

# **Ever Challenged Union: Exploring Ways Out of the Crises**

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# ‘Differentiated decision-making’ in the European Union: The Case of the EU Emissions Trading System

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## Abstract

The European Union has been described as a vertically and horizontally differentiated system of integration, with individual policy sectors varying in terms of centralization and territorial extent. In this paper, I argue that individual policy instruments can also be subject to differentiated decision-making taking place at multiple levels and involving a diverse set of political institutions.

A high-profile example of a EU policy instrument with a differentiated system of decision-making is the EU Emissions Trading System (EU ETS), the cornerstone of the EU’s efforts to reduce the greenhouse gas emissions that cause climate change. By analysing primary documents and drawing on the existing literature on EU climate policy, I explore the EU ETS’s decision-making system and show that decisions on individual policy elements have been taken at both the EU and member state levels. In addition, EU ETS decision-making in Brussels is itself differentiated, with decisions being taken by both the European Council and through the Ordinary Legislative Procedure. Finally, I preliminarily examine differentiated decision-making in practice through a case study of recent EU ETS policy-making from 2012-2015.

## Introduction

Schimmelfennig, Leuffen, and Rittberger (2015) have recently described the European Union as "...a system of differentiated integration characterized by both variation in levels of centralization (vertical differentiation) and variation in territorial extension (horizontal differentiation) across policy areas" (2015, p. 764). They come to this conclusion based on the formal decision-making rules for policy issue areas as set out in the EU treaties (most recently the Treaty of Lisbon). In a similar vein, Pollack, Wallace, and Young note that there is increasing differentiation in the policy-making processes that EU policy-makers use "within as well as across issue areas" (2010, p. 486).

These and other studies of differentiated integration and policy-making focus on broad issue areas such as environmental policy, monetary policy, or energy policy (see, e.g., Buchan, 2010; Schimmelfennig et al., 2015, pp. 774–779). In this paper, I focus on vertical differentiation – "variation in levels of centralization" (Schimmelfennig et al., 2015, p. 764) – but not horizontal differentiation. I argue that differentiated EU integration can lead to individual EU policies that have differentiated decision-making systems. In other words, policy-specific decision-making – like integration more generally – can be highly differentiated in terms of both the level of decision-making and the types of decision-making rules used.

As a case study, I examine the cornerstone of the EU's climate change policy – the EU Emissions Trading System (EU ETS). Like EU integration more generally, EU ETS decision-making takes place both at EU level and at the level of member states. In addition, EU-level decision-making itself shows signs of differentiation, with different elements of the EU ETS's design decided through the Ordinary Legislative Procedure and others according to European Council decisions.

To explore this case, I combine concepts from the study of EU integration (Börzel, 2005) with the literature on the design of greenhouse gas emissions trading (Tietenberg, 2006; Vis, 2006; Wettstad & Gulbrandsen, 2015). As a first attempt at exploring the EU ETS's vertical differentiation, I draw on two sources. First, I use legal documentation accessed through the EUR-Lex platform to create an overview of the EU ETS-related legislative processes that took place from 2005 to 2015. I combine analysis of these primary documents with existing secondary literature on the EU ETS (e.g., Skjaereth & Wettstad, 2010) to analyze decision-making differentiation and its development over time.

The paper is structured as follows. Section 1 gives an overview of the EU ETS and key emissions trading design elements that policy-makers must make decisions on. The next two sections then give an overview of vertical differentiation in EU ETS decision-making. Section 2 focuses on the first aspect of vertical differentiation – the level of decision-making – related to the division of policy-making competences between the member states and the EU institutions. Section 3 addresses the second aspect of vertical differentiation – the scope of decision-making – related to how decisions made at EU level are divided between the Ordinary Legislative Procedure (OLP) and the European Council. Section 4 brings these concepts together to show how vertically differentiated policy-making can structure attempts at policy reform, through a case study of the recent and ongoing EU ETS policy-making of 2012-2015. Finally, the paper concludes with a discussion of how these findings relate to broader studies of EU integration and international climate change policy.

