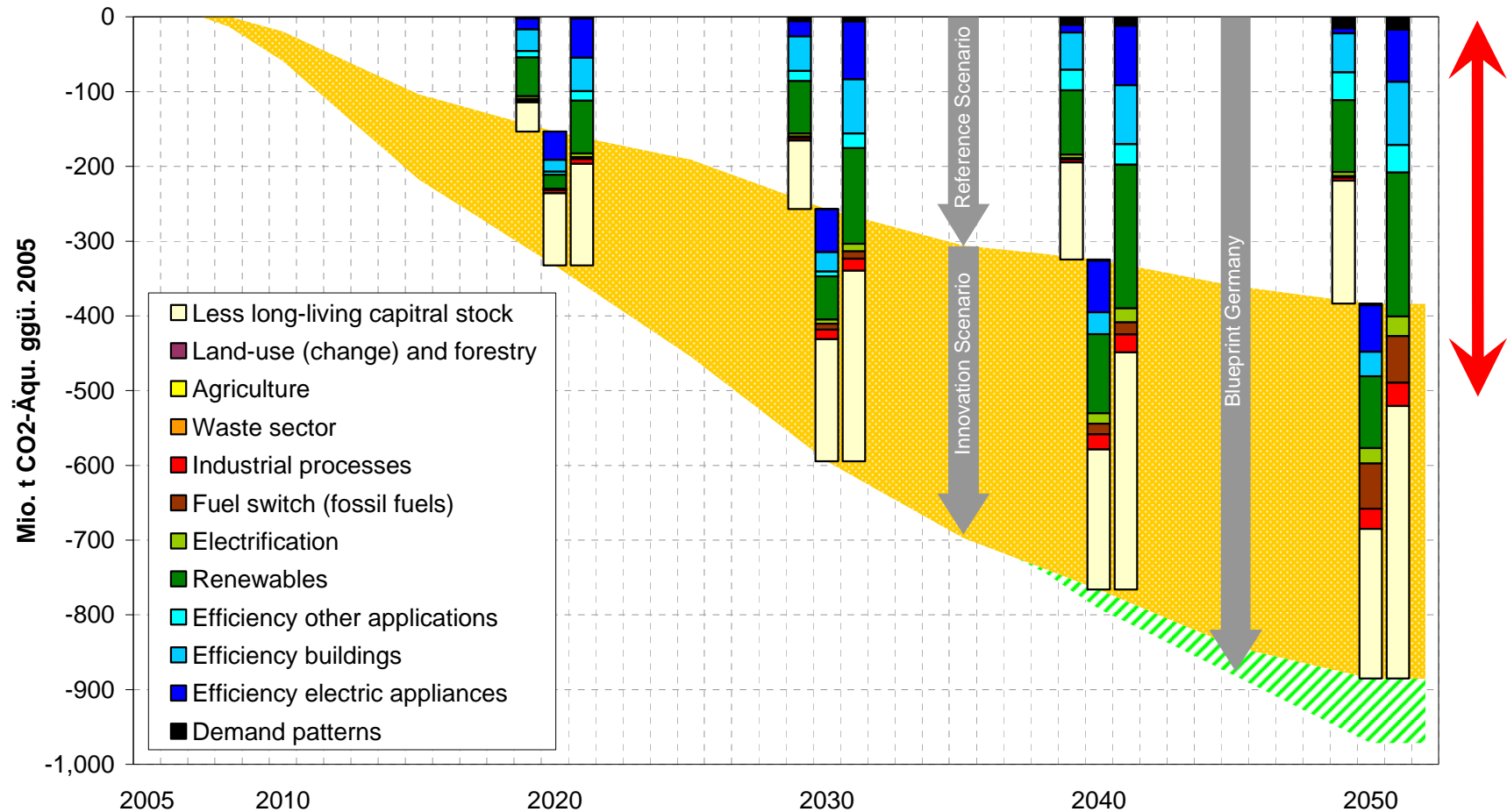
- **With regard to GHG mitigation, the Copenhagen process provided and provides more clarity and less certainty**
  - More clarity
    - The future climate regime (whatever it is) will be much broader
    - The long-term goal (2°C) became more clear
    - Who wants to know, knows: that will require full decarbonisation in industrialized and far-reaching emission reductions in developing and emerging countries
  - Less certainty
    - Short-term targets and framework
- **The EU climate policy provides some certainty to the European and international process and at the same time it must deal with the short term uncertainties**

