



CF Partners

Overview of EUA Trading

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ITOCHU Corporation

The EU-ETS works on the 'cap and trade' principle. A cap is set on the total amount of GHGs that can be emitted by the operators covered by the system. The cap is reduced over time so that total emissions fall. Within the cap, operators buy or receive emissions allowances (free allocation), which they can trade with one another as needed.

Compliance Market

- ✓ Obligation to comply with a regulatory act
- ✓ Cap and trade principle
- ✓ Companies with low emissions can sell its extra allowances to others

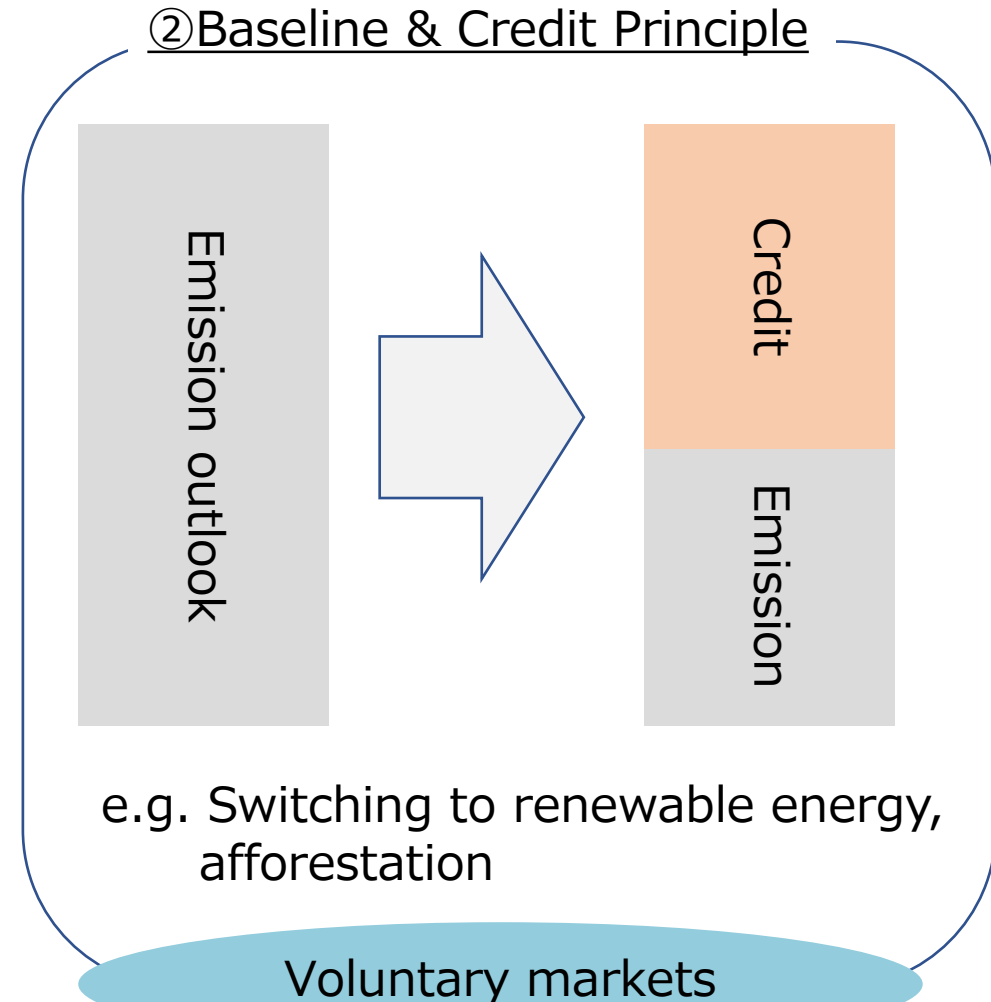
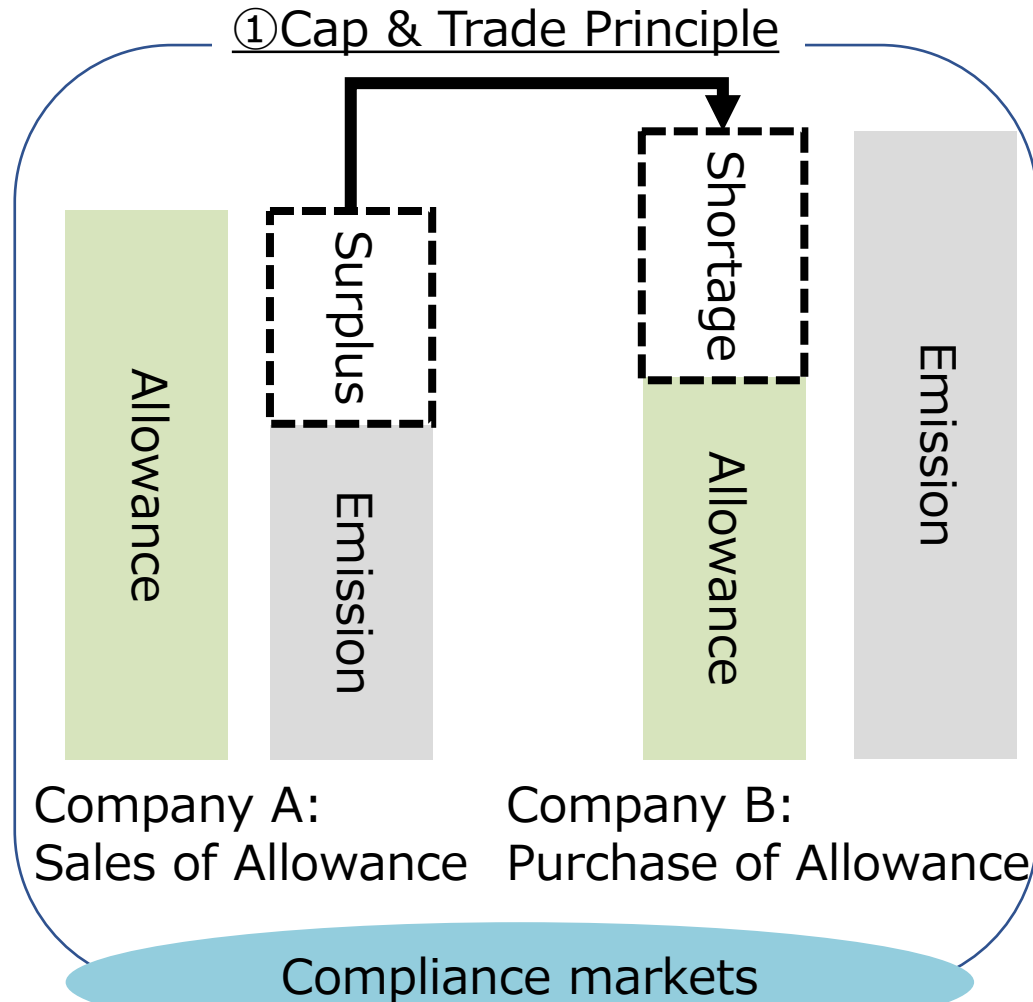
EU-ETS