# 1. The EU Emissions Trading System: Overview and Design Elements

The European Union Emissions Trading System (EU ETS) is currently the largest greenhouse gas emissions market in the world and the cornerstone of the EU's climate change mitigation efforts (OJEU, 2009b). The EU ETS regulates approximately 45% of the European Union's greenhouse gas emissions, almost entirely carbon dioxide, from sectors including electricity generation, steel and cement production, fossil fuel refining, and aviation. In an emissions market such as the EU ETS, pollution sources receive tradable permits to emit a decreasing amount of emissions within an overall cap, a feature designed to create flexibility and find the lowest-cost options for greenhouse gas reductions (Ellerman & Joskow, 2008).

In addition to the overall cap, the ETS also creates a carbon price, therefore requiring many installations to pay to emit greenhouse gases and giving them an incentive to invest in low-carbon technologies. By lowering its emissions cap each year, the EU ETS aims to contribute to the EU's mitigation goals: a 20% reduction in greenhouse gas emissions by 2020 when compared to 1990 levels and a 40% reduction by 2030 (European Commission, 2012b; European Council, 2014; Skjaereth & Wettstad, 2010, p. 106; van Asselt, 2010). The EU ETS has strong political support from many EU policy makers and EU-level interest groups (in the sense that they support its existence; e.g., European Commission, 2013b). However, since it began operation in 2005, many of these same actors have criticized the actual functioning of the market (Climate Action Network, 2013; The Economist, 2014), and it has been reformed a number of times.

## Emissions trading design elements and EU ETS decision-making

Emissions trading policies have a number of key features that decision-makers must set and modify over a policy's lifetime. Following previous literature on emissions trading, I refer to these features as "design elements" (Del Río, 2010; Tuerk, Mehling, Flachslund, & Sterk, 2009; Wettstad & Gulbrandsen, 2015). A number of previous authors have written about the design elements of emissions trading systems in general (Tietenberg, 2006) as well as the EU ETS in particular (Vis, 2006; Wettstad & Gulbrandsen, 2015, pp. 7–11). Some design elements of the EU ETS were decided when the policy was initially adopted in 2003, while others have been modified since it began operation in January 2005. I focus on six elements that have been modified at least once since adoption and have played a prominent role in policy discussions:

**Emissions reduction target:** A goal for reducing emissions in a future year or years. The EU sets overall emissions reduction targets, which are currently translated into separate targets for the EU ETS and for non-EU ETS economic sectors. The EU ETS has a reduction target of 21% below 2005 emissions levels by 2020, and a 43% reduction by 2030 (European Council, 2014; OJEU 2009b). In addition, the EU as a whole has a 2050 reduction target of 80-95% below 1990 levels (European Council, 2011, p. 6). This overall target has not, however, been translated to a specific target for the EU ETS.

**Emissions reduction pathway:** The timing of reductions in the emissions cap from the starting year to the target year of emissions reductions. For the 2013-2020 period, the EU ETS cap was originally set to start at the average level of emissions between

2008-2012 and then reduce 1.74% per year to reach the 2020 target of a 21% reduction for the EU ETS (OJEU 2009b, p. 14). From 2021 to 2030, the annual reduction will increase to 2.2% (European Council, 2014, p. 2).

**Scope:** The type of greenhouse gases and the economic activities regulated under the emissions trading system. The EU ETS currently regulates economic activities related to, for example, electricity generation, fuel combustion, refining, cement, steel, and aluminum production, as well as other activities (OJEU 2009b, pp. 43–46). The greenhouse gases that are produced by these activities are carbon dioxide, perfluorocarbons, and nitrous oxides.

