Carbon Market North America

Point Carbon

NEWS

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Global officials call on US to pass cap and trade

Global climate leaders descended upon Washington this week with strong calls for the US to pass cap-and-trade legislation to send a clear signal that the US is committed to curbing its greenhouse gas emissions.

"The development of a national cap-and-trade system is an important signal to the rest of the world of an ambitious commitment to tackling climate change," Danish Environment Minister Connie Hedegaard said at a Washington DC think tank.

"It opens the possibility of a global carbon market and putting a global price on carbon," she added.

Hedegaard joined EU, UN and Canadian officials, including UK Secretary of State for Climate Ed Miliband and UNFCCC Chairman Yvo de Boer, in Washington this week to meet with Congressional representatives, governors and administration officials on climate issues.

They urged the US to pass a domestic cap-and-trade bill in time for the decisive Copenhagen climate change summit, where countries will negotiate a successor agreement to the Kyoto protocol this December.

"You can't go to the Cop (Conference of Parties) and mumble," de Boer said, referring to the upcoming Copenhagen meeting. "There has to be a clear answer. There has to be a clear way forward. There has to be a clear commitment to emission reduction targets."

De Boer acknowledged that the new US administration has learned from mistakes it made during the Clinton administration, when the former president agreed to the Kyoto protocol knowing there "wouldn't be a hope in hell" of it being ratified in the Senate.

"The main lesson for me is there be a solid connect between the administration and the Senate," he said, explaining the importance of moving domestic cap-and-trade legislation along far enough before the US delegation goes to Denmark.

Carlos Pascual, the director of foreign policy at the Brookings Institute and a former US ambassador, warned that despite the enthusiasm behind the active American re-engagement in the international negotiations, the US may not have an easy time delivering what the world expects.

"Let's be realistic about where it stands and if it's not there (a cap-and-trade bill) – what's our fallback?" Pascual said.

Pascual noted that Washington lawmakers haven't even started getting into the debate about the nuts and bolts of a cap-and-trade system and only have nine months to go before Copenhagen.

Possibly complicating negotiations in Copenhagen will be a disagreement between the US and EU over where to set mid-term emission reduction targets.

The new US climate change envoy, Todd Stern, said this week that the US will not reduce its GHG emissions 25-40 per cent below 1990 levels by 2020, a target endorsed by the EU.

Addressing a climate change conference convened by a bipartisan group of senators Tuesday, Stern said it is not "independently necessary" to agree to the EU-endorsed mid-term targets.

"I don't think its necessary, and I do know it's not possible," Stern told an audience of lawmakers, think tanks and reporters on Capitol Hill.

EU ministers agreed this month to push for these mid-term goals in Copenhagen. But Stern estimated the target would require the US to reduce its greenhouse gas emissions between 40 and 60 per cent below current levels, a goal that not even the most ardent backer of cap-and-trade on Capitol Hill could support, he noted.

"I don't want to bring home a dead-on-arrival agreement," Stern said, acknowledging his doubts that the US Congress would be able to ratify a global climate treaty that would make those targets legally binding.

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RGGI exchange snapshot ($)

Exchange	Contract	Settle	Change
CCFE	Dec 09	3.84	0.24
CCFE	Dec 10	4.00	0.27
Nymex	Dec 09	3.95	--

Point Carbon RGGI OTC assessment ($)

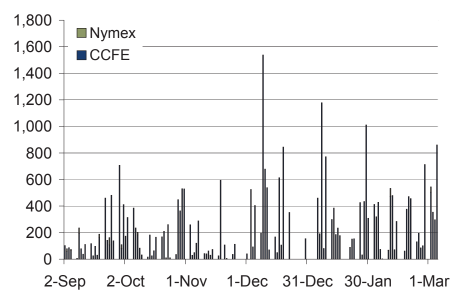
Contract	Best bid	Best offer	Close	Change
Dec 09	3.84	3.88	3.85	0.25

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.

