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Renewables and carbon markets, reunited

As the renewable energy industry continues its worldwide surge while carbon trading in Europe and in developing countries grows stronger (*see story page 32*), it is easy to overlook the connections – however tenuous and unclear at times – between the two distinct but related markets.

On a broad level, the link between the renewable-energy and carbon markets appears obvious. A key driver both for deploying renewable resources and particularly for creating carbon markets is the desire to cut greenhouse gas emissions – indeed, aside from the advantages of reducing air pollutants like sulfur dioxide and mercury from fossil-fuel combustion, promoting renewables and putting a price on carbon releases only makes sense if policy-makers believe climate change poses a real threat.

In theory, as prices for carbon rise in a system like the European Union Emissions Trading Scheme, renewable energy should prove more attractive. In practice, the two markets have yet to coalesce, Marcello Balasini of Switzerland's Factor Consulting + Management points out. Speaking on the sidelines of the 5th Annual Green Marketing Conference in Lausanne, Switzerland on September 14 (*see story page 7*), Balasini told Platts that the EU ETS price for CO_2 is by itself insufficient to encourage renewable energy adoption. "You still have a higher electricity price [for renewables generation] from a normal feed-in tariff," he said. EU carbon prices would have to reach €40/tonne to provide a significant incentive for power suppliers to switch from fossil fuels to renewables, he estimated.

Still, Balasini told conference attendees, "renewable energy projects can benefit from carbon mechanisms," particularly the Kyoto Protocol's Clean Development Mechanism and Joint Implementation frameworks. "A niche market for carbon premiums has been created that can be used to finance renewable energy projects. CDM can help investments in renewable energy facilities in North Africa that export or will export electricity to Europe," Balasini said.

Whether voluntary renewables promotion programs – which US President George Bush is pushing at a White House conference as *RER* goes to press – can offer adequate incentives for installing clean energy when regulatory markets like the EU ETS cannot remains uncertain. Like the recent 21-nation Asia-Pacific Economic Cooperation forum agreement on the need to cut CO_2 emissions, the White House conference depends on companies spending billions of dollars in shareholder assets to adopt renewable energy technologies – not because of regulatory pressure but because it is the right thing to do. Can voluntary carbon trading work? As Balasini noted at the green power marketing conference, the current voluntary carbon market is a jumble of more than 15 differing standards characterized by low trading volumes for small amounts of value.

The United States, even without a carbon trading market, currently ranks first in the world, according to the latest Ernst & Young analysis, in providing an attractive investment climate for renewable energy. By combining a carrot on the federal level, a 1.9¢/kWh federal tax credit for renewable energy, with the stick of state-level renewable portfolio standards – state programs enacted largely out of concern about climate change – America has created a thriving clean-energy market. If Congress succeeds in passing carbon-trading legislation, presumably after President Bush leaves office, it could further enhance the US climate for renewables investment by finally putting a price on CO_2 that companies can now emit for free.

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