Brussels, 9th May 2022

Call to Safeguard the Diversity of 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 business associations representing various types of stakeholders active in the EU's carbon market, we are writing to you to express our concern about amendments proposing to limit participation in the EU ETS to compliance entities and financial intermediaries purchasing allowances on their behalf: amendments number 1303, 1304, 1353, 1368, 1383,1394, 1395, 1396 and 1397.

We recommend instead supporting amendments number 414, 914 and 915, which propose to increase transparency and trust in the EU's carbon market by mandating 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.

Imposing restrictions on who may or may not participate in the EU ETS would significantly weaken the market, putting at risk the EU's ability to meet its climate goals in a cost-efficient manner. The proposed 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:

- Compliance entities are naturally on the 'demand' side of the carbon 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 willing to conclude such contracts with them, thereby taking the 'supply' side of the transaction. These can for example be financial companies or other energy companies with trading and hedging capabilities. If such companies were no longer allowed to participate in the market, it would leave compliance entities unable to protect themselves against price and liquidity risks and hence would impair the efficient execution of their long-term decarbonisation strategies.

- Restrictions on participation would reduce liquidity in both the long-term markets and in the auctions, resulting in increased price volatility and potentially in auctions failing to sell all allowances on offer. This could disrupt the regular, predictable supply of allowances and auction revenues.

- Limiting the transfer of allowances to ‘regulated entities’ would hinder the common practice of delivering emission allowances via organisations such as clearing houses or brokers, ultimately hampering the market’s proper functioning.

In its recent report[1], the European Securities and Markets Agency (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 Bank[2], demonstrated that recent carbon price increases and volatility appear to stem from EU policy changes and economic developments such as the increase in global natural gas prices.

After years of structural problems, the EU ETS is delivering a meaningful carbon price signal, fostering emission cuts and innovation. We do not believe it is worth jeopardising Europe’s future decarbonisation by limiting the role of financial actors in the market.

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

International Emissions Trading Association (IETA)

European Electricity Industry Association (Eurelectric)

European Federation of Energy Traders (EFET)

Association of European Energy Exchanges (Europex)

[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.