

Extension of the scope of the EU ETS to other sectors. Some thoughts ...

**Second Consultation Meeting on Options for Structural Measures
to Strengthen the European Union Emissions Trading System**

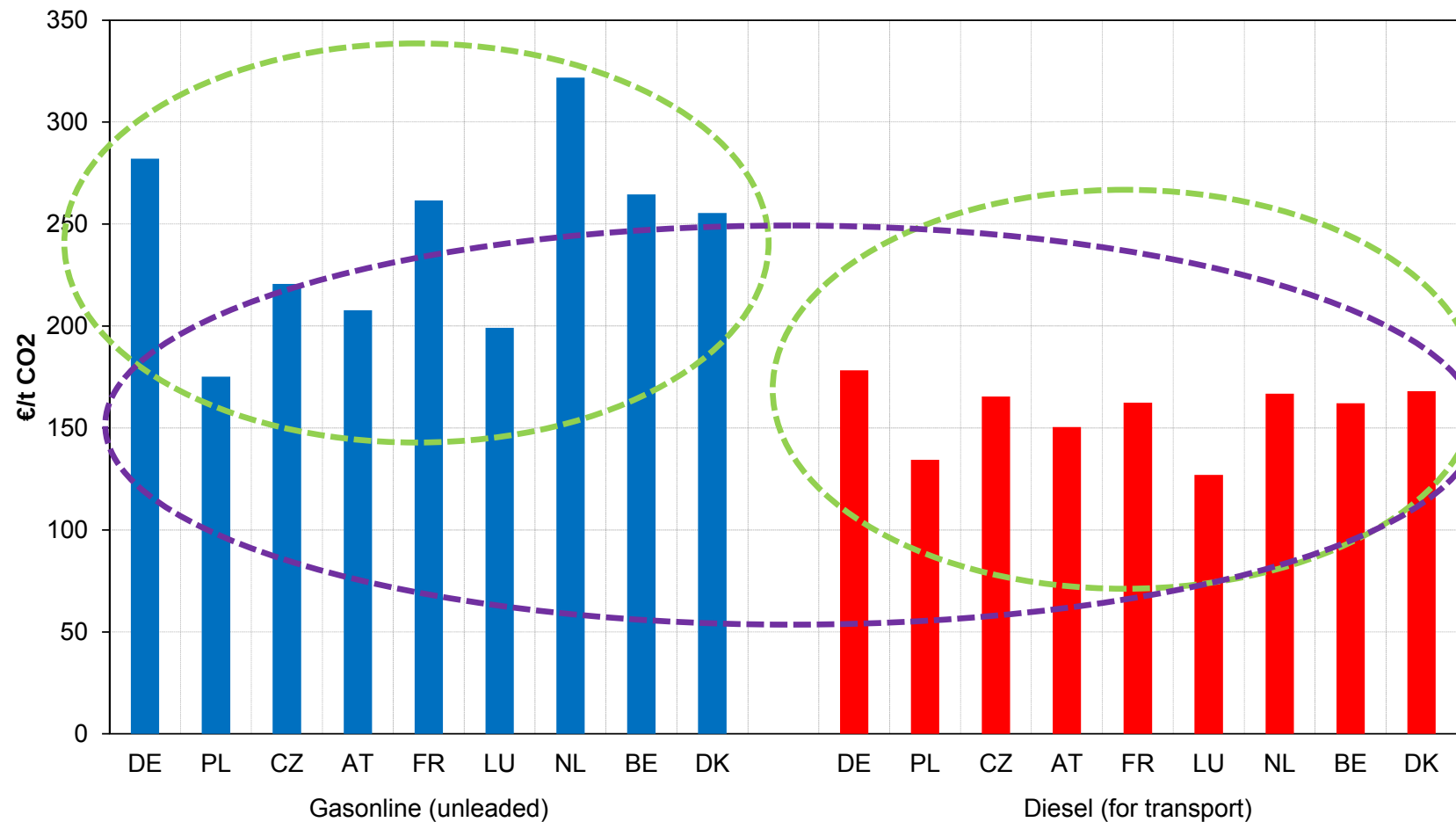
**Dr. Felix Chr. Matthes
Brussels, 19 April 2013**

- **The simplistic economist's approach: the broader the scope the better the economic efficiency**
- **The real world experience**
 - Transactional costs and pass-through for upstream regulated sectors (point of regulation $\neq$ point mitigation decision) with imperfect competition (oil & gas market) are serious challenges
 - ETS tend globally towards large point sources
 - Broader approaches tend mostly towards massive complementary policies for the upstream-covered sectors (in other words: ETS is complementary)
- **Multi-dimensional political perspectives (will be probably key)**
- **An EU-specific challenge for economic efficiency: distortions of the uniform (!) CO₂ price from a wide range of other policies**
 - which are differently specified in many Member States

Economic efficiency results from a uniform (!) price: Implicit CO2 prices from other policies

Uniform CO2 prices: neither among (EU) jurisdictions ...

... nor for (different) commodities



Eurostat, Öko-Institut 2013

Coverage and scope of the EU ETS

What sectors could qualify in general?

