

Evaluating the Effectiveness of the European Union Emissions Trading System (EU ETS)



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What is the EU ETS?

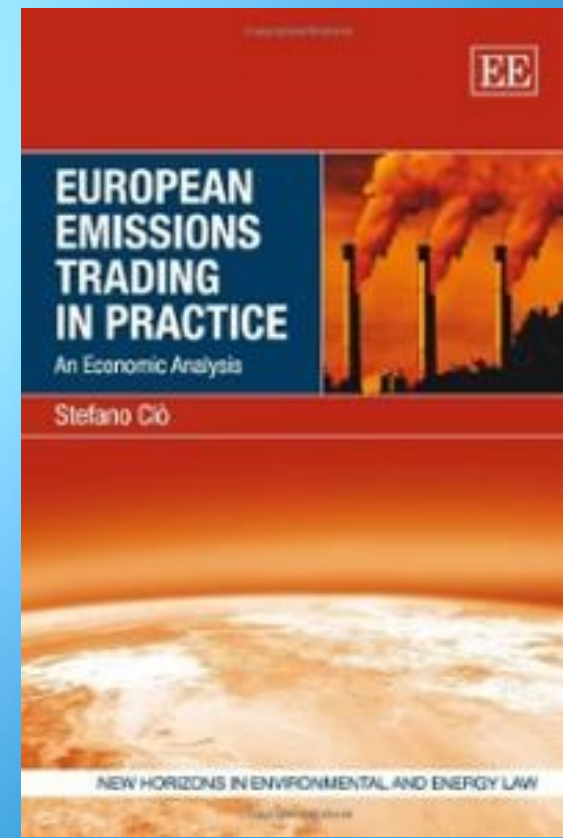
- Largest cap and trade system ever implemented: more than 11,000 installations across 31 countries
- Designed to meet the standards of the 1997 Kyoto Protocol on the emission of greenhouse gases (including CO₂)
- Creates an economic incentive to reduce emissions by establishing a price for pollution permits
- Permits are traded on an open market—Price varies with supply and demand

