Carbon Market North America

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NEWS

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US negotiators see path forward as Copenhagen dust settles

The two top US climate negotiators gave their first public post-mortems this week on last month's UN summit in Copenhagen, and offered views on the way forward to finalising a legally binding climate treaty in 2010.

Todd Stern, the State Department special envoy on climate change, said at an investors' conference at the UN in New York this week that the failure of the conference of parties to the UN framework convention on climate change to formally adopt the Copenhagen Accord has increased the urgency for countries to to step up and support the agreement.

The parties "took note" of the six-page accord in lieu of adopting it because a half-dozen countries rejected it. The UN requires unanimous support in order to formally adopt a document.

Stern said it is critical that nations submit their greenhouse gas reduction targets for publication in the accord, along with a list of their domestic mitigation actions by the accord's 31 January deadline.

"It's incredibly important that those things happen," he said. "What we have right now is an accord that is lumbering down the runway, and we need it to get enough speed that it will take off."

He also encouraged countries to develop a global climate financing fund for mitigation and adaptation by 2020, and advance a mechanism to transfer clean energy technology to poor countries.

Stern's deputy, Jonathan Pershing, delivered a similar message in Washington DC this week, and said the announcements of targets and pledges by the 31 January deadline would be the first post-Copenhagen marker "of where things are going".

Pershing noted that a strong sign that a legally binding global treaty can be reached would be if China enshrines the carbon intensity target it pledged before the summit in the accord.

The world's biggest emitter said it would set a non-binding goal to cut the amount of CO_2 it emits per unit of GDP by 40-45 per cent by 2020 below 2005 levels.

"If they inscribe what they said…we are on the way to success," Pershing said.

Chinese ministers are set to meet with counterparts from Brazil, India and South Africa on 24/25 January to discuss their pledges. Leaders of these states, which have been dubbed the "Basic" bloc, brokered the main parameters of the accord with US President Barack Obama in 11th hour negotiations.

Although the accord was met with sharp criticism by some countries and only lukewarm approval by its supporters, Pershing said the 12-paragraph agreement created a framework that countries can refine "in the next year or years to come".

"The alternative is not some perfect deal," he said.

The negotiator said he faced criticism after the summit by some small island states – those most vulnerable to climate change – for rushing to produce a weak agreement rather than waiting to draft a more ambitious binding treaty.

But he argued if they had waited to draft a more thorough agreement, the world's poorest countries would not have been able to unlock some of the immediate resources enshrined in the accord.

Pershing described the Copenhagen summit as "chaotic" from a logistical and political perspective, and said that toward the end of two weeks of negotiations, "we had virtually no agreement".

He said the turning point was the arrival of Secretary of State Hillary Clinton on the second to last day, and her announcement that the US would contribute to a $100 billion-per-year global adaptation fund.

Pershing also revealed that his team had prepared to concede defeat to Obama hours before his arrival on the last day of the summit.

"I was working with my delegation to draft what we could tell the president he might say when things fell apart and to give that to him when he arrived on Friday morning," Pershing said.

He credited the president for brokering the last-minute deal with the Basic countries – a move he said ensured the summit did not end without any agreement.

"He created an outcome that didn't exist until he came in," Pershing said.

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RGGI exchange snapshot ($)

Exchange	Contract	Settle	Change
CCFE	Dec 10 (v09)	2.32	0.04
CCFE	Dec 10 (v10)	2.27	0.06
Nymex	Dec 10	2.32	0.06

Point Carbon RGGI OTC assessment ($)

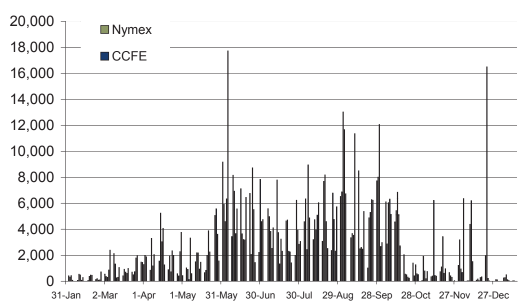
Contract	Best bid	Best offer	Close	Change
Dec 10 (v09)	2.26	2.30	2.28	0.03

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.

