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**THE ROLE OF THE EUROPEAN UNIONS'
EMISSIONS TRADING SYSTEM IN ITS
INTERNATIONAL CLIMATE CHANGE
NEGOTIATIONS**

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ABSTRACT

On 1st January 2005, the EU launched the pilot phase of its Emissions Trading Scheme (ETS), which lasted until 31 December 2007. It is the largest carbon market to date, operating in 30 countries and encompassing several key industries and sectors. The Pilot phase was the opportunity for both the ETS Stakeholders and the other Parties of the UNFCCC (United Nations Framework Convention for Climate Change) to observe its functioning and determine its strengths and weaknesses. The latter were taken into account in setting Phases II (2008-2012) and III (2013-2020), for instance to avoid over-allocation from Member States and ensuring credit price stability.

Building upon an analysis of how the EU ETS was created and a definition of leadership¹, the dissertation attempts to answer this research question: *What role does the EU ETS play in European negotiations in the international climate change regime?*

The hypothesis that this research seeks to verify is that the relation between the EU ETS and European leadership is a dynamic one; where the EU ETS is both an expression of EU leadership and enhancer of the EU's position on the international climate change scene.

The methodology to answer this question is a comparison of two United Nations Framework Convention on Climate Change (UNFCCC) Conferences at the beginning and end of the Pilot Phase of the EU ETS: The Montréal Conference of 2005 and the Bali Conference of 2007. This comparison is organised as five comparative grids, comparing five themes (1. A global carbon market, 2. 20% emissions reductions objective, 3. Linking the ETS to flexible Mechanisms, 4. References to the EU ETS, 5. Knowledge) to two positions: the UNFCCC Conferences of 2005 and 2007.

The results of the comparison interpreted in reference to the theoretical leadership concepts found no direct reference to the EU ETS at the UNFCCC level or to EU objectives and policies in general. The hypothesis was refuted, as it hadn't been made clear in an empirical way that the EU had managed to make the EU ETS a centrepiece policy at the UNFCCC

¹ «Understood as a targeted and consistent effort to direct other actors towards a collective goal, international leadership has at least two fundamental requirements. First, an actor with leadership aspirations needs to have the capacity to exert significant influence on other actors. Second, the leading actor has to have more progressive positions towards the collective goal than those of the followers, rendering leadership a relative concept. For leadership to be effective, (...), a third requirement needs to be met. The leader has to be successful in mobilising available resources (power, legitimacy/credibility, knowledge and skills) to achieve outcomes that reach the collective goal» Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance*. In (ed) Telò, M. *The European Union and Global Governance*. Routledge/GARNET. P. 194.

level, and the promotion of such an instrument had enhanced its negotiating position. However, the analysis concluded that as a policy, the EU ETS played a significant role for the EU in terms of self-perception as a leader, and also in terms of international credibility by having a concrete domestic policy to match its international requirements.

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«The EU ETS is one of the most exciting and important initiatives ever taken to limit greenhouse emissions that cause climate change. It will be an important influence on the development and implementation of trading schemes in the United States, Japan and elsewhere. As such, it can provide the cornerstone for an eventual global trading regime, which will be an important component of the set of policies that will be needed to address climate change.»²

The European Union's Emissions Trading System (EU ETS) created in 2003 and launched on January 1st, 2005 is considered a «cornerstone of the European Union's policy to combat climate change and [a] key tool for reducing industrial greenhouse gas emissions cost-effectively»³.

It is the first regional, multi-industry, multi-installation and multi GHG carbon market finds its legal basis in Directive 2003/87/EC and Directive 2004/101/EC.

Directive 2003/87/EC presents the objective of the Scheme as: «[...] fulfilling the commitments [to the Kyoto Protocol] of the European Community and its Member States more effectively, through an efficient European market in greenhouse gas emission allowances, with the least possible diminution of economic development and employment.»⁴, and defines its key components⁵, as well as its operability⁶.

Directive 2004/101/EC⁷, which amends Directive 2003/87/EC gives an additional dimension to the ETS through the possibility to be linked to Joint Implementation (JI) and Clean

²A. D. Ellerman, F.J. Convery, C. De Perthuis. 2010. *Pricing Carbon. The European Union Emissions Trading Scheme*. Cambridge University Press. Cambridge. P. 1.

³EUROPEAN COMMISSION. DG CLIMATE ACTION. Last Updated 15 Nov 2010. *Emissions Trading System (EU ETS)*. Available at: http://ec.europa.eu/clima/policies/ets/index_en.htm Last accessed 31-07-2011.

⁴DIRECTIVE 2003/87/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:275:0032:0032:EN:PDF>. Last Accessed 31-07-2011. (5) Page 32.

⁵ Ibid. Article 3. *Definitions*. P. 34.

⁶Ibid. Article 6 *Conditions for and contents of GHG emissions permits*, p. 35; Article 9 *National Allocation Plans*, pp 35-36; Article 10 *Method of allocation*, p. 36; Article 14 *Guidelines for Monitoring and Reporting Emissions*. p 37.

⁷DIRECTIVE 2004/101/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 October 2004 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading

Development Mechanism (CDM) projects, created by the United Nations Framework Convention on Climate Change (UNFCCC).⁸

The EU Emissions Trading Scheme therefore operates on several levels: the Member States', which have the responsibility of designing National Allocation Plans⁹; the EU level, at which those plans are assessed and which also supervises the Emissions Trading System to make sure it is fully operational and transparent; and the international level, in which it is an instrument that can link itself to the Kyoto's Flexible Mechanisms (JI and CDM) and can benefit several Parties at once. The EU Institutions, and in particular the Directorate General Climate Action (DG Climate), also promotes linking this instrument with other Emissions Trading Systems in order «to form the backbone of a global carbon market»¹⁰.

This ambition is further expressed in DG Climate's 2009 Publication *Leading Global Action to 2020 and Beyond*¹¹ when it states:

«The adoption of the climate and energy package¹² makes the European Union the first region of the world to have both committed to such ambitious targets and put in place the measures needed to achieve them. The package demonstrates the EU's leadership and shows that making the deep emissions cuts necessary to avert dangerous climate change is fully compatible with continued economic growth and prosperity. [...] Central to the package is a strengthening and expansion from 2013 of the Emissions Trading Scheme (EU ETS) [...] Strengthening the EU ETS [...] will make it a more attractive partner for linking with similar cap and trade systems being developed in other parts of the world. The development of a network of linked schemes will strengthen the international carbon market, enabling it to play

within the Community, in respect of the Kyoto Protocol's project mechanisms. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:338:0018:0023:EN:PDF>. Last Accessed 31-07-2011.

⁸ UNFCCC (United Nations Framework Convention on Climate Change). 1998. *KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE*. Available at: <http://unfccc.int/resource/docs/convkp/kpeng.pdf>. Last Accessed 14-08-2011. Article 6, pp 6-7 and Article 12, pp 11-12.

⁹ DIRECTIVE 2003/87/EC. Article 9. *National Allocation Plans*, pp 35-36

¹⁰ European Commission. DG Climate. Last Updated 15 Nov 2010. *Emissions Trading System (EU ETS)* full quote «The success of the EU ETS has inspired other countries and regions to launch cap and trade schemes of their own. The EU hopes to link up the ETS with compatible systems around the world to form the backbone of a global carbon market.» Available at: http://ec.europa.eu/clima/policies/ets/index_en.htm. Last Accessed 14-08-2011.

¹¹ EUROPEAN COMMISSION. DG CLIMATE ACTION. 2009. *Leading Global Action to 2020 and Beyond*. Available at: http://ec.europa.eu/clima/publications/docs/post_2012_en.pdf. Last accessed 14-05-2011.

¹² «In January 2008 the European Commission put forward a major package of legislative measures to implement these climate and renewable energy targets. Following intensive negotiations, the binding measures were agreed by EU leaders and the European Parliament in December 2008 and were signed into law in April 2009.» Ibid, *Leading Global Action to 2020 and Beyond*. page 10.

a key role in achieving global emission reductions at least cost».¹³ DG Climate therefore directly links the concept of European leadership in the context of the global climate change regime, to its Emissions Trading System.

Drawing from this observation, one can question how that link came into being, and what its nature is. This will be the focus of this dissertation.

Building upon an analysis of how the EU ETS was created and a definition of European leadership, the dissertation will attempt to answer this research question: *What role does the EU ETS play in European negotiations in the international climate change regime?*

The hypothesis that this research will seek to verify is that the relation between the EU ETS and European leadership is a *dynamic* one, where the EU ETS is both an expression of EU leadership and enhancer of the EU's position on the international climate change scene.

The analysis will concentrate on the EU ETS' Pilot phase, which lasted from 2005 to 2007. The reason for this is due to the innovative "*learning by doing*" approach the EU Institutions decided to adopt by implementing the EU ETS ahead of the Kyoto commitment period (2008-2012). It is an interesting phase to examine due to the novelty of emissions trading in Europe at the time of implementation, and because it enabled policy-makers to observe the market development and take stock of its limitations to strengthen the ETS for following trading periods.

Methodology:

In order to answer the research question, the method chosen is a *comparison* of two United Nations Framework Convention on Climate Change (UNFCCC) Conferences at the beginning and end of the Pilot phase of the EU ETS. These conferences are: *The Montréal Conference of 2005* and the *Bali Conference of 2007*. The choice of those conferences is due to the fact that they corresponded to the EU ETS' Pilot phase and because of the focus of the research question: the role of the EU ETS in the EU's international climate change negotiations. The UNFCCC was therefore the most appropriate level at which the analysis could take place, considering it issued global decisions in the international climate change regime. This comparison will take the form of five grids, for its results to appear clearly and facilitate the results' analysis.

¹³ Ibid, pp. 10-11.

The analysis is organised as follows:

The first Chapter will first define emissions trading schemes, and will then examine how the EU ETS was created and shaped. Internal EU negotiations, external factors and normative interpretations will contribute to explain why the ETS was chosen as an instrument for the EU to reduce GHG emissions; and why it became the cornerstone of its climate policy. It will then focus on the main characteristics of the Pilot phase; which are the significance of a ‘learning by doing’ phase; emissions abatement; the problems of over-allocations and price volatility; the perspective of linking the EU ETS with the Clean Development Mechanism and Joint Implementation projects.

The second Chapter will focus on defining leadership, in order to give the analysis a theoretical background. First, a definition of leadership will be given for the EU in international climate change negotiations; then types of leadership will be discussed, and several terms key to leadership will be defined: leadership by example, credibility, and efficiency. The actors which exercise leadership on behalf of the EU will finally be identified. The second part of the Chapter will seek to apply the definition of leadership to the EU ETS, in order to determine if the EU ETS fitted this conception and its requirements. The analysis is then organised around the leadership’s three requirements: exerting influence on third parties, showing more progressive positions than third parties, and mobilising resources: power, credibility and knowledge.

The third Chapter will then proceed to the comparative analysis. The first part will explain the choice and the contexts of the Montréal and Bali Conferences; then the EU positions prior to both Conferences, as formulated by Council Conclusions in March 2005 and February 2007; and will finally explain the methodology of the grids. The second part will present the five grids along five themes related to both the definition of European leadership and the Council Conclusions.

The fourth and final Chapter will then look at the results of the comparison. The first part will analyse the results for every grid, with the help of the Reports made by the Earth Negotiations Bulletin. The second part will draw conclusions from these results, and will determine whether the hypothesis was confirmed, and will seek to answer the research question.

CHAPTER ONE: THE ORIGINS OF THE EU ETS AND THE PILOT PHASE

A- THE CREATION OF THE EMISSIONS TRADING SCHEME

To understand the reason why the EU ETS has become the cornerstone of European climate policy, and in order to determine if it enhanced the EU's international climate negotiations during its Pilot phase, one has to examine the steps which led to its adoption. This first part will first define Emissions Trading Systems and the EU ETS, as a basis for the analysis. It will then concern itself with internal EU negotiations which led to the adoption of the ETS. The external factors which also contributed to the adoption of the EU ETS will be examined and finally, L. Cass' theory of 'Norm Entrapment' will provide additional depth to the explanation of why the ETS was chosen by the European Union as its flagship for emissions reductions.

1. Definition of Emissions Trading Systems

Emissions trading systems are market-based instruments, in which the participating actors trade emissions allowances, set by an overall cap, in order to gradually reduce their carbon emissions. An initial and useful definition can be found in the European Commissions' Green Paper on *Emissions Trading within the European Union* of 2000:

«Emissions trading is a scheme whereby companies are allocated allowances for their emissions of greenhouse gases according to the overall environmental ambitions of their government, which they can trade subsequently with each other. [...] One main attraction of emissions trading is that it provides certainty of environmental outcome. [...] The key economic rationale behind emissions trading is to use market mechanisms to ensure that emissions reductions required to achieve a pre-determined environmental outcome take place where the cost of reduction is the lowest.»¹⁴

¹⁴European Commission. 2000. *Green Paper on Greenhouse Gas Emissions Trading within the European Union*. COM (2000) 87 final. Brussels, European Commission. P. 7-8.

There are several types of Emissions Trading Systems, the ‘cap-and-trade’ and ‘baseline and credit’ being the main ones¹⁵. The European Union’s Emissions Trading System is a ‘cap-and-trade’ system, whose main characteristics are:

« [...] a system where the government defines a new set of property rights to use the atmosphere based on an emissions’ limit or cap. Then, after the distribution of the allowances between the actors involved, it allows trade in these allowances so that actors can choose to conduct abatement or by additional allowances. Finally, at a particular time, actors covered by the scheme are required to surrender the allowances that correspond to their level of emissions- this may be above or below what they originally allocated, depending on the costs of CO2 abatement they are faced with [...] The monitoring and reporting of emissions is the next critical element. The precise achievement of the environmental target is known only after the calculation of actual emissions at the end of the commitment period.”¹⁶

The baseline and credits schemes, on the other hand, are characterized by a baseline of emissions per sector, under which the actors are encouraged to reduce their emissions but no overall cap.¹⁷ For this reason, National Allocation Plans, caps set per trading periods, the ‘Community Independent Transaction Log’ registry, and the Commissions’ guidelines for the Monitoring and Reporting of emissions are crucial for the EU ETS to run efficiently and transparently. They will be the focus of Part B, which will analyse the Pilot phase’s main characteristics.

This first multi-national cap-and-trade system is the first in its kind as the result of both internal negotiations and external pressures.

2. The internal EU negotiations leading the EU Emissions Trading Scheme

The main factors put forward in the EU ETS literature which led to the adoption of Directive 2003/85/EC in October 2003 are:

- the failure of the Carbon Tax proposed by the European Commission in 1997,
- the subsequent European Commission’s Communications and Green Paper on Emissions Trading in the late 1990s-early 2000s,

¹⁵ Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. Earthscan. London, Sterling VA. P. 18

¹⁶ Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. Pp 18-19

¹⁷ Ibid, p. 18.

-Member States, such as the United Kingdom, Denmark and Netherlands in providing their own domestic examples of such schemes.

a. The failure of the Carbon Tax.

The European Commission's proposal for a European Carbon Tax was put forward in 1992 but withdrawn in 1997. This was due to the reluctance of Member States to accept a European tax on the one hand and resistance from the European industry lobbies on the other:

«First, some nations regard member state autonomy in taxation a core value, not to be relinquished even if the environment would benefit. The view is that the power of taxation is so central to management of an economy that, if it is forgone, national autonomy will be compromised. [...] Because fiscal measures require unanimity, this strong ideological opposition proved impossible to overcome. Second the main industry lobbies, represented clearly by UNICE, also opposed the tax, with consistent and persistent case-making at the member states and EU level. [...] the proposal was withdrawn in 1997. »¹⁸

b. Subsequent European Commission proposals

After this failure, the European Commission considered new policy measures to reduce GHG emissions in the European Union. Two Communications to the European Parliament and Council are of relevance: In COM (97) 481 entitled *Climate Change - The EU Approach for Kyoto*, the European Commission briefly mentions an emissions trading scheme as a possibility, if it ensures emissions reductions¹⁹. In COM (98) 353 *Climate change- Towards an EU Post-Kyoto Strategy*, the European Commission also explores the possibility of Member States in an international trading scheme.²⁰ More significantly, in its Green Paper *Emissions Trading within the European Union* of 2000, the European Commission puts forward the idea of setting up an EU Emissions Trading Scheme and further argues for a Pilot phase: «There would be considerable benefits in terms of “learning-by-doing” that would ensure that the Community was better prepared for the start of international emissions trading

¹⁸ Ellerman A.D, Convery F.J, De Perthuis, C. 2010. *Pricing Carbon. The European Union Emissions Trading Scheme*. P.16.

