

Europe in the International Climate Change Negotiations: Seeking Explanations for the EU's Changing Stance on Emissions Trading¹

Benjamin Stephan (Diplom-Candidate)
Department of Social Sciences,
University of Hamburg

Budapester Strasse 40
20359 Hamburg
Germany

e-mail: post@benjaminstephan.de

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Abstract

The main question this paper tries to answer is why the EU, formerly an outspoken critique of emissions trading, has radically changed its position in the beginning of this decade, initiating the first compulsory greenhouse gas emission trading system in 2005 and becoming the frontrunner on the issue.

The fact that emissions trading is now the *modus operandi* to organize green house gas reductions has serious consequences for the global political economy and the players involved. I argue that the research done so far on this case which frames this change of position solely as a case of policy learning, is a very narrow view, which neglects a number of players and the politico-economical constraints they have been in. To give a more encompassing view, I will use a Neo-Gramscian approach, arguing that emissions trading can be seen as a hegemonic project – even as a historical bloc – that started in the US and then extended to Europe.

¹ This paper is based on research for my Diplom Thesis, which will be submitted in June 2008. The thesis is set up as a hypothesis testing work, using process tracing (see George and Bennett 2004: 205-232) to check the hypothesis generated by Policy Learning and Neo-Gramscianism. This paper will present the core insights generated by Neo-Gramscianism, which help explain why the EU changed its position and neglect a deeper analysis of the Policy Learning approach.

1. Introduction

When the international community talks about ways to avoid dangerous climate change today, its eyes turn to Europe. This is not only the case due to technological developments in renewable energy or energy efficiency. The attention is on the EU because it has taken the lead on what is currently regarded as *the* policy tool to organize global emissions reductions – an emission trading system (ETS).

An ETS is a permit or allowance trading system based on the idea that one can efficiently limit and decrease pollution by requiring permits for every ton of CO₂ emitted. It is foremost the creation of a new market to commodify prior untradable goods that have been outside of the realm of the market. This is done with the intention of giving pollution a cost and thus force polluters to include it into their calculations and have incentive to reduce it. These permits are tradable making the system more flexible for participating actors as opposed to carbon taxes. The EU-ETS is a “cap and trade” system, the most common type of trading scheme. A system-wide emissions limit is established and permits are allocated to the designated polluters. These polluters can either use them for their own polluting actions or sell them to other players that want to buy permits because they have already exceeded their pool of permits. The EU-ETS, initiated in 2005, works on the installation level and covers the energy, cement, glass, ceramics and paper sector. All in all it covers about 10.500 installations making up roughly 40% of the EU’s total GHG emission (EU Commission 2007: 7). With a volume of \$24,4 billion in 2006, the EU-ETS plays a crucial role in the global emissions trading (or carbon) market, which had a total estimated volume of \$30 billion in 2006 (World Bank 2007: 3).

The fact that today the EU is the only significant actor in the international arena that is using a mandatory ETS comes as a surprise due to two reasons: first, the EU-ETS is quite different from the policy options used by the EU before. Especially within its environmental policy, the EU has been known for its use of command and control solutions. Until the introduction of the EU-ETS, market shaped policy tools had not yet played any role. Prior to the signature of the Kyoto-Protocol in December 1997 the EU had even heavily opposed flexible market mechanisms within international nego-

tiations. It criticized emissions trading as a tool that would allow big polluter states to export their reduction commitments by buying allowances and thus avoid domestic reduction efforts. The EU only grudgingly accepted emission trading as part of the Kyoto Protocol when it became clear that the US, the biggest GHG emitter, would not agree to any treaty with binding reduction targets if it did not include flexible mechanisms.

Despite the US (the main driving force behind the initial emissions trading concept) having pulled out of the Kyoto, the EU continued to support emissions trading. It even became the forerunner on the issue.

The objective of this thesis is to explore why the EU turned from a skeptic and opponent of emission trading into the primary advocate for the method. How can this substantial change of position be explained?

So far there has been a lot of research done on the design features of the EU-ETS and their economic implications (see for example Climate Policy issues 5(1), 5(3) and 6(1)). Also the political process leading to the development of the EU-ETS has gotten some scholarly attention (see Steuwer 2007; Corbach 2007; Braun and Santarius 2005; Zapfel and Vainio 2002). But only very few scientists have focused on the question of how this radical change within the EU's preferences could be explained. The two who have done it so far use constructivist approaches and argue that the change of the EU's position can best be explained as a case of policy learning (Cass 2005; Christiansen and Wettestad 2003). According to them, after the Kyoto Protocol had been signed in 1997 EU policy makers became dissatisfied with the progress in the EU's climate policy. The main project that EU policy makers had focused on up until then had been the adoption of a EU-wide carbon tax to help bring down GHG emissions. This however had failed leaving the EU with insufficient instruments to curb emissions. There was a fear among EU policy makers that the EU, so far the poster-child and driving force of the international climate change negotiations, might fall behind the efforts of other states. It was in this situation of dissatisfaction that EU policy makers had to negotiate the design details of the Kyoto Protocols emission trading mechanism and engage with their counterparts from the US that were very familiar with the subject. The result was a case of policy learning where EU policy makers started transferring what they had learned during the international negotiations

