



Ecologic Institute
Science and Policy
for a Sustainable World

Carbon Market Dynamics

Overview of the Actors & Strategies

Benjamin Görlach, Ecologic Institute

ICAP-PMI Asia Pacific Training Course on Emissions Trading
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Carbon Market Dynamics

1. **C Market Dynamics: Factors driving the C Price**
2. **Carbon Trading: Some basic concepts**
3. **Carbon Market Actors and their Strategies**



Disclaimer: the following set of slides relies heavily on a presentation delivered by Dominik Glock, FutureCamp GmbH, Munich, at the ICAP-PMI Training Montenegro on 10 May 2023

Carbon Market Dynamics

19.86	37.52	17.12	-0.00	1.81%
38.75	17.02	42.15	+0.75	0.48%
17.47	40.86	27.09	+0.13	2.09%
42.45	26.07	22.47	+0.46	-5.12%
27.15	21.71	23.37	+12.51	3.30%
22.59	22.74	391.66	+0.74	0.78%
23.97	391.70	377.43	+0.42	1.69%
95.67	93.96	95.61	+0.30	1.22%
25.32	24.74	25.22		
24.89	24.35	24.82		
57.55	55.00	57.27		

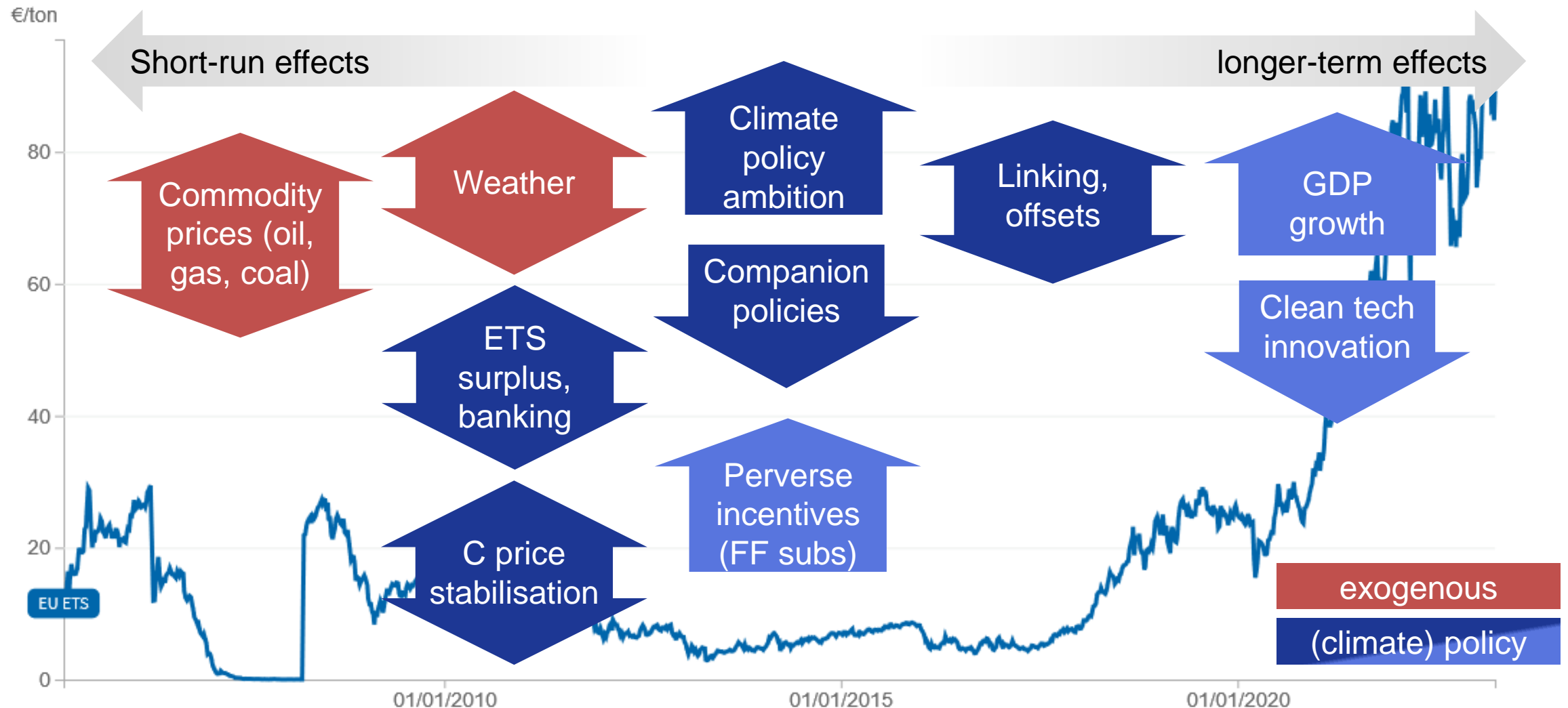
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Which factors drive the development of the carbon price in an ETS?

