Research Project
Home Country Bias in International Emissions Trading: Evidence from the EU ETS

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Project title Home Country Bias in International Emissions Trading: Evidence from the EU ETS
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We examine the pattern of allowance trades in the European Union Emissions Trading Scheme using highly disaggregated trading data and document a significant and robust home market bias. Our results point to informational transactions costs that increase when trading across national borders. Around 75% of the home bias can be explained by the existing trade pattern in goods and services. Our finding suggests that firms make use of existing trade networks to overcome search costs in bilateral allowance trade. The home bias furthermore differs across firms, implying that marginal abatement costs are not equalized across market participants.

Keywords Emission permit market, EU ETS, transactions costs, gravity equation, home bias

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