

Debate 2: What happened to economic instruments?

What works and what doesn't?

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Economic instruments: Industry concerns

- **Improve flexibility of instruments**
 - **Market-based instruments**
 - **Cost-effective solutions**
- **Problem of inconsistency/incoherence of policy instruments**
- **Environmental taxes: revenues for member states => little reinvested in the industry**

Regional differences in the use of economic instruments

- **EU**
 - Traditionally command-and-control focus but now a shift towards market-based instruments
 - Tightening and increase of environmental legislation
- **USA**
 - market-based instruments, particularly emissions trading schemes
- **Asia**
 - Less strict pollution control (China)

Economic instruments influencing the Electricity Industry

- **Energy taxes**
- **Emissions Trading Scheme**
- **CO2 taxes**
- **Command and control (LCP Directive)**

Comparison of instruments

Criterion (instrument's ability to deliver ...)	Importance (weight)	INSTRUMENTS			
		Instrument 1	Instrument 2	Instrument 3	Instrument N
Criterion 1	weight 1	Performance of instrument 1 against criterion 1			
Criterion 2					
Criterion 3					
...					
Criterion N	weight N				Performance of instrument N against criterion N
SUM (weight x performance)		Sum performance of instrument 1			Sum performance of instrument N

Rating 1-3: 1: poor performance/low importance, 3: good/high

SOx and NOx control

Criterion (<i>instrument's ability to deliver ...</i>)	Importance (weight)	Performance of instruments				
		Emission norms	Consumption taxation	Emission taxation /fee	Emissions trading	Voluntary agreements
Set goals	1	2		1	3	3
Cost-efficiency of measures	3	2		3	3	2
Flexibility	3	2		3	3	3
Market based price formation	2	2		1	3	2
Transparency	3	3		3	2	1
Level playing field	3	3		3	2	2
Predictability	2	2		2	2	1
Minimise money flow from business to public	2	3		1	3	3
SUM (weight x performance)		46		45	52	39

Greenhouse gas control

Criterion (<i>instrument's ability to deliver ...</i>)	Importance (weight)	Performance of instruments				
		'Emission norms'	Consumption taxation	Production taxation	Emissions trading	Voluntary agreements
Set goals	1	2	1	2	3	3
Cost-efficiency of measures	3	1	2	3	3	2
Flexibility	3	1	2	1	3	3
Market based price formation	2	1	2	1	3	2
Transparency	3	3	3	3	3	1
Level playing field	3	1	3	3	2	2
Predictability	2	2	2	2	2	1
Minimise money flow from business to public	2	3	1	1	3	3
SUM (weight x performance)		32	41	40	52	39

What is needed – a business viewpoint?

- **Coherence of policies**
- **Economic robust analysis before proposing new policies**
- **Balance of command-and control and market-based instruments**
- **More focus on voluntary agreements**



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