



OPTIMAL EU CLIMATE POLICY

Choosing Efficient Combinations of Policy Instruments for Low-carbon development and Innovation to Achieve Europe's 2050 climate targets

Political feasibility of climate policy instruments in the EU



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Table of Contents

1	Executive summary	3
2	Introduction	6
3	Instruments for environmental policy	7
4	The politics of instrument choice: what is political feasibility?	9
4.1	Actors involved in policy-making	10
4.2	Key factors affecting political feasibility: analytical framework	11
5	Results	13
5.1	Interviews	13
5.2	Survey	16
5.3	Policy simulation	20
5.4	Focus groups	23
6	Key findings and conclusion	25
6.1	Stakeholder preferences for climate policy instruments	25
6.2	Power dynamics among interest groups	26
6.3	Institutional arrangements	27
6.4	Contextual factors influencing political feasibility	27
6.5	Concluding reflections	28
7	References	30

1 Executive summary

This report presents the results of the CECILIA2050 research concerning the political feasibility of climate policy instruments in the EU. Political feasibility was defined as the likelihood that a policy proposal will be adopted by relevant political *fora*, given the *power* constellation between various relevant interest groups, their *preferences* for policy instruments, and the *institutional setting* in which proposals for instruments (and their concrete design) are discussed. Consequently, the leading research question of this study was: How do interest groups' preferences, power constellations, and institutions affect climate policy instruments design and which lessons could potentially be drawn for future instrument design choices? The analysis is based on a multi-method approach that includes semi-structured in-depth interviews, focus groups, an on-line survey and a policy simulation with relevant stakeholders in the EU climate policy domain. Data were qualitatively analysed using a mixed bottom-up and top-down coding approach for the three domains investigated. In the following the key results are summarized.

Stakeholder preferences for climate policy instruments. Overall, stakeholders across interest groups and countries expressed preference for a tailored mix of climate policy instruments with a reformed EU ETS as its corner stone. Taxation and regulation were clearly preferred over voluntary and informational instruments. Strategic interest and perceptions about design characteristics, performance and impacts of policy were found to play a major role in stakeholder preferences. Interestingly, results suggest that it is easier to agree on policies whose distributional effects are hidden because they are likely to be less contested rather than on policies whose impacts to specific societal groups are more evident are exposed to strong opposition.

Power dynamics among interest groups. Overall, the European Commission was perceived to have major influence on the discussion about climate policy while EU politicians were not considered to play a key role in this debate. In contrast, national politicians, and particularly Eastern European ones, are deemed powerful actors as they can block climate policies in the EU Council. National bureaucrats are also among those who exert major influence as they frame the national discussion on climate policy. Industry, and particularly the energy intensive industry (EII), has, in general, the reputation of a quite powerful actor with lobbying capacity at national and (to a lesser degree) EU level. Environmental NGOs, the research community and the business intermediary community were in general not deemed powerful actors in the climate policy debate. In general, networking capacity at national and EU level, and economic importance of the actors was considered to increase one's capacity to influence decisions.

Institutional arrangements. Respondents did not see institutions as impediment to the feasibility of individual policy proposal– such as the EU ETS reform. However, concerns were raised about the limits posed by institutions to attain a coherent climate policy instrument mix. Two main institutional barriers were identified: 1) lack of competences of the EU in specific climate-related sectors such as the energy sector; 2) unanimity voting rule which gives MSs power to block decisions in the Council. However, some noted that a policy proposal that is rather ambitious might not pass qualified majority vote while a compromise proposal might have chances to pass unanimity vote.

Contextual factors influencing political feasibility. One important contextual factor is the degree of action taken in the international climate policy arena. On this point, the general observation across interest groups was that there is no reason for the EU to adopt an ambitious climate policy outside the framework of a major international climate agreement given the relatively low share of the total emission generated in the EU compared to other countries and the high risk of losing economic competitiveness with an ambitious climate policy. Also, the political climate tremendously influences the political feasibility of a policy proposal and in particular the global economic crisis and the Ukrainian crisis.

In light of the findings, this report formulated a number of considerations:

- *About policy goals.* Results suggest that it is easier to agree on ambitious policy goals as long as the distributional impacts are not clearly evident. However, the implementation of generic policy goals is often problematic. Therefore, achieving agreement on ambitious, generic goals has more symbolic than substantive value. Yet, symbolism is important to set the limit and build intention of action for the long-term. This is particularly relevant in the context of climate policy for which clear, long-term targets are needed to ensure policy effectiveness.
- *About policy instruments.* Although most of the climate policy debate revolves around which instrument would perform best, actors indicated that the political climate is more important for feasibility than the actual instrument. The results were inconclusive with respect to the favoured instrument of relevant stakeholders. While some ambitious actors might prefer taxes or regulations over the EU ETS, they acknowledge the fact that those instruments would also have to go through the political struggle of instrument design and adoption. Accordingly, many actors focus on improving the effectiveness of the EU ETS itself.
- *About perceptions shaping policy preferences.* Results suggest that individual perceptions, such as those regarding distributional impacts of policy options, play a major role in shaping stakeholder preferences. This is relevant when discussing the impact assessment of policy options. If, based on an impact assessment study, interest groups perceive the impacts of a policy proposal as unfair they are likely to oppose it. Hence, particular attention needs to be paid to policy impact assessment

studies in order to ensure their credibility and legitimacy so as to avoid misconception among affected parties.

- *About influential actors.* Results indicate that the Commission has a major influence in shaping the EU climate policy. Consequently, stakeholders who aim to insert their policy ideas into the political debate should engage in discussion with the Commission at early stages of the policy development process. At the same time, being influential puts the Commission in the position to exploit the momentum and use its power to ensure environmental effectiveness of the EU climate policy.
- *About institutions.* Results indicate that the unanimity voting rule within the EU Council is a barrier to a coherent EU climate policy. On this point, working in informal *fora* on a compromise policy proposal to take to the Council might be a better strategic move than focusing on a highly ambitious proposal. This holds particularly true when designing a new policy for which uncertainty about impacts is high and interest groups are more inclined to adopt a cautious approach.
- *About member state differences.* Our results indicate that national contexts shape the position of actors in different MS. While in Poland the distributional effects of policies among MSs dominated the discussion, the role of EIs was prominent in the climate policy debate in Germany. One opportunity for policy proponents to gain political leverage might lie in identifying the distinct progressive forces in different countries and work on building a coalition for progressive action.
- *About differences among stakeholder groups.* Results show that preferences of actors strongly vary across stakeholder groups. However, at the same time groups are also heterogeneous, either in their ambition or in their beliefs. For example, environmentalists and academics vary greatly in their beliefs and perceptions of different policy instruments such as the EU ETS. Furthermore, industrialists differ with respect to their ambition depending on which sector they belong to. While some EIs take on a generally opposing role, the power sector is a strong proponent of strong carbon pricing. Policy proponents need to be aware of this internal heterogeneity if they are to build support for policy proposals.
- *About multi-level governance.* Political dynamics at different levels of policy making – national, EU-wide and international – influence each other. For example, the analysis clearly revealed that the international climate policy debate plays a major role on the EU and national climate policy development. Similarly, what countries decide to do to tackle climate change highly influences decisions at the EU level and in turn the position of the EU in the international negotiations. The interplay of these multi-scale dynamics influences the chance of policy proposals to be taken into consideration in different policy arenas. Consequently, policy proponents need to be aware of these dynamics in order to identify the appropriate scale and momentum to lobby for new policy ideas to be taken into consideration.

2 Introduction


In the climate policy domain the European Union (EU) has adopted a mix of regulatory, voluntary and market instruments to achieve its carbon emission reduction targets. However, market and governance failures have led to major inefficiencies of these instruments – most notably the collapse of carbon price and the consequent malfunctioning of the EU ETS scheme.

In this context, one goal of the EU funded CECILIA2050 project is to investigate how the European climate policy instrument mix should evolve to guide the transformation to a low-carbon economy. Specifically, the project investigates ways to improve the economic efficiency and environmental effectiveness of the EU climate policy instrument mix, and to address constraints that limit its performance and feasibility. Constraints include public acceptance, political feasibility, availability of finance and the physical infrastructure, but also the administrative and legal framework.

