

Theory-testing Study on Interest Groups Influence at the European Union Level

The complex and crucial case of the European Union Emission Trading System



Radboud University Nijmegen



Dániel Muth
November 2014

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Thesis to obtain the degree Master of Science of Public Administration

November 2014

**Master Comparative Public Administration
Radboud University Nijmegen
Nijmegen School of Management
Department of Public Administration**

Supervisor: Dr. Ellen Mastenbroek

Preface

This thesis represents the culmination of my work in Public Administration studies at Radboud University Nijmegen. Before beginning my writing, I completed electives on sustainability at the university and begun work with a think tank to research on topics related to sustainability. As a future public administrator, I am deeply interested in the political impediments which frustrate achieving truly sustainable operation in the economy and societies. My supervisor, Dr. Ellen Mastenbroek advised me to examine interest group influence on specific decisions as a possible explanation for changed policy designs. She was clear-sighted, and her propositions were in line with the findings of other researchers. For example, Markussen and Svendsen (2006, p. 245) have argued that:

"Such political economy analysis is important because any environmental policy has to pass through a political decision process. If the policy is not designed in a politically acceptable way, the original proposal will be changed beyond recognition and away from its cost-effective design during the political decision-making process."

I decided to focus my research on interest group activities in the supranational polity of the European Union, which has become the most important decision-making venue on our continent. However, conducting research on this topic is exceedingly demanding due to the numerous obstacles scholars have to tackle. I also faced many challenges during the writing process, but fortunately I was not alone to deal with them.

First of all, I owe special thanks to my supervisor at the university, Dr. Ellen Mastenbroek, who provided effective comments, which significantly enhancing the scientific value of this research. Moreover, her guidance helped me to stay focused on the crucial aspects of the topic and clarify the framework of my research. I deeply appreciate her supervision and help.

I cannot express enough gratitude towards my parents who have supported me morally, sacrificed financially and guided me humanely towards my goals. I am eternally in their debt.

To my girlfriend, Verus, who suffered through the writing process, tolerated my attention split between writing and pool performances, stood by me and supported me in

finishing my thesis and university courses: Thank you. You made our days affectionate and meaningful.

Last, but not least, the interviewees deserve special thanks, namely Sanjeev Kumar, László Bart, Kavita Ahluwalia and Gurbán Gyöngyi. Only a few policy-makers and experts were willing to be interviewed about interest group influence due to the sensitivity of the topic. I am therefore grateful for the valuable insights provided by these people, which considerably contributed to and improved the work and the accuracy of my findings.

"Success is not a destination, it's a journey"

I strongly believe that the quote of Zig Ziglar (1926-2012) perfectly describes my scientific journey. During this road I have grown and become more level-headed and able to comprehend social and economic processes in a more complex way. I think that this is an adequate measurement of success in the academic life and now I am looking forward to my next challenge after this accomplished journey. I hope, dear reader, that you are also looking forward to reading my thesis.

Dániel Muth

Leiden, the Netherlands

November, 2014

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Chapter 1.: Introduction

1.1 An Introduction to Interest Group Politics

Interest group politics is a multidisciplinary field involving political science, public administration, sociology and economics as well. There has been increased interest among scholars in interest group politics, particularly students of European Union integration have developed theories and paved the way for further accomplishments on the interest groups' literature (Beyers et al., 2008a).

The main reason for the growing interest in interest groups' activities is that understanding the operation of interest groups contributes to the better comprehension of advanced democracies (Beyers et al., 2008a). Moreover, due to the fact that the European Union (EU) member states have transferred policy-making power to the EU (e.g. Auel, 2005; Norton, 1996, p. 7-9; Falkner, 2000, p. 108-109), the significance of party politics seems to be in decline and the importance of interest group systems have come to the front (Beyers et al. 2008a). Finally, civil society organizations, business lobbying groups and other interest groups are embedded into the policy networks and negotiation systems which have made them dominant actors in the political arena (Beyers et al., 2008a).

The relevance of the topic can also be explained by the Europeanization of interest groups as proliferation of the lobbying groups and non-governmental organizations is detectable at the European Union level (Greenwood, 2011, p. 12-13). Initially, special economic interest organizations were established in the EU, since the integration of the EU was also developed along economic interests (Beyers et al., 2008a). Nowadays, approximately 3700 interest organizations operate in Brussels (Wonka et al., 2010, p. 466), and the EU bureaucrats and politicians face an estimated 15,000-30,000 lobbyists representing special economic interests, industrial sectors, non-governmental organizations, think tanks and trade unions (Corporate Europe Observatory, 2011, p. 3). There are plenty of studies which examine the relationship between EU institutions and interest groups representation (e.g. Princen and Kerremans, 2008; Blavoukos and Pagoulatos, 2008; Beyers, 2008). Generally, there is a consensus on the fact that interest groups and EU institutions have coevolved (Eising, 2008). In wake of the more extended scope of regulations and successful institutional reconfigurations in the EU, the number of interest groups has mushroomed over time (Greenwood, 2011).

1.2 Research Problem

Despite the increased interest and the significance of the topic, scholars agree that interest group politics has still remained an isolated niche research area (e.g. Beyers et al., 2008a, Eising, 2008). The existing theoretical and empirical studies have contributed to receiving a broader insights into the interest group politics, but there are several important reasons for the scarcity of interest group research, including conceptual and methodological impediments which frustrate the accumulation of knowledge (Beyers et al., 2008a, 2008b; Eising, 2008).

The barriers mentioned above are also the reasons for the paucity of the research on interest group influence, which is one of the most important aspects of interest group politics (Dür, 2008a). The main objective of interest groups is to shape public policy in line with their preferences (Dür, 2008b, p. 561). The study of interest groups' influence is at the core of the interest group research, as it is important for scholars who are interested in policy-making in the EU, and for researchers who examine the democratic legitimacy of decision-making in this supranational polity (Dür, 2008a, 2008b).

There is a plethora of hypotheses regarding the influence of interest groups on policy outcomes and on the necessary conditions facilitate influence (Dür, 2008a). However, only a few scholars have attempted to study empirically these hypotheses in the case of the EU, and what is more the empirical findings are contradictory (Dür, 2008a, Eising, 2008). Additionally, studies on interest group influence in the EU are scarce compared to the literature on interest group power in national political systems (Dür, 2008a). It is exceedingly astonishing due to the fact that, major theories about European integration ascribe crucial role to interest groups (Dür, 2008a, Beyers et al., 2008a).

The neglected status of interest group politics can be also explained by the fact that interest group researchers have to tackle several challenges. First of all, no consensus on basic terminology has emerged yet (Beyers et al. 2008a, 2008b). For instance defining 'power' is a difficult task (Dür, 2008a). Moreover, due to the complicated decision-making process, detecting interest group strategies, access points, and different pathways is debatable. For example, the result of research on influence by lobby groups in different phases of policy-making in the EU can be misleading, because influence can be accomplished on several stages. Consequently, research on policy-making process can show that big firms were not able to influence policy-makers, even though they wielded influence in the agenda-setting phase (Dür, 2008b). Thirdly, measuring influence is extremely difficult due to the limitations of the existing methodologies

(Dür, 2008a; Dür, 2008b). As a consequence, only a few scholars have started to examine empirically interest groups' influence in the EU (Dür, 2008a).

To sum up, the main reasons for the paucity of studies on interest group influence in the EU are the following: (a) lack of clearly defined and specified concepts are used in studies; (b) lack of empirical studies on interest group influence; (c) limitations of existing methods aim to measure influence and power. Consequently, scholars have to be consistent using concepts such as influence and power and committed to strict methodological path. Moreover, hypotheses which stem from the interest group influence literature should be tested for the case of the EU.

1.3 Research Question

This research aims to contribute to the theoretical debate about the determinants of interest group influence in the European Union in general, and examine empirically the factors which determine interest groups' influence on policy outcomes in the European Union. Most importantly, the neglected status of interest group politics will be improved by narrowing the gap between the theoretical basis and empirical research. In order to fulfill the purpose of the research, certain hypotheses will be developed from existing scholarship on interest group influence in the EU and tested empirically by applying a case study and comparing diverse interest groupings.

This leads to my main research question:

"How can we explain varying interest group influence on policy outcome in the European Union?"

In order to structure the thesis and to create a developed line of argumentation, several sub-questions will help to answer the research question as well.

- 1.) What are the main characteristics of interest groups?
- 2.) How does the unique structure of the EU affect the operation of interest groups?
- 3.) What theories are there to explain the determinants of interest group influence on policy outcome in the European Union?

4.) What methodology can be applied in order to measure the determinants of interest group influence on policy outcome?

5.) Which determinants de facto affect the influence of interest group on policy outcome in the European Union?

1.4 Policy Overview

As previously mentioned, the author of this thesis employs a case study in order to test certain hypotheses which will be extracted from the state of the art literature on interest group influence on policy outcomes in the EU. The applied case is the revised European Union Emission Trading System. The presentment of the case selection mechanism will be provided in the 'Methodology'.

A short introduction of the selected European Union Emission Trading System case is reasonable, because it is a highly technical and complex policy sector and it can help the reader to understand this environmental policy better. The detailed description of the policy will be included in the fourth chapter.

Transition into sustainable development can be perceptible in the European Union (EU) (European Commission, 2009). The underlying logic behind this development is that climate change impacts could go beyond that tipping point where the aftermaths could threaten our well-being and cut back achieved economic progress (Schellnhuber et al., 2012). Consequently, climate change impacts and ecological sustainability are among the biggest challenges humankind faces in the 21st century. In order to avoid irreversible processes, the European Union has taken further steps in different policy sectors (Liberatore, 1997).

One of the crucial elements of the EU sustainable development strategy is climate policy. Reducing greenhouse gases enjoys priority on the agenda. If we take a closer look at EU climate policy, we can see that the European Union Emission Trading System (EU ETS) is the cornerstone of the EU environmental policy (European Commission, 2014a). In line with the Kyoto Agreement, the member states of the EU are committed to reduce their CO₂ emissions. In order to reach these goals, the EU launched the EU ETS (EU Directive, 2003), a so-called cap-and-trade system according to the Kyoto Protocol and beyond that, which means that the amount of pollution which can be emitted is limited, but a market is created in order to trade with limited

allowances (European Commission, 2014a; Helm, 2008). The idea behind this program is that the EU ETS is able to tackle the challenge of climate change and reduce greenhouse gases (GHG) produced by industrial sectors in the EU cost-effectively. The factories, power plants and installations covered in the policy receive certain amount of allowances. Each unit enables the possessor to emit one ton of CO₂, or an equivalent amount of other two greenhouse gases. Companies that emit a smaller amount of greenhouse gases than allotted could sell their surplus allowances, or buying some if necessary to cover the required amount of GHG (European Commission, 2014b).

As a consequence, the companies and power plants are interested in upgrading their technology and using clear energy, because it is profitable due to the revenue they receive for the sold allowances. Simultaneously, polluter industry sectors must pay for the environmental damage they cause, as they use more allowances. The available number of allowances is limited and is reduced year by year (European Commission, 2014a).

The EU ETS has influenced mutually EU decision-makers, firms in energy-intensive sectors, member states and at the same time non-governmental organizations striving for binding strict regulations in environmental policy (Erbach, 2012, p. 5).

The first, initial phase worked from 2005 to the end of 2007. The second phase began in 2008 and ended in 2012. The third phase commenced in 2013 and will operate until 2020 (Davies et al., 2009, p. 13).

1.5 Scientific and Societal Relevance of the Research

Research on interest group politics is valuable for multiple reasons. In the following paragraphs the importance and relevance of the topic will be revealed.

1.5.1 Scientific Relevance

Essentially, focusing on determinants which enable effective lobbying is exceedingly important, as it helps to understand better the political processes in the EU, contributes to theoretical debate on interest group influence generally, empirically examines the factors determining the interest groups influence on policy outcomes. As a consequence, this study will contribute to enrich the existing literature on interest group politics and will help to improve on the scantiness of empirical research which is one of the main impediments that frustrates the accumulation of knowledge in this field.

More precisely, due to the fact that interest group main objective is to influence policies, understanding interest group politics in the European Union is essential in order to enhance the comprehension of advanced democracies. In addition, it helps to contribute to a better understanding about the logic of decision-making in this supranational entity (Dür, 2008a). Furthermore, the factors mentioned under the section of 1.2. could be viewed as obstacles which make it exceptionally difficult to research interest group activities, but the shortcomings of this research field open the doors for further achievements. The research aims to improve on this neglected status and shed light on the significance of interest group politics in the EU. Additionally, testing hypotheses about the determinants of successful influence on policy outcomes can help on the problem of the absence of empirical research. Consequently, the research will have great value for interest group scholars.

1.5.2 Societal Relevance

Brussels has become the most important decision-making venue in Europe (Hussein, 2003). One of the implications of this development is the rapidly increasing number of lobbying- and social movement organizations in Brussels, as they main objective is to exert influence on policy outcomes and push the policy in a specific way in line with their preferences (Greenwood, 2011, Dür, 2008b). Due to the unified, complex institutional structure of the EU, understanding the underlying logic of decision-making is difficult. There are several consequences of this process. Most importantly, there is a lack of transparency throughout the decision-making process in the EU, which contributes to the democratic deficit of the EU (Bijsterveld, 2005), though, some measures have been introduced in order to enhance legitimacy (Deckmyn, 2002). The thesis will contribute to the better understanding of the operation of interest groups in the EU and explore the potential areas, where the European Union could enhance transparency. Furthermore, the EU has attempted to involve more social movement organizations in the decision-making process in order to increase legitimacy, however some scholars found that they have access without influence (Dür and Bièvre, 2007). This research can help to identify those determinants which should be strengthened by the EU to empower social movement organizations which represent diffuse interests and improve on democratic deficit via their participation in the policy- and decision-making process.

Finally, this research will contribute to identify those factors which actually affect effective lobbying which helps to interest groups to further their capacity to influence policy outcomes.

1.6 Preview: Theoretical Framework

The theoretical framework will be primarily based on studies focus on the relationship between interest groups and the supranational polity of the EU. The relationship will be examined by applying the analytical approach of multi-level governance. In this respect, the scientific works by Beyers et al. (2008a), Dür (2008a) and Eising (2008) have to be emphasized, even though scholarship of several other researchers who paid attention to interest group influence will be mentioned and applied as well. The hypotheses will be extracted from resource-exchange- and lobby strategy theories. Basically, interest group researchers have identified these two broad approaches which can explain interest group influence on policy outcomes (Dür, 2008a; Beyers et al., 2008a). Generally, resource-exchange theory says that more resources an interest group has, the more influence an interest group can exert on policy outcome in the EU. Resources can be experts, financial and political support. Lobby strategy theories are about the significance of applying effective lobby strategy to exert influence on policy outcome. However, this research split these two broad categories up into four determinants (*expertise, support, inside lobby strategy and access*) to perform a more nuanced and comprehensive analysis. In order to avoid falling into the trap of simplicity, criticism of the concepts will be presented in the theoretical framework chapter as well. Finally, the theoretical framework ends with a clausal model.

1.7 Preview: Methodological Framework

This research is a qualitative case study which aims to test hypotheses within a particular case to explain the determinants of interest group influence on policy outcomes in the European Union. In order to enhance the confidence in the validity of the theories on interest group influence, a *most likely crucial case* was selected. Eckstein (1975, p. 118) defined a crucial case as one "*that must closely fit a theory if one is to have confidence in theory's validity, or conversely, must not fit equally with any rule contrary to that proposed*". The logic of most likely crucial case can be summarized as follows: "*the independent variables posited by a theory are at values that strongly posit an outcome or posit an extreme outcome*" (George and Bennett, 2005, p. 121). In the case of most likely cases, the researchers have confidence that the case presumably fits the theory. However, if the data deny the predictions, the findings can refute the theories. Consequently, most likely crucial case fits well for the purpose of theory-testing

studies, because generalization of the findings by selecting crucial cases is possible (George and Bennett, 2005; Levy, 2008; Beach and Pedersen, 2012). The EU ETS constitutes a most likely case, as special interest groups, who are the subjects of the analysis (see section 1.8) are viewed as well-resourced organizations (e.g. Lohmann, 2006, p. 41-42, p. 80-83; Saurugger, 2008, p. 6.), who have more access to decision- and policy-makers and hence more influential than other types of interest organizations (Dür, 2008a; Beyers et al. 2008a; Beyers, 2008). Consequently, resource-exchange- and lobby strategy theories presumably will not be rejected and thus, enhance the confidence in these theories. After all, one can wonder what the scientific contribution of this study is if it will likely simply end with reiterating what we already knew. Even though the theories presumably will not be rejected, it does not necessarily follow that the empirical findings will inevitably fit the theory. The reason for the doubts is the previously mentioned absence of empirical research. As only a few scholars have attempted to do empirical research with regard interest group influence, these theories have not been tested yet oftentimes and thus applying most-likely cases is essential to construct empirical basis and therefore an inevitable and logical step. What is more, the existing empirical studies have resulted in contradictory findings (Dür, 2008a; 2008b). These facts make most-likely cases exceedingly valuable for interest groups researchers. All these terms mentioned above and case selection mechanism of this research will be presented in detail in the third chapter.

Regarding the research design, this research is a theory-testing case study based on deductive reasoning. Examination of one particular case allows accomplishing an in-depth analysis. Furthermore, it provides detailed information which helps to uncover interest groups strategies, access to decision-makers which can be hardly detected by large N number studies (Dür, 2008b). Furthermore, applying case study fits best for fulfilling the purpose of this research, as the selected method aims to detect causal relationships between the variables is the process tracing. Process tracing method is used to see whether the causal relationship between the independent variables and dependent variable indeed exists. However, testing hypotheses by using single-case study is disputed in social sciences, hence the scientific value of case study research and further discussion on the research design will be included in the methodological framework section as well. Subsequently, further discussion on case selection mechanism for this research and the significance of this task will be then revealed. This subchapter aims to justify the selection of the EU ETS by presenting the theoretical, pragmatic and methodological considerations which were taken into account. Afterwards, the data collection techniques and the method applying to analyze gathered data will be shown. This research uses content analysis investigation technique and conducts interviews and applies the process tracing method to

identify causal mechanisms between the variables and analyze this particular case. These sections will be followed by the operationalization of the variables which presents how dependent and independent variables can be defined and measured. Finally, the discussion on validity of the chosen methods will end the methodological chapter.

1.8 Scope of Research

1.8.1 Time period

The EU ETS was established in 2005 and the first and second phases worked under the same legislation bases. However, the system was revised between 2007 and 2008 and significant changes took place in the third phase. This research focuses on the revision process of the scheme. It is highly relevant, as the changes came into force in 2013. *This thesis covers the time period between the date when the Commission started to work on the revision of the system within the confines of the European Climate Change Program in March of 2007 and the final policy outcome in 2008, December.* The reason why the time period will be extended to the time before coming out of Commission's proposal (2008 January) is that there were several special working groups prepared to reform the EU ETS prior to the Third Phase with key stakeholders such as industrial lobbying groups, think tanks and non-governmental organizations. As a consequence, the role of an interest group's influence on the policy outcome can only be detected by including the initial phase of the policy-making as well.

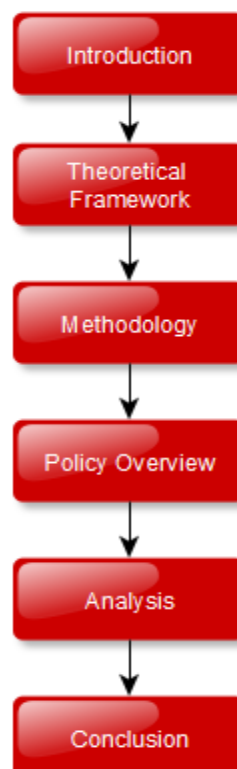
1.8.2 Actors

The subjects of the analysis are the industrial lobbying groups (special interest groups) and environmental non-governmental organizations (social movement organizations) who were interested in pushing the alterations of the system in a specified way. Several authors (e.g. Michaelowa, 1998; Markussen and Svendsen, 2006; but also see: Andresen and Guldbrandsen, 2005) stress that examining the role of NGOs in bargaining processes in the EU's climate policy is not reasonable as they do not possess necessary resources to exert influence on decisions, however due to the efforts put by the EU to include social movement organizations in the policy-making process (Heidbreder, 2012) it can be argued that their roles should not be underestimated.

1.9 Structure of the Thesis

This research is divided into six chapters. The *first chapter* introduces the interest groups politics briefly and reveals the weaknesses of interest group research field and room for improvements. Furthermore, it provides necessary information about the outline of this research. The *second chapter* provides the overview of state of the art academic literature on the determinants of interest group influence and interest groups operation in the EU. Additionally, several hypotheses are developed about the determinants of interest group influence. The *third chapter* presents the research design, case selection mechanism, data collection techniques and method for analysis which are applied in the research. Furthermore, discussions on scientific value of case studies and on the validity of the chosen methods take place as well. The *fourth chapter* gives a historical overview of the European Union Emission Trading System. The main objective of this chapter is to enhance the understanding of the complex system of the EU ETS and introduce those organizations and their interests which are the subjects of the analysis. The *fifth chapter* is the analysis part of the thesis where the detailed process tracing analysis to the influence of interest groups is performed. Finally, the *sixth chapter* contains the conclusion and my answer to the research question. Furthermore, the main implications and contributions of the research are included as well as my recommendations for future research.

Figure 1.1. Overview of the structure of the research



Chapter 2.: Theoretical Framework

2.1 Introduction

This chapter aims to introduce the reader to those factors that determine interest group influence on policy outcome by the help of wide range of theories and explanations. Furthermore, basic definitions will be clarified and specified in order to contribute to the accumulation of knowledge. Vast literature on interest group politics is existing aspires to explain how powerful interest groups are, how these organizations can have access to decision-makers, what strategies they can apply in order to influence policy-making and how they can mobilize their resources in a supranational policy network, such as the EU. Despite the strong theoretical basis, only a few researchers have attempted to test theories in the case of the EU (Dür, 2008a, 2008b). Hypotheses will be developed from the state of the art literature and the theoretical chapter ends with a clausal model integrating the determinants which will be tested. It is crucial to stress that the hypotheses will be conceived in that way which implies that the confirmation or the rejection of the formulated hypotheses will be accomplished by comparison of diverse interest groupings. The selected interest groupings and the comparison will be presented in the Analysis chapter. Moreover, it is also important to emphasize that the terms of "*variables*", "*factors*" and "*determinants*" will mean the same and used as synonyms in this study.

