

WA Business News

Early adopters learn the ropes

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THE details of the federal government's carbon trading system may not be finalized, but one Western Australia carbon offset trader is hoping its early adopter status will be an advantage in the new legislative environment.

Started by ex-Woodside executive Tim Hanlin and launched in July last year, the Australian Climate Exchange (ACX) is a trading platform for carbon offsets.

The ACX operates in a similar way to other commodity exchanges, with sellers listing their offsets through a registered broker with an offer price, and interested buyers submitting bids.

Trades can also occur off-market through the ACX registry.

Mr Hanlin said there were two key reasons for companies to voluntarily buy offsets.

For some firms, it's about retaining staff, and as a way of branding their company as being environmentally conscious.

For other firms, it is chance to learn and develop the capabilities to prepare them for the impending emissions trading scheme.

"Internal branding, external branding, that's one of the main things. And that won't go away. That driver, which has been around for as long as I can remember, will continue on into the compliance scheme," he said.

"Then you have a genuine pre-compliance market, driven by need to learn and develop capability, developing systems and process around how do we know how much to bid, how do we know how much we need and at what price."

Initially focused on trading the federal government's Greenhouse Friendly accredited Voluntary Emission Reductions (VERs), the ACX now also trades offsets generated by accredited overseas offset projects.

Examples of overseas offset projects listed on the ACX include landfill gas collection projects in China and Mexico, and a gas pipeline upgrade in Russia.

Mr Hanlin said the value of the tradeable offset made such projects viable, adding that they needed to pass an 'additionality' test before being able to list.

"It has to tick the financial additionality box. If the project would have gone ahead without the offset, it's not truly an offset, it would have happened anyway," he said.

Typical transactions on the ACX are business-to-business trades averaging in the thousands of tonnes, with a few speculators also entering the market.

The total volume of trades so far on the ACX is about 15,000t of CO2 equivalent, with more than 25,000t of product currently offered for sale and more products coming on line each week.

Mr Hanlin said the ACX intended to trade in the secondary market for Australian emissions units (AEUs) once the emissions trading scheme was introduced.

He also believes the voluntary market will grow strongly once the compliance market starts up.

"If you look what happened in Europe, the biggest market in the voluntary space and greatest growth has been in Europe post-introduction of ETS," Mr Hanlin said.

The ACX joins global exchanges including the Chicago Climate Exchange and the European Climate Exchange trading in the voluntary market.

In Australia, two other exchanges are likely to participate in the secondary market for AEUs under the Carbon Pollution Reduction Scheme.

One is the ASX, which is looking to start carbon futures trading in the third quarter of 2009.

Another is Sydney-based enVex, which operates under the Financial and Energy Exchange. It is working to develop a suite of carbon contracts for physical delivery of AEUs and other environmental products.

While the introduction of an ETS is at least two years away, there has already been a handful of trades in AEUs.

The first, and best known, took place in May, when AGL Energy sold 10,000t of emissions units

to Westpac for \$19/t.

Sydney-based carbon broker Gary Cox, manager of environmental derivatives at Newedge Group, said the company had done six trades of volumes ranging between 10,000, 20,000 and 30,000t at between \$18-22.75/t.

Most of those trades have been for large corporations, retailers and energy generators, and Mr Cox suspects just as many trades have been done direct between the two parties.

"The motivation behind these trades, one is the recognition that this thing is going to happen," Mr Cox said.

"They want to make a start and get on with it."

Alongside the trading infrastructure are the consultancy services, which are increasing in number.

Many have developed their own carbon management systems and software programs, allowing corporations to manage their greenhouse gas exposure.

In WA, the ACX has developed the Emissions Measurement, Management and Action Process, or EmMap, to help organisations manage their emissions.

Melbourne-based Tradeslot, which is helping to develop the government's carbon trading platform, has developed the carbon management system **CarbonNavigator**.

Also in the software space is Sydney-based PicNet, whose program, Risk Shield 5, allows an organisation to account for the amount of GHG emitted and the risks associated with it.