¹⁹ COMMISSION OF THE EUROPEAN COMMUNITIES. 1997. *Energy for the Future: Renewable Sources of Energy. White Paper for a Community Strategy and Action Plan*. COM(97)481 final. Available at: http://ec.europa.eu/energy/library/599fi_en.pdf Last Accessed 31-07-2011. p.14.

²⁰ COMMISSION OF THE EUROPEAN COMMUNITIES. 1998. *Climate Change: Towards a Post-Kyoto Strategy*. COM (1998) 353 final. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:1998:0353:FIN:EN:PDF> Last Accessed 31-07-2011. p. 18.

from 2008 under the Kyoto Protocol. Such experience would give Community actors practical familiarity, and even a leading edge in using the instrument.»²¹

c. Directive 2003/85/EC

Before its adoption on October 13th 2003, the Directive 2003/85/EC was submitted to the ordinary (co-decision) procedure. As a result, Directive 2003/85/EC's final contents were a compromise of the EP and Council preferences for the ETS. As Ellerman A.D, Convery F.J, De Perthuis argue :

«The Parliament's first reading and the Council's position differed on several points. First, the Parliament supported a more directive 'top-down' allocation process administered by the Commission. It also favoured the use of mandatory auctioning for a share of the allocation. The Council, on the other hand, strongly favoured free allocation and wished to defer to member states on how allowances would be allocated. Second, Parliament wanted to implement a temporary 'opt-out' option for installations only, whereas the Council wanted to allow member states to exclude installations, activities and sectors. Last, the Parliament wanted member states to have the option to include other sectors [...] and other greenhouse gases from 2005, while the Council wanted to include this option from 2008 onwards.[...] The outcome kept the allocations as a [...] responsibility of member states but guided by criteria specified in the directive, and –most crucially- subject to the review of the Commission. Auctioning by member states was an option to a maximum of 5 per cent in the first trading period (2005-7) and 10 per cent in the second [...]. Member states were permitted to 'opt-out' installations only during the first period. Last member states could include additional installations and sectors from 2005, while they could include additional gases starting in 2008.»²²

This quote is useful to shed light on how the European Parliament and the European Council contributed to shaping the ETS, which can be somewhat overshadowed by the European Commissions' very pro-active manner on this subject.

²¹ COMMISSION OF THE EUROPEAN COMMUNITIES. 2000. *Green Paper on Greenhouse Gas Emissions Trading within the European Union*. COM (2000) 87 final. Brussels, European Commission. Available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2000/com2000_0087en01.pdf Last Accessed 31-07-2011. p.

10

²² Ellerman A.D, Convery F.J, De Perthuis, C. 2010. *Pricing Carbon. The European Union Emissions Trading Scheme*. Pp 24-25.

d. Member States

Member States are also important actors who had a significant role in how the ETS came into being. The ETS received support and criticism from different Member States. Germany, for instance, is often referred to as the member state initially more resistant to the idea of carbon markets as an instrument for GHG reductions, favouring instead domestic policies to reach reduction targets.²³

The United Kingdom, on the other hand, embraced the idea of a carbon market and even implemented its domestic trading scheme, the UK ETS, in 2002, ahead of the EU ETS. As Ellerman and al. explain: that «[...] Industry in the United Kingdom, which opposed the energy tax, advocated forcefully for emissions trading and established a group to work with the government [...]. The result was a rather complex UK Emissions Trading Scheme, which started in April 2002 which consisted of two components: a voluntary cap-and-trade system and sector-based intensity targets. »²⁴

Denmark also created its own Emissions Trading System²⁵ and other member states, for instance the Netherlands, Sweden, France and Germany, gradually started to reflect on the idea of emissions trading to complement their own domestic measures to reduce emissions.²⁶

A. Brohé argues that this emergence of various schemes in Member States gave the Commission the incentive to create an EU-wide Emissions trading scheme: «Disparate national schemes might have led to a complex system and undermined the EU will for more harmonization. [...] the European Commission wished to establish a common emissions market to avoid distortions of competition. »²⁷

The carbon tax failure; the European Commission's activity; the European Parliament and Council's input to the Directive 2003/85/EC and the Member States' domestic initiatives in GHG emissions reductions all proved to be determinant factors in adopting an EU Emissions trading Scheme, and how it was shaped. However, the creation of the EU ETS was also a result of external factors and pressures on the European Community and Member States.

²³ Cass, L. 2005. *Norm Entrapment and Preference Change: The Evolution of the European Union Position on International Emissions Trading*. Global Environmental Politics 5:2. MIT Press. Cambridge, MA. P. 46.

²⁴ Ellerman A.D, Convery F.J, De Perthuis, C. 2010. P.19-20.

²⁵ For its electricity sector. Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. P. 109.

²⁶ Ellerman A.D, Convery F.J, De Perthuis, C. 2010, p. 20.

²⁷ Brohé, Arnaud. 2009. P. 109.

3. External factors

The international climate change regime context of the late 1990s- early 2000s in which the ETS was conceptualised, then created, is especially relevant to analyse. The United States' rejection of Kyoto protocol in 2001 proved determining for the European Union's domestic policies and climate negotiations, and will be analysed first. Second, the European targets in emissions reductions under the Kyoto Protocol and the Burden-Sharing Agreement²⁸ led the EU to adopt an instrument such as the ETS, as the need emerged to 'close the gap' between EU international leadership rhetoric (which will be further analysed in Chapter 2).

a. the United States

The United States is the most important external actor which contributed to the EU adoption of an emissions trading system. First because of its initial endorsement of such a mechanism, and how it introduced it in climate change negotiations. According to Oberthür and Tänzler (2007):

«The US has gained relevant experience in particular with its national sulphur dioxide-trading program that was implemented in 1992 as a major component in its strategy to combat 'classical' air pollution. [...] Consequently, it was the US that introduced the concept of emissions trading into the international GCC negotiations and was the major driving force advocating the establishment of an international emissions trading scheme as part of the Kyoto Protocol. »²⁹

They further argue that the European Commission started to consider emissions trading as a possible way to attract the United States into a climate change proposal on their own terms³⁰ before the US left the Kyoto negotiations in 2001. Additionally, L. Cass arguments that the United State's abandon of the Kyoto protocol meant that the EU could "reframe" the norms

²⁸ The European Burden-Sharing agreement is the sharing of the EU's target of emission reductions (of 8%) between the European Member States. The calculation is made based on the population growth and energy efficiency of the Member States. The first Burden Sharing Agreement was adopted in 1998, and a new one in 2008. See Brohé, Arnaud. 2009. Pp 73-74.

²⁹ Oberthür, S, Tänzler, D. 2007. *Climate Policy in the EU: International Regimes and Policy Diffusion*. In Harris, P. G. Europe and Global Climate Change. Edward Elgar Publishing Limited, Cheltenham UK. P. 264.

³⁰ «The Commission [...] acknowledged that the United States was likely to embrace emissions trading as a key policy instrument, if and when it addressed climate change seriously, and that compatibility of approach could be useful stimulus to US action and facilitate international trading.» Oberthür, S, Tänzler, D. 2007. *Climate Policy in the EU: International Regimes and Policy Diffusion*. P. 18

of emissions trading so as to become a “leader” in the matter.³¹ This will be further explored in 4.

Second, President G.W Bush’s refusal to ratify the Kyoto protocol in 2001 changed the EU’s negotiating powers in the climate change international regime. According to Ellerman and al. this decision of the US Administration was also decisive for the adoption of the EU ETS because:

«While the European Commission from the outset made it clear that the EU ETS was a ‘domestic scheme’ that would proceed independently of what happened with the Kyoto Protocol, the Kyoto- EU ETS link moved to centre stage after the rejection of the protocol in March 2001 by US president George W. Bush. [...] The US decision animated the ‘Save Kyoto’ campaign by the Union and the member states [...] It required the Union to take leadership at the various Conferences of the Parties to the Kyoto Protocol, so as to facilitate continuing engagement and support from others, notably Japan and Canada. [...] Throughout this process, the EU ETS moved to the centre stage as the core evidence that the European Union could be innovative, courageous and effective in ensuring that its own performance matched its rhetoric. »³²

The European Union succeeded in saving Kyoto by persuading other industrialized countries, especially Russia, to ratify, and this success was determinant for the EU’s subsequent international climate foreign policy and self-perceived leadership³³.

b. the Kyoto Protocol and closing the gap

In the early 2000s, when the idea of the EU ETS emerged and was gaining support internally, the EU faced a paradoxical situation: it assumed a leadership in international negotiations surrounding the Kyoto protocol, pushing for stringent targets for emissions reduction; while domestic policy lagged behind these international commitments³⁴. Indeed, the EU had taken an 8 per cent reduction of emissions target, the highest amongst industrialised countries and

³¹ «Once the United States became disassociated with the trading proposals, the European Union was able to enter the void with greater credibility with the European public and environmental NGOs and play a more innovative role in the development of the trading mechanism. This shift in framing was a necessary condition to permit the EU to escape its norm entrapment and to establish a leading position in the development of the international emissions trading mechanism» Cass, L. 2005. *Norm Entrapment and Preference Change: The Evolution of the European Union Position on International Emissions Trading*. P. 40.

³² Ellerman A.D, Convery F.J, De Perthuis, C. 2010. P. 19.

³³ Oberthür, S, Pallemmaerts, M. 2010. *The EU’s Internal and External Climate Policies: an Historical Overview*. In (eds.) Oberthür, S, Pallemmaerts, M and Roche Kelly C. *The New Climate Policies of the European Union. Internal Legislation and Climate Diplomacy*. VUB Press. Brussels.P. 35.

³⁴ Oberthür, S, Pallemmaerts, M. 2010. *The EU’s Internal and External Climate Policies: an Historical Overview*. Brussels. Pp. 33-38.

had re-negotiated its burden-sharing agreement internally to match that target³⁵. Legislation was therefore sped to enable the EU and its Members to reach their targets, of which the EU ETS Directive 2003/87/EC was a part of.³⁶

4. Normative analysis

L. Cass makes a relevant normative analysis of the EU's position towards emissions trading. She argues that the European Union was facing "norm entrapment" when the United States was promoting emissions trading in the late 1990s; whereas once the United States left the Kyoto negotiations, the European Union was able to frame emissions trading to suit its policy style:

«The outcome of the negotiations speaks to the importance of framing and norm entrapment in international negotiations. The affirmation of the norm requiring all states to adopt a domestic emission reduction commitment and to achieve this commitment primarily through domestic policy changes as well as the condemnation of the extensive use of international emissions trading trapped the EU and prevented it from altering its negotiating position even though the preferences of member states had begun to shift. However, once the international emissions trading proposal was separated from American sponsorship, the European Union was in position to adopt the mechanism and pursue international negotiations to implement it under a mantle of legitimacy. »³⁷

This normative analysis complements well the facts that led to the EU ETS and give an in-depth explanation of why it was chosen, and then created to become the affirmation of EU leadership in Climate Change negotiations. This will be further explored in Chapter II.

³⁵ Ibid. P. 34- 35.

³⁶ «The combined effect of [...] measures on EU GHG emissions, together with supplementary measures taken by the Member States individually, brought the EU-15 closer to its Kyoto target of minus 8 per cent while also reducing emissions in the new member states» Ibid. 2010. P. 43.

³⁷ Cass, L. 2005. *Norm Entrapment and Preference Change: The Evolution of the European Union Position on International Emissions Trading*. P. 58.

B- THE EU ETS PILOT PHASE MAIN CHARACTERISTICS

After having examined the factors that led the European Union to choose the instrument of the ETS as a policy, this sub-chapter will now examine the main characteristics of the Pilot phase of the ETS. These are important for setting the context in which the comparative analysis for Chapter 3 will take place.

The choice of a “learning-by doing” phase will be examined first; and why it is unique in European policy-making. The second section will look at the results of the EU ETS Pilot phase in terms of emissions abatement to determine whether the instrument can be considered effective. The third will analyse the problems that arose during the first phase and will finally examine the potential of Linking Directive in giving the ETS internationality.

1. Learning-by-doing phase

The decision to run a pilot phase of the ETS before 2008 (which corresponds to the beginning of the Kyoto period) was first advocated by the European Commission in its 2000 Green Paper on Emissions Trading in the EU. The European Commission’s arguments were that it could familiarize the EU with emissions trading, and gradually extend the scope of the ETS to more greenhouse gases and more sectors. An additional argument was that familiarisation could eventually lead to European leadership in emissions trading³⁸, and could be considered a type of ‘leadership-by-example’ from the Commissions’ behalf; which will be further explored in Chapter II.

Two main characteristics of this phase were: caps for emissions allowances were set in the Member States according to *National Allocation Plans (NAPs)*, subject to the Commissions’ guidance and assessment³⁹ and *free allocations*: 95% of allowances were given for free while 5% were auctioned⁴⁰.

³⁸ COMMISSION OF THE EUROPEAN COMMUNITIES. *Green Paper on Greenhouse Gas Emissions Trading within the European Union*. COM (2000) 87 P.10.

³⁹ Zapfel, P. 2007. *A Brief but Lively Chapter in EU Climate Policy: the Commission’s Perspective*. In Ellerman, A.D, Buchner, K and Carraro C. *Allocation in the European Emissions Trading Scheme Rights, Rents and Fairness*. Cambridge University Press. Cambridge. Pp 20-22

⁴⁰ *Ibid*. P. 15.

P. Zapfel summarizes these main characteristics as: « [...] the allocation rules are [of] *ex ante* nature, the periodic decision-making, a wide delegation of tasks to the national level (decentralised process) and strong central control by the Commission. »⁴¹

The advantage of a pilot phase was that the System could be subject to revision to rectify the ETS' limitations for the next trading periods, which was indeed the case⁴². These limitations will be described in 3.

2. Results of the ETS in terms of abatement

The aim of the ETS is to reduce emissions where it is most cost-effective to do so. It makes the performance of the ETS in reductions' emissions, or abatement, particularly relevant to determine whether it has been efficient in the matter. Ellerman, Convery and De Perthuis (2010) give a detailed analysis of how and where abatement occurred during the Pilot Phase of the ETS.⁴³ They come to the conclusion that:

«Abatement was modest during the first trading period of the EU ETS, which is in line with the modest ambition of the cap set for the trial period. All the same, there should be no doubt that emissions were reduced as a result of the EU ETS. [...] The rough estimates [...] suggest that the EU ETS created emissions reductions of between 2 and 5 per cent, or between 120 and 300 million tonnes for the three years of the trial period.»⁴⁴

These results could be seen as an affirmation of the EU “closing the gap” between its international commitments and domestic policies; through results. However, as Egenhofer and al. argue, conclusions on abatement are subject to uncertainty due to the fact that they're done in comparison to a “business as usual” scenario. Therefore abatement could be the result of several factors, not only the EU ETS.⁴⁵

⁴¹ Idem.

⁴² DIRECTIVE 2009/29/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0063:0087:en:PDF> Last Accessed 31-07-2011

⁴³ Ellerman A.D, Convery F.J, De Perthuis, C. 2010. *Pricing Carbon. The European Union Emissions Trading Scheme*. Pp 158-191.