and from the US experiences on the issue, adopting it for the EU climate policy. Both articles name a few additional actors that have functioned as facilitators in this case of policy learning. The constructivist approach characterizes them as relatively “neutral” actors, not assessing their motivations to do so. This leaves a significant gap in our understanding of the case, as one could suppose that there is more to the story than just a superior policy tool. To help in closing this gap, I will use a Neo-Gramscian International Political Economy approach to analyze the case. I argue that this approach gives a more holistic explanation for the main question of this paper than a mere constructivist policy transfer perspective. The insights that constructivist policy transfer analysis generates represent only one layer of the analysis that a Neo-Gramscian approach can provide. In Neo-Gramscian analysis this ideational layer is supplemented with additional layers of analysis, concerning material capabilities and the economic interests and constraints of the actors involved. Based on Neo-Gramscianism one can try to argue that emissions trading is a *historical bloc*, which has started in North America. It is furthermore an element of *Disciplinary Neo-Liberalism* and a fragment of the *New Institutionalism*.

I will start by sketching Gramsci’s theory and its adaptation to International Relations. In the third section the paper will continue with description of the history of emissions trading, leading up to the start of the EU-ETS. Part four will include the analysis, trying to generate and test some hypotheses that would help explain the turning EU stance.

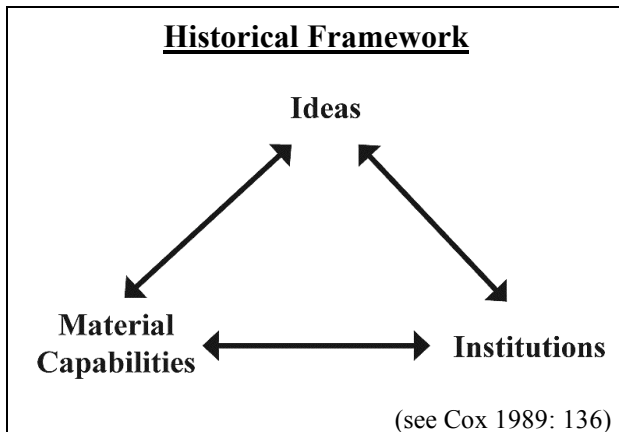
2. Neo-Gramscian Theory

Neo-Gramscianism or Historical Materialism is an International Relations Theory based on the works of Marxist writer and political theorist Antonio Gramsci (1891-1937). His theory was taken up by Robert Cox in the late 1970s and adopted for International Relations Theory (Cox 1981, 1977).

Power, Hegemony and Civil Society

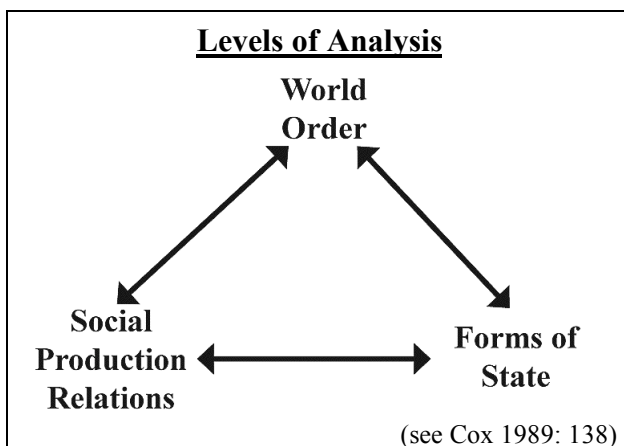
Characteristic of Gramsci’s theory is his understanding of power that transcends the conventional narrow understanding of power as coercion. In his notion it is a “combination of consent and coercion” (Cox 1983: 164) and has normative and material as

well as behavioral and structural dimensions (Gill and Law 1989: 475). People's choices of taking action, as well as their ability to hold or exercise power are influenced by a historical structure that constitutes a framework of action. This structure consists of three dimensions that are interdependent: *material capabilities*, *ideas* and *institutions*.



Neo-Gramscian Theory studies those dimensions on three levels of analysis: *social production relations*, *forms of state* and the *world order*. The understanding of production in this case is not limited to the making of physical goods, it also covers the “production and re-

production of knowledge and of the social relation, morals and institutions that are prerequisites to the productions of physical goods” (Cox 1989: 39). Production relations, the form of state and the world order are interdependent variables as well. However, Cox argues that because of its significant influence, the mode of production should be the starting point for a Neo-Gramscian analysis (Cox 1981: 134).



Linked to Gramsci's understanding of power is his definition of *hegemony*. A dominant or ruling class establishes a hegemony not only by controlling the means of production or the coercive mechanisms of the state, such as the police, but by

being able to present its ideas as being universal and in the interest of the entire society. Thus subordinate classes would be in consent with the policies and ideas proposed by the ruling class and perceive them as being in the general interest. Forging broad coalitions supporting one's ideas is the key to establish one's hegemony. Hegemony is exercised by controlling the state. State in this case is not solely defined as state apparatuses - political parties, the bureaucracy, the police and the military - but also includes the institutions of civil society: science and the education system, the church and the media (Gill and Law 1989: 476; Cox 1983: 169).

