



CF Partners

EU-ETS Carbon Compliance Services

October 2023

CF Partners

ITOCHU Corporation

【1】 Introduction of ITOCHU

- Under eight Division Companies, ITOCHU develops its business in diverse fields through trade and business investment.
- Carbon credits businesses including Voluntary carbon market and Compliance carbon market like EU-ETS are managed by Metal & Minerals Company.

Textile

Providing new values and impressions for everyday life in fields ranging from fashion to high-tech materials.

Machinery

Developing wide-ranging businesses, including plants, infrastructure, aircraft, ships, automobiles, construction/ industrial machinery, and life care.

Metals & Minerals

Contributing to economic development and environmental protection worldwide through the development and safe supply of mineral resources.

Energy & Chemicals

Working in tangible and intangible ways to help improve lives by using overall strength as a global trading company to offer solutions and services.

Food

Expanding globally while contributing to food safety and security from the supply of ingredients to manufacturing, distribution, and retail.

General Products & Realty

Operating on a global scale in fields ranging from general lifestyle products to the development and sale of homes and the goods that support them.

ICT & Financial Business

Creating and expanding new markets by utilizing business development functions based on ICT and BPO along with customer networks.

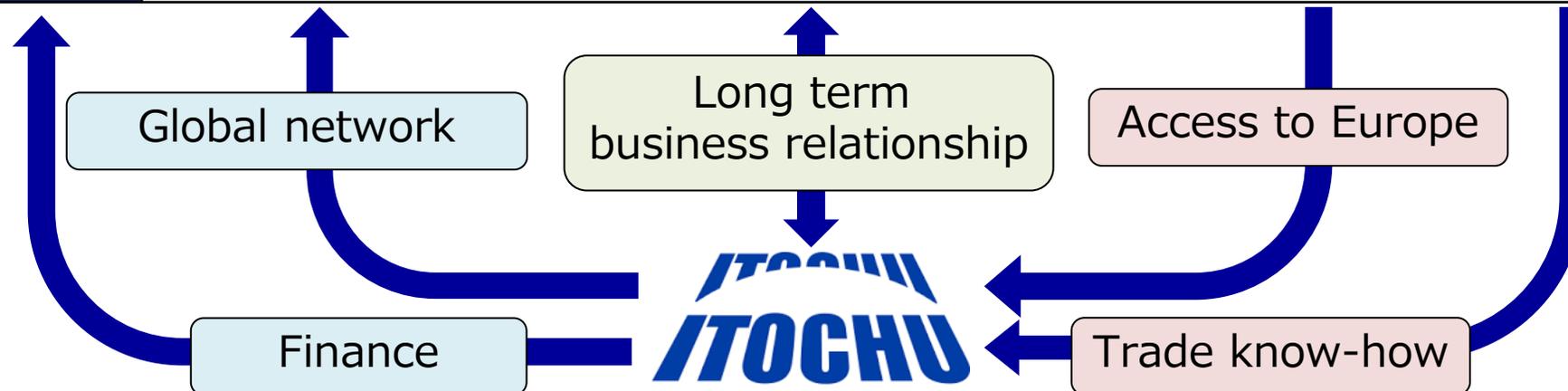
The 8th

Developing new businesses and customers based on a "market-oriented" perspective by fully leveraging our business platforms.



【2】 Business Partnership between ITOCHU and CFP

Company name	 CF Partners
Country (HQ)	UK, London
Founded	2006
Founder	Jonathan Navon, Thomas Rasmussen
Business	<ul style="list-style-type: none">• Leading provider of carbon, energy and environmental solutions, specializing in working with large industrial and complex energy users.• CFP Assists clients to navigate the transition to a low carbon future, by providing expertise in physical and financial risk management solutions across carbon markets, energy procurement and environmental products.• CFP have traded in total more than 2.5 billion tons of carbon credits in both the EU-ETS and on voluntary carbon markets since its foundation in 2006. (Website : https://www.cf-partners.com/)



Full spectrum of carbon, energy and environmental solutions to help clients through the energy transition.



CF Partners

Carbon & Environmental

- ✓ compliance carbon
- ✓ voluntary carbon
- ✓ carbon project development
- ✓ green certificates
- ✓ structured solutions
- ✓ capital & financing
- ✓ specialist markets – shipping

Fuels

- ✓ biofuels
- ✓ biogas
- ✓ feedstocks
- ✓ storage and distribution
- ✓ transition fuels - oil & gas
- ✓ green hydrogen

Power

- ✓ energy supply UK
- ✓ power trading & management
- ✓ PPAs
- ✓ flexibility management
- ✓ EV charging
- ✓ renewable assets optimization
- ✓ battery storage

- CFP is one of the largest traders in the carbon markets, specialising in ETS compliance.
- CFP can develop bespoke solutions and innovative risk management strategies that meet customer's needs by utilising its long-term experience.



