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South Pole hedges risk with voluntary offsets

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By Nina Chestney

LONDON (Reuters) - Splitting its clean energy project portfolio between voluntary and U.N.-backed carbon offsets has reduced South Pole Carbon Asset Management's exposure to regulatory uncertainty, the company's chief executive said.

"The voluntary market has a different risk profile and is a smart way to hedge risks," Christoph Sutter told Reuters in an interview.

Zurich-based South Pole Carbon Asset Management invests in clean energy projects in emerging nations, creating carbon offsets which can be sold for profit.

It has around 120 projects in its portfolio. Over half generate voluntary carbon offsets and the rest produce carbon credits under the U.N.'s Clean Development Mechanism (CDM).

Voluntary offsets allow individuals and companies to compensate for their greenhouse gas emissions by funding projects that reduce emissions, often in developing countries.

The unregulated market operates outside mandatory emissions reduction schemes such as the CDM or the European Union's Emissions Trading Scheme.

Many pure-CDM project developers face growing uncertainty about what kind of credits will be accepted in the mechanism after 2012. Investors are increasingly frustrated with the CDM's unpredictable and inconsistent project approval process.

BET ON GROWTH

The voluntary market is not totally risk-free but will offer good opportunities in the future, Sutter said.

The global recession stalled the market's growth this year as companies cut corporate social responsibility spending. The value of transactions will shrink to around \$150 million in 2009 from \$705 million in 2008, according to MF Global estimates.

Failure to tackle CDM reform and set binding emissions cuts at a United Nations climate summit in Copenhagen could boost participation in the voluntary market, Sutter said.

"If the U.N. fails to deliver a framework, markets will look at other means and the voluntary market will become more important," he said.

Players expect U.S. legislation in 2010 to spell out the type, amount and start date of imported voluntary credits into its emissions trading scheme. Demand for offsets in the United States would dramatically fuel the market's growth.

"That would really change the landscape of the market. Volume-wise, the U.S. will shape the market in future and make a big difference," Sutter said.

South Pole has weathered the storm of recession and resulting low carbon prices quite well. As larger project developers have reduced their activities in some sectors, the company has benefited from less

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competition, Sutter said.

However, South Pole has pushed back plans to launch a carbon fund as it waits for global financial conditions to improve.

"The fund has a mid-term investment horizon which means a lot of credits will come post-2012. We will reassess after Copenhagen when we have a better idea of carbon prices," he said.

(Reporting by Nina Chestney; Editing by William Hardy)

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