Give your answer at mentimeter: head to menti.com and enter the voting code 6796 0963 or follow the QR link below:



Dynamics of the (EU) ETS price

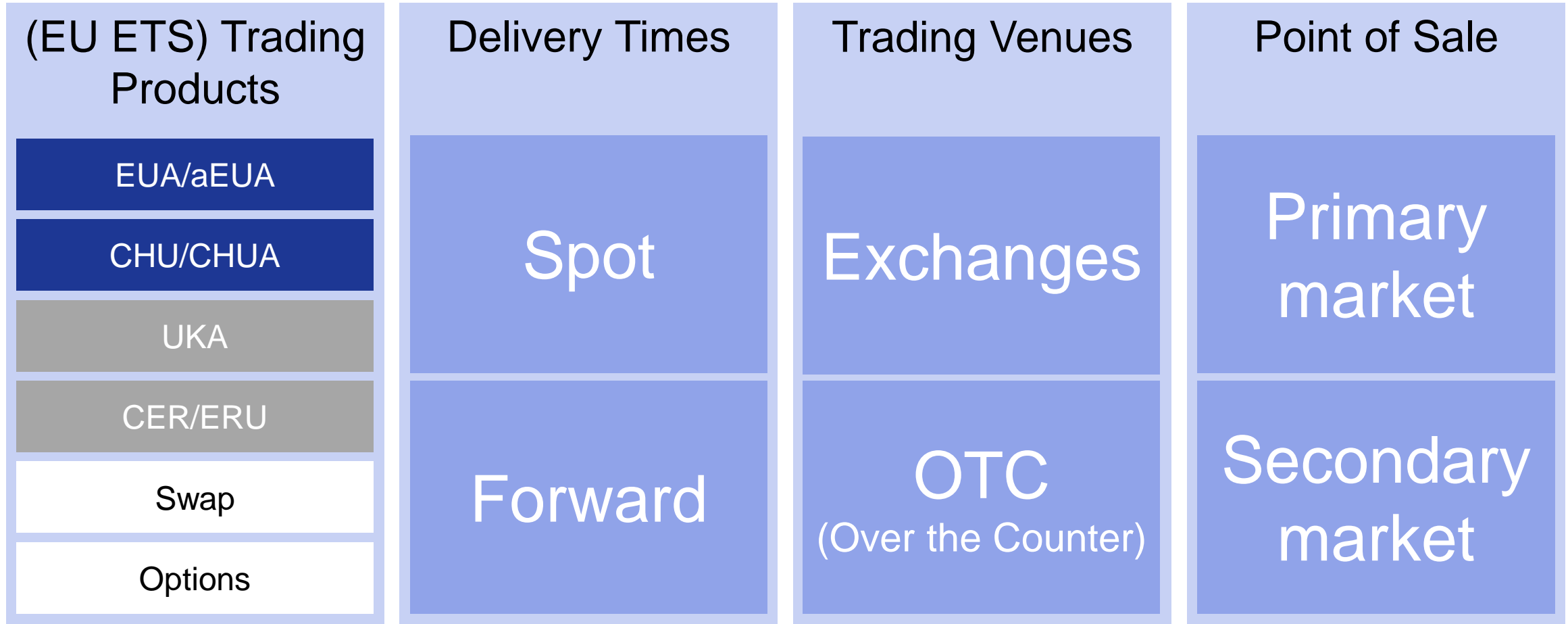


Basic Concepts of Carbon Trading



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Carbon trading: basic concepts



