Toulouse School of Economics

The Economics of Energy Markets

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Discussion of Beltratti, Colla & Creti's paper

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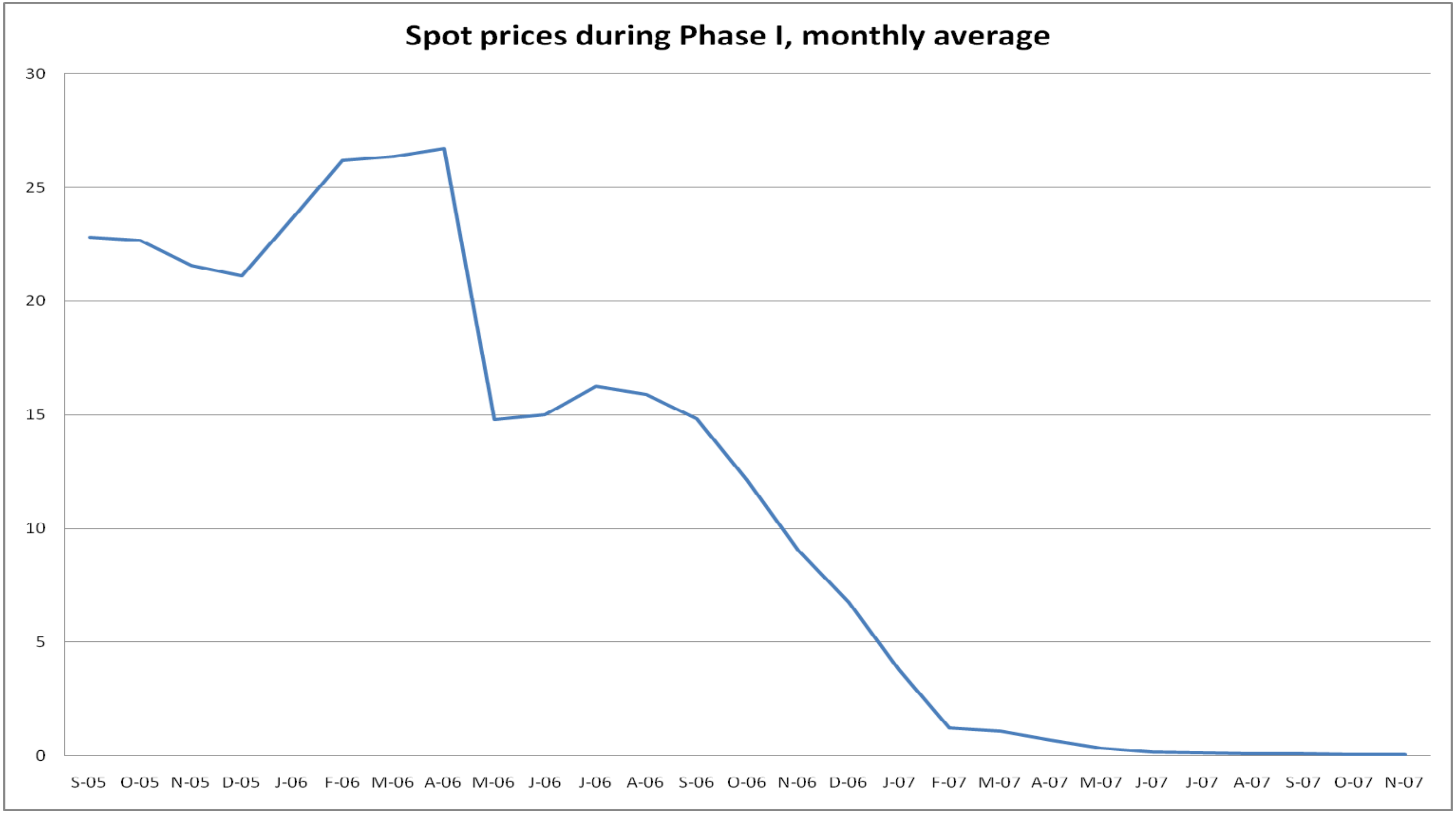
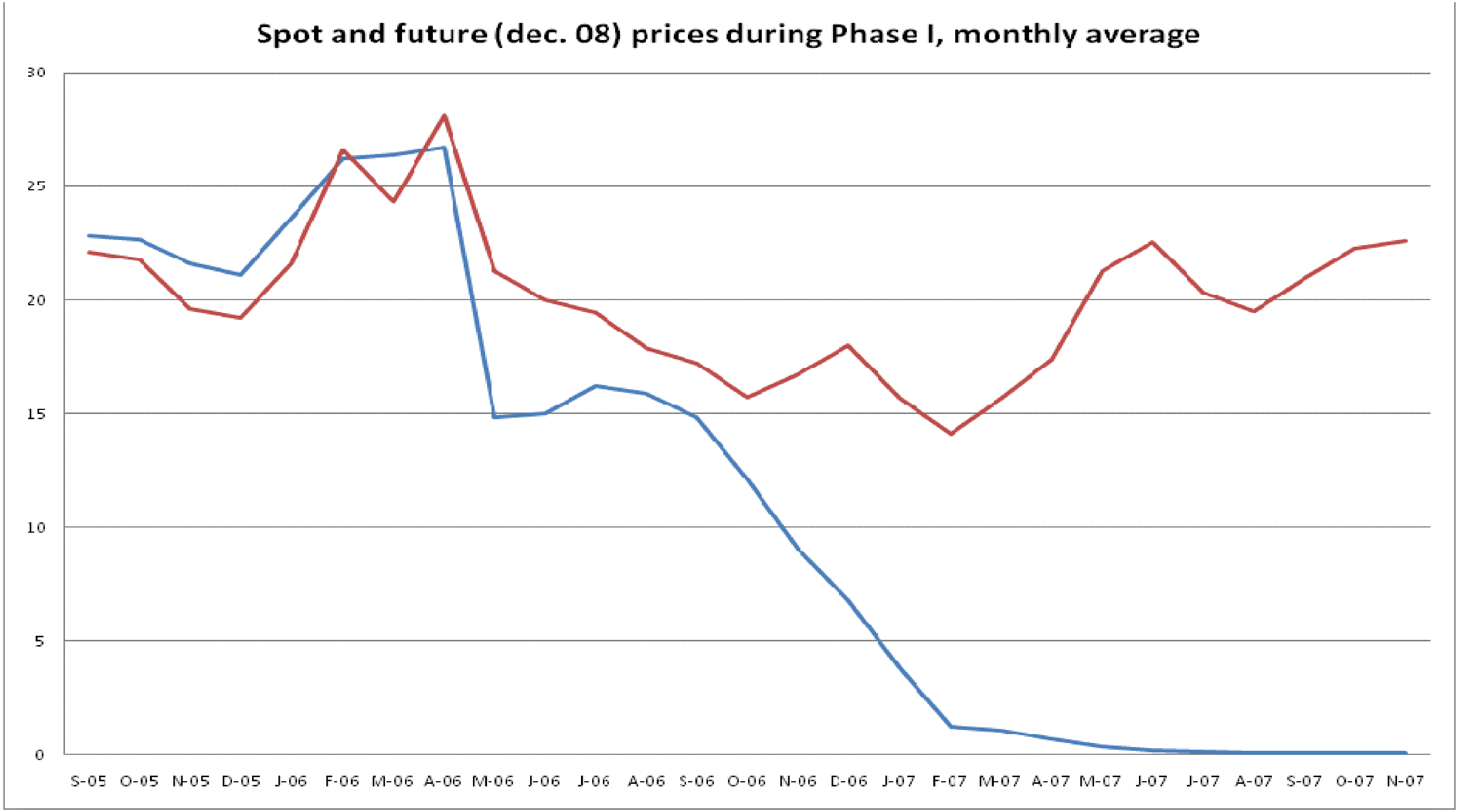
The problem at stake: Emission Permits



The problem at stake: spot vs. future prices



The results

- The empirics say that the difference can be explained by: **expectations of large supply** in Phase II

- Surprising? One would expect that:
  - Expected supply => reduce the expected price

    => reduce the demand for futures

    => reduce the prices of futures.
  - The difference should be reduced (if positive).

- Insights from a clever model with:
  - Firms that anticipate their abatement strategies
  - Speculators that hedge their risks

Questions

- Is it clear that the theoretical equilibrium price for futures is always positive? (why shouldn’t every one be long on the futures market?)
- Why not introducing investors that are risk seeking?
- Isn’t the relevant uncertainty be the oil prices?
- It seems that the hedging motive is not supported by the data. Could you be more precise?
- How can you explain the increase of futures’ price after October 2006 (the announcement of stricter supply of permits for phase 2)

An alternative story and a suggestion

- An alternative story
  - Since banking permits is not permitted, their spot price converges to zero
  - Investment in clean technology is delayed
  - Firms purchase futures to ensure against a high price in Phase II (due e.g. to a strict environmental policy)
- Suggestion:
  - To link the spot prices through an investment strategy in clean technology
  - The spot price P1 would not be anymore independent of P2