This report presents the results of the part of the project concerning the political feasibility of climate policy instruments in the EU. The likelihood that a theoretically efficient and cost-effective instrument be really adopted by policy-makers critically depends on a number of political factors (see e.g. Majone, 1975, Hahn, 1989, Dror, 1969, Keohane et al., 1998). Among these factors, on the basis of extensive literature review, we hypothesized that interest groups' preferences, power dynamics and institutional settings play a critical role. Consequently, the goal of this study was to investigate the interplay of these three dimensions to shed light on potential opportunities and constraints for the adoption of climate policy instruments in the EU. Taking this into account, the leading research question of this study was: How do interest groups' preferences, power constellations, and institutions affect climate policy instrument design and which lessons could potentially be drawn for future instrument design choices?

The EU climate policy was the policy space of our investigation. Within this space the policy issue area we investigated was typologies of policy instruments – market, regulatory, voluntary, and informational – for achieving the EU long term decarbonisation targets with a focus on the EU flagship climate policy instrument, i.e. the EU emission trading system (EU ETS). Interest groups were selected as unit of analysis.

To address the research questions a mix of different qualitative research methodologies was used, including semi-structured in-depth interviews, focus groups, an on-line survey and a policy simulation with relevant stakeholders in the EU climate policy domain. Three focus groups were held in Brussels in May 2014 with representatives of environmental NGOs, industry and academics respectively. Over the same period of time, 21 interviews were



conducted with key stakeholders from the European Commission, national ministries and agencies, environmental NGOs, academia and businesses from Germany, the UK and Poland. Furthermore, an on-line survey was conducted in 8 EU countries (Czech Republic, Denmark, France, Germany, Italy, Poland, Spain, and UK) between May and September 2014. The 338 recipients included stakeholders from environmental NGOs, policy-making communities, industry, academia and think-tanks. The response rate to the survey was 20%. The majority of respondents includes members of the research community, NGOs and industry representatives (76% all together) while the remaining respondents were essentially national and European policy makers. Finally, the policy simulation, a one and a half day workshop held in October 2014, involved 22 experts on EU emission trading from six EU countries (Poland, Czech Republic, Italy, Germany, UK, Denmark, and France) across different interest groups (European Commission, environmental NGOs, academia, think-tanks, governmental ministries and agencies). The focus groups and the on-line survey questions targeted stakeholders' preferences for broad typologies of climate policy instruments, while the interviews and the policy simulation focused on the EU ETS.

The following chapters present the results of the study. Specifically, chapter 2 and 3 provide the context and the analytical framework of the study. Then chapter 4 illustrates the results of the analysis per each of the methodological approaches used. Drawing from the findings, chapter 5 distils a number of salient observations about the political feasibility of climate policy instruments in the EU. Finally, chapter 6 wraps up the study and draws the conclusions.

3 Instruments for environmental policy

In the most general sense, policy instruments are the tools at the disposal of governments to attain policy goals (Jordan et al. 2013). The literature abounds with categorizations of policy instruments based on criteria such as governing resource and level of coercion. For a comprehensive review, beyond the scope of this study, we refer the reader to the comprehensive work of, for example, Howlett (2011) and Jordan et al. (2013).

Looking into the environmental policy domain, one of the most commonly used taxonomy distinguishes incentive-based, direct regulatory, voluntary, and informational instruments. Table 1.1 illustrates different typologies of instruments within these categories. We found useful to refer to this taxonomy as stakeholders tend to be familiar with it. For example, experts and stakeholders in the climate policy domain, immediately associate energy taxes, carbon emission trading or renewable energy subsidies to the idea of incentive-based (or market-based) instruments. Similarly, energy efficiency standards and emission standards for cars come immediately to mind as typical regulatory instruments, and CO₂ labelling for cars and energy labelling are known as informational instruments.

Table 1.1 Taxonomy of instruments commonly used in environmental policy

Typologies of instruments used in environmental policy	
Incentive-based instruments	
Emission taxes	Imposes a common emission price. Firms pay per every unit of emission generated. It generates revenues that can be used for environmental protection activities
Tradable allowance systems or “cap-and-trade”	Imposes a common emission price (through market mechanisms). Firms pay per every unit of emission generated. Auction or free allocation of initial allowances. In case of auctioned allowances this instrument generates revenues.
Subsidies for pollution abatement	Firms are rewarded for every unit of emissions that they reduce below a baseline level.
Taxes on inputs or goods associated with emissions	Used when it is difficult to monitor emissions. Little cost-effectiveness because they do not engage all pollution reduction channels. It generates revenues
Incentives for R&D and technology deployment	Incentives for clean technology R&D such as subsidies to private R&D, strengthened patent rules, technology prizes, basic governmental research, and demonstration projects. Also, incentives to push the adoption of newly developed technology such as short-term assistance (subsidies, tax exemptions, etc.) for early adopters.
Direct regulatory instruments (command and control)	
Technology mandates	Impose requirements on the production process (e.g end-of-pipe treatment, mandates on specific input mix)
Performance standards	Require that a firm’s output meets certain conditions (e.g. energy efficiency standards, fuel efficiency for cars, renewable portfolio standards). Standards give firms flexibility to choose how to meet the standard. Regulators generally lack information to tailor standards to individual firms
Permits	Permits are documents required for sources of pollution (e.g. power plants, chemical factories and, smaller polluters). The permits include information on which pollutants are released, how much the source is allowed to release, and the program that will be used to meet pollutant release requirements.
Voluntary regulation	
Government-industry negotiated agreements Certification Standards auditing and accountings, etc.	
Informational instruments	
Information campaigns Labelling and produce information Exhortation and moral suasion, etc.	

Source: adapted from Goulder and Parry (2008) and integrated with elements of Howlett (2011)

4 The politics of instrument choice: what is political feasibility?

The choice of policy instruments is determined by many different factors. Economic factors, most notably expected high efficiency and cost-effectiveness, may speak in favour of adopting economic instruments. However, the likelihood that such instruments be really adopted depends on a number of political factors. For example, some well-organized interest groups (e.g. industry and environmentalists) who perceive the instrument as a sell-out or unfair, and have capacity to mobilize strong opposition – for example through the media or by forming coalitions – can put pressure on policy-makers for not adopting or changing the instrument design. Policy-makers themselves may perceive that there is no momentum for such a proposal to enter the policy discussion or they may fear strong opposition. They can also think that the proposal is unfeasible because the institutional and administrative effort required to implement it is too high.

Interestingly, in the political science literature it is hard to find a conceptual definition of political feasibility and a convenient methodology to estimate it. Webber (1986, p. 549) comes close to a definition when he states that “the term suggests that a policy proposal is acceptable to, or at least not opposed by, a sufficient number of the relevant policy-makers so that the proposal is likely to be adopted”. Majone (1975) does not define feasibility but rather points to the political, distributional and institutional constraints relevant to the problem and the context examined (without actually providing an empirical approach). Other scholars have identified factors affecting political feasibility in general (Meltsner, 1972; Dror, 1969) or per stage of the policy cycle (Webber, 1986). These include actors’ motivations, beliefs, resources, sites and exchanges. Although these scholars do not provide a methodological approach, they do draw the boundaries of the investigation.

Looking into economic approaches, the standard economic framework to compare different policy proposals focuses on their economic efficiency and is normative by nature. Instead, political economy evaluations are positive, i.e. they describe reality in a neutral way and sometimes make testable predictions about which policy proposals will be adopted taking into account the political realities. Such predictions flow from an analysis of the institutional setting in which the instrument is being discussed, and the preferences of all those playing the game. In this context, the work of Hahn (1989) stands out as unique attempt to develop a general model to assess which instrument will be chosen by relevant actors in a certain institutional setting. In retrospect, despite its limitations, e.g. it overlooks the multi-governance dimension of policy design, the model proved able to predict and explain general patterns of policy instrument use. In synthesis, Hahn suggests that to understand the politics of instrument choice it is important to consider how specific (powerful) interest groups are likely to react to different kind of policy proposals in a specific institutional context. Also, he suggests that relevant interest groups, their power and their attitudes can be expected to vary across countries.