⁴⁴ Ibid. P. 191.

⁴⁵ «Conclusions however remain subject to uncertainty because the only true comparator would be the counterfactual, i.e. what would have happened in the absence of policy [...] changes in emissions are difficult to attribute to the EU ETS because other policy and determinants may have affected firms' decisions. What seems clear is that current data does not allow for the identification of standard patterns or averages of abatement because the relationship between abatement and CO2 prices is too complex [...]»Egenhofer C, Alessi M, Gerogiev A, Fujiwara N. 2011. *The EU Emissions Trading System and Climate Policy Towards 2050. Real*

Modest abatement could be linked to the novelty of the system and the short trading period, but also some shortcomings of the initial EU ETS.

3. Main shortcomings of the EU ETS pilot phase

Over allocation of allowances, divergences between NAPs and price volatility are the main problems which the EU ETS faced during the pilot phase⁴⁶.

The first characteristic of the Pilot phase was that the caps (number of allowances to be distributed) were set by the Member States' National Allocation Plans, based on previous emission trends (referred to as "grandfathering"⁴⁷). This decision led to several difficulties for the Member States, in deciding how stringent their caps should be, and which industries should be allocated to them; and for the European Commission, to assess their NAPs, a process which lasted fifteen months, and ended after the beginning of the Pilot phase, in January 2005⁴⁸

Over-allocations in NAPs disturbed the prices of EU Allowances (EUA) between 2005 and 2007: "The dramatic fall in prices [...] in 2007, was mainly due to the problem of over-allocation. Many Member States were too generous with the allocation of permits, leading to an excess of supply over demand. In practice this first experience has demonstrated the difficulty of ensuring uniformed rules and limiting over-allocation when allocation is made by Member States"⁴⁹ P. Zapfel explains: «A lowering of the total cap was required in more than half of the plans. In total the assessment resulted in some 290 million allowances fewer than intended in the initially notified plans [...]»⁵⁰.

The member states were wary of each other concerning allocations, and delayed making their NAPs public in fear of showing themselves too ambitious in comparison to other member states.⁵¹ Critiques surrounding the lack of data and monitoring were also voiced, as well as on the short time span of the trial period, not corresponding to investment cycles.⁵²

Incentives to Reduce Emissions and Drive Innovations? CEPS Special Report. Centre for European Policy Studies (CEPS). Brussels. P. 8.

⁴⁶ «[...] the original EU ETS Directive and its implementation in the first phase had a number of deficiencies, including notably over-allocation, distortion of allocation between Member States, windfall profits and deferred investments» Ibid. P. 4.

⁴⁷ in Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. P. 115-116

⁴⁸ Zapfel, P. 2007. *A Brief but Lively Chapter in EU Climate Policy: the Commission's Perspective*. Pp 23-27.

⁴⁹ Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. P. 120.

⁵⁰ Zapfel, P. 2007. *A Brief but Lively Chapter in EU Climate Policy: the Commission's Perspective*. P. 25.

⁵¹ «[...] to some extent, the twenty-five setting processes in the first allocation round had the effect of a new burden-sharing exercise for the emissions covered by the trading scheme.[...] In late 2003, before the first draft allocation plans were released for public consultation, there was a reluctance across Member States capitals to

These technical difficulties and limitations were addressed quickly and shaped the second (2008-12) and third (2013-20) trading periods significantly to make the EU ETS efficient and transparent⁵³.

4. Linking Directive and Geographic scope of the EU ETS

As mentioned in the introduction, the Directive 2004/101/EC gives the EU ETS an international dimension that allows for Joint Implementation (JI) and Clean Development Mechanism (CDM) projects to be linked to it. The benefits of this possibility to link are twofold: they enable European installations to make use of their allowances in participating in JI or CDM projects, as well as extending the scope of the ETS to sectors that weren't originally concerned by the System.⁵⁴ However, no linking took place during the Pilot phase of the Scheme: « Few CERs⁵⁵ were expected to be issued before April 2008 [...] and none were used for compliance during period 1, due to both higher price offered for their use in the second period, and the delay in the launch of the International Transaction Log, the accounting link between the CDM registry and the EU ETS. This link was not activated until October 2008, well into the second trading period.»⁵⁶ This is an important feature of the Pilot Phase of the EU ETS, and its significance will be further developed in Chapters III and IV.

However, the Pilot phase of the EU ETS allowed to get prepared for the inclusion of two new Member States to the System: Romania and Bulgaria in 2007, and well as nations of the European Economic Area (EEA): Norway, Iceland and Lichtenstein, in 2008.⁵⁷

The EU ETS had not been made completely open to linking with third parties in its Pilot phase and only expanded to new States towards the end of the phase and the beginning of the second trading period. Nevertheless, it set the beginning of expanding and internationalising the System, in tune with its policy-makers aspirations.

be the first to announce a cap figure. The underlying reason for this was the existence of voices in each Member State that opposed being more ambitious and demanding in the cap than other Member States» Ibid. P.30.

⁵² Zapfel, P. 2007. *A Brief but Lively Chapter in EU Climate Policy: the Commission's Perspective*. P.5.

⁵³ «The revised Emissions Trading Directive and the Effort-Sharing Decision together regulate the whole of the EU's GHG emissions so as to reduce them by 14 per cent from 2005 levels by 2020. [...] Directive 2009/29/EC [...] significantly amends the ETS Directive 2003/87/EC [...] In particular an EU-wide cap is defined [...] auctioning will be phased in gradually "with a view to" reaching full auctioning by 2027" Oberthür, S, Pallemarts, M. 2010. *The EU's Internal and External Climate Policies: an Historical Overview*. Pp 47-48.

⁵⁴ Ellerman A.D, Convery F.J, De Perthuis, C. 2010. P. 271.

⁵⁵ Certified Emissions Reductions

⁵⁶ Ellerman A.D, Convery F.J, De Perthuis, C. 2010. P. 272.

⁵⁷ Ibid p. 268.

This part described the main characteristics of the Pilot phase of the EU ETS. The nature of this “learning by doing” phase was especially interesting, as it enabled the main limitations described in 3. to be corrected: through the decision of setting an EU-wide cap and gradually switching to auctioning allowances rather than distributing them.⁵⁸ Section 2 also illustrated how CO2 abatement occurred during that Phase, though a direct link between abatement and the efficiency of the System was difficult to determine. Finally, the geographic scope of the ETS also proved to be limited to the Member States during the Pilot phase, though significant measures to link it to CDM and JI projects as well as allowing for EEA members to join it were significant steps in bringing the EU ETS closer to the aspirations of the its policy-makers to make it the «potential cornerstone for a much larger global regime. »⁵⁹

⁵⁸ Oberthür, S, Pallemarts, M. 2010. *The EU's Internal and External Climate Policies: an Historical Overview* P. 48.

⁵⁹ See Ellerman A.D, Convery F.J, De Perthuis, C. 2010, p. 292.

CHAPTER TWO: EUROPEAN LEADERSHIP AND THE EU EMISSIONS TRADING SYSTEM

The purpose of this Chapter is to define leadership, in the context of the European Union's climate change negotiations. From this definition, the type of leadership the EU exerts will also be established, as well as its key component, identified as "*leadership by example*" and finally the importance of the actors who negotiate on the EU's behalf will be addressed.

This analysis will then lead to the second part of the chapter, which will examine how the ETS fits in theory with the EU's leadership on the international climate change scene. These theoretical considerations will be the basis for the analysis of Chapters III and IV.

A- DEFINING EUROPEAN LEADERSHIP ON THE INTERNATIONAL CLIMATE CHANGE SCENE

1. A definition of leadership

The study of leadership is one of the most prominent subjects in political science literature and many a definition has been proposed for the term. In the context of the European Union's climate change policy, 'leadership' is omnipresent, and holds different significance depending on the author. The works of Underdal and Young on leadership and their definitions are often the starting point on the matter. In *Leadership revisited*, T. Skodvin and S. Andresen also chose to start their analysis with these authors' definitions:

«Young defines leadership as the "actions of individuals who endeavour to solve or circumvent the collective action problems that plague the efforts of parties seeking to reap joint gains in processes of institutional bargaining". Underdal provides a more demanding definition of leadership as an *asymmetrical relationship of influence, where one actor guides or directs the behaviour of others towards a certain goal over a certain period of time.*»⁶⁰
Those definitions are useful to introduce a key term to the definition of leadership: *influence*.

⁶⁰ T. Skodvin and S. Andresen. 2006. *Leadership Revisited*. In *Global Environmental Politics*. 6:3. MIT Press. Page 14.

To define the European Union's leadership in international climate change negotiations, this analysis has chosen Oberthür's definition, due to the fact that it integrates the leading actor's *aspirations*, defines it as a *relative concept*, and raises the question of *effectiveness*:

«Understood as a *targeted and consistent effort to direct other actors towards a collective goal*, international leadership has at least two fundamental requirements. First, an actor with leadership aspirations needs to have the *capacity to exert significant influence on other actors*. Second, the leading actor has to have *more progressive positions towards the collective goal* than those of the followers, rendering leadership a *relative concept*. For leadership to be *effective*, [...] a third requirement needs to be met. *The leader has to be successful in mobilising available resources (power, legitimacy/credibility, knowledge and skills)* to achieve outcomes that reach the collective goal. »⁶¹

The mention of “*effectiveness*” and “*credibility*” is very important, as they are two concepts that are prominent in literature concerning the EU's leadership in climate change politics. Oberthür's definition of effective leadership as quoted above is both complete and useful, as he makes effectiveness conditional to the mobilisation of three other resources: *power, credibility, and knowledge*. While power and knowledge are very important to consider, “*credibility*” has had a predominant role in defining the EU's leadership.

B. Killian and O.Egeström argue that:

«Credibility [...] mainly refers to an assumption that in order to be a successful leader, the EU's external ambitions as a policy entrepreneur have to be matched by ‘domestic’ policies demonstrating that the Union does what it preaches. The EU therefore has to set a good example and create internal policies that are at the forefront of the combat against climate change, but also to actually implement these policy ideas.»

The idea of “setting a good example” will be further discussed in 3. after the type of leadership the European Union exerts will have been analysed.

2. A typology of European leadership

While Underdal, Young and Oberthür provide comprehensive definitions of leadership that can be applied to the European Union in the climate change international regime, other

⁶¹ Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance*. In (ed) Telò, M. *The European Union and Global Governance*. Routledge/GARNET. P. 194.

authors have sought to define the *type* of leadership that the European Union shows in its climate change negotiations.

Two groups of authors have worked on the typology of European leadership: Gupta and Grubb (2000) and Vogler and Stephan (2007).

The latter argue that there are three types of leadership: *power-based, directional and intellectual*⁶², while Grubb and Gupta identify *structural, directional and instrumental* leaderships:

«The EU's ability to wield leadership is in part structural; that is it derives from Europe's substantial political strength in the global order and international respect in the area of environmental protection. It is also partly instrumental. The EU has effectively used negotiation skills and the instrumental design of regimes to accommodate the different needs of its Member States and other country actors. Finally, it exhibited directional leadership, changing the perceptions of others on climate change mitigation. »⁶³

Both typologies provide a useful framework to assess EU's leadership in climate change mitigation with. *Directional Leadership* is present in both typologies and is interesting to consider, as Vogler and Stephan link it to '*leading by example*', a leitmotiv in European leadership literature, and to the *perception of third parties* in Gupta and Grubb (as taken from Schreurs and Tiberghien). The next part will concentrate on the idea of the EU's 'leadership-by-example', as an effort to understand what it consists of.

3. Leadership by example

There are several elements that constitute the EU's "leadership by example": its "soft power" and the normative values it uses to negotiate internationally, the coherence between its

⁶² «Andersen and Agrawala (2002) [...] distinguish(.) the roles of 'pushers' and 'leaders', the former referring to persistent but largely inefficient negotiating efforts and public declarations. From their typology, three categories appear to be most pertinent to this article: *power-based, directional, and intellectual*. Power-based leadership resembles the traditional power politics in negotiating fora, whereby a party can impose its preferred solution by bringing to bear material resources in the form of threats or incentives. [...] Directional leadership is related to the idea of 'leadership by example' . Mere 'pushers' would hesitate to commit to potentially costly policies and fall back on symbolic action instead. [...] Lastly, intellectual leadership mostly takes place during the agenda-setting phase of negotiations. It is relatively difficult to identify and may have to be exerted over long periods of time to have a discernable effect.» In J. Vogler and H R Stephan. 2007. *The European Union in Global Environmental Governance: Leadership in the Making?* International Environmental Agreements. 7. Springer. P. 392.

⁶³ Schreurs M. A, Tiberghien Y. 2007. *Multi-Level Reinforcement: Explaining European Union Leadership in Climate Change Mitigation*. Global Environmental Politics 7:4. MIT Press. Cambridge, US. P. 23.

domestic policies and its international leadership aspirations, and finally the EU's self-perception as a "leader by example".

The EU's "soft" power is mainly based on its preference for diplomacy, multilateralism and international law in conducting its foreign policy⁶⁴, and its normative values regarding climate change. M. Schreurs and Y. Tiberghien argue: «The EU has functioned as a classic norm entrepreneur. [...] It has defined climate change action as a moral and ethical issue that must transcend narrow economic interests. »⁶⁵ Other scholars argue that this "soft" leadership is more of a necessity for the European Union, considering its limited military capabilities or economical influence on GHG reductions⁶⁶ while others argue its leadership is primarily based on self-interest.⁶⁷ Nevertheless, it is an important element that shapes the 'leadership-by-example' idea which the EU promotes.

The second element of this "leadership by example" is the coherence of domestic policies with international commitments. This is very closely linked to the question of *credibility of leadership*, as a condition of *effective leadership*. As Oberthür argues: « [...] progressive domestic policies and measures constitute a most effective support for EU unity at the international level. With these measures, all EU member states acquire an interest in international regulation that provides a global level-playing field. Since existing and proposed EU climate policies go significantly beyond existing international standards, they provide an effective basis for continued international leadership of the EU. »⁶⁸ This idea of credibility of leadership through the implementation the ETS, will be discussed in Chapter II, B.

Finally, the idea of "leadership by example" is interesting to consider as a *role* which the European Union gives itself. « [...] the EU perceives itself as being a credible leader. The basis for this self-image is that its performance as a leader is coupled to its credibility as an environmental role model»⁶⁹. The question of whether third parties perceive this leadership-by-example of the EU in the same way it does will be addressed in the next part, as well as in Chapter III and IV.

⁶⁴ «Diplomacy constitutes a prime tool of 'soft' power and of foreign policy in general, and the EU possesses particular diplomatic potential because of the diverse contacts of various member states with a multitude of actors internationally.» Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance*. Pp 203-206.

⁶⁵ Schreurs M. A, Tiberghien Y. 2007. *Multi-Level Reinforcement: Explaining European Union Leadership in Climate Change Mitigation*. P. 24.

⁶⁶ Oberthür. S. 2009. P 196.

⁶⁷ T. Skodvin and S. Andresen. 2006. *Leadership Revisited*. P. 22.

⁶⁸ Oberthür,. S. 2009. P. 202.

⁶⁹ Killian B, Elgström. 2010. *Still a Green Leader? The European Union's Role in International Climate Change Negotiations*. In *Cooperation and Conflict*. 45 (3). SAGE publications. P. 261.

4. Actors

A final element of European leadership that needs to be addressed is the actors which contribute to the EU's international role in climate change, and push for a progressive EU position internationally. Previously in this Chapter, the European Union had been referred to as though it is single actor, not accounting for the dynamics between the European Institutions and the Member States.

The European Commission, very active in creating and shaping the EU ETS as shown in Chapter I, is unsurprisingly a strong advocate for the EU's leadership by example on the international climate change scene⁷⁰ and so is the European Parliament⁷¹.

