



POTSDAM INSTITUTE FOR
CLIMATE IMPACT RESEARCH

A view on Article 29a for what it is: a **Political** (In)Stability Mechanism

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with comments from Dallas Burtraw (RFF & IEMAC)
ERCST meeting on Article 29a, 25 February 2022

Member of



Article 29a induces regulatory uncertainty



- **Rule does not scale with price**, under new market conditions will...
 - it **ever** be triggered?
 - price **inc. have “excessive”** in case it will have been?
- **Ambiguous rationale & intention:**
 - **Prospective:** prevent **future** steep price increases
 - **Retrospective:** “calm down things” **after** steep price increase

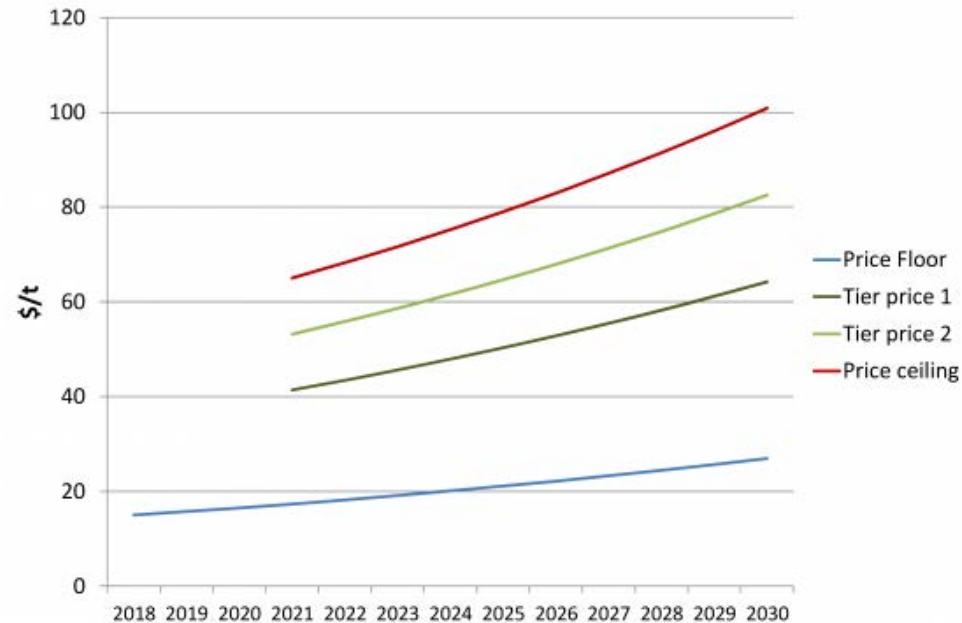
- Non-scaling rule and ambiguous rationale **increase regulatory uncertainty**
- ...distorts prices, triggers intervention, **creates more regulatory uncertainty**

A game between the market and politicians, played with trades and stories

“Today’s market was the specs giving the finger to the politicians,” said one European trader. “It was saying ‘we’re not afraid of your threats [to regulate]’.”

([Carbon Pulse](#), 23 Feb)

Learning from California's approach



Source: own illustration based on CARB

- **Ex-ante** clarify the boundaries of which **price levels are politically acceptable** (price corridor)
- Introduce „**speed bumps**“ (tiers) in case of strong market swings (less likely)
- Requires “**central bank**“-like **governance** that combines **trusted political process** with scientific **forward guidance** (long term MAC)
- Address detrimental speculation through **better monitoring and oversight**

Policy paper in preparation (end of March)