In this study we adopted an approach that is not dissimilar to the way Hahn studied the political feasibility of policy instrument. This mean we took a political economy angle, in

which predictions about the feasibility of certain instrument choices flow from an analysis of the institutional setting in which the instrument is being discussed, the preferences and the power relations of those playing the game. Consequently, we defined political feasibility as the likelihood that a policy proposal will be adopted by relevant political *fora*, given the *power* constellation between various relevant interest groups, their *preferences* for policy instruments, and the *institutional setting* in which proposals for instruments (and their concrete design) are discussed.

In the following we provide a detailed overview of these dimensions that constitute our analytical framework.

4.1 Actors involved in policy-making

In general, actors involved in policy-making are divided into public and private (Pappi and Henning, 1998), or, according to the control they have over policy related decisions, between a policy's demand and supply side (Keohane et al., 1998). In line with Hahn (1989) we here include environmentalists and industrialists as relevant interest groups on the demand side. On the supply side of policy, actors are subdivided into legislators and bureaucrats (Bressers and Huitema, 1999), as well as according to whether they are subject to (re-)election or not (Dür, 2008) and whether they are agenda-setters or veto-players (Skodvin et al., 2010). In addition to these groups, well established in the literature, the number of other influential actors has increased in recent years (Pappi and Henning, 1998). Especially in the design of market-based instruments, academics and "bureaucratic entrepreneurs" play an important role (Hahn, 1989). The evolution of emissions trading has also led to the formation of another stakeholder group, the constituencies (Voß, 2007). An example is the carbon market business intermediaries.

Drawing from the above, this study focused on the following six stakeholder groups:

- **Bureaucrats:** policy-makers not subject to (re-)election and/or who have more power over agenda-setting than over policy adoption
- **Politicians:** subject to re-election and/or having veto power
- **Environmentalists**
- **Industry**
- **Research community:** academics and other research/think-tank experts
- **Emissions trading constituencies**

4.2 Key factors affecting political feasibility: analytical framework

The utility function of an actor materializes in his **preference** for a certain policy proposal. The preference is shaped by different factors, which can be broken down into criteria (highlighted here in bold letters) and sub-criteria (presented in italics). An important factor influencing preferences is the **motivation** of an actor (Meltsner, 1972). Motivation is made up of three sub-criteria. The first, *self-interest*, is exhibited, for example, when representatives of industry aim to minimize costs, or when environmental organizations strive for their well-being, or legislators follow their constituents' preferences (Keohane *et al.*, 1998). *Strategic interests* serve self-interests but then rather indirectly, for example, when industrialists support strict regulatory policies in order to manage collective risks or when environmentalists favor symbolic policies because they increase the likelihood of stricter action in the future (Hahn, 1989). However, especially environmentalists and legislator, may also be motivated to strive for a high environmental status due to *ideological interests* (Hahn, 1989; Keohane *et al.*, 1998).

Table 1.2 Analytical framework: key factors determining the political feasibility of a policy proposal

Category	Criteria	Sub-criteria
Preferences	Motivations	Self-interest, strategic interest, ideological interest
	Beliefs	Ideology, experience, modes of governance
	Perceptions	About distributional effects, policy saliency, policy flexibility
Power	Resources	Financial, knowledge, legitimacy
	Relations	Resource exchange, coalitions, networks
	Influence	Attributed influence to actors
Institutional setting	Institutional requirements	Required rule changes, required authority changes
	Existing set of rules	Decision-making fora, voting rules, formal and informal procedures

Which policy an actor prefers to support in order to serve his motivation is influenced by his **beliefs** about policy instruments (Meltsner, 1972). These are shaped by *experiences* (Howlett, 2011) and historical attitudes (Dror, 1969), but also by *ideology* concerning both intended goals and the type of instrument employed (Keohane *et al.*, 1998) and the prevailing state-society interactions and governance aims, i.e. the *mode of governance* (Howlett, 2011). With regard to the latter, for example, the overall aim of a legal governance system is to achieve social order through laws and regulations. In contrast, the management of major organized social actors through subsidies, information campaigns, state owned enterprises, and independent regulatory commissions is distinctive of corporatist governance systems. Market governance systems have a focus on resource/cost efficiency and control through the promotion of privatization and competition. Preferred policy instruments in these contexts

are public-private partnerships, voluntary regulation, auctioned allowances, and tax incentives and penalties (see e.g. Howlett, 2011; Kjaer, 2004; Pierre and Peters 2000).

In addition to motivations and beliefs, **perceptions** about the effect of a policy influence the preference of an actor (Bressers and Huitema, 1999; Keohane *et al.*, 1998). Possibly the most important perception is that of *distributional effects*, i.e. the perception of who is going to win and lose on account of the policy (Majone, 1975, Hahn, 1989, Keohane *et al.*, 1998). The perception of the *urgency or saliency* of the policy also plays an important role (Keohane *et al.*, 1998). Another factor, particularly important for policy-makers, is the *flexibility* of an instrument, i.e. how well it can be adapted to changing circumstances and uncertainties in the future (Bressers and Huitema, 1999).

To which extent an actor can influence the decision-making process in his favour depends on his **power**. Power is central to the bargaining process of political decision-making (van Dyke, 1968). It is one of the most contested concepts in political science and a thorough review of its conceptualization is beyond the scope of this study. We here adopted the definition of Arts and van Tatenhove (2004) who describe power as “the ability of different actors to mobilize resources in order to achieve a certain outcome in social relations”. When giving this definition, the authors also acknowledge that different definitions of power describe it either as a dispositional or as a relational phenomenon. In the former case the focus lies on the capacity of actors to make use of resources to support their own position. In the latter case, power is defined over the actual act of influence of one actor on another one. There are two underlying differences in these definitions. First, the emphasis is either on resources or on the relation between actors. Second, the focus is either on the capacity to act or the actual outcome. This is connected to the difference between power and influence: an actor can possess power without exercising it, while his influence is a causal concept and necessitates the exercise of power (Dür, 2008).

Following from the above, the concept of power can be captured by three main criteria, namely resources, relations and influence. **Resources** can be of different type depending on the stakeholder group (Dür, 2008). For example, industrialists and legislators have substantial *financial* resources at their disposal. Also, many target groups possess expertise and *knowledge*. Environmentalists, in contrast, often fall back on *legitimacy*. An important resource is also the degree of organization that a certain interest group exhibits (Dür, 2008; Svendsen, 2002). Similar to resources, **relations** can be of different kind (Pappi and Henning, 1998). They can be characterized by a *resource exchange* common in the relation between private and public actors where public actors trade the control over the legislative agenda and decision-making in exchange for expert knowledge and public support from private actors (Skodvin *et al.*, 2010; Pappi and Henning, 1998). Whether or not the possibility of resource exchange also crystallizes into **influence** of an actor on another depends on the interdependence of the two, i.e., for example, on how much the public actor needs the resource of the private actor (Skodvin *et al.*, 2010). Influence can be assessed by letting all stakeholders estimate their own influence and that of others involved (Dür, 2008).

Whether or not actors can use their power to push their positions is constrained by the institutional setting. Institutions can be defined as the **existing rules of the game** (Majone, 1975) which include the *forum* in which a proposal is discussed (Bressers and Huitema, 1999) and the *voting rules* with which it is adopted (Jordan *et al.*, 2013). The forum determines the actors that decide over the proposal and thereby the aspects that gain importance. For example, the Ministry of Finance has different priorities over policy targets than the Ministry of the Environment (Bressers and Huitema, 1999). If a policy is classified as a fiscal policy and handled by the Ministry of Finance, it might be designed and evaluated with respect to different goals than if it was classified as an environmental one and developed by the Ministry of the Environment. The stricter the voting rule, on the other hand, the easier it is for interest groups to block proposals, because it is sufficient to convince one decision-maker (Skodvin *et al.*, 2010). The voting rules and *fora* for an upcoming decision need to be considered as given for an actor (Majone, 1975). However, interest groups can decide where to lobby (Dür, 2008) and take the institutional constraints into account in their strategy.

