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FINANCE: Voluntary carbon market 'back to square one' post-recession *(09/28/2009)*

Nathanial Gronewold, E&E reporter

NEW YORK -- The great recession of 2008 and 2009 has crushed the voluntary carbon offsets market, but signs of recovery are emerging among the top purchasers of greenhouse gas offsets, a new independent assessment has found.

Prices for voluntary offset credits remain weak even though prices and trading in other asset classes -- namely, commodities and equities -- have recovered to respectable levels following the sharp crash of late 2008.

Even the values of exchange-traded, compliance carbon products like E.U. allowances (EUAs) and Certified Emission Reductions (CERs) have recovered. But voluntary carbon credits traded over-the-counter could end 2009 off as much as 76 percent from their previous value, according to a report by market intelligence firm New Energy Finance (NEF).

"It's pretty, pretty grim," said Milo Sjardin, head of North American carbon services at NEF. "If we look at the pure voluntary market ... in which the companies and individuals offset their emissions, that has significantly declined in terms of activity."

The voluntary carbon market is "back to square one," the firm declared in a note sent out last week. The weak economy and corporate fears over future business conditions have led companies to cut back sharply on discretionary spending, and among the first items to go, it appears, were the offset credits companies purchase to bolster their eco-friendly credentials or go "carbon neutral."

NEF estimates that the total value of the voluntary carbon market -- trading in all non-compliance credits and excluding EUAs, CERs and allowances generated by the Regional Greenhouse Gas Initiative (RGGI) in the northeastern United States -- will dip to somewhere between 62 percent and 76 percent below 2008 levels by the end of the year. That would put the value at $170 million to $260 million globally, split roughly 50-50 between the European Union and the United States.

By comparison, NEF and Ecosystem Marketplace estimate the value of the world's over-the-counter voluntary offsets market, excluding the Chicago Climate Exchange, at just under $400 million. If the prediction bears out, it would mean the global recession pushed the total market value to below 2007 levels.

Prices for offsets generated by a variety of registry schemes, including the American Carbon Registry, the Voluntary Carbon Standard, the Social Carbon Standard and the Gold Standard, are all lower. VCS credits are fetching between $1 and $2 per ton, according to NEF data. Gold Standard Verified Emission Reductions (VERs) and Social Carbon credits are trading in the same price range, about $6 per ton, but Gold Standard credits were netting about $14 per ton in trades at the same time last year.

Analysts expecting a rebound

But not all is doom and gloom in the offsets market. Valuations seem to be stabilizing, and some registries are noticing an increase in offset project development. And demand is shifting to those voluntary credits deemed "precompliance" in the United States, or credits that seem destined to be folded into a federal cap-and-trade system.

This is especially true for credits generated under the Climate Action Registry (CAR), a standard backed by the government of California. CAR is already mentioned in the federal cap-and-trade bill working its way through Congress as a system to be grandfathered into a national program. Analysts and carbon exchanges report that CAR credits have come to dominate the offsets market as a result.

"I don't think I've woke up this morning thinking the voluntary market has just plummeted in value and nothing's happening," said Kenneth Ivanic, vice president for environmental markets at World Energy Solutions, which hosts many carbon trades. "What I've seen is that people are looking for more high-quality projects."

New Energy Finance reports that trading volume for CAR is way up, by about 191 percent. Prices for CAR credits are also about 15 percent higher than NEF's Voluntary Carbon Index price. World Energy Solutions officials also report fairly solid CAR trading activity.

And although the market will likely stay flat for the rest of 2009, carbon watchers are anticipating a rebound in offset project development, voluntary carbon credit trading and prices in 2010, especially if Congress passes much-anticipated climate legislation.

Wall Street seemed to confirm that sentiment last week when it was announced that JPMorgan Chase won a bidding war to acquire carbon credit brokerage EcoSecurities for $204 million.

"There seems to be a good supply of projects; we just don't have good information about whether those projects are finding investors or not," said Steve Panfil at the Climate, Community and Biodiversity Alliance, which maintains its own CCB Standards for climate protection. "There continues to be significant effort to develop new projects. We've seen an increased number of projects being submitted for validation during this past year."

Market dipped after U.N. summit failed to meet expectations

Meanwhile, most exchange-traded carbon allowances and credits continued to trade flat, but managed to stay above €12 per tonne.

The carbon markets fell shortly after a U.N. summit on climate change failed to deliver the big announcements many had expected, but later, prices worked their way back up. Spot prices for EUAs on Europe's BlueNext exchange closed last week just above €3 per tonne. Spot trading in CERs ended at €12.12 per tonne.

In the United States, RGGI prices continue to suffer from weaker energy demand and an oversupply of allowances. RGGI credits are now priced in the mid-$2 range in secondary trading, according to the market intelligence firm Point Carbon.