

Publication

Emissions trading as a policy instrument : evaluation and prospects

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This book is the result of a workshop about emission permit markets in Venice, organized by the editors in collaboration with CESifo. The individual contributions were written independently of each other and differ in topic and methodology, yet they share the underlying theme of theoretical and empirical research in emission permit markets. The chapters are grouped into four thematic sections: A discussion of the development of the EU ETS since its beginning to the present; political economy considerations; interactions with parallel instruments for climate policy; and firm behavior in this new market. Although all contributions are economic in nature, they depart from rigorous assumptions often encountered in economics research, or examine to what extent market participants' action can in fact be explained by neoclassical theory. The overall findings are that the market appears to work in the sense that there is a single price for allowances, and that emissions have been kept below the cap. However, several chapters show that the market is not fully efficient due to reasons such as rent seeking, transactions costs, limited information, regulatory uncertainty, over-allocation and interactions with other climate instruments. Some of these problems have been addressed by the European Commission in the context of rule changes for Phase 3, whereas others have been mitigated by learning on behalf of market participants. Overall, we view the EU ETS as a successful implementation of market-based environmental policy. However, in order to improve the ecological efficiency of the scheme, the future emissions cap should be decreased.

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