Exchange trading: Pro's and Con's

Pro's:

- High security
- Anonymous trading
- High price transparency
- Fast and secure procurement
- Low variable costs

Con's:

- High entry barriers
- High entry costs
- Minimum lot sizes

Types of OTC Trading

Direct bilateral

- Direct trade between firms
- (often between firms that already have a business relationship)
- Counterparty risk remains

Via intermediary

- Intermediary (counterparty) is a professional trader – trading as a service for clients
- Typical intermediary traders: Banks, large utilities, consultancies

Via broker

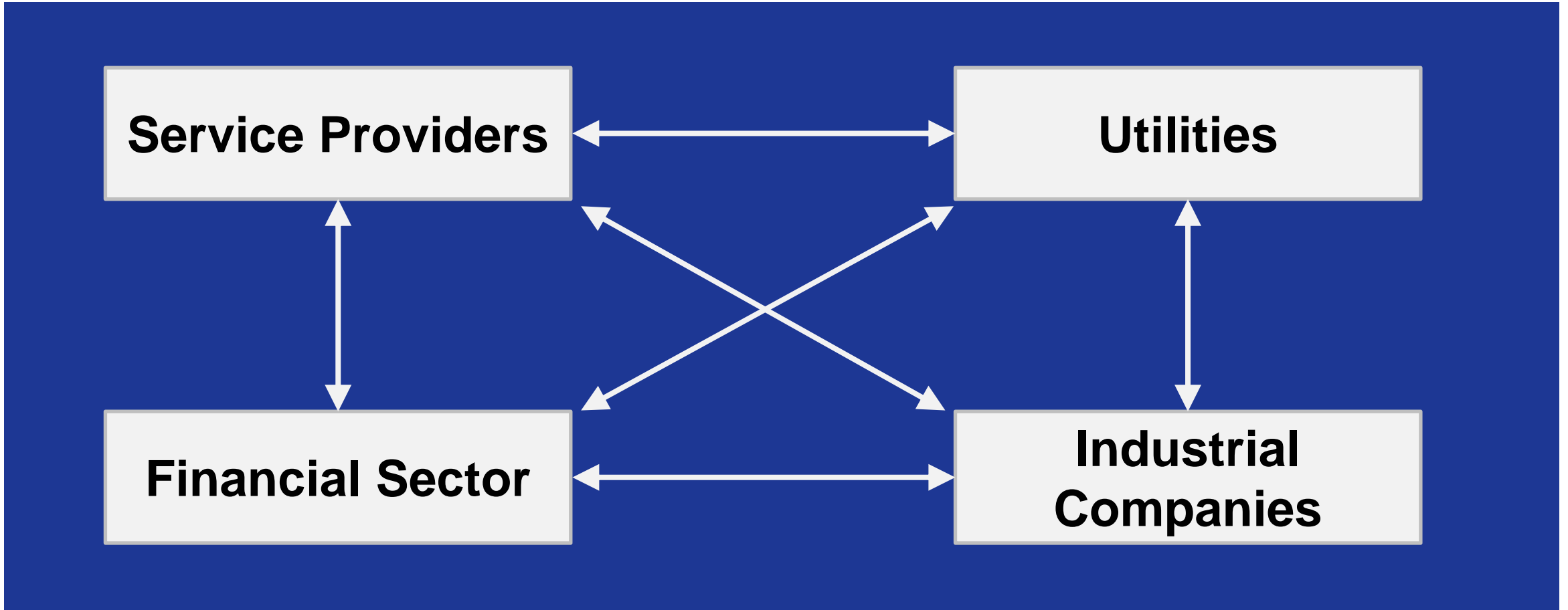
- Brokers collect bids and offers
- Once there is a match, broker exchanges contact details of the counterparties
- Brokers get a brokerage fee from each counterparty
- Deal itself is conducted as a bilateral deal

