

Joint associations call to safeguard diverse participation in the EU ETS

On 16-17 May, the ENVI Committee will vote on the revision of the EU Emissions Trading System (EU ETS). On behalf of the undersigned business associations, representing all various types of participants in the EU ETS, **we contact you to express our concerns about the amendments proposing to limit participation in the EU ETS' markets to compliance entities and financial intermediaries purchasing allowances on their behalf. Specifically, we refer to amendments 1303, 1304, 1353, 1368, 1383,1394, 1395, 1396 and 1397.**

We would like to call on you to support alternative measures to increase transparency and trust in the market for emission allowances and reject those amendments restricting market participation. Concretely, we ask you to support amendments 414, 914 and 915 to mandate the European Securities Markets Authority (ESMA) to regularly evaluate the market by developing a fact-based annual report on the transparency and integrity of the EU ETS.

In its report¹ commissioned by the European Commission, ESMA concluded that *“the data analysis has not unearthed any major abnormality or fundamental issue in the functioning of the EU carbon market from a financial supervisory perspective”*. ESMA, as well as the European Central Bank², demonstrate that recent carbon price increases and volatility seem to stem from EU policy changes and economic developments such as the increase of global gas prices.

Imposing restrictions on who may participate would significantly weaken the market for emission allowances, putting at risk the EU's ability to meet its more ambitious climate goals most cost-efficiently. This is because such restrictions would undermine the ability of many companies to manage their risks related to fluctuations in the price of emission allowances, regardless of whether those are compliance entities or other entities exposed to this price risk. Specifically:

- First, compliance entities are naturally on the 'demand' side of the market and use long-term contracts to manage the price risk of the emission allowances they have to purchase to fulfil their compliance obligation. For this, they need companies who want to conclude such a contract with them and thereby take the opposite 'supply' side of the transaction. These can for example be financial companies or other energy companies with trading and hedging capabilities. If such companies are no longer allowed to participate in the market for emission allowances, it will leave compliance entities unable to protect themselves against price and liquidity risks and hence will hinder them in the efficient execution of their long-term decarbonisation strategies.
- Second, restrictions on participation will reduce liquidity in both the long-term markets and in the auctions, resulting in increased price volatility and potentially auctions failing to sell all allowances. This may disrupt the regular, predictable supply of allowances and auction revenues.

¹ 'Final Report – Emission allowances and associated derivatives'. Published 28 March 2022.

² 'The role of speculation during the recent increase in EU emissions allowance prices'. Published as part of the ECB Economic Bulletin, Issue 3/2022.

- Third, limiting the transfer of allowances to ‘regulated entities’ as proposed in AM 1303 & 1353 would hinder the common practice of delivering emission allowances via organisations such as clearing houses or brokers ultimately hampering the market’s well-functioning.

We would be delighted to discuss our views on this issue with you in more detail.



European Electricity Industry Association



International Emissions Trading Association



European Federation of Energy Traders



Association of European Energy Exchanges