

Implications of the Current Allowance Allocation Rules

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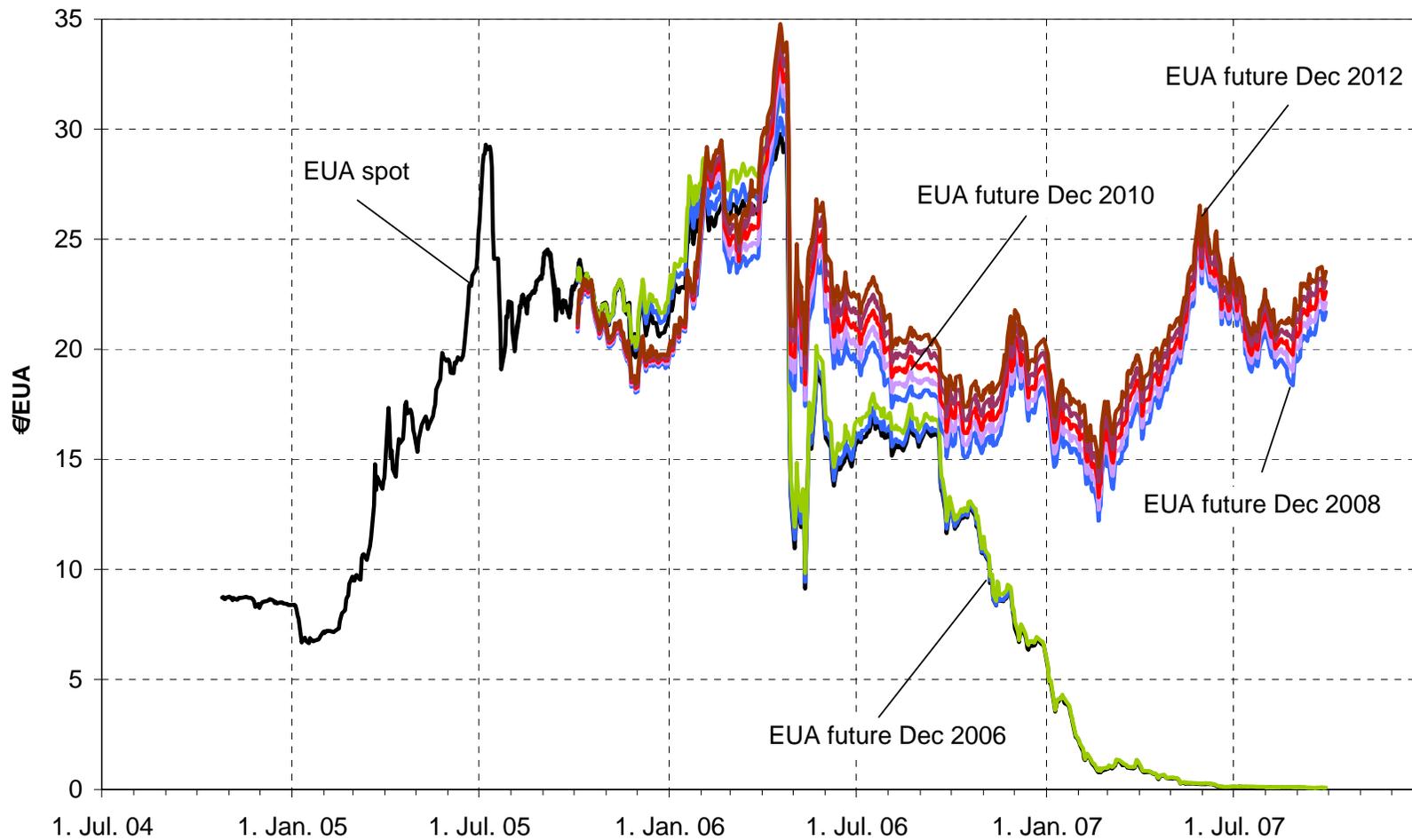
The EU Emissions Trading Scheme

Where do we stand?

- **First trading phase almost finished, second phase emerging**
- **Two National Allocation plan, the second one in the framework of an international climate regime**
 - huge diversity among the Member States
 - increasing interventions of the European Commission
 - increasing (need for) harmonisation
- **Lessons learnt**
 - allocation does matter – not only regarding distribution (dynamic efficiency!)
 - in a multi-period scheme
 - with new entrant and plant closure provisions
 - major distortions of the carbon price signal (and major windfall profits)
- **Recent trends**
 - towards benchmarking, auctioning and updating

The EU ETS

An EU Scheme – a European Price



The EU Emissions Trading Scheme

Crucial allocation provisions

- **Updating (extending base periods) – even in the framework of a benchmarking scheme**
 - especially if strong leverages exist (trading phase longer than base period)
- **Free allocation for new entrants**
 - uniform allocation (⚡* intertemporal efficiency)
 - fuel or technology specific (⚡* distorted price signal, inefficiencies, higher allowance prices in future)
- **Reminder: new entrant – incumbent interactions in a multi-period scheme**
 - distortions will be maintained if new entrants will be treated as incumbents in the subsequent period, which are eligible to (distorting) free allocation

**Thank you
very much**

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