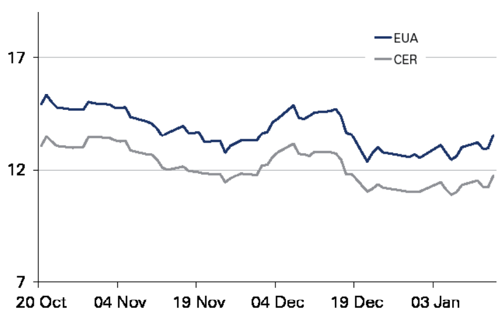
For methodology, see www.pointcarbon.com/news/methodology

Exchange volumes ('000) all RGGI contracts



Source: CCFE and Nymex

2009 European and CER prices (€)



Market comment

The RGGI benchmark contract rebounded this week, rising almost 2 per cent amid thin trade. The December 2010 (v09) contract closed at $2.32 on the Chicago Climate Futures Exchange (CCFE), up 1.75 per cent on its week-ago close.

The contract's brokered bid and offer were $2.31 and $2.33, respectively.

The benchmark contract more than made up its gains from the first week of the year, when it dropped nearly 1 per cent.

The less active December 2010 (v10) contract, meanwhile, settled at $2.27. That contact's over-the-counter bid and offer were $2.26 and $2.28, respectively.

The December 2010 (v09) contract is more popular with buyers because it is believed vintage 2009 allowances will have more value than vintage 2010 allowances in a federal cap-and-trade scheme, market players contend.

Traders attributed this week's rise in prices to a shortage of sellers in the market.

"There were more buyers than sellers this week," one trader said, adding that the buyers were largely compliance entities, not speculators.

The December 2010 (v09) over-the-counter contract settled at $2.28, traders said, up 3 cents from the week-ago price.

One trader said he expects RGGI prices to stay flat from now until just before the next auction, scheduled for 10 March, when the 10 member states will sell 40.6 million allowances.

"My gut is prices will level out and then drop the week before the auction," he said.

The auction price will be relatively strong if utilities come in buying during the first auction of 2010, which could happen given their tendency to "frontload" activity, he said. But if utilities decide to sit the auction out, prices will be weaker.

RGGI officials this week announced their auction schedule for 2010. In addition to the March date, the states will hold auctions on 9 June, 8 September, and 2 December this year.

They will sell 40.5 million 2010 allowances at each auction, as well as 2.1 million allowances of the 2013 vintage – the last year of RGGI's first compliance period.

Several traders and brokers expressed frustration with the relative lack of activity in the RGGI market.

Asked where the market would go next, one trader said she would welcome any kind of movement. Another broker said his company had decided that their efforts were better spent in renewable energy certificates (RECs) and carbon outside of RGGI.

"That's largely due to the uncertainty surrounding federal legislation," he said.

Democrats defend endangerment finding

All 12 Democrats on the Senate environment committee sent letters to colleagues this week asking them to oppose a proposal to overturn a determination by the Environmental Protection Agency (EPA) that greenhouse gas emissions endanger public health.

On 20 January, the Senate is expected to hold a roll call vote on a "motion of disapproval" resolution introduced by Senator Lisa Murkowski, the Senate energy committee's top Republican, which would deny the EPA the ability to regulate the heat-trapping gases.

The endangerment finding, announced last month just as UN climate talks kicked off in Copenhagen, gives EPA authority to directly regulate CO2 emissions from mobile and stationary sources.

The agency made the announcement two years after the Supreme Court ruled that the EPA does have the authority to regulate carbon dioxide emissions but only after determining whether carbon dioxide presents a threat to the public.

Murkowski said on the Senate floor last month the resolution will address concerns that EPA regulations on greenhouse gases would "only endanger our economy".

But Democrats on the environment committee, the lead Senate committee with jurisdiction over climate legislation, said scrapping the finding would erase years of work undertaken under two presidential administrations.

"Debating policy choices regarding the appropriate response to unchecked climate change is fair ... but repealing an endangerment finding based upon years of work by America's scientists and public health experts is not appropriate," the senators wrote.

Policy watchers have said that the 20 January consideration of the resolution could be the first barometer this year of Congress' appetite for taking up climate legislation.

"This amendment is one of the first things we will see on how the Senate and Congress are going to play in the climate energy arena this year," said Joe Mendelson, National Wildlife Federation's director of global warming policy, on a conference call.

If the measure has any kind of success, Mendelson said it could be a "big setback" not just domestically, but in terms "international efforts to deal with climate change".

Frank Maisano, of law firm and lobby group Bracewell Giuliani, said even a clear party-line vote on the amendment in the Senate would signal weak chances for a future climate bill to pass later this year.

"If the motion gets more than 40 votes, it could mean that there is little appetite for the battle ahead on the issue and any legislation is likely off the table until after the 2010 election cycle," Maisano said in an email.

US administration sticks by ETS: official

Despite growing scepticism in Washington over Congress' ability to pass a cap-and-trade bill this year, the White House's senior climate policy advisor affirmed this week that the administration still backs creating a carbon market.

