

Buyers lined up for first Redd VCS credits

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The first Redd project approved under the VCS may issue credits by the first half of December.

Jeff Reece, president of project developer Infinite Earth, told Point Carbon News that his firm has already lined up buyers for credits from its Rimba Raya project in Indonesia.

Rimba Raya has been developed according to Infinite Earth's peatland deforestation blueprint, which was the first Redd (reducing emissions from deforestation) methodology to complete the Voluntary Carbon Standard's (VCS) double-validation process.

It is now on track to be the first project to issue VCS voluntary carbon units (VCUs).

Reece said a third-party verifier is currently inspecting the 100,000-hectare site and testing it against the methodology. He expects this to be completed in around two weeks.

Once the project completes the inspection, it will be reviewed by the VCS. Afterwards, it should be ready to issue credits by the first half of December, Reece said.

Buyers lined up

Reece added that Infinite Earth has already pre-sold VCUs to a range of buyers through a number of differently structured transactions.

He would not disclose the buyers, specific deal terms or the price the credits will be sold for per tonne, but said "the majority of demand is coming out of Europe and Asia".

Reece added his firm sold "the first couple of years' worth" of VCUs from the project, which has 30-year life span.

According to Gazprom Marketing and Trading, the broker involved in the project, Rimba Raya will avoid 18.5 million tonnes of CO₂e in the first 10 years of the project.

By the end of the 30 years, the project is expected to reduce 75 million tonnes of CO₂e.

In the project's first year, Reece expects 1.5 million tonnes to be avoided, peaking at 4.5 million per year in later years.

Differently structured deals

In one of the deals, Reece said the buyer agreed to buy the same number of credits every year, paying upfront upon delivery. Other buyers have opted for options structures.

The buyers' reasons for purchasing the VCUs dictated the purchase structures they arranged with Infinite Earth, according to Reece.

Buyers range from companies who want credits for green marketing purposes to speculators "who are buying tonnage from us, hoping one day it will be worth 10 times more than they buy it for", he noted.

"It's been a pretty open dynamic with most of our customers," he said.

Significance

Having the first Redd project issue internationally-recognised credits will be a major milestone for the voluntary carbon market, but it will also have an impact on future compliance markets, said David Antonioli, CEO of the VCS.

"We are demonstrating there are practical ways to do Redd on the ground. So there will be a supply of Redd credits when compliance markets emerge," he said.

There is currently no international offset mechanism for Redd, although it is an issue being debated in UN climate treaty negotiations.

Most current discussions have focused on public sector investment in global deforestation efforts, but negotiators are trying to hammer out ideas on engaging private investors.

Antonioli said as the number of Redd projects grows, there will be more "on-the-ground rules and approaches that can attract private sector engagement and capital".

"The fact that these projects are demonstrating workable approaches is critical to the development of compliance markets," he said.

Price signals

But in the meantime, carbon brokers still have cold feet about Redd as a sound investment in the near term.

"I am standing on the sidelines a little with regards to Redd, like many in the market," said Grattan MacGiffin, London-based managing director of GTE Global Trading.

"I do believe that forestry and Redd in particular will play an increasingly significant role in the voluntary carbon market, however no one likes to go first and there are many questions regarding the impact on price and demand for other methodologies," he added.

He said expects carbon offset retailers to be early buyers of credits. Eventually, he said he expects to see a gradual increase in demand and "and perhaps a differentiation between locations for Redd VCUs".

Dave Mann, a New York-based environmental markets broker for TFS, added that pricing Redd as a commodity is complicated and not uniform.

"Pricing is project-by-project based instead of Redd-based, so you are not going to find a single price per tonne for a Redd offset generally," said Mann.

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