

**Firm Trading Behaviour and Transaction Costs in the European  
Union's Emission Trading System: An Empirical Assessment**

Proposed topic *	5	Date	2012-11-14
------------------	---	------	------------

Authors' information**			
Name	Affiliation	Address	e-mail
Jurate Jaraite	Centre for Environmental and Resource Economics, Umeå University	Centre for Environmental and Resource Economics, Umeå University, Umeå, SE-90187	jurate.jaraite@econ.umu.se
Andrius Kazukauskas	Centre for Environmental and Resource Economics, Umeå University	Centre for Environmental and Resource Economics, Umeå University, Umeå, SE-90187	andrius.kazukauskas@econ.umu.se

**KEYWORDS:** CITL, climate policy, emissions trading, Europe, firm-level data, trading behaviour, transaction costs

**ABSTRACT**

To the best of our knowledge, this study is one of the first to empirically analyse the trading behaviour in the first phase of the European Union's Emissions Trading System. We use a unique dataset that allows investigating the importance of permit trading transaction costs, such as information costs and search costs. This paper shows that transaction costs played an important role in the initial years of the programme. These costs were significant in explaining why some ETS firms did not participate in the European emissions trading market and chose to trade allowances indirectly via third parties rather than directly. This study also supports the concerns that transaction costs might be excessive for smaller participants.