This study focuses on the interest groups influence in the European Union. The following subchapters provide an overview about the existing studies on interest groups influence at the level of groups in this supranational polity. Due to the multifaceted character of interest groups influence, this study will present only the most important explanations on it. Before turning to the explanations and theories, basic notions will be revealed.

2.2 Basic terms

One of the impediments which frustrates the field of interest group studies is the large number of concepts and definitions. There is no consensus among students of interest group politics how e.g. interest groups, pressure groups, special interest groups or social movement

organizations could be defined and distinguished from each other (Beyers et al., 2008a). As a consequence, conscious and consistent use of concepts is essential in order to avoiding misconceptions and contribute to the knowledge accumulation (Beyers et al., 2008a). As an initial step, I introduce the current term of 'interest groups politics' defined by Beyers et al. (2008a, p. 1103):

Interest group politics is *"the organisation, aggregation, articulation, and intermediation of social interests seek to shape public policies"*.

2.2.1 Definition of influence

Firstly, defining 'influence' is crucial as this is the main objective of interest groups, unless not the only one (Dür, 2008b). Additionally, one of the main barriers of knowledge accumulation in this research field is the lack of agreed definition of influence (Dür, 2008b). Basically, influence can be understood *as an actor's or group's ability to shape a decision in alignment with her preferences* (Dür, 2008b, p. 561), or in other words, *"a causal relation between the preferences of an actor regarding an outcome and the outcome itself"* (Dür, 2008b, p. 561, from: Nagel, 1975, p. 29).

2.2.2 Characteristics of interest groups

This section clarifies what the main characteristics are which determine an actor as an interest group. There are three main factors: *organization, political interests, and informality* (Beyers et al., 2008a, p. 1106). Firstly, *organization* refers to the environment of the group and excludes mass movements and public opinion which might exert influence on policy outcomes. Interest group politics deals with structured forms of political behavior and aggregated individual willingness. Secondly, *political interest* covers the aspect that these organizations attempt to influence policies. This aspect is similar to political advocacy which is a broad concept refers to the activity by actors to push decision makers in order to change a specific public policy in a desired direction. Finally, *informality* concerns the fact that interest groups attempt to reach their goals throughout informal interactions with politicians and functionaries, however it does not necessarily follow that the relation between states and interest organizations is not institutionalized in capitalist democracies (Beyers et al., 2008a).

It is reasonable to make difference between interest groups and parties because the distinction can be difficult. Basically, interest groups focus on influencing policy outcomes and

put issues on the agenda and not to run government and compete in elections (Beyers et al., 2008).

2.2.3 Classification of interest groups

The previous subchapter revealed the basic definitions which will be applied rigorously in the research. Now the categorization of the interest groups will be presented in order to obtain a comprehensive picture about their interests and operations.

Special interest organization, social movement organizations and civil society organizations can be distinguished from each other considering specific group populations, social processes and causal factors (Beyers et al., 2008a). My brief introduction will be reduced to these three definitions which are popular in the literature.

Special interest organization refers to the fact that the organization represents a narrow section of interests and this sectional interest is mobilized in order to exert pressure on policy-makers, while distributed interests are less capable to organize themselves, hence influencing policies. This process is often viewed harmful by the political scientists and public political discussion for the societies and democratic interests (Beyers et al., 2008a). These organizations generally are big firms, business lobbying groups with specific economic interests.

Social movement organizations and civil society organizations are viewed more positively in the literature. Basically, scholars who apply these concepts are unwilling to use interest group label regarding social movement- and civil society organizations as they refer interest groups which use 'harmful' inside lobbying (Beyers et al., 2008a). Contrary, normative literature on democracy emphasizes their important contribution to the healthy operation of governments (Mendelson and Glenn, 2000). Social movement organizations and civil society organizations can play an intermediate role between citizens and the governments. Additionally, these organizations represent diffuse interests opposed to special interest organizations. Principally, these organizations are the non-governmental organizations (NGOs) (Beyers et al., 2008a). They are specialized in specific sectors, such as environment, migration, etc. Consequently, we can make distinction between NGOs. For example, Greenpeace, as an environmental non-governmental organization (ENGO) focuses on environmental policy (Beyers et al., 2008a).

2.3 Interest Groups Influence in the European Union

2.3.1 Analytical approach of Multilevel governance

Before identifying those determinants which possibly can explain the abilities of interest groups to exert influence in the EU, the exceptional structure of the EU and its relationship with interest groups will be examined. It is essential because understanding of political processes in this supranational polity only can be reachable if one comprehends the unique structure of the EU as well.

Several scholars assert that EU institutions and interest representation have coevolved over time and mutually affected each other (e.g. Eising, 2008, Greenwood, 2011). Due to the deeper integration in the EU, the European and domestic political processes are now intertwined. There are two dominant approaches regarding the relationship between interest groups and the EU institutions (Eising, 2008). These are multilevel governance (MLG) and Europeanization. There have been institutional alterations in the EU over time and the explanations of the response of interest groups to these changes are captured by applying one of these approaches (Eising, 2008). As Europeanization concerns with the impact of the EU on member states, it cannot help to explain the relationship between interest groups and the EU institutions at the EU level (Falkner, 2000). As a result, this research will focus on the multilevel governance perspective, which is the most suitable one to interpret the interactions between European Union institutions and interest groups.

The multilevel governance approach explains the process of distributing political authority among European and national institutions (Hooghe and Marks, 2001). Transferring power to the European Commission and Parliament made these institutions exceedingly important to interest groups that want to influence policies. The alterations created a 'political opportunity structure' to interest groups, an environment where they can flourish (Eising, 2008). But, how does the multi level system of the EU and interest groups affect each other? What are the consequences of this interaction? These are the main questions of the next subchapter.

2.3.2 Political Opportunity Structure

The EU is a complex and unified structure. The governments, interest groups and supranational institutional actors are intertwined in the policy network. The multi-level system of the EU provides several access points to interest groups to decision- and policy-makers and hence opportunities to influence policies. However, interest groups simultaneously have to deal

with the several opportunity structures effectively at the EU level (Princen and Kerremans, 2008). The concept of political opportunity structure provides a framework for the comprehension of interest groups activities in the European Union.

The political institutions substantially affect the possibility of interest group influence on policy outcomes due to shaping the access opportunities to policy-making processes for the actors (Dür, 2008a). However, there is no scientific consensus on the fact whether the division of power in the EU actually sets back or facilitates the access of interest groups to decision-makers (Princen, 2007).

Princen and Kerremans (2008) have examined the relationship between political opportunity structure and interest groups activities. According to the authors, the multi-level system EU can be viewed as an opportunity structure for influence groups as they can have several access-points to decision- and policy-makers. They defined (2008, p. 1130) 'political opportunity structure' as "*the set of characteristics of a given institution that determines the relative ability of (outside) groups to influence decision-making within that institution.*"

Moreover, the authors identified three prevailing approaches regarding political opportunity structure. The first one is about exchange relations in EU interest representation. This approach explains the role of resources and gives answers to questions why interest groups become mobilized, how interest groups can have access to decision-makers, how interest groups can influence policies (Princen and Kerremans, 2008). According to the resource exchange perspective there is interdependence between the interest groups and institutional actors. They both offer something valuable, changeable to each other. Both parties are able to help and weaken each other. Consequently, interest groups must offer something valuable, exchangeable in order to exert influence on policies. On the other side, if politicians are not able to provide any values to interest groups, these groups will not be engaged in political processes. These exchangeable resources can be money, information, expertise, political support, etc. This is the key for understanding of resource mobilization and gaining access to decision and policy-making processes as well (Princen and Kerremans, 2008). Further discussion on resource exchange perspective is presented under section 2.4.1.

The second approach is 'venue-shopping'. This term was introduced by Baumgartner and Jones (1993) and it refers to the process when the interest groups choose and move among access points at the European and member state levels. It includes the idea that, policy change is possible by shifting among the institutional venues (e.g. decision-making arena) that concerns with the same issue. For example, the EU ETS can be viewed as an environmental issue and simultaneously as a competitiveness issue, which has a strong economic aspect. The different

institutional venues can focus on different sides, advantages and drawbacks of the same policy, hence a shift in venues can affect the policy outcome considerably.

The 'political construction of scale' is the third approach, and it concerns with the phenomenon that actors tend to represent a certain issue in different scales. The underlying logic is that the concept of 'scale' is not predefined and fixed, but it is heavily affected by political actors who attempt to 'construct' the scale of a specific issue in order to make it in alignment in their preferences (Princen and Kerremans, 2008). Consequently, a certain issue can open new opportunities and close them for others by constructing a new scale for a certain issue (Princen and Kerremans, 2008).

As we can see, some scholars stress that the unified political structure strengthens the interest groups as they have more potential access points (see also: Pollack, 1997). The interest groups can lobby at domestic levels as well. What is more, the European Parliament and European Commission are seem to be especially accessible to interest groups (Dür, 2008a). One of the consequences is that supranational channels facilitate the achievements of objectives interest groups proposed to themselves.

However, the EU cannot be viewed as an opportunity structure always for the interest groups. For instance the complexity of power division makes it challengeable to interest groups to choose effective lobbying strategy (Beyers, 2008) and to provide the resources which are necessary to gain access and wield influence (Princen and Kerremans, 2008).

The final aspect of 'political opportunity structure' which will be encountered is the fact whether the public actors are appointed or elected. Bureaucrats in the Commission are not interested in re-election, hence their responsiveness to demands of concentrated interest is diminished. They do not depend on the resources interest groups have in order to achieve re-election (Dür, 2008a). The ability of members of the European Parliament to make decisions in line with the preferences of interest groups also can be limited due to the fact that they have to be ideologically consistent and rent-seeking can be punished by voters in the following election (Dür, 2008a).

2.3.3 Issue Characteristics

An issue characteristic is an important factor as well which helps to understand resource mobilization and access to decision- and policy-makers in the EU.

Firstly, in *distributive politics*, certain groups which strongly represent special interests are willing to win over diffuse interest. These groups can benefit from the actions, whilst the

costs are widely dispersed. *Regulatory decisions* are often imposing concentrated cost for a specific groups and concentrated benefits for another groups. Regarding regulatory decisions, at least two groups' interests have to be clashed in the political arena. The influence of interest groups in the third kind of issue characteristics is marginal, as *redistributive policies* impose diffuse costs and benefits. (Dür, 2008a)

2.4 Determinants of interest group influence

The theoretical perspective on the determinants which can affect the abilities of interest groups to exert influence will be provided in the following subchapters. Interest group politics' theories initially have developed in the United States, however the application of all of these theories in the European Union context is not possible. Consequently, this part will focus on the determinants which can be applied in the case of the EU. Regarding the determinants of interest group influence in the EU at the level of organizations, the factors can be clustered in two categories. We can distinguish interest group resources and interest group strategies (Dür, 2008a). However, both of the concepts are quite broad, hence the notions will be split into different determinants. Firstly, the theoretical basis of the notions will be revealed, then the concrete determinants will be presented.

2.4.1 Interest group resources

The majority of interest group scholars agree on the fact that there is a positive correlation between the resources the interest groups possess and their abilities to exert influence on decision-makers and policy outcomes (e.g. Coen, 1997; Hall and Deardorff, 2006). These resources can include money, information and knowledge and political support (Dür, 2008a). Based on the rational-choice exchange approach, the actors seek after maximizing their utility (Princen and Kerremans, 2008). In this respect the actors can exchange their resources. The extent that how much influence can be exerted by interest groups for the resources they have depends partly on the demands of political actors for these resources (Dür, 2008a). Two determinants have to be taken into account regarding the factors on this demand. Firstly, the office-seeking politicians' main objective is to hold decision-making positions and reach re-election. The second one is the accessibility of alternative resources from other actors. As a result, the demand for resources and ability to support these resources strongly affected how much influence interest group can realize on policy outcomes (Dür, 2008a).

Due to the fact that these resources are not equally possessed by the interest groups, we can assume that certain groups are more influential than others (Dür, 2008a). The resource endowment is affected by particular characteristics, such as size of the organization, the type of the membership and the geographic concentration (Gerber, 1999, p. 59-75). For example, greater the number of members in a particular interest group, more the political legitimacy they can express. This difference between interest groups contributed to a priori categorization of interest groups. The contrast lies between business lobbying groups viewed as powerful actors with much resources and social movement organizations (such as NGOs) which have peripheral positions due to the lack of necessary resources (Beyers, 2008).

Due to the fact that special interest organizations possess more resources and the EU institutions also focus on market integration, interest representation is supposedly heavily biased in favor of economic interests (Coen, 1997). In this respect the bias correlates with the inequalities in the societies, and civil society organizations are not able to change this plight (Dür, 2008a).

2.4.1.1 Expertise

Interest groups can have necessary knowledge, information and expertise which can contribute to the improved policy-making. For example, firms might have precise information about the plight in the market or obstacles which hamper the implementation of a policy. Therefore, their knowledge and information can help policy-makers to deal with the political feasibility of a policy and support the policy-making process as a whole (Dür 2008a; Hall and Deardorff, 2006). Moreover, according to several scholars, the technical issues infer more influence of interest groups. (Dür, 2008a). The bureaucrats, also in the EU, need information and knowledge in technical fields in order to develop policies and receive information about the feasibility of a specific policy, hence they depend on interest groups who can provide this necessary information and expertise. The European Commission particularly needs interest group expertise as it deals with broad range of policy sectors even though its policy resources are limited (Beyers et al., 2008a; Dür, 2008a). Consequently, its operation especially depends on the resources interest groups provide than other institutional actors in the EU.

H.1.: The more expertise an interest group offers in the decision and policy-making process, the more influence an interest group exerts on policy outcome.

2.4.1.2 Support

Basically, more interest groups involved in the decision-making are in favour of a particular decision, more the legitimacy the decision-makers can express and easier the introduction or altering a policy. Moreover, decision-makers want to be confident that domestic actors will implement policies accurately, so interest groups influence on policy outcome will be higher, as their support enhances the plausibility of the correct application of the EU law (Dür, 2008a). Moreover, support refers to the process, when interest groups support the decision-makers financially. For instance, the financial resources can be used to support the politicians in charge or the challengers in an election. The influence can be accomplished through direct support of politicians in return for policy alterations which is in line with their economic or other preferences (Dür, 2008a).

H.2.: The more support an interest group provides, either financially or politically, the more influence an interest group exerts on policy outcome.

2.4.2 Interest group strategies

Interest group strategy is the second factor that shapes interest group influence. In order to maximize their influence potential, interest groups have to apply the most effective strategy. Effective strategy can be defined here as a capability of interest groups to apply a conscious plan or action which ends with a desired outcome (own definition). However, the success of the employed strategy depends on several factors. Past strategies can have effect on the present choice, the institutional system and the issue characteristic are also among the criteria. Interest groups must tackle several challenges to pick up the best strategy. For instance, they have to choose to lobby at national or EU level, lobby at different venues in the EU (Beyers et al., 2008a) and on different stages of the policy-making (agenda-setting, decision-making, implementation) (Dür, 2008a).

2.4.2.1 Inside lobby strategy

The literature distinguishes between inside and outside lobbying strategies (e.g. Kollman, 1998; Beyers et al., 2008a; Dür, 2008a). The former refers to the network the interest groups maintain with the political and administrative elites either informally or formally, while the latter concerns media strategies and other forms of medias' mobilization such as writing petitions and organizing demonstrations. Consequently, it is also assumed that well-resourced special interest groups will use inside lobbying due to the more access points they have to the decision-makers, while the social movement organizations will be compelled to apply outside

lobbying in order to exert influence on decisions. It is assumed that inside lobby strategy is more effective, as it is hard to draw the attention of public, as European citizens are more interest in national than in European politics. Moreover, there is an absence of EU mass media.

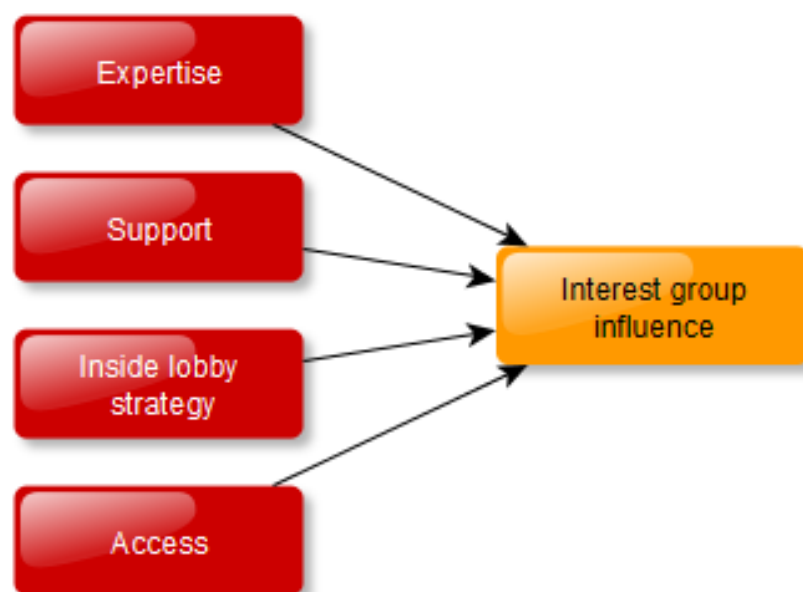
H.3.: The more inside lobbying strategy an interest group applies, the more influence an interest group exerts on policy outcome.

2.4.2.2 Access

Access can be defined as "the frequency of contacts between EU institutions and interest organizations" (Eising, 2005, p. 4). Due to the unequal access of interest groups to decision- and policy-makers, it can be assumed that some organizations are more influential than others. The access incorporates ad hoc meetings to institutionalized arrangements in the EU.

H.4.: The more access to decision-makers and policy-makers an interest group has, the more influence an interest group exerts on policy outcome.

Figure 2.1. Determinants explaining interest group influence on policy outcome at the level of the organizations



2.5 Conclusion

The theoretical framework employed Multi-level Governance perspective to analyze the relationship between the EU institutions and interest groups influence. The institutional configurations created a political opportunity structure for the interest organizations in the European Union, where these organizations can have several access-points to decision and

policy-making process. The theory of political opportunity structure helped to understand how interest groups mobilize their resources, can have access to decision and policy makers. The political structure, issue characteristics also affect the organizations' ability to exert influence on policy outcomes and their willingness to attempt to influence policies. These two factors are deterministic at the EU level. However, as the level of analysis lies at the organization level, four determinants can be identified. Firstly, in theory there is a positive correlation between the resources interest groups have and the influence they can wield. Secondly, effective lobby strategy is crucial to exert influence on policy outcomes. However, in order to acquire a more nuanced view on the examined issue, the two broad categories were divided into four determinants and the hypotheses extracted from these determinants. The hypotheses are developed from the existing literature on expertise, support, inside lobby strategy and access and they will be tested for the case of the EU ETS.

Chapter 3.: Methodology

3.1 Introduction

This chapter aims to present the research methods applied in this study. The presentation will begin by introducing the research design. This research employs a theory-testing qualitative case study, focusing on causal mechanisms and deductive reasoning. Moreover, the role of case studies in testing hypotheses and the scientific value of this case study research will be incorporated into the first section. Subsequently, the detailed section about case selection mechanism will clarify why the EU ETS is a suitable case for testing interest group influence theories. The subsequent sections then will present the methods of gathering data and analyzing the collected data. In order to collect data, content analysis technique will be employed and interviews will be conducted; process tracing analysis will serve as a method for analyzing the gathered data. Then, the operationalization of the identified variables will be elucidated. Following this will be a discussion on the validity of the chosen methods. Finally, the chapter will end with the conclusion.

3.2 Research Design

Generally, scholars of interest group influence apply qualitative case studies in order to detect access of interest groups to decision-makers. In addition, they take rival explanations of a specific outcome into consideration and acquire important insights into the activities of interest groups during the policy-making and decision-making process (Dür, 2008b). This leverage is not available if one conducts a quantitative study. Furthermore, it is important to emphasize that the researcher of this study applies process tracing method and designs semi-structured interviews to suit the case studies. It should be clear by the end of the 'Methodology' chapter that the research design and chosen methods are compatible and can be adapted extensively to accomplish the objectives of this study. The section will clarify both the benefits of chosen methods and the drawbacks, in order to reveal any possible limitations of the research.

Despite the fact that case study methods are widely applied among social sciences scholars, no consensus on a proper definition has been reached (Levy, 2008). Due to the

development toward a more theoretical orientation of social sciences in the last three decades, qualitative methodologists have started to look at each case as an instance of a particular phenomenon or process, of a theoretical determined class of events (Levy, 2008). Following this argumentation, George and Bennett (2005, p. 5) defined a case as "*an instance of class of events*" and they defined case study (2005, p. 5) as "*the detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable to other events*". Using Flyvbjerg's definition (2006, p. 220), a case is considered to be a "*detailed examination of a single example of a class of phenomena*."

After the conceptualization, the main advantage and disadvantage of case study research will be discussed. It is essential to understand that like any other research methods, case study research has its strengths as well as its limitations (Yin, 2009). The key for exploiting the strengths and avoiding misuse of case study lies in the proper, rigorous application and in the choice of suitable methods to fulfill the purpose of the research (Yin, 2009). It is acknowledged among interest group scholars that case studies have contributed to deeper comprehension about interest groups' operation in the EU and have provided excellent insights into the relationship between interest groups and EU institutions (Eising, 2008).