"The best way to do it (regulating GHGs) is to put a cap on how much of these dangerous pollutants should be in the environment and to use a trading mechanism," said Carol Browner, who is also known as the White House climate and energy czar. She took public questions on a live White House webcast Monday.

Some political observers have warned that lawmakers may not have the appetite to take on a controversial bill, such as carbon cap-and-trade, after a bruising months-long debate on health care legislation last year.

Some climate bill fence-sitters have even urged the Obama administration to leave debate of the divisive legislation to next year.

But Browner, who coordinates climate and energy policy between the president and Congress, defended the efficacy of emissions trading.

"We think it can be hugely successful in giving us both the environmental gains … but also the flexibility and cost savings of reducing greenhouse gas emissions," she said.

Browner also put a positive spin on the outcome of last month's UN climate change summit in Copenhagen, calling it "a very, very important turn of events though not perhaps what everyone wanted when this process started".

She said the fact that China and India have agreed to take steps to reduce their greenhouse gases was a significant development.

"It's an important step, and with time, the world will find its way to a binding international treaty," she said.

She added that it also gives US lawmakers time to pass their own carbon-capping legislation that would make US reduction targets legally binding.

"In the meantime what we need to do in the US is to make sure we have the laws in place for comprehensive energy reform," Browner said.

Uscap outlines steps to lift offset supply

The US Climate Action Partnership (Uscap), an influential coalition of business and environmental groups, released recommendations it hopes will spur US offset supply.

Uscap is urging lawmakers to take a number of actions to ensure a substantial supply of offsets is available in the early years of a future cap-and-trade system.

The lobby group's recommendations for allowance allocation in a US cap-and-trade system had been instrumental last year when House lawmakers adopted them in their climate change bill, which passed in June.

While current cap-and-trade proposals on Capitol Hill allow emitters to use up to 2 billion offsets per year to meet compliance requirements, analysts forecast supply will fall well short.

If they're right, businesses could be denied access to eligible offsets, which many in the private sector have said would be a key tool for keeping compliance costs low.

"There's a certain amount of urgency that we're trying to relay with this set of recommendations," said Alexia Kelly, a senior associate with the World Resources Institute who helped draft the recommendations.

Uscap recommends the Environmental Protection Agency (EPA) immediately begin reviewing existing voluntary and compliance offset programmes and their methodologies to guide it as it creates a domestic offset programme.

Then, Congress should ensure that EPA's resulting criteria are established as valid in final climate legislation.

Review of international offset methodologies, including the clean development mechanism (CDM), should also be undertaken as soon as possible, Uscap said.

The recommendations also call for a set-aside of allowances for domestic facilities that have cut their emissions prior to the enactment of a cap-and-trade programme.

Those companies could then petition the programme's administrator for those extra allowances.

Uscap also wants industrial facilities that are not yet covered by the cap and who take internal measures to reduce their emissions ahead of schedule to be able to supply offsets into the market.

Under the leading cap-and-trade bill in the Senate, most industrial sources would not be covered under the cap until 2014.

Uscap dubs those early action allowances as "credits for accelerated reductions (Cars)". It says they should be treated as the functional equivalent of offsets, and should be fully fungible and tradable in the allowance trading market.

Cap-and-trade legislation should also be specific on what types of emission reduction projects will be eligible to generate offset credits in US carbon market, it said.

The group suggests the inclusion of a "priority list" of offset project types, which would provide direction to the government on what projects to conduct scientific reviews of first.

This would also give project developers more certainty about which projects have the best chance of being accepted under a regulatory offset scheme.

"The priority list would say to the appropriate federal agency – start with these when promulgating offset regulations," Kelly said.

Senator Debbie Stabenow's offset bill, which is likely to be included in the Senate's final climate proposal, includes a wide array of project types, but does not put them in any order for scientific review by the government.

"Uscap is saying the preference is to have an identified list of priority projects, but that those projects would not necessarily be guaranteed to generate offset credits," Kelly said.

Uscap's members include some of the largest greenhouse gas emitters, including: AES, Alcoa and Duke Energy. The lobby group also includes environmental organisations such as WRI and the Natural Resources Defense Council.

Narrow window for US climate bill

Time is not on the side of cap-and-trade bill proponents, according to policy watchers at a carbon conference in New York this week. They warned that the chances of passing carbon capping legislation will only become worse the closer Congress gets to the midterm elections.

"The window hasn't closed for domestic legislation, but time is short," said Ben Feldman, executive director of environmental markets for JP Morgan Chase Bank.