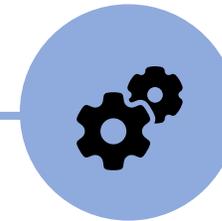
Solution

- More than 70 experts for EU-ETS market.
- Provide access to full suite of market solutions and competitive pricing for spot and forward.



Market Insights

- Unique market insights and policy understanding.
- Detailed market updates for some specific market including shipping sector.

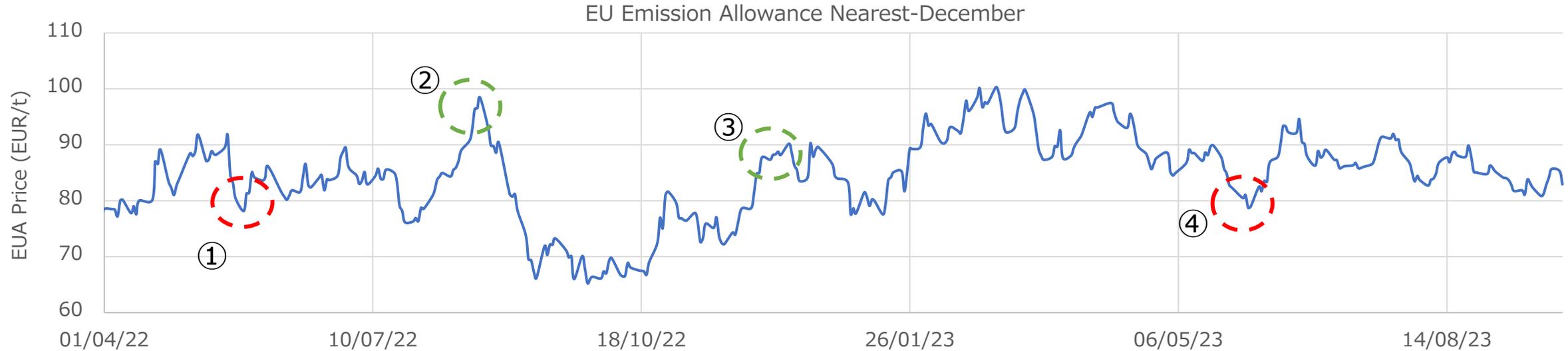


Compliance Strategy

- 15 years working with industrial operators to manage ETS compliance needs.
- Help clients develop strategy that takes into account the customer's needs.

Business partnership between ITOCHU and CFP can make it possible to develop tailored solutions to customers.





Month	Change	Background
① May 22	Down	European commission announced EUAs equivalent of up to EUR 20B will be supplied to market as REPowerEU.
② Aug 22	Up	Increased buying activities due to the increase of coal power generation caused by the higher gas price.
③ Dec 22	Up	Increased power demand due to the colder weather in EU than expected.
④ May 23	Down	Increase of the renewable power generation and increase the conversion from coal to gas.

EUA price is influenced by many factors like policy, energy price, economy and so on as above.

We can provide policy insights and informative market updates for shipping sector.



