Carbon Market North America

PointCarbon
NEWS

Vol 4 • Issue 3• 23 January 2009

Voluntary carbon market to survive in carbon-capped US

With a new presidential administration in town and key Capitol Hill leaders stating that Congress can pass a comprehensive climate change bill as soon as this year, market players have grown more confident that the US will soon have a mandatory cap-and-trade programme to slash greenhouse gas emissions.

But while some have questioned what the future will hold for the voluntary market if carbon caps come to Washington, some market players are confident that voluntary offset projects will continue to have a part to play.

"I think we'll have a cap-and-trade system in this country within a year," said Hunter Lovins, president of Natural Capital Solutions. "But the voluntary market will still have a role."

Lovins made these remarks at a voluntary carbon market conference in New York this week, where panelists discussed the future role of the voluntary market as political signals from Washington increasingly point to the emergence of a mandatory programme.

President Barack Obama reaffirmed his commitment to create a cap-and-trade programme to reduce greenhouse gas emissions in one of his first major policy announcements after his election.

And congressional leaders – most recently House Speaker Nancy Pelosi – have made public statements saying that Congress could pass comprehensive climate change legislation as soon as this year.

Pelosi told the San Francisco Chronicle that she thinks Congress can pass a climate change bill in time for UN climate change negotiations in Copenhagen this December.

But even if a compliance market emerges, it will not eliminate the need for a voluntary carbon market in the US, said Janet Peace, vice president for business and strategy at the Pew Center on Global Climate Change.

"A voluntary market is complementary to a mandatory market. Implementation of a mandatory programme may expand or improve the voluntary market," she said.

Peace said that offsets – credits from emission reducing activities – stand a "pretty good chance" of being included in US cap-and-trade legislation as a cost-containment mechanism.

She added that scepticism regarding offsets on Capitol Hill may lead to the creation of a constrained offset programme, giving room for the voluntary market to coexist.

The compliance market may also set benchmarks for the voluntary market, said Derik Broekhoff, vice president of policy at the California Climate Action Registry (CCAR).

"The currency for the voluntary market is going to be some form of compliance-grade credit," he said.

He noted that global voluntary market standards, such as the Voluntary Carbon Standard, have drawn from the project guidelines of the UN's clean development mechanism (CDM), a compliance programme.

In the US, standards set in a future regulated market are likely to guide the standards of the US voluntary market.

Organisations like CCAR are working to develop "credible regulatory grade standards" in anticipation of a future compliance offset programme.

But Broekhoff said there is no way to guarantee that these standards will be used by federal lawmakers in their future cap-and-trade legislation.

Grattan MacGiffin, head of voluntary carbon markets at brokerage MF Global, said the convergence this year of possible US federal legislation on cap and trade and the start of operations of registries to track voluntary emission reduction credits will give a boost to the voluntary carbon market.

"2009 is going to be a pivotal year," said MacGiffin.

CONTENTS

RGGI exchange snapshot ($)

Exchange	Contract	Settle	Change
CCFE	Dec 09	3.95	-0.03
CCFE	Dec 10	4.11	+0.01
Nymex	Dec 09	3.95	0

Point Carbon RGGI OTC assessment ($)

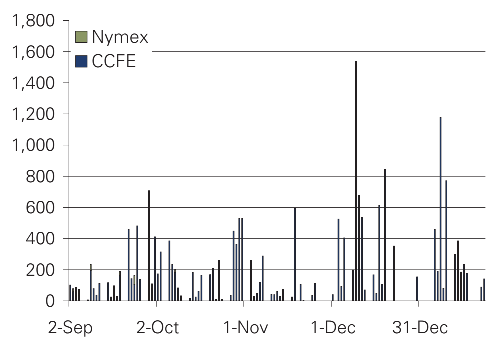
Contract	Best bid	Best offer	Close	Change
Dec 09	3.90	4.00	3.95	0

Source: Evolution Markets, Icap, and TFS.

