

THE Emissions Trader

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Serving Environmental Markets Worldwide*

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CleanAir Canada and the EMA Agree to Launch an EMA Chapter in Canada and a New Emissions Registry

By Peter Chant, CleanAir Canada

On March 8th, CleanAir Canada and the EMA announced an agreement to launch both a new chapter of the developing EMA Federation and a new emissions reduction offset project registry. This agreement was the culmination of several months of focused discovery between the two associations. With interests bordering both physically and philosophically, EMA's strengths in association development will aid CleanAir in redeploying its resources in the evolving Canadian emissions trading markets while offering meaningful representation for CleanAir as a founding member of the EMA Federation. CleanAir views this relationship as a means both to augment its Canadian presence and to participate more deliberately with members of emissions trading organizations outside of North America.

Launching a new emissions reduction registry under the heading of the EMA Registry became an obvious path as the associations talked. Initially, the EMA Registry will handle only ghg emissions reduction projects with an expectation of other emissions reduction registrations to follow. With the recent announcements of ghg project registries and project protocols, there still remains a void in North America and in certain other regions for registries of classic offset projects that do not have ties to entity or industry stipulations. The EMA Registry, like CleanAir Canada's seven year-old offset project registry, is a ghg project registry addressing the unique issues of stand-alone, discrete emissions reductions: clear title, third party verification, double accounting, etc. The EMA Registry will contain offset projects in both Kyoto and non-Kyoto markets, acting as a bridge to capture the best practices of regulated and near-regulated markets. Without ties to special interests, the EMA Registry will be able to use geo-politically accepted project protocols as well as other protocols which may be more advanced in addressing the unique problems of discrete emissions reductions in agriculture, geologic and terrestrial sequestration, real estate, transportation, substitution, bio-gas, bio-mass and other project categories.



The unveiling of the EMA Registry creates a unique opportunity for EMA members to participate in the creation and direction of the Registry. CleanAir will be seeking EMA members for roles as Registry board members and as technical advisors for project protocols and reviews. EMA members are encouraged to bring forth discrete ghg emissions reduction projects which will face a peer review mechanism based on unique project protocols and which will then be accounted for on a web-based, publicly-accessible registry. Initially, projects will qualify under CleanAir Canada's existing project protocol and will be reviewed by a team setup by CleanAir's board of directors. As the number of projects pursuing registration grows and the regional sections of the EMA are established, regional peer review teams will be setup to provide local project review and qualification. Both CleanAir and the EMA anticipate regional sections of the EMA to be formed during 2004 in several major cities.

...continued on page 4

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A few Comments from your Chairman:



I had the pleasure of attending the spring meeting last month in New Orleans with 153 of my closest friends in the emissions trading industry. The event was our second best turnout ever for a spring conference. We were fortunate to have a stellar group of speakers, including Jeff Holmstead, Assistant Administrator of the U.S. Environmental Protection Agency. Jeff is the highest level government official to address the EMA and I am very grateful to

him for taking the time to meet with us.

I particularly enjoy our conferences, since they offer a unique opportunity to discuss the goals and strategies deployed by your Board of Directors. In New Orleans, I outlined the continuing effort to evolve the Emissions Marketing Association into the Environmental Markets Association. This effort is designed to take advantage of the synergies between the emissions and renewable energy markets. The New Orleans meeting showed tangible benefits of this effort, featuring co-located events with World Resources Institute and the National Wind Coordinating Committee.

Another essential objective of the Environmental Markets Association is to further develop our international membership, to reflect the growing international nature of emissions and renewable credit trading. It is this objective which has set us upon a strategy of developing Canadian and European chapters. We have partnered with CleanAir Canada and Bundesverband Emissionshandel und Klimaschutz (BVEK) to help build a chapter based federation. Under this approach, EMA will develop a network of chapters where industry participants can focus on issues of regional importance, while sharing a mission of building a stronger marketplace.

One of the Directors who worked hard on this effort is Tracey Mihelic. I have had the pleasure of serving with Tracey over the past few years. She brought insight, dedication and humor to the EMA Board. As Tracey embarks on a new employment opportunity, I want to wish her enormous success and thank her for her service. Tracey has determined that stepping down from the Board is the best choice for her as she starts a new job in a new industry in a new city. I look forward to working with Tracey in the future, as she is certain to remain a friendly face at EMA events.