**Allocation method:** There are two main methods of allowance allocation in emissions trading systems: free allocation and auctioning. If allowances are distributed by free allocation then regulated installations and activities receive them free of cost. If they are auctioned, regulated entities must purchase required allowances from the regulator. For the first eight years of its operation, EU ETS allowances were largely allocated for free. Starting in 2013, a much larger share of allowances are auctioned, rising to 100% for most electricity generators (OJEU 2009b, pp. 15–17).

**Price Management:** Limits to how high or low the price of an allowance in the market can go. Price management can be either direct (through price floors and price ceilings that set direct upper and lower limits) or indirect (through mechanisms that manage the amount of allowances in the market at any one time). Although the EU ETS did not have a price management component from 2005 to the present, starting in 2019 an indirect price management mechanism, the Market Stability Reserve, will begin operation (European Parliament, 2015).

**Revenue Earmarking:** In systems where some or all allowances are auctioned, the revenue from the sale of those allowances is earmarked (e.g., for research and development or direct distribution to the general public). EU ETS auctioning revenue is disbursed at the member state level according to national legislation (European Commission, 2014a, pp. 18–19).

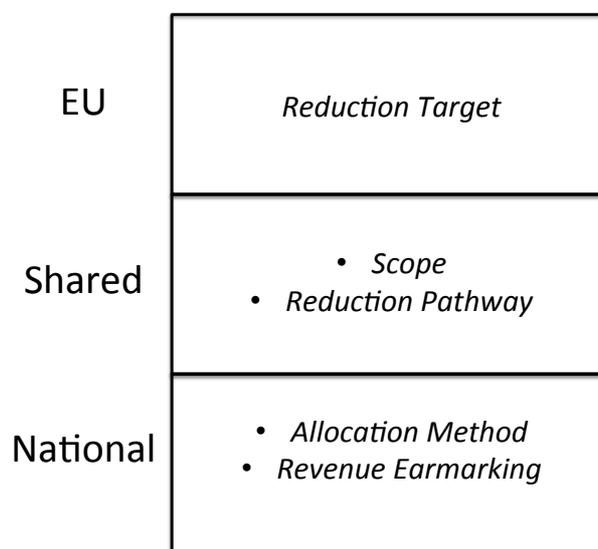
In the next two sections, I will review the extent of vertical decision-making differentiation for these six design elements. I do this using an adapted version of Tanja Börzel's typology of European integration (2005). Börzel's typology distinguishes between two measures of integration: level of authority and scope of authority (Börzel, 2005, p. 221). Level of authority refers to the formal division of policy-making competences between member states and the European Union (p. 220). Scope of authority refers to the decision-making procedures and which EU institutions are most influential (220). Börzel's analysis focuses on formal competences as laid out in the EU treaties, as well as analyzing broad issue areas (e.g., "environment/consumer protection" and "energy and transport", see Börzel, 2005, pp. 222–223).

Using this typology as a starting point, I examine the level and scope of authority of EU ETS decision-making. Therefore, in the following sections I will classify the decisions related to the six emissions trading design elements introduced above, based not on formal treaty competences, but on the day-to-day practice of EU policy-making.

## 2. Vertical differentiation: Level of decision-making

In her 2005 paper, Börzel measures the level of authority at which policy decisions are made based on the legal competencies set out in the EU treaties. Her measures range from “exclusive national competencies” to “shared competencies” and, at the other extreme, “exclusive EU competencies” (2005, p. 220). Whereas Börzel measures the number of policy issues that fall under each of these levels of authority, in this section I will measure where each EU ETS design element falls on the same continuum. At the end of the section, I will summarize the overall situation related to levels of authority.