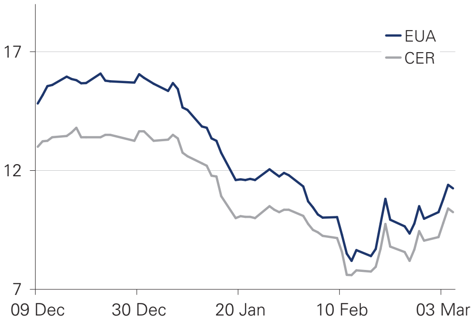
For methodology, see www.pointcarbon.com/news/methodology

Exchange volumes ('000) all RGGI contracts



Source: CCFE and Nymex

2008 European and CER prices (€)



Market comment

RGGI jumped 7 per cent on fresh speculation its allowances will be permitted in a federal scheme.

The December 2009 contract closed at $3.84 on the Chicago Climate Futures Exchange (CCFE), up from a $3.60 close a week ago.

The December 2009 contract's brokered bid and offer were $3.84 and $3.88, respectively.

The less liquid December 2010 contract was quoted $4 - $4.10 by one broker and $3.90 - $4 by another.

RGGI participants were growing more confident allowances will be grandfathered into a federal cap-and-trade scheme following the release of the federal budget last Thursday.

In the budget, the administration projects carbon allowances could generate $645.7 billion by 2020.

The outline showed that an economy-wide cap-and-trade system that aims to cut greenhouse gas emissions 14 per cent below 2005 levels by 2020, and 83 percent below 2005 levels by 2050, will be the driver for funding a new "comprehensive approach" to transforming US energy supply.

Although the budget did not mention RGGI allowances being fungible in a federal programme, participants saw it as a bullish signal the emissions permits would be grandfathered in.

"There is good certainty RGGI allowances will have value in a federal programme," said a broker.

The jump in RGGI prices was mirrored in other US carbon markets. Carbon financial instruments (CFI) listed on the CCFE rallied 9-11 per cent on speculation they too would have value in a federal programme.

The CFI December 2010 contract settled at $2.40, almost 12 per cent higher on its close last week on the CCFE.

The rally in the European Union emissions trading system may have also indirectly buoyed RGGI allowances, commented one broker.

The EU allowance contract for December delivery was down slightly Thursday at €11.25 ($14.11) in the cleared brokered market after rallying the first half of the week.

"We are seeing some correlation [in RGGI and EUA prices]," said the broker.

He added the federal budget had likely caused some of the rally in European contracts.

Brokers predicted RGGI prices may soon start to decline as the third auction of allowances nears. The programme's member states will sell 31.5 million allowances for the 2009 allocation year on 18 March.

Science advisory group should oversee offsets: lawmaker

A science advisory group should oversee a US offset programme, a key lawmaker said.

Congressman Ed Markey, the chair of the House energy and environment subcommittee, has called for the creation of an independent body to ensure that an offsets programme in a mandatory cap-and-trade scheme is subject to "conservative, science-based standards."

The committee would help guide the US Environmental Protection Agency (EPA) as it begins to put together an offset system.

"We should be every bit as concerned with offset quality as we are with enforcement of pollution controls," Markey said in his opening remarks at a House hearing on the potential role of offsets in climate legislation 5 March.

Markey said the inclusion of offsets in a future US cap-and-trade bill would serve as an alternative to price floors and ceilings as a way to "meaningfully reduce compliance costs."

Most legislative climate proposals introduced in Congress over the past few years have included provisions creating an offsets programme within a cap-and-trade programme.

And the US Climate Action Partnership, a coalition of some of the largest US companies lobbying Congress for a mandatory cap-and-trade programme, voiced its strong support for carbon offsets for its compliance cost benefits.

The coalition said that Congress should create a Carbon Market Board to set an overall annual upper limit for offsets starting at 2 billion tonnes with authority to increase offset use up to 3 billion tonnes – half domestic offsets and half international.

At the hearing, Congressman Rick Boucher said that offsets should be used in the early years of a domestic cap-and-trade programme to prevent price spikes in natural gas.

Boucher warned that until technology like carbon capture and sequestration (CCS) becomes commercialised, there will be significant fuel switching from coal and oil to natural gas, making the use of offsets necessary to defray compliance costs.

Witnesses at the hearing also said the creation of a robust offset programme in the US would give incentives to poor countries, who would serve as the host countries for emission reduction projects, to take their own efforts to slash their carbon output.

