



Kyoto, Europe?—An Economic Evaluation of the European Emission Trading Directive

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Abstract

To meet its obligations accepted in the Kyoto Protocol cost effectively, the European Union introduces a scheme of Greenhouse Gas Allowance Trading for its member states. This paper evaluates the cost effectiveness, ecological accuracy and dynamic incentives of this approach.

The EU-emissions trading constitutes an important shift in the paradigm of environmental policy, from command and control to a market based approach. Still, the EU-system does not fully realize the economic potential of the transferable discharge permit policy. Especially, the limited scope of trading regarding geography, pollutants, sectors and activities reduces the quality of the system. Moreover, the EU-Directive is unspecific in many respects and it leaves many decisions defining the rules of the game to the individual member state. Uncertainty and heterogeneity increase transaction cost and thereby hamper the effectiveness of the system.

Keywords: EU emissions trading, transferable discharge permits, European environmental policy, global warming

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