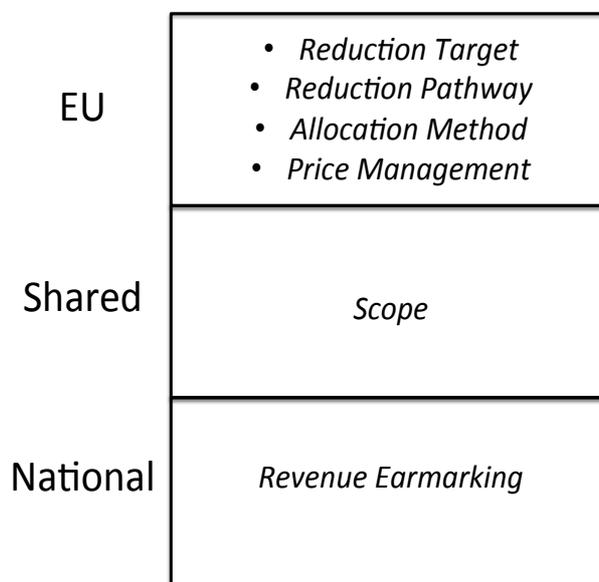
The EU ETS has always been subject to decision-making at both the member state and EU levels. However, the specific balance of decision-making has shifted significantly between 2005 and 2015 (cf. Skjaereth & Wettestad, 2008, 2010). Of the six design elements, initially only the emissions reduction target was decided firmly at EU level under the 1998 Burden-sharing Agreement (Skjaereth & Wettestad, 2008, p. 6). During the adoption of the EU ETS, member states in the Council of Ministers had insisted that many elements of the policy be decided at national level, including allocation method and revenue earmarking (Skjaereth & Wettestad, 2008, pp. 106–119). The scope of the system could be modified through both EU legislation and by a decision of a member state. Similarly, the member states set the reduction pathway through National Allocation Plans (NAPs), although these were increasingly subject to oversight and modification by the European Commission (Skjaereth & Wettestad, 2010). This distribution of decision-making for the five design elements that existed for the 2005–2012 version of the EU ETS is shown in Figure 1.



**Figure 1.** *The level of decision-making for five EU ETS design elements (for the version of the EU ETS in operation from 2005-2012)*

However, this distribution soon shifted. Once the EU ETS began operation in 2005, it encountered a number of difficulties in its first trial phase (running from 2005 to 2007). Because of a lack of detailed preexisting emissions data, more allowances were allocated than regulated installations were actually emitting. Due to the fact that in the first period,

installations could not save allowances after 2007, this caused the price of allowances to drop to almost zero in the second half of the time period (Ellerman & Joskow, 2008, p. 13). In addition, because allocations were distributed by the then-25 member states, the allocation process was long and in some cases acrimonious (Skjaereth & Wettestad, 2009, pp. 113–116).



**Figure 2.** *The level of decision-making for six EU ETS design elements (for the version of the EU ETS in operation from 2013-2020)*

In the wake of these problems, the European Commission proposed a significant centralization of EU ETS decision-making at the EU level, which the Council of Ministers and European Parliament agreed to in 2008-2009. As a result, although decision-making remained divided between multiple levels, the locus of that decision-making shifted decisively to the EU institutions for policy-making related to the 2013-2020 version of the EU ETS. Revenue earmarking remained the prerogative of the member states, but decisions on allocation and the emissions cap shifted to Brussels.

Although there was a significant shift in the level of decision-making authority between the 2005-2012 version of the EU ETS and the 2013-2020 version, the actual extent of vertical differentiation stayed largely the same. For the 2005-2012 EU ETS, there were five design elements decided by the member states, one decided in a mixed decision-making system, and one at EU level. After the reforms, this situation was reversed, but the level of differentiation remained broadly the same if measured using this approach.

Table 1 shows the overall distribution of the decision-making level for the EU ETS’s design elements (five for the first time period, six for the second period with the addition of price management). There is a shift in the overall level of authority of the design elements, from a relatively even split between the EU and the national levels between 2005-2012, to a system that is mostly decided at EU level from 2013 onwards. This shift is in line with other authors’ discussion of a “supranational turn” in EU ETS decision-making (Boasson & Wettestad, 2013, pp. 53–78; Wettestad, Eikeland, & Nilsson, 2012).

