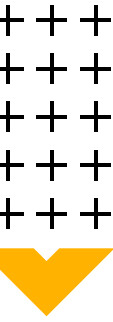




THE CARBON CODE: TRADING, TRACKING AND TRANSFORMING EMISSIONS



WEEK 3 – DAY 1



TRADING AND PRICING

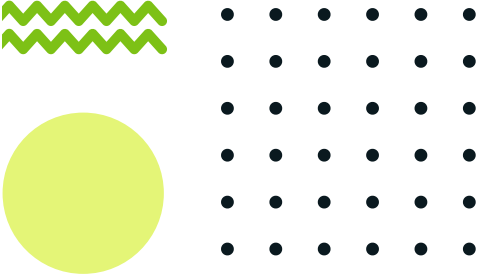
Carbon Market Fundamentals & Pricing Drivers

Understanding Carbon Markets

Carbon markets are at the heart of global efforts to reduce greenhouse gas emissions. They work by putting a price on carbon pollution, encouraging companies and governments to cut emissions. Today, we'll break down how these markets function, why prices change, and who participates in them.



WHAT DRIVES CARBON PRICES UP OR DOWN?



Carbon prices aren't fixed—they change based on supply, demand, and regulations.
Here's what influences them:

A) Government Policies (Biggest Impact)

EU Carbon Border Tax (CBAM): Starting in 2026, imports like steel and cement will face carbon fees. This has already pushed EU carbon prices up 20% in 2024.

U.S. Inflation Reduction Act: Subsidies for carbon removal tech have boosted demand for high-quality credits.

B) Corporate Demand

When companies like Microsoft or Shell commit to "net zero," they buy millions of credits, raising prices. However, if investigations expose fraud (like the 2023 Guardian report on REDD+), demand can crash overnight.

C) Project Quality & Trust

Verified credits (Gold Standard, Verra) sell at a premium.
Buyers avoid projects with leakage risks (e.g., saving one forest but destroying another).

Real-World Example:

Tesla made \$1.5 billion by selling spare carbon allowances to traditional carmakers. This shows how smart trading can turn emissions cuts into profit.

WHO BUYS CARBON CREDITS AND WHY?

Different players participate for different reasons:

A) Big Tech (Microsoft, Google, Amazon)

What They Buy: Expensive removal credits (DAC, biochar).

Why? Their data centers use huge amounts of energy, making it hard to cut emissions fully.

B) Oil & Gas Companies (Shell, BP)

What They Buy: Cheaper REDD+ credits.

Why? To improve their public image while still producing fossil fuels.

C) Airlines (Delta, Lufthansa)

What They Buy: Credits approved under CORSIA (a global aviation rule).

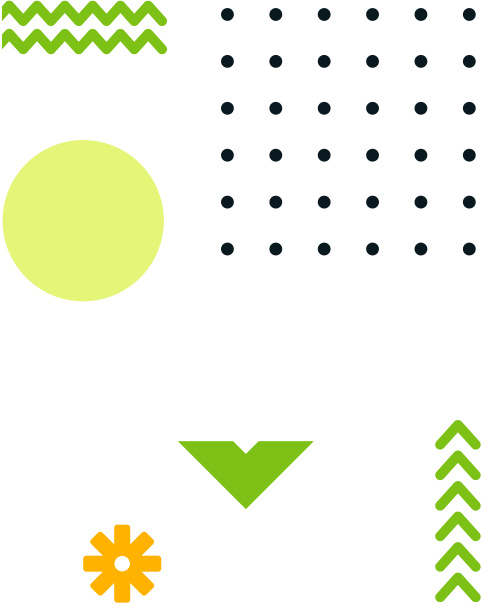
Why? They must offset emissions to comply with international law.

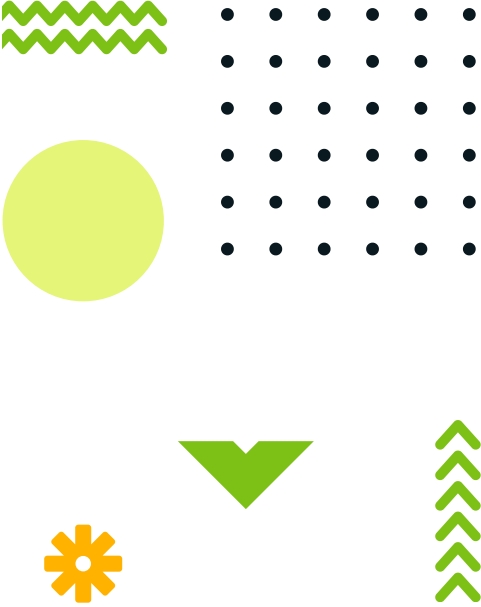
D) Individuals

What They Buy: Small offsets (e.g., \$10/ton for a flight).