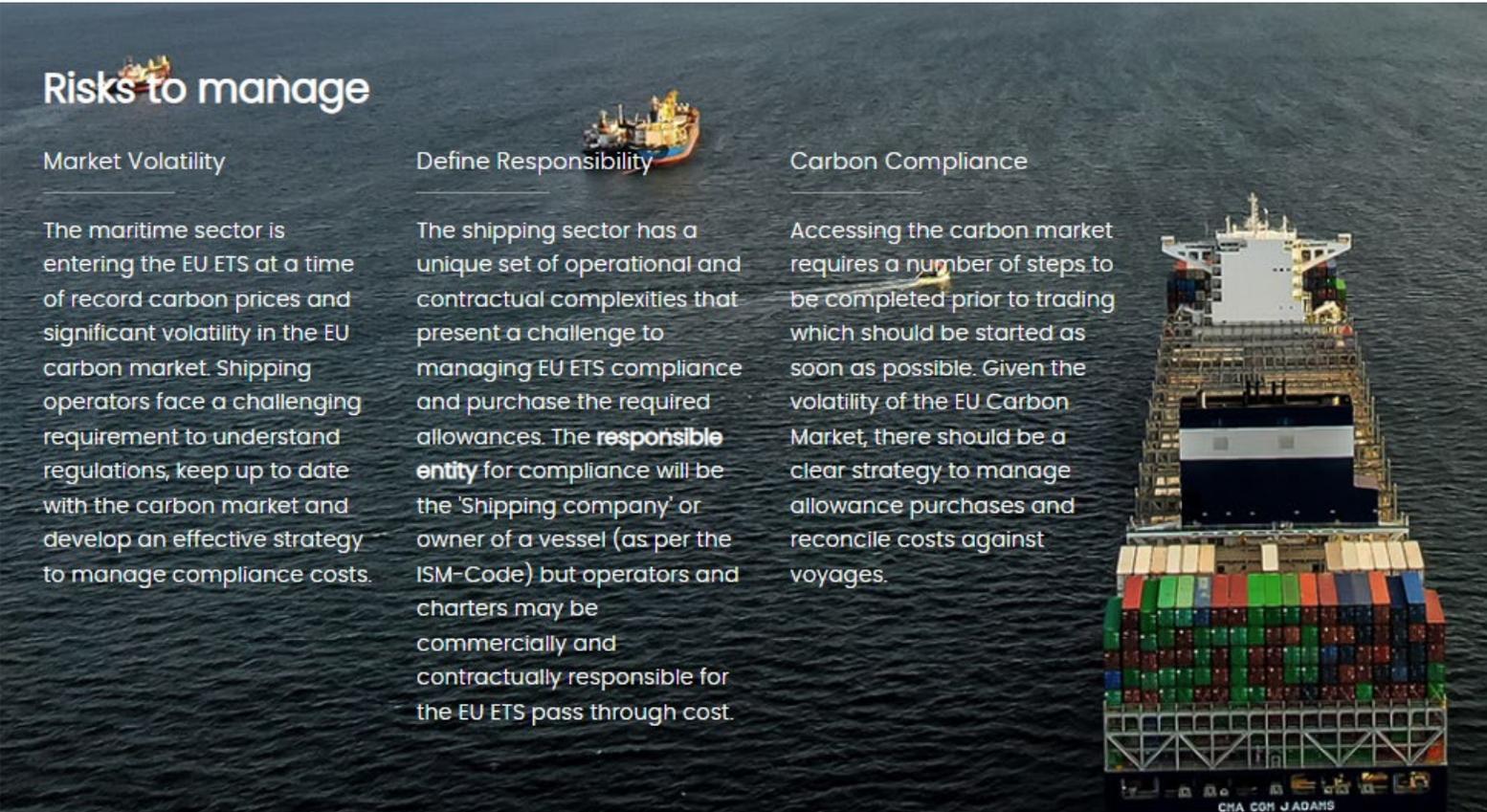
Shipping under the EU Emissions Trading Scheme

The EU has now finalised regulations to cover emissions under the maritime sector from 2024. Shipping companies should understand the EU ETS carbon market and develop a strategy to manage compliance for their operations



CF Partners specialise in working with ETS operators to help them understand the carbon market, develop a compliance strategy and cost effectively manage trades

Risks to manage



Market Volatility

The maritime sector is entering the EU ETS at a time of record carbon prices and significant volatility in the EU carbon market. Shipping operators face a challenging requirement to understand regulations, keep up to date with the carbon market and develop an effective strategy to manage compliance costs.

Define Responsibility

The shipping sector has a unique set of operational and contractual complexities that present a challenge to managing EU ETS compliance and purchase the required allowances. The **responsible entity** for compliance will be the 'Shipping company' or owner of a vessel (as per the ISM-Code) but operators and charters may be commercially and contractually responsible for the EU ETS pass through cost.

Carbon Compliance

Accessing the carbon market requires a number of steps to be completed prior to trading which should be started as soon as possible. Given the volatility of the EU Carbon Market, there should be a clear strategy to manage allowance purchases and reconcile costs against voyages.

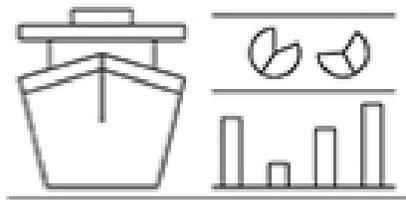
【7】 Shipping - Compliance Challenge

It is important to be proactive and take ownership for shipping sector.

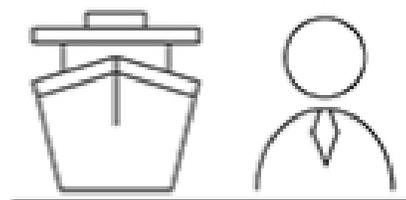
The Shipping sector has a unique set of operational and contractual complexities that present a challenge to manage carbon compliance and purchase the required allowances at the right time.

