



# THE CARBON OFFSET MARKETS

## CoolPass Opinion and News

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### **A National U.S. Cap-and-Trade bill**

This is the event we all expected would happen per the promises of the Obama administration and the efforts of the Democrat controlled Congress of the United States. While a House of Representatives draft of the legislation passed, the Senate did not pass a bill to be signed into law.

### **Why Didn't a U.S. National Cap-and-Trade Bill Pass?**

Industry experts believe that the Health Care Bill took precedence over virtually every other promised legislation. Additionally, the Gulf oil spill and the continuing recession caused political upheaval influencing the mid-term elections in November.

### **When will a National Cap-and-Trade Bill be addressed?**

While many experts don't expect to see a National Cap-and-Trade bill for 1-2 years, cap-and-trade has taken on several new forms:

### **Individual States, Regions & the EPA**

Individual states have moved swiftly to pass their own initiatives in response to failure of the Congress to act this year. To date, these include:

1. California AB32 – January 2012
2. Western Climate Initiative - January 2012

The WCI currently includes:

Washington • Oregon • California • Montana • Utah  
Arizona • New Mexico • British Columbia • Manitoba  
Ontario • Quebec. Others may join as well.

**These programs will include the use of offsets.**

Additionally, The United States Environmental Protection Agency (**EPA**) has begun to issue enforcement rulings placing a cap on carbon emissions on an industry and emission volume basis.

**The EPA may allow the use of offsets.**

### **Summary**

**The USA did not pass a National Climate Change law in 2010. Cap-and-Trade in the USA is assembling itself on a regional basis and will allow the use of certain offsets in their compliance programs. Analysts expect various offset standards to be issued which will determine offset inclusion in these initiatives.**

### **Defining The markets**

#### **Cap & Trade – The Compliance Market**

The compliance market is the place where emitters subject to legal carbon emissions requirements go to purchase emission reductions to meet their legal emissions "cap". They "trade" cash for offsets/credits/allowances.

#### **The Voluntary Market**

The voluntary market is where the carbon reductions from carbon reduction projects are sold to companies and individuals that are not required to comply by law. They reduce their emissions voluntarily.

#### **Speculation in the Voluntary Market**

Historically, speculation existed in the voluntary market was based on the supply of offsets to meet ONLY the demand of the voluntary participants.

More recently, speculators have been purchasing voluntary offsets in anticipation of a cap-and-trade law in the USA. They refer to this as "pre-compliance" purchasing. They are speculating that offsets will increase in value as compliance legislation is passed. Over the past few years, with National Cap & Trade seemingly on the horizon this market was extremely active and billions of dollars entered the voluntary market for pre-compliance purposes.

#### **Liquidity of Voluntary Offsets**

During the past few years the market has been highly active and liquid. When it became obvious that there would be no immediate National Cap & Trade law in the USA, the market slowed significantly among speculators.

#### **The new California and Regional initiatives are changing the landscape once again.**

It will take time as the new programs define the use of offsets in their programs. With the exception of California's CAR registry, the market is extremely quiet.

**The current voluntary market is illiquid as the markets 're-tool' for 2012. Owners of existing pre-compliance offsets should hold in anticipation of their inclusion in the new California, WCI, EPA and regional programs, as well as a potential re-emergence of National Legislation.**