(English version)

Priority question for written answer P-001871/21
to the Commission
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Subject: Volatility of EU ETS prices — access to EU ETS market by entities not obliged to participate in the system

Allowances under the EU emissions trading system (ETS) are treated as securities in accordance with the Markets in Financial Instruments Directive (MIFID II), and as such they can be purchased not only by CO_2 emitters, but also by financial institutions, both short-term and long-term, including foreign investors. The participation of such institutions in the EU ETS market leads to significant volatility in the price of allowances, which makes it difficult for companies obliged to purchase allowances by the EU ETS Directive to do so while pursuing a predictable investment policy. Allowing purely financial operations to affect the price of ETS allowances also weakens the supply/demand balance and has the effect of diminishing public trust in the ETS market.

Therefore, in the light of the expected EU ETS market reform, does the Commission intend to limit participation in the EU ETS market to EU-based CO_2 emitting entities only, or limit the validity of allowances so that they have to be used within a predictable time period and do not become an element of financial speculation?

Answer given by Executive Vice-President Timmermans on behalf of the European Commission
(12 May 2021)

The Commission is closely following the developments in the European carbon market. Although it is difficult to predict market behaviour, the recent price increase appears to be in line with the forecasts of many leading market analysts. The endorsement last December by the European Council of the increased 2030 climate ambition will require a strengthening of the emissions cap of the EU Emissions Trading System (EU ETS). According to analysts, market participants are already factoring in this expected change, which would translate into lower supply of allowances.

Financial intermediaries have been part of the European carbon market since its start in 2005. They play an important role in providing liquidity to the market. Moreover, the largest share of the carbon market consists of futures and other derivatives contracts. Derivative contracts facilitate the trading for energy and industrial companies with compliance obligations under the EU ETS, since they allow these companies to hedge their pricing risk.

In line with the Markets in Financial Instruments Directive (MiFID II) ([1]), the EU has in place robust position reporting and transparency requirements, which allow competent authorities in the Member States to monitor the trading behaviour of different categories of market participants, including financial entities. Up until now, the established framework has been working well and it is important to ensure the proper implementation of already existing rules.

([1]) Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).