Thank you for your support. I look forward to seeing you in Toronto!

EMA Calendar of Events



September 19-22, 2004
Toronto, Canada



Emissions Marketing Association

Toronto Issue Forum
GHG Trading Issues
September 1, 2004
Toronto, Canada



November 14-17, 2004
Houston, Texas



September 19, 2004
November 14, 2004



September 22, 2004
November 17, 2004

Go to the EMA website at www.emissions.org for updates on EMA Conferences and workshops.

A letter from your EMA President: EMA Federation Q & A



EMA President Dan Chartier responds to some of the most common questions being asked about the new Federation and Chapter structure being developed by EMA.

Q. Behind the scenes work continues to create the separate EMA Chapters that will initially serve Canada, the US and the European Union. As word spreads within EMA and to interested third parties, question as

to what the Federation structure really means and how the Chapters will operate have come in to EMA Board Members and Staff. The most common questions are repeated below to help increase awareness and understanding of the changes being discussed. If there are going to be three chapters, which chapter will I belong to?

A. *Once the formal structure is in place for the three initial chapters, Members will be asked which Chapter they want to be designated for their primary membership. Provisions are also being discussed that will allow members to receive membership benefits from multiple chapters recognizing that for example, a Canadian member may also want to have access to the information about the European Chapter, since they will be linked by the Kyoto market.*

Q. Who is making the decisions regarding the Chapter formation?

A. *In Canada, EMA has partnered with CleanAir Canada to serve as the resource for many of the issues that need to be resolved in order to form EMA Canada. In Europe, EMA has formed a European Advisory Committee that has been the focal point for discussions surrounding the formation of the*

European Chapter. In the US, EMA's current Board of Directors is providing the overall guidance and coordination to the Chapter and Federation formation process.

In all cases, whether it be for a specific Chapter or formation of the Federation, member input is being sought on key issues affecting the transition to the new organizational structure.

Q. How can I get involved?

A. *If you're interested in getting involved in the formation of a specific chapter, whether it be Europe, Canada or the United States, or if you are interested in lending a helping hand on Federation related issues, simply send an email to info@emissions.org. Your email will then be directed to the proper individual for follow-up. Volunteer assignments can be tailored to meet any time commitment you are ready to make and to match your specific expertise.*

Q. How much will dues cost in the future?

A. *While a specific dues structure has not been set for the future, maintaining the lowest possible cost for dues is a goal of the formation of the Chapter and Federation structure. In fact, one reason that the new model is being pursued is that there is an expectation that consolidation of common services for chapters will provide the lowest cost option going forward. For example, assigning common services (such as database and web management) as a Federation responsibility will mean that Chapters won't have to maintain duplicative databases or pay separate web hosting fees.*

...continued on page.5

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NWCC Works to Bolster Trading Markets for Wind, Other Renewables

By Kevin T. Bryan, National Wind Coordinating Committee



For the past ten years, the National Wind Coordinating Committee (NWCC) has worked to promote environmentally, economically, and politically viable markets of wind power development. The NWCC is a consensus-based collaborative formed in 1994 that identifies issues that affect the use of wind power, establishes dialogue among key stakeholders, and catalyzes activities to support the development of markets for wind power. The NWCC Green Markets and Credit Trading Work Group believes that these markets are critical to the ultimate success of wind power in this country.

Credit trading is one aspect of the green market—a way to facilitate compliance in mandatory markets, a way to facilitate sales and verify claims in voluntary markets, and potentially, a way to gain access to emissions trading markets. In recent months, the NWCC Green Markets and Credit Trading Work Group has initiated efforts to address at least two concerns with the development of markets for renewable energy credits: the establishment of tracking systems for renewable energy credits and the interplay between renewable energy and emissions markets.

In recognition of these growing markets, the NWCC has focused on a key element of the infrastructure for REC markets: certificate-based tracking systems. The NWCC is interested in REC tracking systems because wind is a primary beneficiary of REC sales, with nearly 6,400 MW of installed capacity in the U.S. at the end of 2003. The work group is near completion of its REC Design Guide, which builds on the experience gained to date in the development of these tracking systems has helped to identify key issues

in the design of tracking systems. The purpose of this Design Guide is to highlight key issues in the design of REC tracking systems and lessons learned in their application. The work group believes that the Design Guide will assist policy-makers, regulators and other stakeholders in regional discussions about tracking system design and development, with the ultimate goal of reliable, credible and robust certificate markets.