Certain member states also play an integral part in shaping EU's leadership, especially when they hold the Council Presidencies. «The Germans and British have quite consistently taken on climate change leadership roles within Europe, and have very visibly done so when they have held the Council Presidencies (2005 for Britain and 2007 for Germany).»⁷²

This is what M. Schreurs and Y. Tiberghien refer to as 'multi-level reinforcement' between European Union actors which contributes significantly to the shaping of the EU's leader role internationally: «[...] we argue that EU's leadership in climate change is the result of a dynamic process of competitive multi-level reinforcement among the different EU political poles within the context of decentralized governance [...] The upward cycle of reinforcing leadership within a quasi-federal system has been triggered by and been dependent upon strong public support and normative commitment.»⁷³

A final element to consider is the perception of third parties of European leadership in climate change negotiations as leadership has been defined above by being a relative concept. According to B. Killian and O. Elgström, who have interviewed third parties representatives who took part in the Conference of Parties COP 14 in Poznan on how European leadership ??:

⁷⁰ «[...] the Commission seized the ball on a number of occasions and used it to push forward climate-wide action and further European integration. An example has been the Commission's sponsorship of emissions trading». And «The Commission has used climate change to build the EU's foreign identity, especially relative to the US. As a top official of Directorate General Environment put it, the environment is a great unifying issue (an issue of predilection), one where everyone expects that the EU must act and must lead». Schreurs M. A, Tiberghien Y. 2007. *Multi-Level Reinforcement: Explaining European Union Leadership in Climate Change Mitigation*. Pages 25 and 34.

⁷¹ «The European Parliament has provided another channel for green interests to influence policy outcome. [...] [It] has picked climate change as a strategic issue through which it can gain more legitimacy and power relative to the Council and the Commission» Ibid.P.36.

⁷²Ibid. P. 25.

⁷³Ibid. 2007. P. 22.

«There is a unanimous agreement among third-state representatives that the Union is still a leader in climate change, no matter whether the interviewee represents a developing or developed country. [...] This indicates that the international weight of the EU in climate change politics is considerable. [...] the Union's self-image as a coherent actor is by and large shared by outsiders. There is an argument that the EU succeeds in negotiating as a bloc and that its positions are well developed and coordinated [...]. »⁷⁴

This claim is important to keep in mind for the analysis of the results of Chapter III's comparison.

This chapter sought to give a clear definition to the concept of European leadership in the context of international climate change negotiations as well as to determine its key characteristics.

Leadership, in this case, was defined by Oberthür as “*as a targeted and consistent effort to direct other actors towards a collective goal*”⁷⁵ that needed to fill the requirements of : exerting influence on other actors; more progressive actions towards the common goals; mobilising available resources to be effective.⁷⁶ The analysis then drew onto typologies of leadership to find that *Directional Leadership*, associated with the idea of ‘leadership by example’ promoted by the EU fitted the case study most accurately. “*Leadership by example*” was then understood as the *credibility* of the EU, in making its domestic policies consistent with its international rhetoric, and pursuing its “soft” policy tools and normative values as an integral part of its negotiations. Finally, the importance of the actors in shaping the EU's leadership role was also addressed, through the argument of M. Schreurs and S. Tiberghien on “Multi-level Reinforcement”. The question of self-perception of the EU as a ‘climate change leader’ and whether it corresponded to the third parties’ opinions was also addressed, so as to establish the relative dimension of the concept of leadership.

⁷⁴ Killian B, Elgström. 2010. *Still a Green Leader? The European Union's Role in International Climate Change Negotiations*. P. 262.

⁷⁵ Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance*. P. 194.

⁷⁶ Idem.

B- THE EU ETS AND EU LEADERSHIP

The analysis will now focus on the EU Emissions Trading Scheme and will set it against the definition of European leadership as defined above. The starting point of this analysis will therefore be the definition provided by Oberthür on leadership, and specifically its three requirements: 1. the capacity to exert significant influence on other actors. 2. more progressive positions towards the collective goal than those of the followers. 3. For leadership to be *effective*, (...) to be successful in mobilising available resources (power, legitimacy/credibility, knowledge and skills)⁷⁷.

1. The capacity to exert significant influence on other actors

It is difficult to assess whether the EU's Emissions Trading System has the capacity to influence third parties. In order to answer, a first step is to define the word 'influence'. Defined by the dictionary, influence is: « The power of persons or things to affect others, seen only in its effects; b. the action or effect of such power.»⁷⁸ This definition is interesting because it suggests that things can produce influence, not only people; if applied to this case, this definition would allow for the ETS to have its own influence over third parties, rather than it being constructed by those in charge of the ETS.

A second difficulty is to determine what kind of influence it might exert on actions, behaviours or opinions. Does it produce changes in policies of actors that have been in contact with it; or is the influence more normative, for instance if it changed third-parties' ideas as to how tackle climate change, even if there is no concrete policy to illustrate that shift? A. Brohé, for instance, sees the appearance of new Emissions Trading Systems as an expression of the EU ETS' influence over third parties⁷⁹, but others equally argue that this type of choice is made by self-interest or low costs of emissions abatement as it was in the EU.⁸⁰

For the purpose of this analysis, which already gave weight to the actors' influence over the creation and the shaping of the ETS in Chapter I (A/B) and II (A), we will consider that influence over third parties through the ETS is created by the actors responsible for it

⁷⁷ Idem.

⁷⁸ Webster's New World Dictionary. 1988. Third College Edition. P. 693.

⁷⁹ Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. P. 2.

⁸⁰ T. Skodvin and S. Andresen. 2006. *Leadership Revisited*. Page 22.

(Member States and EU Institutions), which use some aspects of the ETS to influence and enhance their negotiating positions. In *Linking as Leverage*, R. Benwell argues that the Linking Directive 2004/101/EC provides the EU with a strong negotiating tool towards third parties:

« [...] the ETSs can become more than a tool for the achievement of least-cost emissions reductions. Indeed they can offer considerable added benefits- innovation effects, growth in financial services and marketing opportunities- which can be an incentive for others to participate. [...] The prospect of linkage with EU ETS may now be considered an ‘ace’ in the negotiating hand of the European Commission. [...]. The benefits of linking are twofold. Firstly, the opportunity to buy and sell allowances and offsets between schemes creates a broader, more liquid market which can uncover efficiencies and create costs savings for both sides of the agreement. [...] Second, linking can open access to [the] other benefits of emissions trading, such as those suggested [above] [...] »⁸¹

However, he also takes into consideration that third parties choose to establish emissions trading systems primarily because of domestic factors⁸², thus making it difficult to determine how much influence the EU ETS does hold on the emergence of new emissions trading systems. This question will be further explored in Chapter III.

2. More progressive positions towards the collective goal than those of the followers

The EU ETS “fits” this requirement of leadership in two ways. In a first time, the choice of an Emissions Trading Scheme for the EU in itself proved more progressive than what other states were willing to do at the time to combat climate change⁸³. In a second time, the way the EU ETS was created also set a progressive decision on the EU’s behalf. As argued in Chapter I, B. 1, the mere fact that the European Commission insisted upon a “learning by doing” phase proved it was serious about implementing an efficient Trading System, that could be amended after a short period of time should any serious problem arise. The choice of a cap and trade system over a baseline and credit scheme (where there is no overall cap, and the

⁸¹ Benwell, R. 2009. *Linking as Leverage: Emissions Trading and the Politics of Climate Change*. In (ed) Harris, P. *The Politics of Climate Change: Environmental Dynamics in International Affairs*. Routledge. Pp 92, 93 and 101.

⁸² *Ibid*, P.102.

⁸³ See Oberthür and Pallemarts. 2010. *The EU’s Internal and External Climate Policies: an Historical Overview*.

actors are ‘encouraged’ to reduce their emissions below the baseline level of emissions⁸⁴) also shows that the EU ETS is based on high standards. As R. Benwell argues: «This high benchmark, if the EU is willing to defend the integrity of the EU ETS, can act as an incentive to encourage other groups to adopt emissions caps with high standards in order to benefit from the potential link with the EU scheme.»⁸⁵

It would seem that the ETS does fit in, and contributes to, the progressive role of the EU in climate change negotiations in comparison to third parties, or ‘followers’. Whether this influential and progressive position is actually effective is the focus of the next part.

3. To be successful in mobilising available resources: power, credibility, knowledge

a. Power

According to J. Vogler and R. Stephan, power-based leadership «[...] resembles traditional power politics in negotiating fora, whereby a party can impose its preferred solution by bringing to bear material resources in the form of threats and incentives.»⁸⁶. While some might argue that the EU ETS is one of the ways through which the EU can use its economic weight as an incentive to make third parties join or link to its policies⁸⁷, and thus showing some signs of power-based leadership, it is nevertheless contradictory with the “soft” policy choices the EU traditionally makes when negotiating, as argued above, preferring multilateral diplomacy to coercion (Chapter II, A, 3). It is preferable, then, to refer to directional leadership, whereby the EU uses its domestic policies to set an example to third parties and seeks to change third parties’ perceptions (Chapter II, A, 2).

b. Credibility

One can argue that the EU ETS is a good instrument in the EU’s hands to enforce its credibility as leader in the climate change area. As mentioned in Chapter II, A, 3. the EU’s international “leadership-by-example” can be credible if it matches equally progressive domestic policies. Also, and as argued above, the EU ETS can be considered a progressive

⁸⁴ Brohé, Arnaud. 2009. *Carbon Markets: an International Business Guide*. P.16

⁸⁵ Benwell, R. 2009. *Linking as Leverage: Emissions Trading and the Politics of Climate Change* . p. 102.

⁸⁶ J. Vogler and H R Stephan. 2007. *The European Union in Global Environmental Governance: Leadership in the Making?* P. 392.

⁸⁷ «[...] it represents 27 member states, which makes it hard to ignore it given the sheer size of its population and internal market. [...] In the climate regime, the economic clout of the Union is claimed to facilitate the impact on others.» Killian B, Elgström, O. 2010. *Still a Green Leader? The European Union’s Role in International Climate Change Negotiations*. P. 264.

domestic policy by the fact that it has high standards, but also its sheer scale; indeed, it is the first regional, multi-industry, multi-sector and multi-GHG emissions trading system.⁸⁸In that sense, the EU ETS indeed “closes the credibility gap”⁸⁹ between its domestic and external climate change policies: «The measures [...] put in place a credible infrastructure for implementing a further strengthened commitment that could result from international negotiations»⁹⁰. The EU ETS then seems to provide a resource of credibility for the EU to rely on to exert effective leadership.

c. Knowledge

Knowledge in carbon trading and climate finance through the EU ETS is undeniably a strong bargaining tool for EU policy makers, which can weigh in the EU’s climate change negotiations and effective leadership. The choice of a Pilot phase is a chance for the EU to gain experience in Emissions Trading, seeing as the policy choice emerged rapidly⁹¹ while policy makers had limited knowledge in setting allocation plans and the technicalities of setting up an emissions trading system⁹². Thanks to this knowledge from experience with the ETS, the EU can advise third parties on the benefits of emissions trading and can shape the emergence of future trading systems, by setting the standards under which they can be linked⁹³.

5. Concluding Remarks

In summary, this part has applied the definition of leadership⁹⁴ and its three requirements by Oberthür, to the EU Emissions Trading Scheme, in order to determine whether they are compatible, and moreover, whether the EU ETS contributes to this conception of European leadership. While it seemed difficult to empirically determine if the EU ETS has influence over third parties in creating and designing their own ETS, which was the first requirement for leadership, the EU ETS did meet the second requirement, which was to have more

⁸⁸ See Introduction.

⁸⁹ Oberthür. 2009. *The Role of the EU in Global Environmental and Climate Governance*. In (ed) Telò, M. The European Union and Global Governance. Routledge/GARNET. Pp 201-205.

⁹⁰ Ibid, p. 201.

⁹¹ See Introduction

⁹² «The EU greenhouse gas emissions trading scheme is the first application of this environmental policy instrument at EU level [...] Therefore, neither authorities charged with the tasks to develop the allocation plan nor the stakeholders involved had much experience with an allocation process.» Zapfel, P. 2007. *A Brief but Lively Chapter in EU Climate Policy: the Commission’s Perspective*. P. 19.

⁹³ Benwell, R. 2009. *Linking as Leverage: Emissions Trading and the Politics of Climate Change*. Pp 102-103.

⁹⁴ “A targeted and consistent effort to direct other actors towards a collective goal” Oberthür, S. 2009. P. 194.

progressive positions than third parties. This proved to be the case for the EU ETS, as being the only System that covered several countries, installations, and greenhouse gases; as well as for its high standards in allocations. The third requirement for effective leadership was the mobilisation of resources: power, credibility and knowledge. In this instance, the “power” resource was reformulated as “Directional leadership” of the EU, referring to its “leadership by example” style and “soft” policy preferences. The analysis moved on to credibility and knowledge. The EU ETS was easily linked to those two resources. Credibility as a leader being dependant on credible domestic policies made the EU ETS a good case study; and so did knowledge, as the EU ETS provided EU policy makers experience in carbon trading which can be used as a bargaining tool in their negotiations.

Therefore, all the requirements seemed to be fulfilled for the EU to be successful in making «A targeted and consistent effort to direct other actors towards a collective goal»⁹⁵ On this basis, the following Chapters will seek to confirm the research hypothesis: that the EU ETS can enhance the EU’s position in climate change negotiations.

⁹⁵ Oberthür, S. 2009. P. 194.

CHAPTER THREE: COMPARATIVE STUDY OF MONTRÉAL AND BALI'S UNFCCC CONFERENCES

The previous Chapter has given a complete definition of the concept of European leadership in the context of the international climate change regime⁹⁶ and requirements to meet for leadership to be exerted in an efficient way. These were:

- the capacity to influence other parties,
- showing more progressive positions than followers,
- mobilising power/credibility/knowledge, for efficient leadership.⁹⁷

The analysis also proved that the EU ETS fitted this conception of leadership on numerous points: showing the EU's more progressive stance than third parties, and being a successful way for the EU to mobilise credibility and knowledge to ensure efficient leadership. However, this analysis can be somewhat criticized for the fact that it gives a very "top to bottom" approach to the relationship between the EU ETS and European leadership, where the EU ETS is seen as an expression of European leadership at work.

This chapter will therefore seek to determine whether the relationship between the EU ETS and European leadership is more complex than it would appear at the end of Chapter II.

It will try to determine whether there is an element of *reciprocity or reflectivity* between the use of the EU ETS and the position of the EU in negotiations, thus *determining if the EU ETS creates its own dynamic on the international scene that influences on the EU's negotiating position.*

This analysis, in turn, will contribute to answering in the most complete way possible to the research question as presented in the Introduction: *What role does the EU ETS play in European negotiations in the international climate change regime?*

It will also seek to verify the research's hypothesis, that the EU ETS is an important negotiating tool at the hands of the EU and can enhance the EU's position through influencing third parties to link themselves with this instrument.

In order to answer both those questions, a qualitative comparison of the Final Reports of the UNFCCC Conferences of Montréal in 2005 and Bali in 2007 will be presented. This chapter

⁹⁶ Idem.

⁹⁷ Idem.

is divided in two parts. The first will explain how the comparative grid is designed, and the second will present the grid. The results of the comparison and their interpretations will be analysed in Chapter IV.

This first part is organised along several elements.

On the first hand, the decision to compare the Montréal and Bali conferences will be explained; second, the common European positions prior to those meetings will be analysed, so as to give a reference for analysing results in Chapter IV. Finally, the components of the comparative grid of Part B will be explained and justified.

A- CONTEXT AND METHODOLOGY

1. The Montréal and Bali conferences

As stated in the Introduction, the first reason these conferences were chosen was because they corresponded to the EU ETS Pilot phase's timeframe. The UNFCCC Conference of Montréal took place between November 28th and December 10th 2005 (the end of the Phase's first year), while the Bali Conference took place between December 3rd and 15th 2007, towards the conclusion of the Pilot phase.

