

Barbara Buchner, Carlo Carraro and A. Denny Ellerman,
**THE ALLOCATION OF EUROPEAN UNION ALLOWANCES:
LESSONS, UNIFYING THEMES AND GENERAL PRINCIPLES**

Barbara K. Buchner
International Energy Agency
Energy Efficiency & Environment Division 9, rue de la Fédération
75739 Paris Cedex 15
Tel: +33.(0)1.4057.6687
Fax: +33.(0)1.4057.6739
E-mail: barbara.buchner@iea.org
Carlo Carraro: Fondazione Eni Enrico Mattei (FEEM), University of Venice
A. Denny Ellerman. Massachusetts Institute of Technology

A critical issue in dealing with climate change is deciding who has a right to emit carbon dioxide (CO₂), and under what conditions, when those emissions are limited. The European Union Emissions Trading Scheme (EU ETS) is the world's first large experiment with an emission trading system for CO₂ and it is likely to be copied by others if there is to be a global regime for limiting greenhouse gas emissions. This paper provides the first in-depth description and analysis of the process by which rights to emit carbon dioxide were created and distributed in the EU ETS. The main objective of the paper is to distill the lessons and general principles to be learnt from the allocation of allowances in the EU ETS, i.e. in the world's first experience with allocating carbon allowances to sub-national entities. We discuss the lessons and unifying observations that emerge from this experience and provide some insights on what seem to be more general principles informing the allocation process and on what are the global implications of the EU ETS.