Historical Bloc and War of Position

A particular configuration of the mode of production and the integral and extended state that enables a dominant class to become hegemonic is called a *historical bloc*. Each historical bloc is characterized by a dominant mode of production, dominant ideas and discourses and a hegemonic class. A historical bloc ceases to exist and will be replaced by a new one if the mode of production changes. This is usually linked to a change in ideas and institutions and hence has an influence on a dominant class being able to stay hegemonic. Such a historical bloc will start within a country or society but then has the chance to expand globally. If a dominant class manages to link to dominant classes in other countries, manages to promote globally dominating ideas and hence exercises enough influence on international institutions, Neo-Gramscianist talk about a *transnational historical bloc*. Transnational classes that operate both in and across nation states, as Pijls *transnational managerial class* (Pijl 1989), are particular characteristic for a transnational historical bloc (Gill 2000: 25).

The relative autonomy of the civil society and the discursive realm turns them into “a key site of political contestation among rival social groups [or classes] and ideas” (Levy and Egan 2003: 806). The way for a subordinate group to challenge the hegemony of a dominant group and to become hegemonic itself is to engage in what Gramsci called *war of position* (Gramsci 1971: 238-239). This is understood as the active constructing of a counter-hegemony, which means for example promoting different ideas and discourses, while trying to resist cooperating with the hegemonic system (Cox 1983: 165).

Levy et al refined the macro perspective that early Neo-Gramscianists as Cox and Gill hold adding a more micro perspective by arguing that issue specific “field level politics can ... be seen as a war of position, a contested process of assembling and stabilizing a historical bloc. Similarly the establishment of hegemony is equivalent to the process of field stabilization.” (Levy and Newell 2002: 94; see also Levy and Egan 2003: 810). That is the establishing of ideas as dominant discourses within specific policy fields and the creation of coalitions of actors supporting one’s position.

Disciplinary Neo-Liberalism and New Constitutionalism

Stephen Gill made another, earlier modification of the original International Relations adaptation of Gramsci. By fusing Gramsci’s theory with Foucauldian ideas on disci-

pline and neo-liberalism and using them to analyze what is generally referred to as Globalization, he identified what he calls *Disciplinary Neo-Liberalism* and *New Constitutionalism*. Disciplinary Neo-Liberalism describes the effects, which the dominant neo-liberal discourse has on the behavior of actors in general but especially on governments and other state agencies. Being permanently compared to other states by benchmarking and rankings, governments start to “optimize” their operations by cutting back their spending. Hence they cut back on the services they used to provide, transferring them into the “more efficient” realm of the market. New Constitutionalism, the institutionalization of Neo-Liberalism on the state and the international level supports this tendency. It is the institutionalization of the neo-liberal discourse “in quasi-legal structures” organized within and through the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank. Those structures guarantee free trade, and property rights globally, while advocating further privatization. This results in “privileged rights of citizenship and representation to corporate capital while constraining the democratization process.” (Gill 1995: 413)

3. History of Emissions Trading

The American Roots of Emissions Trading

The concept of emissions trading is based on what became to be called the Coase Theorem postulated by economist Ronald Coase (1937). It is dealing with the efficiency of an economic allocation in the presence of externalities. His theorem states that if an externality can be made tradable and there are no transaction cost, bargaining will lead to an efficient outcome despite the original allocation of property rights. In “The Problem of Social Cost” (1960) he argues that using the market and making externalities tradeable could avoid most externality problems that society usually tends to solve through litigation, e.g. annoyance for residents due to noise caused by a neighboring company. According to Coase using the market would be more efficient and most beneficial for the general welfare.

Coase, who had studied in London went on to teach economics at the University of Buffalo and later, together with Frank Knight and Milton Friedman, at the University of Chicago. Like them, Coase was one of the members of the neo-liberal Mont Pelerin Society, founded at a meeting of 39 scholars, predominantly economists, convened by

Friedrich Hayek in 1947. Its mission was and is the promotion of free market economics. In 1991 Coase received the Nobel Memorial Prize for Economics for the development of his theorem. John H. Dales adopted it, eventually making the theorem usable for environmental policy (Dales 1968). This left advocates of free market economics well equipped with the necessary arguments to engage with the American environmental movement that started to constitute itself after the publication of Rachel Carson's "Silent Spring" in the 1960s (Carson 1962).

When the US government first started to pass environmental laws and regulations during the 1960s it did not yet include environmental permit or allowances trading. This changed rapidly starting with the first amendments in the late 1970s. The Clean Water Act enabled the establishment of Wetlands Banking and Water Discharge Trading. In this case the US Environmental Protection Agency (EPA) sets water quality standards and state or regional authorities have the choice to achieve those by establishing a trading system within a river system or watershed (Hahn and Hester 1989: 391-392). Having some experiences with small regional trading systems gave the US policy makers enough confidence to establish their first federal level trading system in 1982. To reduce lead supplementation in gasoline, a lead permit system and market were set up (Hahn and Hester 1989: 381-391). The SO₂- and NO_x-Trading systems², later becoming the popular example among advocates for an international emissions trading scheme, were not established until the mid 1990s. Even though there had been some elements of trading optionally included in the 1970 version of the Clean Air Act (Hahn and Hester 1989: 368-380), the legal foundations for a full-fledged compulsory program on federal level was not passed until the Clean Air Act Amendments of 1990.