However, these conferences are also especially interesting to analyse as they produced significant developments for the international climate change regime. The Montréal Conference of 2005's main outcomes were the adoption of the Marrakesh Accords of 2001⁹⁸ and the beginning of discussions on commitments for the post-2012 period.⁹⁹ The conference was also the first Meeting of the Parties (MOP 1), a new institutional feature of the UNFCCC¹⁰⁰, alongside the Conference of the Parties (COP 11).

⁹⁸ «These Accords consist of a package of draft decisions on many of the details of the flexible mechanisms, reporting and methodologies, land use, land use change and forestry (LULUCF) and compliance with the Kyoto Protocol that should be adopted by the first COP/MOP. The Accords also address support for developing countries, including capacity building, technology transfer, (...) and the establishment of three funds- the Least Developed Countries (LDC) fund, Special Climate Change Fund (SCCF), and Adaptation Fund». IISD (International Institute for Sustainable Development). 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol*. Earth Negotiations Bulletin 12, No 291. P. 2.

⁹⁹ Ibid, page 1.

¹⁰⁰ Idem.

The Bali Conference of 2007, COP 13 and MOP 3, resulted in the adoption of the ‘*Bali Roadmap*’, a two-year process to come to a post-2012 regime by 2009¹⁰¹, building onto the decisions taken at Montréal and whose aim was to: «provide the means to re-engage with the United States in negotiations on future commitments, with some levels of comparability with other developed country undertakings. »¹⁰²

These conferences’ agendas and outcomes are particularly interesting to take under consideration during the comparative analysis, as they could have well been shaped by the EU’s *influence* or *credibility* as a leader.

2. Common EU position prior to the Conferences

In order to determine how the EU negotiated during these Conferences, one has to take into account the aims it had for the negotiations’ outcomes, and what the EU’s position consisted of. For that purpose, Council Conclusions of September 2005 and February 2007, which prepared the EU’s objectives for the UNFCCC’s will be analysed.

The Council of Environmental Ministers Conclusions of October 2005 (during the UK Presidency) helps define the EU’s position prior to the Montréal Conference quite efficiently. First, an explicit reference to the EU ETS is made as: «an essential instrument in the EU’s medium and long term strategy to tackle climate change». ¹⁰³ Additionally, it pledges to support developments in making the Joint Implementation and Clean Development Mechanism as operational and efficient¹⁰⁴ and finally:

« [...] Looks forward to initiating a process among all Parties to the United Nations Framework Convention on Climate Change to explore how further to implement this Convention to *achieve its ultimate objective by developing a post 2012 arrangement*, building on the experiences to date in tackling climate change, including *inter alia market-based*

¹⁰¹ IISD (International Institute for Sustainable Development). 2007. *Summary of the Thirteenth Conference of Parties to the UN Framework Convention on Climate Change and Third Meeting of Parties to the Kyoto Protocol*. Earth Negotiations Bulletin. 12, No 354. Page 1.

¹⁰² Ibid, page 19.

¹⁰³ COUNCIL OF THE EUROPEAN UNION. 2005. *2684th Council Meeting Environment. Press Release. PRES/05/255. Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/05/255&format=HTML&aged=1&language=EN&guiLanguage=en>* Last Accessed 08-08-2011. Page 8.

¹⁰⁴ «1. PLEDGES its full support to the incoming President of the COP and the COP/MOP in his endeavours to achieve agreement in particular on: Making the Clean Development Mechanism work efficiently Operationalisation of the JI mechanism, including the establishment of its Supervisory Committee; The 5-year programme of work on the scientific, technical and socio-economic aspects of impacts, vulnerability and adaptation to climate change; Guidance to the GEF on outstanding funding issues. » Ibid, p. 10.

instruments, focusing in particular on environmental *effectiveness*, improving cost-efficiency, broadening participation in line with common but differentiated responsibilities and respective capabilities, advancing development goals in a sustainable manner, *building a global carbon market*, exploiting the full potential of existing technologies and exploring new ones as well as tackling adaptation, and stresses the need for a clear timetable for such a process, as well as for a mechanism for taking it forward, taking account of the urgency of the issue and the need to provide certainty for private and public investment.»¹⁰⁵

Prior to the Bali Conference of 2007, the Environmental Ministers met in February 2007, (under the German Presidency) and adopted a number of crucial decisions for the EU's international climate change policy. The Council of Ministers first reiterated its concerns with rising emissions and the need of a post-2012 agreement¹⁰⁶ and underlined a comprehensive framework for such an agreement¹⁰⁷. Several elements of the framework are worth noting: « [...] - further developing a shared vision to reach the ultimate objective of the Convention; – agreeing on *deeper absolute emission reduction commitments* by developed countries; – *extending the carbon market*, including innovative and enhanced *flexible mechanisms*; – enhancing efforts to address adaptation, including risk management instruments, finance and technologies for adaptation»¹⁰⁸

However, the most significant outcomes of these Council Conclusions were the following:

«8. Reiterates that *absolute emission reduction commitments are the backbone of a global carbon market* and that *developed countries* should continue to *take the lead* by committing to collectively reducing their emissions of greenhouse gases in the order of *30% by 2020* compared to 1990 with a view to collectively reducing their emissions by 60 to 80% by 2050 compared to 1990; 9. [...]Is willing to *commit to a reduction of 30%* of greenhouse gas emissions by 2020 compared to 1990 [...] *provided that other developed countries commit themselves to comparable emission reductions* and economically more advanced developing countries adequately contribute according to their responsibilities and respective capabilities [...]; 10. [...] without prejudice to its position in international negotiations, the EU makes a *firm independent commitment to achieve at least a 20% reduction of greenhouse gas*

¹⁰⁵ Idem.

¹⁰⁶ COUNCIL OF THE EUROPEAN UNION. 2007. 2785th Council Meeting Environment, Press Release. PRES/07/25. Available at:

http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/07/25&format=HTML&aged=0&lg=fi&guiLan_guage=en Last Accessed: 08-08-2011. Points 1-7, pp. 6-7.

¹⁰⁷ Ibid, point 7, page 7.

¹⁰⁸ Idem.

emissions by 2020 compared to 1990; 11. Underlines that these commitments should be implemented through national and Community climate policies, action in the context of the EU's energy policy, limiting transport emissions, reducing greenhouse gas emissions in residential and commercial buildings, *strengthening the European Union Emissions Trading Scheme (EU ETS), including extending the global carbon market and using project-based mechanisms (JI and CDM)*, [...] Takes the view that this approach will allow the EU to reduce its energy consumption, improve Europe's competitiveness, reduce dependence on external sources of energy supply, demonstrate international leadership on climate issues, guide the implementation of the EU ETS beyond 2012, and encourage investment in emission reduction technologies and low-carbon alternatives; [...]14. [...] Underlines *its wish to link the EU ETS with other compatible emission trading schemes with comparable levels of ambition*»¹⁰⁹

These decisions are important to understand the ambitions and expectancies the EU representatives must have had during the Conferences and are also interesting to compare to the definition of EU leadership and its requirements.

When it comes to the first requirement, exerting influence on other actors, the EU seems to rely heavily on its “leadership-by-example” style. In both documents, the EU reiterates its commitments to the Kyoto Protocol's targets and the importance of the Kyoto's operability¹¹⁰, and confirms its normative commitments in the climate change regime (multilateralism and international law, see Chapter II, A. 3), a first element of leadership by example. Second, it gives strong messages to developed states as to how to proceed for the post-Kyoto commitment period: a clear timetable before Montréal, and an invitation to commit to 30% before Bali and insisting upon a *global carbon market* in both Council Conclusions¹¹¹.

The second requirement, showing more progressive measures than followers, is clearly fulfilled with the Conclusions of Bali and the firm commitment to reducing emissions to 20% by 2020 regardless of the outcomes of the UNFCCC Conference. Whether that statement might have isolated the EU from other parties and thus damaged its leadership is an

¹⁰⁹ Ibid, p. 8-9.

¹¹⁰ COUNCIL OF THE EUROPEAN UNION. 2007. *2785th Council Meeting Environment, Press Release*. PRES/07/25 P. 7-8

¹¹¹ COUNCIL OF THE EUROPEAN UNION. 2005. *2684th Council Meeting Environment. Press Release*. PRES/05/255 p. 10 and COUNCIL OF THE EUROPEAN UNION. 2007. *2785th Council Meeting Environment, Press Release*. PRES/07/252007 p.8.

interesting point to consider, and to keep in mind when analysing the comparison's results in Chapter IV.

The requirement of mobilising resources successfully is also met in theory: Directional leadership¹¹² is identifiable when the EU uses the perspective of linking the EU ETS to other ETS' and CDM and JI mechanisms in both Conclusions too.¹¹³

When it comes to credibility, the EU leans on the use of its domestic instruments to deliver the reductions to which it commits internationally¹¹⁴, thus mobilising another 'resource' for efficient leadership. Finally, it also promotes the idea of sharing knowledge with third parties, through funding research and innovation programmes.¹¹⁵

Thus, the Council Conclusions offer proof that the EU had all the elements in theory to exert efficient leadership in both Conferences. The comparison will establish if this leadership was present in practice in Montréal and Bali.

3. The analytical grid

In order to make this comparison as clear as possible, five grids along five themes defined below will be drawn. The themes will be compared to two positions type: the first being the UNFCCC in 2005; the second in 2007. The grid will be drawn as follows: the Reports will be scanned for references to the themes and these references will be integrated to the table, in the context in which they were found. Should there be too much content to add in the table, the page number will appear on the grid, and the full quotation will be available in the footnote. The reason for this is the wish to go beyond a mere quantitative analysis of references and find the contexts in which the themes appear, which will be useful to draw conclusions in Chapter IV.

¹¹² See Chapter II, A, 2.

¹¹³ COUNCIL OF THE EUROPEAN UNION. 2005. *2684th Council Meeting Environment. Press Release.* PRES/05/255 Point 4, page 8. 2007: 12, page 8 and 14, page 9.

¹¹⁴ COUNCIL OF THE EUROPEAN UNION. 2007. *2785th Council Meeting Environment, Press Release.* PRES/07/25, p. 8, point 11 and 2005. *2684th Council Meeting Environment. Press Release.* PRES/05/255 p.8.

¹¹⁵ *2785th Council Meeting Environment, Press Release.* 2007. PRES/07/25, point 7. "Increasing cooperation on technology research, development, diffusion, deployment, and transfer". P. 7. *2684th Council Meeting Environment. Press Release.* PRES/05/255. Points 5 and 6, page 8.

The themes chosen are closely linked to the observations made above from the Council Conclusions prior to both UNFCCC conferences and their correspondence with the concept of leadership of the analysis.

The first theme is a *global carbon market*. As identified above, it was an objective of the EU before entering the negotiations, and was closely associated with the idea of strengthening the EU ETS.¹¹⁶ References to a ‘global carbon market’ will be a way in to determine whether the EU was successful in *influencing* third parties to share this objective.

The second theme is linked to the *targets of emissions reductions*. The EU position is given very clearly prior to 2007, with its independent commitment to reduce greenhouse gases emissions by 20% before 2020.¹¹⁷ While this commitment hadn’t been made in 2005, the *20% target* will be kept so as to determine if the target had been already voiced before the unilateral European decision of 2007, and illustrates the EU’s progressive position in negotiations accurately.

The third theme is linked to the concept of directional leadership of the EU. As defined in Chapter II, A, 2, refers in part to “leadership by example” and on changing third parties’ perceptions. For this purpose, the analysis has chosen the theme *of linking the EU ETS with CDM and JI projects*. This theme can be defended as a proof of directional leadership because it provides the EU’s ETS with a “good” example of how to make their domestic actions relevant in the context of the UNFCCC (leadership by example), through linking it with third parties, and inviting them to share their vision of the EU ETS as a way of reaching international commitments.

The fourth theme is centred on the concept of *credibility* in European leadership. For this purpose, references to *the EU ETS* will be sought, to determine if the EU managed to place this instrument on the international scene, thus making the instrument credible in the eyes of the third parties.

The fifth theme is linked to a final resource for credible leadership, *knowledge*, and will be formulated as such. Under this broad theme, particular attention will be given to information sharing, best practices and technical skills.

The jargon of the UNFCCC will also be taken into consideration in drawing the grids.

Therefore, the search will also look for references to: Carbon market(s); Commitments made by Annex I countries; Emissions reductions Commitments/ Targets; Article 12 of the Protocol (referring to the Clean Development Mechanism); Article 6 of the Kyoto Protocol

¹¹⁶ 2785th Council Meeting Environment, Press Release. 2007. PRES/07/25.Point 5. P.7.

¹¹⁷Ibid , point 10, page 8.

(referring to Joint Implementation projects); Article 17 (referring to Emissions Trading in the Kyoto Protocol); EUA (European Union Allowance); Best practices; Technical Skills.

B- THE GRIDS

The grids are organised as follows:

The year 2005 refers to the UNFCCC Conference of Montréal, and 2007 refers to the UNFCCC conference of Bali. The Reports of these Conferences are organised through five positions, referring to the bodies of the UNFCCC:

- COP means Conference of the Parties. In the case of Montréal, the COP was in its eleventh session, COP 11, and for the case of Bali, the COP was in its thirteenth session, COP 13.
- MOP means Meeting of the Parties. The conference in Montréal was the first of these, and is referred to as MOP 1; while Bali was the third Meeting of the Parties, therefore MOP 3.
- The Subsidiary Body For Scientific and Technological Advice (SBSTA) . Montréal was its 23rd session, and Bali its 27th.
- The Subsidiary Body for Implementation (SBI), also in its 23rd and 27th sessions.
- The Ad Hoc Working Group for Further Commitments for Annex I Parties under the Kyoto Protocol: as it held its first session in 2006, it doesn't apply to the Conference in Montréal. However, it held its fourth session during the Conference in Bali.

When a reference to the theme is found, the reference to the article is put in the table, and the full quote is found under the table. However, if no reference is found, the box will be left blank.

1. Theme 1: Global Carbon Markets

Year	COP	MOP	SBSTA	SBI	ADWG
2005					N/A
2007	<p>1: I. C. 3.8 (proceedings)</p> <p>2: X. B. 109. (Proceedings)</p>	<p>3: XVIII, B. 120, P.23 (Proceedings)</p> <p>4. XVIII, B. 121, P.23 (Proceedings)</p>			

1: «8. *The President stressed that the carbon market was key to the efforts to tackle climate change and called for the appropriate signals to be sent to the market.* He pointed out that there was extensive support for the four “building blocks” of a future climate regime identified by the Dialogue: mitigation, adaptation, technology and finance. He encouraged Parties in Bali to harness the momentum generated by the work carried out under the Dialogue and by the AWG. The President noted that the Nairobi work programme was helping to enhance decision-making on adaptation action and to improve assessment of vulnerability and adaptation to climate change. The President noted, that the world was watching closely and with considerable interest as Parties continue deliberations, and he invited all to step up to the task»¹¹⁸

2. «109. The President of Indonesia noted that developed countries, owing to their historical responsibility for global warming, which they themselves had accepted, needed to continue to take leadership on climate change. They would need to significantly increase their efforts to cut their own greenhouse gas (GHG) emissions and to enhance their financial and technological cooperation with developing countries, including in the area of forest protection. Developing countries, on their part, would need to commit to a path of sustainable development by mainstreaming environment issues into their national development plans, and those countries with forests would need to preserve and expand them. Developing countries with high economic growth would need to plan for long-term low-carbon development, *taking advantage of a rapidly expanding carbon market.* Both developed and developing countries could work together to mainstream mitigation and adaptation into their national development strategies and learn how to achieve higher economic growth without producing higher emissions»¹¹⁹

3. Idem. ¹²⁰

¹¹⁸ UNFCCC (United Nations Framework Convention on Climate Change). *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Part One: Proceedings.* FCCC/CP/2007/6. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06.pdf> Last Accessed 13-08-2011, page 6.