Quoted prices are US$ per short ton of at close of market each Thursday as per Point Carbon's RGGI assessment methodology. Changes refer to the last issue of Carbon Market North America.

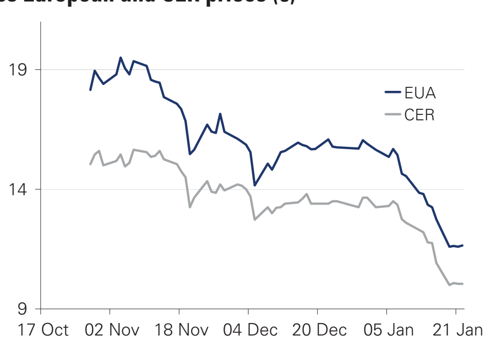
For methodology, see www.pointcarbon.com/news/methodology

Exchange volumes ('000) all RGGI contracts



Source: CCFE and Nymex

2008 European and CER prices (€)



Market comment

The December 2009 contract ended a day of thin trading Thursday at $3.95, just three cents down from a week ago on the Chicago Climate Futures Exchange (CCFE).

The benchmark Regional Greenhouse Gas Initiative (RGGI) contract's brokered closing bid and offer were $3.90 and $4, respectively, the same as last week.

In a survey of market participants, bids were cited as low as $3.85, while asking prices reportedly went as high as $4.10.

"The last few days, RGGI has been fairly quiet after being pretty busy after the auction," one broker said, referring to last month's pre-compliance allowance sale.

He said the reason for the calm was because most participants who wanted to hedge out of their auction positions have successfully done so.

"It's been rangebound, but there has been more bid interest," another broker said.

"We actually think this thing is going to go up a little bit, we're a little bit bullish," the first broker said.

He said the inauguration of President Barack Obama as well as the confirmation of Lisa Jackson as administrator of the Environmental Protection Agency could prove to be a shot in the arm for RGGI prices.

"There's an upside price risk if any sort of news or talk about this cap-and-trade programme comes out," he said.

"RGGI is very sensitive to talk about the federal government programme because the leading bills so far have made references to giving credits to RGGI allowances."

He said people still view RGGI contracts as a "fairly cheap option."

One broker said utility companies, which bought the majority of allowances in the second RGGI pre-compliance auction, are starting to show signs of interest in the secondary market.

"They're starting to poke their heads in a little bit," he said. "Some of them have already participated in the auctions, others are starting to pay attention and liquidity will be gradually increasing over the course of this year."

Still, the programme's three-year compliance period also means utilities are still in no rush to buy allowances in the secondary market, as brokers have said previously.

For now, however, the brokers agreed that prices will likely stay in the $4 range until the next RGGI compliance auction, which is scheduled for 17 March.

Obama promises cooperation in addressing climate change

US President Barack Obama pledged at his inauguration Tuesday to work with other nations to combat global warming.

"With old friends and former foes, we will work tirelessly to lessen the nuclear threat and roll back the spectre of a warming planet," he said outside the Capitol building in Washington DC.

Obama also affirmed his confidence in financial markets, which have been rocked by a series of high-profile bankruptcies and volatile stock and commodity prices.

The US government has already stepped in to bailout several failing US banks, causing some to wonder whether the public would still support the creation of a new US market to trade greenhouse gas emission allowances.

Obama said he has confidence in the ability of markets to work, but emphasised the need for strict oversight.

"Its power to generate wealth and expand freedom is unmatched, but this crisis has reminded us that without a watchful eye, the market can spin out of control – and that a nation cannot prosper long when it favours only the prosperous," he said.

Senate confirms EPA administrator

The Senate confirmed late Thursday President Barack Obama's nominee to head the US Environmental Protection Agency (EPA), Lisa Jackson.

Wyoming Republican Senator John Barrasso halted an effort last week to fast-track Jackson's confirmation, which requires unanimous consent on the part of the 19-member committee.

Barrasso's concerns had less to do with Jackson than with how she will work with Carol Browner, who Obama has designated his special coordinator for energy and environment.