He said much will depend on how a proposal being developed by Senators John Kerry, Lindsey Graham and Joe Lieberman addresses regional concerns over carbon caps and the economic impact on consumers.

"The troika has a very steep curb to climb and a short time to do so, but I don't think it's time for post-mortems yet," he said.

He said the bill would need to have passed out of the Senate and then be reconciled with counterpart legislation passed last year by the House by May or June if the bill is to pass this year.

Kara Saul Rinaldi, a strategist with consultancy Environmental Resources Management, said she was pessimistic that Congress has the appetite to pass such a complex and controversial bill this year.

She said that if the House were to vote today on the Waxman-Markey bill, which it narrowly cleared last June, it would not pass.

Some on the panel also doubted the growing conventional wisdom in Washington that a utility-only cap-and-trade bill would be easier to pass.

Recently observers have suggested that leaving manufacturing and transportation out of the carbon market completely might make it more palatable to lawmakers.

Republican Senator Richard Lugar's office, for example, is currently studying whether an electricity-sector only cap-and-trade system could be a policy option.

Mathew Most, managing director of policy at Edison Mission Energy, said that covering fewer sources does not avoid some of the more difficult questions raised by the Waxman-Markey bill.

"Even when you're looking at utility only, a lot of the critical problems – the midwest's carbon-centric economy versus the coastal states' less carbon intensive economies – they don't go away with a utility-only bill," he said.

US CO2 emissions to rise 1.5%: EIA

Carbon dioxide emissions from US fossil fuels will rise 1.5 per cent this year, new data from the Energy Information Administration (EIA) show.

In its short-term outlook, the EIA projects that after a 6.1 per cent decline in 2009, emissions would rise 1.5 per cent in 2010 as the economic recovery leads to higher energy consumption.

Increased use of coal in the electric-power sector and continuing economic growth, along with the expansion of travel-related petroleum consumption, will lead to a 1.7-per cent increase in CO2 emissions in 2011, the EIA said. "However, even with increases in 2010 and 2011, projected CO2 emissions in 2011 are still expected to be lower than annual emissions from 1999 through 2008," according to the agency.

US business lobby slams climate bill

Tom Donohue, CEO of the US Chamber of Commerce, said this week that climate laws would stifle a rebounding economy.

In a speech Tuesday, the head of the nation's largest business group said encouraging economic signals could be undermined by passage of legislation aimed at curbing US greenhouse gas emissions.

While the Chamber believes climate change is a threat, Donahue said the House-passed Waxman-Markey bill would "tie economic activity in knots and eliminate jobs from one end of the country to another".

"That's why a growing number of Democrats in the Senate are running from this approach just as fast as they can."

Waxman-Markey, passed last June, seeks to reduce US greenhouse gas emissions 17 per cent below 2005 levels by 2020 through a cap-and-trade programme.

A companion bill in the Senate passed out of committee in November but faces an uphill battle this year toward Senate floor passage.

Donohue added that the Chamber also opposes regulation of greenhouse gas emissions by the Environmental Protection Agency.

The Senate is expected to hold a roll call vote 20 January on whether to strip the EPA of that authority.

RECENT GLOBAL CARBON POLITICS

The **UK** will publish tougher guidelines on how firms report closures of emissions trading scheme (ETS) installations. The move by the Environment Agency, which is responsible for administering the EU ETS, follows calls by industry bodies for more clarity on **temporary plant closures**. The agency was also concerned about how the economic downturn may prompt partial or full plant shutdowns, leaving companies with a surplus of free carbon allowances.

Karel De Gucht, the EU trade chief designate, rejected the idea of **carbon border tariffs**. "In terms of border adjustments, I'm against it," De Gucht told lawmakers in response to a question during a European parliamentary hearing in Brussels. Some EU countries like France have called for an EU carbon tax on imports from countries failing to back global efforts to fight climate change.

Japan has compiled the outline of a new law to achieve its 2020 emissions target. The outline of the "basic anti-global warming bill", unveiled by the environment ministry, specifies the nation's target of cutting its greenhouse gas emissions by 25 per cent by 2020 from the 1990 level. The target is conditional upon agreement of a "fair and effective" post-2012 international regime and "ambitious" targets involving all major emitting countries, including the US, China and India.

The **World Bank** will buy UN-backed offsets worth €2.44 million from a project in the Philippines. The bank agreed with project owner Land Bank of the **Philippines** that the certified emission reductions (CERs) will be delivered over the next three years. The project in the Philippines will earn CERs by cutting methane emissions at a pig farm and a nearby landfill.

