



CARBON FREE SHIPPING - CONTRACTS IN CONTEXT

CONTRACTS FOR CARBON TRADING

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Agenda

- What are carbon allowances – and where can I find mine?
- Why do I need carbon allowances?
- How do I acquire carbon allowances?
- What is a contract for acquiring carbon allowances?
- Foreseeable disputes?
- Applicability

What are carbon allowances and where are they?

- Carbon allowances are classified as a financial instrument under the MiFID directive
- Intangible commodity (property right), administrative right or tradeable financial instrument?
- Not represented by a physical instrument (B/L, loan document or other equivalent)
- Just a number registered in an official registry
- No individual identification number
- Limited in numbers – and decreasing



What are carbon allowances and where are they?

European Commission

Climate Action

Energy for a Changing World

Welcome to the Danish Emission Trading Registry

You cannot perform transactions during official Danish holidays. The following dates are official Danish holidays in 2022:
April 14, 15 and 18, May 13 and 26, June 6, December 26

Kind regards,

DANISH BUSINESS AUTHORITY

Danish Administrator of the EU ETS Registry and the Danish Kyoto Registry

Telephone: +45 72 20 00 38, mon-thurs 8:30 a.m. to 4:00 p.m., fri 9:00 a.m. to 3:00 p.m.

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Why do I need carbon allowances?

- By 30 April – deliver back allowances equivalent to green house gasses emitted (reported in the MRV system)
- Failure to deliver back will lead to a fee of 100 Euros per missing allowances.
- Current market price for EU Allowances – appx. 75 euros.
- Speculation/investment?



How do I acquire EU allowances?

- Three possible ways:
 1. Receive them for free from the government
 2. Acquire them on auctions
 3. Acquire them on the secondary/free market



Auction process

- EU member states auction out allowances through the EEX platform
- Auctions take place several times a week – up to 4 times.
- Available for authorized bidders
 - Compliance bidders (i.e. entities subject to the ETS directive)
 - Agents (or similar) for compliance bidders

A graphic consisting of two stacked rectangular blocks. The top block is dark red and the bottom block is a brighter red. The text 'EU ETS Auctions' is written in white, sans-serif font across the bottom block.

EU ETS Auctions

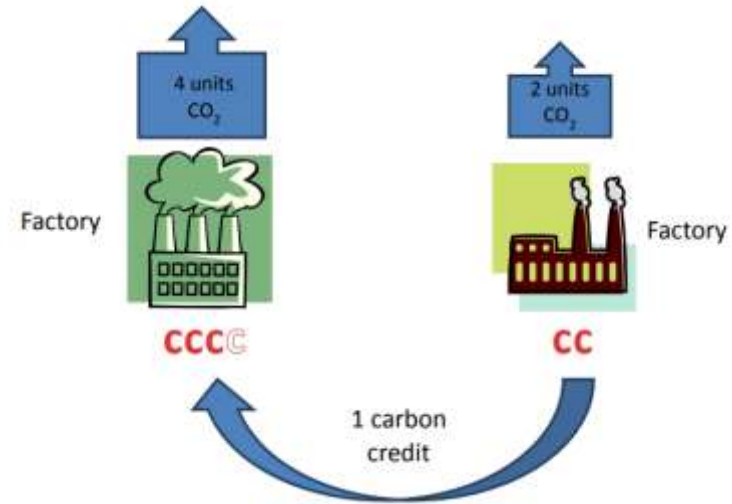
Auction proces

- Bid on 500 allowance lots
- Bids submitted on price per allowance
- All bidders over clearing price receives allowances on clearing price basis
- Allowances transferred to your account in national registry upon payment



Secondary/free market

- No trade restrictions – free market
- Transfer of allowances from one entity to another
- Contract and trading takes place separately from the registers
 - Including transfer of funds
- The main obligation of the seller is to transfer allowances in the registry.
- Once the allowances have been transferred there is (almost) no turning back.



A contract for carbon allowances

“With respect to each Delivery Date referred to in column (A) of the delivery schedule in clause 3.2, the Delivering Party shall Transfer (or procure the Transfer of) the corresponding Periodic Quantity of Allowances referred to in column (B) of the delivery schedule in clause 3.2 by no later than that Delivery Date from any Account in any Registry to the relevant Receiving Party's Account (as set out in the table below); provided, however, that if one or more Delivering Party's Accounts are specified in the table below, the Receiving Party agrees that the Delivering Party's obligation to Transfer Allowances under this Agreement shall be limited to an obligation to Transfer such Allowances from any such specified Delivering Party's Account(s) to the relevant Receiving Party's Account.” - © International Emission Trading Association (IETA).

A contract for carbon allowances

- "The Transfer shall be considered to be completed for the purposes of this Agreement when the Allowances are received in the Receiving Party's Account in accordance with the Registries Regulation, whereupon risk of loss, related to the Allowances, or any portion thereof, shall transfer from the Delivering Party to the Receiving Party"
- "By no later than the fifth (5th) Banking Day after a Delivery Date and to and to the extent that Allowances to be Transferred in accordance with clause 3 of this Agreement have been Transferred by the Delivering Party and received by the Receiving Party in the Receiving Party's Account on or before that Delivery Date (the "**Payment Due Date**"), the Receiving Party shall pay the Periodic Purchase Price by transfer to the Delivering Party's nominated bank account number, account details of which are as follows" - © International Emission Trading Association (IETA).

A contract for carbon allowances

- Non-simultaneous performances
 - Contract gets signed and then the parties will have to independently perform
- No appropriation/individualization of the allowances.
 - Except for allowances on certain accounts
- But a pretty straight forward transaction
- Disputes?



Possible disputes

- Double sale
- Non performance
- Insolvency
- Remedy – escrow agents
- Easy calculation of damages
- Hacking – theft of allowances

Applicability

- Independent contracts – unlikely
 - Unlikelihood of excess allowances
 - Easy auctioning
 - Costs
- Sale and purchase of vessels
 - Deposit/escrow holder
 - Lubes, bunkers – and allowances?
 - Instant supply and demand
- Charter parties?



Thank You



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