The Design Guide will be accompanied by a set of REC Tracking System Design Principles. These principles cover such topic areas as the core functions of tracking systems, import-export capability, and institutional support, among other topics. The Design Principles are currently going through our consensus process and should be available for publication in the next few weeks.

The Green Markets and Credit Trading Work Group is also developing a proposal to continue dialogue on the integration of renewable energy credits into emissions markets. For some time, REC proponents have sought to include renewable energy in traditional emissions markets such as SO_x and NO_x budget programs through the allocation of allowances to renewable energy generators. The NWCC has worked with the Emissions Marketing Association to host two discussions this spring to highlight the most important issues facing the inclusion of renewable energy in these markets. The work group is currently developing a proposal that will provide some recommendations for next steps. To learn more about the work group's efforts, please contact Abby Arnold (202.965.6211 or aarnold@resolv.org) or Rachel Permut (202.965.6383 or rpermut@resolv.org).

ABOUT THE AUTHOR

Kevin Bryan is Senior Coordinator for the National Wind Coordinating Committee (NWCC) at RESOLVE, Inc. Kevin identifies opportunities for the NWCC to work with individuals and stakeholder groups on wind energy issues such as credit trading market structures, transmission, and economic development opportunities for local communities.

CLEANAIR CANADA AND THE EMA AGREE TO LAUNCH AN EMA CHAPTER IN CANADA AND A NEW EMISSIONS REGISTRY . . . *continued from cover*

Just recently, Blue Source became the first EMA member to register an emissions reduction project on the EMA Registry. The emission reductions from a geologic sequestration project met CleanAir's project protocol, were verified by URS Corporation and were transferred to Entergy Corporation. In CleanAir's seven-year history, it has reviewed and registered approximately 50 million project-based emissions reductions and has been the conduit for numerous transfer transactions.

CleanAir is very pleased to provide this registry service to EMA members and has great expectations for EMA Canada and the EMA Federation. Should EMA members desire additional information on the EMA Registry, on the formation of regional sections of the EMA, or on the formation of EMA Canada, please call or email the EMA or CleanAir Canada.

ABOUT THE AUTHOR

Peter Chant is President of The FReMCo Corporation, a group of consultants operating in the area of strategic corporate growth with a focus on maximizing the value of technology and increasing bottom line performance/revenue in all areas of a business. Mr. Chant is also the present Chairman of the Board of CleanAir Canada Inc., a not-for-profit organization dedicated to the increased use of emission credit trading in Canada.

A letter from your EMA President...continued from page.3

Q. Is there going to be an option to join EMA as a "Company"?

A. Yes. As you know, EMA's current membership structure is based on individual membership. While this model has served EMA well, there are a growing number of member companies that operate in multiple markets (NOx, SO2, GHGs, REC's, etc.) or in multiple countries (e.g., multinationals with operations around the world). And, even when a company operates in only a single country, it may operate in multiple states or provinces with different regulatory markets. This means that many companies have multiple staff (such as traders, back office support and legal staff) that may want to be involved in EMA. To meet the needs of this growing percentage class of members, it has been decided to add a membership class for companies. The new membership class will permit companies to designate multiple individuals for membership, allowing them to take advantage of discounts to meetings, the ability to serve on committees and to vote. Different models are being reviewed, including a tiered structure that recognizes that companies have different needs depending on size and geographic distribution. Rest assured, whatever new structure is put in place for companies, the option to join as an individual will remain in place. We recognize that the individual model may still be the best fit for many individuals.

Q. What is the timing of the change?

A. We expect that during the 3rd quarter of 2004 the needed filings will have been made to create EMA Europe and EMA Canada as distinct entities in their respective jurisdictions. At the same time, the Federation body, currently named EMA International, will file the needed paperwork to begin operation. To facilitate the filings by these entities, Bylaws and Articles of Incorporation need to be drawn up that conform with the local and, if applicable, federal laws governing non-profit trade associations. Last, the current EMA will modify and re-file its bylaws to conform with the new structure and also become the US based chapter of EMA.

Q. I want to join EMA Canada (or EMA Europe). Can I join now before they formally exist?

A. Yes. If you join now dues will be credited to your local chapter once the new organization is fully in place. By joining now, you get the opportunity to vote in EMA's Fall election, help influence program design and enjoy a substantial discount to EMA's two Fall 2004 (Toronto and Houston) events. In addition, you will be able to attend EMA's "invitation only" Issue Forums currently hosted in Washington, DC and Toronto, Canada, and under discussion for Brussels.