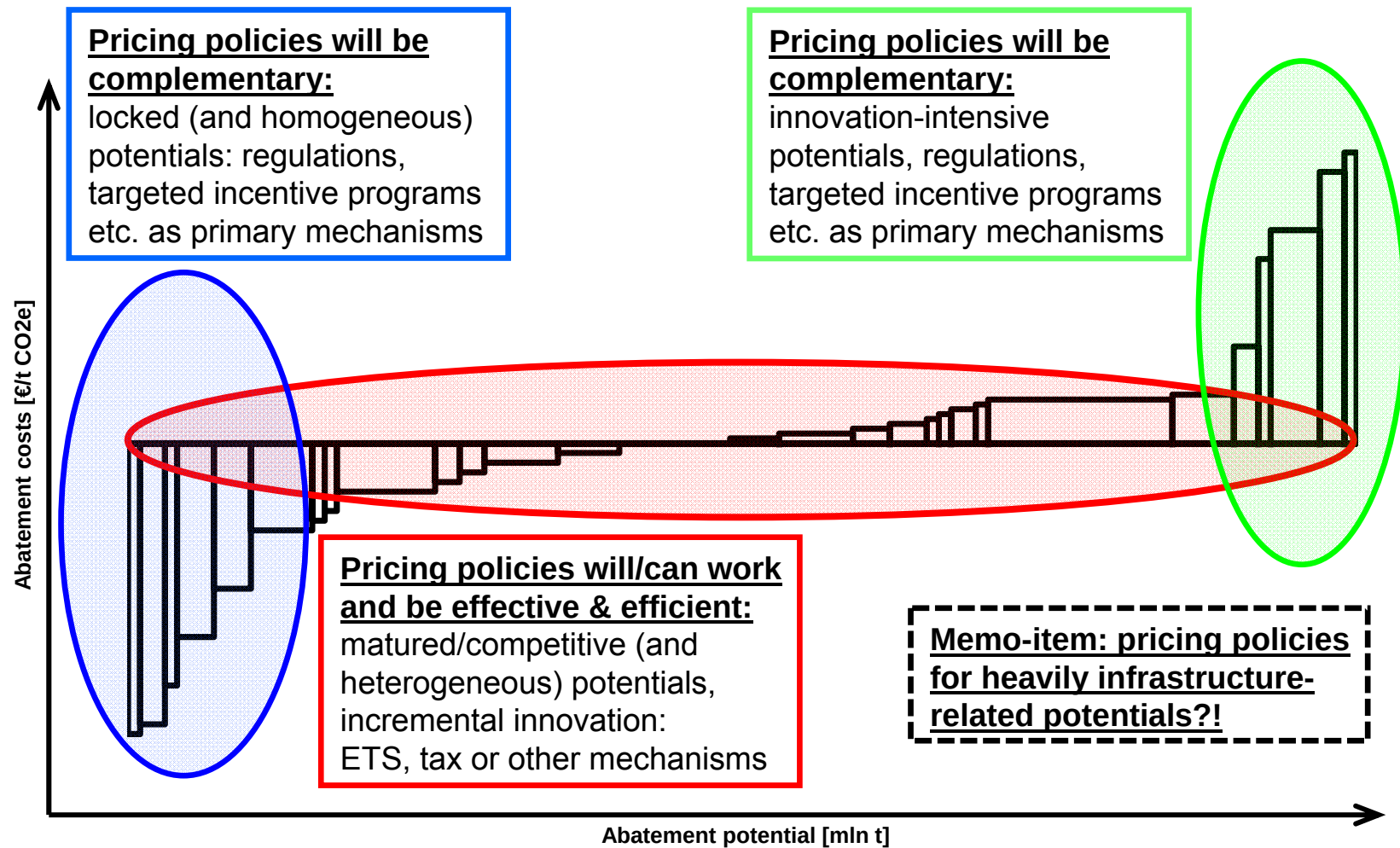
- **EU ETS is an instrument of quantity control with high demands with regard to uncertainties**
 - Sectors which could definitely qualify for extension of coverage
 - Transport (upstream)
 - Other combustion (upstream)
 - Sectors which could qualify under certain circumstances for extension of coverage
 - Parts of agriculture (regulated at the processing industry – type of “upstream” regulation)
 - Sectors which will not qualify for extension of coverage
 - Waste management
 - Diffuse process emissions
 - LULUCF

Coverage and scope of the EU ETS

What sectors could be relevant?

- **Effectiveness**
 - Most potentially new sectors are subject to effective policies
 - ETS would be the complementary part of the sector policy mix
- **Economic efficiency (gains)**
 - Highly questionable for most potentially new sectors
 - at least from the perspective of dynamic efficiency and without a major revision of (some) complementary policies
 - More analysis needed on real-world (and probably sector-specific) effects of upstream regulation
- **Political suitability**
 - (+) Long-term cap setting for increasingly interacting sectors
 - (?) Robustness/vulnerability of the scheme (depending on interactions between supply and demand curve)
 - (–) Impacts on (necessary) complementary policies

Advancing the policy mix needs a careful look into (mitigation) potentials



**Thank you
very much**

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