Basically, the case study research contributes to gathering concrete knowledge which deepens our understanding of individuals, groups and social and political processes. As a result, it has become a widely used method in political sciences, public administration and other social sciences. The main advantage of case study research is that detailed information can be acquired about causal relationships. Examination of particular instances makes possible to evaluate whether and how certain variables lead to a particular outcome (George and Bennett, 2005). For example, applying case studies can shed light on how interest groups can have access to decision-makers, uncover hidden relationship between decision-makers and interest groups, which is not possible when one uses quantitative study. Additionally, the importance of studies about causal mechanisms and explanations are becoming more prominent in the social sciences. As a consequence, case study researchers may apply the process-tracing method to uncover causal mechanisms (George and Bennett, 2005).¹

The main disadvantage of case studies is that generalization and replication are questionable (Flyvbjerg, 2006; Bailey, 1992). However, a theoretically and methodologically properly selected case can contribute to theoretical generalization and theory building and the theory can be valid in a single case. As Levy (2008, p. 6) asserts that: "*While many scholars*

¹ Process-tracing as the chosen method for this analysis will be discussed later on in detail.

question the utility of case studies for hypothesis-testing, qualitative methodologists emphasize that well-designed case studies can play a role in testing certain types of hypotheses." The next section will discuss how well-designed case studies can make it possible to test hypotheses within a single case.

To sum up briefly, the main advantage of case study research is that it allows researchers to conduct an in-depth, holistic analysis. It is instrumental in revealing causal mechanisms, uncovering circumstances of a particular phenomenon, and accommodating rival explanations of an outcome. The major disadvantage of case study research is that generalization from small n-samples is disputable. Nonetheless, selection of most likely crucial cases can be valuable for the purpose of theory-testing and can facilitate the process of generalizing findings.

3.3 Discussion on Purposive Case Selection Mechanism

Case selection is a crucial task for case study researchers. Single cases can represent the broader population. However, it is exceedingly challenging to find cases which are both in line with the researcher's intention and can survive the scientific probe. Furthermore, the scope of a case study is always determined by the researcher, hence distinctions between the individual case and the greater population are harder to define than those in typical, large N studies (Seawright and Gerring, 2008).

Despite the significance of the subject, case selection technique has not received much attention among social sciences scholars (Seawright and Gerring, 2008). The discussion on case selection procedure is dominated by avoiding selection bias. In order to avoid biased selection of a case by a researcher, random selection became dominant. However, random selection imposes serious problems as well (Seawright and Gerring, 2008). Most importantly, *"random selection often produces a sample that is substantially unrepresentative of the population"* (Seawright and Gerring, 2008, p. 295). Consequently, random selection can be as insufficient as purely pragmatic selection technique of cases. This research therefore applies purposive case selection method. This means that, theoretical, pragmatic and methodological considerations are taken into account when selecting the case which will be analyzed (Seawright and Gerring, 2008, p. 295-296). Accordingly, these considerations will be integrated and detailed.

As mentioned in the introduction (see section 1.7), crucial case studies can be instrumental in testing theories (Levy, 2008). The value of crucial case studies for hypotheses-testing is based on most/least likely cases. The term crucial case indicates a case is more

important than others for the purpose of theory-testing (Levy, 2008, p. 12.). Generally, this applies to most likely case studies since, as Levy cautions, *"if one's prior suggest that a particular case is likely to fit a theory, and if the data confounds our expectations, that result can be quite damaging to the theory"* (Levy, 2008, p. 12).

The EU ETS constitutes a most likely case, as the identified independent variables are likely to occur and hold the validity of the theories. Special interest groups are viewed as well-resourced organizations; hence they can provide expertise and support which are necessary to exert influence on policy outcome (e.g. Beyers et al., 2008a; Dür, 2008a; Coen, 1997). Moreover, they use informal channels which allow for greater access to decision and policy makers, thus their lobby strategy and interaction modes are more likely to be identified during analysis (Dür, 2008b). Additionally, the EU ETS is a highly technical policy sector which theoretically would require greater input from interest groups as the European Commission especially needs expertise and knowledge to deal with this policy. Conducting most likely cases is remarkably important due to the absence of empirical research and the fact that currently existing studies resulted in contradictory findings (Dür, 2008a, 2008b). As a result, the EU ETS as a most likely crucial case can serve the purpose of theory-testing on interest group influence in the EU and it can help to construct the empirical basis on which to build a foundation of knowledge in the field of interest group influence.

After mentioning the most significant methodological considerations, an explanation of other considerations which make hypotheses-testing possible and secure will follow. First of all, the EU ETS is the biggest cap and trade system in the world. The development of the system attracted the attention of different kinds of interest groups (Zhang and Wei, 2010). The environmental non-governmental organizations strived for binding and stringent regulation, while special interest groups representing narrow sections of economic interest struggled for deregulation and emphasized the importance of economic competitiveness in the EU (see chapters 4 and 5). This created a clash of wills in the political arena. The tension was naturally high as so much was at stake. As a result, resources were mobilized in order to push the alterations in the desired direction and forcefully demonstrate their interest. This is natural, as resources (e.g., support) play an inevitable role in interest-group influence (see the Theoretical Framework).

Secondly, the EU ETS is a highly technical policy sector, which presupposes that expertise was a valuable source of lobbying activities during the revision process. Moreover, the EU ETS generated concerns about the effectiveness of the system, which made this policy a "hot topic" and the public and non-governmental organizations became highly attentive to this

specific issue (Zhang and Wei, 2010). As a result, special interest groups are supposedly required to argue via formal channels to persuade the decision-makers and public about their positions. This gives less leeway to use informal channels. This restriction is crucial as influence attempts are often hidden which creates difficulty in analyzing and measuring the influence of interest groups activities. As the process was supposedly more transparent, the effect of lobby strategy and access to the policy-making process of the revision of the EU ETS was more easily identified, analyzed and assessed. All in all, the four identified variables are likely to occur and presumably had considerable impact on our dependent variable.

Pragmatic reasoning played an important role in selecting the EU ETS as subject of this research as well. Case study researchers need a wide variety of sources to detect the causal mechanisms and relationships they hope to reveal (George and Bennett, 2005). The documents, position papers and replies from special interest groups and non-governmental organization are publicly available. Additionally, climate change decisively impacts our well-being and the competitiveness of the EU. Therefore, the subject of climate change is likely to occur more often on the EU agenda and several policies have surfaced to facilitate sustainability. The EU ETS is the most dynamic and the biggest policy sector of these. As a result, conducting analysis for the case of the EU ETS can be exceedingly beneficial as it has received attention from policy and decision makers and represents one of the major issues of the future.

3.4 Data Collection

In order to collect data, the author of this study employed content-analysis technique and conducted interviews. The gathered data was then analyzed by process tracing method. Content-analysis can be defined as a *"research technique for making replicable and valid inferences from data to their context"* (Krippendorff, 1989, p. 403). This technique is one of the most important methods in social sciences for gathering data. The main purpose is to *"seek data within a specific context in view of the meanings someone -a group or a culture- attributes to them"* (Krippendorff, 1989, p. 403). The sources of content analysis can be any kind of written document and a wide range of sources is needed to reveal the causal mechanism in the analysis phase. Consequently, in order to collect data, documents which deal with the EU ETS revision process need to be revised and analyzed. The main purpose of document analysis is to gather crucial data and provide in-depth knowledge. The secondary qualitative data are documents of EU institutions and interest groups publications. These include European Commission proposals,

parliamentary hearings, texts of directive and reports from formal meetings. Additionally, interview transcripts, academic sources, reports from NGOs and special interest groups, and position papers of interest organizations were here used. As a result, this research has been primarily based on qualitative data analysis.

Qualitative data are valuable sources for process tracing method; however, interest groups activities are often hidden, and cannot be detected by solely relying on secondary data. Furthermore, process tracing method needs large amounts of data to identify causal relationships (George and Bennett, 2005). Consequently, consideration of more data collection options is crucial (Tansey, 2007). Gathering data from multiple sources is exceedingly important as measuring interest groups influence is very difficult. One of the solutions to this challenge, faced by researchers, is to collect data from multiple sources (Dür, 2008b). As a result, data collection from interviews can be especially beneficial for several reasons (Tansey, 2007). First of all, the data from secondary sources can be cross-checked by interviews. Furthermore, secondary sources can provide an overview about events and issues which are under investigation and interviews can corroborate these findings. Most importantly, it is noted: *"In this way, interviews contribute toward the research goal of triangulation, where collected data are cross-checked through multiple sources to increase the findings' robustness. By ensuring that data are not collected from only one source, or one type of source, the triangulation strategy can increase the credibility of findings that are supported across multiples sources, and can reveal the weakness of some sources that might otherwise have been viewed as reliable"* (Tansey, 2007, p. 766). Secondly, interviews can provide additional information about the process which the research intends to study. By the same token, interviews also allow researchers to ask respondents about their beliefs, thoughts and attitudes. An interview can help to *"reconstruct an event or set of events"* (Tansey, 2007, p. 766). Finally, conducting interviews can shed light on the underlying logic of a particular decision and thus reconstruct or corroborate early findings.

Consequently, the main benefit of an interview is to enhance confidence in ensuing findings (Bryman, 2003). In order to fulfill this purpose, the researcher of this study conducted interviews with experts who were involved in the decision-making process during the revision of the EU ETS between 2007 and 2008. However, conducting interviews in the interest group research field has its challenges. One major problem is that interviewees can misconstrue a given situation and give a distorted picture of the decision-making process. The underlying logic behind this misinterpretation is that interest groups might have good reasons to understate or overstate their lobby power (Dür, 2008b). For instance, special interest groups can understate their lobby power in a particular case, where they exerted influence behind closed doors or via

other informal channels. Non-governmental organizations, by contrast, tend to overstate their lobby power in order to legitimize their existence to the members of their organizations. The deceptions can be misleading and result in both overestimation and underestimation of influence from interest groups (Dür, 2008b). Consequently, the researcher will conduct careful investigation in order to assess and measure de facto influence from interest groups. Further, in order to mitigate the possible limitations of the interviewing process, experts from diverse institutional background will be interviewed.

Due to the fact that interviews play a pivotal role in this thesis - that of identifying causal relationship between variables - the basic characteristics of the conducted interviews will be discussed. Essentially, the author conducted semi-structured interviews with experts who were involved in the decision-making process during the revision of the scheme. The main goal of the interviews is to gather data to detect causal relationship between the variables. The researcher's initial ambition was to choose respondents who represented the analyzed groups and institutions in order to receive an objective picture about their attempted and actual influence and to detect relationships between variables.

The four experts who were interviewed were: Policy Advisor of international environmental NGOs, who lobbied at the Commission and Parliament; Officer of DG Climate in the EU Commission, who was involved in the policy-making process and represented the Commission in stakeholder and working group meetings and was responsible for compliance of covered installations; Policy Advisor for EU Parliament's rapporteur on the EU ETS; and finally, a Member State delegate who participated on both European and domestic levels in stakeholder meetings and represented Hungary's interests. As can be seen, the respondents were selected carefully and all were deeply involved in the policy and decision-making process. What is more, they represent contrasting interest organizations and institutions.

Table 3.1. Number of expert respondents from different interest groups and EU institutions

Interviews	Environmental NGO	Industrial lobby²	EU Commission	EU Parliament	Member State delegate
The Revision of the EU ETS	1	0	1	1	1

² Unfortunately, none of the organizations that lobbied together in the "Alliance of Energy-intensive Industries" responded to requests to be interviewed.

In this section, the structure and principles of the interviews will be detailed. The researcher conducted semi structured interviews (SST), which constitute the "*most common form of interviewing*" (Keller and Conradin, 2014). Researchers conducting SST must first develop an interview guide, which refers to the set of questions and topics which are to be covered. This process involves careful preparation, including finding the right experts to interview and gathering as much information as possible (job, responsibilities, etc.) about the interviewees; developing questions which grasp the essence of the analyzed topics; lastly, analyzing the interviews comprehensively. In this the researcher follows the guide, while the open-ended questions allow him/her to go into detail when he/she thinks that necessary and crucial information could be gathered (Cohen, 2006). For instance, questions about the decision-making process can provide important insights into the circumstances which set back or facilitated the bargaining position of diverse groupings. Furthermore, the questions developed are carefully associated with the theories and the methodology.

The main principles which were applied during the interviews:

- a. Careful preparation.
- b. Prioritizing. The main goal of the interviews was to gather data to assess whether there were causal relationships between our variables. As a consequence, there were questions which had to be answered and others which served as supplementary information.
- c. Creating relaxed and supportive environment, where respondents feel free to talk. This was especially important due to sensitive nature of this research field. In attempting to do this, the author began the interviews started with general, theoretical questions and then asked questions specifically about the case and variables.
- d. Being certain that all of the required topics are answered properly. Most crucial is that questions on the relationship between the variables were answered fully as this was the main goal of conducting interviews (Keller and Conradin, 2014).

Finally, the main advantages and disadvantages of SST were assessed. Firstly, SST can "*provide comparative and reliable qualitative data*" (Keller and Conradin, 2014). Moreover, it informs the process of cross check analysis, and can increase understanding of a particular phenomenon. SST also allows researchers to be prepared for the interviewee and hence conduct the interviews more consciously. However, there are some drawbacks which should be mentioned. Firstly, inconsistency can occur during the interviews. For example, the different groupings could perceive other's lobbying power differently. Nonetheless, the respondents' answers can be

verified through challenging questions (Dür, 2008b). Furthermore, the questions have to be phrased in such a way that is not prescriptive or leading as this can inhibit the confidentiality of the research (Keller and Conradin, 2014).

3.5 Data Analysis

Interest group scholars have to tackle difficulties because of the drawbacks of existing methodologies. Influence can be exerted during different stages of policy-making process (e.g. agenda-setting phase) and channels (Dür, 2008b). For instance, it can be realized through direct lobbying among policy-makers or through outside lobbying. Interest groups can also select the decision makers with the help of campaigns just to mention a few of these methods. Consequently, measuring the effective influence of interest groups is challengeable and only a few students have attempted to address this topic (Dür, 2008a, 2008b). The methodologies that are used by interest group scholars will be discussed here and then the selected method will be elucidated.

There are three widely used methodologies regarding interest group influence. These are *assessing attributed influence*, measuring the *degree of preference attainment* and the *process tracing method* (Dür, 2008b). Attributed influence may be measured by using surveys. "*In a survey, a group can be asked to provide a self-assessment of its influence or a peer assessment of the influence of other groups. In addition, a survey can be directed at (it is hoped, well-informed) observers who report groups' reputation for influence*" (Dür, 2008b, p. 565). The main advantage of this method is its simplicity. However, assessing attributed influence is heavily criticized because of biased perceptions of the participants; hence it is largely ignored (Dür, 2008b). The second method, *assessing the degree of preference attainment*, aims to assess the preferences of the actors in relation to the outcome of the policy. The underlying logic is that distance between the ideal objectives of the interest groups and the actual policy outcome is a reflection of the ability of actors to influence the decision-making process (Dür, 2008a, 2008b). The problem with this method is that it can only be employed to measure quantitatively how successful the influence attempts were but it cannot explain how the influence was exerted and which channels were used to influence policy outcome (Dür, 2008a). Because of the theory-testing nature of this research, assessing the degree of preference attainment is not suitable as it cannot help to reveal causal relationship between the variables. In point of fact, this method is more beneficial for large N quantitative studies.

Consequently, in this research the process tracing method was chosen as it is the most suitable one to empirically examine the determinants of influence (Dür, 2008b). The process tracing method can identify the main steps which can lead to a particular policy outcome and engender detailed explanations about the process. According to Dür (2008b), process tracing analysis is the most popular method among scholars undertaking interest group research. Interest groups scholars tend to rely on semi structured interviews combined with process tracing in order to arrive at insights into the development of a process. These insights are not secured if a researcher simply uses document analysis and/or surveys (Dür, 2008b, p. 563). The present research applied process tracing in an integrated way, using documents and relying on SST in order to perform a nuanced and careful analysis.

Process tracing method is popular among interest group scholars to measure interest groups' influence in the EU (Dür, 2008b). This method has been developing for two decades and has crystallized in the outstanding work of George and Bennett (2005). This book highlights the potential of case study research and covers a wide range of theoretical, methodological and logical considerations. The main purpose of the book is to emphasize the significance of causal processes. George and Bennett (2005, p. 6) argue that, "*In process tracing, the researcher examines histories, archival documents, interview transcripts, and other sources to see whether the causal process a theory hypothesizes or implies in a case is in fact evident in the sequence and values of the intervening variables in that case.*" Following this argument, they add, "*The process tracing method attempts to identify the intervening causal process - the causal chain and causal mechanism - between an independent variable (or variables) and the outcome of the dependent variable*" (p. 206).

Consequently, process tracing method is suitable to test hypotheses which have been developed to detect causal mechanisms. This method is most suited to the nature of the research and can be applied in an integrated way with content analysis technique and semi structured interviews for in-depth analysis to reach an exact appreciation of the significance of the examined determinants. The precise application of the method will be elucidated in the following section.

3.6 Operationalization

As must be clear by now, wide range of data and information is necessary to analyze the chosen case. But how can we measure interest group influence? How can we apply process

tracing method precisely to have accurate findings? And how can we measure those independent variables which were identified in the theoretical framework? These are the main questions of the operationalization process and the following section will address these questions.

First, the application of process tracing method in this research will be detailed. The main purpose is to test whether the causal links between the variables were indeed present in reality. As process tracing aims to analyze the trajectory of change and causation, all of the steps which lead to a particular outcome should be adequately described and explained. However, applying process tracing is not always easy. Collier explains, "*It can therefore be productive to start with a good narrative or with a timeline that lists the sequence of events*" (2011, p. 828). Basically, this is exactly what the researcher aims to do: to see how the position of EU institutions changed during the decision-making process and to check what inducements there were from interest groups which caused these alterations. First of all, this research will identify those interest groupings who participated in the decision-making process and who attempted to push the alterations of the policy in a specific direction. Only groupings will be analyzed as we can assume that there is no single group powerful enough at the EU level to exert influence by itself. Secondly, after the identification of the groupings, their preferences will be delineated, which will help to clarify their interests. Thirdly, a detailed description about the decision-making process will be provided. As fourth step, the researcher will identify those venues which were exploited by the interest groupings and detect their attempts to exert influence on policy outcome. Subsequently, the policy outcome and the preferences of the interest groupings will be compared (Wolf, 2012; Dür, 2008b). This last stage serves the purpose of measuring the actual influence - our dependent variable. Once we know which interest groupings were able to exert influence on policy outcome, we can start to test which independent variables had an effect on our dependent variable. As a consequence, the last four steps comprise the process of finding empirical evidence of the presence or absence of causal relationships between our variables. (Wolf, 2012)

Table 3.2. Overview about the application of process tracing method

Nine Main Steps	Main sources
1. Identification of Interest Groupings	Participation lists of European Commission working group meetings; Press releases; Existing academic sources
2. Identification of Interest Groupings' Preferences	Position papers and reports of interest groups; Interviews; Existing academic sources
3. Description of Decision-making Process	Official documents of the EU Commission and Parliament; Existing academic sources; Eur-lex directory
4. Influence Attempts and Venues	Interviews; Existing academic sources; EU documents; Press releases
5. Comparison of Interest Groupings' Preferences on the Policy Outcome and the Explanation on Actual Influence.	Eur-lex directory; Position papers; Press releases, Existing academic sources
6. Testing Expertise → Interest Groupings' Influence	Interviews, Previously gathered and used data
7. Testing Support → Interest Groupings' Influence	Interviews, Previously gathered and used data
8. Testing Lobby Strategy → Interest Groupings' Influence	Interviews, Previously gathered and used data
9. Testing Access → Interest Groupings' Influence	Interviews, Previously gathered and used data

3.6.1 Dependent variable

The dependent variable of this research is "interest group influence." Interest group influence can be defined as "*a causal relation between the preferences of an actor regarding an outcome and the outcome itself*" (Dür, 2008b, p. 561). Measuring influence is crucial in order to assess exactly how successful interest organizations were in shaping the policy outcome in line their preferences. In order to measure the responsiveness of the EU institutions to the influence

attempts of a particular interest group(ing), one may compare the group's ideal outcome to the actual outcome of any political process (Dür, 2008b). This can be accomplished by the first five steps of the process tracing analysis. The challenge is to reveal what the ideal points of interest groups were exactly and *"to fill all the gaps in a causal chain from interest group activities to political outcomes"* (Dür, 2008b, p. 563).

3.6.2 Independent variables

Four independent variables were identified. These were expertise, support, inside lobby strategy and access. In order to gather data to assess whether the causal relationship between the independent and dependent variables indeed existed, the researcher of this thesis relied primarily on the semi-structured interviews. The questions aimed first to trace the influencing process and secondly to gather more in-depth information from the responders about the four independent variables.³ Nonetheless, documents which were gathered by content analysis technique were certainly be used to prove or reject hypotheses. Each of the variables received scores based on empirical findings, information from interviews and deductive reasoning. A *low score* was given if the independent variable did not occur at all. An *average score* was given if the independent variable occurred but no empirical evidence was found regarding the causal relationship between the independent and dependent variables and/or it could not explain the varying success of interest groups to exert influence on policy outcome. A *high score* was given if the causal relationship between the influence and the independent variable was proven and convincingly explains the varying influence of different interest groups on policy outcome.

Our first variable, expertise, referred to specialized knowledge of a subject. Expertise can be measured by using witness lists of those experts from interest groups who appeared in the decision-making process and facilitated the policy-making process by providing recommendations to the Commission (May et al., 2013). Experts are individuals endowed with scientific and practical knowledge who can help to identify alternatives regarding a certain subject, express support for accomplishments, etc. (Barroso, 2004). Those people were counted as experts who participated in the decision-making process and gave recommendations on certain aspects of the EU ETS to improve the scheme. The experts who participated in working groups were checked carefully in order to assess whether they possessed knowledge which was relevant to the issues. It was also important to notice the response of the EU institutions towards

³ The questions can be found in the Annex.

these recommendations - whether they accepted or rejected them. The hypotheses would be valid if the group who had more experts in the decision-making process exerted more influence; meaning, its recommendations were taken into greater account.