Why? Personal climate action—though impact is limited.

Warning: Some companies buy low-quality credits just to claim they're "carbon neutral." Always check if credits are verified by trusted groups like Verra or Gold Standard.





Key Takeaways

Compliance markets (like EU ETS) force polluters to cut emissions. Voluntary markets let companies offset emissions—but quality varies.

Prices shift due to policies, scandals, and corporate demand.

Not all credits are equal. Some actually reduce emissions and others are just PR tools.

CARBON TRADING STRATEGIES: HOW PROFESSIONALS PROFIT (BEYOND BASIC BUYING/SELLING)

A) Spread Trading (Compliance Markets)

What: Exploiting price gaps between different carbon permits

Example Trade (2024):

Buy EU Allowances (EUA) at €85

Sell UK Allowances (UKA) at €65

Profit when the €20 gap narrows

Why It Works: Political changes (like UK-EU linkage talks) alter spreads

Risk: Regulatory surprises can blow up spreads

B) Vintage Arbitrage (Voluntary Markets)

What: Buying older credits cheap, selling to buyers needing specific years

Real 2023 Example:

Buy 2018 REDD+ credits at \$3.50

Sell to airline needing pre-2020 offsets at \$6.80

Key Skill: Tracking corporate target years in sustainability reports

C) Options Strategies

Protective Put Example:

Oil company buys €90 EUA puts

Limits loss if prices crash post-election

Data Needed: Implied volatility curves (currently ~35% for EU options)

Trading Floor Insight:
"Most money isn't in trend-following - it's in spotting mismatches between physical and financial markets."

Former ICE Carbon Trader

OPAQUE BUT CRITICAL: THE BROKERAGE WORLD (HOW DEALS REALLY GET DONE)

A) The Broker Ecosystem

Broker Type	Commission	Typical Clients	Role
Interdealer Brokers	\$0.02/ton	Banks, Hedge Funds	Match big buyers/sellers
Project Brokers	5-15%	Developers, Corporates	Package credits for resale
Retail Platforms	\$1.50/ton	Individuals, SMEs	Simplify small transactions

B) Inside a Typical OTC Deal

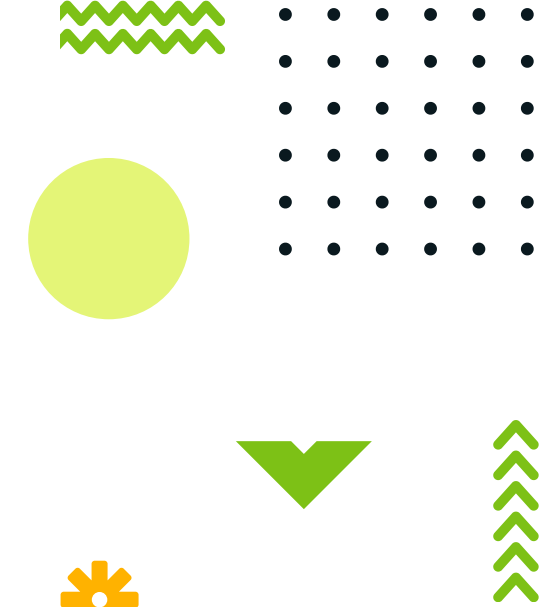
Price Discovery: Broker whispers "I have 50k Kenya REDD+ at \$6.25" to 20 buyers

Term Sheet Negotiation:

Key clauses:

- Delivery timeline (spot vs. forward)
- Liability for reversal (e.g., forest fires)
 - Retirement guarantees

Registry Transfer: Verra's system moves credits (takes 3-5 days)



C) Dirty Secrets:

"Double-selling" credits before retirement

Inflating project quality in pitch decks

Taking fees from both sides secretly

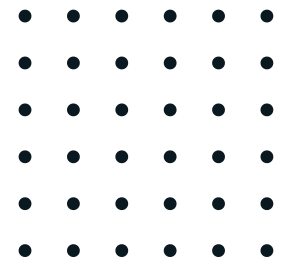
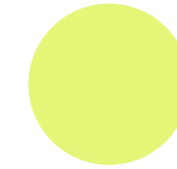
Compliance Tip:

Always demand:

Direct registry confirmation

Serial number lists before payment

Third-party custody for large deals



Why This Matters for Traders:

Strategy Depth: Most courses only teach basics - these are real tactics used by funds

Risk Awareness: 80% of fraud happens in OTC deals (Per Carbon Markets Watch)

Career Paths: These skills differentiate analysts from true trader



THANK YOU