

**Revision of the European CO2 market:  
Changes in the governance of electricity  
GHG emissions**

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- Revision of the EU ETS in 2008: move towards auctioning of permits
- Main questions
  - “What does this change mean?”
  - “How did it take place?”
- Discussing the evolution, i.e. the decision-making process, of the EU-ETS and of its revision
- EU ETS as a dynamic organization
- Main results
  - Coal producers lost influence in the regulatory process
  - Member states have different preferences w.r.t. climate and energy policy: political determination and institutional power important

## Congratulations...

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- for a very nicely written paper
- for including a lot of very detailed information
- for understanding the economic part of the story better than some economists
- for coming to conclusions which are very reasonable

- You argue: “free allocation is the most complicated and least efficient mechanism” (based on a paper I don’t know – probably not economic)
  - free allocation and auctioning should lead to the same emission price and same end-allocation of permit
    - equalises marginal abatement costs with price of emission permits
    - Coase theorem (1960): efficiency and invariance version
  - Main problem: transaction costs → Coase theorem fails!
  - Possible interpretation:
    - Free allocation requires more trading and this does not turn out to be efficient in the presence of transaction costs?!

- You focus completely on the (possible) inefficiency from the permit allocation when taking about the rising electricity prices
  - What about other policy failures, like renewable energy feed-in tariffs?
  - Or more generally, the integration of renewable energy in the electricity mix during that time, which certainly has also led to increasing prices

- The interpretation of the increase in the price of electricity even if allocation is free as “opportunity costs” is correct, but
  - easier to understand if you talk about quantity of electricity produced
  - limited amount of certificates reduces fossil electricity production (negative supply shock) → prices go up
- You mention “carbon leakage” at one point, but I don’t understand what you mean: carbon leakage = a unit emitted by one country is (partly) offset by additional emission by another country.
- Final comment: Point out your contribution more clearly! What is your point? I think you can do more than writing a very good overview...