# ETS is necessary but not sufficient for an ambitious climate policy



# A fresh look on priorities is needed

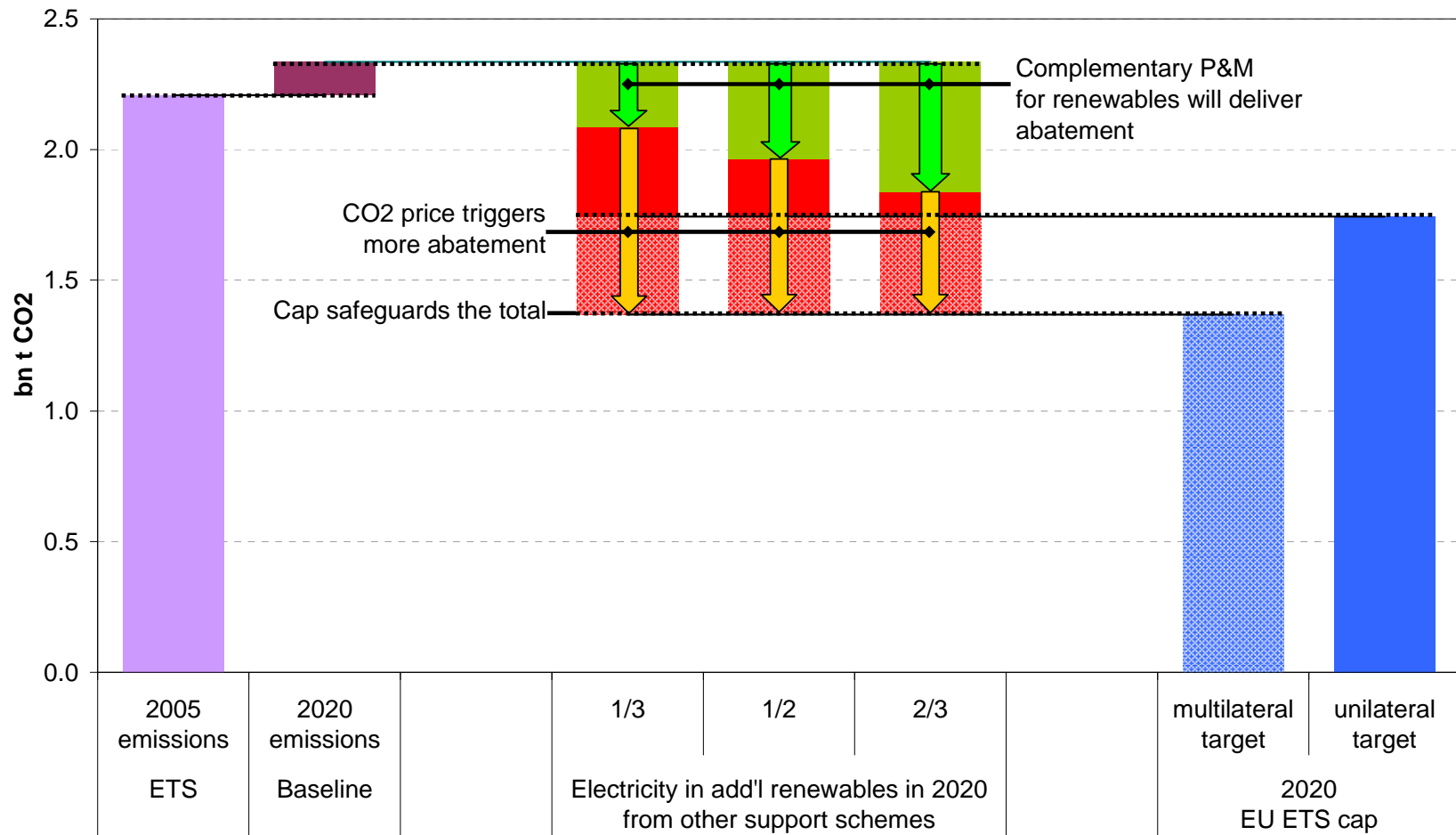
## The role of the long-living capital stocks



# The role of ETS-based carbon pricing with ambitious climate policies

- **Successful long-term policies should target different levels**
  - Optimization of operations
    - ETS trigger for the power sector: 13 €/MWh at the moment, 30 €/MWh in future?
  - Incremental (short- to medium-term) innovation
    - ETS trigger for the power sector: 500 €/kW at the moment, 1.500 €/kW in future?
  - Radical (medium- and long-term) innovation
    - Is the ETS trigger alone sufficient?
- **This puts a complicated question on the agenda**
  - Is the EU ETS more as an (important) short- to medium-term clearing mechanism?
  - Can the (ETS) deliver long-term scarcity signals (somehow consistent to the lifetime of the respective capital stocks)
  - Brownfield or greenfield phase-in of ETS is key