The Center for International Forestry Research (Cifor) said in a report that **Indonesia** must tackle corruption, fraud and weak financial management in the forestry sector and its institutions must become transparent and accountable. It warns that Indonesia's failure to solve these problems will repel organisations intending to set up **Redd** (reduced emissions from deforestation and degradation) projects in Indonesia.

China's revised renewable energy law will make it easier for CDM projects to connect to the grid. Developers reckon the amendments will allow more projects to link to the grid and could boost prospects for renewable projects in more remote areas. The law, passed in 2006, requires electricity grid operators to buy all power generated from renewable sources. The amendments clarify that the cost falls on the grid operators, and sets up a new regulatory body to oversee this.

GUEST COMMENTARY

Anything is still possible in Congress' 2010 climate bill push

By Lisa Jacobson, President, Business Council for Sustainable Energy

With 2010 underway, the question on many minds is whether comprehensive federal climate change legislation will be enacted this year. Speculation abounds, but perhaps it is best to start with what is known, before considering the unknowns.

First, despite the conventional wisdom that there is not yet a legislative package that can muster 60 votes in the US Senate, there is still room for movement on a comprehensive bill.

A comprehensive approach would include meaningful caps on economy-wide greenhouse gas emissions and flexibility in the form of emissions trading and offsets to reduce the cost of compliance and to drive innovation and over performance. It would also incorporate a suite of complementary energy policies that move the nation on an immediate path to cost-effectively reduce emissions with a broad portfolio of existing clean energy technologies and resources – such as supply-side and demand-side energy efficiency, renewable energy and natural gas.

There have been a range of energy and climate change bills that have been considered by Congress over past year, including the House-passed Waxman-Markey bill, and committee-reported bills in the Senate including Senator Bingaman's American Clean Energy and Leadership Act and the Boxer-Kerry bill. These bills, among others, provide a base for final action.

Second, we also know that the troika of Senators Lindsey Graham (R-SC), Joe Lieberman (I-CT) and John Kerry (D-MA) are working diligently on a proposal that holds the prospect of winning support of a number of Republicans and undecided Democrats. We might have more information on the specific elements of this proposal shortly. Key to the power of the Graham, Lieberman and Kerry effort is the evolving political climate in Washington, DC, given national economic conditions and a high stakes election year.

Third, the Obama administration remains committed to passing domestic legislation that reduces emissions, minimizes dependence on foreign energy sources and creates jobs, while strengthening domestic clean energy manufacturing. The Administration also wants to maintain its leadership role coming out of the Copenhagen climate change negotiations last month. While more work is needed to make the Copenhagen Accord operational, President Obama was personally engaged and was instrumental in attaining the deal.

White House leadership is needed more than ever to enact domestic legislation and should be focused on identification of workable proposals, building coalitions and securing votes. Turning back to the international negotiations, adoption of legislation is central to reaching agreement on a post-2012 multilateral climate change treaty, which some countries would like to see by December in Mexico.

Related to Administration engagement and also a result of Supreme Court related decisions, the US Environmental Protection Agency (EPA) is moving forward with regulation of greenhouse gas emissions under the Clean Air Act (CAA). Adoption of the endangerment finding and the release of draft rules for fuel economy standards for vehicles last year send a strong signal. Support for congressional action on a comprehensive bill should now be considered against the implications of EPA regulation, which some viewed as less flexible and potentially more costly than what could come out of Congress. There will also be more targeted congressional efforts aimed at blocking or strengthening the EPA process, likely starting during the debt limit votes and recurring in the appropriations process.

Significant relative to the limited time in this Congressional session, we do not know the depth of political will to compromise in a troubled economy and a challenging election year. The next few weeks will set the stage for what is possible.

Strong statements by President Obama in the State of Union address, followed by aggressive action by the White House on a comprehensive climate change bill, will build momentum in Congress. In addition, a vote as early as next week in the Senate on a possible amendment to be offered by Senator Lisa Murkowski (R-AK) to restrict EPA's ability to regulate of greenhouse gas emissions under the CAA will be important. This vote is seen as an indicator of Senate support for a climate change bill this year. Opponents of legislation may argue that a strong vote on the Murkowski amendment signals that the Senate is not ready to enact climate legislation. Climate bill supporters may highlight the principle underpinning the amendment that CAA regulation is not the optimal approach – and urge quick action by Congress.

Irrespective of the current dynamics, significant numbers of domestic and international businesses are taking initiatives to reduce their carbon footprints as a sound business decision. Further, developments in 2009 prove that conditions can change quickly and more is possible than you might initially expect.

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