

Headlines don't always tell the whole story...

CTX comments on the New York Times' Article of 1 September 2010:
"...obviously, many journalists have been negative about the carbon sector in recent months, however, we at CTX disagree with this outlook and the balance of this article endorses this opinion."

Read Times Article: <http://www.nytimes.com/2010/09/02/business/energy-environment/02iht-retrade.html?pagewanted=all>

Or see below for the text:

CARBON TRADING LURCHES OFF COURSE

SINGAPORE — In July 2007, the Australian Climate Exchange, known as the A.C.X., introduced the first electronic trading system for greenhouse gas emissions in Australia. Voluntary Emission Reductions, or VERs, generated by abatement projects verified by the government-sponsored Australian Greenhouse Office, had been introduced a few months earlier and initial business on the exchange was brisk. It set up a registry for Australian VER certificates and soon was also trading similar instruments from overseas.

But this January, the A.C.X. discreetly halted business, and what had started like a lion went out like a lamb.

"We had to close the business down because we'd run out of funds to continue," said Tim Hanlin, the former managing director of the exchange. "The government of Kevin Rudd had indicated the focus would move toward a mandatory market and we had made significant investments to get ready for that eventuality. That was our downfall.

"If we had stuck to the voluntary market, probably we would still be in business today, albeit probably in a much reduced way."

The outlook for the exchange turned bleak once it became clear that governments meeting at the U.N. Climate Change Conference in 2009, commonly known as the Copenhagen summit meeting, would not provide a new direction or stimulus to the market. And there has been little to cheer for the carbon trading business community ever since.

In Australia, the Labor Party government led by Mr. Rudd backpedaled on its planned compulsory emissions trading plan in April, a decision that contributed to Mr. Rudd's ouster as leader in June by his successor, Julia Gillard.

In the United States, a plan for emissions trading has been stuck in the Senate. There are also concerns about delays in Japan.

"Having held out for that long, we had to close it down because there is really no prospect here in Australia for a market in carbon trading for the foreseeable future," Mr. Hanlin said by telephone last month. "At the end of the day, we'd made a significant investment and we needed more funds to continue on. And there really wasn't a story to say that the voluntary market was going to grow to an extent where we could make the business."

Three years ago, in anticipation of substantial growth in the voluntary and compliance carbon markets, governments and business groups around the Asia-Pacific region were jockeying to establish a regional hub for carbon trading.

New Zealand had dreams of becoming the world's "Green Wall Street" and the New Zealand Stock Exchange started working on developing a carbon trading system and a carbon registry. The authorities in Singapore also announced plans to pass legislation enabling tax-free carbon trading that would establish the city-state as a major carbon trading hub.

Even India joined in, with the Multi Commodity Exchange in Mumbai, or M.C.X., starting futures trading in carbon credits early in 2008. But interest fizzled out after three months, recalled Jignesh Shah, the founder, chairman and group chief executive of Financial Technologies, a company that owns 10 exchanges, including the M.C.X.

In fact, after three years, little concrete progress has been achieved, though New Zealand, the first jurisdiction outside Europe to commit to a nationwide mandatory carbon pricing plan, started the New Zealand Emissions Trading Scheme on July 1.

In 2007, the New Zealand Stock Exchange had created a venture known as Time Zone One, or T.Z.1, to provide a trading system for credits created by the Kyoto Protocol on climate change and to develop a global registry. But while it managed to develop the registry, selling it in 2009 to Markit, a global financial information services company based in London, it has so far failed to make significant progress on the trading system.

"N.Z.X. has the platform, the technology and the capability to run a carbon market," wrote Merja Myllylahti, a New Zealand exchange spokeswoman, in an e-mail reply to questions. "We generated a very good return out of the carbon registry business."

"However, the Emissions Trading Scheme, as it is designed, has very little liquidity. Building the platform does not in itself create the market." Still, she said, "were this to change in future, we will be ready."

Helen Robinson, managing director of Markit Environmental Registry, which acquired the T.Z.1 registry, acknowledges that the market has remained "lumpy" as a result of the lack of agreement in Copenhagen and U.S. government delays on the issue. "There are still pockets of great activity taking place in the market outside Europe, but you've got to know where to look," she said, pointing to Brazil, China and some U.S. states.

Amid the financial and economic turmoil of last year, the total transacted value in the global carbon market continued to increase, albeit slowly. In 2009, global market volume totaled \$144 billion, up 6 percent from 2008, after doubling in value from 2007 to 2008, according to a report this year from the World Bank, "State and Trends of the Carbon Market."

The report said the European Union's Emission Trading System, or E.T.S., remained the engine of the global carbon market, with more than six billion so-called allowances traded in 2009 for a total value of \$118 billion. But trading in credits based on carbon-offset projects — in which polluters buy permits issued to finance investments in initiatives like forestry programs or clean-energy production — slumped 54 percent, to \$3.4 billion. Trading in credits derived from the Kyoto Protocol's Clean Development Mechanism were worst hit, dropping 59 percent, to an estimated \$2.7 billion.

