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The inevitability of ‘flotilla policies’ as complements or alternatives to flagship emissions trading schemes

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HIGHLIGHTS

- ▶ Strong flagship policies may be blocked by those opposing action.
- ▶ Weak flagship policies may be blocked by those seeking strong action.
- ▶ Flotilla policies have less impact on large incumbents.
- ▶ Flotilla policies can benefit a select group of stakeholders, who provide support.
- ▶ Flotilla policies are likely to remain as key elements of the climate policy mix.

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ABSTRACT

The global climate policy environment is currently characterised by a small number of national or regional ‘flagship’ emissions trading schemes and a very large number of smaller more targeted ‘flotilla’ policies. We use an assessment framework to identify the characteristics of policies that affect their likelihood of introduction and alteration during the policy development process. We conclude that this mix of flagship and flotilla policies is at least in part an inevitable consequence of incumbent stakeholder pressure that results in flagship policies being blocked or weakened by those opposing action, and if weakened sufficiently, possibly blocked by those seeking stronger action. In contrast, smaller flotilla policies can be designed to have less impact on large incumbents and/or be of benefit to a different group of stakeholders who then provide political support. As a result, flotilla policies are likely to remain as key elements of the climate policy mix, to reduce emissions beyond those achieved by flagship policies, and to reduce emissions where no flagship policies exist. These findings have two consequences for policy design: the need to ensure that flagship policies do not reduce the effectiveness of flotilla policies, and that flagship policies are capable of being enhanced over time.

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1. Introduction

Worldwide, governments at national, state and other jurisdictional levels have been developing and implementing policies to reduce greenhouse gas (GHG) emissions over the last two decades with mixed success. A clear pattern is emerging in the types of policies being implemented in multi-party political jurisdictions. A number of national-scale emissions trading schemes (ETSs), referred to here as ‘flagship’ policies, have been proposed worldwide. However, only two have been implemented to date—in the European Union (EU) and New Zealand (NZ). Many other national

ETSs, for example in the United States (US), Japan and Canada, have been proposed however not yet brought into legislation. In Australia, a fixed price ETS is to begin operation on the 1 July 2012, converting to a floating price ETS on 1 July 2015—although the longer-term future of the scheme is far from assured. As discussed below, where mandatory emissions trading schemes have been implemented outside the EU and NZ, they have been limited in coverage, geographically and to particular sectors (e.g. Switzerland, the United Kingdom (UK), Alberta, New South Wales (NSW), United States Regional Greenhouse Gas Initiative (US RGGI), California, Quebec, and Tokyo). Recent assessments have also highlighted challenges facing some of these markets. These include the significant political divisions within legislatures seeking to implement emissions trading and depressed prices in major carbon markets caused by a combination of economic

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stagnation and lack of regulatory clarity over long-term international and national climate policy (see World Bank, 2011a,b).

In contrast, a large and growing number of diverse smaller targeted policies have been successfully legislated around the world over the past two decades (Deutsche Bank Group, 2009; IEA, 2011). Such policies are referred to here as ‘flotilla’ policies, in part because they are often characterised as complementary to a central flagship policy such as an ETS.¹ Successes with such policies are in marked contrast to the mixed progress seen with ‘flagship’ efforts to date. A recent study in the US focused on state and local-level policies to highlight best practices in abatement because “It is on the sub-national level – within states, provinces, cities, and municipalities – that much of this innovation is occurring and many of these strategies are being successfully implemented” (Ellingson and Hunter, 2010). Similarly, an analysis of developing countries (Brazil, China, India, Kazakhstan, Mexico, and South Korea) found “that for the time being climate policy in most developing countries will mainly revolve around non-ETS policies and measures” (Sterk and Mersmann, 2011). However, although the various flotilla policies have in some cases resulted in significant emissions reductions, efforts to date are clearly insufficient for the task at hand (for example: DCCEE, 2010; USDOS, 2010; WRI, 2010). Furthermore, it has been widely argued that large-scale ETS schemes represent the most economically effective and efficient policy approach to climate change—hence the considerable efforts being put into developing flagship ETS policies.²

This paper proposes that the lack of effective flagship ETS policies and the profusion of flotilla policies seen to date around the world is at least in part an inevitable consequence of incumbent stakeholder pressure during the policy development process. This pressure results in flagship policies being blocked or weakened by those opposing action to reduce emissions, because of, for example, their own inclusion in scheme coverage or a perceived lack of so-called compensation such as free permits. If such schemes are weakened sufficiently, they may then be blocked by stakeholders seeking stronger action. In contrast, smaller flotilla policies can be designed to have less impact on large incumbents and/or also be of benefit to a focused group of other stakeholders (such as emerging sustainable energy companies) who then provide support and enable the policy to be successfully implemented.