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The German NAP – bureaucratic, inefficient, unclear and incompatible with the EU directive

By Dietrich Borst, German Emissions Trading Association (bvek)



On 28 May, the German *Bundestag* passed a law governing the national allocation plan for greenhouse gas emission allowances for the period 2005-2007. Two days previously, the governing coalition had introduced more than 50 alterations to its own draft proposal, which in turn had been changed in many places in comparison with the National Allocation Plan for Germany originally agreed on by the Cabinet on 31 March, and of which the EU Commission had been notified.

Following pressure exerted by German industry, not only was the total volume of the emission allowances considerably increased, but an increased number of new exceptions and special provisions were also included in the law, some of which were in themselves inconsistent. This has given rise, not only in the opinion of the parliamentary opposition in the *Bundestag*, to a “bureaucratic monster”. Even within the governing coalition, frustration has been expressed about the result, with some wishing they could “start all over again”.

The German Emission Trading Association has participated actively in the debate in Germany, presenting detailed commentaries and making its own suggestions at the enquiries held by the Federal Ministry of the Environment and the *Bundestag*. The Association emphasised the importance of achieving the best possible final result from a macroeconomic point of view. Unfortunately, its efforts were largely in vain. The particular interests of some sectors of industry and of specific companies weighed more than a sense of responsibility for the common good.

It is not possible here to present in full all the bureaucratic provisions, but some of the more fundamental regulations will be considered.

According to the Allocation Act, the emission allowances will be assigned to operators of existing plants in accordance with 2 different methods: grandfathering (on the basis of historical emissions) and allocation according to requirements. But neither method is compatible with the requirements of the EU Directive, and furthermore they are politically “unjust” and economically inefficient.

Plants which have begun operations (or will begin operations) in 2003 and 2004, are issued emission allowances on the basis of the “announced” average annual CO₂ emissions, with an *ex post* adjustment to allow for the actual level of subsequent activity. In practice, this means that allowances are issued which match actual requirements, so that the operators will play no part in emissions trading, because they have neither surpluses to

sell off nor will they need to purchase additional allowances. This is not compatible with the EU Directive, and the EU Commission has repeatedly drawn attention to the unacceptability *ex post* corrections. In fact, however, the wording in the legislation regarding the calculation of the emissions which are to be “announced” and the *ex post* corrections is not consistent, so that the actual emissions may not necessarily be balanced out by allocated allowances. Indeed, there may, under some circumstances, be a systematic over-issuing of allowances.

Operators of plants which went into operation before 2003, on the other hand, receive emission allowances corresponding to the annual average CO₂ emissions over a baseline period (usually 2000–2002). The allocations to plants which were already in operation in 1994 are reduced by some 3%, as a result of multiplication by a so-called compliance factor. This simple grandfathering method does not take into account the varying potential of activities to reduce emissions, a binding criterion specified in the EU Directive. This deficit cannot be compensated for by a largely ineffective “Early Action” provision.

The allocation in accordance with the grandfathering method will be replaced in three special cases by an allocation based on requirement.

Firstly, the utilisation of capacity provision applies after grandfathering if the actual emissions of an installation are below 60% of average annual emissions during the baseline period, and in this case the allocation will be reduced proportionally to the reduction in utilisation of the plant capacity. Thus, in practice, such installations will receive emissions allowances according to requirements, and will not be affected by emissions trading provisions.

Secondly, an application can be made to have the grandfathering allocations replaced by allocations on the basis of “announced emissions” if, there were special circumstances in the baseline period as a result of which the allocation on the basis of grandfathering would be at least 25% lower than the level actually required during the allocation period, and that as a result the operator would otherwise experience “considerable economic disadvantages”.

And thirdly, and finally, such a switch in allocation method is also possible when the grandfathering method would result in “unreasonable hardship” for the operating company as a result of special circumstances. However, the terms “considerable economic disadvantages” and “unreasonable hardship” are legally vague, and their scope here would probably have to be clarified before a court of law.

...continued on page 9



Milwaukee Office has moved!

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EMA MEMBERS - REWARD PROGRAM FOR REFERRING NEW MEMBERS

There is little doubt that the best tool available to EMA to recruit new members is the recommendations that you, a current EMA Member, make to industry colleagues.

