

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

Discussion by Estelle Cantillon (ULB and TSE)

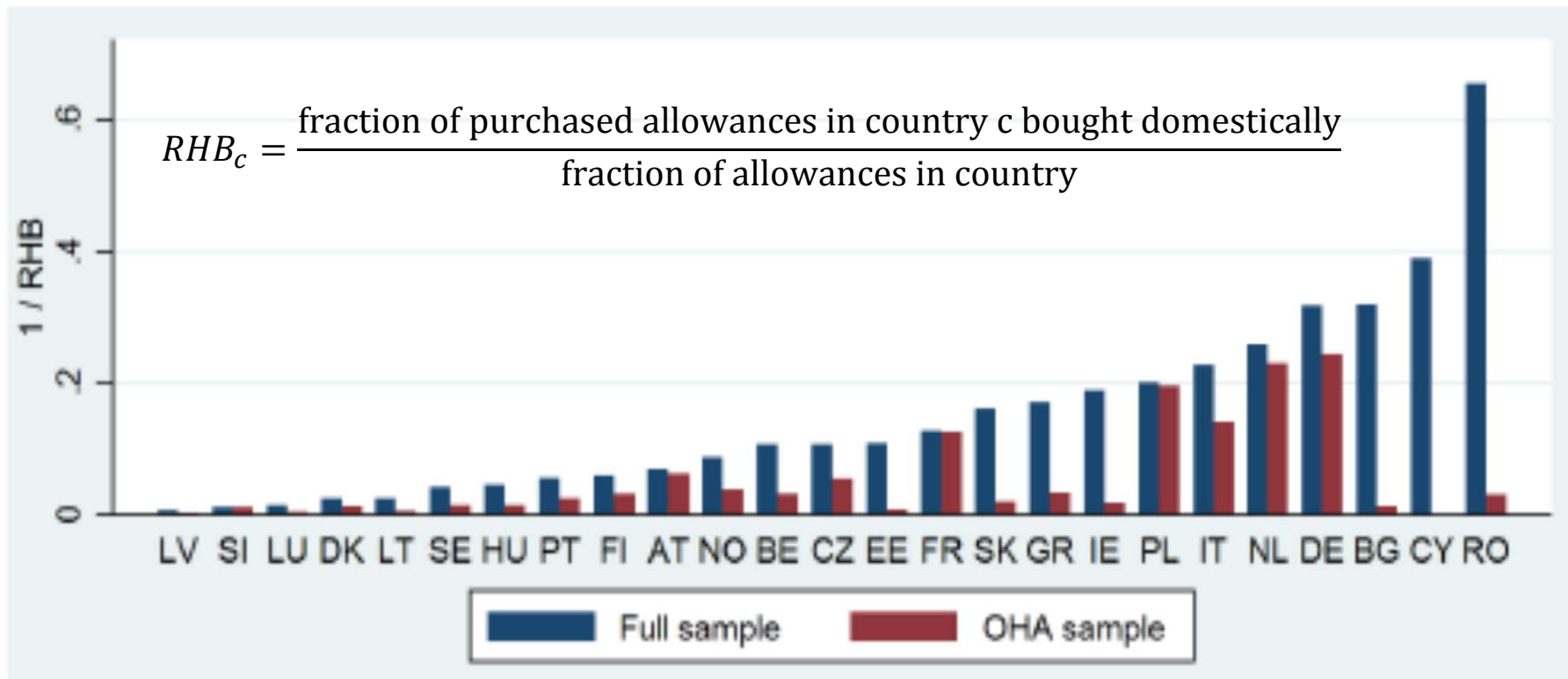
12<sup>th</sup> Conference on the Economics of Energy and Climate

## Background on the EU ETS

- EU+3 wide market, about 50% of emissions covered
- **Organized by phase**, each with different rules
  - Here phase I (2005-07), phase II (2008-12) and start of phase III (2013-20)
  - Grandfathering = default allocation rule in phase I and phase II
  - Participants = regulated firms + anyone who wants
  - Market organisation = spot (exchanges + OTC) and derivatives (exchanges and OTC)
- **Key events in phase II:** VAT fraud, economic crisis, very low prices
- **Transaction data** available with a lag on the EC website (account level  $\neq$  firm level)

## The paper in one slide

- Document a home bias in EU emissions allowances spot transactions:



- This home bias varies across countries and is lower for large trades

# Framing

- Why would firms prefer to trade allowances with a domestic counterpart?
  - Unlike in trade settings: homogenous good (→ no taste-based explanation), no transportation costs.
- Explanation must come from organisation of the market that may bias decision towards a local counterpart
  - Up to 8 exchanges at one point
  - Financial intermediaries
  - Trading desks
- Need to be careful about the welfare interpretation: Home bias may reflect a strong presence of intermediation at home as well as market frictions
- Also need to acknowledge presence of derivative market, which acts as a substitute

# Data

- Paper runs a large number of robustness checks
  - Least convinced about the way you deal with VAT fraud
- I think you can do more than you say in terms of identifying the type of transaction (exchange / OTC, ...)
  - Some exchanges required dedicated trader account, other exchanges used clearing members which acted as in-between.
  - May lead some double-counting
- The sell-side and the buy-side was very different but measure of home-bias is constructed on the basis of buy-side.