Voluntary Market

- ✓ Offset GHG emissions voluntary
- ✓ Baseline & credit principle
- ✓ Companies can generate carbon credits by projects like avoidance/removal beyond a business-as-usual scenario

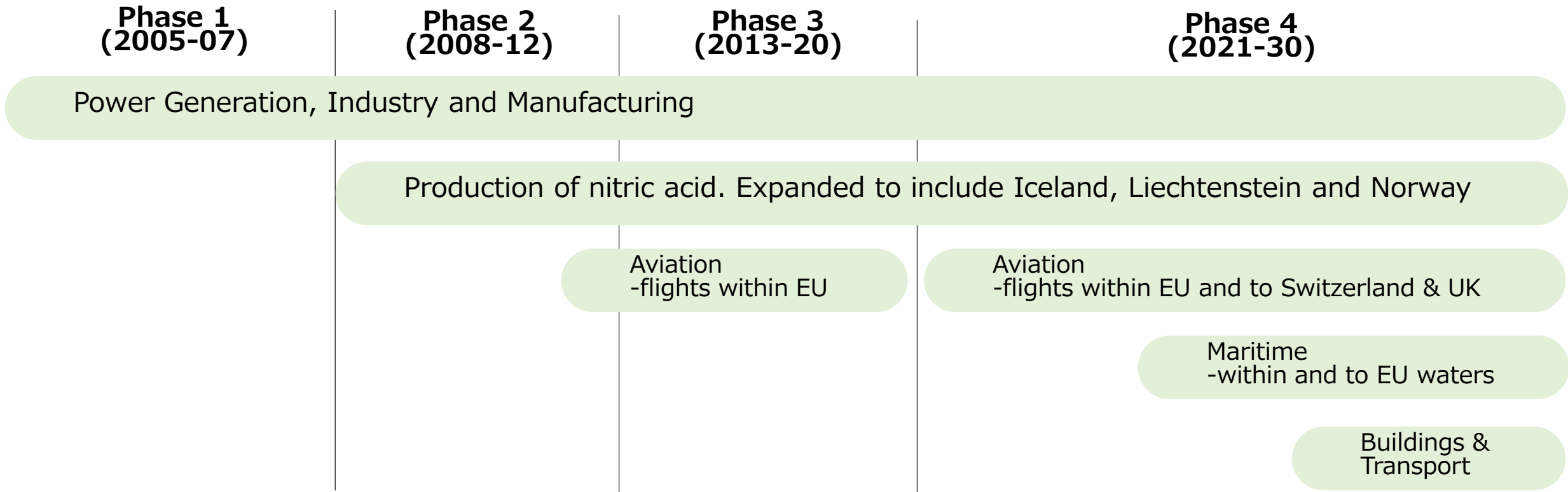
【2】 Difference between Two Principles

Carbon markets exist both under compliance and voluntary programs.



【3】 EU-ETS Development

- EU-ETS initially began in 2005 covering power generation, industry and manufacturing. It then expanded to include aviation in 2012.
- Operates in all EU countries plus Iceland, Liechtenstein and Norway, and limits emissions from around 10,000 installations.
- EU-ETS covers around 40% of the EU's greenhouse gas emissions.



- An EU Allowance (EUA) gives an operator the right to emit 1t-CO₂e.
- There are 3 ways to get EUAs as below.

Primary Auctions

- ✓ Since Phase 3, auctions of EUAs have increased.
- ✓ European Energy Exchange appointed to manage this.
- ✓ Stringent requirements to participate in auctions—mainly for large buyers. (>1M per year)

Free Allocation

- ✓ Industry receives a share of their EUAs for free, but the amount has significantly reduced.
- ✓ Sectors at risk of carbon leakage still receive 100% but this will reduce with CBAM.
- ✓ Airlines free allocation removed by 2026.
- ✓ **NO free allocation for shipping.**

Secondary Market

- ✓ Main route to market for operators to buy EUAs for compliance.
- ✓ Includes standardized exchange traded products and Over-The-Counter (OTC) bespoke trades.
- ✓ Trading firms (e.g banks, hedge funds) also active.

- The Union Registry is an online database that records the holding and surrendering of allowances for operators as well as the transfer of allowances between accounts.
- A single EU registry but each Member State manages the account opening procedure.
- There are two main types of registry account.

Operator Holding Account

Account given to an eligible EU-ETS operator to receive, hold, transfer and surrender EUAs.

Trading Account







Account for any company to hold and transfer EUAs.

- ✓ Opening a Registry Account takes time - the process requires a number of identity checks and documents.
- ✓ The assignment Member State authority list for ship owners is expected from February 2024.