To help recognize your personal efforts to help EMA grow as an organization, we want to remind you of our referral program that rewards you for referring new members.

As a current dues-paid member you can receive a US \$75.00 Reward Certificate redeemable towards your registration fees for any EMA 2004 meeting. One reward will be issued for **each** new 2004 dues-paid member that you refer.

Be sure to tell the applicant to fill in your name on the "How did you learn about the EMA" section on the membership application.

Welcome to the following new Members who joined the EMA between January and June of this year!

Carlos J. Alarcon, Environmental Financial

Adam Capage, Platts

Jason L. Coccia, The Conservation Fund

Jos Cozijnsen, ECOFYS BV (Netherlands)

Antoinette Criss, University of South Florida St. Petersburg

Cyriel De Jong, Erasmus University (Netherlands)

Robert W. DeLarm, Bank One

Robert T. Do, Solena Group Inc.

David Edwards, Environmental Systems Corp.

James Emanuel, Evolution Markets, LLC

Rick L. Gardner, Nebraska Public Power District

Jodean M. Giese, Los Angeles Dept of Water & Power

Paul E. Goldschlag, Florida Power & Light

Edward Harrington, South Carolina Electric & Gas Co

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Janka Szemesova, Slovak Hydrometeorological Institute (Slovak Republic)

Jody TenBrock, Northeast Utilities Service Co.

Benedikt von Butler, Evolution Markets, LLC

Susan Wood, AgCert International LLC



EMA on the WEB

Did you know when you visit the EMA at www.emissions.org you can find the online company directory, past issues of The Emissions Trader, along with other helpful sites and publications, including a master agreement for the purchase and sale of emissions products?

THE GERMAN NAP – BUREAUCRATIC, INEFFICIENT, UNCLEAR AND INCOMPATIBLE WITH THE EU DIRECTIVE . . . *continued from page 6*

Further legal uncertainty is presented by the provision covering the termination of operation of a plant in the course of the allocation period, as a result of which the decision would be revoked and annual allocations for subsequent years of the allocation period would not be issued. This too represents an *ex post* correction. The only exception would be if the production is to be transferred to another existing installation of the same operator or a new installation in Germany.

It is not possible here to discuss the special allocations for 'early action', combined heat-and-power generation, process-related CO₂-emissions, or for the closure of nuclear power stations. The German Emission Trading Association completely rejects all these special allocations because they are no more than patches which are supposed to make good perceived injustices in the two basic methods of allocation (grandfathering and allocation according to requirements). In fact, however, they introduce new injustices, as well as introducing considerable new bureaucratic hurdles for the implementation.

In contrast, we warmly welcome a reserve fund to provide new installations which are not replacements for existing plants with emission allocations free of charge on the basis of product-related benchmarks. However, the proposed orientation of the benchmarks on the best available technology (BAT) is impractical, as can be seen, for example, from the fact that it has not yet been possible to agree on a single benchmark. (They are to be specified in later legislation.)

Finally, it should be pointed out that despite having passed through the German parliament, the Allocation Act has not yet come into force because it requires the approval of the EU Commission. If the Commission rejects at least the provisions made in the legislation for *ex post* corrections, which seems possible given its earlier statements, then it will render invalid a large part of the German legislation on emissions allocations.

The German Emission Trading Association has called on the EU Commission to do precisely that.

ABOUT THE AUTHOR

Dietrich Borst, Chair, German Emission Trading Association (bvek)

Jürgen Hacker, Managing Director, UMB Environmental Management Consultancy, Berlin

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IN THIS ISSUE

CleanAir Canada and the EMA Agree to Launch an EMA Chapter in Canada and a New Emissions Registry

Chairman's Column

From the EMA President: EMA Federation Q & A

NWCC Works to Bolster Trading Markets for Wind, Other Renewables

The German NAP – bureaucratic, inefficient, unclear and incompatible with the EU directive

EMA Members - Reward Program for Referring New Members

EMA Mission

EMA was founded to foster market-based trading solutions for environmental management and to serve its membership.

EMA promotes the advancement and application of policy and regulation relevant to market-based emission trading systems.

EMA encourages and facilitates information exchange among members and other professional and technical groups, and the public.

EMA provides programs in education and training to improve knowledge and skills of members and the understanding and acceptance of the public.