

Environmental Markets and Maritime

Monthly Dossier

July 2024

20 years of
globalfactor

www.globalfactor.com

We are Global Factor



 COUNTRIES WHERE WE HAVE WORKED

 DELEGATIONS AND PARTNERS

 OFFICES

More than **170** people at Global Factor Group

In more than **50** countries

Our trading team works with more than **2000** counterparts

We are experts in **EUA/UKA**
+30M tonnes of CO₂ traded

VOLUNTARY MARKETS
+1.3M tonnes of CO₂ offset

GUARANTEES OF ORIGIN
+8.9TWh intermediated

 **EnergyRisk**
Commodity
Rankings 2024
Ranked #1

Broker and Dealer
EU emissions trading system
UK emissions trading scheme

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Policy

European Elections

Policy Calendar

EU ETS Reforms

CBAM and ETS 2

UK ETS Focus

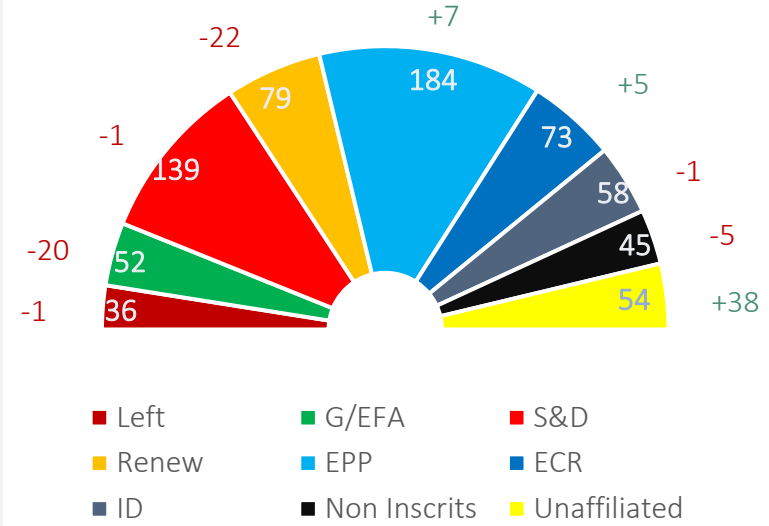
20 years of
globalfactor

9th JUNE: EUROPEAN ELECTIONS

"The 'super' grand coalition retains the majority in the European Parliament

- Continuation of the current coalition government in Brussels, consisting of the European People's Party (Conservatives), the S&D (Social Democrats) and Renew Europe (Liberals), despite their worst results.
- The far right is on the rise. The European Conservatives and Reformists and Identity and Democracy would take third place in the European Parliament.
- For the second time in a row in the history of the EU, the Socialists and the Conservatives will need the support of other groups.
- The Greens, with the most losses of the day, will also be able to influence the new majority formed by the People's Party, the Social Democrats and the Liberals.

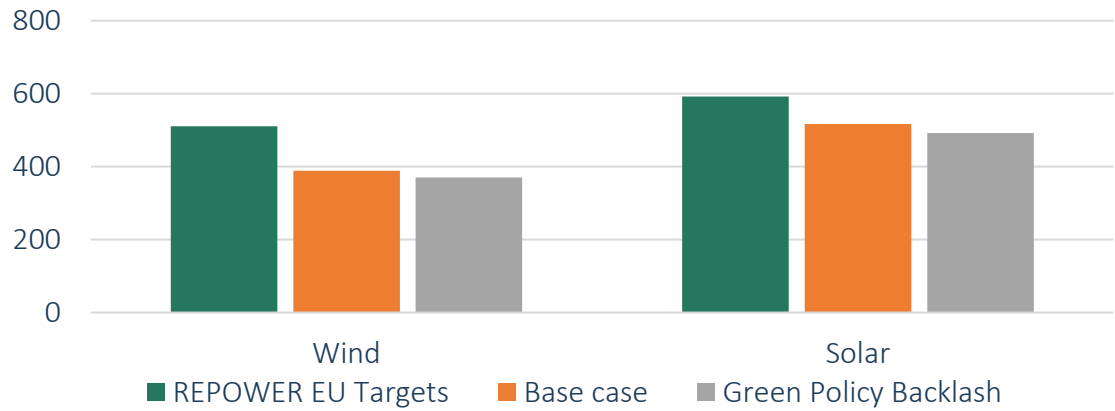
Source: <https://www.political-intelligence.com/>



Source: <https://www.europarl.europa.eu/porta/es/>

IMPACT ON POWER SECTOR

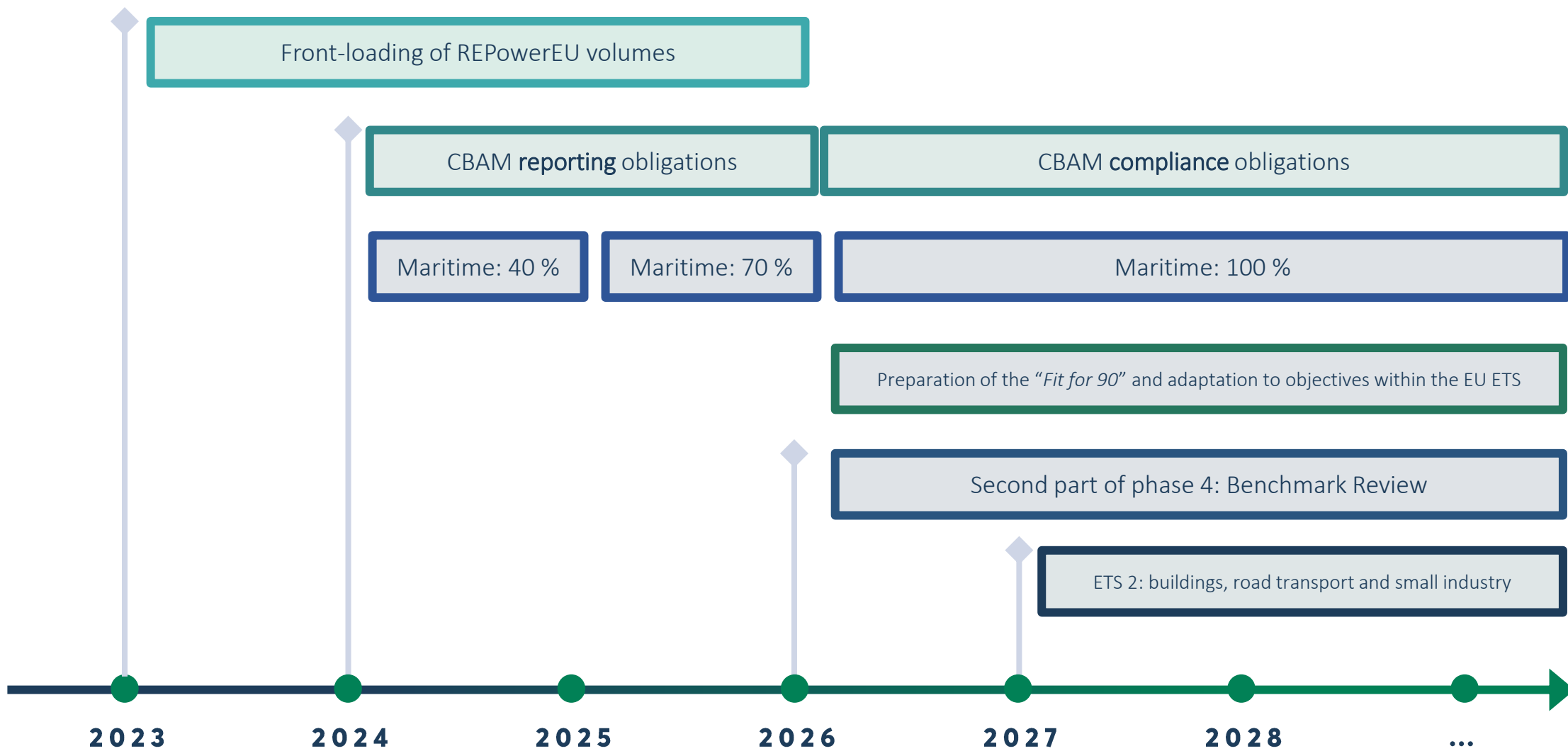
Installed capacity in the EU in 2030 (GW)



Source: LSEG

- Ambitious REPowerEU targets, above and beyond what is set out in the National Energy and Climate Plans (NECP), Base Case in the graph.
- With a trend towards more anti-environmental parties at European and national level, the 2030 targets would be even further away, -27% in wind and -17% in solar.