**Table 1.** Overview of levels of decision-making for EU ETS design elements (2005-2020)

	Number of design elements (2005-2012)	Number of design elements (2013-2020)
EU	1	4
Shared	2	1
National	2	1
Overall level of authority	Split between national and EU level	Mostly at EU level

Despite the fact that the overall level of authority over EU ETS design elements moved to the EU level over this time period, decision-making remained vertically differentiated and multi-leveled. And with the expansion of allowance auctioning post-2013, and the related increase in EU ETS revenues, the importance of revenue earmarking for climate and energy policy in the EU increased. Therefore, although many decisions were now made in Brussels, the decisions that still were in national authorities' hands continued to play an important role. And, as the next section will show, the increased amount of decision-making at the EU level was accompanied by internal differentiation in how those decisions were made.

### **3. Vertical differentiation: Scope of decision-making**

Börzel measures the scope of integration according to the decision-making rules that are used in EU-level policy-making. The measures used range along a continuum from no EU-level coordination, through intergovernmental decision-making such as that found in the European Council, to the Ordinary Legislative Procedure, and finally unilateral decisions by EU institutions such as the European Commission or the European Central Bank (2005, p. 220). As in Section 2, I will use the concept of decision-making scope to measure which coordination/policy-making procedures are used to modify the EU ETS design elements that are decided at EU level.

One issue must be addressed: because Börzel analyzed the formal procedures as they appear in the EU treaties, placing specific policy issues in a category was relatively straightforward. However, in the actual practice of EU policy-making, those formal procedures can become modified and hybridized. For example, this can be seen in the various ways that the formal roles of the European Council and European Commission in EU agenda-setting allow for various *de facto* rules for how that agenda is set in practice (Bocquillon & Dobbels, 2014). As I will show below, some EU ETS design elements that are formally under the decision-making control of the Commission, European Parliament, and Council of Ministers have actually been made at European Council negotiations in recent years. Therefore, in cases

where decision-making departs from formal competences, I will categorize that design element under a *de facto* “mixed” decision-making procedure.

In light of that approach, EU level policy-making on the EU ETS has been and remains quite differentiated. Figure 3 shows the EU level decisions for the 2005-2012 version of the EU ETS. As mentioned in the last section, most of the design elements I focus on here were decided wholly or partly by the member states. During this time, the reduction target for the ETS was ultimately decided by the Heads of State and Government meeting in the European Council. The other element decided at EU level, the system’s scope, was decided through the Ordinary Legislative Procedure.

<p style="text-align: center;"><b>European Council</b></p> <p style="text-align: center;"><i>Reduction Target</i></p>	<p style="text-align: center;"><b>Mixed</b></p>	<p style="text-align: center;"><b>OLP</b></p> <p style="text-align: center;"><i>Scope (shared competence with member states)</i></p>
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**Figure 3.** EU level design elements according to whether they are decided by the European Council, through the Ordinary Legislative Procedure, or both (for the version of the EU ETS in operation from 2005-2012).

This EU level differentiation was driven by a divide between the “high politics” of emissions reduction targets and the “low politics” of detailed design decisions. The European Council had set the European Union’s greenhouse gas reduction targets for both 2020 and 2030 (European Council, 2007, 2014). Partly this is because such a target has broad social and economic consequences, and so is arguably a key, strategic decision for the entire EU (an area where the European Council traditionally makes decisions). In addition, EU reduction targets have been a high-profile means of attempting to influence international negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). Since it began operation, the EU ETS’s target, though of a much lower profile than the EU’s overall target, is determined in large part by the overall goal set by the European Council.

In contrast low profile, highly technical decisions such as the scope of the EU ETS have not received sustained attention by the European Council. The two largest changes to the EU ETS’s scope have happened through the Ordinary Legislative Procedure (the addition of aviation activities, see OJEU 2009a) or through unrelated processes (the accession to the EU of Romania and Bulgaria in 2007).