¹¹⁹ Ibid, page 21.

¹²⁰ UNFCCC (United Nations Framework Convention on Climate Change) *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Part One: Proceedings.* FCCC/KP/CMP/2007/9 . 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cmp3/eng/09.pdf> Last Accessed 13-08-2011. Page 23.

4. «121. Noting that *policy changes would need to be driven by governments and the market*, President Yudhoyono stressed the significance of the special meetings of trade and finance ministers held in Bali in parallel with the United Nations Climate Change Conference [...]»
Page 23. XVIII, B 121. ¹²¹

2. Theme 2. 20 % targets/ Commitments by Annex I countries

Year	COP	MOP	SBSTA	SBI	AHWG
2005	1. I. A. 3 P 6 (Proceedings)				N/A
2007	2. I. E. 13. (Proceedings) Page 6				3.III, point 16, page 5

1. «3. In his address of welcome, the Mayor of Montreal underlined the crucial role that cities played in combating climate change. More than half of the world's population now lived in urban areas and their lifestyles and consumption patterns had a major impact on the environment. Given the challenges that cities faced in reconciling economic, social and environmental needs, he called upon governments to support the efforts undertaken at the municipal level. Committed to promote the objectives of the United Nations Millennium Development Goals, the *City of Montreal had recently undertaken various measures, including the adoption of a resolution to reduce GHG emissions by 20 per cent by 2012*. In conclusion, the Mayor underlined that every small gesture counted and called upon citizens to do their part to reduce GHG emissions. » ¹²²

2. «13. The Executive Secretary stated that 2007 could be termed an incredible year for climate change, with *the European Union adopting at the start of the year a target to reduce greenhouse gas (GHG) emissions by 20 to 30 per cent by 2020, depending on action by*

¹²¹ Idem.

¹²² UNFCCC (United Nations Framework Convention on Climate Change). 2005. *Report of the Conference of the Parties on its eleventh session, held at Montreal from 28 November to 10 December 2005. Part One: Proceedings*. FCCC/CP/2005/5. 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05.pdf> Last Accessed: 13-08-2011.

others, major developing countries such as China adopting national climate change strategies and delegates at major summits adopting policy positions on climate change. He recalled that the United States of America had launched meetings of major economies aimed at contributing, by the end of 2008, to the UNFCCC process. The Executive Secretary noted that 2007 had, above all, been the year of the IPCC, whose AR4 had been applauded at every stage of finalization and crowned by the award of the Nobel Peace Prize. He stated that 2007 culminated in a call from more than 80 Heads of State or Government, at the high-level event of the Secretary-General of the United Nations for a breakthrough in Bali.»¹²³

3. «16. The AWG also recalled that *its work should be guided by a shared vision of the challenge set by the ultimate objective of the Convention based on the principles and other relevant provisions of the Convention and its Kyoto Protocol*. It noted the usefulness of the ranges referred to in the contribution of Working Group III to the Fourth Assessment Report (AR4) of the IPCC and that this report indicates that global emissions of greenhouse gases (GHGs) need to peak in the next 10–15 years and be reduced to very low levels, well below half of levels in 2000 by the middle of the twenty-first century in order to stabilize their concentrations in the atmosphere at the lowest levels assessed by the IPCC to date in its scenarios. Hence the urgency to address climate change. At the first part of its fourth session, the AWG recognized that the contribution of Working Group III to the AR4 indicates that achieving the lowest levels assessed by the IPCC to date and its corresponding potential damage limitation *would require Annex I Parties as a group to reduce emissions in a range of 25–40 per cent below 1990 levels by 2020, through means that may be available to these Parties to reach their emission reduction targets*. The IPCC ranges do not take into account lifestyle changes which have the potential of increasing the reduction range. The ranges would be significantly higher for Annex I Parties if they were the result of analysis assuming that emission reductions were to be undertaken exclusively by Annex I Parties. The AWG also recognized that achievement of these reduction objectives by Annex I Parties would make an important contribution to overall global efforts required to meet the ultimate objective of the Convention as set out in its Article 2»¹²⁴

¹²³ UNFCCC (United Nations Framework Convention on Climate Change). *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Part One: Proceedings*. FCCC/CP/2007/6. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06.pdf> Last Accessed 13-08-2011

¹²⁴ UNFCCC (United Nations Framework Convention on Climate Change). 2007. *Report of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol on its resumed fourth session*,

3. Theme 3. Linking ETS and CDM/JI

Year	COP	MOP	SBSTA	SBI	AHWG
2005	1. Proceedings P. 22. Pt 108.	2. Proceedings: page 14 point 32; page 16 point 45. 3. Addendum 1. page 97, point 20. 4. Addendum 2: p. 14 (part 2, II)			N/A
2007	5. Addendum 1: Decision 9, point 4 and 7 Page 37 6. Addendum 1: Annex. A, point 5. Page 38.	7. Proceedings IIV, 47, 50, 51 p. 12 8. Addendum 1: V, points 45, 46, 47, page 14.		9. XIII, points 131, 132, 133. Pages 21-22. 10. XI, B. point 120, p. 20	11. point 19 iii. page 6

1. «108. The Officer-in-Charge of the secretariat, Mr. Richard Kinley, noted that the Montreal conference, the largest in the history of the Convention and the Kyoto Protocol, was convened against a backdrop of rising GHG emissions. With climate change emerging as one of the most serious threats to humanity, the entry into force of the Protocol and the adoption of the Marrakesh Accords by the COP/MOP had provided renewed momentum to the process. The finalization of the establishment of the compliance regime would complete the institutional infrastructure of the Protocol, which was now fully operational. *Together with emissions trading, joint implementation had formally been launched as the Protocol's second flexible mechanism. The CDM, as the first instrument in history to fund sustainable development projects in developing countries on the basis of market incentives, was working,*

held in Bali from 3 to 15 December 2007. FCCC/KP/AWG/2007/5. 5 February 2008. Available at: <http://unfccc.int/resource/docs/2007/awg4/eng/05.pdf> Last Accessed 13-08-2011

with almost 40 project activities registered and some 500 more in the pipeline. The Officer-in-Charge thanked all governments that had made contributions in support of the CDM. Further supplementary resources would be required as well as a forward-looking decision in Montreal that would continue to strengthen the CDM and give it economic stability, while fully ensuring its environmental integrity. »¹²⁵

2. «32. In concluding this item, the President highlighted that the adoption of these decisions represented the culmination of years of work and marked an historic step forward for Parties to the Kyoto Protocol and their efforts to address the problem of global climate change. The decisions specified how to measure emissions and reductions, and the extent to which carbon dioxide absorbed by carbon sinks could be counted towards the Kyoto targets. *They also spelled out how the cooperative mechanisms such as joint implementation and emissions trading systems would work. Many aspects of the clean development mechanism (CDM), which would be crucial for reaching reduction targets and for delivering sustainable development, were also covered.* 33. *The Marrakesh Accords* represented not only a landmark achievement for addressing global climate change, but an achievement in the history of multilateral negotiations. With the adoption of those decisions, the international community had taken an important step towards addressing one of the most pressing environmental issues by implementing an effective mechanism to curb emissions»

«45. In inviting the COP/MOP to consider this item at its 3rd meeting, on 30 November, the President recalled that under Article 6 of the Kyoto Protocol “any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy”. *The emission reduction units (ERUs) generated by these joint implementation projects can be used by Parties included in Annex I to the Convention (Annex I Parties) towards meeting their emission targets under the Protocol.* »¹²⁶

¹²⁵ UNFCCC.2005. *Report of the Conference of the Parties on its eleventh session, held at Montreal from 28 November to 10 December 2005. Part One: Proceedings.* Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05.pdf> Last Accessed: 13-08-2011.

¹²⁶ UNFCCC (United Nations Framework Convention on Climate Change). 2005. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its first session, held at Montreal from 28 November to 10 December 2005 Part One: Proceedings.* FCCC/KP/CMP/2005/8. 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cmp1/eng/08.pdf> Last Accessed 13-08-2011.

3. «20. *Decides that a local/regional/national policy or standard cannot be considered as a clean development mechanism project activity, but that project activities under a programme of activities can be registered as a single clean development mechanism project activity provided that approved baseline and monitoring methodologies are used that, inter alia, define the appropriate boundary, avoid doublecounting and account for leakage, ensuring that the emission reductions are real, measurable and verifiable, and additional to any that would occur in the absence of the project activity*»¹²⁷

4. «*Aware of the work already undertaken by Parties to prepare joint implementation projects, including on reporting guidelines and criteria for baseline setting and monitoring and the project design document, as indicated, inter alia, in the report on the UNFCCC workshop referred to in the report of the Conference of the Parties on its tenth session*»¹²⁸

5. «4. *Encourages intergovernmental and non-governmental organizations to continue their activities relevant to Article 6 and to share information on their programmatic responses to the work programme through the information network clearing house and other media*» «7. *Encourages multilateral and bilateral organizations to support the activities relating to the implementation of Article 6 and its work programme in non-Annex I Parties, in particular the least developed countries and small island developing States among them*»¹²⁹

6. «5. Many Parties, intergovernmental organizations, non-governmental organizations and community based organizations, as well as the private and public sectors, are already working actively to raise awareness on, and increase understanding of, the causes and impacts of climate change, as well as solutions. In particular, *many governments are already implementing measures that could be linked to Article 6 activities*. However, the lack of

¹²⁷ UNFCCC. 2005. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its first session, held at Montreal from 28 November to 10 December 2005 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session*. FCCC/KP/CMP/2005/8/Add.1 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05a01.pdf> Last Accessed 13-08-2011.

¹²⁸ UNFCCC. 2005. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its first session, held at Montreal from 28 November to 10 December 2005 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session*. FCCC/KP/CMP/2005/8/Add.2. 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05a02.pdf> Last Accessed 13-08-2011.

¹²⁹ UNFCCC. 2007. *Report of the Conference of the Parties on its eleventh session, held at Montreal from 28 November to 10 December 2005. Part One: Proceedings*. FCCC/CP/2005/5. 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05.pdf> Last Accessed: 13-08-2011.

adequate financial and technical resources could inhibit some Parties efforts to implement such activities, in particular developing country Parties»¹³⁰

7. «47. The President recalled *that joint implementation (JI) under Article 6 of the Kyoto Protocol provided the opportunity for Annex I Parties to acquire emission reduction units resulting from projects aimed at reducing emissions of greenhouse gases or enhancing removals hosted by other Annex I Parties [...]* 50. Ms. Gaye stressed that Parties were contributing to the operation of JI. *Thirty Annex I Parties had provided information to the secretariat on their designated focal points. Twenty-one of these Parties had also informed the secretariat on their national guidelines and procedures for approving JI projects.* She invited those Parties wishing to be involved in JI projects that had not yet provided such information, to do so. 51. On the subject of the challenges ahead, the Chair said that the upcoming biennium would be marked by the *continued advancement of the accreditation process and project-related operational work.* The challenges would include: (1) a substantial workload with regard to accreditation of independent entities; (2) an increase in the work with regard to determinations; (3) the continued review of procedures for JI Track 2 and the accreditation process; (4) increased interaction with applicant and accredited independent entities; (5) continued interaction with the designated focal points of Parties; (6) provision of enhanced public information and awareness about JI; and (7) the further review of resources to ensure that the JISC and the secretariat could sustain the required level of support to the JI process».¹³¹

8. «45. *Expresses its appreciation to the Governments of Austria, Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Luxembourg, Malta, the Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland and to the European Community for their contributions in support of the work of the clean development mechanism;* 46. *Recognizes that support from these Parties since 2002 assured the operation of the clean*

¹³⁰ UNFCCC. *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Addendum Decision 11/CP.131 Reporting on global observing systems for climate.* FCCC/CP/2007/6/Add.2. 4 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06a02.pdf> Last Accessed 13-08-2011

¹³¹ UNFCCC. 2007. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Part One: Proceedings.* FCCC/KP/CMP/2007/9. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cmp3/eng/09.pdf> Last Accessed 13-08-2011

*development mechanism until it became self-financing in late 2007; 47. Expresses its appreciation to the Governments of the Netherlands, Norway, Spain and Sweden for having provided financial resources in support of the Designated National Authorities Forum held in Addis Ababa, Ethiopia, from 4 to 6 October 2007 and the Government of Ethiopia for hosting the meeting;»*¹³²

9. «131. The SBI welcomed the annual report of the administrator of the international transaction log (ITL) for 2007. The *SBI welcomed the launch of the ITL* with the first registries under the Kyoto Protocol, including the *registry of the clean development mechanism (CDM)*. It noted the work of the secretariat with Parties to the Convention that are also Parties to the Kyoto Protocol with commitments inscribed in Annex B to the Kyoto Protocol (Annex B Parties) to connect their national registries to the ITL. 132. The SBI commended the Governments of Japan, New Zealand and Switzerland for successfully commencing the operation of their national registries with the ITL, *and welcomed the first deliveries of certified emission reductions (CERs), issued for CDM project activities, to project participants with accounts in a national registry*. 133. The SBI urged other Annex B Parties to initiate the operation of their national registries with the ITL as soon as possible during 2008 in order to allow the delivery of remaining CERs and to *facilitate the full use of emissions trading once Annex B Parties become eligible to participate in the mechanisms under the Kyoto Protocol.*»¹³³

10. «120. The SBI noted that the scope of needs listed in the framework for capacity-building in EIT Countries that are applicable to the implementation of the Kyoto Protocol is still relevant, and that the need to improve reporting activities and methodologies for estimating the effects of policies and measures and the *capacity to fulfil the requirements to participate in joint implementation and emissions trading activities is of particular interest to EIT countries*. Moreover, it noted that the enhancement of the capacity of climate change negotiators and efforts to continue to build the capacity of other key country-level actors (e.g.

¹³² UNFCCC. 2007. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its third session*. FCCC/KP/CMP/2007/9/Add.1. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf> Last Accessed 13-08-2011

¹³³ UNFCCC. 2007. *Report of the Subsidiary Body for Implementation on its twenty-seventh session, held in Bali from 3 to 11 December 2007*. FCCC/SBI/2007/34. 14 February 2008 Available at: <http://unfccc.int/resource/docs/2007/sbi/eng/34.pdf> Last Accessed 13-08-2011

decision-makers and government officials, the scientific community, the media and educators) could assist in further strengthening capacity in these countries. »¹³⁴

11. «19. The AWG decided to organize the work for its fifth session as follows: (iii) Requested the secretariat to prepare, by March 2008, an *information note* on the provisions of the Kyoto Protocol and decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) *relating to means that may be available to Annex I Parties to reach their emission reduction targets, including: emissions trading and the project-based mechanisms; rules to guide the treatment of land use, land-use change and forestry; and GHGs, sectors and source categories covered.* »¹³⁵

4. Theme 4: EU ETS

Year	COP	MOP	SBSTA	SBI	AHWG
2005		1. Decision 31, point 8 (a) and 10. Page 9.			N/A
2007					

1. «8. *Agrees that Parties included in Annex II to the Convention, and other Parties included in Annex I in a position to do so, should give priority, in implementing their commitments under Article 3, paragraph 14, of the Kyoto Protocol, to the following actions: (a) The progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors, taking into account the need for energy price reforms to reflect market prices and externalities, in pursuit of the objective of the Convention.* 10. *Decides to review the actions taken by Parties included in Annex I, in accordance with this decision, and to consider, at its third session, what further actions are*

¹³⁴ Ibid.

