

## **10 Carbon Market Predictions for 2014 from The Climate Trust** *Unique market position helps nonprofit identify promising prospects for the coming year*

**PORTLAND, Ore.** – The Climate Trust, a mission-driven nonprofit that specializes in climate solutions, with a reduction of 1.5 million tons of greenhouse gases to its name, announced its inaugural prediction list of 10 carbon market trends to watch in 2014.

The trends, which range from self-imposed carbon tax structures to the potential for a Low Carbon Fuel Standard (LCFS) program at the national level, were identified by The Climate Trust based on interactions with their diverse group of working partners—government, utilities, project developers and large businesses—as well as conversations with industry experts bridging eight innovative sectors.

“We fully expect that the New Year will bring abundant opportunities for The Climate Trust and other market players,” said Sean Penrith, Executive Director for The Climate Trust. “Many of the critical sectors in which our work is focused are poised for growth and broader national attention.”

1. **Increase in self-imposed carbon tax structures by large corporations.** Although most of the world's governments have declined to put a price on carbon emissions, a handful of global companies, including Disney and Microsoft, have chosen to act on their own. By taking matters into their own hands, not only are these global giants reaching their emission reductions goals, their voluntary programs have also become the definition of environmental leadership and innovation, and will serve as a catalyst for other big firms to move in this direction. By promoting cutting-edge ideas to reach energy efficiency and emissions reductions goals, savvy businesses will be preparing for government regulation if and when it arrives.
2. **Big Data poised to feature in large scale climate mitigation across sectors.** As large entities and governments begin taking big data more seriously, 2014 will see them leveraging data-driven strategies to innovate, compete and capture value in areas where they can make big climate impacts—areas such as climate smart agriculture (CSA) and forest carbon. CSA initiatives in particular have the potential for widespread impact on food security and slowing the rate of climate change, in addition to being implemented over vast areas and improving the lives of millions of people. By organizing existing sectoral data and information and making it more accessible, big data can help a variety of sectors, including CSA, to substantially improve decision-making and achieve growth, while also making information more transparent and usable at a much higher frequency.
3. **Confidence grows that California's cap-and-trade system is here to stay.** Under the CA system, allowances will continue to trade close to the floor price surrounding concerns that the market may be over-allocated. Given the increase in certainty that the market has gained a strong foothold, there will be increased liquidity and interest in credits that can be used in 2016 and beyond. Prices for these later vintage compliance instruments will rise above prices for current vintage credits. Prices are predicted to steadily increase as the California legislature moves towards extending its current cap-and-trade program through 2030.

*“The California market is increasingly becoming more viable and liquid with allowance prices likely to move upward as transport and natural gas fall under compliance beginning in 2015,”* said Odin Knudsen, President, CEO & Founder of Real Options International. *“California will also provide the model cap and trade system for other states, while elements of its regulatory framework will likely extend to other emerging emission markets such as in China.”*

