

Enhancing climate policy ambition using strategic transfers: allowance allocation and revenue spending in the EU ETS

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Abstract

Climate governance has a polycentric character with heterogeneous actors of different scale, constitutional shape and preference profiles. Sustaining and increasing climate policy ambition even in presence of potential veto players is therefore a key challenge. One classical and promising policy instrument for balancing heterogeneous interests and building support for raising climate ambition are transfers. While being a hard-fought point of contention in the bargaining processes in European and global climate negotiations, the strategic effects of sound transfer design might transform a diversity of heterogeneous actors into increasingly supportive constituencies for ambitious climate policy. This contribution examines the conceptual and empirical significance of transfers and their distributional effects in the EU ETS development in an *ex post* and *ex ante* perspective. The article offers an attempt of strategically sequencing *brown cushioning* and *green push* incentives within the EU ETS to deliberately address its political economy and to incentivize transformative change towards decarbonization endogenously. The significance of preventive and compensatory buy-in via allowance allocation and revenue spending design is demonstrated - especially for the introduction and each major reform of the scheme. Given the substantially increasing value distributed within the EU ETS, future policy options should aim to support the schemes dynamic efficiency, strengthen its transformative incentives and prevent increasing structural divide among EU member states.

Note

This working paper is available upon request. Please contact dorsch@mcc-berlin.net.