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Nota di contenuto	A positive trade-off: Emissions reduction and costs under Phase IV of the Emissions Trading System -- Introduction -- Literature Review -- Background the EU ETS and the allocation of free allowances -- Data -- Empirical Strategy -- Results and Discussion -- Results -- Discussion -- Conclusion -- Emission Measure -- Carbon Leakage Exposure -- Carbon Leakage Status.
Sommario/riassunto	The manufacturing sector is a significant contributor to greenhouse gas emissions in the EU. This paper investigates the impact of the EU Emissions Trading System (ETS) on this manufacturing sector. It employs a panel regression analysis at the sectorial level spanning 2012 to 2022 to examine how ETS prices and the allocation of free allowances influence sectors' carbon efficiency, direct emissions, production and prices, while controlling for other confounding factors. The results identify investment as a key channel, which mediates the effect of ETS prices on the carbon efficiency of firms. They suggest that a reduction in free allowances combined with escalating ETS prices, mediated by increased investment, can bolster the environmental performance of the EU manufacturing sector without significantly compromising its competitive position.