Browner's position, which is new and has been labelled "energy czar," does not require Senate confirmation, and Barrasso raised concerns about the accountability of the position to Congress.

The Boxer aide said that Barrasso was able to speak with Browner on Thursday, and is now prepared to support Jackson's nomination. Barrasso is the only Republican that sits on both the Senate environment and public works committee and the Senate energy committee.

Jackson has already been asked by California officials to allow the state to implement strict regulations on vehicle tailpipe emissions. (see next story)

Schwarzenegger asks EPA for tailpipe waiver

California's governor has asked President Barack Obama to let his state adopt its own emission laws.

Governor Arnold Schwarzenegger requested in a letter Wednesday a waiver to allow his state to use its own standard to regulate greenhouse gas emissions from vehicle tailpipes.

"Regulation will not only reduce these emissions, but will also save drivers money and reduce our nation's dependence on imported oil," Schwarzenegger said.

California has been seeking a waiver from the federal government since 2004 to enforce its own tailpipe standard, which is stricter than the federal corporate average fuel economy (Cafe) standard.

The Bush administration had thwarted attempts by the state to regulate emissions from cars, trucks and other vehicles, warning states against creating a patchwork of different regulations across the country.

The formal waiver request came from the California Air Resources Board (Carb), a state regulatory agency, to the US Environmental Protection Agency.

"We feel strongly that under its new leadership, EPA will recognise that the decision made by the former administrator to deny California the waiver to enforce our clean car law was flawed, factually and legally, in fundamental ways," said Carb Chairwoman Mary Nichols.

Should the EPA grant the waiver, California and 13 other states would begin a programme to reduce the greenhouse gas emissions from passenger vehicles 30 per cent by 2016, Nichols said.

In her confirmation hearing last week, then-EPA adminstrator nominee Lisa Jackson promised to review the request immediately upon taking office, but did not say definitively whether she would approve it or not.

Gore to testify before Congress on climate change

Al Gore will testify before Congress on reaching a global climate agreement next week.

The former vice president is scheduled to address and take questions from the Senate foreign relations committee on 28 January.

"America must act decisively in order for the nations of the world to reach agreement on a climate change treaty at the December 2009 meeting of the United Nations framework convention on climate change in Copenhagen, Denmark," said Senator John Kerry, chairman of the committee.

"The timeline is short for us to respond to the threat of climate change, and this hearing will examine what America must do to lead the world in crafting a truly global solution."

CCAR changes project enrollment dates

California's offset registry has tightened its guidelines to ensure projects are "additional."

Project developers seeking to enroll projects in the California Climate Action Registry (CCAR) that started operating before 2009 and earn credits retroactively have until November to list them.

CCAR had initially allowed developers to submit projects for registration that date as far back as January 2001, the year the registry began to operate. But the date for submitting projects for retroactive crediting had become "more arbitrary as a cut-off date for additionality," said Max DuBuisson, business development at CCAR.

A carbon offset project needs to demonstrate "additionality" to prove that it is reducing greenhouse gas emissions beyond business as usual or that carbon revenue was necessary to get it off the ground.

DuBuisson said that since 2001, people have become more aware of the carbon market and better aware of whether projects are additional or not.

"There isn't an excuse of 'I didn't know I can do this,'" DuBuisson said.

CCAR offset project standards have been regarded as some of the most rigorous in the voluntary carbon market, and some have been endorsed by California's Air Resources Board (Carb).

The Carb endorsement has signalled to many carbon market players that CCAR protocols may be accepted in California's or the western states' compliance emission trading programme or in a future federal regulated market.

CCAR is aiming to finalise six project protocols (blueprints) by the end of 2009 and another six the following year, DuBuisson said, which will include one for coal mine methane.

"From the date that a new protocol is approved, projects that want to be retroactively (registered to obtain credits) will have one year from the project's start date," he said.

With a November deadline looming for project developers to enroll their pre-2009 carbon offset projects, DuBuisson said he expects to see a rush by developers in registering landfill gas projects this summer.

"A lot of people are sitting on these," he said regarding those projects. "This will spur them to action."

