Amid doubts over buyers, US non-profit prepares offset guarantees

Published 12:05 on January 18, 2017 / Last updated at 21:54 on January 18, 2017 / Americas, Canada, International, New Market Mechanisms, US / No Comments

US-based non-profit The Climate Trust plans from next year to offer guarantees to US project developers that it will purchase their carbon credits regardless of future market demand.

The move would come ahead of similar but potentially larger proposals being considered by the California government as a way of delivering upfront finance to developers of livestock and dairy methane abatement projects that otherwise face years without secure funding as state lawmakers dither over whether and how to extend the state's carbon market beyond 2020.

The Climate Trust plans to double the $2 million it has already earmarked for reverse auctions similar to the World Bank's Pilot Auction Facility (PAF), which will offer tradable put options that give developers the right to sell the organisation carbon credits for a fixed price over a period of up to 10 years.

The so-called Environmental Price Assurance Facility (EPAF) will thus act as a buyer of last resort if US emissions markets fail to emerge or if market prices are below floor levels.

"While we are confident that robust carbon pricing is going to emerge, this facility aims to offer some certainty for developers," said Peter Weisberg, The Climate Trust's senior investment manager.

"We wouldn't anticipate that it will ultimately buy any credits, and it will retire them if it did so."

The trust has made a funding application with a federal US agency and expects to hear back by spring, having requested cash ahead of an anticipated slowdown in climate funding from the federal government under incoming US president Donald Trump.

If that fails, the trust's facility has attracted interest from state governments and philanthropic foundations as alternative or additional sources of finance, Weisberg told Carbon Pulse.

He said the facility would likely target two areas: projects affected by California's post-2020 carbon market uncertainty, in particular livestock and dairy methane, and land-based initiatives currently only covered by the voluntary market such as nutrient management, grassland conservation and soil carbon.

CALIFORNIA MOVES

Weisberg said last week's bill introduced by California Governor Jerry Brown to extend the state's cap-and-trade programme through 2030 would go a long way to reducing the uncertainty currently plaguing offset developers across the US.

But while the so-called 'urgency' legislation to be voted on this summer would come into force immediately, it faces opposition from some Democrat lawmakers wary that offsets would leak finance outside the state or that the scheme more negatively impacts lower-income areas.

Amid these doubts, lawmakers last year passed a bill (SB 1383) that could throw a lifeline to developers of projects that cut short-lived climate pollutants such as methane by requiring regulators to develop by 2018 a pilot financial mechanism “to reduce the economic uncertainty associated with the value of environmental credits”, including those producing cleaner transport fuels guided by the state’s Low-Carbon Fuel Standard.

California’s Air Resources Board (ARB) has duly come up with a draft plan on short-lived pollutants that includes setting up a pilot mechanism.

It will hold consultations to decide what type of mechanism is appropriate and has recommended lawmakers extend the focus to other biogas sources.

The draft plan found that at least $100 million in annual funding would be needed to 2020 to pay for the abatement measures.

The draft plan is due to form part of California’s wider Scoping Plan on how to meet the state’s 2030 emission goals, due for completion by autumn.

FACTFILE:

- The World Bank-operated PAF held three competitive auctions to maximise the use of limited government climate funding and leverage private sector financing in cutting GHGs in developing nations, while attempting to prevent the closure of projects hit by low carbon credit prices.
- PAF gave winning bidders the right to sell a total of 20.6 million carbon credits for an average price of around $2.00/tonne via tradable put options that can be redeemed over four years.
- PAF failed to meet its targeted capitalisation of $100 million, receiving $53 million from the US, Germany, Switzerland and Sweden, with an additional $12.5 million recycled from earlier redemptions.
- The joint California-Quebec WCI carbon market is forecast to be the source of offset demand of around 250 million by 2020, with the credits being allowed to meet 8% of emitters’ compliance obligations and to be sourced from projects across the US, Quebec, and soon to be Ontario.
- Offsets sell for as much as 5-25% less than allowance prices currently trading near $13. Livestock credits have so far accounted for 3 million of the 55 million credits issued to date.
- **More information on PAF can be found in Carbon Pulse’s international mechanisms dossier, while more details on the California market are in the WCI dossier.**

By Ben Garside – ben@carbon-pulse.com