"International offset programmes like the CDM (clean development mechanism) can provide incentives for developing countries – some who may not have signed up to Kyoto (protocol) without it," said John Stephenson, director of natural resources and environment at the Government Accountability Office (GAO), which audits and investigates activities of the US Congress.

The GAO wrote in a report in December that said the use of CDM carbon credits in a future US emissions trading scheme "may be at best a temporary solution."

While it says the CDM has allowed industrialised countries to meet their emission reduction targets in a cost effective way, the GAO warned that some projects that went through the programme's "rigorous screening process" were not additional.

Developing world serious about climate change: experts

Poor countries are doing more to address climate change than many realise, experts told Congress.

Testifying before the House Select Committee on Energy Independence and Global Warming, Center for Clean Air Policy President Ned Helme said that he is encouraged by the steps that poorer countries are taking to cut emissions.

He said that China, Brazil and Mexico have already put in place national laws that collectively would reduce the projected growth in emissions by more tonnes in 2010 than the reductions the US's Lieberman-Warner bill was projected to achieve by 2015.

If fully implemented, the developing countries' measures would also reduce emissions by almost as many tonnes as the European Union's 30 per cent reduction pledge for 2020, he said.

Some notable policies that developing countries have implemented include:

• China's pledge to generate 10 per cent of its primary energy from renewable sources by 2010, and 15 per cent by 2020.

• Brazil's commitment to reduce deforestation by 70 per cent compared to 2006 levels.

• Mexico's pledge to halve its emissions by 2050.

The steps developing countries take domestically are important in encouraging the US to implement its own carbon emissions caps ahead of the international climate negotiations in Copenhagen in December, said Edward Markey, chairman of the committee.

"We are not in this fight alone, and the progress that our country can make is deeply dependent on the progress that developing countries are making," he said.

The Copenhagen agreement is supposed to replace the Kyoto protocol, which did not require explicit emission reductions by developing countries.

The protocol was never ratified by the US Congress, in part because it did not set firm caps on poor countries.

Carter Roberts, CEO of the World Wildlife Fund, said that emerging economies have given up on looking towards the US, the world's largest per capita emitter, to take action first to address climate change.

"They understand it is in their economies' and national interest to stop waiting and move ahead," he said.

But not everyone is convinced.

Lee Lane, a resident fellow at the American Enterprise Institute, said it was good to see China and other countries stating such ambitious policies, but said that it is "far from certain" that they will ever be fully implemented.

He said that US efforts to lead by example could be "self-defeating," leading to a large transfer of wealth from the US to the developing world, and harming the global trading system.

US President Barack Obama has called on Congress to send a cap-and-trade bill to his desk by the end of the year.

US GHG emissions rise 17% from 1990

US GHG emissions rose 17.1 per cent from 1990 to total 7.13 billion tonnes of CO_2e in 2007.

According to the draft of the Environmental Protection Agency's (EPA) annual Inventory of US Greenhouse Gas Emissions and Sinks, which it is required to submit to the UNFCCC, emissions rose 1.4 per cent in 2007 from the previous year.

From 1990 to 2007, total emissions of carbon dioxide in the US -- mainly from fossil fuel combustion -- rose by 1.02 billion tonnes, representing a 20.2 per cent rise.

In his budget released last week, US President Barack Obama called for a cut in US greenhouse gas emissions 14 per cent below 2005 levels by 2020, and 83 per cent below 2005 levels by 2050.

In 2005, US greenhouse gas emissions were 7.095 billion tonnes, roughly 0.4 per cent below 2007 levels.

The EU supports a goal for industrialised countries to cut their greenhouse gas emissions 25-40 per cent below 1990 levels by 2020.

But the US climate change treaty negotiator, Todd Stern, said on 4 March that the US will not be able to achieve those mid-term cuts, which would be equivalent to slashing emissions between 40 to 60 per cent below current levels.

The draft emissions inventory is now in a public comment phase, which will last for 30 days.

The EPA is developing a mandatory registry for greenhouse gas emissions to replace these yearly emissions estimates.

Obama's FY2010 budget allocates $19 million for the creation of a national greenhouse gas emission inventory.

Major US utility CEO lambasts CO2 auction plan

The CEO of a major US utility has criticised President Barack Obama's plan to auction allowances in a cap-and-trade system.