DuBuisson said he hopes the changes will encourage the development of new projects.

RECENT GLOBAL CARBON POLITICS

The **EU** will ask industrialised countries to consider paying for greenhouse gases they emit from 2013, according to a European commission policy paper sdue to be published next Wednesday. Revenue raised would then go into a fund to help developing countries **adapt** to climate change.

Crude steel production last year reached 1.33 billion tonnes, a fall of 1.2 per cent on 2007, according to figures from the **World Steel Association**. The energy-intensive industry was hit heavily by the credit crunch and pending recession, leading to a fall in sector emissions. Production in the EU fell by around 11 million tonnes to 198.6 million tonnes in 2008 compared to the previous year.

Higher ETS costs have driven **RWE** to freeze plans for new coal plants after 2013 in western Europe. Stricter EU rules forcing power companies pay for every EU allowance needed under the bloc's emissions trading scheme from that date in western Europe have forced the German power producer to put long-term plans on hold, an RWE spokeswoman said.

Finland's emissions from power plants fell around 30 per cent last year, compared with 2007, according to Finnish Energy Industries. Power generation emissions from coal, natural gas and peat were 12.4 million tonnes of carbon dioxide in 2008, down 5.3 million tonnes on the previous year.

Barclays Capital warns that the most significant aspect of this year's bearish EUA market is that prices have plunged against a backdrop of **rallying oil prices**. And the bank adds that this will signal a deep weakness in the 2009 emissions market if the trend continues.

Austria will hold two auctions of EUAs in March. The government will sell off 100,000 allowances in a non-competitive auction with a maximum 2,500 allowances allowed per bidder and 200,000 in a competitive auction.

Also in March, the **UK government** will hold its second auction of EUAs. The volume to be sold will be announced at least a month before, according to the UK climate change department.

South Korea has presented an $85.5-billion plan to boost renewable energy by 2030. The plan will take renewables' share of the energy mix to 11 per cent in 2030.

Abu Dhabi and **Nigeria** this week agreed to develop UN-backed CDM projects. The "strategic partnership" aims to cut GHG emissions from the oil and gas industry in Nigeria, where gas flaring accounts for 22 per cent of the world's flaring emissions of carbon dioxide.

GUEST COMMENTARY

Federal green stimulus? Think transit

By Hannah Bentley, www.bentleyesquire.com and Bret Stone, Paladin Law Group

The world watched closely Tuesday as the new Obama administration took office, promising to work quickly with Congress to enact a stimulus package and to reengage in international climate negotiations. Mass transit infrastructure is critical to these goals for three reasons.

First, the new administration, other countries desiring US participation in climate efforts, and the climate trading industry, should support mass transit infrastructure spending as a permanent GHG reduction tool. As US states undertaking their own climate change reduction efforts have already discovered, land development patterns leading to increases in vehicle miles traveled (VMT) can undercut the benefits of vehicle and low carbon fuel content targets: transportation accounts for 30 per cent of GHG emissions nationwide. The influential Center for American Progress recently noted: "We need to focus on reducing the miles we travel in vehicles with smart land use and transportation policy that works to promote greener communities with greater transportation options, including mass transit." Indeed, increases in VMT can eliminate reduction progress from other capped sectors, so industries and entities interested in a cap-and-trade programme must insist on a coherent US transportation policy as well (as Uscap just did).

Second, spending on mass transit can have a significant stimulative effect on the economy as a whole. Studies by the House infrastructure and transportation committee have shown that every dollar spent on mass transit can lead to six dollars or more in economic growth. And they're popular: numerous transit measures were approved by voters in the states this past year. According to the Environmental Defense Fund, every $1 billion in federal investment in transit can lead to 35,000 jobs. The Surface Transportation Policy Project has pointed out that over 75 per cent of new economy companies consider transit accessibility in choosing a new location. Moreover, transit projects in US cities have repeatedly been shown to lead to increased property values in the vicinity of the projects. Highway spending does not lead to the same level of economic return, yet, traditionally, federal spending has favored highways over transit 4 to 1. Cash-strapped local governments need the benefits that federal transit spending can bring them now.