Actors and their Strategies



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Typical Market Actors in an ETS



Carbon Market Actors & Strategies: Some takeaways

- ▶ **Not all ETS have fully developed carbon markets with sophisticated trading.** The EU ETS is the oldest, most sophisticated and most liquid.
- ▶ **C market participants chose the strategy that works best for them.**
Trading off efforts for a sophisticated trading strategy vs benefits for the firm.
- ▶ **Few (large) players pursue a sophisticated trading strategy.**
- ▶ **These few players may still account for a large proportion of overall trading.**
- ▶ **Liquid market will likely require participation of non-compliance traders.**

Thanks! Any more Questions?

Benjamin Görlach

benjamin.goerlach@ecologic.eu

Ecologic Institute

Pfalzburger Str. 43/44

10717 Berlin

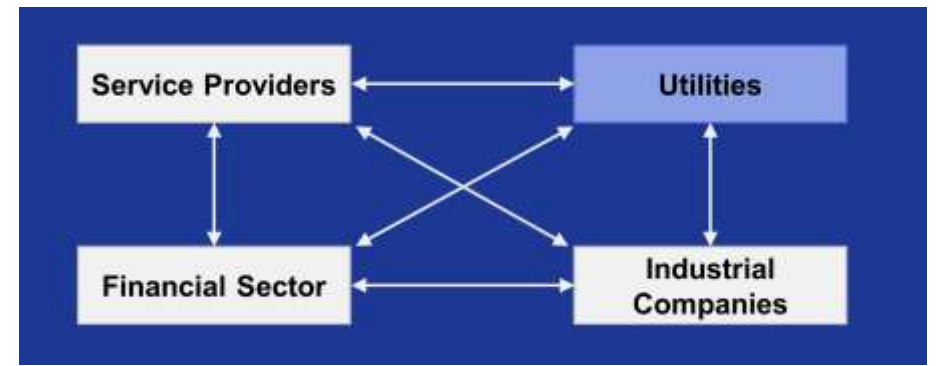
Germany

Tel. +49 (30) 86880-0

ecologic.eu

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Market strategy of utilities (in the EU ETS)



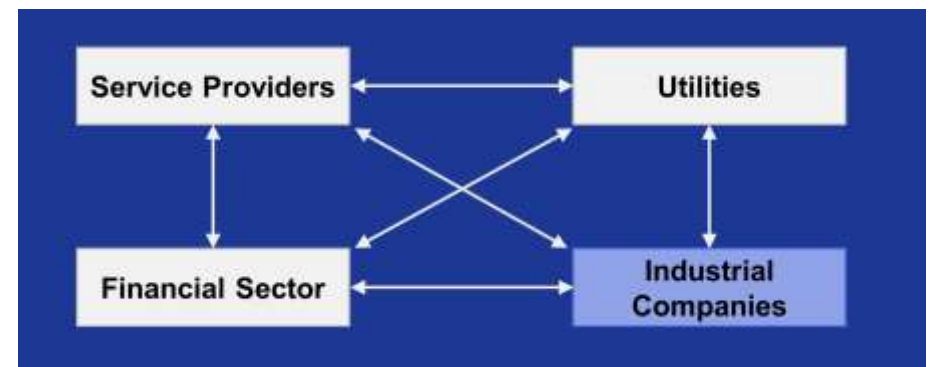
Large Utilities

- ▶ Trade on a regular, frequent basis (daily, weekly)
- ▶ Hedge their power/heat sales and/or fuel purchases (futures)
- ▶ Usually have their own trading departments / use outsourced trading platforms with other utilities
- ▶ Use all venues and trade types

SME Utilities

- ▶ Often use spot contracts and trade less regularly
- ▶ Usually only have only 1-2 persons responsible for carbon trading
- ▶ Use intermediaries to access different venues (service provider, financials, other utilities)

