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Ratnajyoti Dutta

Ratnajyoti Dutta's Profile

India sees carbon offset turn-around after 2011

MAY 11, 2010 07:29 EDT

NEW DELHI (Reuters) – Weak global carbon prices will probably continue into next year before recovering, clean-energy investors said on Tuesday at a carbon meeting in India, adding that they remained confident about the market in the longer term.

Concerns are growing over the fate of the U.N.-backed Clean Development Mechanism, or CDM, which rewards investors by issuing internationally tradeable carbon offsets in return for developing clean-energy projects in poorer nations.

India is the world's second top source of the carbon offsets, called certified emissions reductions, or CERs, under the scheme.

The CDM is part of the Kyoto Protocol, whose 2008-12 first commitment period sets emissions targets for rich nations that drives demand for the offsets.

But U.N.-led climate talks have become bogged down and that has led to concern over the shape of the CDM if there is no extension of Kyoto from 2013. "We do not think CDM will disappear. It will be there, may be under a different name," said J.M. Mauskar, additional secretary of the ministry of environment and forests, at the two-day carbon gathering in New Delhi hosted by the German government sustainable development body GTZ.

Project developers were also confident.

"We are positive about the post-2012 scenario," said Ram Babu, chief executive officer of General Carbon, and one of the leading figures in India's clean-energy project development.

"The current lull phase to continue until end of 2011," Babu said and projected a 15-20 euros price band in 2015/16 for CERs.

"Offsets generated from renewable projects will be in demand," Babu added.

Benchmark CER futures were trading at 13.13 euros a tonne on Tuesday on the European Climate Exchange, off a low of just over 7 euros in early 2009 but well off a high set in 2008 of around 24 euros.

"We don't see any skyrocketing prices, but expect high volatility until 2012," said Nils Medenbach, vice president, business development, First Climate Group, a Swiss-based CDM project developer, carbon asset manager and trader.

Project developers and consultants are also positive about the future prospects in the carbon offset business.

"The demand scenario is quite good," said Rishi Seth, head business development, Emergent Ventures India, a major CDM project developer in India and elsewhere in Asia.

MAJOR BUYER

Europe is expected to remain a major CER buyer to meet demand from polluters facing mandatory emissions reduction targets.

Europe has agreed to cut emissions by 20 percent below 1990 levels by 2020 and could raise this to 30 percent if other rich nations step up their efforts.

The EU will also ramp up its emissions trading scheme from 2013 and will continue to allow offsets from CDM projects to be used in the scheme.

Seth also said banks in India were proving tough to convince to provide financing because they wanted projects to generate CERs instantly.

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But formal U.N. approval of projects can take two years and a further 6 to 12 months for the first batch of offsets to be issued.

According to U.N. data, India has 507 CDM projects registered to date out of a total 2,204 approved in developing countries.

A total of 78.5 million CERs have been issued to Indian projects, representing 19.2 percent of all the CERs issued globally so far. Chinese projects have received nearly half of all CERs issued.

A United Nations agency that analyses the CDM cut its forecast for pre-2012 Kyoto Protocol carbon offsets, estimating for the first time that less than 1 billion tonnes will come to market before the climate pact's first phase expires.

(Editing by David Fogarty)

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