

Research Project

Reassessing the Importance of Initial Allocation Methods in Emission Permit Markets

Project funded by own resources

Project title Reassessing the Importance of Initial Allocation Methods in Emission Permit Markets

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Organisation / Research unit

Departement Wirtschaftswissenschaften / Public Economics / Public Finance (Hintermann)

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Status Completed

One of the most controversial aspects of tradable-permit markets is the initial allocation of pollution permits. Subject to a set of technical assumptions it can be shown that the equilibrium outcome is independent of the initial distribution of permits, meaning that the market-clearing permit price, individual firms' abatement efforts and overall compliance costs are the same regardless of whether grandfathering, auctioning or some other method is used to allocate permits.

However, the assumptions required for this well-known result may be violated in practice. We review the recent literature that relaxes some of these benchmark assumptions and discuss if and to what extent the method of initial allocation affects the outcome.

In each case we critically analyze the evidence for using auction and grandfathering approaches. We show that the choice between free allocation and auctioning depends on the specific allocation method used (e.g. pure grandfathering vs. allocation "updating", benchmarking, or output-based), the presence of market power and transaction costs, the use of auction revenue, and the political process through which the permit market is instituted.

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Add publication

Published results

1530598, Hintermann, Beat; MacKenzie, Ian Alexander, Reassessing the Importance of Initial Allocation Methods in Emission Permit Markets, 978-1-61122-540-2 ; 978-1-61209-041-2, Advances in Environmental Research, Publication: Book Item (Buchkap., Lexikonartikel, jur. Kommentierung, Beiträge in Sammelbänden etc.)

Add documents

Specify cooperation partners

ID	Kreditinhaber	Kooperationspartner	Institution	Laufzeit - von	Laufzeit - bis
978092	Hintermann, Beat	MacKenzie, Ian, Postdoc	ETH Zurich	10.05.2010	30.06.2011