4. **Increase in domestic agriculture offset deals.** The work of the past several years on agriculture protocols will translate into actual market transactions in 2014. The carbon market will see notable first-of-their-kind deals on nutrient management and rice offset projects. Additionally, the recently approved *Avoided Conversion of Grasslands and Shrublands (ACoGS)* methodology will be seriously considered by ARB for inclusion in the CA Compliance Market. These first several deals are predicted to represent a few million dollars in purchase commitments made to agriculture offset projects.  
*"With high commodity prices, it can be economically attractive for farmers and ranchers to till the land and plant row crops on marginal agricultural lands,"* said Adam Chambers, air quality scientist for NRCS' National Air Quality and Atmospheric Change team. *"Carbon credits provide landowners with another working lands opportunity and an additional revenue option other than tillage."*
5. **Continued investment in carbon projects by the USDA.** President Obama and Tom Vilsack, Secretary of the US Department of Agriculture (USDA), have made public commitments to climate action. The USDA is now taking an increasing role in the effort to mitigate the effect of greenhouse gases, efforts that will only increase with the awareness that land management has great potential as a solution in climate mitigation. After the first round of carbon specific Conservation Innovation Grants (CIGs), the USDA is expected to continue their investment as an effective way to catalyze these critical efforts with help from the agricultural and forestry sectors.
6. **Continued interest in high-quality forestry projects with expansion to smaller forest lands.** Last year saw near-record volumes of forest carbon offset sales globally, with buyers embracing diverse projects that improve forest management, avoid forest loss, and reforest land. Innovations in the sector suggest that we will see more projects that benefit new segments of forest owners—including family forest owners. Innovations include the use of aggregation to decrease project costs that make markets work for smaller forest lands; new ways to balance the need for credible permanence of offsets with land owner and manager need for flexibility; and funder interest in seeing the carbon market provide real incentive for responsible forest managers. These smaller forest lands are vital since over 260 million acres of forest land in the United States (over 35%) are family-owned.
7. **Carbon project co-benefits become increasingly important.** Carbon projects work best when they create multiple benefits for ecosystems and communities. Increasingly, both project developers and carbon buyers are recognizing the advantage of projects that not only reduce greenhouse gas emissions, but also improve water quality, restore and preserve wildlife habitat, create jobs or other positive economic impacts, as well as encouraging diverse, resilient landscapes. Whether a project conserves grassland habitat that ducks, geese, and other wildlife depend on during migration; manages a forest to improve rivers for salmon, while also generating income from sustainable timber and carbon sales; or reduces water contamination while harvesting energy from a dairy digester; the strongest and most valuable projects will ensure that diverse benefits are created, measured, and communicated.
8. **Biogas increasingly used as transportation fuel.** Anaerobic digestion projects will look to use their biogas as transportation fuel rather than to generate electricity. Continued low electricity prices, combined with a growing spread between natural gas and oil and incentives from the Low Carbon Fuel Standard (LCFS) and Renewable Fuel Standard (RFS), will move projects in this direction.  
*"The future of biogas plants is inherently hinged on the biogas energy to be utilized as vehicle fuel,"* said Dean Foor, CEO for JC-Biomethane. *"Given that BioCNG is the only fuel realizing 'carbon negative status' it should be an incredibility compelling fuel source for trucking fleets and municipalities across the nation. Such fuel offtake arrangements, independent of government support, should eliminate the current barriers to the much needed deployment of biogas plants,"* added Foor.
9. **West Coast states move towards market consolidation and adoption of an LCFS.** Washington's Climate Legislative and Executive Workgroup will present its initial recommendations on carbon pricing and other policies to the WA legislature in January. Governor Inslee has stated a preference for a statewide cap-and-trade program, and early indications from the workgroup's public hearings suggest support for carbon pricing in some form. WA will begin the design of a Low Carbon Fuel

Standard (LCFS), and the sunset on Oregon's version (called the Clean Fuels Program) is envisioned to be extended to allow for full implementation of the program. California, Oregon and Washington are expected to begin the process of linking these three LCFS programs together for greater flexibility and cost-containment. This would increase interest to implement an LCFS at the federal level.

10. **Increasing interest on behalf of regulated entities to purchase carbon offsets.** When considering alternative transportation fuels, confidence will grow that the Low Carbon Fuel Standard and Renewable Fuel Standard are here to stay. Regulated entities will shift from challenging the legality of these policies to preparing for their long-term implementation. As these regulated entities start to hedge against future compliance costs, they will become increasingly willing to purchase credits under longer-term contracts at set prices. With these contracts increasingly available, alternative fuel project developers will be able to finance projects against future revenues from these emerging environmental markets.

###

**The Climate Trust** is a 501(c)(3) nonprofit organization with over 16 years of carbon financing experience. Our mission is to provide expertise, financing, and inspiration to accelerate innovative climate solutions that endure. In order to arrest the rise in greenhouse gas emissions and to avoid the most dangerous impacts of climate change, The Climate Trust works to accelerate project implementation, develop financing solutions, and establish a supportive policy environment in the renewable energy, agriculture, forestry and energy efficiency sectors. Additional information at [www.climatetrust.org](http://www.climatetrust.org) | @ClimateTrust | [facebook.com/TheClimateTrust](https://facebook.com/TheClimateTrust)