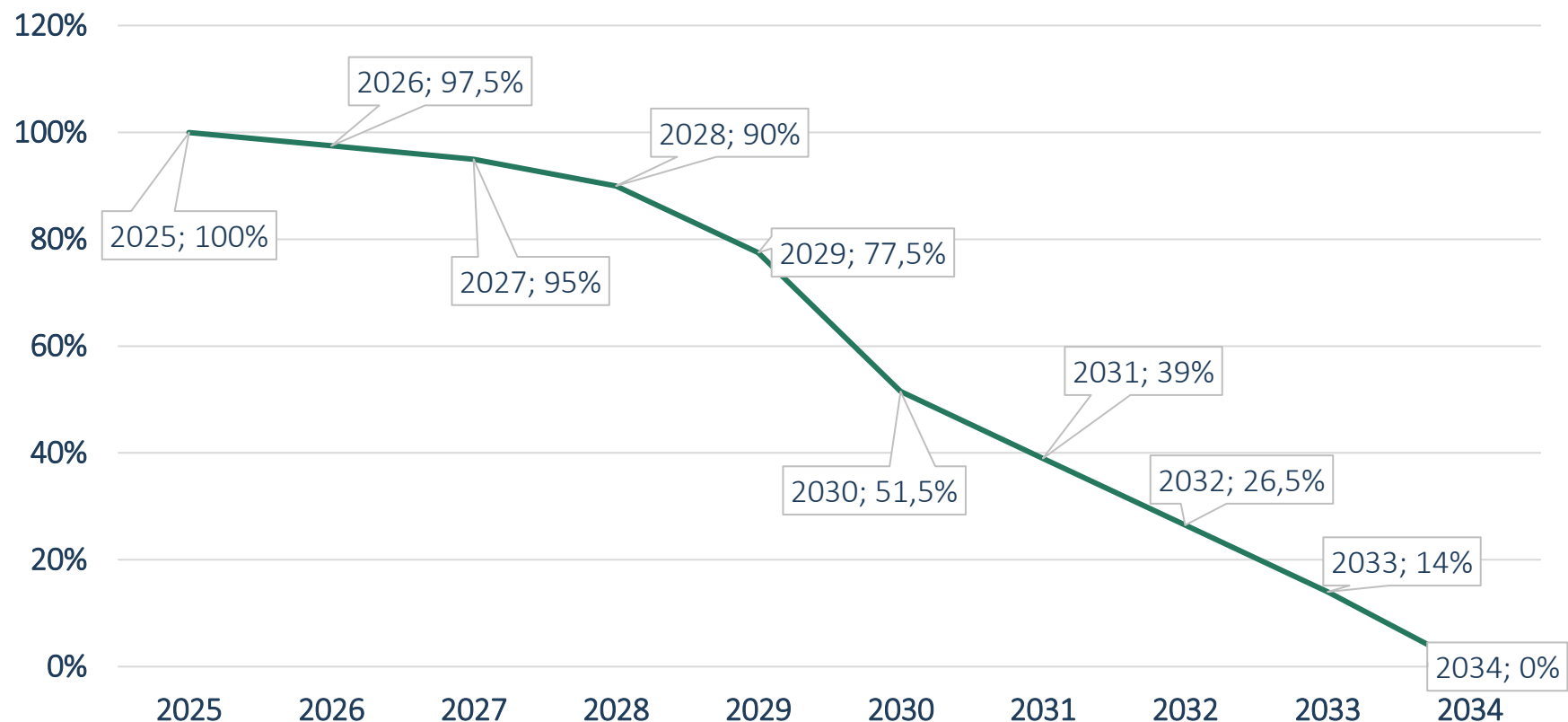
POLICY CALENDAR



CBAM ADOPTION & FREE ALLOCATION

Importers of products covered by the CBAM must report emissions from products manufactured outside the EU from October 2023. From 2026 to 2034, the tax will be phased in progressively. In parallel, the free allocation for European installations will be reduced by the same amount.

Reduction of free allocation in CBAM sectors



CBAM

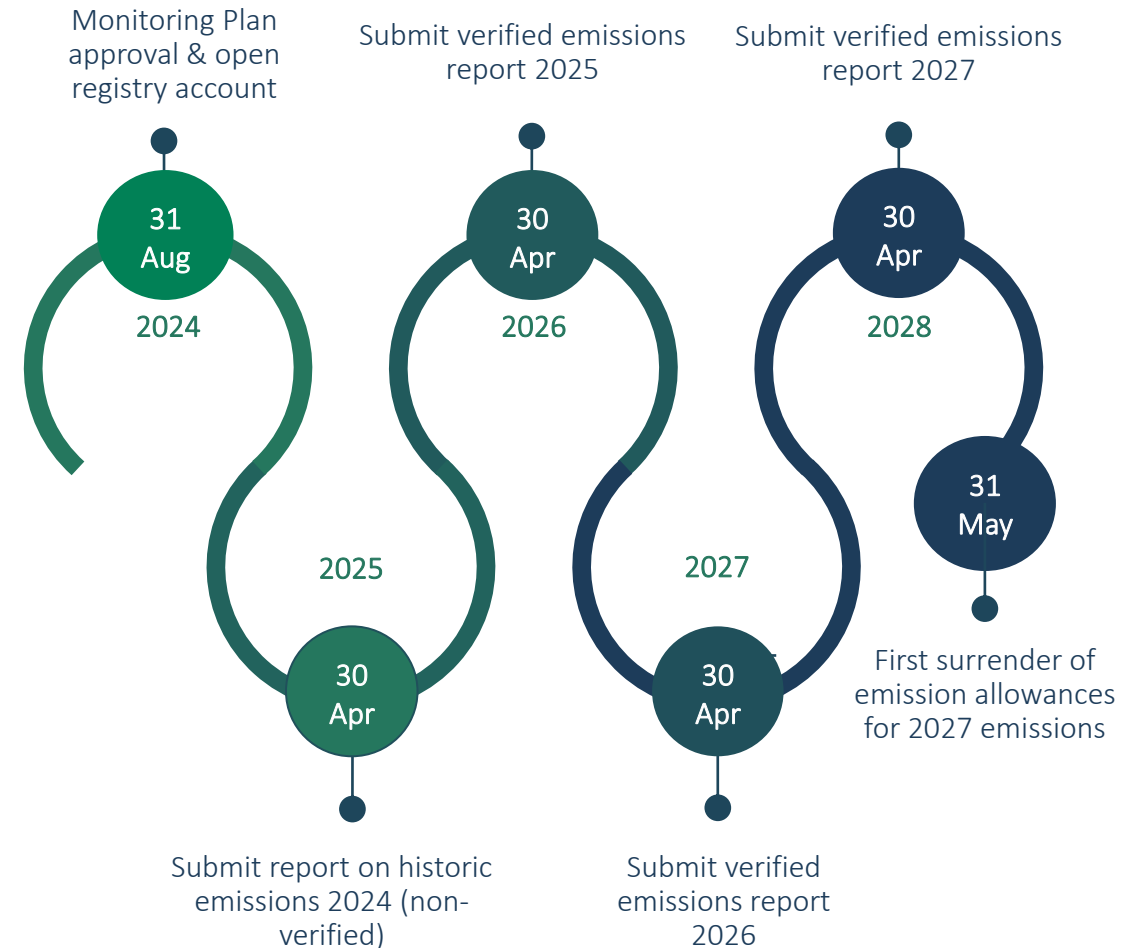
- Products concerned: iron and steel, cement, fertiliser, aluminium, electricity and hydrogen, as well as some precursors and finished products.
- Includes scope 2 emissions in cases where there is no compensation of indirect costs (cement and fertilisers).
- Export subsidies through the innovation fund review clause in 2025 (ETS) and 2027 (CBAM).

