

A new commodity: Emissions credits join oil, gold in global trading markets

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Financial Post

Wednesday, February 16, 2005

Now that the Kyoto protocol has become international law, carbon dioxide could soon join the ranks of oil and gold as one of the most closely-followed commodities.

At least, that's what a number of businesses are counting on as the protocol on global warming gives birth to an entirely new and potentially huge industry: the international exchange of greenhouse gas credits.

The 39 industrialized countries that ratified Kyoto are committed to reducing the output of gases that are attributed to global warming, chiefly carbon dioxide.

However, companies are allowed to trade emission credits with one another. That is, a company that beats its target on emissions is awarded credits that can be traded with another company that hasn't met its target.

Though the system is already up and running, it becomes formalized in 2008.

The volume of these trades could be enormous internationally. According to Point Carbon, a Norway-based firm that specializes in carbon emission analysis, credits representing an estimated 100-million tonnes of carbon dioxide were exchanged globally in 2004, worth an estimated 360-million euros.

But as Kyoto becomes entrenched over the next five years, Point Carbon believes the value of trades could swell to 300-billion euros by 2010, almost a 1,000-fold increase in six years.

So far, most of the international trading has been in the form of bilateral agreements between companies. But as trading picks up and companies demand greater price disclosure, exchanges will likely play a greater role in matching orders.



CREDIT: Ted Rhodes, Windsor Star
Pollution trading gains momentum.

The Greenhouse Gas Exchange, or GHGx, is an upstart Toronto-based credit exchange aiming for a big chunk of this nascent market with its online trading platform. It should appeal to companies beyond Canada's borders.

"We decided to come up with something that is truly global," said John Kourtoff, president and chief executive of the exchange, noting how his system recognizes different countries and currencies.

The GHGx, which conducted its first demonstration trade last December, charges a transaction fee of 2%, which recently translated into a fee of 14 cents per tonne.

Of course, it's by no means the only player. Europe already has six greenhouse gas exchanges, including the Nordic Power Exchange, with offices in Norway, Sweden, Denmark and Finland.

Curiously, the United States, which did not ratify the Kyoto protocol, may have the most experience in emissions trading. The Clean Air Act of 1990 allows large U.S. power-generating facilities the right to trade sulphur dioxide and nitrous oxide emissions.

The Chicago Climate Exchange, or CCX, held its first auction in September, 2003.

"Last year, we traded about 2.5-million tonnes, about 65% of that in the last five months of the year," said Richard Sandor, founder of the CCX.

He charges companies a transaction fee of US4 cents per tonne of carbon dioxide traded. In other words, last year's total volume of trades generated fees of about US\$100,000, a modest start.

In Canada, TransAlta Corp., the Calgary-based electricity generator with extensive coal- and gas-fired operations, has been involved in emissions trading since the mid-1990s.

In August, 2004, months before the Kyoto start date, the company made a trade giving it the right to produce excess emissions. It bought 1.75-million tonnes of emissions credits from an agricultural operation in Chile.

"TransAlta took the decision several years ago that we wanted to manage our compliance risk to make sure we were always able to keep operating in a Kyoto-constrained environment," said Don Wharton, director of sustainable development at TransAlta.

TransAlta has its own proprietary forecasts for what emissions credits will cost in the near future. However, like any commodity, no one knows for sure what the price will be.

These days, companies can buy a tonne of emissions credits for about US\$6 to US\$8 a tonne, up from about US\$5 to US\$6 a tonne a year ago.

"We do expect that the price will continue to rise because we expect that demand for these instruments will outstrip supply," Mr. Wharton said.

Companies are expected to trade outside their national borders until 2008. After that, they can only trade within their borders unless their countries have met their Kyoto obligations on reducing emissions.

Still, there is more work to be done before you are likely to find carbon dioxide credits quoted alongside gold and oil prices. For example, each government must set up a registry that contains information on how many credits each company has, if any. This must be done by 2008.

"There are a lot of things that need to be built before there is a fully liquid marketplace with the sort of transactions we see on the financial side," Mr. Wharton said.

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