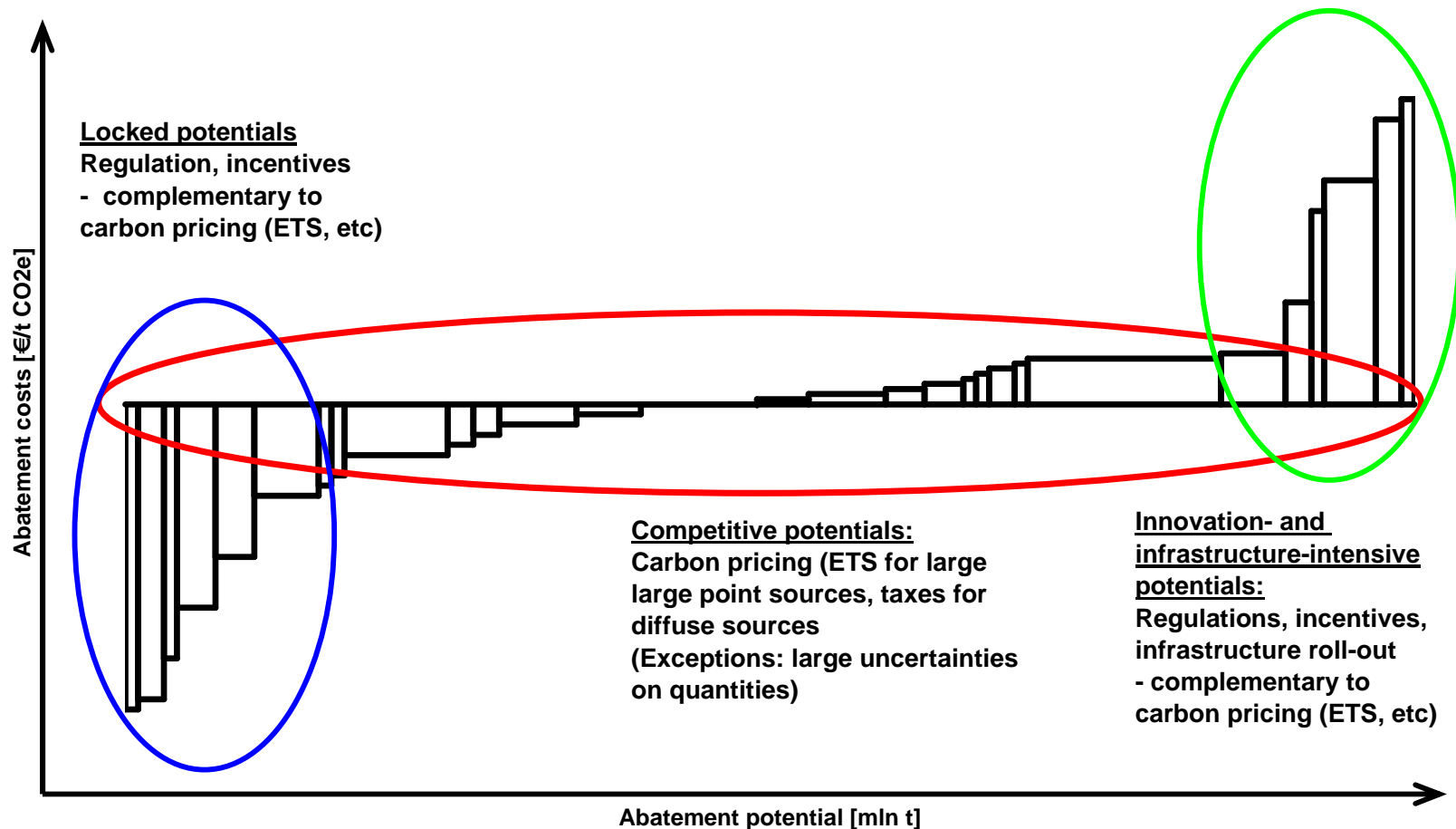
# Careful integration of policies is needed – especially between RES and ETS



# Careful integration of policies is needed – especially with regard to CDM and ETS

- **Using credits from CDM emerges as an complicated issue**
  - Short-term: integrity crisis of the (recent) CDM
    - additionality in general
    - substitution of domestic policies of host countries
  - Medium-term: supply crisis for the (recent) CDM?
    - mitigation commitments of Non-Annex I countries
- **Emerging issues**
  - Alternative mechanisms (no longer project-based?!)
  - More strict limits on the use of credits

