

**Publication****Linking with uncertainty: The relationship between EU ETS pollution permits and Kyoto offsets****JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)****ID** 4506919**Author(s)** Hintermann, Beat; Gronwald, Marc**Author(s) at UniBasel** [Hintermann, Beat](#) ;**Year** 2019**Title** Linking with uncertainty: The relationship between EU ETS pollution permits and Kyoto offsets**Journal** Environmental and Resource Economics**Volume** 74**Number** 2**Pages / Article-Number** 761-784**Keywords** EU ETS, Emissions trading, Kyoto, Linking, climate change

Carbon offsets from the Kyoto Flexible Mechanisms can be used by firms in the EU Emissions Trading Scheme for compliance in lieu of EU allowances, making these carbon assets interchangeable. We offer an explanation of the price spread using a structural model of the price for Certified Emissions Reductions that combines three features: A limit for the use of Kyoto offsets within the EU ETS; a disconnect between the current price of offsets and their marginal cost of production due to institutional reasons; and uncertainty about future supply and demand of offsets. Our model expresses the offset price as an average of the EU allowance price and an offset's outside value, weighted by the probability of a binding import limit. Using monthly series of the United Nation's Clean Development Mechanism and Joint Implementation about offset supply and demand, we provide empirical support for our theory of offset price formation. Counterfactual simulations suggest that the price process is dominated by uncertainty.

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