We do not enter the debate on whether flotilla policies are justified on the basis of helping to overcome market failures within ‘flagship’ carbon pricing schemes (Bennear and Stavins, 2007; Lehmann, 2010; Twomey et al., 2012), or that such policies should not be used at all because they can only increase the costs of abatement achieved by an ETS whilst increasing the complexity

of the policy environment and the chances of double regulation and conflicting incentives (Nordhaus, 2007; Sorrell and Sijm, 2003). The thesis presented here is that, because of stakeholder pressure, flotilla policies are inevitable, both to reduce emissions beyond that achieved by invariably compromised flagship policies, and to reduce emissions where no flagship policies exist.

Further, this paper focuses on democratically elected governments within multi-party political systems. The processes involved in developing policies in countries with more centrally planned economies can be very different. For example, in 2011 the Chinese government simply announced mandatory targets requiring industrial firms to cut their greenhouse emissions intensity and energy intensity by 18% over the period 2011–2015 (Reuters, 2011a). The Chinese authorities also recently announced that they will implement six regional ETSs by 2013 and a national one by 2015 (Reuters, 2011b). It will be interesting to see how these ETSs differ from those deployed by governments in multi-party political systems, including the degree to which they also are influenced by stakeholder pressure.

There is a considerable body of literature on political tactics governments can use to reduce stakeholder opposition to climate policies (e.g. Bailey and Compston, 2010; Giddens, 2009). They can be categorised according to whether they relate to the policy development process, to the broader political landscape (including communicating the policy problem and the use of package deals involving concessions in other policy areas to gain the support of affected sectors), or the policy’s design. Although all three types of strategies can be used by governments, here we focus only on the use of particular policy designs.

The rest of the paper is divided into four parts. In the next section, a framework for assessing the likelihood and effects of stakeholder pressure on policy design is briefly outlined. This framework is then used to explain why some of the inherent characteristics of flagship and flotilla policies may have led to the current mixture of relatively few flagship ETS policies and a large number of targeted flotilla policies. This is illustrated using the experiences of ETSs in NZ, Switzerland, the UK, Alberta, NSW, the US, California, Quebec, Tokyo, Australia and the EU. Finally, the main consequences of this framework for policy design are discussed: that flagship policies should be carefully designed to avoid reducing the effectiveness of the inevitable flotilla policies that will accompany them; and that the initial design of flagship policies should incorporate features that enable their enhancement over time without the need for further compensation of stakeholders.

2. How different types of policies are affected by the policy development process

Passey and MacGill (2011) discuss how different types of policies may be more or less likely to be altered, and may be altered in different ways, by the policy development process. The type of policy and its design can influence:

- Whether the policy is likely to be introduced into the policy development process in the first place.
- The chances of it being attacked by key stakeholders, whether those stakeholders will be powerful enough to alter it, and if so, the types of changes that might take place.
- Whether it is likely to be defended by other stakeholders (either in current or modified form), whether those stakeholders will be powerful enough to defend it, and how they may change it.
- Whether the policy is likely to be robust against such attacks in terms of successfully navigating the policy development process and in retaining its core design features.

¹ In the sense we use the term here, flotilla policy approaches involve the use of numerous, diverse, smaller-scale targeted policies. Examples include Feed-in tariffs for particular renewable energy technologies and Mandatory Equipment Energy Efficiency Standards. However, the range of approaches is extremely large (see, for example, IEA, 2011). In the definition we apply in this paper, flotilla policies include even relatively large policies such as the Californian requirement for 33% of the state’s electricity to come from renewable sources—because they are focussed on a particular technology type and are included by some commentators amongst the types of policies that should be removed once an ETS is in place. Note that with this definition, some of the smaller ETS have similarities to flotilla policies.

² A carbon tax is an alternative type of policy for reducing emissions that may have characteristics of flagship policies or flotilla policies depending on their design. Because the aim of this paper is to illustrate the impact of flagship-like and flotilla-like characteristics of policies, which are best illustrated respectively by ETSs and policies that specifically target renewable energy for example, carbon taxes are not a particular focus of this paper. Additionally, since carbon taxes set a carbon price but not emissions caps, it is less straightforward in outright terms to determine the strength or otherwise of a carbon tax as an emissions-reduction instrument.

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