

GHG Emission Policy with Innovation and Imitation
Tapio Palokangas (University of Helsinki)

I examine GHG emission policy in an economy where two jurisdictions produce from labor and emissions with the same production technology: the *leader* which performs R&D to improve its productivity, and the *follower* which prefers to copy the older technology from the leader. Economy-wide emissions decrease welfare in both jurisdictions. The policy maker is self-interested, subject to lobbying, with no budget of its own. I show that emission permit trade increases welfare and growth, but leads to the equilibrium where imitating jurisdictions have always more emission permits than they need in production. Consequently, they sell these to innovating jurisdictions.