The EU ETS: A Model Global Trading Regime?

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Cap-and-Trade in a Multinational Setting

• Focus is on the multinational, not the “ideal” single-country C&T system

• The EU is neither a strong federation nor homogeneous
  – The Commission, Directives, and Treaties
  – East-West and North-South divides

• If you didn’t like the highly decentralized 1st period, you won’t like an international system
The Problems that Weren’t

• Cross-border financial transfers
  – Highly dispersed trading of differences
  – Clear net flows: to UK from France, Poland
  – But still very small sums

• Institutional capacity
  – Challenge not restricted to the East
  – Still, non-negligible problem that required time
  – Yet, all managed to meet criteria; no big frauds
## Cross-border Flows

<table>
<thead>
<tr>
<th>EXPORTERS</th>
<th>EUAs (millions)</th>
<th>Euros (millions)</th>
<th>IMPORTERS</th>
<th>EUAs (millions)</th>
<th>Euros (millions)</th>
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<tr>
<td>EU15</td>
<td>89.7</td>
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<td>EU25</td>
<td>(217.7)</td>
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Lessons and Challenges: Trial periods & sector scope

• Trial periods would be useful for all
  – Resolves infrastructure and data issues
  – Reassures existing systems about integrity

• Partial coverage first?
  – Not the ideal, but more important/realistic
  – Major reductions are in electricity sector
  – Inclusion of industrial sectors deals with trade and leakage issues
Lessons and Challenges: Defining a Center

• The indispensable role of the EU Commission
  – Dealing with cap inflation: special powers
  – Educating and facilitating

• An adventitious and available institution
  – Subsequent centralization an EU phenomenon?

• What could serve on a global scale?
  – Players only and limited delegations
Lessons and Challenges: Club Benefits

• Varying commitments and sincerity of commitments and yet all belong. Why?
• The broader benefits of the EU
  – Part of the package; no variable geometry
• Another fortunate, almost accidental feature
• What will serve on a global stage?
  – Linkage is the essence of diplomacy
  – Many dimensions possible, but it will be needed
Lessons and Challenges: Stringency, Differentiation & Harmonization

- A “broad then deep” strategy
  - All inclusive, non-demanding beginning
  - Increasing differentiation with greater stringency
  - Participation of the less committed in decisions

- The new problem of harmonization
  - Equality vs. differentiation
  - The EU solution: auctioning harmonizes all
  - Differentiate through auction rights
Differentiation in the EU ETS in 2020

2020 vs. 2005 VE

Per Capita GDP in 2005 (000 US$, PPP basis)
The EU ETS: A Global Prototype?

- Pre-existing institutions made it a lot easier for the EU ETS
- But technical competence, politically astute implementation & accident were important
- Do we build the global institutions, or can they arise out of bottom-up, bilateral deals?
- None of these challenges are unique to trading regimes