# An inclusive policy mix will be key - especially under uncertainties



# Climate policy under uncertainty

## Some conclusions (1)

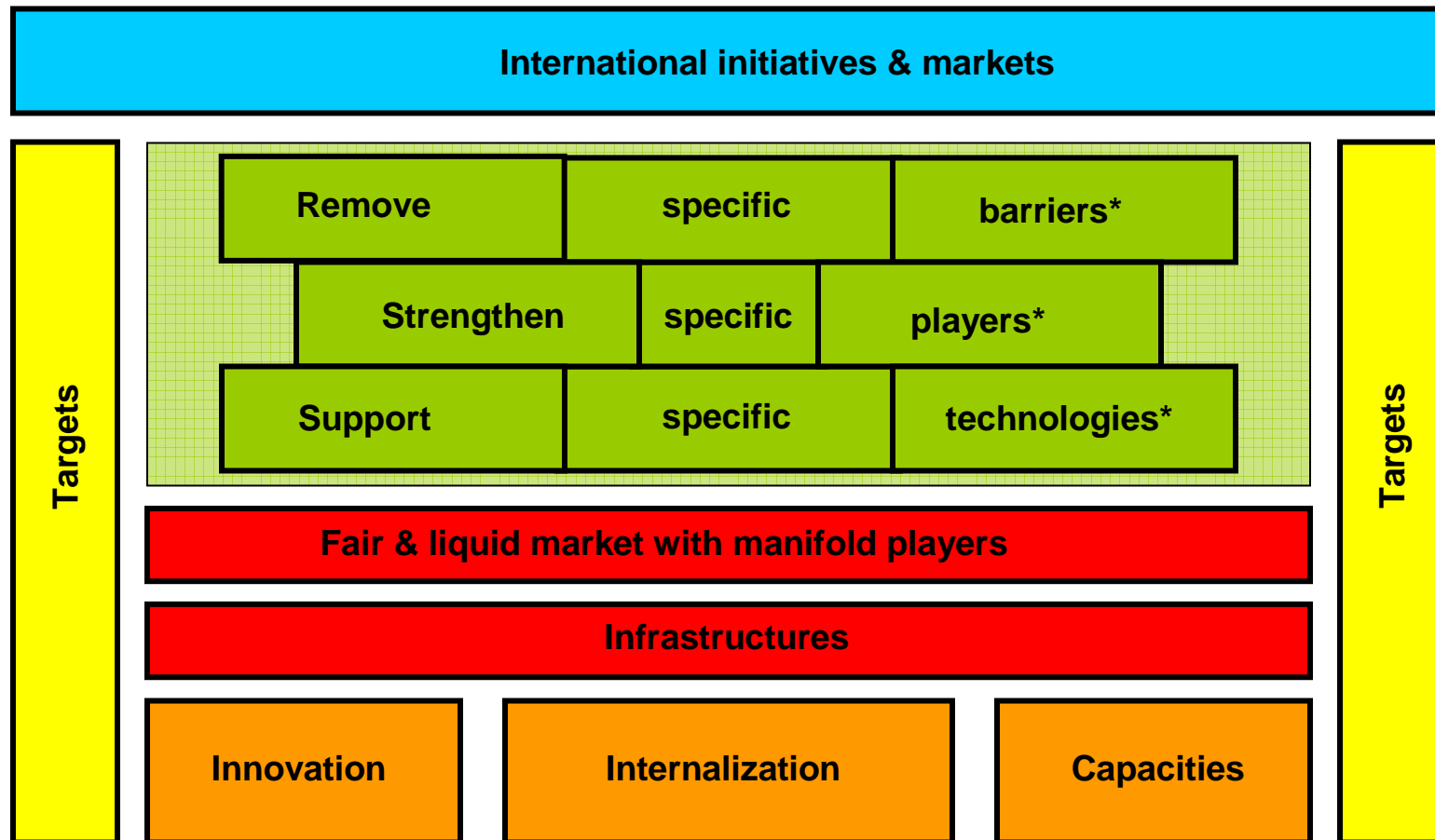
- **Building accountable targets and visions**
  - Full decarbonisation as the new paradigm
  - Accountable targets and institutions
  - Longer-term caps
  - Clear innovation and infrastructure policies
- **Strengthening the EU ETS**
  - Consistent tightening of the cap: about -35% (2005) in case of EU's 30% target?
  - Strong limits on the amount of project credit allowances
  - No price floors nor price caps (linking, sufficient levels, infra-marginal distributional effects)
  - Ensuring an undistorted price signal and sufficient dealing with leakage

# Climate policy under uncertainty

## Some conclusions (2)

- **Developing an inclusive policy mix**
  - Key fields
    - Radical innovation
    - Long-living capital stocks
    - Infrastructures
    - Market design
    - Locked-potentials
  - Necessary processes
    - Systematic, not arbitrary approaches are needed
    - Ensuring consistency and building certainty

# A comprehensive & inclusive policy mix

$$T \cdot (I^2 + C) \cdot I \cdot m(F, L, P) + s(B, P, T) + (I_i + M_i)$$


\* Evaluate, modify & eliminate specific policies, if necessary

**Thank you  
very much**

**Dr. Felix Chr. Matthes  
Energy & Climate Division  
Berlin Branch  
Novalisstrasse 10  
D-10115 Berlin  
f.matthes@oeko.de  
www.oeko.de**