

Research Project

The impact of the EU ETS on productivity and markups

Project funded by own resources

Project title The impact of the EU ETS on productivity and markups

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Organisation / Research unit

Departement Wirtschaftswissenschaften / Public Economics / Public Finance (Hintermann)

Project start 01.10.2019

Probable end 31.12.2023

Status Active

We investigate productivity and cost pass-through of German manufacturing firms using administrative data from 2001 to 2014. Our framework allows for the estimation of quantity-based production functions for multi-product firms while controlling for unobserved productivity shocks and unobserved input quality. Using our parameter estimates, we can compute total factor productivity, markups and marginal costs. We find no effect of the EU ETS on firm productivity or profits for the whole sector, and a positive effect for some industries. Firms pass on shocks to materials costs completely, or even more than completely, whereas pass-through of energy costs is around 35-60%. Although pass-through of energy costs is incomplete, it nevertheless allowed firms to recover more than their total carbon costs due to generous free allocation of allowances. Our results add to the recent literature concerning the causal effects of climate policy on firms and are relevant for policy makers when defining the level of free allowance allocation to industry.

Keywords Productivity, markup, EU ETS, climate change, cost pass-through, emissions trading

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Follow-up Project of... [3242117 Measuring the effectiveness and efficiency of the European Union Emissions Trading Scheme](#)

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ID	Kreditinhaber	Kooperationspartner	Institution	Laufzeit - von	Laufzeit - bis
4493248	Hintermann, Beat	Di Maria, Corrado, Associate Professor	University of East Anglia	01.11.2015	31.12.2023
4525108	Hintermann, Beat	Wagner, Ulrich, Professor	University of Mannheim	01.06.2019	31.12.2022