¹³⁵ UNFCCC. *Report of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol on its resumed fourth session, held in Bali from 3 to 15 December 2007.* FCCC/KP/AWG/2007/5. 5 February 2008. Available at: <http://unfccc.int/resource/docs/2007/awg4/eng/05.pdf> Last Accessed 13-08-2011

necessary; among the issues to be considered shall be the establishment of funding, insurance and transfer of technology, pursuant to Article 3, paragraph 14»¹³⁶

5. Theme 5: Knowledge

Year	COP	MOP	SBSTA	SBI	AHWG
2005	<p>1. Decision 1, page 3</p> <p>2. Decision 3, b. iii, page 8</p>	<p>3. Decision 31, point 9, part 4, page 10.</p>	<p>4. IV, A, 67. Page 13.</p>		N/A
2007	<p>5. Addendum 1: Annex. C. Point 12, page 39.</p> <p>6. Addendum 1: Annex, D. Points 19 c. and f. Page 41.</p>				

1. «1. *Resolves* to engage in a dialogue, without prejudice to any future negotiations, commitments, process, framework or mandate under the Convention, *to exchange experiences and analyse strategic approaches for long-term cooperative action* to address climate change that includes, inter alia, the following areas: (a) Advancing development goals in a sustainable way (b) Addressing action on adaptation (c) Realizing the full potential of technology (d) *Realizing the full potential of market-based opportunities*»¹³⁷ ;

¹³⁶ UNFCCC. 2005. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its first session, held at Montreal from 28 November to 10 December 2005 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.* FCCC/KP/CMP/2005/8/Add.1 30 March 2006. Available at:

<http://unfccc.int/resource/docs/2005/cop11/eng/05a01.pdf> Last Accessed 13-08-2011

¹³⁷ UNFCCC (United Nations Framework Convention on Climate Change). 2005. *Report of the Conference of the Parties on its eleventh session, held at Montreal from 28 November to 10 December 2005 Addendum. Part Two: Action taken by the Conference of the Parties at its eleventh session.* FCCC/CP/2005/5/Add.1 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05a01.pdf> Last Accessed 13-08-2011.

2. «Promoting research on adaptation options and the development and diffusion of technologies, know-how and practices for adaptation, particularly addressing identified adaptation priorities and *building on lessons learned from current adaptation projects and strategies*; »¹³⁸

3. «9. *Encourages Parties included in Annex I to adopt policies and measures that will result in reductions in emissions of greenhouse gases, as an effective contribution to minimizing the adverse effects of climate change, and to provide information on these policies and measures in their national communications* »¹³⁹

4. «67. The SBSTA acknowledged that the seminar provided a useful forum for broadening understanding on: concepts, needs for, and identification and evaluation of, technologies for adaptation; sharing lessons learned; and identifying promising areas of future work. It also acknowledged that, of the lessons learned, *the importance of endogenous knowledge was particularly relevant*»¹⁴⁰

5. «12. In order to *advance implementation of Article 6 of the Convention*, it is useful to cooperate in, promote, facilitate, develop and implement training programmes focused on climate change, for scientific, technical and managerial personnel at the national and, as appropriate, sub regional, regional and international levels. *Technical skills and knowledge provide an opportunity to adequately address and respond to climate change issues.* »¹⁴¹

6. «19. To *strengthen regional and international efforts*, Parties and other relevant organizations and agencies in a position to do so could cooperate in and support the following

¹³⁸ Ibid, page 8.

¹³⁹ UNFCCC (United Nations Framework Convention on Climate Change). 2005. *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its first session, held at Montreal from 28 November to 10 December 2005 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session*. FCCC/KP/CMP/2005/8/Add.4. 30 March 2006 Available at: <http://unfccc.int/resource/docs/2005/cmp1/eng/08a04.pdf> Last Accessed 13-08-2011

¹⁴⁰ UNFCCC. 2005. *Report of the Subsidiary Body for Scientific and Technological Advice on its twenty-third session, held at Montreal from 28 November to 6 December 2005*. FCCC/SBSTA/2005/10. 1 March 2006. Available at:

<http://unfccc.int/resource/docs/2005/sbsta/eng/10.pdf> Last Accessed 13-08-2011.

¹⁴¹ UNFCCC (United Nations Framework Convention on Climate Change). *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Addendum Part Two: Action taken by the Conference of the Parties at its thirteenth session*. FCCC/CP/2007/6/Add.1*

14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf> Last Accessed 13-08-2011

activities: (c) *Promote and encourage regional programmes and projects that support the implementation of Article 6 and promote sharing of experiences including through the dissemination of best practices and lessons learned, and the exchange of information and data;* (f) *Conduct regional and sub regional workshops to promote: exchange and sharing of experiences; best practices; and transfer of knowledge and skills»¹⁴²*

¹⁴² Ibid, p. 41.

CHAPTER IV- RESULTS OF THE COMPARISON AND CONCLUSIONS

Chapter III has presented the comparison of the Reports of two UNFCCC Conferences of Montréal (2005) and Bali (2007). This comparison took the form of grids, based on five themes, as defined in Chapter III, A. These were: 1. The global carbon Market 2. A 20% Emissions Reductions Target 3. Linking of the Clean Development Mechanism and Joint Implementation to the EU ETS 4. References to the EU ETS and 5. Knowledge.

The Reports of the Conference of Parties (COP 11 and COP 13), the Meeting of the Parties (MOP 1 and 3), as well as Subsidiary Committees: The Subsidiary Body for Scientific and Technological Advice; the Subsidiary Body for Implementation and the Ad Hoc Working Group for Further Commitments for Annex I Parties under the Kyoto Protocol were scanned according to those terms. This following Chapter describes the results of the comparison for each grid in its first part. The second draws conclusions on the results of this comparison to answer the Research question: *What role does the EU ETS play in European negotiations in the international climate change regime?* It will also determine if the hypothesis, that “ the relation between the EU ETS and European leadership is a *dynamic* one; where the EU ETS is both an expression of EU leadership and enhancer of the EU’s position on the international climate change scene”; is verified or refuted.

A- RESULTS

1. Global carbon markets

The first grid searched for references to the EU’s objective of building a global carbon market, as expressed in Council Conclusions of March 2005 and February 2007 (Chapter III, A, 2). The grid shows that there was no explicit reference to a global carbon market in the Reports of the Montréal Conference. However, references linked to this objective were found in the first part of the Decisions (Proceedings) of the COP 13 and MOP 3.

First, the reference was found in the Statements made by the President of the Conference of the Parties at its thirteenth session, Mr. Rachmat Witoelar, Environmental Minister of Indonesia. In this Statement, the President stressed the importance of the carbon market in

addressing climate change; and for “the appropriate signals to be sent to the market”¹⁴³. These appropriate signals were not clearly defined, but the President mentioned shortly after the “Building blocs” of the future climate change regime: “Mitigation, Adaptation, Technology and Finance”¹⁴⁴; which could be interpreted as those signals. The second reference was made by the President of Indonesia; and his statement encourages developing countries to “take advantage of a rapidly expanding carbon market”¹⁴⁵. The same statement of the President of Indonesia is present in the first part of the decisions (Proceedings) of MOP 3; and is completed by a following (point 4), in which the market is given an equal role to the governments in bringing about climate policy changes, and informing that parallel discussions to the UNFCCC took place in Bali between finance and trade ministers¹⁴⁶. In sum, the findings of the first grid show on the one hand that the global carbon market was not present in the UNFCCC jargon of 2005, and had its place in introducing statements of declaratory value in 2007. It is also important to note that it is not presented in either Statement as an objective, but rather as a tool that can both help tackle climate change (reference 1) and be of use to developing countries (reference 2).

2. 20% emissions reductions target

The results of this comparison are very interesting. First, the only reference made in the Reports of the Montréal Conference to a 20% target was found in the first part of Decisions of COP 11 (Proceedings). It is present in a Statement by the Mayor of Montréal, and committed the city of Montréal to reduce its emissions by 20% in 2012. The fact that no reference to European targets was found in the Montréal Conference Reports could be due to the fact that the EU’s decision to reduce emissions by 20 to 30% was adopted in 2007. However, in the Decisions of COP 13 in 2007 (Proceedings), an explicit mention was made

¹⁴³ UNFCCC. 2007. *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Part One: Proceedings*. FCCC/CP/2007/6. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06.pdf> Last Accessed 13-08-2011

¹⁴⁴ Idem.

¹⁴⁵ Idem, point 109.

¹⁴⁶ UNFCCC (United Nations Framework Convention on Climate Change) *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Part One: Proceedings*. FCCC/KP/CMP/2007/9.

14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cmp3/eng/09.pdf> Last Accessed 13-08-2011 (p. 23)

by the Secretary General of the European Union's commitment to reduce its emissions by 20 to 30% by 2012, alongside other Parties' initiatives and new climate policies.¹⁴⁷

An interesting reference to targets in emissions reductions is made by the Ad Hoc Working Group (on for Further Commitments for Annex I Parties under the Kyoto Protocol, AHWG) who states that based on the IPCC¹⁴⁸'s Fourth Assessment Report, the Annex I Parties are required to reduce their emissions from 25 to 40% below the 1990 levels by 2020¹⁴⁹.

The findings of this comparison are very interesting, first by the fact that the European Union's commitment is explicitly referred to in the Opening Statements of the COP of Bali in 2007. Second, it is interesting to see that the targets of the AHWG's Report are in line with the EU's. Finally, it is also interesting to see that the City of Montréal had also set a 20% target by 2012 as early as the 2005 Conference.

3. Linking the ETS with the Clean Development Mechanism and Joint Implementation

There were numerous results for this comparison, though none referred explicitly to the linking the EU ETS to the Clean Development Mechanism and Joint Implementation. However, on closer examination, the results can be interpreted as though they can be applied to the case of the EU ETS being linked to the CDM and JI.

The Montréal Reports of the COP 11 and MOP 1 are very significant due to the adoption of the Marrakesh Accords of 2001, which « [...] consist of a package of draft decisions on many of the details of the flexible mechanisms, reporting and methodologies, [...]. The Accords also address support for developing countries, including capacity building, technology transfer, [...] and the establishment of three funds- the Least Developed Countries (LDC) fund, Special Climate Change Fund (SCCF), and Adaptation Fund»¹⁵⁰. The focus of the COP 11 and MOP 1 was therefore on the Flexibility Mechanisms, and how they should be used by

¹⁴⁷UNFCCC. 2007. Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Part One: Proceedings. FCCC/CP/2007/6. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06.pdf> Last Accessed 13-08-2011

¹⁴⁸ Intergovernmental Panel on Climate Change

¹⁴⁹ UNFCCC (United Nations Framework Convention on Climate Change). *Report of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol on its resumed fourth session, held in Bali from 3 to 15 December 2007*. FCCC/KP/AWG/2007/5. 5 February 2008. Available at: <http://unfccc.int/resource/docs/2007/awg4/eng/05.pdf> Last Accessed 13-08-2011

¹⁵⁰ IISD (International Institute for Sustainable Development). 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol*. Earth Negotiations Bulletin 12, No 291. page 2.

the Parties. COP 13 and MOP 3 are also significant because they assessed the progress made since the Montréal Conference in the use of the Mechanisms.

Of the 10 references found mentioning emissions trading and the use of the two other Flexibility Mechanisms, the analysis finds reference 8 most relevant to the purpose of this dissertation, because it explicitly refers to the European Community, its Member States governments and Canada's key role in supporting and developing the Clean Development Mechanism. The reference can be found in the first Addendum to the MOP 3 Decisions of 2007, page 14:

«Expresses its appreciation to the Governments of Austria, Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Luxembourg, Malta, the Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland and to the European Community for their contributions in support of the work of the clean development mechanism; 46. Recognizes that support from these Parties since 2002 assured the operation of the clean development mechanism until it became self-financing in late 2007»¹⁵¹

However, the other references are also significant in the sense that they emphasize the role of emissions trading and the use of flexibility mechanisms to reach emission reductions targets (References 2, point 45 and 7, point 27); they recognize efforts already made by Parties to implement these Mechanisms (References 1, 4, 5, 6, 7, 9 point 132, 10) as well as defining the relation between the mechanisms and domestic policies (point 3, about the CDM).

4. Theme 4: the EU Emissions Trading System

The results of this comparison are very significant for this dissertation. No direct mention of the European ETS was found in the Reports of either Montréal or Bali. The reference found in the MOP 1 Decisions, Addendum 1, *could* be applied to the EU ETS, but is subject to interpretation:

«8. *Agrees* that Parties included in Annex II to the Convention, and other Parties included in Annex I in a position to do so, should give priority, in implementing their commitments under Article 3, paragraph 14, of the Kyoto Protocol, to the following actions:

¹⁵¹ UNFCCC (United Nations Framework Convention on Climate Change). *Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its third session*. FCCC/KP/CMP/2007/9/Add.1. 14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf> Last Accessed 13-08-2011 P. 14.

(a) The progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors, taking into account the need for energy price reforms to reflect market prices and externalities, in pursuit of the objective of the Convention [...]».

The significance of this result will be analysed in greater detail in the second part of this Chapter.

5. Theme 5: Knowledge

Several results were found in this comparison. Due to the broad interpretation that the term ‘knowledge’ could lead to, the research narrowed the findings to search for information sharing on emissions trading and the EU ETS, best practices, and technical skills.

The references found are relevant to this search, but as in grids 3 and 5, no explicit mention of the EU ETS was found on the subject of sharing information on emissions trading. However, the references can be interpreted as referring to the EU ETS, such as reference 6 found in the Report of MOP 3, point 19 c: «(c) Promote and encourage regional programmes and projects that support the implementation of Article 6 and promote sharing of experiences including through the dissemination of best practices and lessons learned, and the exchange of information and data»¹⁵²

This comparison offered numerous results which were all interesting to analyse under the angle of this dissertation. The most significant results of the comparison were that: no explicit mention of the EU ETS could be found; a certain degree of interpretation was required to assess whether the results were relevant to the EU ETS and European leadership; that the European Community was referred to twice during the Bali Conference for its ambitious targets in reducing emissions and for its contribution in the launching of the Clean Development Mechanism. The next part will now draw conclusions from these observations, in order to answer the research question and examine the hypothesis in the light of these results.

¹⁵² UNFCCC. 2007. *Report of the Conference of the Parties on its thirteenth session, held in Bali from 3 to 15 December 2007 Addendum Part Two: Action taken by the Conference of the Parties at its thirteenth session.* FCCC/CP/2007/6/Add.1*14 March 2008. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf> Last Accessed 13-08-2011

B- CONCLUSIONS

The comparison of the Montréal and Bali Conferences of the UNFCCC offers several results which are crucial to analyse in order to answer the research question on the role of the EU ETS in the EU's climate change negotiations. This part will first analyse the results through the leadership lens as defined in Chapter II, to determine which requirements of leadership were met and which weren't. Then, with the support of the Earth Negotiations Bulletins Reports of both Conferences, the analysis will look at the political and diplomatic contexts of the Conferences, to see if they nuance the results of the comparison. Finally, the hypothesis will be assessed and corrected if need be; and the Research question will be answered.