A separate report by Ecosystem Marketplace and Bloomberg New Energy Finance, which looked only at the state of the voluntary market — operating outside regulated carbon emissions reduction plans — showed that the market slowed significantly in 2008, down 47 percent in value, to \$387 million, after three consecutive years of growth. The overall economic downturn and uncertainty about future climate legislation were the main factors that affected the voluntary market.

The slowdown has left its traces on the industry. Last month, the Chicago Climate Exchange, the platform for the first cap-and-trade system in North America, was reported to have laid off nearly half of its employees — the exchange refused to confirm numbers — and staff changes and cuts have also been reported on major trading desks.

"For companies that had staffed on the basis that we were a couple of months away from starting really serious trading, they've realized they've started too soon, which is why they've downsized, waiting until something actually happens," said Henry Derwent, chief executive of the International Emissions Trading Association, an independent, nonprofit organization representing companies involved in carbon trading.

"There are a lot of bearish things about the market at the moment; in particular the slowing down of the expected trajectory of emissions trading in the United States and Australia, and to a certain extent in Japan. But let's not go over the top," Mr. Derwent said. Underlying fundamentals are still supportive, he said, and there are also some positive, short-term developments in countries like China, which has restated its commitment to emissions trading.

"However difficult it is for some countries to swallow at the moment, emissions reduction is with us forever," he added. "On a long-term basis, 7 to 10 years, it's difficult to see how the world can go anywhere else."

The recently set-up Carbon Trade Exchange, C.T.X., which started trading in July, indicates that plenty of players still believe in the market's potential. Based in London, with offices in Australia and New York, C.T.X. bills itself as the world's first global spot electronic trading platform for voluntary carbon credits.

"We're seeing more forward thinking toward innovative market development, and the right infrastructure tools to ensure the integrity and transparency of the marketplace," said Ms. Robinson, of Markit, which is providing credit issuance, registry, transaction and management services for the new exchange.

Wayne Sharpe, chief executive of C.T.X., is also the founder of Bartercard, an Australian business he created in 1991 to apply the credit card business model to barter transactions. Bartercard has since grown into what it says is the world's largest international system for noncash trades, handling the equivalent of \$2 billion in annual revenue.

Mr. Sharpe says that background may be an advantage in getting carbon trading off the ground.

"I think the reason why other exchanges haven't been successful is because they've approached carbon credit trading from the platform of commodity trading," he said during an interview. "But they are not the same thing. We've designed something from the ground up and taken into consideration what the industry really needs; something very simple and cost effective, so that companies don't see it as a major barrier."

"Most of the traders that start carbon trading know nothing about carbon," he added. "They know about trading, so they're used to dealing with incumbent software solutions that are more like a stock exchange."

Many of the principles used in C.T.X.'s technology are similar to Bartercard, but transposed into a low-cost and easily accessed Web-based system, he said.

"One of the problems you have with a lot of the incumbent regulated market exchanges is that in order to use the exchange you need to subscribe to the exchange and a clearing house, and also have access to other software to allow you to interface with the exchange," Mr. Sharpe said.

"The total cost is so prohibitive that only large financial institutions or traders can afford it. Trading on some climate exchanges in the first year will cost you 40,000-50,000 Australian dollars," or about \$36,000 to \$45,000, he said.

For a fringe market with only a few hundred players — even if they are big ones — that sort of cost is disproportionate and a barrier to achieving viable scale, he said. In contrast, annual fees to trade on C.T.X. range from €800 to €2,500, or \$1,000 to \$3,200, depending on the size of the player.

Mr. Sharpe said that initial trading volumes on C.T.X. were small, but growing. "The reality is that we didn't expect to have any big trading volume for the first few months," he said. "Right now we're still building inventories and relationships with the developers and project originators, and brokers."

The exchange has already signed up some of the biggest project originators, including South Pole Carbon Asset Management, based in Zurich; Carbonyatra, based in Mumbai; and Climate Bridge, headquartered in London, Shanghai and Chennai, he said, as well as large brokers including Tullett Prebon in London. It is also linked with Masdar City, which is being built in Abu Dhabi as the world's first carbon-neutral city; and it plans to offer brokerage services to Middle Eastern state-owned companies that want to go carbon neutral. The next step will be to start prospecting for potential buyers of credits, Mr. Sharpe said.

Other carbon exchanges are also under development, including the Indian Climate Exchange, a planned joint venture between the Chicago Climate Exchange and leading Indian industrial companies. In China, the Chicago exchange is working with the China National Petroleum Corp. and a Chinese government agency, the Tianjin Property Rights Exchange, to set up the Tianjin Climate Exchange, announced in 2008.

The new Singapore Mercantile Exchange, a currency and commodity derivatives exchange that started live trading at the end of last month, has also been doing some research to develop a carbon credit product. Still, its vice chairman, Mr. Shah of Financial Technologies, said that for any derivative market to succeed, "the standardization of the physical market is essential. At this moment, the standardization in the actual market is not there."

"I believe carbon will be very big — like the new-generation oil of green energy," Mr. Shah said. "It's bound to work the moment some standardization comes."