



EXCHANGES READY TO BATTLE FOR CALIFORNIA CARBON MARKET

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Competition is heating up between exchanges vying to be central to California's carbon market. Officials from the Green Exchange and the Pacific Carbon Exchange this week said they are looking to launch contracts for trading carbon in California and the broader Western Climate Initiative (WCI) next year.

"We're actively looking at the market space, consulting with our partners, and hope to have new contracts in place soon, perhaps as early as Q1," said Henrik Hasselknippe, managing director of global product development at the Green Exchange. Aaron Singer, co-founder of the San Francisco-based Pacific Carbon Exchange, said his exchange will also be introducing California and WCI contracts soon and plan to be trading them as early as next year.

"We expect there to be healthy competition in the CA and WCI market, and we will be a leader in this emerging market," he said. Singer said the Pacific Carbon Exchange will have obtained all of the certifications and accreditations required by the Commodities and Futures Exchange Commission in time to participate in the market fully.

An official from the Chicago Climate Futures Exchange (CCFE) declined to discuss whether it will be rolling out new contracts to meet the market's demand.

CCFE is the primary exchange for trading in the nation's only other mandatory cap-and-trade programme for greenhouse gas emissions, the Regional Greenhouse Gas Initiative (RGGI).

NYSE Blue, a new exchange being formed through the merger of NYSE Euronext, co-owner of Bluenext, and environment markets firm APX, is also expected to compete in the market. Although it doesn't specifically mention the California market, the company's website says the exchange aims to be "the leading global exchange for the trading of environmental financial instruments".

Starting gun

California regulators are expected to give their final approval to a cap-and-trade programme for the state at their meeting on 16-17 December in Sacramento.

The California Air Resources Board (Carb) is currently taking public comments on their latest draft, but significant changes to the outline they published in late October are not expected. The California programme will operate in conjunction with the WCI and seeks to cut emissions to 1990 levels by 2020. Although the programme's first three-year compliance period doesn't kick off until January 2012, the majority of the carbon allowances are expected to be given freely to emitters in mid-2011.

California's programme will cover emissions from about 600 facilities in the state. Regulators are allowing financial speculators to participate in the market to boost liquidity. Allowance prices are expected to rise to \$15 to \$30 per tonne in 2020, according to CARB. The programme prevents allowance prices from falling below \$10 a tonne.

Offset trading

The programme will also allow covered entities to use carbon offsets to meet 8 percent of their obligation, which represents about 223 million tonnes of CO₂e. So far, only four offset protocols developed by the California Climate Action Reserve have been approved for use in the programme. CAR estimates the four protocols adopted by the regulators will supply 33 million offsets between 2012 and 2014, and 99 million offsets between 2012 and 2020, the bulk of which will come from projects that destroy ozone depleting substances. Currently, those CRT offsets can only be traded on the Green Exchange and the CCFE. Although brokers report that activity in the over-the-counter market for those offsets has increased recently, no transaction for those credits has taken place on either exchange.