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Allocation and competitiveness in the EU Emissions Trading System: Options for Phase II and beyond

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The EU Emissions Trading Scheme is a driving force for business interest in reducing CO₂ emissions. In capping emissions from power generation and much of heavy industry in Europe, it gives value to their efforts to reduce emissions and has created a market with asset value worth tens of billions of Euros annually.

Putting a price on carbon has been an achievement of global significance, as a focal point also for those seeking to invest through Kyoto's international project mechanisms. Like any market, price is central and the key to prices is scarcity. Recent events have underlined the need for robust allocation as the system moves into the Kyoto phase, and investors are already starting to look beyond that to the post 2012 period. Yet governments also have a duty not to undermine the competitiveness of their industries, and there are fears that the two could conflict.

Building upon our pioneering 2004 study of competitiveness implications, in 2005 the Carbon Trust initiated an international collaborative study with the European research network Climate Strategies, led by our Chief Economist, Michael Grubb.

Drawing upon that analytic base, our report explains the main findings, and sets out the Carbon Trust's own conclusions and recommendations for the future of the EU ETS as an instrument that can both help business deliver emission reductions as efficiently as possible, and also protect and ultimately enhance business competitiveness in a CO₂-constrained world:

[Allocation and competitiveness in the EU Emissions Trading System: Options for Phase II and beyond](#)

The seven underlying analytic papers of the Climate Strategies studies are published as a **Special Issue of the research journal *Climate Policy***, and are also freely available for download:

1. **[Allocation and Competitiveness in the EU Emission Trading Scheme: Policy Overview \(pdf, 453kb\)](#)**
(Michael Grubb and Karsten Neuhoff)
2. **[Emissions, firm profits and market prices: the consequences from emissions trading \(pdf, 444kb\)](#)**
(Robin Smale, Murray Hartley, Cameron Hepburn, John Ward and Michael Grubb)

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This report, based on collaborative research with

Climate Strategies, examines the workings of the EU ETS to date and offers analysis and recommendations on its future development.

3. [CO2 cost pass through and windfall profits in the power sector \(pdf, 860kb\)](#) (Jos Sijm, Karsten Neuhoff and Yihsu Chen)
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