

Domestic policy

Offset confidence builds in US cap-and-trade market

Published: 17 Jul 2009 09:25 PM CET Last updated: 17 Jul 2009 09:30 PM CET

Senate divisions over the Waxman-Markey bill have yet to dampen liquidity in voluntary offsets.

Brokers reported continued confidence in climate reserve tonnes (CRTs), which are issued by the Climate Action Reserve, and are considered to be fungible in a federal cap-and-trade scheme.

"There has been a healthy uptake in (CRT) volumes and deals by actual emitters," said Lenny Hochschild, director of carbon markets for the Americas at Evolution Markets.

"While the ink is not dry, (clients feel) something is going to happen. It is a question of when."

Volumes have improved from a low base, Hochschild concedes, but deals are regularly being done for 100,000 tonnes or more, compared to typically just 10,000 when the market first started.

Other brokers were less bullish, but reported sustained or improving liquidity in America's nascent carbon market.

Prices

Prices for CRTs from landfill gas projects, the most common offset type, were quoted bid at \$6.50 and offered at \$7.75 today for delivery from 2009 onwards, compared to \$5 in the first quarter of the year.

However, prices vary considerably by project. One broker quoted a bid and offer spread of \$7.25 at \$8 for CRTs for 2009 to 2012 delivery today, with the seller having the choice of what type of project-generated credit can be delivered.

Credits from agricultural methane and forestry projects are both trading at a premium to landfill gas projects, the former because of a lack of actual projects, and the latter because currently only California allows them for compliance with state emission caps.

Meanwhile, 2008 CRTs continue to trade between \$5 and \$6 because they would have little value in emissions trading system created by the Waxman-Markey bill.

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

OTC

Trade continues to flow over-the-counter through brokers, although there is capacity for CRTs to trade on the Chicago Climate Futures Exchange (CCFE), which started to list the offsets in February.

Meanwhile, there is less liquidity in voluntary carbon units, which are issued by the Voluntary Carbon Standard (VCS), which are less likely to be fungible in a federal scheme, according to the Waxman-Markey bill.

Broker Adam Raphaely at TFS Energy said more voluntary, rather than pre-compliance buyers are gravitating to the VCS offset market where credits are generally trading at a discount of around \$1.50 to \$2.50 below CRTs.

By Paddy Gourlay - pg@pointcarbon.com

Washington DC