As decision-making for the EU ETS shifted to the supranational level, a further differentiation occurred. The reduction pathway joined the reduction target as a decision ultimately taken by the European Council based on proposals from the Commission (European Council, 2014, p. 2). In addition to setting reduction targets, the EU was dealing with a large number of unused allowances in the ETS, due to lower than expected emissions as a consequence of the 2008 financial crisis and its aftermath (European Commission, 2012b). A new attempt at price management was introduced – albeit indirectly by creating an “allowance reserve” that withdraws allowances from distribution if the amount of unused allowances in the market goes above a maximum threshold (European Commission, 2014b; European Parliament,

2015). This Market Stability Reserve has to this point been designed through the Ordinary Legislative Procedure.

An interesting mixed decision-making process has appeared in relation to allowance allocation, especially the division between free allocation and auctioning. In formal terms, allocation decisions have been centralized at EU level and are decided through the Ordinary Legislative Procedure. However, the high profile of the EU’s overall reduction targets, combined with resistance from the Central and Eastern European Countries (CEECs), has led to increasingly detailed allocation decisions being made in the European Council as part of agreements on the 2020 and 2030 reduction targets (European Council, 2014; Skjaereth, 2014). For example, in October 2014, Poland and other CEECs agreed to a 40% reduction by 2030 prior to an international climate agreement after Poland expressed public opposition to such a decision (see, e.g., European Commission, 2013a, p. 2). As part of that agreement, extra allowances were distributed to the CEECs, and they were also given the option to allocate allowances for free to the electricity generation industry in contrast to other EU member states (European Council, 2014, pp. 2–3).

European Council	Mixed	OLP
<ul style="list-style-type: none"> <li>• <i>Reduction Target</i></li> <li>• <i>Reduction Pathway</i></li> </ul>	<p style="text-align: center;"><i>Allocation method</i></p>	<ul style="list-style-type: none"> <li>• <i>Scope (shared)</i></li> <li>• <i>Price management</i></li> </ul>

**Figure 4.** EU level design elements according to whether they are decided by the European Council, through the Ordinary Legislative Procedure, or both (for the version of the EU ETS in operation from 2013-2020).

To summarize, as increasing EU ETS-related decision-making power has been shifted to the supranational level, policy-making among the EU institutions has become tripartite, with formal decision-making powers over some design elements held by the European Council, others held by the Commission, Parliament and Council of Ministers under the OLP, and an emergent informal mixed/“power sharing” division of competences related to allowance allocation.

#### **4. Differentiated policy-making: The 2012-2015 EU ETS Reforms**

The previous sections have illustrated that decision-making authority for the EU ETS is vertically differentiated according to both the level and scope of decision-making authority. In this section, I illustrate how that context creates a differentiated policy-making process. To do so, I will examine the recent and on-going EU ETS policy-making of 2012-2015.

##### **Context**

This section focuses on four EU ETS-related policy-making processes that occurred from 2012-2015. These processes were the result of two large-scale drivers: the preparation for the 2015 Paris summit of the UN Framework Convention on Climate Change, and attempts to

raise the carbon price in the EU ETS. The first topic is a long-standing practice of the EU to prepare an overall greenhouse gas reduction target in preparation for major climate summits (other examples are the Kyoto Protocol negotiations in 1997 and the Copenhagen summit in 2009).

The second driver – the low price of allowances in the EU ETS – was the result in part of a build-up of ‘excess’ emission allowances in the ETS due to both the use of offset credits from outside the EU and the sharp drop in emissions following the 2008 economic crisis (European Commission, 2012b). These excess allowances lowered the allowance price from a high of €30 to around €5 in 2012, reducing the incentive for installations to invest in low-carbon technology and potentially interfering with the EU’s attempts to further reduce greenhouse gas emissions after 2020 (2012b, p. 5).