A policy might also demand an institutional change, i.e. a change of the authority or the rules with which a problem is handled. Different policy proposals thus differ in the **institutional requirements** they demand and the constraints they face. Actors might anticipate these constraints and include them in their preference for a certain proposal.

Given the above, in this study we hypothesize that the interplay of interest groups preferences, power dynamics and institutions (independent variables) influence political feasibility (dependent variable). Consequently, understanding the interplay of these three dimensions in their related criteria and sub-criteria can help identify potential bottlenecks and constraints for the adoption of instruments. In the following, the results of the study are illustrated in light of this analytical framework.

5 Results

In the following sections the results of the investigation are synthesized. For more details, we refer the reader to the annexes of the report.

5.1 Interviews

The interviews were structured by a questionnaire that was developed in line with the criteria of the analytical framework. For each of the criteria there was a question that assessed the respondent's view on it either directly or indirectly. Interviews were conducted mainly face to face in Brussels and Berlin and via phone with Polish and English representatives. Most interviewees agreed that the EU ETS should remain a cornerstone of EU climate policies. They stressed that the instrument is cost-efficient and that carbon pricing is an appropriate way of internalizing the cost of GHG emissions. In contrast, a minority of interviewees phrased fundamental criticism, suggesting that the EU ETS works effectively only in theoretical terms. Taxes and regulations did not appear as favoured by the majority, with taxes being seen as

politically unfeasible and regulations as complicated to adopt and implement. There was a consensus among interviewees that the EU ETS is not working properly at the moment and needs a reform. The main obstacle to a reform of the EU ETS was found to be political will of the national governments and some climate sceptics in the European Parliament. Preferences (perceptions, motivations and beliefs) were found to play a role for the actors to form their position, along with power dynamics among interest groups. In contrast, institutional requirements for passing an EU ETS reform proposal did not significantly influence actors' position.

In general, many interviewees seemed driven by strategic interests as, for example, they supported the strengthening of the EU ETS essentially because the instrument is already in place. Also, many expressed concerns about distributional impacts of the EU ETS costs across member states (MSs) and highlighted that distributional impacts within MSs (across societal groups or sectors) have so far been low because of the low European Union Allowance (EUA) price. Another important issue emerged was distributional impacts at international level. On this point respondents expressed concern about the fact that the EU ETS might, now or in the future, discriminate European firms by unilaterally putting a cost burden on them.

With respect to **power dynamics**, the Eastern European MSs were perceived as blocking climate policies in the EU. The “old” MSs were blamed co-responsible of this stalemate because they did not sufficiently take into consideration the concerns of the Eastern European countries about climate policy in the beginning of the policy design process. Also, several interviewees highlighted that big MSs, especially Germany, have a higher responsibility in the climate policy negotiations and are not always as progressive as they claim to be. Many respondents perceived energy-intensive industries (EII) as having the strongest voice in the climate policy debate and considered them a great obstacle to an ambitious EU ETS, as these industries generally oppose ambitious climate policies. The influence of EIIs was perceived to be greater at national level, because a particular national company represents a bigger clout at national than European level and because politicians are elected locally. Also, interviewees stressed the importance of MSs' specific circumstances: some countries as Germany and Poland are shaped more strongly by EIIs than others as for example the UK. This further weakens the influence of EIIs on European level. According to the interviewees, the level of influence that stakeholders have is determined by the share of employment they represent, their political network and the access they have to governments (MS, and European Commission and Parliament), by the clarity of their message, their ability to build coalitions and to make their message heard by the media. Knowledge also plays an important role. Often, it seems to be used strategically.

Institutional barriers (e.g. change of rules required to pass policy proposal, voting rules, etc.) were not perceived as crucial when determining the feasibility of an EU ETS reform proposal. Several participants while recognizing that policy proposals can be easily adopted by qualified majority vote, also noted that an ambitious proposal might not pass qualified majority vote but a compromise may pass unanimity. Furthermore, it appeared that stakeholder groups

decide which institution to lobby depending on the circumstances of the policy process, i.e. which institution is responsible at a specific moment in time.

Another strong determinant of the feasibility of an EU ETS reform proposal regards the framing of the associated debate, particularly how it is influenced and politicized. The degree of action in the international arena stuck out as the most important contextual factor. Also, according to the interviewees, the political climate tremendously influences the political feasibility of a policy proposal. On this point they mentioned two major influencing factors: the economic crisis, and the Ukrainian crisis that fuelled new discussions about energy security. Because the economic crisis and the austerity policies have made it difficult for European countries to spend money, the political climate is perceived as inopportune for climate policies in general.

Turning to **interest group preferences**, environmentalists did not express much enthusiasm about the EU ETS itself. To a higher degree than other stakeholders the instrument was perceived as not working. However, environmentalists also highlighted that the advantage of the EU ETS is to put a limit on emissions. Representatives from politics and bureaucracy evaluated the EU ETS almost exclusively positively. Given its quite unique position, the power sector took a very progressive stand with regard to the EU ETS reform. Because investments are necessary in the sector, the sector is particularly struck by the contradiction between long-term incentives versus short-term prices. Therefore, the positions were strongly influenced by strategic interests such as predictability, credibility and transparency. The claim for higher prices was also very prominent, because this would realign short- and long-term incentives. The steel sector position was quite different from that of other sectors. In general the representatives of the sector expressed a fundamental opposition to the overall climate targets that they regarded as unfeasible. Also, the steel sector would prefer policies such as R&D for innovation technologies. However, this position is in contradiction with the belief that green production technologies do not have much potential in the steel sector.

Finally, looking at **responses across countries**, none of the European representatives mentioned the influence of EIs as being too high. On the other hand, the influence of the media on the EU ETS was almost exclusively mentioned here. In contrast, German respondents paid particularly strong attention to the treatment of EIs that were seen as an obstacle. Accordingly, the influence of the EIs was a factor that dominated the perception of German representatives about the EU ETS. Interviewees explained the high influence of EIs in Germany with the relevance that they have for employment. Also, German representatives stressed more than representatives from other countries that the EU ETS is not working properly and that it necessitates an urgent reform. The instrument was perceived as non-transparent and complex. One factor that played a big role in the arguments of the German representatives was the national target of 40% emissions reductions by 2020. As for Polish interviewees, interestingly, they were mainly driven by national self-interest rather than strategic or ideological motivations. On the one hand, they pointed to lack of political will of MSs as obstacle to a reform of the EU ETS. On the other hand, they focused on the

distributional impacts across MSs and particularly mentioned the need to transfer financial resources from richer to poorer countries if MSs had different treatment in the policy.

5.2 Survey

The on-line survey asked respondents to score performance criteria of 5 policy instruments on a scale from 0 (=very bad) to 5 (=very good). The instrument categories were: environmental taxation, emission trading, subsidies, direct regulatory instruments, voluntary agreements and informational instruments. The survey also asked respondents to score the importance of each of the indicated criteria as well as to score the capacity of these instruments to contribute to achieve the long term EU emission reduction targets. Questions about perceived influence of actors and barriers to the achievement of long-term emission reduction targets were also asked. In the following we present both the aggregated results and the results per stakeholder group. An overview of the results in figures is reported in Appendix D.

Starting with **preferences** for instruments, according to respondents the most important criteria that an instrument has to satisfy were cost-effectiveness and capacity to stimulate investment in low carbon technology (average score above 4), followed by capacity to stimulate behavioural change, distributive justice and capacity to address uncertainty (average score around 3.5).

