

## US VOLUNTARY MARKET TO SEE STEADY DEMAND: OBSERVERS

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“Charismatic” carbon and California-compliant offsets will dominate the voluntary market in 2011. While federal efforts to create a US carbon cap-and-trade system have stalled indefinitely, the voluntary market will remain steady this year, market participants said.

They said the market will be divided into two groups of buyers – emitters and speculators who want to buy “pre-compliance” credits before California’s cap-and-trade system begins in 2012 and corporates seeking offsets for social responsibility mandates. “In 2011 sources of demand in the US will be a balance between California pre-compliance and pure voluntary buyers,” said Lisa Hodes Rosen, director of US carbon markets at the Gold Standard Foundation. Pre-compliance credits are likely to be generated from project types endorsed by California. So far, this includes four Climate Action Reserve (CAR) protocols. Meanwhile corporate buyers are likely to seek out what some in the offset business call “charismatic carbon” – credits from projects with brochure appeal like forestry and renewable energy.

### Market rebound?

In the latest version of the annual State of the Voluntary Carbon Market report published last June by Ecosystem Marketplace and Bloomberg New Energy Finance, the voluntary market saw a 27 per cent drop in activity in 2009. The report said the market had been hit by the economic downturn, which affected companies’ corporate sustainability budgets, but was kept afloat with pre-compliance demand from those that anticipated the creation of a federal cap-and-trade scheme. But with federal cap and trade no longer in the picture in the near term and the economy on a path to recovery, the sources of demand have shifted, market participants said. “We have seen a substantial increase in the corporate voluntary buyer market since late summer and expect this to continue, said Eric Carlson, president of offset retailer Carbonfund.org. He added that sustainability and corporate social responsibility help companies “enhance brand awareness and customer loyalty”.

### Quality counts

Josh Margolis, CEO of environmental markets brokerage Cantor CO2e, said buyers will be willing to spend money this year for certain types of offsets. “Voluntary offset buyers will pay up for higher quality offsets and ignore others, contributing to a chasm in pricing,” he said. This could bridge the gap in prices that has emerged over the past few months between California-compliant offsets and those that are not. **“By year end, some may trade at only a modest discount to AB32 compliance (California) offsets,” he added.**

But others, such as Mary Grady of the American Carbon Registry (ACR), said that pre-compliance buying may not be limited to just California, and that future federal regulations could still create demand for offsets. “ACR expects to see increased voluntary market activity from corporate social responsibility buyers as well as continued selective buying to hedge against potential future regional and federal obligations,” she said. And Gold Standard’s Hodes Rosen said some buyers may choose to buy offsets this year to send a signal to US lawmakers that they still want market-based solutions to reduce their greenhouse gas emissions despite Congress’ failure to pass a bill. “California pre-compliance buyers are only part of the story,” said Hodes Rosen. “With EPA regulations looming, I think we’ll see demand in the US from pure voluntary buyers who know that broader regulations are a question of ‘when’ and not ‘if’ and, therefore, the private sector should lead the way.” She added that despite the weakened financial picture in the US over the past two years, demand for Gold Standard offset credits never waned. “Our pipeline has been steadily increasing despite the economic downturn,” she said. As of November 2010, Gold Standard has approximately 550 projects in its pipeline and has issued approximately 4.5 million credits, she said. Prices for Gold Standard certified offsets have ranged from \$8.30 to \$14, according to Point Carbon’s North American project manager.

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