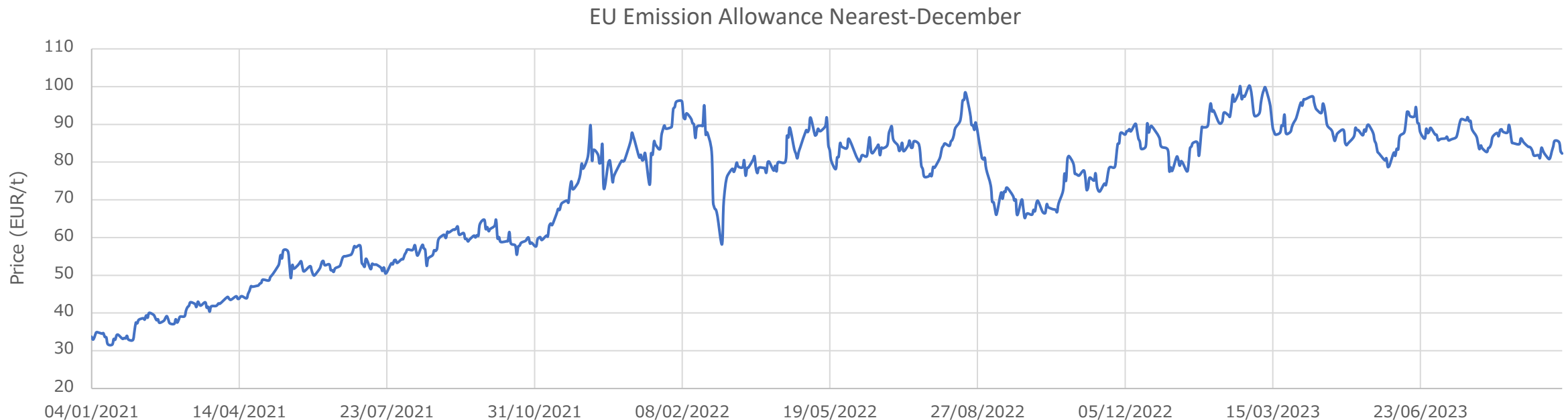
- After each compliance year(1st Jan-31st Dec), an operator must surrender enough EUAs to cover fully its emissions in that year.
- The deadline to surrender EUAs will be the 30th September from 2024.The penalty for non-compliance is €100 per tCO2e plus the liability to surrender EUAs.
- New contracts on ICE - August Expiry for EUA Futures and Options.
- High liquidity and December future contract.

Energy | Emissions

ICE Index EUA Futures

| CONTRACT | LAST | TIME(GMT) | % CHANGE | VOLUME |
|---|--------|----------------------|----------|--------|
|  OCT23 | 82.040 | 9/28/2023 7:05 AM | 0.306 | 1 |
|  DEC23 | 82.800 | 9/28/2023 3:32 PM | 0.620 | 11032 |
|  MAR24 | 83.820 | 9/28/2023 3:30 PM | 0.588 | 32 |
|  DEC24 | 86.940 | 9/28/2023 3:25 PM | 0.602 | 1236 |
|  DEC25 | 90.900 | 9/28/2023 3:05 PM | 0.620 | 209 |
|  DEC26 | 94.800 | 9/28/2023 2:57 PM | 0.594 | 57 |

- The EU Carbon market has changed dramatically in the last 2 years both in terms of EUA prices, market volatility and active market participants. We have seen a tripling of prices, from €30 in 2021 to highs above €100 per EUA and an increase in market volatility, as both fundamental and technical drivers impact the market.
- Daily EUA price fluctuations are influenced by weather, renewable availability, coal to gas fuel switching and wider energy markets. In addition, an increasing number of investors and funds looking at carbon has put an added focus on technical trading indicators and also exposed the EUA price to wider macro-economic market impacts.



| Place | Company | PIC | Contact |
|--------|--------------------|------------------------------|--|
| Tokyo | ITOCHU Corporation | Keita Miura | toklw@itochu.co.jp |
| London | CF Partners | Sumit Sharma Miles Tanaka | s.sharma@cf-partners.com m.tanaka@cf-partners.com |