

# CARBON MARKETS

A hedging instrument and tool for managing carbon emissions compliance.

## PURPOSE

Carbon markets are a form of carbon pricing which aim to promote the shift away from fossil fuel use to greener technologies by putting a price on the act of polluting and directing generated revenues towards low-carbon projects. They come in two forms: “compliance” and “voluntary”.

**Compliance markets** require companies operating within the sectors covered to surrender one carbon “allowance” for every tonne of CO<sub>2</sub> released into the atmosphere.

The number of allowances available falls over time, in line with specified climate targets (zero allowances by 2050 within nations planning for net zero emissions that year for instance), with the aim of supply reduction driving up prices to levels which make it more economically beneficial to either end polluting operations or invest in low-carbon technologies to continue.

Compliance carbon markets that employ a “cap-and-trade” mechanism allow companies to hedge their long-term exposure to carbon taxation.

**Voluntary markets** by comparison facilitate the purchase of carbon credits, sold by the owners of emissions-cutting projects (either naturally or through technology), allowing polluters to “offset” their own output by financing emissions reductions elsewhere.

## COMPLIANCE MARKETS VS VOLUNTARY MARKETS

There are two types of carbon markets:



**Compliance markets** are mandatory systems regulated by government organisations to cap emissions from specific industries.

Examples: The EU’s Emissions Trading System (ETS) and China’s national ETS.

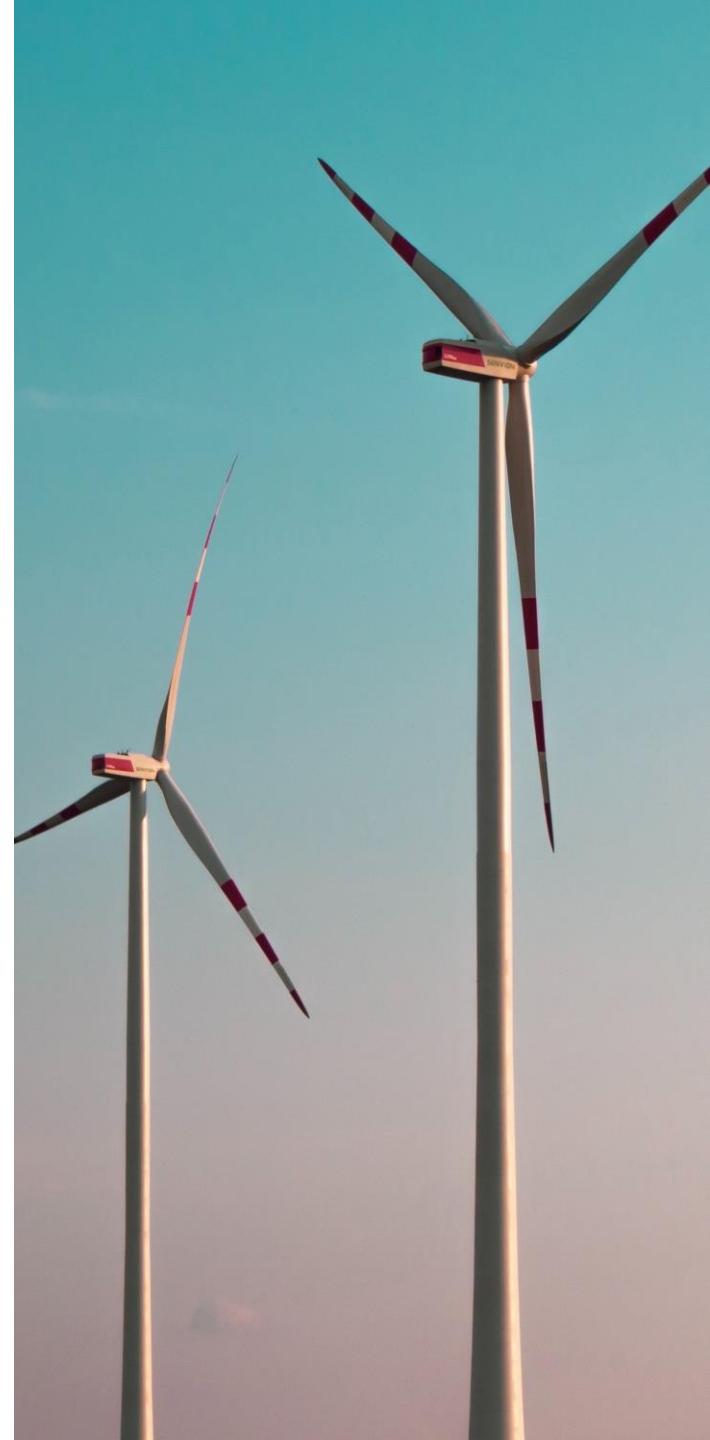


**Voluntary markets** facilitate the purchase of carbon credits by organisations that wish to financially compensate for their emissions.

Examples: Nature-based offset credits traded on CME.

## TRILAND AND CARBON

- Triland currently trades EUA futures on ICE Endex (Contract Symbol: C) on a proprietary basis.
- Trading day: 07:00 GMT – 17:00 GMT.
- One traded lot = 1,000 carbon allowances; unit: €/t of CO<sub>2</sub>e.



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