Looking at the instrument categories, taxation was the instrument performing best in all criteria (scores were between 3 and 4 in all criteria with the exception of distributive justice), and particularly in those criteria that respondents considered most important, namely cost-effectiveness and capacity to stimulate low carbon investment. Similar considerations holds for regulation that was believed to be able to stimulate low carbon investment (score of 3.7) but not to be as good as taxation in addressing uncertainties and maintaining public cost at low levels. Interestingly, respondents seemed not to trust the performance of emission trading that much. All criteria scored below 3 with the exception of cost-effectiveness and capacity to stimulate low carbon investment, which anyway scored lower than in the case of taxation and regulation. In particular, according to respondents the instrument cannot address uncertainties (score of this criterion is only 2). As for subsidies, they were believed to be able to stimulate low carbon investment (score of 3.5) but at the expense of distributive justice (score of 2).

Another observation regards the capacity of the instruments to contribute to achieve long-term EU emission targets. Respondents indicated regulatory instruments followed by taxation as the instruments that can contribute the most to achieve long-term targets. Also, despite the lack of confidence in the performance of the EU ETS, respondents believed that the instrument has also a role to play in the achievement of long-term targets (ranking third after regulation and taxation). In contrast, voluntary regulation did not receive much credit in terms of its capacity to contribute to emission reductions (score of 1.7). In fact, the instrument scored low in all criteria (below 2) with the exception of public costs that were perceived to be quite low. Similarly, informational instruments were not believed to have much influence

in achieving long-term emission targets (score of 2.2), although they were more popular than voluntary agreements.

In synthesis, respondents tended to prefer regulation over market instruments for its perceived capacity to stimulate low carbon investment in a cost-effective manner. Among market instruments taxation is by far the most preferred, while the confidence in the EU ETS appears comparatively low.

Turning to interest group preferences, the analysis suggests that EU public officers and environmental NGOs valued the capacity of an instrument to stimulate low carbon investment as the most important criterion that an instrument has to fulfil (score of 5). Public officers in MS regarded this criterion as important as cost-effectiveness. Not surprisingly, the latter was also by far the most important characteristic that a climate policy instrument has to possess according to respondents from the industry sector (score 5). The research community valued cost-effectiveness, stimuli to low carbon investment and behavioural change almost equally important (score around 4.5). To EU public officers cost-effectiveness, distributive justice and behavioural change were also very important performance criteria (score around 4). In contrast, MS policy makers regarded the capacity to address uncertainty as an important criterion (score around 3.5) along with behavioural change. Industry regarded capacity to stimulate low carbon investment, and distributive justice almost equally important criteria, followed by capacity to address uncertainties. Environmental NGOs were more concerned with cost-effectiveness and distributive justice and capacity to address uncertainties (score around 3.5) than behavioural change (score around 2).

Representative of the industry sector scored voluntary agreement relatively high in all criteria (above 3) in comparison to all other instruments whose score remained below 3 - with the exception of the EU ETS criteria of cost-effectiveness and capacity to stimulate low carbon investment. However, when asked to what extent different instruments can contribute to the achievement of long-term emission targets, the industry sector indicates the EU ETS as the one with higher capacity to achieve the targets (score above 4), while all other instruments have a similar score around 2.5. The latter suggests that industry representatives did not seem to attribute a diverse role to other instruments such as regulation and taxation in contributing to the achievement of targets. Also, it is interesting to note that industry representatives evaluated subsidies slightly less positively than regulatory instruments.

Not surprisingly, EU public officers expressed a preference for the EU ETS and direct regulation as instruments to achieve long-term targets (score of 4). Subsidies and environmental taxation were slightly less appealing to them (score of about 3.5), while informational instruments were significantly less appealing (score of 2.3). Voluntary regulation received very little credit (score less than 1) as instrument that can help achieve long-term emission targets. Also, taxation, subsidies and regulation were believed to be able to stimulate low carbon investment, while the EU ETS was believed to be able to distribute costs and benefits equitably in the society.

Environmental NGOs tended to prefer taxation and direct regulatory instruments as means to achieve long-term emission targets. Subsidies were also appealing to them (score 3.3), far more than the EU ETS (score 2.1). In contrast, voluntary agreements and, to a lesser extent, informational instruments were considered to have little capacity to contribute to the long-term emission targets. Also, this stakeholder group placed high value on regulation and taxation's capacity to stimulate low carbon investment cost-effectively and equitably and on their ability to address uncertainties. In contrast, the EU ETS was evaluated rather negatively on these criteria. Similar concerns were expressed for voluntary agreements and informational instruments that, however, were recognized to have the advantage of low administrative costs for the public sector.

MS public officers considered the EU ETS the most appropriate instrument to achieve long-term emission target, followed by regulation and taxation to a lesser extent. The EU ETS scored above 3 in all criteria with a pick of 4 on cost-effectiveness. Subsidies were appreciated to a much lesser extent. They were believed to be able to stimulate low carbon investment (score of 3.4) but not so much to be cost-effective (score of 2) and capable of addressing uncertainties (score of 1.6). Voluntary agreements and informational instruments were not much appealing to MS public officers (score of all criteria around or below 2).

Finally, the research community regarded taxation and to a lesser extent the EU ETS, regulation and subsidies as instruments that will lead the way to long-term emission reduction. These instruments were believed to be able to stimulate low carbon investment cost-effectively. Taxation was also considered to be able to address uncertainties (score of 3.5). However, as general observation, the score that the research community gave to these criteria was on average lower than that given by other stakeholder groups for the same instruments. In other words, the research community was much more cautious, or sceptical if you will, on the capacity of a single instrument to fulfil these criteria entirely.

Turning to the issue of **power dynamics**, one way to assess power is by asking stakeholders how they perceive the influence of actors involved in the decision-making process, including themselves (Dür, 2008). Accordingly, in the survey respondents were asked to score the influence of stakeholders in climate policy decision processes on a scale from 0 (=no influence) to 5 (=high influence). They were also asked to score on the same scale a number of proposed determinants of such influence.

Overall, respondents perceived the European Commission as the most influential actor (score of 4.3). This is in line with the policy simulation findings, where participants reported to have learned the importance of the Commission's power of initiative in shaping the climate policy discussion (see also section 4.3). National politicians and industry were also perceived as quite powerful in the survey (score of 3.8 and 3.6 respectively). Interestingly, EU politicians were not among the actors that were considered to play a key role in climate policy making (score of 3.1). They were considered a bit more influential than environmental NGOs (score of 2.8) and the research community (score of 2.5) but definitely not as powerful as the Commission.

The analysis of the data per stakeholder groups reveals that the EU public officers believed national bureaucrats to be the most influential actors (score of 5), while the national bureaucrats believed the Commission to be the most influential (score of 5). For both groups, another key influential actor was industry. This is somewhat not surprising given that the Commission and national bureaucrats work in close interaction, and that many industry sectors have invested considerable amount of resources in lobbying capacity in Brussels and in their home country. This latter observation finds support in the survey question regarding how much money and time respondents invest in lobbying policy ideas, to which representative of the industry responded with a score of 3.8 on a scale from 0 (=none) to 5 (=substantial amount). Only the Commission officials reported to invest more (score 4.5). It is also interesting to note that the Commission officers perceived national politicians to play a much more substantial role in climate decision-making (score of 5) than what the national bureaucrats perceived with regard to politicians (score of 3).

Contrary to what EU and MS public officers reported, industry representatives did not perceive themselves as much influential in the climate policy debate (score of 2.6). They do recognize the Commission (score of 4.4) national (score of 3.4) and EU (score of 3.3) politicians as influential actors. They also see environmental NGOs as playing an important role in the climate policy debate (score 3), more than the research community.

Environmental NGOs representatives attributed equal influence capacity to national politicians and the Commission (score of 4.2) and to a much lesser extent to industry, national bureaucrats and EU politician (score of 3.4, 3.3, 3.1 respectively). Also, they placed themselves among the relatively influential actors (score of 2.9). They seemed not to believe much on the influence of research on the policy debate, though (score of 2.1).

The research community places much influence capacity on the Commission (score of 4.3), industry (score of 4), and national politicians (score of 3.8), and to a lesser extent on EU politicians, national bureaucrats and environmental NGOs.

Another observation is that the research community, environmental NGOs and business intermediaries are in general not deemed particularly powerful by any stakeholder group (score always below 3).

