PointCarbon

Demand surges for CRTs

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Demand for CRTs is rising from buyers betting the offsets will be fungible in a US scheme.

Liquidity has recently picked up in the over-the-counter market for US voluntary offsets known as climate reserve tons (CRTs), which are issued by the Climate Action Reserve, brokers said.

CRTs are viewed as the most likely voluntary offsets that will fungible in a federal cap-and-trade scheme, said market observers.

Buyers' confidence CRTs will have value in a federal scheme has been boosted by the Waxman-Markey climate bill, which would allow offsets that have been issued by a qualified regulatory or voluntary programme established by either a state, tribal law or regulation.

Only credits from the Climate Action Reserve and the US's first mandatory cap-and-trade system for the electricity sector, the Regional Greenhouse Gas Initiative (RGGI), would qualify under the bill's current language.

Much of the demand for CRTs is coming from companies that would have to comply with carbon caps under a federal scheme as well as financial speculators.

"We are beginning to see some demand from the larger emitters, with further participation from financial institutions," said Adam Raphaely, a broker for TFS.

Over the past two weeks approximately 250,000 vintage 2008 CRTs have traded in the over-the-counter market, said a broker.

CCFE

Liquidity for CRTs is less robust on the Chicago Climate Futures Exchange (CCFE), however, which started to list the offsets in February.

Only 20 futures contacts, representing 20,000 CRTs, have traded on the CCFE since the beginning on June.

One broker explained many participants prefer to buy CRTs in the over-the-counter market because transaction terms are more flexible than for exchange-traded contracts.

Raphaely said a larger spread between the vintage 2008 and 2009 contracts has developed because the 2008 contract is not viewed as valid for compliance under a mandatory scheme.

In the Waxman-Markey bill, credits would only be issued for emission reductions occurring after 1 January 2009 until three years after the enactment of a federal scheme.

Vintage 2009 CRTs forward contracts are trading in the $5.75-$8 range in the over-the-counter market, while vintage 2008 contracts are trading in the $5-$6 area, said a broker.

VCS

While liquidity for CRTs is starting to pick up, liquidity in voluntary carbon units, credits issued by the

Voluntary Carbon Standard (VCS), is less robust because fewer pre-compliance buyers are now buying that product, say market participants.
Raphaely said more voluntary buyers are gravitating to the VCS offset market where credits are generally trading at a discount to CRTs, while pre-compliance buyers are mostly interested in CRTs.

Vintage 2008 VCUs are changing hands in the $4-5 range, according to one broker.

“CRTs are seen as the frontrunner for compliance. Voluntary buyers are turning their attention to procuring VCUs as a cost effective alternative,” said Raphaely.

“Liquidity is much stronger for CRTs, primarily because the pre-compliance market is much more liquid than the voluntary,” said another broker.

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