Voyages from 1 Jan 2024 will incur carbon price exposure for the first time and the cost will eventually be added to a charterer's freight rate.

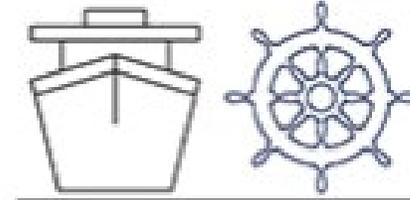
1st compliance deadline is not until 30th Sept 2025...but unless a voyage's EU ETS cost is hedged the price exposure could be significant.



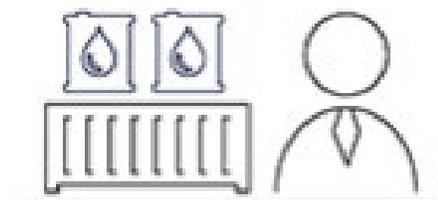
Ship Manager



Ship Owner



Ship Operator
& Charterer



Cargo Owner

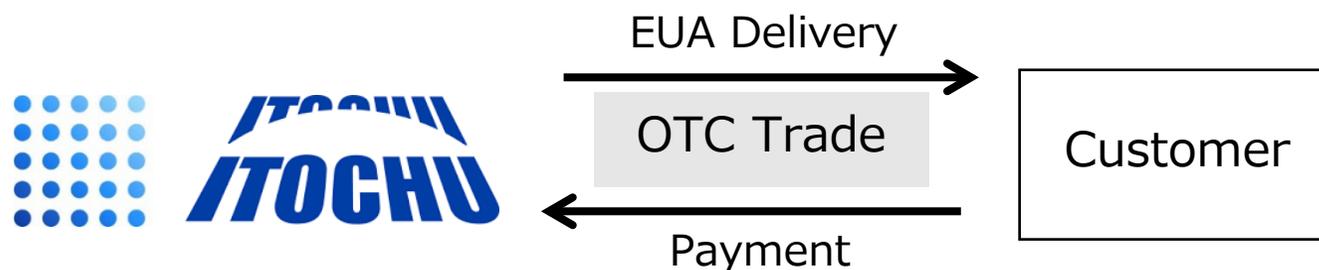
- ✓ It will be important to identify who is responsible to hedge EUAs per voyage.
- ✓ Operators and Charters commercially and contractually responsible but do they have the ability to buy and deliver EUAs to the owner? Better for the owner/manager to buy EUAs and pass through the cost?

【8】 EUA Trade by OTC

- There are 2 ways to buy EUA : OTC (Over The Counter) and Exchange (including auctions).
- For smaller bespoke volumes OTC transactions have more flexibility than an Exchange.

	OTC	Exchange
Access	Bilateral between 2 parties	Member of exchange/clearing house
Trade volume	Bespoke/Flexible	Minimum trade volume
Clearing Costs	Not applicable	Yes

EUA Trade by OTC



Hedging/Trading

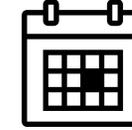
Agree an EU Allowance (EUA) price now for settlement (payment and delivery) within 5 business days (spot) or longer dated (forward).

It is important to hedge the EUA price for any voyages given the volatile EU-ETS market.



Spot Trade

- Agree an allowance price now for settlement typically within 5 business days
- Simplest Approach and best price
- Limited credit exposure - prompt payment
- Allowance delivery via Registry
- Short-form contract



Forward Contract

- Agree price now for future dated settlement (e.g., Dec-23, Mar-24)
- Future prices typically trade above spot to take in funding charge
- Longer-form contract (Framework Agreement, ISDA)
- Extended payment and delivery terms means credit checks and margining requirements

EU ETS Shipping companies face a challenging requirement to define responsibility, deal with EU ETS compliance, budget for EU carbon costs and execute trades in an increasingly volatile carbon market.

Define Responsibility

- 01** The shipping sector has a unique set of operational and contractual complexities that present a challenge to managing EU ETS

Understand Future Requirements

- 02** Forecasting future emissions (by voyage) and having up-to-date monitoring is vital to calculate costs and exposure

Market Updates

- 03** The maritime sector is entering the EU ETS at a time of record carbon prices and significant volatility in the EU carbon market

Compliance Strategy

- 04** Given the increased carbon cost, there should be a clear strategy to manage EUA purchases and reconcile costs against voyages

Trade Execution

- 05** Accessing the carbon market requires a number of steps to be completed prior to trading which should be started as soon as possible

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