ETS II – ROAD TRANSPORT, BUILDINGS AND OTHER SECTORS

	ETS I	ETS II
Start	2005	2027 (or 2028 in case of high energy prices)
Sector scope	Industry (>20MW) Aviation Maritime Power	Road transport Buildings Small industry, district heating not included in ETS I
Obligated entities	Each installation covered	Fuel distributors
Supply	Auction & Free Allocation	100 % auctions In 2027, 130% is auctioned, frontloading of volumes 2029-2031.

Source: European Commission

Timeline ETS II



UK ETS – GENERAL ELECTIONS

Sunak announced in May that the next UK general election would take place on the 4th July 2024. Climate policy will continue to be a key issue, especially its relation to the cost-of-living crisis that endures in the UK. Climate ambition has waned under Rishi Sunak's tenure, facing net zero backlash from Tory voters, whereas Labour includes clean energy as one of its 5 key missions.



Green Prosperity Plan

- Creation of a publicly-owned "clean" power company: Great British Energy, in an effort to "reduce bills, create 650,000 jobs and deliver energy security."
- "Proper" windfall tax on oil & gas companies
- Clean Power by 2030 with plans to:
 - Boost wind & solar capacity, new nuclear projects, double green hydrogen targets.
- Parallels with Biden's IRA in terms of job market focus.
- No explicit mention of the UK ETS nor what it could look like under Labour. Align ambition/open comms with EU?



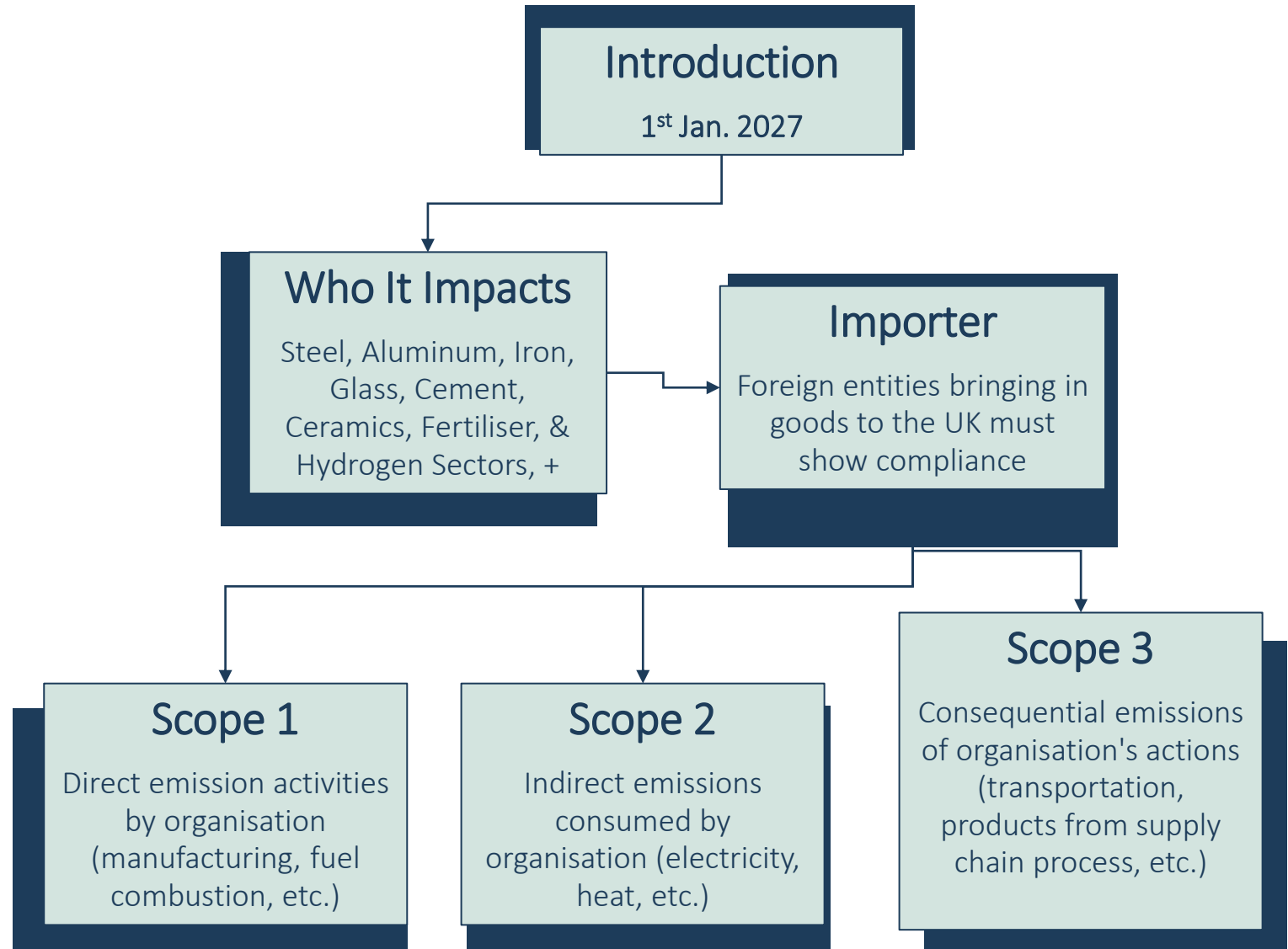
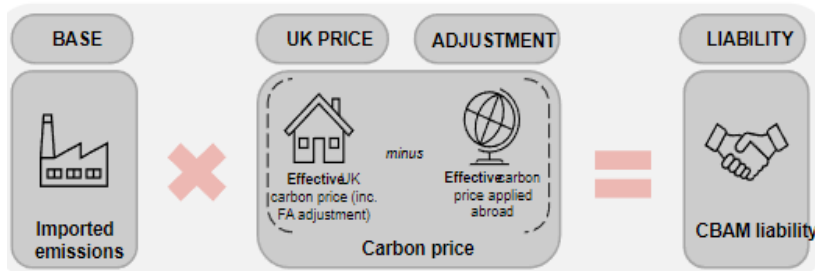
Rollback of Key Green Plans

- UK ETS reforms under Tories – net zero consistent cap but weakest option available, extra supply (53.5m tonnes) to hit market to "adjust" to said cap.
- Exacerbated weakness further by delaying ban on new diesel/petrol cars, granting new licenses for North Sea drilling.
- In contrast, Sunak's government announced no carry over of surplus emissions reductions under yearly carbon budget.
- Taking a "a proportionate and pragmatic" approach, in an effort to maintain net zero goals yet satisfy voter base.
- Tories yet to publish their manifesto for the general election in 2024, no clear decisions made on energy policy despite attempts to "weaponise green issues".

