

Constructing carbon markets - An innovation network perspective¹

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Abstract

The idea of using carbon trading as a policy instrument to mitigate anthropogenic climate change has spread from the US, where it originated from the idea of tradable permits since the 1970s, around the globe and led to the development of carbon markets in various countries. With the parallel emergence of specialized regulatory agencies, consultancies, certifiers and verifiers, brokering firms and think tanks, carbon trading has become a professional business – the so called carbon economy.

How are we to understand this transformation of carbon trading as an idea of economic theory into enacted policy practice? Building on an emerging sociology of policy instrumentation, this paper rejects the idea that the success of carbon trading can be explained in terms of economic efficiency, or rational choice of policy instruments. Rather it argues that the development of markets for carbon trading can best be understood as contingent processes of *innovation in governance*. These processes are only partly intended or deliberately designed and ultimately the result of continual negotiation and mutual translation. Also contrary to what a functionalist ‘tool box’ perspective suggests, carbon trading is not a passive and neutral tool that is simply ‘at the disposal’ of policy makers. Instead it shows, to some extent, characteristics of a collective actor that actively promotes solutions and seeks to create political demand.

This paper explores dynamics of the European carbon market (ECM) by suggesting and probing a constructivist network building approach. Evolving carbon market institutions shall be understood as outcomes of translations within the innovation network. EU and member state governments, energy companies, think tanks, consultancy firms, research institutes, financial service providers, traders etc. are all involved in the construction of the market while they each pursue different goals and follow their own agendas. Different actors take on different roles (e.g. designers, users, sponsors, evaluators etc.) and show different degrees of market shaping abilities. A particular focus will be on the formation of reflexive interests among actors for whom emissions trading has become an end in itself.

By comparing and evaluating different (social) network approaches for the study of innovation in governance this paper sketches an approach to map actor constellations and trace interactions and movements of actors in the construction of carbon markets.

Keywords: innovation in governance, policy instruments, innovation networks, translation, market construction, carbon trading

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