> "Cash-strapped local governments need the benefits that federal transit spending can bring them now.

Finally, of significant import to the incoming administration and those who voted for it, transit projects have a stimulative effect that is equitable. According to the Transportation Equity Network, construction jobs including those on highways are classically not evenly doled out to women or people of color, but jobs related to mass transit are more likely to be. Mass transit projects create more continuing sources of revenue and can increase the tax bases of local governments in urban settings. And once built, those projects are more likely to assist the lowest income members of a community in getting to work. The Center for Transit Oriented Development recently demonstrated that the average American family spends more on transportation than on food, and in an auto-dependent neighborhood they will spend nearly as much as they do on housing. In a transit-rich community, the cost is much lower. Reducing transportation emissions also can mean life or death in disadvantaged communities: in Los Angeles, 80 per cent of the added air cancer risk is from tailpipes.

For all these reasons, transit should play a role in future cap-and-trade policy, either by becoming an available offset for public-private partnerships, or being by being the type of project funded by proceeds from carbon emission allowances, or both. But right now federal spending comes first, while the US House of Representatives and the administration consider new stimulus and transportation bills. Transportation bills are often heavily influenced by the requests from the transportation agencies in individual states, but this is one area where state governors have not yet taken the lead on climate policy. As a spokesperson for Friends of the Earth recently put it: "State transportation departments are clearly still living in the past on environmental policy." While fixing failing bridges is critical, and filling potholes on existing roads is good, starting this year, spending on new highway construction must take a back seat to mass transit.

Point Carbon is happy to consider your proposals for commentaries in Carbon Market North America Please submit ideas to news@pointcarbon.com

Editorial enquiries

Valerie Volcovici
vv@pointcarbon.com
Tel + 1 202 289 6553
Fax +1 202 289 3967

Sales enquiries

Stefanie Rhodes
str@pointcarbon.com
Tel +1 202 289 3930 ext. 251
Mob +1 202 413 5788
Fax +1 202 289 3967

Other enquiries

Point Carbon
contact@pointcarbon.com
P.O. Box 7120 St.Olav
N-0130 Oslo
Norway
Tel +47 22 40 53 40
Fax +47 22 40 53 41

Website

www.pointcarbon.com

Offices

Washington DC
1200 First Street, NE
Suite 310
Washington, DC 20002

washington@pointcarbon.com
Phone: +1 202 289 3930
Fax: +1 202 289 3967

Oslo
Point Carbon
Akersgata 55, 3rd floor
P.O. Box 7120 St.Olav
N-0130 Oslo, NORWAY

contact@pointcarbon.com
Phone: +47 22 40 53 40
Fax: +47 22 40 53 41

London
Point Carbon London
Second Floor
102-108 Clerkenwell Road
London, EC1M 5SA
United Kingdom

london@pointcarbon.com
Phone: +44 (0)20 7253 7878
Fax: +44 (0)20 7253 7856

Boston
Point Carbon LLC
8 Faneuil Hall Marketplace, 3rd Floor
Boston, MA 02109

boston@pointcarbon.com
Phone: +1 617 386 9299
Fax: +1 617 973 6406

Kiev
Point Carbon Kiev
3 Sportyvna Ploscha
Entrance IV, 4th floor
Olymp Business Center
01601 Kiev
Ukraine

kiev@pointcarbon.com
Tel:++38 044 499 0308
Tel/Fax: +38 044 499 0309

Malmö
Point Carbon Malmö
Östra Förstadsgatan 34
212 12 Malmö
Sweden

contact@pointcarbon.com
Phone: +47 22 40 53 40
Fax: +47 22 40 53 41

Tokyo
Point Carbon representative
2-3 Kandanishiki-cho
Chiyoda-ku Tokyo
101-8443 Japan

tokyo@pointcarbon.com
Tel: +81 80 3170 0094
Fax: +81 3 3365 5586