UK CARBON BORDER ADJUSTMENT MECHANISM (UK CBAM)

WHY UK CBAM?

- Carbon Leakage
 - Movement of goods across borders which accounts for the goods' production and emissions.
- To be the cost difference of the carbon price between the origin of the goods and the UK.
- To include glass & ceramic and exclude electricity.
- Will **NOT** be involved in purchasing and trading emission certificates.



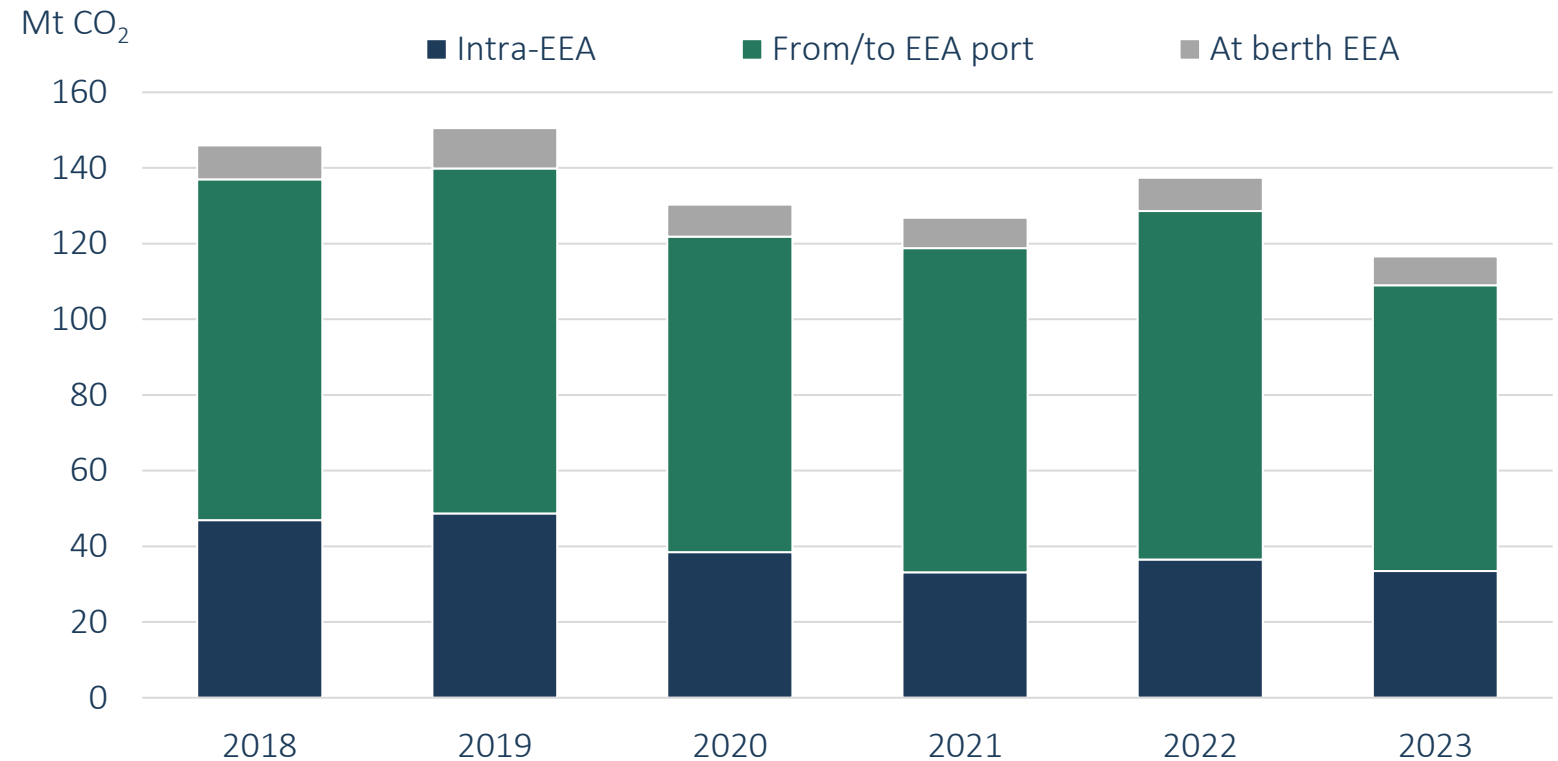
MARITIME TRANSPORT – 2023 VERIFIED EMISSIONS

In 2023, 116.6 million tonnes of CO₂ were reported, 15.1% less than in 2022 (137.4 MtCO₂).

In total, 11,154 ships have called at European ports compared to 13,447 in 2022.

If the criteria of the EU ETS directive are applied, a total of 78.9Mt would fall within the scope of the EU ETS.

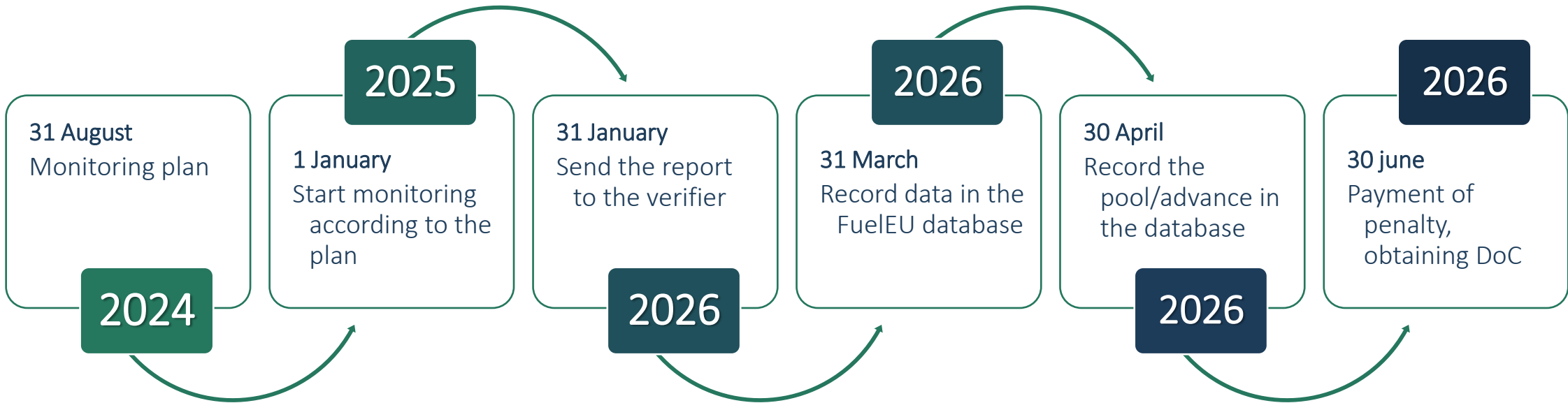
However, this data is continuously reviewed and updated by including late reporting vessels and correcting errors.



FUELEU MARITIME REGULATION – MONITORING PLAN

- By the 31st August 2024 - Submit the monitoring plan for each ship to the verifier.
- The regulation defining the template plan will be published in the OJEU in early July.
- Electronic format using Thetis.

- ### MONITORING PLAN
- References can be made to procedures or systems already in place such as:
 - ISM code,
 - SEEMP,
 - EN ISO 9001:2015,
 - EN ISO 14001:2015;
 - EN ISO 50001:2011.
 - In addition to the reference, a brief summary should be included.





