An Anglo-German Foundation Report

The Politics of Emissions Trading in Britain and Germany

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Executive Summary

The most important differences in the politics of emissions trading in Britain and Germany are as follows:[1]

- Britain has been an emissions trading pioneer, setting up the first national greenhouse gas emissions trading scheme. It has also supported the European Union (EU) emissions trading scheme (ETS). Britain adopted a national ETS in order to reduce its greenhouse gas emissions, gain practical experience ahead of EU/global emissions trading and offer a model for the EU. The importance of the City of London and support for emissions trading amongst British industry are a central factor in Britain's pioneer status.

- Germany has been an emissions trading laggard. It opposed the insertion of emissions trading in the Kyoto Protocol and the adoption of an EU ETS. It has failed to adopt a national emissions trading pilot scheme. In Germany, emissions trading was opposed by the coal and chemical industries and their unions. Chancellor Schröder (SPD) and Economics Minister Clement (SPD) initially also opposed the adoption of the EU ETS.

- The adoption of the UK ETS and EU ETS did not involve a straightforward policy transfer from America to Europe. However, the early American ETS experience was an important reference point for European emissions trading advocates. Moreover, the American insistence on emissions trading in the 1997 Kyoto Protocol provided new opportunity structures for European emissions trading advocates.

- The first trading phase of the EU ETS has produced a significant over-allocation of allowances in Germany and, although to a lesser degree, Britain, which generated windfall profits for power companies.

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[1] For practical reasons the terms 'Britain' and 'United Kingdom' ('UK') are used interchangeably, although the UK also includes Northern Ireland. 'Germany' refers to the Federal Republic of Germany, both pre- and post-unification.

- The main achievement of the EU's emissions trading phase is the establishment within a remarkably short time period of the complex architecture of a (semi-) functioning market which puts a price on carbon dioxide allowances, although the price has been very low for much of the first phase. Most analysts and practitioners agree that the low price for carbon dioxide allowances during much of the first trading phase (2005–7) was the result of overly generous allocations that produced huge windfall profits for power companies in particular.

- The Commission has taken a tough stance regarding the national caps for the second trading phase (2008–12). It aimed to reassure market actors, governments and stakeholders that the EU ETS will become an important policy instrument in the fight against climate change.

- The success of the second phase of the EU ETS will depend on lessons being learnt from the first trading phase and on avoiding mistakes when linking the EU ETS to the Kyoto Protocol's other flexible mechanisms. The EU ought to be wary about linking its ETS with those in countries that are governed by unscrupulous political regimes which have little interest in averting the threat of global climate change.

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Notes to the editor:
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