



Universität
Basel

Research Project

Market power in emission permit markets: Theory and evidence

Project funded by own resources

Project title Market power in emission permit markets: Theory and evidence

Principal Investigator(s) [Hintermann, Beat](#) ;

Organisation / Research unit

Departement Wirtschaftswissenschaften / Public Economics / Public Finance (Hintermann)

Project start 01.06.2013

Probable end 01.12.2014

Status Completed

A well-known result about market power in emission permit markets is that efficiency can be achieved by full free allocation to the dominant firm. I show that this result breaks down when taking the interaction between input and output markets into account, even if the firm perceives market power in the permit market alone. In fact, the dominant firm may have an incentive to inflate the permit price even if it receives no free permits at all.

I examine the empirical evidence for price manipulation by large electricity firms during Phase I of the EU ETS. I find that the pattern and extent of firms' allowance holdings are consistent with strategic price manipulation, and they appear unlikely to be the result of precautionary purchases due to carbon risk.

Keywords EU ETS, emission trading, market power, allocation, electricity

Financed by

University funds

Add publication

Add documents

Specify cooperation partners