The role of financial players in the EU ETS
A carbon market analyst perspective

Yann Andreassen – Lead Analyst EU Carbon & Power markets, ICIS

7 September 2022, IETA webinar
EU ETS Market Access Provision

**Rule:** Restrict EU ETS access to “regulated entities”

- Compliance players: Utilities, industrials, aviation, maritime
- Role: Those players need to buy carbon allowances for compliance purposes

**Exception:** “Financial intermediaries”

- Mandated to trade on behalf of regulated entities but cannot hold physical EUAs (no registry account)
- Provide liquidity for risk management activities of regulated entities

**Not mentioned:** Financial non-intermediaries

- Mid and long-term investors (e.g. pension funds, hedge funds, retail ETFs)
- Helps EUA price discovery needed for LT abatement & integration of carbon in long-term Strategic Asset Allocation
Speculation: a real market problem?

85% Share of untransparent net long spec position

34-200m Pure speculation range uncertainty at peak (Feb 2022)
Financials: Market liquidity providers

COT Report Jan-Aug 2022

-100'000
-200'000
-300'000
-400'000
-500'000
-600'000
-700'000

INVST_FIRMS

551m
Net EUA short position of banks

Vs. 34m
Net long position of funds
Example: Deutsche Bank

255m
EUA volumes purchased at auctions to provide liquidity in secondary market

308m
EUA volumes purchased by utilities for hedging purposes
KEY TAKEAWAYS

1. Mkt provision aims to tackle a spec alledged issue which lacks transparency

2. Mkt provision will be costly for regulated entities
   2.1. Higher risk for banks > higher hedging costs for compliance players
   2.2. Likely lower liquidity > higher risks for compliance players if no alternatives
   2.3 Share of banks potentially leaving mkt > key players for LT industry abatement

3. Mkt provision could hurt the price discovery process
   3.1. Limited liquidity in secondary mkt could push funds out

4. Mkt provision could restrict integration of carbon in LT investment decision process
   4.1. Pensions funds
   4.2. Retail

5. Mkt provision will not stop speculation from commodity trading houses and utilities