Finally, when it comes to assess their own influence, EU public officers, national bureaucrats and environmental NGOs are the groups that perceive themselves as stakeholders with a certain amount of influence capacity. This “self-confidence” attitude holds particularly true for the Commission (score of 4.5).

Looking into the determinants of stakeholder’s influence, in general access to EU bureaucrats (score of 4) and connection with national politicians (score of 3.9) are believed to play a key role in increasing one’s capacity to influence decisions. The economic importance of the stakeholder is also deemed important (3.8). In accordance to the level of influence attributed to the stakeholder groups, EU public officials consider access to national politicians and bureaucrats and economic importance to be key determinants of stakeholders influence. Similarly, for national bureaucrats access to EU politicians and EC officers, and economic


importance are key determinants of influence. Environmental NGOs placed similar level of importance to all proposed determinants of influence (score between 3 and 4). All stakeholder groups scored the relationship with the media the lowest (score around 3 or less).

The last question of the survey asked respondents to assess on a scale from 0 (=not important) to 5 (=very important) to what extent a number of options represented a barriers to an ambitious 2030 and 2050 climate policy. Competing interests and agendas among MS (but also at the EU level) and insufficient prioritization of climate policy in national (but also the EU) agendas stood out as major barriers to an ambitious climate policy (score of 3.9 and 3.7 respectively). Another important barrier was the uncertainty surrounding the international climate regime (score of 3.6). Interestingly, respondents did not deemed particularly limiting either the lack or the cost of low carbon technology. National bureaucrats were the ones most concerned with the developments of the international climate regime (score of 4.8) along with lack of financial resources (score of 3.8). In contrast, EU bureaucrats expressed concern for the lack of physical infrastructure (score of 4). Remarkably, for industry representatives the lack of clear long term targets was not as much of a limiting factor as the uncertainty about the international climate regime, the lack of financial resources and the competing interests and agendas among MS. Environmental NGOs placed significant importance to the political dynamics at national and EU level, and secondarily to the lack of physical infrastructure and the uncertainty surrounding the global climate regime. Similarly, the research community pointed the finger towards the national and EU political dynamics but also highlighted the uncertainty problem stemming from the lack of a clear international climate regime, lack of clear long-term targets and lack of evidence about the effectiveness of policy instruments.

Institutional barriers, such as for example the need to change existing EU laws, was not perceived as a strong limitation by any of the stakeholder groups. In line with the interview findings (see section 4.1), neither MS officials nor EU officials perceived the need to modify EU laws to be a significant barrier to an ambitious climate policy (score of 1.5 and 2 respectively). Environmental NGOs, industry representatives and the research community were more concerned (score between 2.5 and 3), but among all the potential barriers still this was one of those that was perceived as not so important.

5.3 Policy simulation

The policy exercise simulated simplified EU Council negotiations taking place in the year 2025 on re-design features of the EU ETS 5th trading period that would start in 2031. Participants were split into eight teams and asked to play the role of senior policy makers from the European Commission and seven European countries (Germany, Poland, Czech Republic, Spain, Italy, Denmark, UK). Teams were asked to play according to a role description and a scenario with information about the socio-economic context in 2025 and particularly of the country they were simulating. The preferences that participants expressed during the workshop can thus not serve as a foundation for assessing stakeholders' preferences.




However, participants easily embraced the scenario which depicted a non-functioning EU ETS. The fact that all participants could easily accept a scenario wherein 2025 the EU ETS still does not work effectively indicates that this is a likely possibility in the mind of the policy exercise participants. At the same time, the lively discussion that took place during the exercise, show understanding of problems and interest to identify solutions to improve the functioning of the instrument.

Parties showed high interest to use EU ETS revenues for climate mitigation and adaptation purposes in all member states. As negotiations moved in the direction of a stricter EU ETS policy, countries seized the opportunity to call for a focused use of the EU ETS revenues. All countries but UK showed interest in an EU centralized management system of revenues with equitable redistribution to all member states rather than allocation to only low income or highly vulnerable countries. Later on, the UK also joined the group as result of having been affected by climate related disasters. This discussion led parties to agree on the establishment of an Adaptation and Transition Fund whose likelihood to be adopted in reality was evaluated 3.8 out of 5 (in a subsequent assessment of all participants). Although this policy option may be appealing to most EU countries, institutional barriers, above all the fact that the EU does not have power on fiscal matters, stand in the way of the actual adoption of such a policy.

The objective of the game for participants was to agree on one reform option for seven key EU ETS design elements. Here it appeared to be easier to agree on policy elements whose distributional effects are hidden than those whose impacts are more evident. Country teams could relatively easily agree on an ambitious 3%LRF while the use of revenues and carbon leakage provisions proved more controversial topics. On the one hand, this may be partly explained by the design of the exercise as the role descriptions included information on the country's political interests in the climate negotiations, and consequently partly steered the discussion towards certain issues. On the other hand, this outcome is consistent with findings in the public policy literature. Scholars in this field, in fact, suggest that it is easier to agree on policies whose distributional effects are hidden because they are likely to be less contested. In contrast, policies whose impacts to specific societal groups are more evident are exposed to strong opposition. This latter interpretation finds support in the outcome of the EU Council negotiations on the 2030 package that took place shortly after the policy exercise. After having postponed the approval of the package for months, the Council decided on the 2030 emission targets, whose distributional impacts are not immediately apparent, but still struggles to come to a decision on key elements that have more visible effects on societal groups. In principle stakeholders who aim to ambitious environmental effectiveness of the EU ETS – but this applies to other policies too – may take advantage of this tendency of easily achieving agreement on generic policy goals to push their agenda. However, because the implementation of generic policy goals is often problematic, achieving agreement on ambitious goals has more symbolic than substantial value.

With regard to the negotiation dynamics, it is interesting to note that the negotiation style of the Council presidency influenced countries behaviour. The workshop was organized in three sessions: one session for the teams to form their initial position on EU ETS reform options,



and two cycles of negotiations. Each negotiation cycle included bilateral consultations, in-country discussions and EU Council meetings. The EU Council meetings were chaired by different presidents – the Czech Republic chaired the first Council meeting, Denmark chaired the second. Both Council presidencies were effective in advancing the negotiations, although the effect of their approach was substantially different on parties. While the Czech presidency was open to discuss all elements of the package and strived for consensus, the Danish presidency, under time pressure and urgency to reach an agreement, chose to focus on few elements of the package and did not discuss all policy elements. In general, the Czech approach created a sense of constructive, collaborative discussion, while the Danish approach led to frustration in the teams. These dynamics highlighted the importance for successful negotiations to acknowledge each nation's position and ensure that all parties feel their concerns heard and taken into consideration. When this is not the case, frustration and opposition may arise and trust may be undermined. Even when an agreement is eventually reached, these feelings can affect the subsequent discussions on technical and implementation aspects of the policy.

The use of knowledge was a central issue in the simulation. A problem that emerged during the exercise and that is found often in real climate policy decision making is the lack of reliable assessment studies about the impacts of the policy options under discussion. In several occasions during the simulation participants felt they could not make sound decisions because they did not have sufficient understanding of the impacts of the proposed options. Later on, participants reported that what happened in the simulation is quite realistic as often the Commission impact assessment studies are perceived as not completely accurate and reliable. As decisions are based on impact assessment studies, consensus on their reliability and relevance is a precondition to successful negotiations.

The role of lobby groups in the EU ETS design was to some extent reflected in the policy exercise. Because lobby groups did not have an explicit role in the exercise, countries were not under strong lobby pressure – only some information about key interests of industry and environmental NGOs was provided in the role description. Contrary to what often happens in reality, country teams were free to aim for ambitious goals in response to citizens' demand for climate action and eventually to agree on an ambitious cap and MSR, the key parameter of environmental effectiveness. Indeed, some participants stressed the importance of having lobby groups represented in the exercise to increase realism.

