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

Coal to Gas Switch Price Over Time: Phase I
What About Phase II?

Permit Price Minus Switch Price Over Time: Phase II


Permit Price Minus Switch Price(Euros)