EU policy-makers responded by proposing both temporary and longer-term changes to the EU ETS. In 2012, the European Commission released a list of possible reforms, including changing the EU’s mitigation goal to a 30% emissions reduction by 2020, creating a price control mechanism, and expanding the scope of the system (European Commission, 2012b). However, among policy-makers and other actors, such as NGOs and business associations, there was widespread disagreement about the most effective reform options, and some questioned whether reforms were necessary (BusinessEurope, 2013; Climate Action Network, 2013; European Commission, 2013b).

### **Differentiated policy-making**

The combination of multiple policy topics to address and the EU ETS’s differentiated decision-making, led to four separate policy processes: one focused on the EU’s 2030 reduction target, and three focused on EU ETS reform. The first process, starting in 2012, was a change to the EU ETS’s emissions reduction pathway through “backloading”, delaying the timing of the allocation of allowances (European Commission, 2012a). Operating through the OLP, this process lasted until the end of 2013, largely because the European Parliament unexpectedly voted against the proposal the first time it was presented to the plenary. The second ETS design modification to enter the formal decision process was a modification to the EU ETS’s scope, exempting aviation activities outside of EU-only flights after pressure from other countries, especially the United States, India, and China (European Commission, 2013c).

The third process to begin was the European Council’s negotiations on the EU’s emissions reduction target for 2030, and therefore the 2030 target for the EU ETS (European Council, 2014). This decision was part of the EU’s broader 2030 Framework on climate and energy policy, which was released for consultation in March 2013. The fourth and final policy process was focused on the Market Stability Reserve, for which consultation began in December 2012. The Commission’s proposed decision for the Ordinary Legislative Procedure was released alongside the proposal for the EU’s 2030 target in January 2014, and the policy process is currently on-going (European Commission, 2014b; European Parliament, 2015).

In general, a few characteristics of the 2012-2015 EU ETS-related policy processes are evident. First, there were a number of processes happening concurrently. In the second half of 2013, all four policy processes were either in the consultation or legislation phase (see Figure 5 below). This means that the European Parliament and Council of Ministers were directly

involved in three ETS-related processes during 2013. This is even more true of the European Commission and its Directorate General for Climate Action (DG Clima). Although this paper has shown that the EU ETS has a differentiated *decision-making* process, a case study like this shows that when it comes to *policy formulation*, the European Commission was involved in the four policy processes being reviewed here.

	2012	2013	2014	2015
Reduction pathway (Backloading)	[Dark grey bar]		[Dark grey bar]	
Scope (Aviation limited to EU-only flights)	[Light grey bar]	[Light grey bar]	[Light grey bar]	
Reduction target (2030)		[Dark grey bar]	[Dark grey bar]	
Price management (Market Stability Reserve)		[Dark grey bar]	[Dark grey bar]	

**Figure 5.** Timeline of four EU ETS-related policy-making processes, 2012-2015. The timeline includes stakeholder consultation periods (light grey) and legislative periods measured from the initial Commission legislative proposal to a final decision (dark grey).

Therefore, in the post-2012 EU ETS, with much of the decision-making power concentrated at EU level, the policy process consisted of a policy formulation stage dominated by the European Commission, and a differentiated, multi-level decision-making phase involving, variously, European Council decisions and the OLP with the Parliament and the Council of Ministers. In addition, design elements have tended to be reformed in discrete policy processes. Some of those processes happen with relatively low levels of outside attention (such as the reduction of the EU ETS’s aviation scope). Others occur in periods of very high time pressure when deadlines are determined as much by the schedule of UNFCCC meetings as by the EU’s own politics (such as the 2030 reduction target).

### Implications for wider EU climate change policy-making

What are the implications of these findings for EU climate and energy policy? Hix (2006) has already highlighted the difficulty that the “hyper-consensual” Ordinary Legislative Procedure may create for reforming EU policies that already existed . These challenges actually increase when a policy like the EU ETS is modified and reformed in a differentiated policy-making context. Not only does the hyper consensual OLP require agreements between the Council of Ministers, the European Parliament, and the European Commission. But because key design choices, including the reduction target and allowance allocation, are made wholly or partly by the European Council as well, that means actors looking to reform the ETS need to find agreement among a larger set of institutions. On the other hand, by making it so actors that are seen as ‘greener’, such as the European Parliament, are involved in the process, a wider, differentiated decision-making system may lead to a more stringent climate policy.