In terms of institutions, the European Commission proposal emerged as a major constraint in the discussion about policy options. Several topics that were prominent in early bilateral consultations disappeared from the discussion after they were not picked up by the Commission proposal. One example of this sort is represented by the compensation rules for indirect costs. Initially a number of low income countries demanded level playing field on this issue, something on which high income countries such as Germany were willing to consent. However, later conversations focused entirely on the Commission proposal where this topic was not included. This shows, in line with what participants also reported, that the right of policy initiative gives the Commission major power to steer the debate on specific policy

options, by at times cutting out of institutional discussions (e.g. in the Council) issues that are prominent in informal discussions (e.g. bilateral conversations). Consequently, as participants have also reported to have learned, if stakeholders want to insert their policy ideas into the debate, they should engage in discussions with the Commission at early stages of the policy process.

5.4 Focus groups

The focus group (FG) questions revolved around stakeholder preferences and performance of different typologies of policy instruments (market, regulation, voluntary, informational), and on institutional barriers. In the following the results of are presented with regard to 5 key points of the discussion: 1) biggest achievement and biggest problem of EU climate policy; 2) most important characteristics of a climate policy instrument; 3) best performing typology of instruments; 4) role of EU law and institutions in supporting/hampering ambitious climate policy; 5) centralization vs. decentralization of climate policy.

1) Biggest achievement and biggest problem of EU climate policy

According to representatives of the research community and of the industry sector, the biggest achievement of the EU climate policy was the adoption of the EU ETS, which, despite its problems, has led to a reduction of carbon emissions and has served as blueprint for non-EU countries. In contrast, environmental NGOs showed much more appreciation for the EU renewable energy target because it led to the reduction of renewable technology costs. In general, all three groups considered the whole 2020 strategy as a positive development in the EU climate policy. The research community group also pointed out the relevance of the 2020 strategy as experimental platform of different typologies and forms of policy tool which generated a large amount of data and information to assess their performance and capacity to achieve emission reduction goals.

The main criticism expressed by all three groups was that the design of the EU ETS is far from optimal because of the political compromise that constellated the decision-making process about this instrument. On top of that, the economic crisis (industry FG) and low quality offset credits entering the EU ETS market (environmental NGOs FG) increased the ineffectiveness of the instrument.

Other mentioned weaknesses of the EU climate policy were: lack of clear policy objective regarding how to achieve the renewable target (industry focus group); lack of united, coherent voice of the EC-DGs and of the External Action Service in the international negotiations (research community FG); and inability of the EU climate policy to keep up with fast-changing contextual circumstances (environmental NGOs FG).

2) Most important characteristics of a climate policy instrument

Participants mentioned various characteristics that a climate policy instrument should possess. All three groups mentioned flexibility (or resilience), stability and predictability as key performance criteria. Industry representatives also stressed the importance of cost-

effectiveness, while the research community mentioned transparency and capacity of the instrument to ensure transition to low carbon technology. In contrast, the environmental NGOs group focused on compliance and international impacts. All three groups also mentioned the importance of political support to the proposed climate policy instruments. In general, the importance of finding a balance between flexibility of the instrument and stability was mentioned across FG.

3) Best performing typology of instrument

On this point the research community FG and the environmental NGOs FG stressed the importance of having a mix of different tailor made policy instruments in order for the climate policy to be able to respond to different challenges and unavoidable uncertainties. In contrast, the industry FG strongly argued for market-based instruments complemented with technology support policies such as subsidies for clean technology R&D and for pushing the adoption of newly developed technology. Regulatory instruments were deemed important by the research community FG and environmental NGOs FG. Environmentalists justified their preference with the reason that market-based instruments, while having the advantage of being flexible tools, are prone to information asymmetry.

4) Role of EU law and institutions in supporting/hampering ambitious climate policy

Participants of all three FGs agreed that the EU law hinders the design of a coherent EU climate policy instrument mix. According to participants, this happens because the EU does not have competences in specific climate-related sectors such as the energy sector. In support of this argument participants reported two examples: lack of harmonization of energy taxation due to the fact that energy is a national policy; and the existence of the unanimity vote rule for fiscal matters in the EU Council. The latter allows MS to block decisions from being further discussed, thus limiting the possibility to design an ambitious EU climate policy and reducing the decision's overall effectiveness. This issue would be solved if the Council decided on qualified majority, participants claimed. Besides these issues, the environmental NGOs FC emphasized the problem of insufficient transparency of the EC on policy design, and the existence within the EC of disagreement among DGs on environment and climate change issues.

5) Centralization vs. decentralization of climate policy

Regarding the level of implementation of climate policy instruments, the industry FC expressed preference for European policy design and implementation, and brought the EU ETS as example of successful climate policy. In contrast, environmental NGOs representatives were inclined to prefer national implementation of climate policy. For example, subsidy schemes were reported to be more effective if implemented at national level. Also, environmentalists observed that some sectors such as spatial planning are typically national issues, and that implementation at the European level might lead to inactivity of national officials who may feel deprived of their responsibility – this latter point was made also by the research community representatives. Although in favour of national implementation,

environmentalist also believed that MS should not take unilateral action without establishing a dialogue with other MS on issues that can potentially affect other MS. In support of this point, they reported the example of the unilateral decision of Germany on its national energy mix which affected other MS. Opinions were different across the research community representatives, with some arguing in favour of sectoral differentiation of emission targets at national level and others preferring overall targets set at EU level.

6 Key findings and conclusion

This report addressed the question of political feasibility of climate policy instruments in the EU. Based on extensive literature review, we hypothesized that political feasibility is affected by interest groups preferences, power dynamics among these groups, and institutional arrangements in place. Consequently, we investigated these dimensions across different interest groups, namely EU and national politicians, EU and national bureaucrats, business intermediaries, and representatives of industry, environmental NGOs and research community in Europe. We conducted semi-structured in depth interviews, focus groups, a policy simulation and an on-line survey.

The following text summarizes the key findings of the investigation and formulates the conclusions.

6.1 Stakeholder preferences for climate policy instruments

Overall, stakeholders across interest groups and countries expressed a preference for a tailored mix of climate policy instruments with a reformed EU ETS as its corner stone. Taxation and regulation were clearly preferred over voluntary and informational instruments for their perceived capacity to stimulate low carbon investment in a cost-effective manner. Industry tends to favour market-based instruments, particularly the EU ETS, complemented with technology support policies such as subsidies for clean technology R&D and acquisition. Governmental officers support the EU ETS and regulation, while environmental NGOs prefer taxation and regulation and are sceptical about the EU ETS although, they recognize, it has the advantage of putting a limit to emissions. The research community tend to prefer taxation and to a lesser extent the EU ETS, regulation and subsidies.

Strategic interest and perceptions about performance, functioning characteristics and impacts of policy were found to play a major role in stakeholder preferences for instruments. Strategic interest, namely the EU ETS already exists, explained why stakeholders prefer to keep the EU ETS in place in spite of the fact that its capacity to deliver cost-effective emission reduction was strongly criticized particularly by environmental NGOs, EII industry, and by representatives of Eastern European countries such as Poland. Perceptions about the feasibility of taxation and regulations were also found important reasons of stakeholder preferences. Taxation was perceived politically unfeasible, and regulation too administratively and organizationally complex to adopt and implement. Characteristics such as flexibility, stability

and predictability of the different instruments also play a major role in stakeholder preferences. In general finding a balance between flexibility on the one hand, and predictability and stability on the other hand, was deemed important by most stakeholders. Another major factor playing a role in stakeholder preferences is the perception of distributional impacts across societal groups and across countries. The policy simulation results suggest that it is easier to agree on policies whose distributional effects are hidden because they are likely to be less contested. In contrast, policies whose impacts to specific societal groups are more evident are exposed to strong opposition.

6.2 Power dynamics among interest groups

Overall, the European Commission was perceived to have major influence on the discussion about climate policy. Its power lays mostly in the right of policy initiative, the capacity to produce knowledge, and its extended network with different interest groups. In particular, the right of initiative gives the Commission capacity to steer the debate on specific policy options by cutting out from institutional circles (e.g. the Council) issues that are prominent in informal discussions (e.g. bilateral conversations). Also, the capacity to produce knowledge, such as policy impact assessment studies, gives the Commission a strategic advantage in supporting certain policy options essentially because interest groups often do not have the resource capacity to produce extensive impact studies to support their own policy options.