Support referred to a two-sided process. On one hand, support indicated whether interest groups were in favor of a specific decision or against it. This was measured by comparing the position papers of interest groups to the Commission proposal; the closer the two standpoints were, the greater the support from interest groups. It was essential to evaluate how interest groups perceive and judge the policy alterations. At this point, the influence of the interest groups could be ordered. The second indicator was the ability of interest groups to build coalitions. The more organizations participate in a coalition, the greater the legitimacy and political power that coalition can express. The third indicator was the economic value for the European Union of interest groups. The underlying logic was that as the European Union developed along economic interests, special interest organizations have more influence because they contribute considerably to economic growth and employment. This is (referred to as) political support. On the other hand, financial support is about providing donations, financial transfers to decision-makers in exchange for the desired policy alterations. Financial support can be measured by checking whether interest groups sent financial transfers or not. Financial support can be received in the form of donations or campaign money. The second hypothesis would be valid if the group that provided more political support (initial support, coalition-building, economic value), or financial support (funding), was proven to exert more influence.

The third identified independent variable was the *inside lobby strategy*. Interest group strategy can be defined as a conscious plan or action applied by an interest group to exert influence on policy outcome. The literature distinguishes between inside and outside lobbying strategy (Dür, 2008a, Beyers, 2008). These strategies can be measured by whether the interest group used informal channels or institutionalized arrangements or wielded its influence through outside strategy (e.g. writing petitions, organizing demonstrations). Subsequently, the number of inside and outside lobbying strategies from different groups (special interest organizations and social movement organizations) were compared. This hypothesis would be proven valid if the interest group who applied more inside lobby strategy exerted more influence.

Finally, the operationalization of *access* was specified. Access in this was defined as the "*actually used contacts between EU institutions and interest organizations*" (Eising, 2005, p. 4). Consequently, which institutional venue (Commission, Parliament or Council) was exploited by an interest group, was clarified. Furthermore, it was important to check whether members of interest groups participated in ad hoc or formal meetings and what the responses of these

institutions were to be approached. The hypothesis would be proven valid if the interest group that had more actual access was able to exert more influence.

All in all, multiple sources and much information were necessary in order to measure which variables actually had an impact on interest group influence. The next figure provides an overview of the variables, their definitions, how they are measured and their scores.

Table 3.3. Operationalization of the Variables

	Variable	Definition	Indicators	Scores
<i>dependent</i>	Interest group influence	A causal relation between the preferences of an actor regarding an outcome and the outcome itself	Comparison of the ideal points of interest group to the outcome of the political process and assessing the receptiveness of the institutions to the influence attempts	❖ Low ❖ Average ❖ High
<i>independent</i>	Expertise	Specialized knowledge of a subject	Witness list of experts Scrutinizing the responsiveness of decision- and policy-makers to the expert's recommendations Commissioning studies	❖ Low
				❖ Average
				❖ High
	Support	Being in favour of a specific decision and/or provide financial transfer to decision- and policy-makers	Initial position of interest groups Ability to build coalitions Economic value of interest groups Level of donations and campaign money	❖ Low
				❖ Average
				❖ High
	Inside Lobby strategy	A conscious plan or action applied by interest group aim to exert influence on policy outcome	Counting the number of inside and outside lobby strategies and comparing the interest groups' effect	❖ Low
				❖ Average
				❖ High
	Access	The actually used contacts between EU institutions and interest organizations	Clarifying which institutional venues were exploited in the decision-making process	❖ Low
				❖ Average
				❖ High

3.7 Discussion on validity

Internal and external validity have to be discussed briefly to reveal the robustness of this research. Basically, case study research performs highly in respect to internal validity because a comprehensive analysis can be conducted taking into consideration multiple explanations. The researcher therefore is able to take several factors into account and uncover causal mechanisms. Consequently, causal relations between the variables can be detected, which results in high internal validity.

Conversely, case studies score relatively low on external validity. The reason for this is that case studies aim to analyze only a determined set of events and therefore generalization to a broader population is questionable. However, as this research employs crucial most likely case-studies, generalization is made more possible and therefore can enhance the external validity of this research.

All in all, studies that are committed to a rigorous methodological path and carried out well have various strengths. First of all, case study researchers probably have in-depth understanding about all determinants influencing a particular decision. Consequently, rival explanations can be taken into account to determine whether, for example, an interest group could exert influence on policy outcome or not. Moreover, crucial information can be collected by using interviews. Such studies, applying process tracing analysis and interviews, can contribute valuable insights into the logic of behind certain developments. Further information can be added if an interviewee is probed by challenging questions (Dür, 2008b). All of the above mentioned characteristics enhance the validity of this study.

3.8 Conclusion

The main goal of the methodological framework chapter has been to clarify those methods which were applied in this study and to show their advantages and possible limitations. The first section presented the research design. This thesis is a theory-testing qualitative case study built on causality and deduction. The methodology reveals the main advantages and disadvantages of case study research and shows how a crucial most likely case can serve the purpose of theory-testing. Subsequently, the purposive case selection mechanism of this study was presented, in which all methodological, theoretical and pragmatic considerations are

integrated and shown. Afterwards, the two data collection techniques, and the method applied to analyze the gathered data, were made known. Basically, this research employs content-analysis technique and interviews to gather data and information necessary to provide an in-depth analysis. After this, the process tracing method - which is applied to analyze the collected data and review causal relations between the variables - was presented. Next, the operationalization of the variables was presented. It clarified how the variables can be defined and measured. This was followed by a brief discussion on external and internal validity, a method used to verify the robustness of the research.

Chapter 4.: The complex multi-country and multi-sectoral system of the European Union Emission Trading Scheme

4.1 Introduction

In this chapter the main characteristics of the EU ETS will be detailed, focusing on how the scheme has evolved during the subsequent phases. The most important institutional actors and interest organizations that participated during the decision-making will be discussed briefly as well. The chapter aims to introduce the EU ETS and contribute to the better comprehension about this highly technical policy.

4.2 Background information about the scheme

Sustainable development and climate change are often viewed as a global issue, though effective response is necessary at national and regional levels. Within the confines of the Kyoto Protocol, countries that ratified the protocol have implemented strategies in order to fulfill their commitments to reduce their emissions of greenhouse gases (Parker, 2010). The EU ETS has become the flagship of the EU climate policy and the main tool for addressing climate change and comply with Kyoto Protocol. The system was launched in 2005 with the pilot phase and continued with the first commitment period in 2008 at the same time when the Kyoto Protocol came into force.

The EU decided to use a cap and an emission trading system with other market-based mechanisms to comply with the protocol in a cost-effective manner (Parker, 2010, p. 4). A cap and trade system means that the total cap of the amount of CO₂ which can be emitted is determined and is available for installations in the form of 'allowances'. The participants have to reveal the verified emission data and allowances which cover their emissions at the end of each year. Firms are able to trade with allowances. They can buy or sell surplus allowances (Davies et al., 2009, p. 13).

The EU ETS is the biggest multinational, multi-sectoral emission trading scheme in the world, which serves as a prototype for other countries (Parker, 2010). The scheme covers about 11,500 installations in power-generation and manufacturing industries in 31 countries (European

Commission, 2014a). The covered entities emit roughly 45 % of the greenhouse gases in Europe (Parker, 2010, p. 4).

The 2003 Emission Trading Directive sets out the structure and legislative basis of the scheme (EU Directive, 2003). The system operates in distinct compliance periods. The first, initial phase worked from 2005 to the end of 2007. The second phase begun in 2008 and ended in 2012. The third phase commenced in 2013 and will operate until 2020 (Davies et al., 2009, p. 13).

4.3 Establishment of the EU ETS

Before examining the distinct compliance periods, a brief overview about the emergence of the scheme is reasonable to receive a broader picture about the factors which facilitated the creation of the system.

Basically, the EU ETS was a result of two failures. First of all, the European Commission attempted to introduce an EU-wide carbon energy tax in the 1990s, but it was not successful due to fiscal matters and the lack of political support which was necessary to reach a unanimous agreement. Consequently, an alternative policy had to surface in order to meet the obligations of the Kyoto Protocol. Secondly, the Commission opposed the involvement of flexibility mechanisms, such as trading systems during the negotiation of Kyoto Protocol in 1997, however, the EU delegation had to accept it to reach an agreement with United States and its allies (Convery, 2009, p. 392; Ellerman, 2010, p. 91-93).

The failures were followed by the creation of the EU ETS. Several factors contributed to the emergence of the system, which was not inevitable (Convery, 2009, p. 392). The 1986 Single European Act made it possible to guarantee the free movement of goods, people, capital and service. It supported the vital conditions to launch the EU ETS. Several other factors facilitated the creation as well. The industrial lobby was against the proposal of carbon tax introduction. However, they tended to accept the trading system as it induced less costs. Free allowances made it possible to avoid traction with stakeholders. Moreover, the US Acid Rain trading system provided information about previous experiences and showed that economic prosperity and a trading system can coexist. This approach was strengthened by the fact that the Kyoto Protocol enabled the application of flexibility mechanisms, including a trading system, hence launching EU ETS was a logical step, even though the Commission opposed it during the Kyoto's negotiations in 1997. In addition, Germany as one of the most powerful countries in the

EU experienced devastating floods in 2002 which helped to convince the public that the mitigation of climate change impact is crucial. The German government was re-elected in 2002 with a strong green representation that supported the trading concept. This was the key which helped finalizing the position of the Council and pushed the European Parliament to agree on the proposal (Convery, 2009, p. 407-409).

As a result, the European Union Emission Trading System was officially launched on the 1st of January, in 2005 with more than 11,000 installations in 25 countries. The EU became the forerunner and operator of the world's biggest multinational emission trading system (Convery, 2009, p. 407).

4.4 The pilot phase and the first commitment period

The first and second phases will be discussed together because they operated under the same legislation bases and there were not significant changes between them.

First of all, the coverage of the scheme is revealed which presents what countries, industrial sectors and greenhouse gases were covered by the system. In the pilot phase (2005-2007) 25 EU member countries with more than 11,000 installations owned by 5000 firms participated (Ferris et al. 2012, p. 4-5). This phase only covered CO₂ emission in 4 industrial sectors, namely iron and steel, mineral industry, energy production and paper and pulp production. Moreover, it covered all production plants with more than 20 MW capacity. However, the largest energy use sectors, namely transportation and construction, remained uncovered by the EU ETS (Ferris et al., 2012, p. 4-5). In the second phase, Norway, Liechtenstein and Iceland joined the EU ETS, as well as two new European Union countries, Bulgaria and Romania. The scope of the system slightly widened in the second phase. The civil aviation sector was included with legislation adoption in 2008. Moreover, nitrous oxide (N₂O) emission of nitric acid production also became part of the covered GHGs (European Commission, 2014a).

Secondly, the redistribution of the allowances is undoubtedly the most significant of all elements which decisively determines the EU ETS (Grubb and Neuhoﬀ, 2006).

Redistribution is about creating allowances, establishing rules to distribute these allowances among participants and determine which sectors and participants have to be covered by the trading system. Subsequently, distinct attention will be devoted to this element.

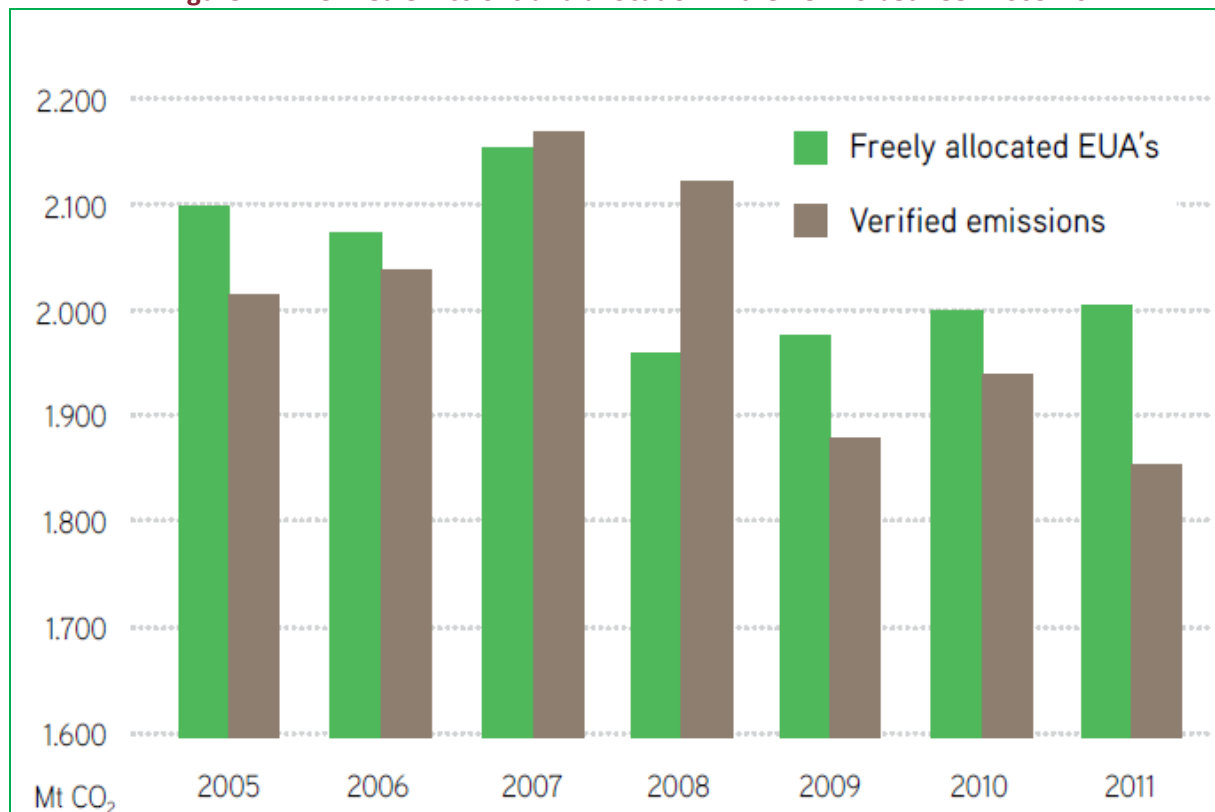
Regarding the redistribution aspect, at the beginning of the EU ETS, the system was located between a centralized system and a decentralized one. In the former system, a centralized environmental agency determines the covered sectors and participants, how many allowances are created, and how created allowances can be distributed among the participants. Furthermore, this agency can set up the rules regarding trading and compliance. At the other end of the spectrum, in a decentralized system, the countries or firms which participate in the system can run their own system without automatic links to other systems (Krueger et al., 2007, p. 67). The first and second phases of the EU ETS were characterized by the domination of decentralization, where the Commission laid down the basic rules of trading and participation, but member states made choices about national cap levels, the allocation of permits to installations, established institutions to report to, monitored and verified emissions of installations. Moreover, they determined some structural outcomes, such as banking and auctions of allowances (Krueger et al., 2007, p. 66-68).

The decentralized system was embodied in the National Allocation Plan (NAP). The member countries were obligated to create a National Allocation Plan (Krueger et al., 2007, p. 72-75). Within the NAP each member state had to make a decision about the quantity of allowances they would use up, how this allowance would be allocated to installations, the number of used projected credits (see below) and other structural decisions. The NAP was then submitted to Commission for evaluation and scrutiny, which could result in changes (Davies, 2009, p. 19). One of the results of this decentralized system was the inefficient scheme due to the fact that member countries used different methods regarding allocation (Talberg, 2011, p. 2). For instance, companies which competed in the same sector but in different locations could receive different numbers of permits which led to distortion of competition (Ellerman et al., 2010).

The Kyoto Protocol was supplemented by other flexible mechanisms besides the trading system in order to reduce GHG emissions. These two mechanisms were Joint Implementation (JI) defined under Article 6 of the Kyoto Protocol and Clean Development Mechanism (CDM) defined in Article 12 of the Kyoto Protocol. Based on these mechanisms, developed countries can implement emission reduction projects in other countries which generated additional permits that can be used up to meet the targets. If the project is accomplished in a developed country the project will be a project of JI and the earned permits are Emission Reduction Units (ERU). Whilst if the project takes place in a developing country it is a project of CDM and the earned permits are Certified Emission Reductions (CER) (Talberg, 2011, p. 5). As a matter of fact, companies and governments can earn sellable project credits which are equivalent to one ton of CO₂ emission, contributing, at domestic level, to meeting the targets of Kyoto.

Basically, the first pilot phase and the first commitment phase were characterized by freely given allowances. This process is the so-called 'grandfathering' (Coelho, 2012, p. 6) and it means that the participants did not have to pay for the allowances as they received them for free of charge from the EU. It could undermine the effectiveness of the system (Coelho, 2012), but freely given allowances were inevitable to gain the support of the industrial lobby at the emergence of the scheme (Convery, 2009). In the first phase 95 % of the allowances were allocated freely to companies based on historical emission. 5% of the allowances were auctioned (Davies et al., 2009). Auctioning is a way to introduce allowances on the market, and where the allowances can be sold and bought. During the first phase, only four member countries used auctioning. In this respect the second phase did not bring significant changes, because only 10% of the issued allowances could be auctioned, 90% of the allowances were still freely given to the installations (CarbonTrust, 2007, p. 15). In the second phase the auctioned allowances were allocated to member countries based on historical emission and income (Ferries et al., 2012, p. 6). One of the implications of this process was that there was an oversupply in the market. The main reason for it is that the member countries were too generous with allowances. The Eastern European countries were able to meet the Kyoto targets easily, because after the fall of the Soviet bloc they experienced an economic shock and the collapse of industry implied a dramatic reduction of greenhouse gases. At the same time, the EU-15 countries were also not exceedingly ambitious in their NAPs (Krueger et al, 2007, p. 6). One factor significantly contributed to the lack of ambitions, namely the fear of carbon leakage. Carbon leakage is the term which is used to describe the phenomenon that companies tend to outsource their production capacity from the EU ETS countries to other less regulated countries, where they do not face stringent environmental regulations, which can lead to increased global emissions and the loss of production capacity in Europe (Talberg, 2011, p. 3).

Figure 4.1. Verified emissions and allocation in the EU ETS between 2005-2011



(Source: Coelho, 2012, p. 6)

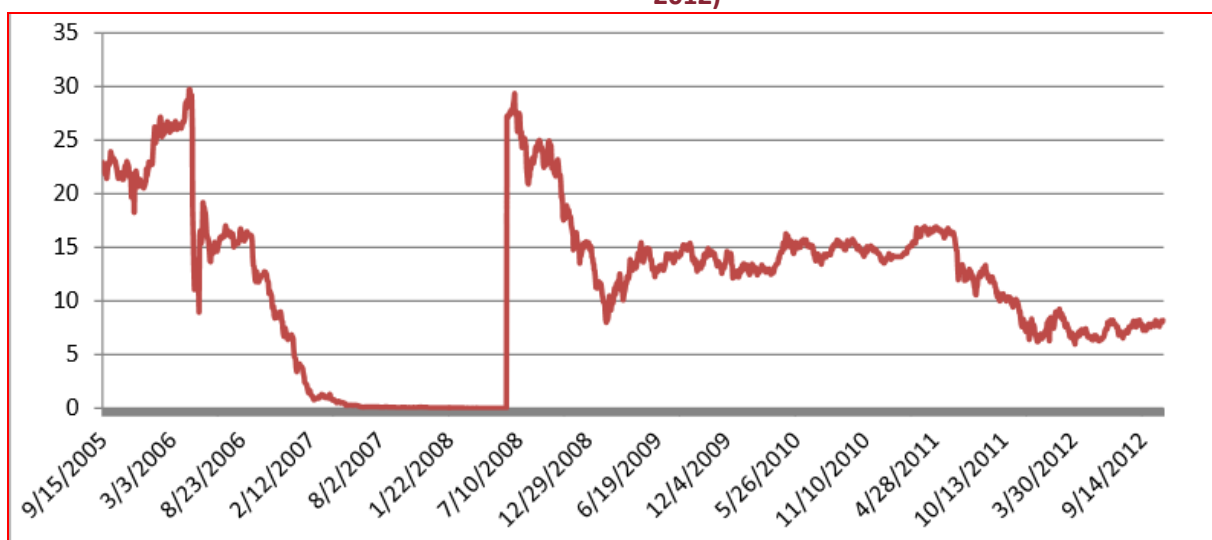
'Banking' means that participants of the EU ETS can save or 'bank' allowances from a given time period and they are able to use up or sell it on the market later. A big difference between the first pilot phase and commitment phases is that banking of allowances in the pilot phase was not allowed. Contrary to the pilot phase, the EU gave 'green light' to bank the allowances in the second and third commitment phases (Ellerman and Joskow, 2008, p. 3).

The participants who do not comply with requirements of the EU ETS are punished. All installations have to verify their emission data in April of each year. In the first phase the penalty was €40 per tonne which was increased to €100 in the second phase and remained in the subsequent phase (European Commission, 2014g).

The last element of the system which is discussed here is the carbon price. Theoretically, the carbon price determines the cost of the emitted carbon dioxide, thus the cost induces the development of low carbon technologies and structural changes in the economy as well. The scale of reduction is determined by the stringent cap and the price of carbon (Davies et al., 2009, p. 14). Therefore, a predictable carbon price is essential in order to reach an effective operation of the EU ETS. In the first phase, the allowance price increased sharply to reach a peak

at €29.75/metric ton. However, it then collapsed to nearly zero in April 2006 and leveled off (Davies et al., 2009, p. 8). The reason for the price fall was that verified emission data were revealed and it became obvious that there was an excess of permits on the market. (Coelho, 2012, p. 7) Due to the fact that banking or the saving of allowances was not permitted, the second phase allowances created a new market. As a result, second phase allowances were traded at a relatively high price, between €25-28 per ton CO₂, but the price fell again to €11 partly because the financial crisis hit Europe, and partly because the price reflected the weakness of the cap and the surplus allowances on the market (Davies et al., 2009, p. 8). Then, the price leveled off at this low value in the second phase. The price level was undoubtedly below the anticipated levels in the second phase and significantly lower than the necessary levels to generate investments in low carbon technologies and encourage companies to abate their CO₂ emissions (Davies et al., 2009, p. 8).

Figure 4.2. Spot price in €/Metric Ton in the pilot and first commitment periods of the EU ETS (2005-2012)



(Source: Ferris et al., 2012, p. 10)

4.5 Underlying logic behind the revision of the scheme

This subchapter aims to present those factors which led to the alterations in the Third Phase. The presentation is essential, because it helps to understand the logic behind the remarkable changes and comprehend the interests of those interest organizations that participated in the decision-making process of the revision.