By 1990 the idea of allowance trading had spread from a few scientists and administrators into the environmental movement of the United States. It is the US-based NGO Environmental Defense that is credited with lobbying for and writing large parts of the 1990 Clean Air Act sections on allowance trading, which allowed the establishment of the Acid Rain Program (Lohmann 2006: 58). The Acid Rain Program, which didn't start operating before 1995, resulted in a significant decrease of SO₂- and NO_x-Emissions. Costs ended up being below initial industry estimates, which many trading

² There are two programs that are usually referred to: the federal level *Acid Rain Program* and the *Regional Clean Air Incentives Market (RECLAIM)* in California.

enthusiasts credited to the permit-trading scheme. However there are some critical voices of this enthusiasm. According to the critics, it is unclear, exactly what degree of reduction is due to the trading system itself and what can be associated with other measures of the Clean Air Act. In addition, it is unknown how other measures would have performed cost-wise or time-wise instead of trading (see Lohmann 2006).

The economic success of the trading system sparked quite some interest among the business community. Some participating companies (e.g. BP, Chevron, Edison Mission Energy), as well as brokers, traders and other consultants (see EMA 2007), got together in 1996 to form the Emissions Marketing Association³ an exchange platform and lobbying group trying to promote and advance emissions trading, nationally and internationally.

Moving to the International Level

While the Clean Air Act Amendments were in the making, the idea of allowance trading slowly made it into the international arena. On the international level it was also Environmental Defense that turned out to be one of the most articulate promoters of emissions trading. It published a paper as early as 1991 on how GHG emissions trading would help protect the Brazilian rain forest (Dudek and LeBlanc 1991). At the same time they kept on lobbying the US EPA to extend their emissions trading scheme to include GHGs (Victor and House 2006: 2102). Environmental Defense continued to go down the market oriented path and went on to found the Environmental Resources Trust. The NGO's goal is to "pioneer[s] the use of market forces to protect and improve the global environment" (Environmental Resources Trust 2008). It further started in 1998 to cooperate with BP, a multi-national oil company, on emissions trading (Victor and House 2006: 2102), co-founded the Emissions Trading Education Initiative (ETEI) together with EMA (1999) (ETEI 2000) and put together the Partnership for Climate Action (2000) which includes such corporations as BP, Shell, and Dupont (Carbon Trade Watch 2003: 32). A second US-based NGO that has been an early and outspoken advocate for emissions trading is the World Resource Institute (WRI), also a long time promoter of free market environmentalism. It receives substantial support from governments and UN agencies but is also funded by corporations like BP, Shell and Total Final Elf (Carbon Trade Watch 2003: 35).

³ The EMA expanded its operational scope, being renamed the Environmental Marketing Association.

The United Nations Commission on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD), which established working groups and commissioned studies on the issue (see Braun and Santarius 2005: 16-17), quickly picked up and promoted the idea of emissions trading. UNCTAD's Carbon Market Program was launched in 1991 and included a "Green House Gas Emissions Trading Project", which aimed at developing the basics for an international trading scheme. The program was exclusively aimed at emissions trading and never undertook research on any other type of policy measures (Carbon Trade Watch 2003: 11).

Even though there were no negotiations about emissions trading at the 1992 Earth Summit in Rio, delegates already talked about Joint Implementation and UNCTAD promoted emissions trading at a side event to the conference. After the Earth Summit the International Energy Agency (IEA) joined the OECD to work on emissions trading. Both were chairing the Annex-I Expert Group, which became one of the most important forums discussing and elaborating on emissions trading during the UNFCCC negotiations. UNCTAD kept being very active on the issue, too. In 1997 they joined forces with the NGO Earth Council to establish the "Policy Forum on International Emissions Trading", an institution that every few month brought together government officials, scientists and representatives both from NGOs and the business world to discuss emissions trading (Braun and Santarius 2005: 16-17). In 1999 they expanded their efforts and established a mutual "Carbon Market Programme" (UNCTAD 2005). In the same year UNCTAD joined forces with the World Business Council of Sustainable Development to form the International Emissions Trading Association (IETA). This institution also started out as an exchange forum on emissions trading, but rapidly turned into a full-fledged lobbying organization, operating on national and international level to promote GHG emissions trading (Braun and Santarius 2005: 17; Carbon Trade Watch 2003: 11).

The Corporate Position on Emissions Trading

In opposition to the international institutions described above, most of the corporate world started out being as reserved towards emissions trading as they were towards any other climate policy option. During the early and mid-90s, corporations, spear-

headed by oil companies and car manufacturers, approached the climate change debate by questioning the scientific evidence. They contested that it was anthropogenic causes that were responsible for current global warming. In 1989 they had founded the “Global Climate Coalition” (GCC) a lobbying group, financing scientists and reports that questioned the otherwise widely held idea of man-made climate change. Initially, this strategy was relatively successful in the US, where climate skeptics received disproportionately large attention in the media.

By 1997, when the GCC’s strategy of questioning the actual existence of anthropogenic climate change had become largely discredited, they changed tactics arguing that despite whether climate change is happening or not, dealing with the consequence would be economically more reasonable than starting to force major structural changes onto the economy and invest into mitigation issues.

At the same time, the relatively uniform position of American and transnational corporations (outright rejecting concrete measures to prevent climate change) started to crumble. The performance of the Acid Rain Program in the US that had started in 1995 and the likelihood of concrete measures of some sort being agreed to internationally, made some corporations reconsider their strategy. In 1997 BP left the GCC and its CEO Lord Browne was the first representative of one of the major oil companies to publicly admit that climate change was a serious issue, requiring action being taken by politics and businesses. BP went on to join forces with Environmental Defense to develop an emissions trading system for its own corporation with the goal to reduce BP’s emissions by 10% until 2010. BP’s motivation was to develop some experience with what they thought would most likely be a climate policy measure, corporations could face in the near future. By going ahead with emissions trading they wanted to avoid momentum in the discussion shifting toward carbon taxes or command and control measures which would put a stronger burden on them (Victor and House 2006: 2101; Akhurst, Morgheim, and Lewis 2003: 657).

