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Global Emissions Trading:
Future Money Spinner for Unscrupulous States?

The success of emissions trading in greenhouse gases is not guaranteed – New risks in establishing global scheme

The ability of Europe to comply with its international climate change commitments will depend strongly on the functioning of the EU emissions trading scheme which has become the most important instrument in European climate change policy. The EU's long term goal is to set up a global emissions trading scheme. However, a new report by the Anglo-German Foundation warns of the dangers of such a global scheme. Rüdiger Wurzel, director of the Centre for European Union Studies (CEUS) at the University of Hull and author of the study, is concerned that 'unscrupulous political regimes may try to use a global emissions trading scheme mainly to make money rather than to cut greenhouse gases'.

Wurzel concludes that the first phase of the EU emissions trading scheme has achieved only marginal reductions in greenhouse gas emissions while producing huge windfall profits for energy producers in particular. Power companies have largely passed on to their customers the increased costs of the EU emissions trading scheme. It has only been since the second phase (2008-2012) of the EU emissions trading that the EU Commission has tried to take a tougher stance on implementation.

The report also shows how historically Britain and Germany have taken very different positions on emissions trading. Britain became an emissions trading pioneer while Germany acted for a long time as an emissions trading laggard. The British government's pro-emissions trading stance was motivated not only by climate change policy goals but also by economic considerations. By introducing early on a domestic emissions trading scheme, Britain tried to gain a 'first mover' advantage, acquiring practical experience with a novel policy instrument which it offered as a model for the EU partly to establish the City of London as the capital for international emissions trading.

Due to strong opposition from influential industries and certain sectors of the unions, Germany initially wanted to prevent the adoption of an EU emissions trading scheme. Unbridgeable differences within the German government – mainly between the Environment Ministry and the Economics Ministry – weakened Germany's negotiating position and options within the EU. The Environment Ministry favoured early on the auctioning of certificates which were initially allocated for free.

However, auctioning has been opposed by the Economics Ministry on the grounds that it will damage German industry. Wurzel warns that 'the recent disagreement within the German government about the auctioning rules of the EU emissions trading scheme after 2013 make it clear that Germany still has difficulties with this novel policy instrument'.

Wurzel adds that there are also reasons for concern about Britain's recent efforts to allow for a significant increase in the funding of greenhouse gas emission reduction projects in other countries in order to comply with its legally binding domestic reduction targets. He warns that 'a significant increase in the use of joint implementation and the clean development mechanism may delay technological innovation at home. It will not help Britain to improve its relatively poor record in the development and use of renewable energy technologies'.

You can download the full report from the Foundation's website at:
http://www.agf.org.uk/cms/upload/pdfs/R/2008_R1493_e_politics_of_emissions_trading.pdf

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