1. Results and Leadership

The definition of leadership that has been used throughout this analysis is:

«Understood as a targeted and consistent effort to direct other actors towards a collective goal, international leadership has at least two fundamental requirements. First, an actor with leadership aspirations needs to have the capacity to exert significant influence on other actors. Second, the leading actor has to have more progressive positions towards the collective goal than those of the followers, rendering leadership a relative concept. For leadership to be *effective*, [...], a third requirement needs to be met. The leader has to be successful in mobilising available resources (power, legitimacy/credibility, knowledge and skills) to achieve outcomes that reach the collective goal»¹⁵³

The themes compared were formulated around this definition and the Council Conclusions on the EU's Climate policies prior to the Conferences, in Chapter III, A.

a. The requirement to exert significant influence on other actors was translated into references to the 'global carbon market'; an important objective for the EU's international climate policy before both Conferences. The comparison showed that this objective was referred to in the COP 13 Opening Statements in 2007, and the authors of those statements gave a significant importance to the carbon market, as a "key to address climate change" and as an opportunity for developing countries. Though those references to a "global carbon

¹⁵³ Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance* P. 194.

market” were not formulated as an objective, as the Council Conclusions did¹⁵⁴, they could, arguably, be interpreted as a sign of the EU influence on third parties. However, one also needs to keep in mind the point raised in Chapter II, B, 1. that influence is difficult to assess in empirical terms; and so the references to the carbon market in the context of the Bali Conference could be related to the EU’s position as easily as to other factors.

b. The second requirement of leadership, to have more progressive positions towards the collective goal, was met in this comparison by the reference to the targets set by the European Community in the COP 13 Report of 2007 of reducing emissions by 20 or 30% until 2012. Another potential proof of having more progressive positions towards the common goal than followers was found in the third grid when the European Community, its Member States and Canada were shown appreciation for having supported the development of the Clean Development Mechanism until it was self-financing.

c. According to this definition, the requirement to exert effective leadership is met by mobilising resources such as power, credibility and knowledge.

- When it comes to Directional power, the theme chosen was the possibility to link the EU ETS to CDM and JI projects. As mentioned above, the results for this theme were numerous and though the EU ETS was not directly mentioned, the links between flexible mechanisms and Annex I commitments were often referred to. However, no clear mention of the use of the EU ETS was made; so the resource of power through directional leadership was not mobilised in the context of this comparison.

- Proof of credibility was to be found in the presence of the EU ETS in the Reports, which was not the case. The quotes found in the fourth grid could be interpreted as a reference to the EU ETS; but since no explicit mention of it was found; one has to conclude that the credibility of the European Union as an actor was not pursued through the promotion of the EU ETS.

- Knowledge was also a difficult resource to find in the comparison, due to its large possibilities of interpretation. Again, no mention of the knowledge of the EU ETS was found, though the results did find several references to best practices and information sharing on Articles 6 and 12. The mobilisation of knowledge as a resource, however, does not translate into this comparison either.

¹⁵⁴ See Chapter III, A, 2.

To sum up this analysis, it would seem that the only requirement for leadership to be met in this comparison was the one of *showing a more progressive position than other actors*. The comparison seems to indicate that the resources to mobilise for efficient leadership weren't met, and it is too difficult to empirically determine the level of influence of the European Community in the mentions of global carbon market to affirm that this requirement was met. However, before concluding that the EU failed in exerting leadership during these conferences, and the EU ETS was not used as a negotiation tool on behalf of the European Union, attention needs to be given to the Earth Negotiations Bulletin's reports of both Conferences. These reports are particularly interesting to consider, as they give an account of the decisions taken during the Conferences, as well as the debates which took place between the negotiators.

2. Earth Negotiations Bulletin Reports

The reports published in the Earth Negotiations Bulletin for the Conference of Montréal¹⁵⁵ and Bali¹⁵⁶ add depth to the comparison of Chapter III, as they include the debates which took place in the COPs, MOPs and Subsidiary Committees. They go beyond the theoretical debates on leadership and are especially useful to understand the EU's negotiations during both Conferences.

The analysis of these Reports led to several observations on the context of the negotiations during the Conferences. The first observation of both Reports is that the Parties are divided along a clear Annex I/ non-Annex I Parties line in the majority of the debates that took place. This is due in part to the organisation of the UNFCCC, which for instance divides National Communications between Annex I Parties and non-Annex I parties¹⁵⁷, or the formulation of targeted issues such as "Reducing emissions from deforestation in Developing Countries"¹⁵⁸

¹⁵⁵ IISD (International Institute for Sustainable Development). 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol*. Earth Negotiations Bulletin 12, No 291.

¹⁵⁶ IISD (International Institute for Sustainable Development). 2007. *Summary of the Thirteenth Conference of Parties to the UN Framework Convention on Climate Change and Third Meeting of Parties to the Kyoto Protocol*. Earth Negotiations Bulletin. 12, No 354.

¹⁵⁷ IISD. 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol*. pp 4-5.

¹⁵⁸ IISD. 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol*, p. 7.

or “Capacity building in Developing Countries” or “Capacity building in countries with economies in transition.”¹⁵⁹.

Following this observation, another one can be made on who the EU chooses to side with in negotiations. From the Reports, it would seem that the EU often switches “sides” in negotiations, either negotiating with or backing the Umbrella Group (non-EU Annex I parties) or the G-77/China group, depending on the issue. An example can be found in the Bali Conference Report, on the issue of capacity building in developing countries: «The group did not make progress, with divisions between the G-77/China which sought a COP decision, and the EU and other Annex I parties, which argued that SBI conclusions would suffice [...]»¹⁶⁰.

A last observation that can be made is the strong presence of the EU in both Conference reports. The Report of Bali states that «[...] the Bali Conference was regarded by some, notably the EU and major NGOs, as the moment to lock the process into evidence-based negotiations on mitigation and commitments. The timing and ambition of the EU’s agenda was not unexpected and contributed to some of the fiercest exchanges between negotiators.»¹⁶¹

Finally, the Montréal Conference Report even adds a mention to the EU Emissions Trading System, whose impact was discussed in the High Segment Discussions about Flexible Mechanisms¹⁶², but was not included in the UNFCCC Report¹⁶³. The Earth Negotiations Bulletin’s reports thus nuance the conclusions of the comparison of Chapter III, showing the strong divide between developed and developing Parties within the UNFCCC which the EU uses to negotiate; and the active role of the European Union as a negotiator, which didn’t transpire through the Reports of the UNFCCC.

The following section will take these observations and the comparison’s results and confront them to the hypothesis formulated at the beginning of this analysis. It will then answer the Research question set in the Introduction.

¹⁵⁹ Ibid. P. 12

¹⁶⁰ IISD. 2007. *Summary of the Thirteenth Conference of Parties to the UN Framework Convention on Climate Change and Third Meeting of Parties to the Kyoto Protocol*. p 6.

¹⁶¹ Ibid. page 19-20

¹⁶² IISD. 2005. *Summary of the Eleventh Conference of the Parties to the UN Framework Convention on Climate Change and First Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol* p. 17

¹⁶³ UNFCCC (United Nations Framework Convention on Climate Change). 2005. *Report of the Conference of the Parties on its eleventh session, held at Montreal from 28 November to 10 December 2005. Part One: Proceedings*. FCCC/CP/2005/5. 30 March 2006. Available at: <http://unfccc.int/resource/docs/2005/cop11/eng/05.pdf> Last Accessed: 13-08-2011. p. 23.

3. The Research question and the Hypothesis

The research question this dissertation has sought to answer is: *What role does the EU ETS play in European negotiations in the international climate change regime?*

And the hypothesis was that the relation between the EU ETS and European leadership is a dynamic one; where the EU ETS is both an expression of EU leadership and enhancer of the EU's position on the international climate change scene.

The hypothesis was not verified by results of the comparison of Chapter III for two reasons. First, it didn't confirm that the EU ETS was an expression of European leadership on the international climate change scene. The explicit mentions of the European Community in the UNFCCC Conferences of Montréal and Bali that could be interpreted as expressions of leadership, referred to its progressive positions in terms of targets (COP 13) and its support of the Clean Development Mechanism in its early stages (MOP 3) rather than its Emissions Trading System, which was in fact absent from the Reports.

Second, the comparison didn't prove that the EU ETS enhanced the EU's negotiating position during the UNFCCC Conferences, or from one Conference to the next. The EU's negotiating positions at the beginning and the end of the Pilot phase didn't show any significant changes that could be clearly linked to the promotion of the EU ETS internationally.

The Earth Negotiations Bulletin Reports provided evidence that the European Union was a strong negotiator during both Conferences, yet no link is made between the EU's negotiations and the EU ETS, aside from a brief mention at the end of the Report on the Montréal Conference¹⁶⁴.

Several reasons could account for the hypothesis not being verified, ranging from the novelty of the EU Emissions Trading System; its initial "teething problems"; the fact that the Linking Directive only took effect in 2008; or due to the very issue-specific and technical decisions taken at the UNFCCC, such as emissions from deforestation in developing countries, to which the EU ETS isn't directly relevant.

The Research question, therefore, needs to be answered with different arguments than those put forward in the hypothesis.

¹⁶⁴ IISD. 2007. *Summary of the Thirteenth Conference of Parties to the UN Framework Convention on Climate Change and Third Meeting of Parties to the Kyoto Protocol*. P. 19-20.

The research question: What role does the EU ETS play in the European negotiations in the international climate change regime? will now be answered with the elements provided by the analysis.

First, the EU ETS proved to play a very important role in the EU's climate policy, as stated by official EU documents¹⁶⁵, and as demonstrated in Chapter I. It is also significant that it is linked by the EU policy makers to the concept of leadership of the European Union on the international climate scene¹⁶⁶. The EU ETS reflects their ambitions and the self-perception of leadership by the EU. The EU ETS also fits the concept of leadership and its requirements that the analysis put forward, related to the influence on other parties, more progressive positions towards a common goal and the fact that it enables the EU to exert its "leadership by example" style, as well as "closing the gap" between its domestic policies and international commitments. All these elements make the EU ETS a strong negotiating instrument in the hands of its policy makers in theory.

However, the analysis of the Reports of the UNFCCC Conferences of Montréal in 2005 and Bali in 2007 which sought to establish an empirical link between the concept of EU leadership and the EU ETS at the international level, refuted the hypothesis that the EU ETS was both an expression of EU leadership at the international level which in turn enhanced the EU's position negotiations due to the absence of the EU ETS from the UNFCCC reports; and no apparent proof that the EU's negotiating positions had changed from 2005 to 2007.

The analysis comes to the conclusion that though the EU ETS during its Pilot phase presented key requirements for leadership in theory, such as setting of high standards in emissions trading or closing the credibility gap between the EU's domestic policies and international commitments (see Chapter II, B); which could have reflected on the EU's negotiations at the international level; these weren't reflected by the outcomes of two Reports of the UNFCCC Conferences that took place at the beginning and the end of the Pilot phase.

However, the novelty of the EU ETS at the time and its initial technical and geographical limitations; as well as the short Pilot phase could be a reason why the EU ETS was absent from these Reports, and should a similar comparison take place of its Second Trading Period (2008-2012), the results might be different, or a new type of European leadership could be identified.

¹⁶⁵ EUROPEAN COMMISSION. DG CLIMATE ACTION. 2009. *Leading Global Action to 2020 and Beyond*. Available at: http://ec.europa.eu/clima/publications/docs/post_2012_en.pdf Last accessed 14-05-2011.

¹⁶⁶ Ibid. P. 10.

CONCLUSION

This dissertation has attempted to define the relation between the European Union's Emissions Trading System and its leadership role on the international climate change scene.

The Research question therefore was: *What role does the EU ETS play in European negotiations in the international climate change regime?*

And the *hypothesis* was that the relation between the EU ETS and European leadership is a dynamic one; where the EU ETS is both an expression of EU leadership and enhancer of the EU's position on the international climate change scene.

In order to define as accurately as possible the relation between the EU ETS and the EU's international climate change negotiations, the analysis needed to identify in the first Chapter the main factors that led the European Union to adopt the EU ETS. It took into account internal negotiations, external factors and normative interpretations to why the ETS was chosen as an instrument, which all contributed to the choice of an Emissions Trading at the EU level. It then focused on the main characteristics of the Pilot phase which were the nature of a "learning by doing" phase; problems of over-allocations and price volatility; the perspective of linking the EU ETS with the Clean Development Mechanism and Joint Implementation projects.

The analysis then moved to the definition of leadership in its second Chapter. The definition it chose was:

«Understood as a targeted and consistent effort to direct other actors towards a collective goal, international leadership has at least two fundamental requirements. First, an actor with leadership aspirations needs to have the capacity to exert significant influence on other actors. Second, the leading actor has to have more progressive positions towards the collective goal than those of the followers, rendering leadership a relative concept. For leadership to be effective, [...], a third requirement needs to be met. The leader has to be successful in mobilising available resources (power, legitimacy/credibility, knowledge and skills) to achieve outcomes that reach the collective goal».¹⁶⁷

¹⁶⁷ Oberthür, S. 2009. *The Role of the EU in Global Environmental and Climate Governance*. In (ed) Telò, M. *The European Union and Global Governance*. Routledge/GARNET. P. 194.

It then described the typologies of leadership made by the authors Vogler and Stephan (2007) and Grubb and Gupta (2000), and identified “directional leadership” as the type that suited best the EU’s climate negotiations, because it took into consideration its ‘leadership by example’ style. The concept of “leadership by example” of the EU was also explained as being a combination of three factors: the EU’s normative commitments to tackling climate change through multilateral decisions and international law; its progressive climate change policies implemented domestically; and its self-perceived role as a leader. The analysis then applied the requirements of the leadership definition to the EU ETS, and came to the conclusion that the EU ETS fulfilled these requirements in theory.

The third Chapter proceeded then to a comparative analysis of the UNFCCC Reports of the Conferences of Montréal and Bali, to determine whether the EU ETS fulfilled the requirements of European leadership in practice. The first part explained the choice and the contexts of the Montréal and Bali Conferences; then the EU positions prior to both Conferences, as formulated by Council Conclusions in March 2005 and February 2007; and finally the methodology of the grids. Five grids were drawn according to five themes articulated around the definition of European leadership and the Council Conclusions: 1. A global carbon market, 2. 20% emissions reductions objective, 3. The prospective of linking the ETS to flexible Mechanisms, 4. References to the EU ETS, 5. Sharing knowledge with third parties. The second part of the Chapter presented the grids and the relevant quotes to the comparison.

Finally, the fourth Chapter first provided the results of the comparison and interpreted them in reference to the theoretical leadership concepts of Chapter II. No direct reference to the EU ETS at the UNFCCC level was found and other references to the EU position prior to the Conferences were subject to a certain degree of interpretation. The significant mentions to the European Community and its Member States were related to the 20 to 30% emissions reduction targets from the EU Council Conclusions of February 2007, during the Bali Conference; and the mention of its support to the development of the Clean Development Mechanism.¹⁶⁸

In the second part of the Chapter, these results were analysed through the leadership lens, and the conclusions were that only the “showing a more progressive position towards the common goal than third parties” requirement had been met, which, by itself, couldn’t be

¹⁶⁸ See Chapter IV, A, points 2 and 3.

interpreted as an expression of leadership on the EU's behalf, and moreover was not linked to the EU ETS. The Earth Negotiations Bulletins reports of the Conferences then added some nuances to these conclusions by shedding light on the divide between developing and developed Parties within the UNFCCC, and how the EU managed to negotiate with both "sides" depending on the issue. It also showed that the EU had played a strong negotiating role in the Conferences, which the UNFCCC reports' comparison didn't convey.

The fourth chapter was concluded by assessing the hypothesis in the light of these results, and by answering the research question.

The hypothesis was refuted, as it hadn't been made clear in an empirical way that the EU had made the EU ETS a centrepiece policy or negotiating instrument at the UNFCCC level, or that the promotion of the EU ETS had enhanced its negotiating position, which hadn't significantly changed between 2005 and 2007.

To answer the research question: What role does the EU ETS play in the European negotiations in the international climate change regime, the analysis concluded that as a policy, the EU ETS plays a significant role for the EU in terms of self-perception as a leader, and in terms of international credibility, by having a concrete domestic policy to match its international commitments. However, the link between the EU ETS and European leadership was not made apparent in practice, in reports of the UNFCCC Conferences of 2005 and 2007. The disconnect between the theory and the practice in this study was associated with the novelty of the EU ETS and its initial limitations, as well as the short time frame in which the analysis took place, and suggested that a similar analysis of the second trading period of the ETS (2008-12) could hold different results, and make the link between the EU ETS and European leadership apparent in empirical terms.

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