Markets

EUA/UKA Price Evolution

EUA vs. Energy

Fuel Switch

EUA Price Drivers

EUA RETURNS TO APRIL PRICES

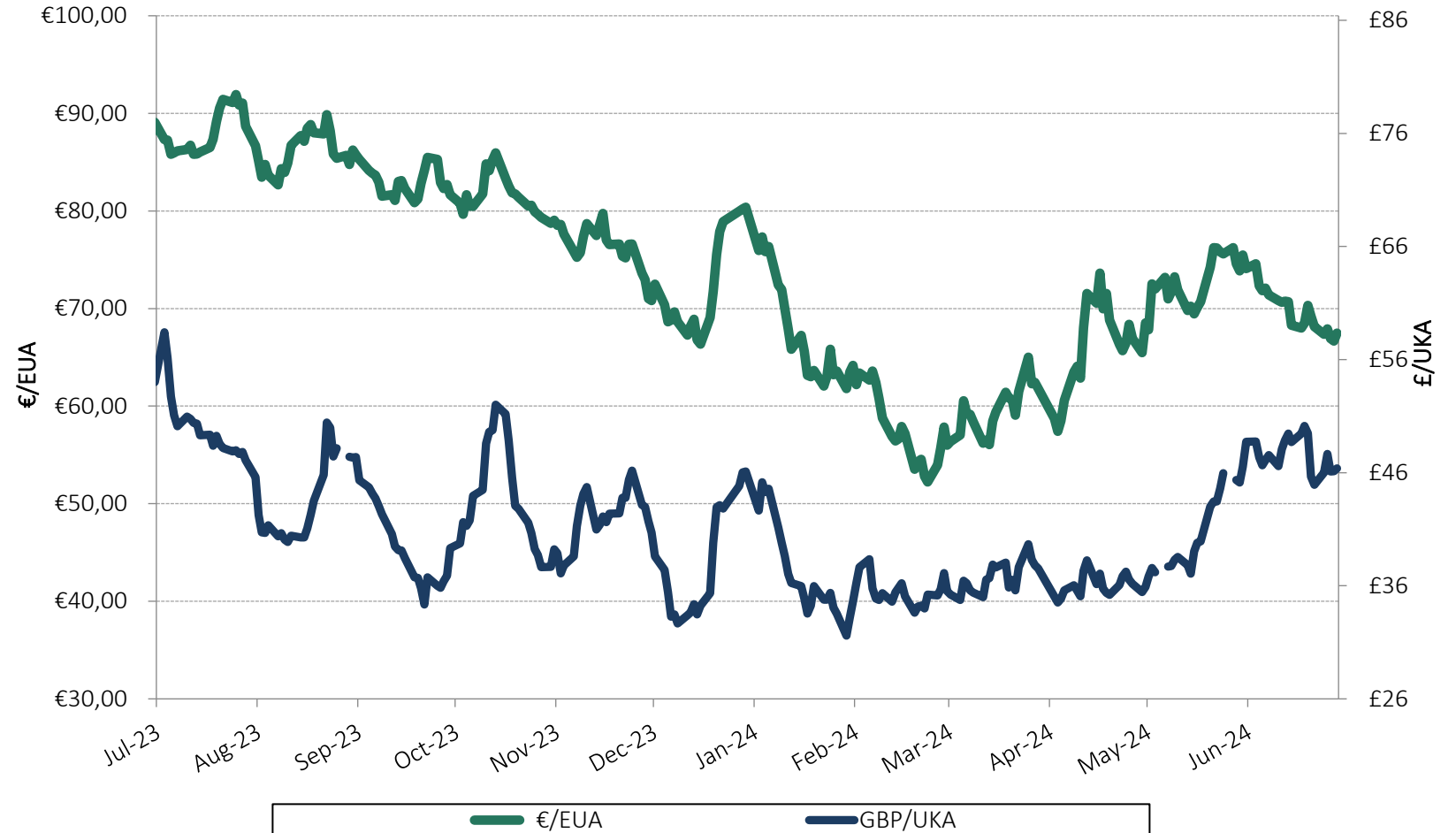
In June, the EUA broke the bullish trend that started in March, recording prices not seen since the end of April. The loss of correlation with the TTF, the expiry of June options and significant speculative activity explain the decline.

UKA continued to rise at the beginning of the month before falling sharply on 20 June (-8%) and closing at £45/t.

EUA Average 2024: 63.80€/t → June: 68.20€/t

UKA Average 2024: £37.28/t → June: £46.05/t

EUA and UKA Price Evolution, 12 months

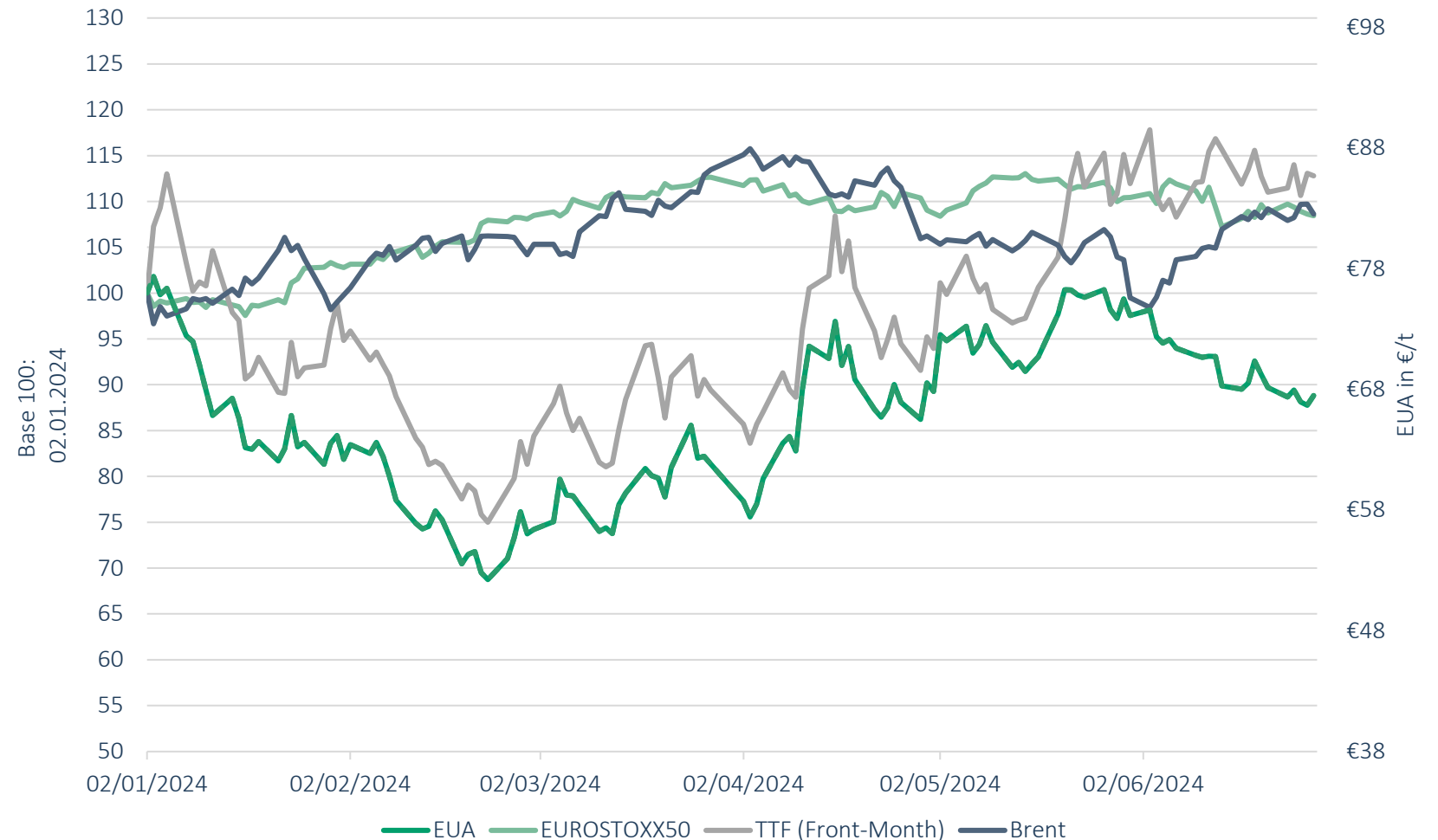


EUA vs ENERGY

CO₂ and gas have lost their correlation in June, after trading hand in hand since the beginning of the year.

