

Publication

Allowance price drivers in the first phase of the EU ETS

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In the first phase of the EU Emissions Trading Scheme (EU ETS), the price per ton of CO₂ initially rose to over 30; the price then collapsed to essentially zero by mid 2007. By deriving a structural model of the allowance price under the assumption of efficient markets I examine the extent to which this variation in price can be explained by marginal abatement costs. I then gradually relax the model by allowing for delayed adjustment of price to fundamentals, as well as by introducing lagged LHS variables. The pattern of the results suggests that while prices were not initially driven by marginal abatement costs, this inefficiency was largely corrected after the accounting of 2005 emissions in April 2006.

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