Jim Rogers, chief executive of Duke Energy, said during a climate change conference convened by a bipartisan group of US senators on 3 March that cap-and-trade legislation, which envisions 100 per cent auctioning of emissions allowances, would unfairly punish coal-reliant states in the Midwest.

"A 100 per cent auction approach is not cap and trade; it is cap and tax," Rogers said. "The tax would disproportionately fall on states that are heavily dependent on coal."

Obama has called for 100 per cent auctioning of allowances as part of a federal cap-and-trade scheme. The federal budget, released last week, estimates the 100 per cent auctioning of carbon allowances could generate $645.7 billion between 2012 and 2020.

The budget envisions channeling $150 billion of the revenues to clean energy investments with the rest given back to taxpayers.

Duke Energy is a member of the US Climate Action Partnership (Uscap), a coalition of business and environmental groups, which supports the free allocation of allowances to emitters

States still committed to WCI

Utah's governor is committed to a regional carbon trading programme despite new opposition.

The state's house of representatives recently passed a non-binding resolution opposing Utah's participation in the Western Climate Initiative (WCI), a regional cap-and-trade programme.

But Dianne Nielson, energy advisor to Governor Jon Huntsman, said Utah would continue with the programme.

"We are not pulling out of the WCI," she told Point Carbon.

Nielson said it's not entirely clear what authority the governor needs from the state legislature before Utah can participate in the WCI's first allowance auction, scheduled for mid-2011.

To examine that and other energy-related questions, Nielson said the governor will assemble a taskforce once the legislative session ends on 12 March.

Meanwhile, Arizona's governor also intends to keep the state in a regional carbon trading system, an advisor said.

Arizona's participation in the Western Climate Initiative (WCI) has been called into question since Republican Jan Brewer became governor in January, replacing Democrat and strong WCI supporter Janet Napolitano.

But Mike Anable, the natural resource policy advisor to the governor, told Point Carbon that Brewer is preparing to issue an executive order stating her commitment to the programme. It will be released in about a week, he said.

"It's the intention of this office to participate," Anable said.

The WCI is a multi-sector cap-and-trade programme, consisting of seven US states and four Canadian provinces, which seek to collectively reduce greenhouse gas emissions from the region 15 per cent below 2005 levels by 2020.

Anable said the language of the order is still be worked out, and is trying to take into account the concerns of some lawmakers, primarily Republicans, who think participation could hurt Arizona residents and businesses.

He said the order will convey why the governor believes that participation in the programme is in the state's best interest.

Anable's comments came on the same day that an Arizona house committee voted 3-2 to pass a bill that would ban the state from participation in the WCI.

The bill will now be discussed in each party's caucus.

Both chambers of the Arizona legislature are controlled by Republicans.

Anabel described the situation of calming the concerns of lawmakers while maintaining the state's participation in the programme a "political tap dance."

He added that the governor's attention was currently being dominated by the state budget.

Maryland senate okays GHG bill

A bill to reduce Maryland's GHG emissions 25 per cent by 2020 passed the state senate 2 March.

The bill, which passed by a vote of 39-6, would direct the Maryland Department of Environment to craft a plan by 2012 to achieve the target.

The target would be based on 2006 emissions levels.

In 2005, Maryland emitted 109 million tonnes of CO2e, according to the Maryland Commission on Climate Change.

A similar bill failed to pass the state legislature last year. In order to bolster support, the current version of the bill exempts Maryland's manufacturing sector from having to reduce its emissions.

RECENT GLOBAL CARBON NEWS

The European Commission predicted big cuts to carbon emissions can be made if EU member states manage land better. Stavros Dimas, Europe's environment commissioner and senior official in charge of climate policy, wants protection of peat bogs in Sweden, Finland, the UK and Ireland, which account for around half the 73-79 billion tonnes of CO2 trapped in Europe's soils.

A **Finnish** carbon credit purchase scheme will soon conclude with just over 4 million credits. The Finnish Carbon Procurement Programme portfolio has 3.3 million UN-backed carbon credits from so-called emission reduction purchase agreements. The government is expected to buy 700,000 more carbon credits generated from a renewable energy project in South Africa.

New Zealand could lose jobs to Australia unless plans for emissions trading are harmonised, said the country's Climate Change Minister Nick Smith. He urged a committee of MPs to scrap the country's plans for a tighter allocation of allowances than Australia.

