Annotation

The objective of this dissertation is to review the instruments used to reduce carbon emissions, discuss the emission trading introduced by the European Emission Trading System and tentatively suggest further improvements. We shall look at carbon emissions as a negative externality and explore the theoretical foundations of carbon taxation and cap-and-trade systems as well as their possible interactions, conflicts and synergies. We shall also look at the risks associated with using carbon regulation in the EU, mainly carbon leakage and lack of international compliance with regulatory mechanisms, especially in the developing countries. On a practical side, we shall focus on the structure and performance of the carbon reduction policies during the three phases - NAP1, NAP2 and NAP3, paying close attention to free allocation and auctioning. Finally we shall discuss risk-reduction methods, focusing on a potential hybrid model combining both cap-and-trade and taxation with a percentage of the revenues redistributed to the developing world to stimulate climate change agenda.