Interestingly, EU politicians were not perceived to play a key role in the EU climate policy discussion. In contrast, national politicians, and particularly Eastern European ones, are deemed powerful actors as they can block climate policies in the EU Council. National bureaucrats are also among those who exert major influence as they frame the national discussion on climate policy.

Industry, and particularly EII, has, in general, the reputation of a quite powerful actor with lobbying capacity at national and (to a lesser degree) EU level to influence the formulation of the EU climate policy. Its power is mostly determined by the share of employment it represents, its political network, and the ability to build coalitions and to clearly frame its message and have it heard by the media. Knowledge, often used strategically, also plays an important role. However, not surprisingly, industry representatives did not perceive themselves as having a strong influence in the climate policy debate and attributed higher influence capacity to environmental NGOs.

Environmental NGOs, the research community and the business intermediary community were in general not deemed powerful actors in the climate policy debate. However, unlike the research community, environmental NGOs considered themselves to be to some extent influential. EU public officers and national bureaucrats also perceived themselves as stakeholders with a certain amount of influence capacity. This “self-confidence” attitude holds particularly true for the Commission which is the stakeholder that invests more money and time in networking and communication with interest groups.

In general, networking capacity at national and EU level, and economic importance of the actors was considered to increase one's capacity to influence decisions. The relationship with the media seemed not to be so important.

6.3 Institutional arrangements

Institutions (e.g. decision-making *fora*, formal and informal procedural rules, voting rules, etc.) appeared not to be a major limitation to the feasibility of one specific policy proposal—such as the EU ETS reform. However, concerns were raised about the limits posed by institutions to attain a coherent climate policy instrument mix.

When it comes to discuss a comprehensive climate policy that includes all relevant sectors and potential policy instruments, institutional arrangements become critically important for two main reasons: first, the EU does not have sufficient competences in specific climate-related sectors such as the energy sector, hence the EC cannot take any policy initiative; second, when the decision about which policy instrument to adopt is, since the beginning of the discussion, confronted with the unanimity voting rule there is not much room for compromise, and consequently the chances to pass a policy proposal significantly decrease – see for example the case of the failed proposal of an EU carbon tax. In general, the unanimity voting rule was the institution that was referred to as the major barrier to the development of a coherent EU climate policy. However, even if this rule gives MSs power to block decisions from being further discussed in the Council, some noted that a policy proposal that is rather ambitious might not pass qualified majority vote either. Instead, a compromise proposal might have chances to pass unanimity vote.

6.4 Contextual factors influencing political feasibility

A number of contextual factors were found to influence the political feasibility of EU climate policy. One contextual factor considered particularly important was the degree of action taken in the international climate policy arena. On this point, the general observation across interest groups was that there is no reason for the EU to adopt an ambitious climate policy outside the framework of a major international climate agreement given the relatively low share of the total emission generated in the EU compared to other countries and the high risk of losing economic competitiveness with an ambitious climate policy.

Also, the political climate tremendously influences the political feasibility of a policy proposal. On this point two major influencing factors emerged: the global economic crisis and the Ukrainian crisis. Because the austerity policy adopted in response to the economic crisis has made it difficult for European countries to spend money, the political climate was increasingly perceived as inopportune for climate policy in general. At the same time, the Ukrainian crisis fuelled new discussion about energy security which includes discussion about alternative, low carbon energy sources.

6.5 Concluding reflections

In synthesis, the findings of this study suggest that not only the interplay of interest groups' preferences, power dynamics among groups, and existing institutional arrangements but also contextual political and economic factors play a crucial role in influencing the political feasibility of the EU climate policy. Individual motivations and beliefs along with access to resources and economic influence seemed to be more important than institutions. Contextual factors, absent in our analytical framework, play a major role and should be included in the assessment of political feasibility.

In light of the findings, a number of considerations can be formulated:


- *About policy goals.* Results suggest that it is easier to agree on ambitious policy goals as long as the distributional impacts are not clearly evident. However, the implementation of generic policy goals is often problematic. Therefore, achieving agreement on ambitious, generic goals has more symbolic than substantive value. Yet, symbolism is important to set the limit and build intention of action for the long-term. This is particularly relevant in the context of climate policy for which clear, long-term targets are needed to ensure policy effectiveness.
- *About policy instruments.* Although most of the climate policy debate revolves around which instrument would perform best, actors indicated that the political climate is more important for feasibility than the actual instrument. The results were inconclusive with respect to the favoured instrument of relevant stakeholders. While some ambitious actors might prefer taxes or regulations over the EU ETS, they acknowledge the fact that those instruments would also have to go through the political struggle of instrument design and adoption. Accordingly, many actors focus on improving the effectiveness of the EU ETS itself.
- *About perceptions shaping policy preferences.* Results suggest that individual perceptions, such as those regarding distributional impacts of policy options, play a major role in shaping stakeholder preferences. This is relevant when discussing the impact assessment of policy options. If, based on an impact assessment study, interest groups perceive the impacts of a policy proposal as unfair they are likely to oppose it. Hence, particular attention needs to be paid to policy impact assessment studies in order to ensure their credibility and legitimacy so as to avoid misconception among affected parties.
- *About influential actors.* Results indicate that the Commission has a major influence in shaping the EU climate policy. Consequently, stakeholders who aim to insert their policy ideas into the political debate should engage in discussion with the Commission at early stages of the policy development process. At the same time, being influential puts the Commission in the position to exploit the momentum and use its power to ensure environmental effectiveness of the EU climate policy.

- *About institutions.* Results indicate that the unanimity voting rule within the EU Council is a barrier to a coherent EU climate policy. On this point, working in informal *fora* on a compromise policy proposal to take to the Council might be a better strategic move than focusing on a highly ambitious proposal. This holds particularly true when designing a new policy for which uncertainty about impacts is high and interest groups are more inclined to adopt a cautious approach.
- *About member state differences.* Our results indicate that national contexts shape the position of actors in different MS. While in Poland the distributional effects of policies among MSs dominated the discussion, the role of EIs was prominent in the climate policy debate in Germany. One opportunity for policy proponents to gain political leverage might lie in identifying the distinct progressive forces in different countries and work on building a coalition for progressive action.
- *About differences among stakeholder groups.* Results show that preferences of actors strongly vary across stakeholder groups. However, at the same time groups are also heterogeneous, either in their ambition or in their beliefs. For example, environmentalists and academics vary greatly in their beliefs and perceptions of different policy instruments such as the EU ETS. Furthermore, industrialists differ with respect to their ambition depending on which sector they belong to. While some EIs take on a generally opposing role, the power sector is a strong proponent of strong carbon pricing. Policy proponents need to be aware of this internal heterogeneity if they are to build support for policy proposals.

About multi-level governance. Political dynamics at different levels of policy making – national, EU-wide and international – reciprocally influence each other. For example, the analysis clearly revealed that the international climate policy debate plays a major role on the EU and national climate policy development. Similarly, what countries decide to do to tackle climate change highly influences decisions at the EU level and in turn the position of the EU in the international negotiations. The interplay of these multi-scale dynamics influences the chance of policy proposals to be taken into consideration in different policy arenas. Consequently, policy proponents need to be aware of these dynamics in order to identify the appropriate scale and momentum to lobby for new policy ideas to be taken into consideration.

7 References

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Annex A

The Political Feasibility of Reforming the EU Emissions Trading Scheme. A comparison of different countries.

Master thesis by Henriette Walz



Annex B

Political Feasibility of Climate Policy Instruments for Achieving the European Union Long Term Emissions Reduction Targets. An analysis of interest groups' preferences.

Master thesis by Irimi Dimitriou



Annex C

A Policy Exercise on the future of the EU Emissions Trading System.

Workshop report

By S. Munaretto and H. Walz



Annex D

On-line survey - Figures