A number of big corporations, like Shell (1998) and Ford (1999) followed BPs example and left the GCC joining the newly founded PEW Center on Global Climate Change (Levy and Newell 2002: 84-85). They embraced a position open towards reduction measures to avert climate change, similar to that of BP. The PEW Center, funded by the PEW Charitable Trust that derives its wealth from Sun Oil Company

(SUNOCO), today cooperates with more than 30 Fortune 500 corporations (Carbon Trade Watch 2003: 32), and advocates trading concepts to achieve reductions (Pew Center 2008).

Entering Formal International Negotiations

Emissions trading had not officially been on the agenda of the UNFCCC negotiations until the US government proposed it in a submission in the beginning of 1997. The US had started to integrate international emissions trading in its negotiation position in 1996 hinting at it during statements at COP 2 in Geneva in July and openly calling for it for the first time in a non-paper published in December. In 1997 the formal proposal was endorsed right away by the entire JUSCANZ⁴-Group calling for emissions trading as policy tool in a future protocol (Matthews and Paterson 2005: 63; Braun and Santarius 2005:17). The US-proposal was met with enormous skepticism and refusal from developing countries and the EU. The EU representatives rejected emissions trading, arguing that it would leave rich polluting states with an easy way out. Instead of undertaking domestic reduction efforts states could just continue with business as usual by simply compensating with emission certificates. In addition they feared that the European public would perceive emissions trading as a right to pollute and thus see it as unpopular. Not being familiar with the approach they had also the sense that the US brought up this rather complicated approach to further delay the progress of the international negotiations (Braun and Santarius 2005: 18; Christiansen 2004: 27).

The EU's Position on Emissions Trading

Starting in 1988 the EU had been discussing measures on combating climate change (see EU Commission 1988). The measures discussed not only included command and control measures but also market related measures like a carbon tax. Measures to establish a permit system, and hence an allowances market, however, had not become an issue until after the signature of Kyoto. The attempts to pass an Europe-wide carbon or energy tax had failed by the late 1990s, as it was not possible to get a unani-

⁴ JUSCANZ stands for **J**apan, **U**nited **S**tates, **C**anada, **A**ustralia and **N**ew **Z**ealand, a negotiating alliance of like-minded industrialized states within the UNFCCC negotiations, being skeptical or opposed towards concrete reduction commitments.

mous decision in the EU Council – necessary to pass a tax measure (Woerdmann 2004: 270). During this time the EU's position in the international climate negotiations called for command and control measures, so-called *Policies and Measures (PAMs)*, while refusing flexible mechanisms. But as it became clear that Emissions trading and other flexible mechanisms would be conditional for the US and the JUSCANZ members to agree to a protocol with binding targets, the EU had to clench its teeth and eventually gave in (Christiansen 2004: 27-28; Oberthür and Ott 2000: 130). The Kyoto Protocol, including emissions trading and the Joint Implementation and Clean Development Mechanisms was agreed upon at COP 3 on December 11th 1997. It has a reduction target for industrialized countries averaging at 5.2% (8% for the EU) (UNFCCC 2008).

What was still up for negotiations, were the organizational details concerning the mechanisms. The EU tried to limit the use of flexible mechanism to try and thus force states to do the majority of their reductions domestically. This was contested by the US and JUSCANZ, calling for unrestricted use of flexible mechanisms leaving the international negotiations at a stalemate. The COPs in Bonn and Buenos Aires did not bring any major improvements and even resulted in a complete failure of COP 6 at The Hague. When an agreement was finally reached in 2001 at COP 7 at Marrakech US-President Bush had already announced that the US would not ratify the Protocol. This didn't leave the EU a lot of space for strategic maneuvering. Thus the EU eventually had dropped its demand for a limitation of emissions trading, agreeing on the formulation that a "significant element" should be achieved domestically, in order to convince the remaining parties to continue with the Kyoto Protocol despite the absence of the US (see Braun and Santarius 2005: 16; Christiansen 2004: 29).

After COP 3 at Kyoto most of the EU Commission negotiating team for the UNFCCC, which had held a very critical position on emissions trading, cycled out of the General Directorate (GD) for the Environment, being transferred to other GDs. However, Jos Delbeke and Peter Vis, economists working on the economics of climate change, remained in place, filling the vacuum (Watanabe 2005: 38). This gave the emission trading supporters more weight in the Commission's internal discussions. Jos Delbeke, who then became deputy director of the GD, heading the team on Climate Change and Air Quality, as well as a number of economists that soon joined team had been trained in the US or had worked for an extended period of time for the

IMF, the World Bank, or UNCTAD (see Comment Visions 2008; Center on Global Change 2004; The Greens 2004).

