

GUEST COMMENTARY - Managing complexity in a “mosaic” of environmental markets

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The landscape of the US environmental markets over the next five years will be more complex and fragmented than any commodity market in US history.

That’s a bold statement, but probably not an exaggeration. Multiply three new environmental commodities times dozens of states and the possibility of layered regional and federal rules, and you have quite a complex web that makes up the US environmental marketplace.

It’s a marketplace that includes both voluntary and mandatory compliance markets. As states continue to lead the way, corporations are now also stepping forward with calls to action – and Congress is considering national market-based approaches.

Even with Federal legislation, a likely outcome is that the US will end up with “tiered systems” – meaning that some states and regions will be more aggressive in their greenhouse gas standards than the federal legislation, while others will be less aggressive.

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This is also likely for the renewable energy certificate (REC) markets. Companies operating in more aggressive states will see their carbon policy driven by those state policies. Businesses in states with

non-existing or less aggressive greenhouse gas policies will be driven by a federal programme, once established.

State, regional and federal programmes will need to make choices regarding which greenhouse gases (CO₂, methane, others) will be regulated, and in what industry sectors (power generation, agriculture, cement, transportation, manufacturing, and more). Current bills are not looking across all sectors, or even the same sectors.

State and federal legislators may also have differing views on where emissions should be regulated – upstream or downstream, at the source or the sink or load centres. Hybrid approaches are even contemplated where some resources and industries are regulated at the source, others as the sink.

The likelihood that states and regions will be exactly aligned among themselves and with the federal government across these dimensions is low. In fact, we think it’s just about zero.

Further choices will need to be made regarding the relationships between the well-established renewable energy markets, energy efficiency, and the new greenhouse gas markets in the US. Finally, policy makers are counting on voluntary markets to drive considerable progress toward achieving environmental goals.

Taken together, all of this creates huge complexity for market participants.

As we look across US voluntary markets for project based offsets and the greenhouse gas compliance market designs on the table, the new reality is that the US will be implementing a variety of different types and classes of offsets and emission allowances over the next years. These will likely also differ from current international schemes. For example, US handling of carbon offsets will likely be different than the EU-ETS project based CDM model.

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What all this means is that corporations and financial firms will need a way to manage their environmental commodities and obligations (including carbon offsets and allowances, RECs, energy efficiency, and other commodities) across jurisdictions and across their portfolio, both in the US and internationally. It’s not too early for regulators and corporations to start thinking about exactly how that is going to happen.

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