Generally, the EU ETS can be viewed environmentally effective, because the Kyoto target could be reached (Venmans, 2012). However, it should be noted that abatement could be

realized (equivalent of 100% in the second phase) with Kyoto credits. In addition, the extent of over-allocation was approximately 6% in the first phase which led to a price crash in April 2006. The over-allocation had several detrimental side-effects and remained a serious problem in the second phase due to the financial crisis, which was negatively associated with economic efforts to reduce carbon emission. However, the environmental predictability of the policy was sufficient because the future emission was determined by the cap (Venmans, 2012, p. 5508).

The EU ETS was not cost effective since the determined cap was not stringent enough to induce a high cost of emissions (Venmans, 2012). However, measuring economic efficiency is difficult because of the different estimations and scenarios. Although it is challengeable to measure efficiency, it can be emphasized that due to the fact that distribution of free allowances correlated with previous emissions (business as usual), it generated an incentive to postpone abatement (Davies et al., 2009). Moreover, over-allowances induced price volatility in the market which jeopardized technological development. Low prices did not encourage companies to invest in low-carbon technologies.(Venmans, 2012, p. 5508).

Several studies stress that the cap was not strict enough to put additional cost on emissions and induce technological advances toward cleaner energy (e.g. Pearson and Worthington, 2009; Gilbertson and Reyes, 2009; Davies et al., 2009). Admittedly, the EU countries were on track to meet Kyoto targets easily. The main reason for it is that within the confines of Burden Share Agreement, which is a supplement of Kyoto Protocol, it is possible to compensate for one's emission increase in another country (Marklund and Samakovlis, 2007). The former socialist countries experienced an economy collapse in the 1990s which implied restructuring of the industrial sector and the fact that they can easily meet Kyoto targets without additional efforts as the basis year of Kyoto target is 1990. However, based on the Burden Sharing Agreement, Western European countries could use up this surplus (Gilbertson and Reyes, 2009, p. 31-33). The EU also realized that the cap could be more stringent and offered to increase emission reduction to 30% by 2020, but the reduction effort depends on the commitment of other major emitters in developed and developing countries as well (European Commission, 2014c).

The EU enabled to carry forward the allowances in subsequent phases in order to prevent the price collapse that happened in first phase. However, the surplus of allowances which was the result of an economic downturn and over-allocation can count as equivalent to future reduction efforts (Gilbertson and Reyes, 2009, p. 34). The surplus from over-allocation and record-use of project credits was 2 billion at the beginning of the Third phase (European Commission, 2014d). According to Pearson and Worthington (2009, p. 4), 40 % of the reduction

efforts can be completed by banked allowances in the third phase without any domestic efforts. Applying project credits exacerbates the problem of weak cap and undermines the effectiveness of the system. In addition, based on the projection of UK National Audit Committee (Davies et al., 2009, p. 10) using up project credits is likely to result in diminished carbon prices which is negatively associated with investment decisions.

The EU ETS performed poorly on distributional criteria, because the windfall profit of companies was considerable. Windfall profit means that companies are able to pass through the costs of emission trading to the sales price even if they received free allowances. This produces extra profit, so-called windfall profit for companies, mainly to ones that do not have European competition, such as power generators (Venmans, 2012, p. 5505). During the first and second phases the allowances were given out almost entirely freely, politically motivated by carbon leakage. However, there is a consensus on the fact that the grandfathered allocation is not efficient to prevent carbon leakage. In addition, the phenomenon of 'carbon leakage' was not observable in the first two phases (Venmans, 2012, p. 5507). Free allocation is politically justified to avoid leakage but it led to distorting effects in the market and windfall profits. Consequently, it can be assumed that the process was driven by lobby groups' influence, as it was exceedingly beneficial for them (Venmans, 2012, Cló, 2010.)

Introducing the EU ETS was relatively smooth in the EU because the political leaders could gain support from key industrial actors to allocate allowances freely. It can be claimed that the distributional effect was a serious shortcoming of the system in the first two phases (Venmans, 2012, p. 5508). In order to address the dangerous aftermaths of free allocation, the EU decided to reduce the rate of free allowances and strengthen the role of auctioning (EU Directive, 2009).

To sum up briefly, the EU ETS scored relatively high on environmental effectiveness and institutional feasibility, as the Kyoto target likely could be met in 2020 and the operation of the system was sufficient. However, the scheme faced several shortcomings, over-allocation of the allowances which generated low carbon prices, grandfathering in the form of subsidy for main polluters, poor performance of redistribution imposed windfall-profits to mention the main problems. The EU set out to address these drawbacks and significant changes took place in the third phase in order to improve the operation of the scheme.

4.6 Third Phase of the Emission Scheme

Remarkable changes took place in the third phase which commenced in 2013. The whole scheme was revised by the European Union in order to improve the effectiveness of the system. The next subchapter will analyze these alterations in the system.

First of all, Croatia joined the system in the third commitment period, and now 31 countries participate in the system. In addition, perfluorocarbon(PFCs) emission from aluminum production was brought into the EU ETS (European Commission, 2014a). As a matter of fact, the inclusion of maritime emissions and more activities under the scheme has been proposed to adopt between 2013-2020 (Carbon Trust, 2008, p. 16).

Secondly, NAPs were replaced by one central registry, known as EU Transaction log and central approach has become prevailing to determine the overall cap and its future trajectory and to set up new rules (Davies et al., 2009, p. 9; Talberg, 2011, p. 2). Consequently, the power of member states reduced and the EU institutions gained strength.

Thirdly, auctioning became more important as at least 50% of the allowances will be auctioned in the third phase. The amount of allowances which can be auctioned by member states is determined as follows: 88% of the allowances are distributed among member states based on their verified emissions in 2005, 10% of the allowances can be obtained by low income per capita member countries in order to encourage investments in environmental friendly technologies and 2% is distributed among member states that have achieved a 20% emission reduction on their Kyoto Protocol base year by 2005 (Talberg, 2011, p. 4). The power sector is a subject to full auctioning and other industrial sectors will experience a gradual phase out of freely given allowances (Davies et al., 2009, p. 56). Free allocation of industry is based on benchmarking, which means that the best performers in energy intensity can receive free allowances up to a certain level (Talberg, 2011, p. 4). Industrial sectors facing a market disadvantage due to the emission reduction are exemptions. These are the energy intensive sectors at risk of carbon leakage and they can receive free allowances up to 100% in order to avoid outsourcing of production capacity from Europe (Talberg, 2011).

According to the alterations regarding the redistribution aspect, some sectors and organizations can profit from the system henceforward, and some became the losers who are the subjects of full auctioning and not receiving free allowances. Some energy-intensive sectors are the winners of the revised EU ETS, as they can get free allowances in the Third phase. Contrary, electricity sector is the subject of full auctioning (Gullberg, 2008).

Banking of allowances and project credits is allowable as well using up project credits, however only 50% of reduction effort can be met through CDM over the period from 2008 to 2020 (Davies et al., 2009, p. 54).

Although, at first glance the amendments seem to be promising in the future, several concerns still remained about the effectiveness of the scheme. For example, auctioning can be trapped by political considerations in the third phase as well, because of the fact that the majority of the sectors can receive free allocations henceforward. It can be argued that the reasoning behind the decision on which companies can fall under the label of carbon leakage is politically driven and not economically grounded (Cló, 2010). However, the centralized approach and more auctioning were considerable improvements.

Table 4.1. Snapshots about the main alterations in the subsequent phases

<i>Main Elements/Phases</i>	<i>First Phase (2005-2007)</i>	<i>Second Phase (2008-2012)</i>	<i>Third Phase (2013-2020)</i>
<i>Coverage (Number of Participating Countries, Sectors, GHGs)</i>	<ul style="list-style-type: none"> ▪ 25 Countries ▪ Large polluter sectors: Power generators, paper and pulp, iron and steel, oil refinery ▪ CO₂ 	<ul style="list-style-type: none"> ▪ 30 Countries (27 EU member states and 3 EEA-EFTA states, namely Iceland, Liechtenstein and Norway) ▪ Aviation is added ▪ CO₂, and Nitrous oxide is included 	<ul style="list-style-type: none"> ▪ 31 Countries ▪ Aluminum and basic chemicals are added ▪ CO₂, Nitrous oxide, and PFC from aluminum is added
<i>Distribution</i>	<i>Partly Decentralized and Party Centralized System (NAP and Commission)</i>	<i>Partly Decentralized and Party Centralized System (NAP and Commission)</i>	<i>Centralized System</i>
<i>Allocation</i>	<i>95% Freely given</i>	<i>90% Freely given</i>	<i>Approximately 50 %</i>

	<i>allowances, 5 % Auctioning</i>	<i>allowances, 10 % Auctioning</i>	<i>Freely given allowances and 50 % Auctioning</i>
<i>Offset credits</i>	<i>Usage of Clean Development and Joint Implementation offsets</i>	<i>Usage of Clean Development and Joint Implementation offsets</i>	<i>Introduction of Quantitative Restriction with regard usage of Clean Development and Joint Implementation offsets</i>
<i>Banking</i>	<i>Not Allowed</i>	<i>Allowed</i>	<i>Allowed</i>

To sum up of the alterations, the most important change is that auctioning became the dominant approach to obtain allowances. Some industrial sectors now subject of 100 per cent auctioning, which means that they are not able to receive allowances for free of charge anymore, but have to pay for it on auctions. However, certain energy intensive sector can receive free allowances in the Third phase and profit from the system henceforward. Now 31 countries participate in the scheme and the scope of the system slightly widened in the Third phase. The National Allocation Plan was removed by one central agency, known as the EU transaction log. The EU determines the cap and makes other structural decisions. Finally, banking of the allowances and buying offset credits are allowable.

4.7 Conclusion

This chapter presented a chronological analysis about the European Union Emission Trading System. This system is the world's biggest cap and trade system which aims to comply with the Kyoto Protocol and address the dangerous problem of climate change. Generally, the system surfaced as a result of two failures in the 1990s and became the flagship of the EU climate policy. The system worked sufficiently regarding the environmental effectiveness, however several drawbacks emerged in the first and second phases which were addressed by the EU. As a result, remarkable changes were introduced in the Third phase in order to improve the effectiveness of the system. Most importantly, the redistribution rules shifted considerably and

auctioning became the dominant form of obtaining allowances. Electricity producing sector is the big "looser" of the alterations as companies operate in this sector are subjects of full auctioning, while some energy-intensive sector can receive the allowances freely. Consequently, energy intensive companies supposedly could exert influence on decision- and policy-makers. Hence, these organizations will be the subject of the analysis of this research in the fifth chapter.

Chapter 5.: Analysis

5.1 Introduction

In this chapter the qualitative analysis of the interest group influence in the revision process of the EU ETS will be performed. The purpose of the research is to test theories on determinants of interest group influence at the European Union level. In order to do so, certain hypotheses, developed from state of the art literature on interest group influence theories, will be tested during the following analysis. The analysis will be accomplished by applying process tracing method. Let us recall the recommendation of Collier (2011, p. 828) with regard to performing process tracing analysis: *"It can [therefore] be productive to start with a good narrative or with a timeline that lists the sequence of events"* (Collier, 2011, p. 828). Moreover, Dür (2008b, p. 562) has delineated the basic principle *"to uncover the steps which by causes affect outcomes"*.

Following their suggestions, this analysis will start with the identification of those relevant interest groupings who were deeply interested pushing the policy alterations in a specified way. Secondly, the preferences of the identified groupings will be scrutinized and presented. Thirdly, a clear timeline of the policy-making and decision-making process will be provided. Subsequently, the influence attempts and venues from the different groupings will be enumerated and explicated. These four steps constitute the framework of the process tracing analysis. Afterwards, the comparison between interest groupings' preferences and the policy outcome will be made and an explanation of actual influence will be provided. Once we know what interest groupings were able to shape the policy changes, we can start to discover which variables had effect on the outcome. Consequently, a section will be devoted to the discussion of the causal relationships between those variables which presumably determined our dependent variable. In order to reveal the presence or absence of the independent variables, the identified interest groupings will be compared.

After providing the outline of the analysis, sketching the basics of the analyzed case is reasonable in order to recall what time period is covered by the thesis; what was at stake for interest groups; who were the most important actors in the process. Basically, the analyzed time period comprises the policy-making and decision-making process of the revised EU ETS, that is to say, from the spring, 2007 through December, 2008. The alterations determined the operations

of the European Union Emission Trading System between the years 2013 and 2020. Several concerns arose during the pilot and first commitment phases with regard to the effectiveness of the system, so noteworthy alterations were being re-considered (see section 4.5 and 4.6). As a result, much was at stake for interest groupings. Most importantly, the operation of the covered factories, installations could have been affected directly and deeply by the changes. On the other hand, environmental non-governmental organizations perceived the revision as a great opportunity to improve the efficiency of EUs climate policy (Skjærseth, 2010). It is also worthy, before starting the analysis, to bring our hypotheses back into minds, as testing the theories which from the hypotheses were extracted constitutes the purpose of this research.

- * **H.1.:** *The more expertise an interest group offers in the decision and policy-making process, the more influence an interest group exerts on policy outcome.*
- * **H.2.:** *The more support an interest group provides, either financially or politically, the more influence an interest group exerts on policy outcome.*
- * **H.3.:** *The more inside lobbying strategy an interest group applies, the more influence an interest group exerts on policy outcome.*
- * **H.4.:** *The more access to decision-makers and policy-makers an interest group has, the more influence an interest group exerts on policy outcome.*

5.2 Identification of Interest Groupings

The main interest groupings, who participated in the decision-making process of the revised EU ETS, will be introduced here. This subchapter aims to provide information about the interest groupings who are the subjects of this research. Generally, two groupings will be presented. The first one is the Alliance of Energy Intensive Industries, who represented narrow economic interests. The second one is the Grouping of ENGOs, which represented diffuse interests. The categorization of specific interest subpopulations is primarily made in the literature between these two types of groups. Additionally, due to the significance of the policy change, both groupings were deeply interested in altering the scheme to suit their preferences. This fact will be demonstrated in section of 5.2. Choosing two such different groupings makes it possible to reveal the distinction between them and to shed light on their influence attempts by delineating their distinctive trajectories to exert influence on policy outcome.

5.2.1 Alliance of Energy-Intensive Industries (Alliance)

It has become obvious from the policy overview that the energy intensive sector can profit from the EU ETS. Some of the companies operating in this sector can receive freely given allowances in the Third phase. Consequently, we can assume that the energy intensive sector lobbied effectively during the revision of the scheme. This assumption is strengthened by the fact that these companies lobbied together as an alliance, which is necessarily more powerful and influential (Gullberg, 2008). This industrial grouping was called the European Alliance of Energy-Intensive Industries (Alliance), which was a formal coalition of firms from energy intensive sectors.

The alliance was created by fourteen big organizations represent different economic subsectors. These organizations are: the European Chemical Industry Council (CEFIC), the European Cement Association (CEMBUREAU), the Confederation of European Paper Industries (CEPI), the Liaison Office the European Ceramic Industry (CERAME-UNIE), The European Lime Association (EULA), the Association of European ferro-alloy producers (EURO ALLIAGES), the voice of the chlor-alkali industry (EURO CHLOR), the European Confederation of Iron and Steel Industries (EUROFER), the voice of the European Gypsum Industry (EUROGYPSUM), the European Association of Metals (EUROMETAUX), the European Petroleum Industry Association (EUROPIA), the European Expanded Clay Association (EXCA), Glass Alliance Europe (Glass Alliance Europe), the International Federation of Industrial Energy Consumers (IFIIEC EUROPE). (Cembureau, 2014)

5.2.2 Environmental Non-Governmental Organizations (ENGOS)

The second identified grouping is the Grouping of environmental NGOs. Environmental NGOs formed a formal coalition during the revision process of the EU ETS (Interview #1), and all of the participant groups are members of "Green 10", which is a network of the biggest environmental organizations in the EU. The main goal of "Green10" is to foster interest in environmental issues of decision and policy-makers at EU level (Green 10, 2014). Moreover, they represent common interests which made them a homogenous grouping. Hence, the different groups were likely to demonstrate the same interests and attempt to reach the same goals.

The participants of this grouping are: Climate Action Network Europe (CAN), World Wide Fund for Nature (WWF), Friends of the Earth Europe, and Greenpeace. All of the four organizations maintain a global network and push environmental interests.

To sum up briefly, the Alliance of Energy Intensive Industries and the Grouping of ENGOs were identified and selected as the subjects of this analysis. Both of the alliances created formal coalitions in order to pursue their interests during the revision process of the EU ETS. The two groupings can be distinguished from each other effortlessly as the former represented concentrated economic interests, while the latter acted for enforcing global interests. The upcoming steps will provide more information about the groupings.

5.3 Preferences of Interest Groupings

At this point, both the identification and preferences of the interest groupings will be clarified. Identification of the preferences is essential due to the fact that it contributes to the understanding of their interests. Hence, it makes clear which motivational factors played an important role in the resource mobilization of the groupings to exert influence. The examination of the preferences begins with general interests of the groupings in regard to the policy alteration. Afterwards, special attention will be devoted to the main elements of the scheme as discussed in the "Policy Overview" chapter earlier, namely, *cap-setting*, *allocation method*, and *usage of offset credits*. It is beneficial to remind the reader of the elements due to the complexity of the scheme. Cap setting determines the amount of GHGs which can be emitted in the European Union. Allocation method constitutes the backbone of the scheme, describing how the allowances can be distributed among the participants, or, in other words, what the ruling form of obtaining allowances should be. Finally, usage of offset credits specifies the accessibility of carbon offsets to participants. The 'Banking' aspect is omitted from the analysis as precise data could not be gathered from interest groupings. It is likely that this aspect was simply marginalized beside the other elements.

5.3.1 Alliance of Energy-Intensive Industries (Alliance)

Basically, the main purpose of the Alliance was to preserve the competitiveness and profitability of the represented sectors in the global market (Alliance, 2007a, p. 1; 2007b, p. 1-2). The members of the Alliance made it clear that competitiveness is a major issue and should not be damaged by the new regulation (Alliance, 2007a, p. 1). They felt that climate change was a global problem; hence, the problem needs a global solution. Consequently, it was necessary to make the EU ETS exemplary to other regions and should serve as a prototype. Furthermore, it was stressed by the Alliance that the new regulation should not lead to a distorted market or

lowered production (Alliance, 2007a, p. 1; 2007b, p. 1). In order to avoid these threats, a sectoral approach and performance-based allocation method were proposed. This means that the various economic sectors should be treated differently and the allocation method should be based on the performance of installations. The better the performance, the more benefits the installations would gain. Furthermore, they stipulated that "*[T]he indirect effect of the new regulation on the energy prices also needs to be addressed*" (Alliance, 2007a, p. 1). Finally, they warned the EU institutions to avoid double regulation which would impose double burdens on covered installations (Alliance, 2007a, p. 1).

Cap-setting

The Alliance stressed the significance of setting up long-term objectives regarding burden setting. Furthermore, it was emphasized by the members that the new cap should be transparent and as competitively neutral as possible. The importance of keeping the competitiveness and meeting with social needs were underscored as recurring requirements (Alliance, 2007a, p. 2).

Allocation method

The Alliance was absolutely against the auctioning method. Their argument was that it harms the competitiveness of the European energy-intensive sectors and creates distorted market conditions. Moreover, it deters from environmental effectiveness and creates unpredictable carbon prices (Alliance; 2007a, p. 1). Rather than auctioning, they preferred performance-based allocation (PBA) as was previously mentioned (IFIEC Europe, 2007, p. 6-8). Moreover, the Alliance underscored the significance of a sectoral approach, since the different sectors are not affected equally by the scheme; hence, different treatment is necessary (Alliance, 2007a, p. 1).

Usage of offset credit

The Alliance preferred unlimited access to offset credits (CDM and JI projects), because it could contribute to predictable prices, and would encourage business sectors to take part in these projects (Alliance, 2007a, p. 2).

5.3.2 Environmental Non-Governmental Organizations (ENGOS)

Basically, the ENGOS argued for a more efficient system where the economic, and more importantly, environmental effectiveness was secured (ENGOS, 2007, p. 4; Interview #1). In

doing so, environmental organizations underlined the significance of a more harmonized system design and implementation. They strongly believe the scheme included factors which hampered its effectiveness (grandfathering, generous usage of offset credits, less-than-stringent cap) (ENGOS, 2007). Furthermore, they suggested the simple allocation method. It should be also emphasized that they would have ascribed a more important role to transparency and public participation in the preparation and implementation of the EU ETS (ENGOS, 2007, p. 4). In wake of the recommendations they made, predictable carbon price emerged and the scheme fulfilled the initial purpose of the system, namely to mitigate climate change impacts and transform economic sectors in the EU to using low carbon technologies. (ENGOS, 2007)

Cap-setting

The ENGOS suggested reducing greenhouse gases emissions by 30 % by the year 2020, in comparison to the emissions level in 1990. Moreover, the non-governmental organizations argued that the decentralized system of the EU ETS was not efficient, and hence an EU-wide cap and centralized distribution of allowances were desirable and would significantly improve the efficiency of the system (ENGOS, 2007, p. 4-6).

Allocation method

According to the arguments of the ENGOS, the allocation method employed in the first and second commitment phases was the sand in the engine as it led to distorted markets, over allocation and windfall profits; hence, considerably set back the effectiveness of the system (ENGOS, 2007, p. 10-12). Consequently, ENGOS endorsed using 100% auction method, saying it "*eliminates windfall profit, complicated rules to the new entrants, reduces the distortions in the market, increases the macroeconomic efficiency*" (ENGOS, 2007, p. 12). They believed the auction method could guarantee the effectiveness of the system. Regarding the benchmarking, which emerged as an idea during decision-making, ENGOS stressed that benchmarking only mitigates the problem of the existing allocation-method but cannot eliminate it. Hence, they rejected the idea of benchmarking (ENGOS, 2007, p. 11-12). Finally, environmental organizations advised investing revenues gained from the trading into renewable energy projects and funding climate change programs (ENGOS, 2007, p.13; WWF, 2007, p. 2).