Brent, European equities and gas are trading above their opening levels of the year, while CO₂ has yet to recover levels seen in the first days of the year.

EUA vs. TTF, Brent and Eurostoxx



EUA vs FUEL SWITCHING LEVELS

The rise in gas prices matched with a drop in the EUA price in June has led to an increase in the profitability of coal-fired power plants.

Less efficient gas-fired plants become less profitable than the top coal-fired plants.

This could push utilities' hedging needs.

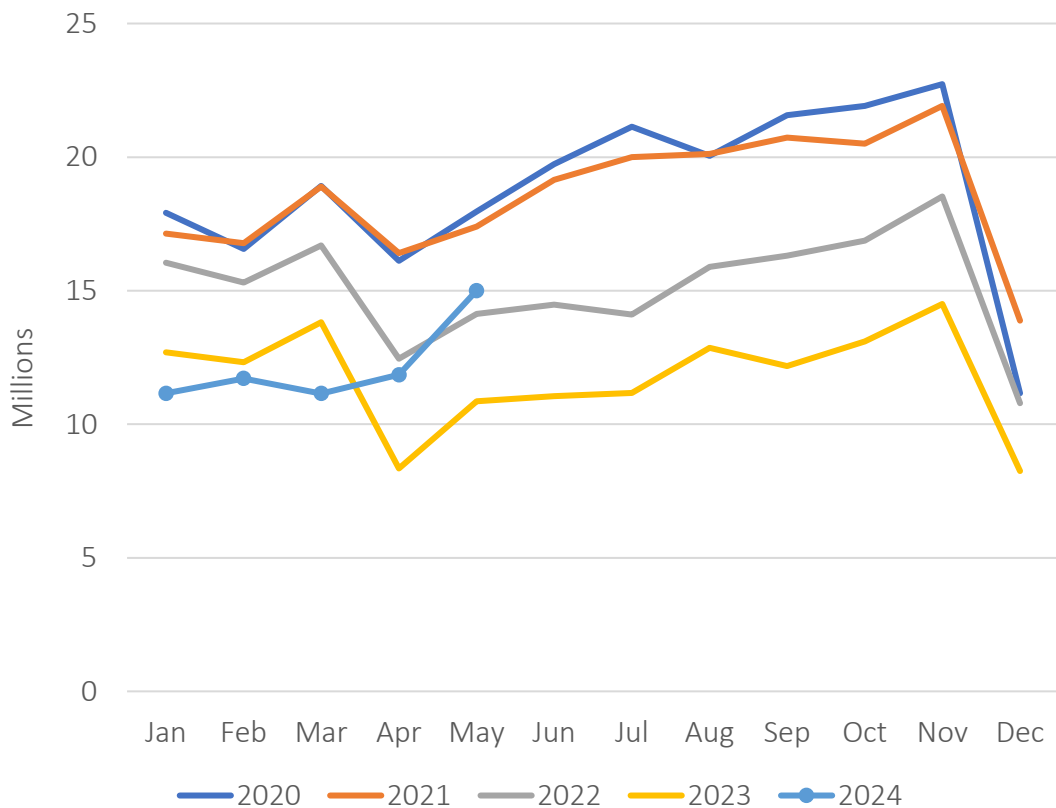
EUA vs. Fuel-Switching levels



OPEN INTEREST & VOLUME

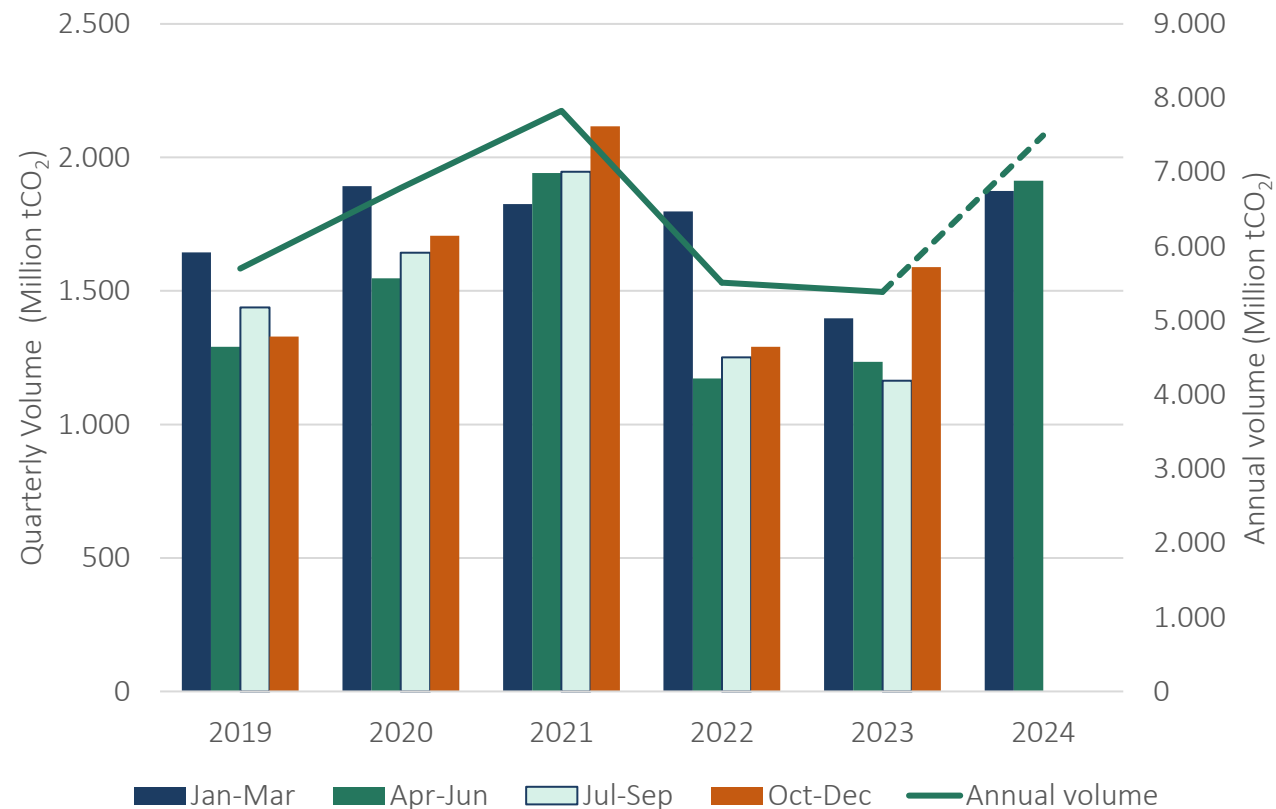
Hedging in the benchmark contract and monthly volume show the significant activity in the market. The OI remains above 2022 and 2023 levels, which can be explained by an increase in hedging by utilities and the calendar change with delivery from April to September.