Starting in 1998, the EU Commission started to take an internal European trading system into consideration. In January 1998 representatives of the GD Environment met for an informal meeting with representatives of the major European environmental NGOs, to get a sounding on the agreeability of this policy. In its communication, of the same year, to the European Parliament “Climate Change – Towards an EU Post-Kyoto Strategy” (EU Commission 1998), the EU Commission mentioned for the first time in a official document the possibility for an inter-European ETS. The plans of England and Denmark to introduce domestic trading schemes that came up around that time fostered the intentions of the Commission. In May 1999 the Commission announced a Green Paper, which was to be published in March 2000 (EU Commission 2000). This together with a stakeholder consultation process, being set up as Working Group One of the “European Climate Change Programme” was supposed to get the necessary parties to the negotiating table and come to an agreeable concept. The Green Paper process and the stakeholder discussions allowed the Commission to develop and test ideas and gave it the opportunity to convince stakeholders of the concept and do capacity building on it (Braun and Santarius 2005: 23).

A second forum that had significant influence on the process, which brought together Commission members, NGOs and business representatives in regular meetings, was a “task force” set up and facilitated by the Center for European Policy Studies (CEPS) (Steuer 2007: 58-59). CEPS is a think tank and lobbying institution who has strong ties to the corporate world, getting at least a third of its annual six million Euro budget directly from its 120 member corporations (e.g. BP Europe, Exxon Mobile, Vattenfall, E.ON., PriceWaterhouseCooper) (CEPS 2007: , 38-43).

Two other players that had significant influence on the development of the EU-ETS, have been BP, advocating its own experiences with Emissions Trading (see Victor and House 2006: 2112; Zapfel and Vainio 2002: 8) and the Center for Clean Air Policy (CCAP). This US-based NGO was founded in 1985, advocates market approaches and has also contributed to the development of the Acid Rain Program. It is funded mainly by energy corporations, amongst them BP, Shell, and EXXON (CCAP 2005). The center was one of the earliest players to lobby and consult the EU-Commission on emissions trading (see CCAP 2006, 2005). With the so called “FIELD-Study” that

it had prepared on behalf of the Commission together with the Foundation of International Law and Development (FIELD 2000), CCAP is responsible for one of the documents being regarded as most influential on the process and the later trading system (Steuwer 2007: 58). CCAP argues that their “recommendations ultimately formed the basis for this Directive” (CCAP 2005).

Role of European NGOs

While some American NGOs, like Environmental Defense, the World Resource Institute or CCAP, were in favor of emissions trading and had lobbied for it early on on an international and European level, European based NGOs like Greenpeace or Friends of the Earth had initially been more critical towards the concept. Greenpeace, for example, had opposed the appearance of emissions trading in the beginning arguing that the COPs are more and more “turning into a trade negotiation – climate ... [being] pushed more and more down the agenda” (Greenpeace 1998). Yet, it ended up supporting the trading mechanisms on an international and later on also on the European level. By COP 6 in 2000, Friends of the Earth had also abandoned its critical position on emissions trading, now praising what they had described as “junk” the year before (see Carbon Trade Watch 2003: 15).

NGOs tended more and more to engage in the development and improvement of the permit trading and offset schemes. They were approached by businesses to act as consultants and verifiers. The World Wildlife Fund (WWF) for example, the only bigger European NGO that had supported permit and emissions trading early on, developed the Gold Standard together with industry representatives, a quality standard for CDM- and voluntary off-set certificates, that was launched in 2003 (Gold Standard 2008).

Without a fundamental debate about the issue, and relatively minor amendments made to the Commission proposal, the EU Parliament and the EU Council accepted the EU-ETS directive on October 12th 2003 (EU Council and Parliament 2003). Starting with the official proposal for a directive by the EU Commission in October 2001 (EU Commission 2001), until the adoption of the directive, only two years had past – very little time in comparison to other policy projects with a similar scope. The fast pace of the process resulted in very little chance for the member state parliaments to comment or react on the issue. The first phase of the trading scheme started on January 1st 2005; phase two on January 1st 2008. The first period has been characterized

by an over-allocation of certificates, which resulted in a prize collapse for the allowances. The windfall profits amounting to several billion Euros that the utilities managed to cash in due to the EU-ETS and its type of allocation, have been a second major issue of discussion.

4. Analysis

Based on the preceding historic description of the policy process leading up to the adaptation of the EU-ETS, I will now develop my explanation utilizing Neo-Gramscianist thought.

Emissions Trading: a Historic Bloc that started in the US and extended globally?

First of all, I will sketch where the different dimensions spelled out in Neo-Gramscian analysis can be found in the climate change debate. It is fairly easy to point out where the three dimensions of the historical framework exist, enabling emissions trading to happen. Material capabilities are something that can be found amongst the actors being involved in the policy development or discourse on emissions trading. Most influential are the big corporate actors (BP, Shell, ...) with vast financial resources that turned out in favor of emissions trading. The environmental services discourse and the concept of emissions trading, itself being based on Coase Theorem and Dalby's modification constitutes the ideational dimension of the historical framework.

There are various institutions on national and international level that have been pointed out in the historical analysis which helped to develop and promote emissions

| <u>Dimensions of the Historical Framework</u> | |
|--|---|
| Material capabilities | Corporations have big capital assets giving them the possibility to influence the discourse; they have also a significant economic interest in the way emissions reductions are dealt with. |
| Ideas | Concept of emissions trading; carbon offsets; |
| Institutions | UNFCCC, UNCTAD, OECD, |

trading or have been created to organize or manage parts of it, constituting the third dimension.

The three level of analysis discussed by Neo-

Gramscianism can be described as follows: the social production relations which are characterized by their extreme dependence on fossil fuels; a world order that is domi-

nated by neo-liberalism, free-trade and globalization and states that differ in their policy traditions – command and control vs. laissez-faire market organization.