Usage of offset credits

The ENGOS demanded from the EU to introduce qualitative and quantities restrictions with regard to the usage of offset credits (ENGOS, 2007, p. 15-16). They stressed that, the large

amount of offset credits in the market generated low carbon price, hence it should be cut back. Furthermore, several concerns arose regarding the quality of these projects. For instance, some projects could not bring long-term, sustainable carbon reduction or even worse had harmful impact on local communities and environment. As a result, the ENGOs introduced the 'CDM Gold Standard' as one of the possible solutions. "*CDM Gold Standard is an independent, transparent, internationally recognized benchmark for high-quality projects*" (ENGOs, 2007, p. 16). This standard only certifies those projects which are able to meet strict environmental and sustainable criteria.

Table 5.1. The preferences of the different interest groupings

	Alliance of Energy Intensive Industries	Environmental Non-Governmental Organizations
Cap-setting	<ul style="list-style-type: none"> ❖ Support to create an EU and global playing field. ❖ Emphasis is on long-term objectives and competitiveness-neutral cap. ❖ No absolute cap. 	<ul style="list-style-type: none"> ❖ EU-wide cap with strong centralized approach. ❖ GHG emission reduction 30% by 2020.
Allocation-method	<ul style="list-style-type: none"> ❖ Performance-based allocation (benchmarking). ❖ Sectoral approach is preferred. ❖ Rejection of auctioning as allocation-method. 	<ul style="list-style-type: none"> ❖ 100% auctioning. ❖ Rejection of benchmarking.
Usage of Offsets	<ul style="list-style-type: none"> ❖ No limit 	<ul style="list-style-type: none"> ❖ Qualitative and quantitative restrictions ❖ Introduction of CDM Standard

Generally, energy-intensive sectors attempted to emphasize the significance of preserving their competitiveness in the world market and gave voice to their concerns about carbon leakage. These topics determined their strategy during the policy- and decision-making process. ENGOs underscored the importance of improving the scheme, making the system more environmentally and economically effective.

5.4 Decision-making process of the revised EU ETS

Now, we turn to the decision-making process of the revised EU ETS. Drawing up the policy-making process enables us to see a clear timeline. The timeline will provide information about the sequence of events which is crucial in process tracing analysis to reveal the causal relationship between the variables and events. Several articles exist that aim to give information about the revision process of the system (e.g. Skjærseth and Wetttestad, 2010; Wetttestad, 2008). This section of the analysis will be based primarily on these academic sources, which will provide the framework. EU institution documents will be used as well in order to provide detailed information and conduct careful examination.

Similarly to other policies of the EU, the policy-making process of the revised EU ETS goes through the co-decision procedure. This procedure was introduced by the Maastricht Treaty on European Union, was extended during the following treaty (Amsterdam) and finally, The Lisbon Treaty made co-decision procedure the main legislative procedure in the EU (European Parliament, 2014). Briefly explained, the European Commission initiates a new legislation in the form of proposal. Then, the parliamentary committees have to vote on the proposal in which they suggest amendments. After that, if the text is "*revised and adopted in plenary, the Parliament has adopted its position*" (European Parliament, 2014). The process can be repeated depending on the agreement with the Council, and on the type of procedure (European Parliament, 2014). However, as we will see later on, the decision-making of the revised EU ETS was "speedy" (Skjærseth and Wetttestad, 2010, p. 73) and did not go through the whole procedure. In this respect, the decision-making process of the revision was unique.

The policy-making process of the revised EU ETS can be split into two main stages. First, the pre-draft phase took place before the Commission proposal came out in January of 2008. This phase includes four working group meetings. The second phase was the actual decision-making process, which culminated with the decision of the Heads of State or Governments in December of 2008.

5.4.1 Pre-draft Phase

It was previously mentioned that (see chapter 4), several concerns arose regarding the effectiveness of the trading system. The European Commission took the leading role in improving the scheme (Skjærseth and Wettestad, 2010, p. 70). As an initial step, four working group meetings were held by the Commission within the confines of the European Climate Change Programme. The objectives of the Programme were to harmonize the different policies in order to tackle climate change more effectively at the EU level and comply with Kyoto Protocol. The policy measures and initiatives were aligned and a comprehensive package was developed (European Commission, 2014e). The revision process of the EU ETS played an important role in this package as the EU ETS is the backbone of the EU climate policy. The stakeholders were invited to all of the working group meetings, including representatives of the EU institutions, the member states representatives, industrial actors, academics and non-governmental organizations (Participants List, 2007a; 2007b; 2007c; 2007d). The main priorities were "further harmonization" toward centralization and enhanced "predictability". The possible extension of the "scope" of the scheme was also negotiated (European Commission, 2007a).

The first meeting was held on the 8th and 9th of March, 2007. The most important topics were the possible extension of the scheme to other sectors and gases; improvement of cost-effectiveness; and the concept of carbon dioxide capture and geological storage activity (European Commission, 2007a). The second meeting was held at the end of April over the course of two days. The *robust compliance* of scheme and *enforcement* were discussed in the stakeholder meeting. The compliance and enforcement worked relatively well in the first two phases, mainly as a result of the excess of the permits. This topic became more relevant as a more stringent cap was in view (European Commission, 2007b). The most important element of the EU ETS, the allocation method, was the subject of the Third meeting. The meeting was held in 21st and 22nd of May. Furthermore, the idea of benchmarking emerged and the application of more auctioning (European Commission, 2007c). The main priority of the fourth meeting in the middle of June was the discussion on linking the EU ETS to another emission trading system in the world. Additionally, flexible mechanism usage was reviewed (European Commission, 2007d).

The four meetings were followed by heavy lobbying from a wide range of interest groups (Skjærseth and Wettestad, 2010, p. 72; Wettestad, 2008). However, no more formal meetings took place up till the publication of the Commission proposal, on the 23rd of January,

2008 (European Commission Proposal, 2008). The description about lobby attempts will be elaborated under the "Influence Attempts and Venues" section.

5.4.2 Actual decision-making

On this date, the Commission proposal was made public and actual decision-making process began. It is crucial to emphasize that the proposal was part of a comprehensive "climate package" (Skjærseth and Wettestad, 2010, p. 66). Both the Council and the Parliament had to agree on the package. The "speedy" decision-making was essentially because the EU wanted to arrive with a prepared and clear position to present to the United Nations Climate Change Conference, which was held in Copenhagen in 2009. Consequently, the whole "policy package" had to be approved before the end of 2008 (Skjærseth and Wettestad, 2010, p. 73-75). The time was very limited and the consensus was necessary. As a result, the discussion had started immediately after the presentation of the Commission proposal. The discussion centered on the alteration toward centralization and the fear from "carbon leakage" (Skjærseth and Wettestad, 2010, p. 73-75). These discussions took place between January and the end of Summer, 2008, within the confines of the Council of the European Union meetings. The first formal ministerial debate took place at the end of February. The environmental ministers, on the whole, welcomed the new package, though some of them gave voice to concerns (ENDS, 2008a). The environmental and industrial committees of the European Parliament also held their first debates on the revision of the process (ENDS, 2008b). What is more, an informal meeting among competing ministers took place within the confines of the closed lunch session as well. The main aim of the session was to clarify the positions of the member states (ENDS, 2007b).

The debates in the committees and among the ministers continued in the different venues of the EU institutions (ENDS, 2008c; 2008d). The proposal generated "hot debate" in both the Council meetings and in the committees of the Parliament, mainly due to the fear of carbon leakage (ENDS, 2008d; 2008e). The negotiations got stuck during the Summer, and discussion resumed again only in September (2008d).

The process accelerated with the French presidency, as they stated that the decision has to be made at the European Council meeting in December among the other aspects of the climate package (Interview #3). Consequently, the French presidency made enormous efforts to reach agreement among the actors before the end of 2008, which helped to take part in Copenhagen climate conference with stronger bargaining position (Interview #3). Actually, the demand for speedy decision-making facilitated the approval of the EU ETS reform because the entire co-

decision procedure did not have to go through the EU institutions (Skjærseth and Wettstad, 2010, p. 73-75). Instead of that, the institutions arranged three-party meetings. Furthermore, as the European Parliament's first reading happened just before the Council meeting, the alternatives of the Parliament were narrowed to two choices: to approve or reject the proposal. It was accepted with incremental changes. The particular reason for the smooth acceptance by the European Parliament was that the Commission proposal was in line with the preferences of the Parliament and therefore negotiations with the European Council were easy. (Skjærseth, 2010). As a result the Council agreed on the deal and created the new directive in December 2008 (Council, 2009; EU Directive, 2009).

The following figure summarizes the policy-making and decision-making process of the revised EU ETS and provides an overview.

Table 5.2. Legislation history of the revised EU ETS

Date	Events
March of 2007	1st ECCP Meeting
April of 2007	2nd ECCP Working Group Meeting
May of 2007	3rd ECCP Working Group Meeting
June of 2007	4th ECCP Working Group Meeting
January of 2008	European Commission Proposal
February- September 2008	Meetings of Council of the European Union
Autumn of 2008	Negotiations between the Parliament, Council and Commission
December of 2008	First reading and Approval of the Parliament.
December of 2008	Unanimity vote on the proposal and Approval of the revised EU ETS

5.5 Influence Attempts and Venues

Based on the process tracing method which is applied in this research, the attempts and venues of influence will be discussed in this section. The analysis will be split up into the pre-draft phase and the actual decision-making period. There were two main venues by which the interest groupings attempted to exert influence, namely the European Commission and the

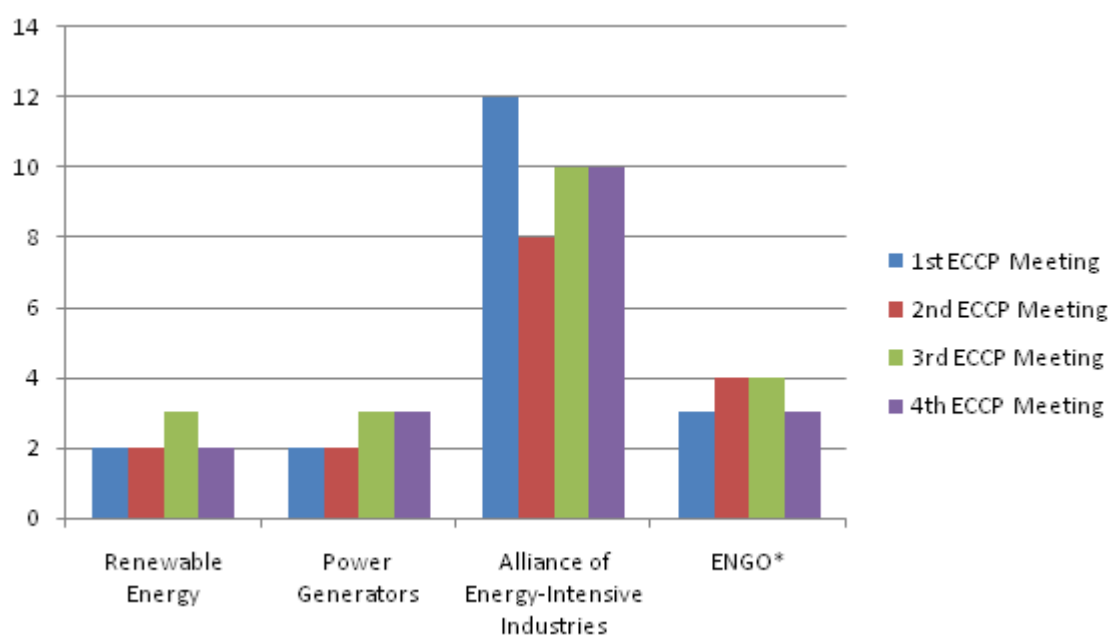
European Parliament, which will be analyzed here. Lobbying the Council will not be examined as this institution was the venue of member states to exert influence.

5.5.1 Pre-draft phase

The revision process of the EU ETS started with the four ECCP meetings. All of the key stakeholders were invited to participate in the meetings and share ideas and concepts in order to improve the scheme (European Commission, 2007a; 2007b; 2007c; 2007d). These meetings are the first to be analyzed.

Gullberg (2008, p. 2-4) examined the interest groups who participated in the revision process of the scheme. In order to shed light on how well represented the different interest groups were during the meetings, the author compared the number of groups' representatives. Using this technique more extensively, lobbying efforts can be diagrammed by looking at the number of representatives.

Figure 5.1. The number of representatives from different interest groupings at the four ECCP meetings



(Source: Participants List, 2007a; 2007b; 2007c; 2007d)

* No exact data could be gathered about the number of ENGO participants in the fourth meeting. As a result, only the speakers were counted.

As we can see from figure 5.1, the Alliance was well represented in comparison to other industrial and environmental groups. Consequently, this group made considerable efforts in order to influence the Commission proposal and was able to mobilize more resources.

The Commission entered the finalization process of making the proposal in January, 2008. The interest groups were prepared to make additional efforts in order to exert influence on the legislative proposal. The Alliance sent a letter to the president and the members of the European Commission to ask that their recommendations be taken into account before making a final decision about the proposal. As the Alliance (2008) stated that: *"[t]he emerging details give rise to serious concerns about future perspectives of Europe's energy-intensive industries."* The interest grouping of energy intensive sectors made the Commission confident of their support, but warned the institution that a *"proportional, consistent policy approach"* is necessary to maintain the predictable and fair operation of the industry. The Alliance refuted the idea of auctioning and suggested benchmarking. Furthermore, the grouping called for distinctive treatment due to the global competition which these industries face. The Alliance of the Energy-intensive Industries believed that its recommendations would make the system more effective and would contribute to the reduced emissions at lower costs. Finally, they expressed that they were looking forward to the explicit support of the Commission (Alliance, 2008). The letter sent by the Alliance was followed by a warning from the European business association, partner of the Alliance (ABA). ABA stated that the auctioning method of the allowance allocation could cause serious damages to European employment and threaten the competitiveness of energy-intensive sectors (ENDS, 2008f).

As a response to the intensified lobbying from the industrial sectors, ENGOs sent a letter to the Commission on the 18th of January, 2008. In their letter, they warned the Commission that the EU institution must resist the heavy lobbying efforts of the different industrial sectors, otherwise the effectiveness of the scheme and the possible improvements could be undermined. They stated that the industrial sectors had attempted to exert influence, via informal channels, which threaten the commitment of the EU to fight against climate change. Furthermore, environmental organizations emphasized that the revision process is the last opportunity to improve the system and reach the EU's climate targets (ENGOs, 2008).

5.5.2 Actual decision-making

The Commission proposal was published on the 23rd of January, at which point the debates and work on the revision began in the committees of the Parliament and in the Parliament itself.

The energy-intensive sectors started to lobby intensively after the proposal came out. These sectors represented their interests consistently and forcefully. First, the International federation of industrial energy consumers (Ifiec - this was the association which teamed up with the Alliance during the ECCP meetings) held a seminar in Brussels and asked the Parliament to "*scrap European Commission proposals for EU carbon allowances to be auctioned to industry from 2013*" (ENDS, 2008g). Ifiec showed a study made by a consulting company, Ecofys. The study included the possible threats of the Commission's proposal and provided a new method for allocation. It was emphasized in the document that the benchmarking method should be applied - which meant that the companies could receive free allowances using emission benchmarks. If the company was not able to reduce emissions to below the benchmark emission level, it could buy surplus allowances in the market. The representatives also criticized the Commission for not being open-minded enough and suggested they should be more flexible regarding ex-post adjustments (ENDS, 2008g). The demonstrations of the concerns which emerged in wake of the proposal continued in the Parliament in April. The director of oil-company, Shell, gave voice his worries that the new proposal would cause serious damage to the profitability of the company and stressed that if the proposal were not changed, Shell would stop investing in Europe (ENDS, 2008h). The debate became hot when the Commission stated that new law would not affect the industrial sectors due to the compensations they provided. However, the Commission also stated that the exact details about the compensation would be specified only after the Copenhagen international climate conference (ENDS, 2008h). Despite the promises the Alliance got from the Commission, they continued to lobby against the proposal relentlessly (ENDS, 2008i).

The Parliament held hearings in the middle of May to clarify the different views of stakeholders on the future EU ETS (ENDS, 2008j). BusinessEurope lobby groups argued for benchmarking in line with the preferences of the Alliance. The groups underlined that the energy intensive sectors face international competition and auctioning would hamper their competitiveness. The interests of the stakeholders clashed as several NGOs stressed that benchmarking could undermine the effectiveness of the entire scheme and should not be applied.

Approximately at the same time of the parliament hearings, the Commission organized a round table conference on environmental protection and climate change (EU ECC, 2008). The

Alliance did not show up in the meeting. Contrary to the energy intensive industries, ENGOs were there and the representative of the WWF gave a speech about the relationship between competitiveness and climate change. Kumar (2008), the policy expert of the environmental organization and one of the interviewees of this research, seized the opportunity to raise a voice against the lobbying efforts made by industry. He stressed that industrial sectors should not get out of the auctioning as it is crucial to make the scheme more effective and would not affect the competitiveness of these sectors.

As mentioned in section 5.3, the decision-making of the EU ETS accelerated in September. The industrial committee of the Parliament questioned the "*automatic scaling up of EU greenhouse gases emission cuts in the event of a post-2012 climate agreement*" (ENDS, 2008k). The ENGOs made it known to Parliament that they definitely refuted this idea as it would hamper the negotiating position of the EU in the international climate meetings (ENDS, 2008k).

In order to convince other stakeholders to apply auctioning instead of benchmark method, ENGOs organized a video-conference in September, jointly with Hewlett Packard (ENDS, 2008l). The hot debate on the allocation method generated a taut situation; hence, ENGOs had to persuade others to stand for the auctions. The WWF also commissioned an independent think tank, New Carbon Finance, in order to reveal the possible effects of the auction method. According to the study, auctioning would not increase the energy prices and could prevent serious detrimental effects of other allocation methods (Interview #1). The WWF made efforts to make the results of the study widely known (Schomberg, 2008, WWF, 2008).

The Alliance was relatively inactive during the last period of the decision-making. However, it can be assumed that they just changed lobby strategy and used more informal, less visible channels. For instance, in October at the time of the decision of the Environmental committee in the Parliament, more than 160 interest groups were registered by the EP mainly lobbying for free allowances (Skjærseth and Wettestad, 2010, p. 81). Furthermore, they were able to lobby at domestic level (Interview #2, #4). The ENGOs applied more outsider strategy and published several position papers at the time of the Parliament's committee decision (e.g. Euractive, 2008a, 2008b), but both of the groupings more or less followed insider strategy.

As must be clear by now, both the Alliance and the ENGOs mobilized their resources in order to influence the revised EU ETS. The influence attempts on the scheme in the pre-draft phase of the revision were dominated by the Alliance which was more strongly represented in the ECCP meetings than were other groupings. Furthermore, they pioneered the practice of sending open letters to the Commission to warn against possible threats of the auctioning

allocation method which was emerging as an overarching idea. The ENGOs only followed the events; they did not behave proactively and their influence attempts were less visible. During the actual decision-making process, the Alliance persistently and comprehensively communicated the industries' interests (Interview #2, #3). Basically, the Alliance heavily lobbied at the Parliament, participated in hearings, ordered a consulting firm to make study, and used its informal and formal networks. The ENGOs also tried to convince policy-makers and decision-makers to make alterations. They talked to Commissioners, MEPs and researchers, contacted the governments of member state delegates to deliver their messages (Interview #1). Additionally, they held and participated in seminars.

5.6 Comparison of the Ideal Position of Interest Groupings and the Policy Outcome and Explanation of their Actual Influence.

The analysis now continues with the measure and explanation of the actual influence effected. Earlier, the relevant interest groupings that supposedly were effective and capable of exerting influence on the outcome were identified. Subsequently, the preferences of the identified groupings were scrutinized and presented. Then, description of the policy-making and decision-making process was used to draw the sequence of events. As a last step before assessing the actual influence, the influence attempts of the groupings were explicated in a detailed manner. The information and data gathered previously will provide the basis of the measurement of our dependent variable. Revealing de facto influence is crucial as it reflects on the abilities of the groupings to exert influence on the policy outcome as well as measuring our dependent variable. Moreover, the causal relationship between the independent variables and our dependent variable can be only measured and assessed if we are aware of which interest groupings realized influence and which did not. As a result, the possible effects of the determinants on the outcome can be unveiled in sequel. The extensive analysis will be accomplished using the main elements, as was done under the section, "Preferences of Interest Groupings."

In order to make the comparison clearly apparent and easily understood, the analysis will start with a table. Then, the explanation on de facto influence will be provided. The section will end with a discussion on the overall score.

