

POINT CARBON



No demand for int'l offsets in California until 2015: expert

Published: 28 Sep 2011 09:47 PM PST

Demand for international offsets in California's cap-and-trade system is unlikely to emerge until the latter half of the decade since state regulators are likely to focus on credits from local projects at the start of the program, an expert said Wednesday.

Derik Broekhoff, vice president for policy at the Climate Action Reserve (CAR), a U.S.-based offset program, told a carbon market conference in Costa Rica that the state's budget crisis and regulators' short timeline to finalize market rules by 2013 are likely to put demand for international credits on the backburner.

No international offsets are likely to be accepted for compliance until after 2015, when the trading system will expand from covering the power and industrial sectors to the oil and gas sectors, he said.

Project developers, especially in Latin America, had been eyeing the [potential demand for credits](#) from California since rule changes in the EU carbon market means new projects in the region will not be able to supply offsets to Europe after 2012.

"I think in developing the regulations, regulators have contemplated the (inclusion of) international offsets, and left a placeholder (in market rules) for sector-based crediting," Broekhoff said.

"But the adoption of these new crediting mechanisms is several years off."

For one, the Air Resources Board (ARB), the state's regulator, has its hands full to develop the infrastructure of the carbon market and develop the market's offset regulations in time for the 2013 start, he said.

BUDGET CRISIS

In addition, California's dire budget crisis and the weak state of the economy have weakened the appetite of regulators to source carbon offsets from overseas and divert carbon finance away from the state.

Demand for offsets in California's emissions trading scheme is likely to exceed 200 million tonnes by 2020, as emitters will be allowed to use credits to meet up to 8 percent of their compliance obligations.

Broekhoff estimated demand for offsets from activities targeting sector-wide emission cuts in foreign countries would be around 70 million.

The ARB has said that credits from projects to reduce emissions from deforestation and degradation (REDD) would count as "sector-based" offsets.

California may accept REDD credits from sub-national deforestation projects, provided it enters into a memorandum of understanding with the host government.

So far, the state has been in talks with the state of Chiapas, Mexico and Acre, Brazil although Broekhoff said those talks "are yet to bear fruit."

Demand for international credits may eventually emerge from the Western Climate Initiative (WCI), a regional cap-and-trade scheme in which California, western states and Canadian provinces could participate.

The WCI market could potentially allow carbon credits from abroad – but especially from Mexico, where several states have signed up as observers to the program.

By Valerie Volcovici – valerie.volcovici@thomsonreuters.com
San Jose