It was in the US where the historic framework of action first came into a configura-

| <u>Levels of Analysis:</u> | |
|-------------------------------------|--|
| Social Production Relations: | fossil-fuel based global economy |
| Forms of State: | influenced by different state traditions: laissez-faire and market-oriented vs. corporative state and command & control measures |
| World Order: | Neo-liberal, free-trade, Globalization |

tion, which enabled emissions trading as the modus operandi or historical bloc. While one can argue that some of its foundations have European roots

– Coase originally having studied in England – it is justifiable to say that the idea of emissions trading concretized in North America. Both Coase’s and Dales’ fundamental papers came into existence at North American Universities. It was in the US where free-trade advocates first engaged in a war of position with the environmental movement, resulting in the introduction of market-based environmental policy in the US during the 1970s. It took roughly 20 years until the idea of emissions trading became the hegemonic concept in the US to deal with air pollution and GHG emissions. In the mid-1990s allowance trading was no longer just an issue of a few environmental economists. It had been taken up by American environmental NGOs like Environmental Defense, WRI and CCAP and companies started to see it as the lesser evil regarding likely climate regulation.⁵

The transfer from the national (US) level to the international level and the subsequent extension of the historical bloc to the EU was facilitated through several channels: one has been the American environmental NGOs - Environmental Defense, WRI and CCAP. They lobbied for emissions trading within the US, in Brussels and on the international level, making them an important transfer agent. The fact that the idea got carried into institutions like OECD, IEA and UNCTAD, who subsequently circulated position papers and organized exchange forums and discussions propagating emissions trading, reinforced the extension of the bloc. After the Kyoto Protocol had been adopted in 1997 all major international institutions with any implications on the way

⁵ As the GCC was still active at this point in time and a number of corporations opposed any climate protection regulation whatsoever, this hypothesis can be debated, which I will do on the following two pages.

climate change would be dealt with – UNFCCC, UNCTAD, OECD, IEA, World Bank – propagated emissions trading as the way to deal with climate change and GHG reductions in the future.

Once it had crossed the Atlantic, it was the EU Commission, having changed its stance after restructuring within the GD Environment, and heavy lobbying by actors such as BP and CCAP that started to align European actors behind the idea of emissions trading. Seeking informal consultations with environmental NGOs to get a sense on their standing towards a EU-internal trading system was a first step by the Commission to defuse possible opposition and create a broad consensus on the issue. Furthermore, engaging all stakeholders in a consultation process, which at the same time worked as capacity building on the issue, broadened and reinforced the support for emissions trading.

It is interesting to see how corporations and emissions trading advocates managed to co-opt NGOs, making them an ally in promoting emissions trading. As there is a much stronger tendency towards free-market policy in the US, it is not surprising that several US-based NGOs came out in favor of emissions trading. However, it is interesting to note that the main NGO advocates for emissions trading, Environmental Defense, WRI and CCAP, all hold close ties to corporate partners with whom they cooperate on projects or from whom they receive a substantial amount of their funds. Without arguing that those NGOs or think tanks are astro-turf organizations or corporate puppets, it seems likely that through those co-operations they get a vast amount of input from those companies, consciously or unconsciously picking up on their discourse.

The European NGOs working on the Climate Change issue seem to be more independent with regards to funding. They were co-opted by emissions trading propagators, as they were asked to join the negotiating table, acting as consultants and verifiers. Participating in the debates prevented them from taking a radically opposing position on the issue and enhanced the legitimacy and credibility of the idea.

Even though emissions trading turned into the *modus operandi* (a hegemonic idea within the climate change negotiations), one could argue on two grounds that it is not a historical bloc in the Gramscian sense:

First of all one could argue that at the time the US government propagated emissions trading in the international negotiations, there was still considerable opposition from car- and oil-companies that were against any type of climate protection policy. In 2001 the republican Bush-Government, with close ties to climate skeptic oil companies (see Levy and Newell 2002: 97), even pulled out of the Kyoto-Protocol. However, one should remember, that the main voice of oil and car companies, circulating climate skeptic rhetoric, the GCC, already had started to disintegrate after the Kyoto negotiations. Even though the US-government, having been in power since 2000, has refused any international agreement, including binding reduction commitments or emissions trading, this way of thinking is not at all the dominant view in the US. Individual US states have come together to take measures on climate change and start regional trading programs. US-Cities have formed an alliance to adopt Kyoto on a communal level. And American corporations have started several initiatives to take climate protection measures. So if one can't talk about emissions trading as a historical bloc in general within the US, one could argue at least that it is the hegemonic concept among the actors wanting to take measures on climate protection – by now the majority in the US. I also argue that after the upcoming election, it will eventually become a historic bloc in the US. All three candidates still in the race, McCain for the Republicans and Obama or Clinton for the Democrats, are supporting compulsory climate protection measures – favoring an emissions trading approach.