## 6. Conclusion

In this paper, I have argued that differentiated integration can lead to differentiated decision-making, and illustrated the concept with the case of the EU ETS. Since it began operation, decision-making on the EU ETS’s design elements studied here has shifted strongly to the supranational level. That shift lowered the scope of authority differentiation, by centralizing decision-making in the EU institutions instead of twenty-eight national governments (with

their own internal differentiation). At the same time, it increased differentiation at the EU level, with the European Council dividing responsibility over a single policy instrument with the European Parliament and Council of Ministers, all tied together by policy formulation in the European Commission.

This situation is likely to continue, given the pressures to make high profile decisions at the European Council, to make side-payments to get buy-in by the Central and Eastern European Countries, and given the fact that many design elements continue to be decided through the Ordinary Legislative Procedure. In future negotiations about the EU's emissions reduction target, there may also be a further expansion of "mixed" decision making between the European Council and the OLP institutions in order to reach high-profile bargains over the yet-to-be-decided 2040 and 2050 reduction targets.

Further research on these issues in relation to the EU ETS could move in a number of directions. For example, the above analysis has relied on public documentation and the formal beginning and ending of legislative procedures. However, there is likely to be much informal governance related to these issues that connects the EU institutions and other stakeholders. How, for example, does the differentiated and parallel nature of EU ETS decision-making affect the strategies of interest groups who need to decide which consultation processes to focus on and where to put their resources?

Broadening out from a focus on the EU ETS, studies of differentiated policy-making could potentially be valuable when looking at EU climate and energy policy more generally. Because it cuts across the environment and energy sectors of the EU treaties, climate and energy policy is often discussed separately in studies of these two areas (cf. Buchan, 2010; Lenschow, 2010). If a focus is put on climate change and energy policy as its own cross-sectoral policy issue, then maybe these approaches and others can help to create a greater focus on issue area-specific topics.

In addition, the differentiated policy-making concept may be useful for thinking about decision-making related to other emissions trading climate policies around the world. For example, the proposal for U.S. greenhouse gas regulations for electricity generation foresees a state-by-state emissions cap that can be met by emissions trading systems designed by one or more states (U.S. Environmental Protection Agency, 2014). This would very likely lead to a differentiated decision-making system similar to the EU ETS in its current form. This means that lessons learned from the now ten-year experience of the EU ETS could be valuable.

In addition, this type of analysis could be used to study more distributive EU-level policies with multiple design elements and separate policy instruments, such as the Common Agricultural Policy (CAP) and the Structural Funds/Cohesion Fund. These policies have existed for much longer than the EU ETS. Do they exhibit similar decision-making differentiation? How has this affected policy-making related to these topics, and how have the EU institutions, member states, and interest groups responded? The EU ETS has also been through a number of "policy crises" over the years. Other EU sectors, such as finance and banking, have both also had crises and have an increasingly diverse range of decision-making institutions and procedures to deal with crisis situations. How do these sectors and policies compare to the EU ETS, and what can be learned between them about policy-making in times of crisis?

This type of research, both of the EU ETS and other policies, could contribute to and supplement the broader work on EU integration more generally. As I argued in the introduction, both integration research (e.g., Börzel, 2005; Schimmelfennig et al., 2015) and research focused on general patterns in EU policy-making (Wallace, 2010) tends to focus attention on broad policy issues. In an increasingly cross-sectoral policy-making context, exemplified by the increasingly intertwined nature of EU climate change and energy policy, this policy-issue approach could be fruitfully supplemented by a more policy instrument-focused, cross-sectoral research focus.

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