Table 5.3. Overview comparing the interest groupings' preferences and the final outcome (Directive)

	Alliance of Energy Intensive Industries	Environmental Non-Governmental Organizations	Directive 2009/29/EC
Cap- setting	<ul style="list-style-type: none"> ❖ Support to create an EU and global playing field. ❖ Emphasis is on long-term objectives and competitiveness -neutral cap. ❖ No absolute cap 	<ul style="list-style-type: none"> ❖ EU-wide cap with strong centralized approach. ❖ GHG emission reduction 30% by 2020. 	<ul style="list-style-type: none"> ❖ EU-wide cap ❖ The cap has to be decreased linearly, with 1.74% of each year. ❖ 20% GHG emission reduction by 2020
Allocation- method	<ul style="list-style-type: none"> ❖ Performance-based allocation (benchmarking). ❖ Sectoral approach is preferred ❖ Rejection of auctioning as allocation-method 	<ul style="list-style-type: none"> ❖ 100% auctioning ❖ Rejection of benchmarking 	<ul style="list-style-type: none"> ❖ 100 % auctioning for power generator sector (in some countries: partly freely given allowances) ❖ 20 % auctioning to other sectors, rising to 70% by 2020. The freely given allowances will be phased out in 2027. ❖ Exemption: sectors face carbon leakage (benchmarking)
Usage of Offsets	<ul style="list-style-type: none"> ❖ No limit 	<ul style="list-style-type: none"> ❖ Qualitative and quantitative restrictions 	<ul style="list-style-type: none"> ❖ Project credits can be banked in the subsequent phases ❖ Quantitative

	❖ Introduction of CDM Standard	restriction. Only 50% of the compliance efforts can be met. Clean Development Mechanism project credits between 2008-2020. ❖ No qualitative restriction
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5.6.1 Explanation on the actual influence of interest groupings

5.6.1.1 Cap-setting

The decentralized system of cap-setting was replaced by single EU wide cap. Furthermore, the proposal stated that the emissions should be cut by 20 percent by 2020. The centralized approach was in line with the ENGO's preferences; however the alteration was not only the result of the environmental organization's lobbying activities. Basically, the replacement of the decentralized system was necessary and pushed by the Commission on account of several concerns which had arisen (see Chapter 4) during the pilot phase and the first commitment phase. Furthermore, the ENGOs strived for a stringent cap, more precisely for a 30 percent emission reduction by 2020, but the EU made that dependent on the international climate talks. What is more, the Commission proposal states that if other developed countries take stringent climate targets, the emission reduction target in the EU would increase automatically to 30 percent by 2020. This pledge was weakened in the Directive as the more stringent cap would be the subject of co-decision procedure, even if other developed countries took sufficient measures (European Commission, 2014f). The Alliance was not satisfied with the cap-setting as they wanted to reach a competitively neutral cap and rejected the idea of an absolute cap. As a result, the energy-intensive industries were not influential regarding cap-setting. Nonetheless, no empirical evidence was found that the Alliance would have focused on this issue or tried to mobilize its resources to exert influence on this issue, contrary to the ENGOs who emphasized the significance of this element of the system. But they also were not exceedingly motivated to influence this element. The explanation of this lack of resource mobilizations is that both of the two groupings could be partially satisfied with the new cap-setting since the single EU-wide cap

provided a level playing field for the industrial actors; the central approach was in line with the ENGOs' preferences; and whether or not a more stringent cap was considered depended on the climate agreement of Copenhagen in 2009. Consequently, the interest groupings were likely to concentrate their resources on more important elements of the system. However, it should be mentioned that, our interviewee who was Policy Advisor of the ENGOs appraised the positively their influence and said: "*we could shape the policy, especially the cap-setting*" (Interview #1). But, other interviewees did not confirm his statement.

5.6.1.2 Allocation-method

The allocation undoubtedly constitutes the most important element of the EU ETS. As a consequence, it generated hot debates during the policy-making process over which method would be best suited to the purpose of the scheme. The main purpose is environmental and cost-effective reduction of GHGs. ENGOs argued that only the 100 percent auctioning method could enhance the effectiveness of the system. Contrary to this view, the Alliance absolutely refuted the idea of auctioning and advocated a sectoral approach and benchmarking. The Alliance definitely won this battle (Interview #2). As one of the interviewees emphasized: "*They had a clear line of arguments and successfully drew the EU institutions' attention to the significance of carbon leakage*" (Interview #2). Although the auctioning has become the most dominant allocation method in the Third phase, economic sectors which face international competition could get out of auctioning and receive up to 100 percent freely given allowances in order to avoid carbon leakage. The sectoral approach, which was advised by the Alliance, was also taken into considerations as the power generator sector became the subject of 100 percent auctioning, while other sectors could receive a gradually decreased share of free allowances. Most importantly, sectors which were identified as at risk of carbon leakage (vulnerable regarding international competition and hence tending to outsource their production capacity to other less regulated countries) would receive 100 percent free allowances henceforward. However, it is also important, that the allocation is based on performance, so benchmarking has taken place as well.

The statement that the Alliance exerted considerable influence on the allocation method is underpinned by the development of Parliament's rhetoric and opinion. After the presentation of the Commission proposal, José Manuel Barroso, the president of the Commission, and several other MEPs stressed that the energy intensive sectors should be protected if no sufficient agreement was reached in the Copenhagen Climate Conference. However, the method which would assess which sectors could fall under the "carbon leakage" category only developed after

the climate conference. The underlying logic behind this was that the implementation of the carbon leakage measure would weaken the position of the EU in the climate discussions. The EU wanted to take the lead and pave the way for a strict international climate agreement (ENDS, 2008m; ENDS, 2008n). This concept was confirmed by the Parliament several times. For instance, Avril Doyle, rapporteur of the EU ETS revision, said that energy sectors could be sure that they would be protected if an international agreement was not reached, but, no extra or discriminative measures are necessary if comprehensive agreement is reached (ENDS, 2008o). In June, Doyle still refuted the idea of benchmark-based allocation method, and warned the Parliament not to name those sectors which might benefit from "*carbon leakage*" measures as it could be "*detrimental to international negotiations*" (ENDS, 2008c). As it was mentioned previously, the decision-making accelerated in autumn, 2008. The discussion and debates on the revision started again in the Parliament after the summer. A shift in the opinion of Parliament on carbon leakage and freely given allowances is observable. The industry and environmental committees worked simultaneously on the possibilities for compensation to the energy intensive sectors. The industry committee said that this particular section of industrial sectors should receive free allowances in 2013. The MEPs were deeply divided regarding the protection of the energy intensive sectors, assuming sufficient climate agreements would not be reached in 2009. Rapporteur Doyle said, in this case this sector could get "*up to 100 percent*" free allocation (ENDS, 2008p). In the middle of September an analysis of the Commission was published which provided a "*methodology for assessing industrial sectors' exposure to 'carbon leakage'*" (ENDS, 2008q). Based on this document, the aluminum, cement and steel industries were likely to receive partial or total free allowances and would benefit from the EU ETS henceforward. The Commission wanted to finalize the assessment criteria in mid-2011 and stated that full auction is the ultimate goal by 2020 (ENDS, 2008q).

After all, what did the new directive include? First of all, the assessment methodology to "carbon leakage" had to finalize by the end of 2009, even though the Parliament stressed persistently that the method should be finalized in 2010-2011 not to weaken the bargaining position in the climate conference in Copenhagen in 2009. Moreover, the Commission proposal stated that full auction method is to be the ultimate goal by 2020 and this goal was confirmed by the Parliament several times. However, the final Directive says that full auction will be only reached in 2027, seven years later than was proposed previously. Furthermore, benchmarking would be applied to assess which installations can receive free allowances (EU Directive, 2009). Sectoral approach, benchmarking and the extension of ultimate goal until 2027 were the main changes during the decision-making process. These alterations served the interests of the energy

intensive industries. Consequently, the Alliance of energy-intensive industries exerted considerable influence on the revised EU ETS. Not surprisingly, the ENGOs were not satisfied with the outcome regarding the allocation method. However, the judgment on the actual influence is difficult to make. As one of the interviewees said: *"At the end of the decision-making process, none of the EU institutions, industrial actors, ENGOs were satisfied with the outcome due to the too many trade-offs"* (Interview #3).

As we can see, there was a shift regarding the viewpoint of the Parliament. However, there is a missing point in the causal chain, since no empirical evidence was found about the inducements from interest groups (see section 5.4) which enforced the alterations issued by the Parliament in the autumn of 2008. There are two possible explanations for the alterations of the EU institutions on the carbon leakage issue. First of all, the influence was exerted through informal channels (Interview #1; #2). Secondly, as the interviewees pointed out, interest groups influenced the decision-making via the member states, as the final decision was made by the Council. This fact was confirmed by a member state representative, Policy Advisor of the Parliament, an official of DG Climate, as well as by previous research (Interview #2, #3 #4; Wettestad, 2008). In addition, the members of Parliaments are also elected by the member states and they can serve the interests of member states as well (Interview #2). As a consequence, the interest groups exerted influence at European level and via domestic political channels as well in the decision-making.

5.6.1.3 Usage of offset credits

The final aspect which will be analyzed is the usage of project credits. Project credits were also disputed among MEPs and committees, but only a shred of the attention was devoted to this element compared to the allocation method. As we know, ENGOs strived for qualitative and quantitative restrictions. There is evidence that the suggestions of the environmental organizations regarding the quality criteria were taken into consideration. The ENGOs specifically recommended the Gold Standard criteria, which was under discussion in the environmental committee in June. The proposal originated from Doyle, rapporteur of the revised EU ETS. The proposal however also included a plan which would have increased the amount of Kyoto project credits allowed to be used by firms in order to comply to their carbon emission standards (ENDS, 2008c). The environmental committee approved the quality criteria in October 2008 (ENDS, 2008r), but the final Directive does not include the Gold Standard Criteria. Consequently, the ENGOs were not able to push it fully through the Parliament. Even though qualitative criteria did not get into the final Directive, quantitative restriction was nonetheless

introduced, which was desired by the ENGOs. Even though, quantitative restriction was introduced, the playing field of the industrial sector remained secured under the scheme and the lack of qualitative restriction served the interests of the installations. Therefore, there were only slight alterations, which did not cause damage to industrial actors interests.

Table 5.4. The success of the interest groupings to exert influence on the policy outcome and the scores

	Alliance (Resource Mobilization)	ENGOS (Resource Mobilization)
Cap-setting	Low (-)	Average (x)
Allocation method	High (x)	Low (x)
Usage of offset credits	Average (-)	Average (x)

5.6.2 Overall score

Assessing de facto influence is difficult due to the complexity of the decision-making process and because the revision was negotiated as part of a comprehensive climate package. The respondents of this research said that there were no "winners" or "losers" of this process. They said that *"everybody won something and lost something"* (Interview #1). Said in other words, *"At the end of the decision-making process, none of the EU institutions, industrial actors, ENGOs were satisfied with the outcome due to the too many trade-offs"* (Interview #3, already used quote). Even though assessment is challengeable, it is clear that the Alliance successfully and forcefully acted for some exceptions and alterations (Interview #2) since some energy-intensive sectors who are on the carbon-leakage list would receive freely given allowances. However, they were forced to perform more consciously environmentally, as the allocation is based on benchmarking from 2013. The underlying logic behind the decision was to protect and compensate them for the burdens and costs put on them by the system and to help them preserve their competitiveness. In addition, the decision in theory prevents the outsourcing of their capacity to other less regulated regions of the world. The energy intensive sectors also could be partially satisfied with the decisions regarding the usage of offset credits because no qualitative restriction was introduced. However, they were not able to affect the burden-setting regulation. One of the respondents of the research, who was the policy advisor of one of the environmental organization appraised positively NGOs' influence, especially regarding the cap-setting element which was more or less in line with their preferences (Interview #1). Additionally, the ENGOs believe that benchmarking was a success, and, as most of the sectors are subject of auctioning, it

contributed to the enhanced effectiveness of the scheme. However as the ENGOs receive a large share of funding from the EU Commission, they tend to represent those interests which the Commission "wants to hear" (Interview #2). Nonetheless, they often represent more radical approaches as well, but these fundamental thoughts are rarely taken into account in the EU (Interview #2). It should also be emphasized that the Directorate-General of Climate Action of the Commission was quite progressive; in that sense they pushed to make a stringent regulation, so their preferences were roughly identical with the ENGOs' ideas.

As must be clear from the analysis, some points from the causal chain were missing which could explain the alterations and inducements at the end of the revision. The reason for the lack of the empirical evidence is, this thesis deals with the role of interest groupings at the European Union level, but these groups were definitely able to put pressure on decision-makers and policy-makers at domestic level. Exactly this happened during the revision of the EU ETS, a fact confirmed by the interviewees as well (Interview #2, Interview #3, Interview #4). Furthermore, it has to be mentioned that the circumstances also changed dramatically in the autumn of 2008 due to the exacerbation of the financial crisis. In this environment, where concerns about the employment and competition intensified, the revision became the subject of cumbersome political debate (Interview #2, Interview #3). The concerns facilitated stronger position for industrial actors and member states who were in favor of less strict regulation.

All told, the Alliance was more influential during the revision of the EU ETS; it lobbied heavily and successfully both at the EU and domestic level and the changed circumstances also strengthened their position to exert influence. Most importantly, the Alliance exerted considerable influence with regard to the most important element of the scheme, namely on allocation method. They concentrated their resources on this issue, which is reasonable considering, reaching success on this element marginalizes the other elements. The ENGOs were demonstrably less capable of exerting influence as they only were able to shape the cap-setting element and the usage of offset credits to a lesser extent.

5.7 Discussion on the Independent Variables

In this section we deal with the four identified independent variables, namely expertise, support, inside lobby strategy and access. The empirical findings of the process tracing analysis provided the information which is necessary for evaluating the presence or absence of provable causal relationship between the independent variables and the interest groups influence. The

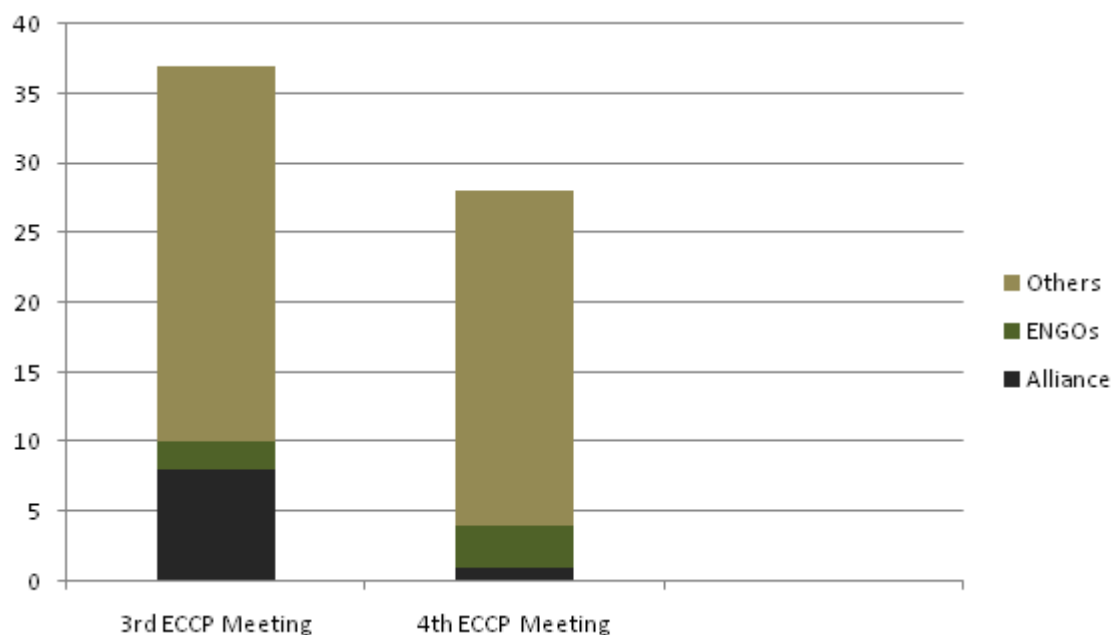
proof will be based on causality and deductive reasoning. Additionally, the information which was acquired from the interviews of this research will be used in order to give a more precise appreciation of causality for the hypotheses extracted from interest group politics literature. The four variables will be discussed in order.

5.7.1 Expertise

H1.: The more expertise an interest group offers in the decision and policy-making process, the more influence an interest group exerts on policy outcome.

Theoretically, expertise is an essential tool of interest groups to exert influence in the EU. Expertise was defined as specialized knowledge of a subject. The interest groups provide precise information, data, and offer expertise, which primarily helped the Commission to deal with wide range of policies (see more: Theoretical Framework). The EU ETS is a highly technical policy, thus the knowledge of interest groups is exceedingly valuable. Even though evaluating expertise is essential, it is difficult to measure the exact impact on the policy-making process. In order to measure expertise we have to take a look on the witness list of experts during the pre-draft phase and examine the receptiveness of the EU institutions to interest groupings' arguments. As we saw in the Analysis chapter, the Alliance was heavily represented compared to other interest groupings at the ECCP meetings. However, just having more delegates does not necessarily mean that all of the representatives were experts who could offer valuable information and data about the operation, its feasibility and the possible impacts of the policy. As a matter of fact, it is worth checking the number of speakers who dealt with technical questions in the ECCP meetings.

Four ECCP meetings were held in 2007. However, as this research is concerned with the three main elements of the scheme, only those meetings will be under investigation where the relevant elements were negotiated. The discussion on the cap-setting and allocation methods took place on the third meeting. The stakeholders and institutional officials discussed the usage of offset credits during the fourth meeting.

Figure 5.2. Number of experts during the 3rd and 4th ECCP meetings from the Alliance and ENGOS

(Source: Participants List, 2007a; 2007b; 2007c; 2007d)

As we can see, eight experts represented the Alliance in the third ECCP Meeting compared to the green coalition's two experts. What is more, approximately one-third of the experts represented the energy-intensive sectors, which is substantial mainly if we consider that other industrial sectors, member states, officials and think tanks also sent experts to this meeting. Not surprisingly, this was the element of the system where the Alliance exerted considerable influence. With regard to the fourth meeting, three ENGO experts participated and only one expert represented the Alliance. As it was made clear in the analysis, the recommendations of the ENGOS about the qualitative and quantitative restrictions were taken into considerations; thus they successfully argued for the significance of this element. However, one remark should be made here. Although, the groups were not equally represented nor did they send an equal number of experts to the meetings, it did not mean that they thought these elements or meetings were not important; they had to mobilize and concentrated their resources on the more significant elements.

All of the respondents of the research confirmed that expertise decisively determines the ability of the interest groups to exert influence (Interview #1, #2, #3,#4). The policy-makers want to know the impacts of the alterations, so the information which is provided by the interest groupings is essential. However, the quality and reliability of the information are also crucial. The statements of the interest groupings have to be underpinned with scientific, technical facts

and a clear line of arguments (Interview #2, #3). As the policy expert of the Commission said, the Alliance coherently and vigorously communicated the threats of the new regulation to the European Union institutions (Interview #2; Wettestad; 2008). In particular, the lobby of energy intensive sectors successfully highlighted the disadvantages of the auctioning method when they talked about competition issues and the reduction of European production capacity (Interview #1, #2, #4). Offering expertise was perhaps most important in the pre-draft phase when the Commission worked on the proposal. However, the Alliance also prepared a research-based study to show Parliament after the presentation of the proposal.

Score of the variable: High

Expertise is a key factor of interest groups who want to realize influence on policy alterations at EU level. All of the interviewees agreed that expertise is an essential tool of interest groups to deliver their message to policy-makers and decision-makers effectively. The empirical findings underpinned this statement as those considerations were taken into account by the interest groupings which were substantiated with clear arguments. Furthermore, during the pre-draft phase, the Alliance was able to exert influence on the allocation method and the Alliance's experts were heavily represented compared to those of the other interest groups in the same meetings. The same applies to the ENGOs as their standpoint was represented in the final Directive with regard to usage of offset credits. All in all, more expertise leads to more influence at EU level.

5.7.2 Support

H.2.: The more support an interest group provides, either financially or politically, the more influence an interest group exerts on policy outcome.

Support is an important source for interest organizations who want to be influential at the EU level. As was developed in the operationalization section, support refers to a two-sided process. On the one hand, support indicates whether the interest group is in favor of a particular decision or against it. On the other hand, support can be financial in which case it refers to the process whereby the interest group sends a financial transfer to decision-makers or policy-makers in order to exert influence.

We introduced three indicators to measure political support. First, the initial positions of the interest groupings and the Commission proposal have to be compared. The more supportive

the interest groupings are, the more chance of exerting influence because support, in theory, enhances the political feasibility of a specific decision. With regard to the EU ETS, the industrial sectors were against the revision and the legislation process because they were interested in maintaining the status quo (Interview #1). As a matter of fact, most of the sectors profited from the system. This is especially true in the case of the energy-producing sector. However, energy-intensive sectors also received free allowances, thus they wanted to avoid fundamental, progressive reform. Most importantly, they were interested in keeping the allocation the way it was during Phase 1 and 2. In contrast to the Alliance, ENGOs were deeply interested in changes since they had several concerns during the pilot phase and the first commitment period (Interview #1). What is more, the preferences of environmental organizations were closely in line with preferences of the Commission as the DG-Climate also advocated a progressive approach (Interview #2). Theoretically the ENGOs should have exerted more influence on the policy outcome, but this was not the case during the revision process of the EU ETS.

The second indicator is the ability of interest groupings to build a strong coalition and represent their interests together with other organizations. In this respect, the Alliance made a considerable effort as it pooled fourteen big industrial organizations who lobbied together and also separately during the decision and policy-making process. There were four organizations who participated in the formal coalition of the environmental non-governmental organizations. However, both of the alliances maintained informal coalitions as well (Interview #1, see section: Influence attempts). Having a strong coalition was an important factor when the Alliance emphasized the economic consequences and detrimental effects of the new legislative proposal for the economic sectors they represented (Interview #2, #3, #4).

The third indicator, which aims to measure political support, is the economic value of the groupings who participated in the decision-making process. This is crucial because the EU also developed primarily along economic interests; hence these interests are substantially taken into account. The third indicator is closely intertwined with the second indicator as industrial sectors only can press decision-makers and policy-makers if they can jointly demonstrate the significance of their sectors and their contribution to European employment and development. In fact, that was one of the most important tools in the hands of the industrial lobby – exploiting the considerable political risk that would result from stringent regulation - loss of jobs, bankruptcy, delocalized production and reduced investments (Interview #2, but see also: Influence attempts). Economic interests and the compensation were stressed scores of times and generated hot debate in the Parliament (Interview #3); thus economic value of energy-intensive sectors was decisive. The ENGOs were not able to use this tool. They tried to reframe the EU ETS as an

environmental issue, but the economic aspect remained dominant and became more urgent with the added aggravation of the financial crisis (Interview #2, #3). What is more, big industrial actors do not have to always lobby for their economic interests at EU level because the member states also try to protect their own economic interest, thus private and governmental interests in most cases are in alignment (Interview #2); which was true in the case of the EU ETS as well.

No empirical evidence was found regarding financial transfer from interest groupings to policy-makers and decision-makers.

Score of the Variable: High

Political support plays a crucial role in interest groups influence. However, after careful analysis, it has become clear that the concept of political support has to be further divided into more variables. In this respect, economic value of the represented sectors and organizations, and the ability of coalition-building are dominant. This fact was confirmed by the interviewees who unanimously agreed on the fact that economic value and the ability to find lobbying allies are inevitable for those interest groups who want to be influential in Brussels. As a consequence, support constitutes an important determinant of interest groups' influence; the more economic value and legitimate allies an interest group provides, the more the influence it can exert on policy outcome.

