

ABSTRACT

Our aim is to show complex picture and highlight the most discussed features of the emission trading and especially the functioning of the European System of Emission Trading (EU ETS) as a representative of the biggest functioning emission trading system. The key approaches involved in our analysis are both theoretical and practical. In the theoretical section we compare emission trading and environmental taxes and we discuss when it is better to regulate by price and when by quantity instruments. We will discuss the possible allocation methods and especially method of auctioning as the most theoretically preferred allocation method. The practical approach will tackle following two aspects: how the emission allowances have been allocated within the EU ETS in Phase 1 and Phase 2 and what the planned changes are in post 2012. Finally, we will look at the results of allocation versus emission during the first trading period in years 2005-2007 and how it might look in the future in Phase 2 and beyond..