The Coal-to-Gas-Switch Price

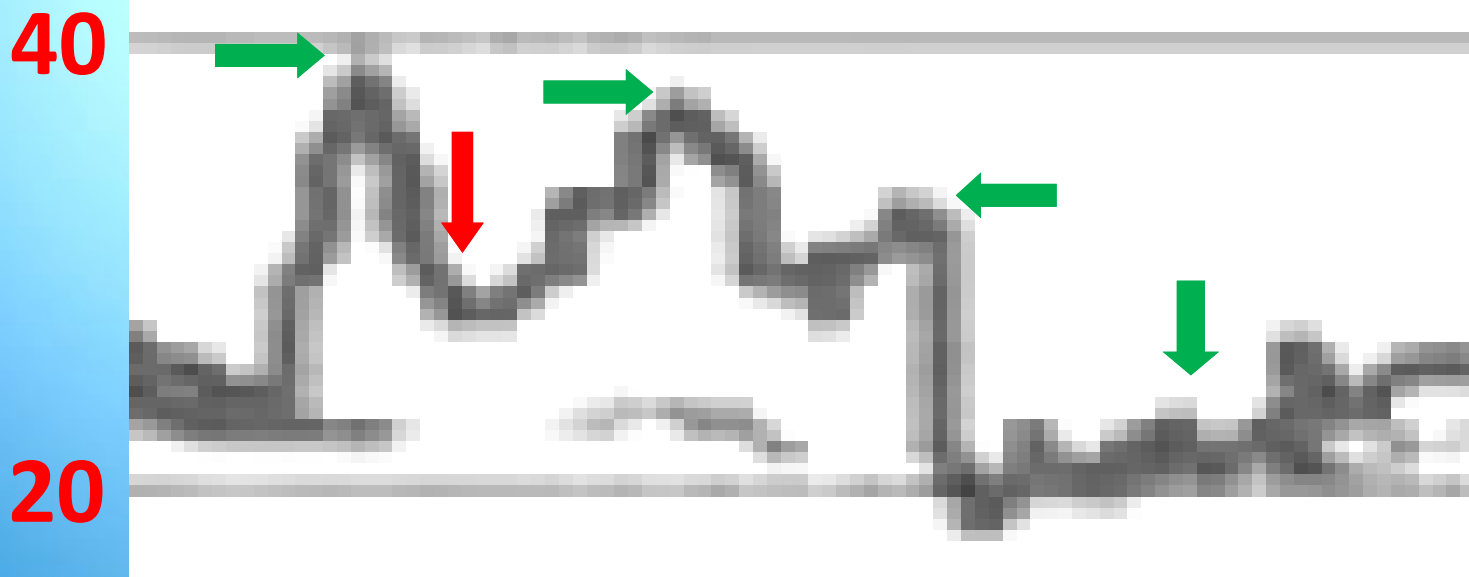
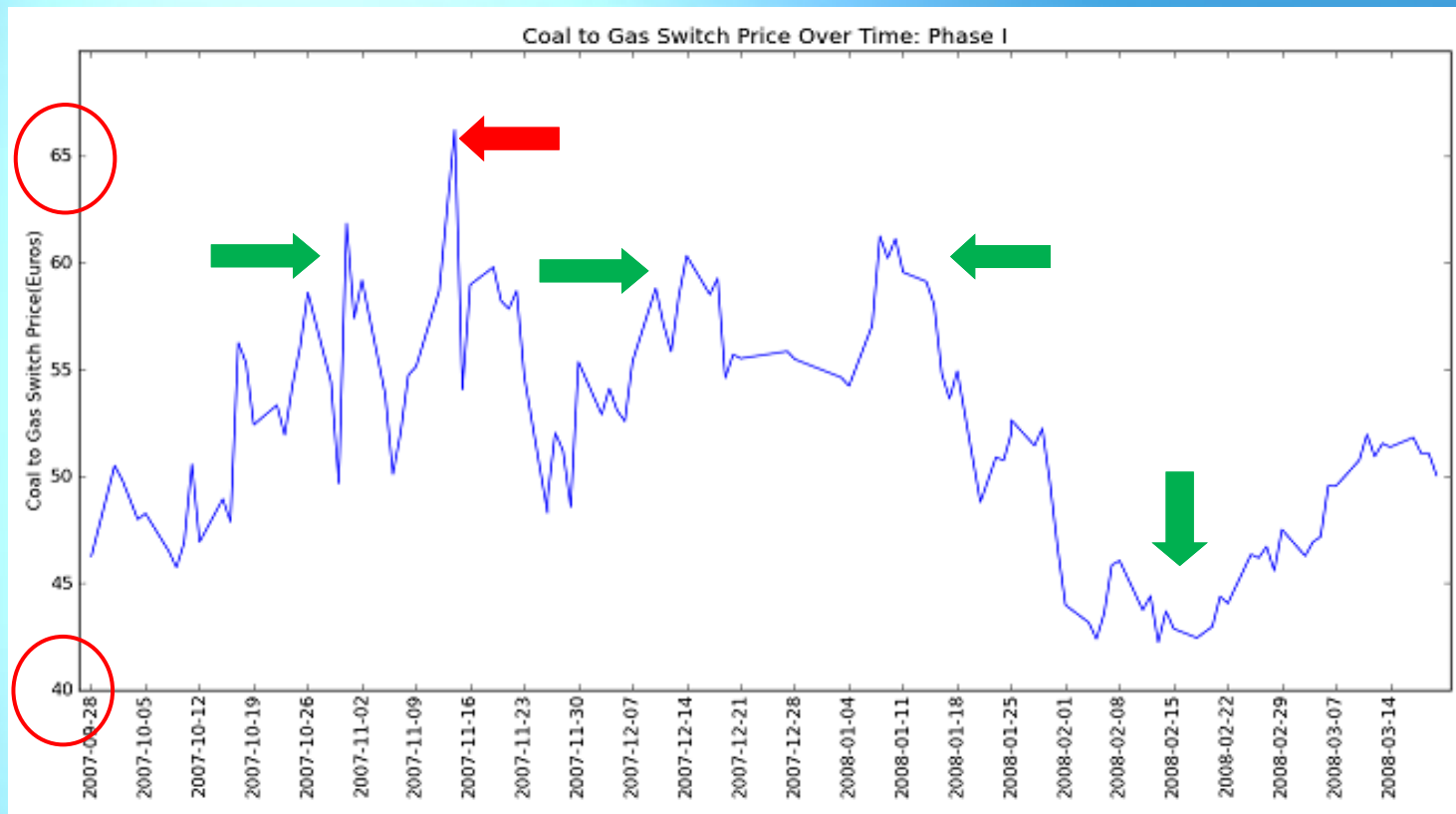
If a power plant burns coal, they need more permits (generate more CO₂).
If a plant burns natural gas, they need fewer permits (generate less CO₂).
The **coal-to-gas switch price** is the permit price that makes the choice of either fuel the same overall.

2 Questions:

- 1) Can the theoretical coal-to-gas switch price be translated to markets outside of Britain?
- 2) What can the coal-to-gas switch price tell us about phase 2 of the EU ETS?



Good News/Bad News:



What About Phase II?