5.7.3 Inside Lobby Strategy

H.3.: The more inside lobbying strategy an interest group applies, the more influence an interest group exerts on policy outcomes.

The literature distinguishes between two types of lobby strategies, namely, inside and outside lobbying. Lobby strategy here is defined as a conscious plan or action applied by an interest group aimed to exerting influence on policy outcome. Based on this hypothesis, the more inside lobby strategy applied by the interest groupings, the more influence it can exert on policy outcome.

Basically, the two examined groupings applied the same lobbying strategy during the EU ETS revision process. Theoretically, these organizations were restricted to using outsider strategy in which case their access to the decision-making and policy-making process was limited; or they felt pressured because adverse parties successfully applied outsider strategy, forcing them to adapt to the changed circumstances (Beyers, 2008). During the decision-making

and policy-making of the EU ETS, all of the EU institutions were accessible to interest groupings; hence outsider strategy was not inevitable. Because the European Commission attempted to invite all of the stakeholders to formal meetings and working groups - and the interest groupings were able to register at the European Parliament and make contact with MEPs - outsider strategy did not seem to be an effective tool (Interview #1). The only exception occurred just before the announcement of the Commission's legislative proposal when the Alliance sent open letter to the Commission to draw attention to the possible detrimental effects of the new regulation. As a response, ENGOs also sent a letter to the Commission to open the institution's eyes as to the harmful lobbying of energy intensive sectors. It was also revealed from the interviews conducted by the author of this thesis that those organizations which had already built and maintained relationships with MEPs, national governments and the Commission based on trust and reliable information did not tend to use outsider action (Interview #1,#2). Moreover, interest groupings could reach farther using their formal and informal networks, than by organizing demonstrations or writing petitions on the EU level (Interview #1). What is more, for industrial sectors, outsider strategy was not an option at all. Even though, as we could see from the process tracing analysis, ENGOs used more outsider strategy (open letters, held video-conference), there was no significant difference (in effect) between the two groupings' strategy. It seems to be that, those interest organizations which had "settled down" and already had been operating in Brussels for a while were not compelled to apply outsider strategy because they had built their network and found it more effective to attempt to exert influence via informal and formal channels (Beyers, 2008). However, it is acknowledged, that ENGOs persistently and permanently endeavored to inform the public and raise awareness about environmental issues and, in this way, indirectly put pressure on decision-making and policy-makers.

Score of the Variable: Average

All in all, the lobby strategy was not a decisive factor as interest groupings applied the same strategies; and since they maintained and used their formal and informal coalitions and networks due to the fact that the European Commission and European Parliament granted access points which enabled the application of inside lobby strategy. Nonetheless, one remark should be made here - as it became obvious during the analysis -the Alliance exerted influence via informal channels as well, but it is extremely difficult to measure the importance of their activities due to the lack of precise information.

5.7.4 Access

H.4.: *The more access to decision-makers and policy-makers an interest group has, the more influence an interest group exerts on policy outcome.*

In this section we will see whether access to decision- and policy makers is an important source of lobbying or not. Based on our hypothesis, more access infers more influence from interest groupings.

Access is definitely an important factor for lobbying as limitation of access opportunities negatively affects the ability of interest groupings to exert influence on policy outcomes. Or in other words, it seems to be easier to influence policy alterations if you *"have a seat at the table"* (Dür, 2008a, p. 1221). However, respondents of this research did not confirm that more access to decision-makers and policy-makers guaranteed more influence. The reason for casting doubt on this statement is that European Union institutions were actually accessible to all of interest groupings. As it was previously mentioned, the Commission held seminars, working groups and stakeholder meetings where an unlimited number of groups could participate (Interview #2). This held true for the EU ETS as well, during which researchers, think tanks, consulting firms, industrial actors, Commission officials, ENGOs and member state delegates all took part in the policy-making process. Additionally, the interviewees agreed on another one point: the value of relationships built and maintained with the decision-makers and policy-makers was more significant than the frequency of the formal meetings (Interview #1; #2; #3). Consequently, interest groups focused on deepening their existing relationships and building strong networks (Interview #1). Furthermore, finding the right departments and MEPs to lobby was also significant as the various Directorate-Generals in the Commission might frame the same policy differently. Also, the MEPs were not equally receptive to lobbying attempts. For instance, the DG Climate had a progressive approach to the revision of the EU ETS, but the industrial committees' attempted to slow down radical reforms (Interview #2).

The Alliance of Energy intensive Industries exploited EU institutional venues extensively (Interview #2, #3). For instance, more than 160 lobbying groups were registered in October of 2008 in the Parliament tried to reach free allowances for energy intensive sectors (Skjærseth and Wettstad, 2010, p. 81).⁴ Moreover, it was also shown that the Alliance was heavily represented on ECCP working groups. The respondents also confirmed that EU

⁴ No exact data could be gathered from ENGOs

institutions faced intensified lobbying pressure from the industrial actors during the autumn of 2008 (Interview #2, #3). But still, causality between access and more influence could not be deciphered as both of the groupings exploited the examined venues; hence counting the number of access points cannot explain the varying influence success.

Score of the Variable: Average

To sum up briefly, access to policy-makers and decision-makers is expedient to deliver a message, but it did not inevitably mean more influence at EU-level. The Commission seemed to be especially accessible to interest groups and these groups were also able to lobby in the European Parliament without special conditions. However, it should be underscored that representatives of the industrial interests had access at domestic levels and lobbied heavily as well, which strengthened their position in the Council decision at the end of 2008. Their interests were also represented and protected by member states (Interview #2, #4, Wettestad, 2008). At this stage, the European and domestic levels were intertwined which made it exceptionally difficult to judge from which direction the influence had come.

5.8 Conclusion

We performed our nine-step process of tracing analysis in this section. The investigation of the determinants started with the identification of the relevant interest groupings that desired to push policy alterations in line with their preferences. Therefore, the Alliance of Energy Intensive Industries representing concentrated economic interests and ENGOs forcing environmental considerations were selected. Secondly, the groupings' preferences were scrutinized. Basically, the Alliance emphasized economic interests and the importance of preserving competitiveness of the represented sectors. Adversely, the environmental non-governmental organizations underscored diffuse interests and environmental concerns. Thirdly, a clear timeline was provided to put interest groupings' influence attempts into the perspective. This helped to delineate most important events and facilitators of the "speedy" decision-making process. The subsequent section includes the influence attempts initiated by the examined organizations to exert influence. Following this was an explanation of the de facto influence which indicated that the Alliance was more influential on policy outcome than the environmental organizations, since it was able to make alterations on the backbone of the scheme, namely on the allocation method. After understanding the success of interest groupings with regard to

influence, we could start to examine the (lack of) causal relationship between our identified variables and dependent variable, interest group influence. The main findings will be summarized and elucidated in our last, Conclusion chapter.

Chapter 6.: Conclusion

6.1 Introduction

The thesis is summarized in this Concluding chapter, which enumerates the main findings of the research. The Conclusion should help us to review the most significant results of the analysis, especially concerning the determinants of interest group influence which constitutes the core theme of this paper. Additionally, the implications and theoretical contributions of this study are analyzed here along with an examination of the value of this research and what it offers to prevailing literature. The conclusion chapter ends with my recommendations for future research.

6.2 Main Findings

This section aims to review the most significant results of the qualitative analysis and provide a summary of the revelations of this research. In order to call back the core theme of this thesis, here is the main research question:

"How can we explain varying interest group influence on policy outcome in the European Union?"

Four independent variables were identified in our theoretical framework – *expertise*, *support*, *inside lobby strategy*, *access* – which, in theory, affect our dependent variable: interest group influence. In order to reveal the presence or absence of causal relationships between the variables, the researcher applied process tracing analysis and conducted interviews with a policy-maker of the EU Commission DG Climate; a policy advisor of environmental non-governmental organizations; a member state delegate; and the policy advisor to the EU Parliament rapporteur. After gathering the necessary information, an analysis was made on the causal mechanism between the variables.

First of all, *expertise* was proven as a significant determinant and resource for interest groups who aimed to exert influence on policy outcome in the EU. All of the interviewees and the process tracing analysis confirmed that, offering expertise to policy-makers and decision-makers plays an inevitable part in influencing policy alterations. The underlying value behind

this determinant is that policy and decision-makers need to have precise information and expertise in order to improve the policy-making process, particularly when projecting the feasibility of a policy, and assessing the possible weaknesses and strengths of making changes. Although the line between expertise and politically grounded arguments is blurred, the respondents confirmed that policy-makers and decision-makers are receptive to statements which are clearly argued and scientifically underpinned. All in all, expertise is a key factor for interest groups who want to induce alteration on policy outcomes in the EU.

The second determinant, which was deemed to be decisive, was *support*. Political support was measured using three indicators (see: 3.6 and 5.7.2). The ability to build coalitions, and the economic value an interest group represented, were essential. The Alliance, which exerted considerable influence in the revision process of the EU ETS, successfully, demonstrated the contribution of the sectors it represented, towards economic development. In this respect, the economic power of the joined organizations was essential because it represented increased value. This economic leverage was absent from the ENGOs' tools. It bears mentioning that the concept of political support could be reframed if we considered the EU ETS as a policy to stimulate the economy through competitiveness and cutting edge environmental legislation. In this light the ENGOs could decisively exert influence. As it turned out, the exacerbated financial crisis facilitated the bargaining position of the energy-intensive sectors as the possible economic backlash of the new regulation was intimidating.

The third indicator concerned the support of the new regulation by different interest groups because, in theory, the more support an interest group can express, the more influence it can exert due to the fact that support enhances the political feasibility of a particular decision. This indicator was proven useless because the Alliance was more influential in general against the new legislation than the other examined grouping and the organizations it represented profited from the status quo. Finally, no empirical evidence was found that interest groupings attempted to send financial transfers to decision and policy-makers; although it is acknowledged that this would be difficult to detect, due to the invisibility of electronic transactions.

The third independent variable which was under examination was *inside lobby strategy*. Although, in theory, choosing the best option to exert influence on policy outcome is essential, the author of this study found that the interest groupings had not much room for strategy-selection. In general, the interest groups applied an inside-lobby or outside lobby strategy in order to push the alterations in the desired direction. However, groupings that had operated in the EU for a while, and had already built and maintained their institutional network, all tended to use the same strategy. Even though, the findings of this research were in line with the literature on

interest group lobby strategy: the ENGOs used more outsider actions and the industrial actors leaned more on their formal institutional arrangements and informal network - and therefore used insider strategy – yet, there were no significant differences in influence between their applied strategies. The research showed that lobby strategy could not explain the varying influence of interest groupings on policy outcome as they closely used the same strategy but with different outcomes. Nonetheless, we should also mention that counting the number of inside lobby attempts is difficult as mostly these attempts are hidden or less visible.

The last variable which was under investigation is the *access*. Access is a significant factor of influence as lack of access makes it difficult to deliver the message to policy-makers and decision-makers. In theory, more access points mean more influence, but this is not inevitable. Both of the compared groupings exploited the examined institutional venues, but they differed regarding their success. Therefore, simply looking at the amount of access is useless. It is more significant to find those MEPs, committees or DGs that are receptive to interest groups' arguments.

6.3 Contribution and Implications of This Study

We started with a theoretical research question; the main two goals of this thesis were to contribute to theoretical debate on interest group influence in the EU in general and narrow the gap between the theoretical basis and empirical research with regard to interest group influence. Both of the goals were fulfilled by applying a case study of the European Union Emission Trading System. The determinants which were presumed to explain interest group influence in the EU were extracted from the state-of-the-art literature on interest group influence. They were tested by applying a case study. We examined the question: what do the findings mean in terms of external validity when exemplified by a most likely, crucial case? What findings could be generalizable and what were the elements specific to this issue? These questions as well the general theoretical value of the study were addressed in the first part of this thesis as follows:

The first chapter not only provided the outline of the research, but also revealed the main shortcomings of scholarship on interest group politics, and highlighted those knowledge gaps that should be narrowed. The presented thesis made progress on the neglected status of interest group research by constructing an empirical basis and developing theoretical arguments on the main determinants of interest group influence in the European Union.

Within the confines of the second chapter, the theoretical framework of the thesis was developed. In order to avoid misconception, the definitions the research were to use throughout the paper were clarified and explained. Then, the state-of-the-art literature was reviewed, focusing on those theories which determine interest group influence on policy outcome at the EU-level. The review was accomplished by applying the analytical view of multi level governance perspective, which helped us to comprehend the relationship between the activities of interest organizations and the European Union. Four independent variables were identified and extracted from the existing scholarship: expertise, support, inside lobby strategy and access, all supposedly affected and explained varying interest group influence.

The methodological chapter clarified the research design and research methods used in this study. The author of the research decided to apply the process tracing method to measure and examine identified variables. Due to the limitations of the existing methodologies, developing the methodological framework was challenging. The author therefore applied the research methods in an integrated way to reduce the possible limitations, using secondary data and conducting interviews as well. Moreover, he employed case study and process tracing method as they served best to detect causal relationship between the variables and to measure influence. However, using case study implies drawbacks as well, mainly due to the fact that generalization on the findings can be disputed. Even though, purposive case selection mechanism prevented researcher bias and helped to find a most likely crucial case, from which generalization of the findings are likely to be secured. However there were some specific considerations in this study, namely the aggravation of the financial crisis which was mentioned.

The extensive analysis was performed in the fifth chapter. A wide range of sources were used in order to conduct an in-depth and careful examination. This was necessary as the nine-step analysis demanded qualitative data and information from the interview respondents. As influence attempts are often hidden, it was especially revealing to see how the decision-making process was affected by interest groups exploiting institutional venues because this helped us to take more explanations into account simultaneously and appreciate the relationship between the variables more precisely. This was a considerable contribution of this study, and the careful analysis allowed us to provide new insights into interest group activities and processes. At this point, the main revelations of the thesis will be enumerated and the generalization of the findings discussed.

The confirmation of theories in social science is not possible. All theories are valid until they are proven to be false. This may occur when new circumstances arise or deeper knowledge on a specific issue has emerged (Popper, 1953). Following the logic of Popper's approach and

arguments, those hypotheses which were not rejected can enhance our confidence in the validity of a theory (which has not been disproven), but the rejected theories must be rethought and adjusted or simply replaced by more valid theories.

As it should be clear by now that all of the identified variables can play an important role for an interest group wanting to exert influence; but, in this study, only expertise and political support were proved to be decisive determinants of interest group influence at EU level. Expertise resolutely affects interest group's influence at EU level, since there is a clear correlation between offering more expertise and exerting more influence. Support is also an important source for interest groupings with which to shape public policies; however some changes seem to be inevitable to preserve the validity of the element. Support can be divided into two decisive factors, namely to the above-mentioned represented economic value and coalition-building capacity. These are important elements which can better explain the varying success of interest groups who aim to exert influence on policy outcomes at EU level. Support was proven as too broad and vague a category. After the nuanced analysis, it has become clear that support could be dismantled into coalition building and economic support, defined and used more specifically. As this study applied a crucial most likely case, and since the analysis provided strong arguments for the presence of causal relationships, we can enhance our confidence in the validity of these determinants.

Even though, the hypotheses on lobby strategy and access were rejected, it does not necessarily follow that, these two elements should be entirely eliminated. Both of the elements constitute important factors for interest groups, but their existence did not obviously posit or translate into more interest group influence. In fact, as was discussed, the lobby strategy and access were determined by the EU, as the Commission and the Parliament were immensely accessible to interest groups, so differing amounts of access to decision and policy-makers could not explain the varying success of interest groups. Moreover, since the institutions provided access, using informal networks and formal institutional arrangements was obvious and applying outsider strategy was superfluous. However, both of these elements could be put into another perspective if we were to examine intertwined domestic and EU political processes simultaneously.⁵

After all, the resource-exchange theory still remains robust with strong explanatory power, and our findings corroborated the validity of this theory. However, theories on lobby strategy are less powerful. Furthermore, groups with concentrated economic interests mobilized

⁵ See the next section.

more successfully, than did groups from other sectors. This finding is also in line with the prevailing approach (see Theoretical Framework) in the literature, which says, the EU predominantly takes narrow economic interests into account.

All in all, the research provided persuasive arguments, able to be applied to a greater context, especially with regard to expertise and support factors. What is more, it contributed deeper insight into the crucial influencing factors as coalition-building capacity and economic value were also identified during the analysis. The other two factors were recognized as significant but not necessary conditions; hence lobby strategy theories should be adjusted and reviewed accordingly. This study therefore contributed to the theoretical debate on the determinants of interest group influence on the EU at the level of the organizations, and added to the scarce body of empirical research on this subject - which proved to be a challenging task.

6.4 Recommendations and Ideas for Future Research

It was revealed in the first chapter that, due to the peripheral position of research on interest group politics, there is a room for creating an empirical basis of information on the subject and developing theoretical concepts. The recommendations presented here serve primarily to deepen our knowledge on the relationship between EU institutions and interest organizations, and to enhance the explanatory power of the prevailing theories. These objectives could be fulfilled through numerous empirical research studies, as the absence of experimental research is one of the main impediments frustrating the pursuit of knowledge in the field of interest group politics. In empirical research into interest group politics, theory formation is an important step, so my recommendations on theory development will be incorporated as well.

First of all, employing case studies was especially beneficial as little is known about how the interest groups and EU institutions have coevolved; affected each other; and what were the consequences of the rapidly increasing interest groups in Brussels on the policy-making process (Beyers et al., 2008b). Given as little as we know about these processes, even starting by examining a small sample can contribute to theory development and to constructing a theoretical basis.

The logical development of this research obviously would be for interest group scholars to test those determinants which were developed in the theoretical framework in this study; and to test them in other cases in order to challenge the findings of this study. Such research would significantly facilitate theory-development about the determinants of interest group influence.

Other scholars could also improve the presented methodological framework and test the variables with advanced methods which would be crucial to theory-testing. In this respect, the quantitative data collected here is conducive to being used in further research.

Secondly, although this researcher chose to use the method case study, he does not necessarily exclude the possibility of applying large N studies to the same question. On the contrary, conducting a large, comparative N sample analyses would be exceedingly useful to enhance our confidence in the validity of the theories on interest group influence.

Thirdly, conducting research on and examining interest group activities both at the EU and domestic level simultaneously is crucial. As it must be clear by the end of this analysis, interest groups attempt to shape the beliefs, thoughts, ideas and preferences of policy and decision-makers, on both levels, in order to affect policy alterations. The rationale for the recommendation lies in the fact that, EU and domestic political processes are deeply intertwined and examining only one pathway of influence offers only reduced explanatory power. For example, this study revealed that interest groups used insider strategy, but it is possible that one of them applied outsider strategy (demonstration, petition, manifestation) at the domestic level which successfully put pressure on domestic decision-makers by influencing the preferences of domestic politicians in the European political arena. Doing such complex research only can be accomplished if all of the pathways of influence are taken into considerations.

Equally essential would be, measuring "structural power" (Dür, 2008a, p. 1222). By structural power we mean economic interests can wield power over the decision where and when to invest. Decision-makers might depend on the investment capacity of business interests, since economic success can secure politicians' ambition to achieve wanted policy changes (Dür, 2008a, p. 1222). As we could see from our analysis, economic value played an important role for interest groups. The exact measure of this cannot be known but should be defined in order to offset the dominance of business interests in the EU, which presumably focus on short-term profit and tend to ignore long run comprehensive interests. As Dür stated: "*In such a situation, active lobbying combines with structural power to secure business groups' influence over policy decisions*" (2008a, p. 1223). As a result, achieving, for instance, truly sustainable operation in societies and in economies in the current political context is simply impossible - until that tipping point is reached when sustainability becomes a profitable manner.

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Annex

Interview Respondents

Interview 1.

Mr. Sanjeev Kumar

Policy Advisor of World Wide Fund for Nature (WWF)

The interview took place via Skype on Wednesday, July 16, 2014.

Interview 2.

Mr. Bart László

Policy Advisor of DG Climate, European Commission

The interview took place via Skype on Friday, August 8, 2014.

Interview 3.

Ms. Kavita Ahluwalia

Policy Adviser to Avril Doyle MEP (rapporteur of revised EU ETS)

The interview took place via phone on Thursday, August 21, 2014.

Interview 4.

Ms. Györgyi Gurbán

National delegate (HUN) on ECCP working groups

The interview took place via Skype on Tuesday, September 2, 2014.

Interview Questions

General questions

- ❖ What is your name?
- ❖ Which organization did you work for and what was your position during the revision process of the EU ETS which took place between 2007 and 2008?
- ❖ Which organizations do you think exerted influence on policy outcome of the revised EU ETS? How did they do so?
- ❖ Can you remember for the main events during the decision-making process of the EU ETS?

Questions on Expertise

- ❖ How does your organization offer expertise in the EU?
- ❖ Did your organization offer expertise during the revision process of the EU ETS? If it did so, how and for what purpose?
- ❖ Do you think interest groups with greater expertise have more influence in the EU?

Questions on Support

- ❖ Do you think political support is an important tool in the EU?
- ❖ Do you think groupings exert more influence than single groups in the EU?
- ❖ Do you know about organizations that provided financial support to decision or policy-makers in the revision process of the EU? If they did so, in what form?
- ❖ Do you think support enhances the political feasibility of a specific decision?
- ❖ In your opinion which organization's support was especially taken into account in the decision-making process of the EU ETS?

Questions on Lobby Strategy

- ❖ Which kind of lobby strategy is more effective in the EU: Inside lobby strategy (formal and informal channels) or outside lobby strategy (writing petitions, organizing demonstrations)? Why?
- ❖ Did your organization apply inside lobby strategy during the revision process of the EU ETS?
- ❖ Did your organization apply outside lobby strategy during the revision process of the EU ETS?

Questions on Access

- ❖ Do you think access to decision- and policy-makers is an important factor in exerting influence in the EU? If so, why?
- ❖ Do you think that more access implies greater influence?