Australia will spend A$32 million to research soil storage of carbon and nitrous oxide. The money, equalling US$20.6 million, will fund projects that aim to improve Australia's storage of GHG emissions in soil.

Japan has welcomed the US government's use of 2005 as a base year for emissions cuts. President Obama's use of the 2005 base year "should be welcomed enormously," said Harufumi Mochizuki, a senior official at Japan's Ministry of Economy, Trade and Industry. Japan wants 2005 to be used rather than 1990, arguing that the earlier baseline would penalise the Asian nation's efforts to cut energy use from the 1970s onwards.

South Africa must ready itself for mandatory reporting of emissions, the government warned. Marthinus van Schalkwyk, South Africa's environment minister, yesterday reiterated this week the country's plan to adopt a climate-change policy within three years so that growth of emissions will be halted at the latest by 2020-2025

The World Bank approved a $1.3 billion loan to help **Brazil** implement its climate change agenda. The money will be used to help the nation implement policies that allow it to grow economically without losses to its rich biodiversity.

GUEST COMMENTARY

Agricultural carbon sequestration: an opportunity for rural America

By Robert Coulter, Emissions Credits International Corporation

A well managed piece of land that uses environmental best practices enhances the soil's ability to absorb more carbon dioxide from the air. That is what can be measured scientifically and quantified. Some jurisdictions are using an adjusted baseline calculation to assess the volume of carbon credits created on their agricultural land.

Is this additional to that which would have occurred anyway? Science tells us that removing CO2 from the atmosphere is only one benefit of enhanced carbon storage in soils. Improved soil and water quality, decreased nutrient loss, reduced soil erosion, increased water conservation and greater crop production may result from increasing the amount of carbon stored in agricultural soils. A number of benefits occur that help the farmer increase his crop yield and also help the environment by significantly reducing the amount of carbon dioxide in our atmosphere.

This process is called carbon sequestration. The term "soil sink" is used to mean agricultural soil that has implemented a change in practice to absorb more carbon dioxide from the air than would have occurred without that change.

Science has determined that carbon dioxide is generally absorbed by the land from the air. CO2 in the atmosphere is absorbed by plants, which transform it into carbohydrates, cellulose and other sugars. Each plant uses some of the carbon compounds to meet its energy needs and converts them back into CO2.

Some of the carbon remaining in the plant is then removed from the system when the plant is harvested; the rest ends up in the ground and is transformed into CO2 again by microbes in the soil. This cycle is identical in all crop systems, but the quantities of CO2 involved vary depending on climate, soil and type of plant.

It is important to remember that just because it is complex does not mean it is not real, measurable or verifiable

North America with its great plains could use the vast carbon sequestration capacity of its agricultural soil to reduce greenhouse gas emissions. The long-term carbon retention capacity of soil depends on sound land management. Soil sinks cannot be created unless practices are adopted that increase the carbon content of the soil.

At this time, estimates of soil sequestration capacity vary depending on region, soil type or best practices, but it presents at least another decade of opportunity for the North American farmer to help our environment.

Of all the market incentives being discussed, carbon credit trading is the one that seems to be best able to encourage farmers to adopt practices that promote carbon sequestration and thus the creation of carbon sinks.

Agricultural carbon sequestration activities should be -- and in some cases are -- being incorporated into emission trading systems that create a carbon credit for each additional equivalent unit of CO2 in the soil. Credit trading would give farmers much needed added revenue source for adopting methods that promote soil carbon retention.

This system is enjoying success in Alberta, Canada where farmers have generated and sold more than one million tonnes of verified sequestered carbon in the past eighteen months, using their best land management practices and have received significant revenue to support their farm operations and the rural economy.

There is much discussion about how to regulate greenhouse gasses in North America while renewing and rebuilding the economy. As a free marketer, I do not believe in any additional taxes, especially a carbon tax because of the devastating effect it would have on consumers.

We need a market mechanism that puts a buyer under a corporate or compliance obligation and an agricultural seller in a position whereby the changes he has made to his farm operation to sequester carbon can be measured and verified by an independent third party. This helps the farmer, helps the rural economy and helps our environment.

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 (Editor)
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