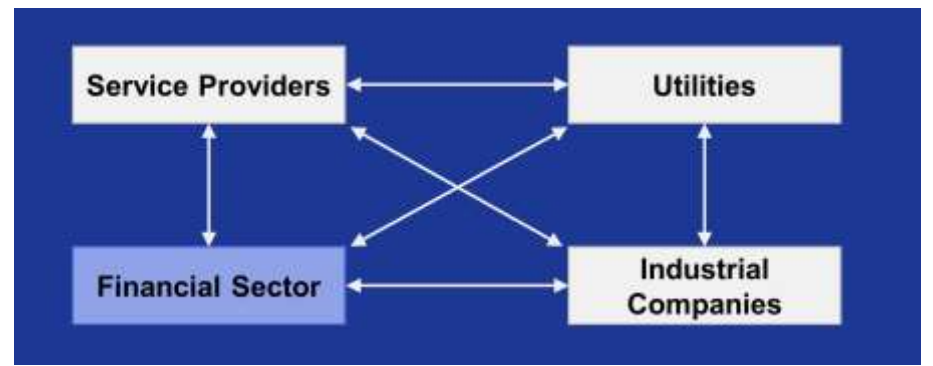
Industrial Companies (in the EU ETS)



- ▶ Still relatively well endowed with free allocation (carbon leakage)
- ▶ Usually would trade on a quarterly or yearly basis (compliance trading), some moved to monthly trades
- ▶ Trade mostly via intermediaries
- ▶ Only few big players have direct access to exchanges, auctions

- ▶ Until 2016 mostly passive trading strategies (esp. SMEs). Since then, clear tendency towards active trading strategies
- ▶ increasing importance of C trading due to shortage of certificates, significantly rising prices since 2017
- ▶ increased importance of EU ETS at management level and in overall corporate strategy

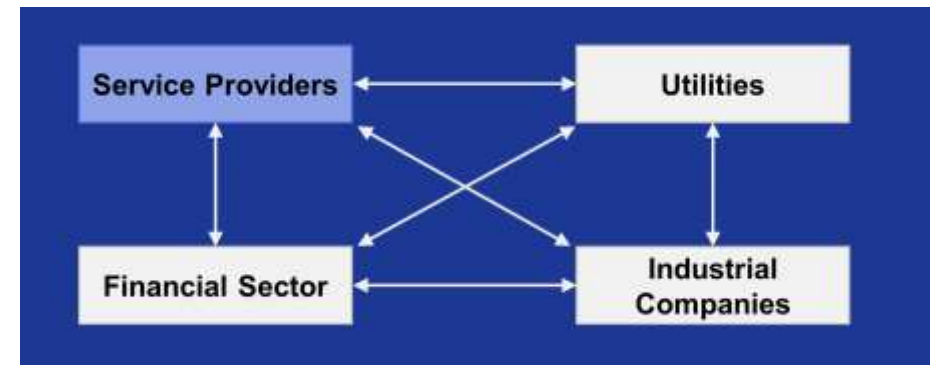
Financial Sector (in the EU ETS)



- ▶ Provide liquidity for covered entities (more counterparties, lower bid-offer spreads)
- ▶ Facilitate trading by acting as intermediaries
- ▶ Use all trading venues (auctions, exchanges, OTC)

- ▶ Many banks withdrew from carbon business in 2013 (poor market outlook, reputational issues)
- ▶ Comeback in 2018 – following *tighter* financial market regulation (EU allowances as financial instruments under MiFID)

Service Providers (in the EU ETS)



Consultancies

- ▶ Often offer carbon trading as ancillary service for their clients
- ▶ Usually trade small volumes

Brokers

- ▶ Simply bring together buyers and sellers
- ▶ Usually do not trade on their own account

Trading Companies

- ▶ Usually also active in other commodities
- ▶ Take small margins
- ▶ Joint ventures, e.g. trading companies of utilities
- ▶ Mainly trade on behalf of their clients