Open Interest Front-DEC



Source: LSEG

DEC24 Volume



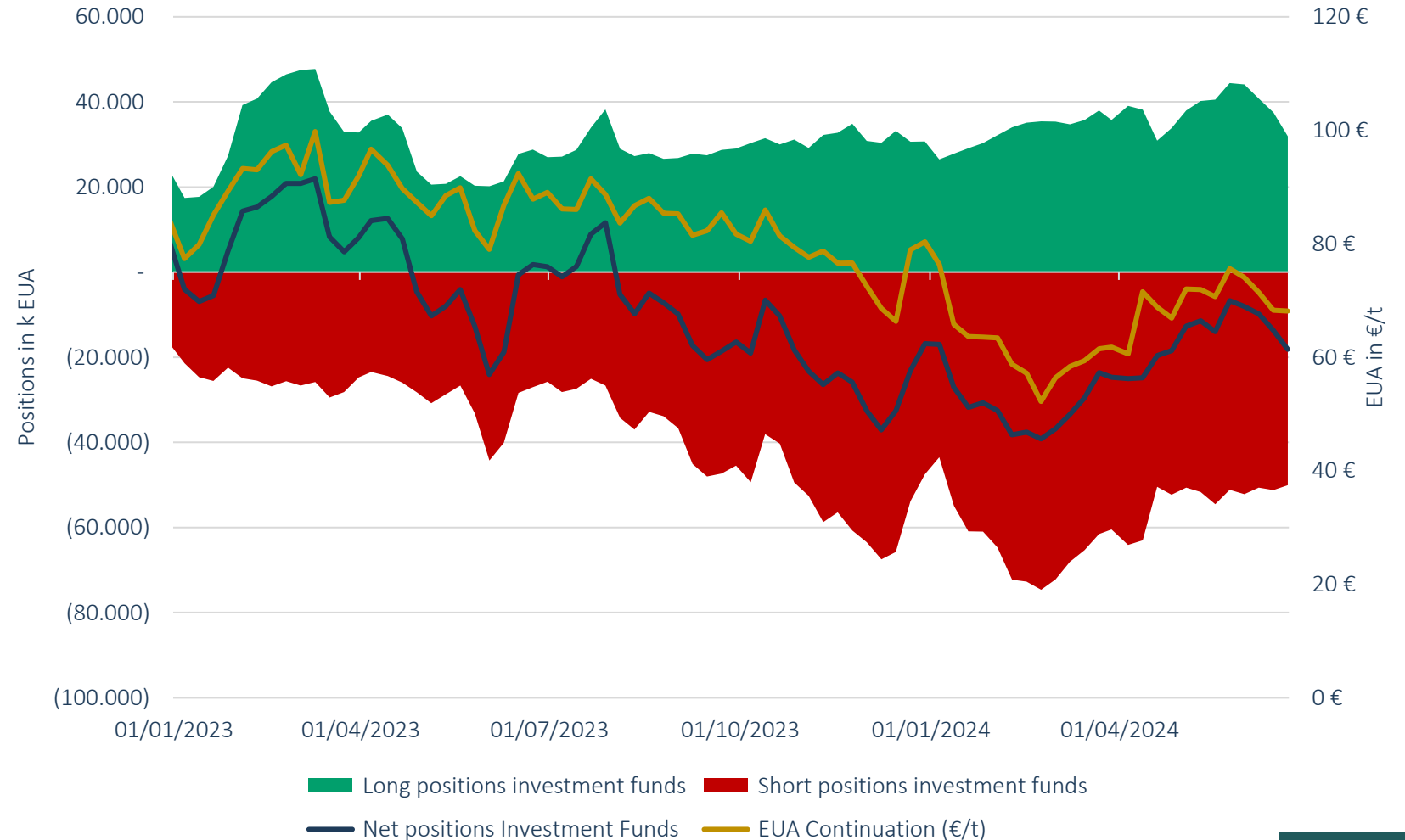
SPECULATORS' TRIM POSITIONS

Speculators once again lowered their net position in June following the closing of long positions in June.

Bearish positions remained relatively stable during the month.

The net position is set at -18 million EUAs, with a long position of 32 million and a short of -50 million.

Long/short positions. Investment funds vs. EUA

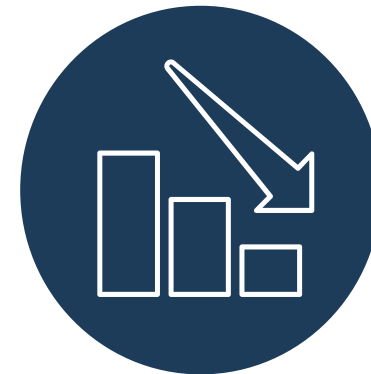


EUA PRICE DRIVERS

Traditionally, the energy complex (Brent/TTF) and heating/cooling demand have been the main price drivers, but CO2 can also be influenced by a range of other factors:

- Low industrial production (PMIs below 50).
- Lower emissions 2023 – decarbonisation of the industry and power sector.
- Greater renewable generation.
- Increase in volumes via REPowerEU plan.

BEARISH



BULLISH



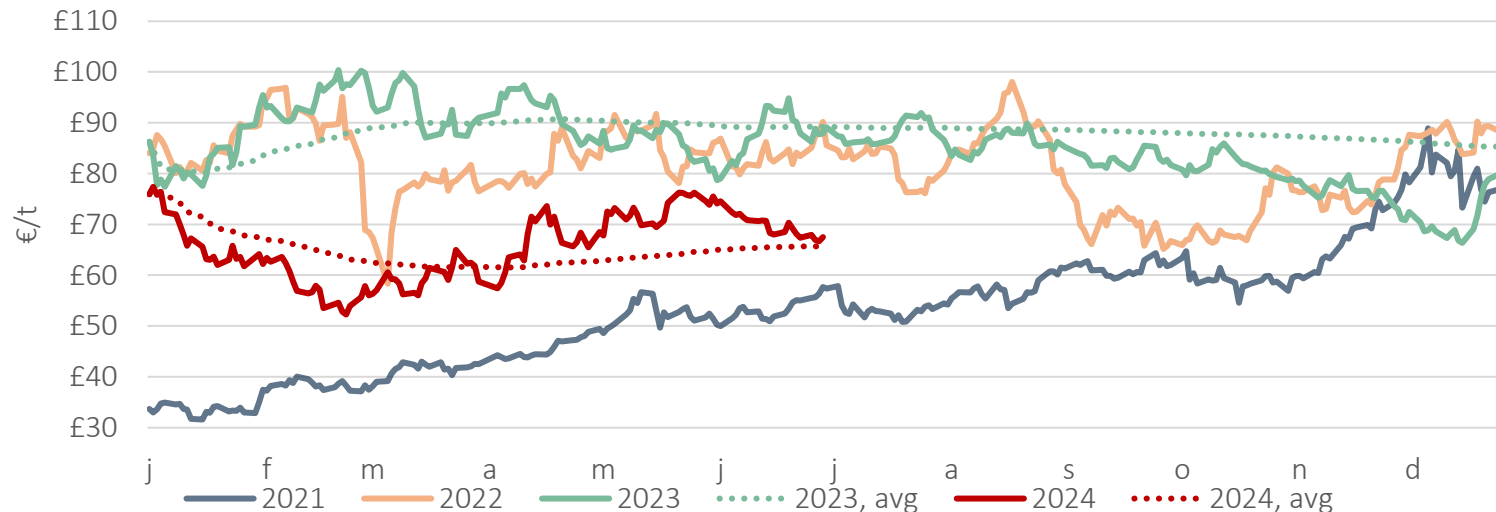
- Change in dynamics and an increase in long positions by speculators.
- Fit for 55 Package/target 2040.
- Inclusion of the maritime sector.
- Free allocation phase out (aviation).
- Rising gas prices and utility coverage needs.
- Lower interest rates.

