

Traders and Experts Say Regional Cap-and-Trade Systems Will Proliferate

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NEW YORK -- Regional cap-and-trade systems will continue to spread in the United States and Canada and are poised to converge on each other, in spite of troubles experienced at the Northeast's government-run program, experts confidently predicted yesterday.

Speaking at a climate finance conference in Lower Manhattan, carbon market experts and emissions trading proponents downplayed the importance of last month's announcement that New Jersey would leave the Regional Greenhouse Gas Initiative (RGGI). They cited robust support for RGGI in the nine other member states remaining and the pending launch of the 2012 review of the system as strong indications that the RGGI program will continue as planned.

Carbon market proponents also brushed off the surprisingly weak RGGI emissions allowance auction that followed the announcement by New Jersey Gov. Chris Christie (R). The relatively low participation in the 12th RGGI auction is more likely an indication that utilities under RGGI simply have most of the allowances they need to comply with states' laws, a program administrator said.

Trends in the western United States and Canada suggest that, far from discouraging state governments, the experience at RGGI is rather encouraging an increasingly aggressive move toward mandatory cap-and-trade programs in several states and provinces, experts say.

Most well-known is California's push toward an emissions trading program, which is set to become the next government-regulated carbon market in North America. Once that system is up and running, the United States and Canada can expect many more to come online, experts say, mostly through the nascent Western Climate Initiative (WCI) now under consideration.

British Columbia and Quebec expected to join Calif.

"British Columbia has been in this game the longest," said Patricia Koval, a partner at the Canadian law firm Torys LLP and an observer of climate change mitigation trends in that country. "It has actually taken a leading role in the WCI process for a number of years."

British Columbia already has framework legislation in place that would allow that province to implement a cap-and-trade system within its borders and is "poised to join WCI" once California's system launches, Koval said. Pending court challenges, the California program is slated to begin operations in January 2012.

Among the other Canadian provinces, Quebec is the one to most likely follow British Columbia to the WCI, Koval said. Quebec's program operators prefer to link their province's system with other WCI participants, but the province is still prepared to go it alone if necessary, she said.

Others note that Washington and Oregon continue to seem actively involved in seeing WCI become a reality, seemingly encouraged on by the moves by their neighbors to the north and south. A successful revision of the RGGI system and growth in WCI will likely encourage many Midwestern states to return to considering either joining these or developing their own systems, many predict, especially if U.S. EPA pushes states to regulate greenhouse gases.

Though they are pursuing their own plans, the RGGI system appears to be the model most states and provinces are referencing in designing further regional cap-and-trade systems, conference participants said.

Sharply lower-than-expected greenhouse gas emissions levels in the Northeast have led to an oversupply of RGGI allowances, pushing prices at auctions to the absolute minimum allowed. But observers of the seemingly steadying trend toward regional systems credit RGGI with demonstrating a relatively sound proof-of-concept the other systems can emulate -- efficient allocation of emissions allowances through auctioning, with easy and transparent system oversight and minimal disruption to the power markets.

David Hunter, U.S. director of the International Emissions Trading Association, said the New Jersey pullout hardly means the end of a larger North American carbon market.

None of the speakers at the Climate Finance North America 2011 gathering, held at Green Exchange headquarters at the New York Mercantile Exchange, said they believed the cap-and-trade debate would be revived in the U.S. Congress. Talk of a federal program in Canada is similarly not an option, Koval noted.

Progress seen in U.S., but impasse looms in Europe

But Hunter said his organization continues to see strong interest in continuing RGGI, especially in Maine, where proponents easily thwarted an attempt to force that state out of the system. Given the way in which California and WCI organizers have looked to RGGI as a guidebook, it appears that regionally based approaches will continue to sprout up in North America starting next year. They may eventually converge into a cohesive framework that may not include all U.S. states and Canadian provinces, but certainly many of the largest and most-polluting ones.

"I am actually increasingly a believer that what will happen in the United States is that we will have a bottom-up development of a series of regional programs which will eventually form a

significant and nationwide" greenhouse gas emissions cap-and-trade program, Hunter said. "And that program will grow and become more robust."

Internationally, carbon market enthusiasts have less reason to be optimistic.

Reports indicate that the latest round of international climate change negotiations in Bonn, Germany, has failed to move forward toward a new international treaty. A continuing impasse between nations that demand a second commitment period under the Kyoto Protocol and those that are opposed is now affecting discussions of the future of the Clean Development Mechanism (CDM), which generates international carbon offset credits.

Though the CDM credits are today the second most common carbon-linked financial instrument traded today, easily eclipsing the volume of trades in RGGI allowances, the impasse at the international talks will see the CDM quickly declining in importance, warned Thompson Reuters Point Carbon analyst Lisa Zelljadt in a note issued from Bonn.

"The impasse over Kyoto holds up discussions of details that could foster market mechanisms," Zelljadt said. "In our view talks will go nowhere as long as the impasse remains. It is unlikely to be resolved in Durban [South Africa] either."