The second argument that could be brought up against the initial statement that emissions trading can be seen as a hegemonic bloc is the scope of the issue. I outlined above what constitutes the historical framework of action that enables emissions trading. Following the argument of Levy et al., to frame issue politics as war of position, which usually results in field stabilization – the creation of a historical bloc – the emergence of emission trading within the climate change debate and its establishment as *modus operandi* can be seen as such. But one could also argue that there exists a broader environmental services bloc—emissions trading just being one part of many examples—in which the market is used to manage and organize humankind's handling of nature. Or one could go even further, arguing that emissions trading, like the environmental services debate in general, is a fragment of a Neo-Liberal historical bloc dominating the world. This argument would be more in line with the more macro perspective of Cox and especially Gill. Taking this line of thought, it is fair to assume

that emissions trading became popular in the US and later within Europe, because it fit perfectly in the neo-liberal discourse that was dominating the state and civil society.

Emissions Trading, an Element of Disciplinary Neo-Liberalism and part of the New Constitutionalism

Being based on neo-liberal thought, in which the market is extended to organize society, emissions trading can be seen as part of Disciplinary Neo-Liberalism. It is the market – in this case the newly created emission trading system or carbon market – that is disciplining actors with its market logic. This holds true not only for the actors directly participating in the market, such as energy companies, but also for governments. Even though states are still involved in organizing the reductions, giving them some influence by setting up the market and establishing and upholding the rules (see Engels 2006: 329), there is high pressure for states to leave the markets alone or only take limited action in favor of market stimulation: priority for any company participating is making profit, trying to minimize risk and thus needing a stable market; a government that constantly intervenes in the market would undermine this predictability. Granting a limited amount property rights not only restricts actors to a certain amount of pollution, but legally entitles them to this amount of pollution. Once the carbon market has fully developed, changing the rules or disbanding the market would have significant economic consequences, thus posing a structural barrier for the states to take such action.

Of course, the carbon market today is only in its infancy. The EU-ETS, its main pillar, is thus far only of limited duration (ending in 2012). However, even though legislation extending the EU-ETS beyond its second phase has not been passed yet, it is quite clear that the system is designed to stay. The EU already has announced that it will continue its internal trading system no matter what a Post-Kyoto agreement looked like (see EU Commission 2008). Based on this one can argue that emissions trading, particularly the establishment of the EU-ETS, is another facet of New-Constitutionalism. Both the Kyoto Protocol, with its flexible mechanisms, and the EU-ETS directive, have been negotiated excluding for the most part national parliaments. In a lot of states the head of government and not the national parliament rati-

fied the Kyoto Protocol. The same holds true for the EU-ETS negotiations: a few ministries of each member state were involved in its discussion and design process within the EU Council. National parliaments did not have a formal say in the process and hardly managed to comment on the progress made – due to its fast pace. The only elected body involved in the EU-ETS process was the EU-Parliament. This heavily limited the ability for democratic participation.

By going ahead with the EU-ETS the EU sets a precedent for the way with which emissions reductions will be dealt with in the future, e.g. in a Post-Kyoto agreement. The EU has been seen as a forerunner on climate change issues all along the 1990s and has become the leading actor on emissions trading as well. The design of the system and the experiences made will have a significant influence on the looks of a Post-Kyoto agreement. It is most likely that such an agreement will have market mechanism at its core. The global carbon market has so far developed solely by the agreement of Kyoto, but without its emissions trading system even being active. Centering on the EU-ETS a number of national and regional trading systems are now being linked up. This materialization of the emissions trading idea is unlikely to be overlooked in future climate negotiations.

Thus, one can argue that through negotiations and agreements struck between governments without significant parliamentary influence, a market system has been put into place as the *modus operandi* to deal with emissions reductions. Organizing emissions reductions in a market context favors corporations exercising a significant amount of market power while curbing public accountability: once the markets are set up it is the market logic and the powerful players that dominate it, making it difficult for governments or civil society actors to intervene. Even though they are only temporary property rights, emission permits are perceived to have the same character than patents, copyrights, and industrial trademarks thus giving their holders the same rights and legal possibilities (see Lohmann 2006: 77, 87). Guaranteeing this new chance for accumulation, through institutions on the international level (Kyoto Protocol/UNFCCC in the case of the international negotiations; EU-legislation in the case of Europe) that define and uphold these property rights, while having limited public accountability, is what Gill defined as New Constitutionalism (see Gill 2000 20-26).

5. Conclusion

This paper has set out to shed some light on the question why the EU changed its position on emissions trading, turning from a skeptic and critic into the forerunner on the issue. I have showed that there is more to the issue than a situation of simple dissatisfaction within the EU that simply resulted in case of policy learning. When taking Gramsci's extended state into account and not limiting one's analysis to the interstate negotiations shows that a variety of non-state actors had an influence on the EU, shaping the emergence of the EU-ETS. By looking at the material interests of the actors involved as well, it is even more illustrative to understand why certain players promoted the idea. Even if it stays debatable whether emissions trading should be defined as a historical bloc, it definitively has become the hegemonic way of thinking in climate policy.

To get a more differentiated view on the issue it would be helpful to include a broader discourse analysis, researching how the description of emissions trading in scientific and public media has developed over time. Furthermore, interviews with decision makers in governmental and nongovernmental institutions could give some additional insights.

In my opinion, policy makers and scientist should be well aware how they got onto the track of emissions trading, what consequences this choice has and who will profit or be disadvantaged by it. As it is very likely that the decision for emissions trading will reach a point of no return, one should scrutinize at its initiation to better understand this tool and its likely consequences. I am not arguing that emissions trading is necessarily a bad policy option or some neo-liberal conspiracy. However it is not a "neutral" policy tool that is simply better than others and therefore was adopted within the EU.

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