

Information aggregation in the European carbon market: The role of firm participation

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Abstract:

We exploit recently released trading data from the first phase of the EU emissions trading scheme (EU ETS) to examine the process of market development during that phase. We know who traded, when, with whom, on which platform if any, and at what price. These unusual data allow us to map for the first time the actual market structure that emerged. Participation was partial and the market was fragmented. We find evidence that the microstructure that arose is related to the observed price formation process. We next plan to develop a microstructure-based model of emissions trading that captures the salient features observed in the data and allows us to explore the consequence of design choices such as the possibility to bank allowances or allowances grandfathering.