SEASONALITY

The seasonal study of the EUA price evolution showed at the beginning of 2024 a significant deviation from the average, as in January and February the deviation was 7% and 11% from the average figures. However, the price returned to the normal deviation (5%) in March and since then continues to be in a range close to the average.

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
2018	10,57%	13,66%	21,81%	15,59%	10,72%	2,52%	7,91%	15,52%	13,41%	-8,70%	-1,72%	17,58%
2019	2,81%	-9,67%	4,57%	16,91%	-0,57%	-1,46%	11,11%	-3,58%	-4,42%	-3,99%	-0,72%	3,08%
2020	-3,51%	-1,14%	-17,85%	0,89%	-0,18%	17,61%	16,91%	-2,29%	3,57%	-9,38%	5,52%	16,57%
2021	7,99%	13,39%	7,79%	10,71%	15,24%	1,31%	0,91%	6,15%	8,24%	-2,95%	11,21%	20,58%
2022	5,65%	7,72%	-17,68%	8,46%	5,41%	-1,92%	-2,88%	7,36%	-19,83%	-5,10%	14,50%	12,93%
2023	-6,71%	14,55%	-2,90%	0,94%	-6,73%	2,18%	0,70%	-1,82%	-3,28%	-1,32%	-6,22%	-6,52%
2024	-8,38%	-14,32%	3,76%	11,23%	10,60%	-3,89%						
medium AVG	1,21%	3,46%	-0,07%	9,25%	4,93%	2,34%	4,95%	3,05%	-0,33%	-4,49%	3,22%	9,17%

EUA in 2021-2024





Monthly Highlight

Upcoming events on the Global Factor agenda

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UPCOMING EVENTS ON THE GLOBAL FACTOR AGENDA

3-6 sept 2024
 leading international
 maritime trade fair
smm-hamburg.com

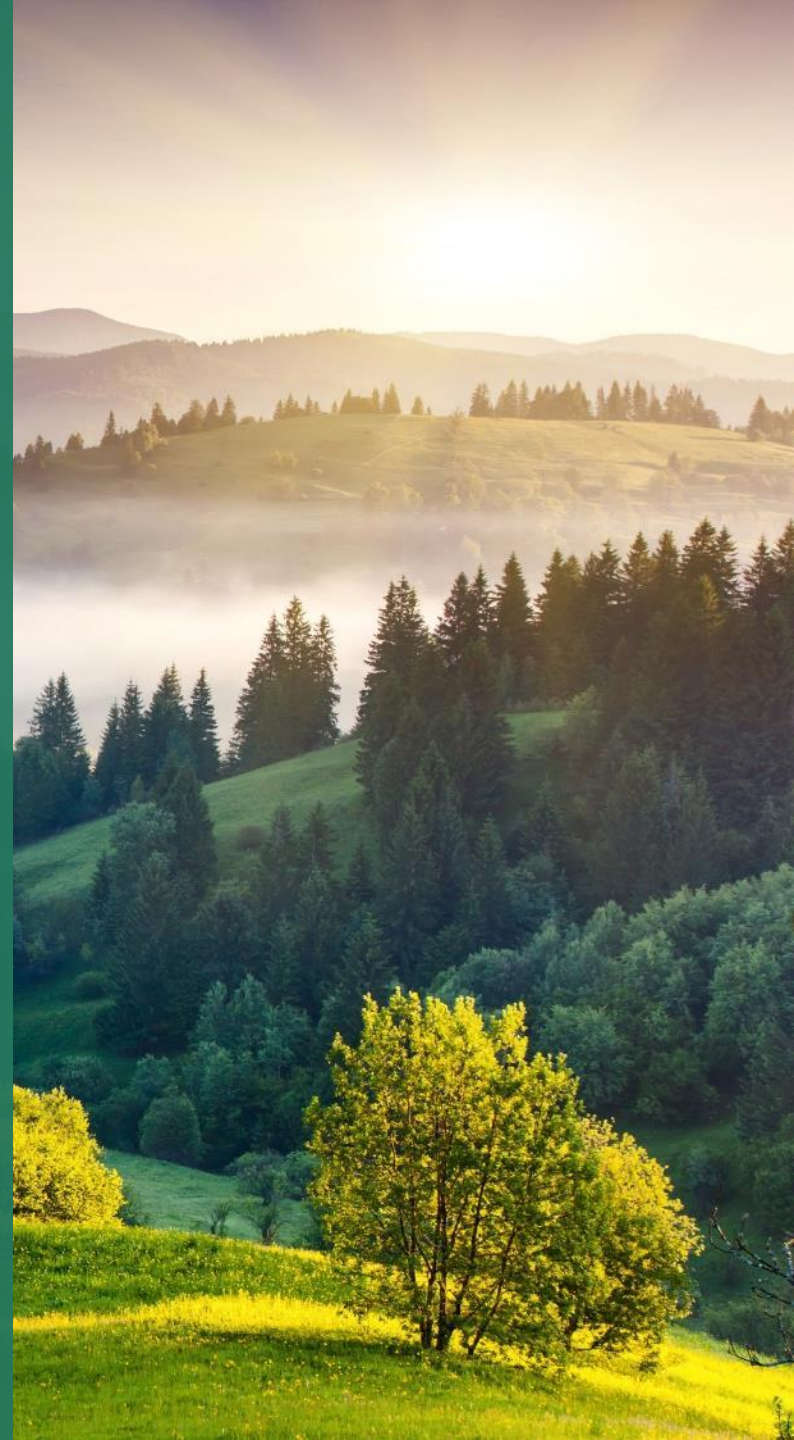


Miller Wells will moderate the round table *"Experience with the EU ETS in the first year: Adaptation of the EU ETS market to new entrants, Balancing purchasing strategies and approaches."*

Arrange a meeting with our expert on carbon markets: purchasing strategies, MOHA, risk management, compliance.



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 International Maritime
 Manager
 Carbon Market Specialist
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Global Factor - Consultancy



ENVIRONMENTAL MARKETS

- GHG emission allowances and monitoring plans
- Management of annual emissions reports, activity level and verification assistance
- Management of compensatory allowances (direct costs and electro-intensive)
- Biomass sustainability certification (SURE and ISCC)
- Carbon Border Adjustment Mechanism (CBAM)
- Regulatory impact analysis in the shipping sector (EU ETS, FuelEU Maritime, Energy Taxation)
- Identification and analysis of energy efficiency actions
- Generation of dossier and processing of CAEs
- Commercialisation of CAEs



NET-ZERO

- Carbon footprint
- Net-Zero Strategies
- Decarbonisation Plans
- Energy audits
- Cost-benefit and cost-effectiveness analysis
- SBTi-based emission reduction targets
- Emission offsetting and neutralisation strategy
- Purchase of carbon credits
- Carbon Neutrality Certification
- Analysis of climate risks and opportunities (TCFD)
- Physical climate risk analysis (taxonomy)
- Financial impact of risks and opportunities
- Climate governance



SUSTAINABILITY & REPORTING

- Dual materiality analysis
- CSRD Gap Analysis
- ESG strategies and reports (ESRS, IFRS)
- Carbon Disclosure Project (CDP)
- Ecovadis
- Nature-based risks and opportunities (TNFD)
- Impact on nature and biodiversity
- Biodiversity Targets (SBTN)
- Carbon sinks
- Diversity and Social Impact
- ESG governance and ethics
- Sustainable finance (taxonomy, portfolio, sustainable bonds)



CIRCULAR ECONOMY

- Life Cycle Assessment (LCA)
- Environmental Product Declarations (EPD)
- Environmental footprints
- Water footprints
- Circularity strategies
- Zero Waste
- Eco-innovation and eco-design Industry 4.0

CONTACT US

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