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# Making an Emissions Market

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Shell Trading



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## Shell's emission reduction liabilities

- Shell Report: pledge to reduce GHG emissions by 10% below 1990 baseline by 2002
- Internal trading
  - STEPS: GHG reductions 2% below 1998 baseline level by 2002
- Current/Future Emissions Trading Schemes:
  - Denmark ETS
  - UK ETS
  - EU ETS: Downstream facilities; power generation facilities, including some within chemicals facilities



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## Environmental Products Trading Business

- EPTB will take proprietary positions, but many environmental markets are young and illiquid, so...
- EPTB also acts as agent to structure deals that monetise the natural positions or hedge exposure on behalf of Shell companies.
- EPTB also provides consultancy advice to Shell companies and external entities on the development of environmental trading policy and strategy.



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## Why does Shell want a successful emissions market?

- ✓ Enables efficient calculation of investment efficiency, should we make or buy
- ✓ Enables forward selling to finance development/entry of new technologies.
- ✓ Enables us to manage risk, this is our fiduciary responsibility to shareholders
- ✓ Low transaction costs: we minimize costs of M&V, administration

Information = decision making = good business

We really want an enduring and stable solution around which Shell can plan and optimize its business.



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## What is a successful emissions market?

- **Metrics of success?**
  - ✓ Trading volume
  - ✓ Tight bid-offer spread
  - ✓ Low transaction costs
  - ✓ Depth
  - ✓ Forward curve
  - ✓ Breadth of participation
  - ✓ Entry of liquidity providers
  - ✓ Public reporting of price



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## Supply and Demand drives a market.

One-sided markets don't last long!




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## How do we envisage a successful emissions market, and how does this compare with the EU scheme?

Basic policy choices are critical...

- "Mandatory" versus "voluntary"?
- "Absolute allowances" versus "relative allowances"?
- "Cap & Trade" versus "Baseline & Credit"?
- "Direct" versus "Indirect"?

What are the impacts on our metrics of success?

- ✓ Volume
- ✓ Bid-offer spread
- ✓ Transaction costs
- ✓ Depth
- ✓ Forward curve
- ✓ Participation
- ✓ Speculators
- ✓ Price reporting



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## Other factors for consideration

- Links with project-based mechanisms – CDM early approval system?
- Links with domestic schemes within Accession Countries



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## Conclusions

- **Beneficial to cast the net wide – include as many participants as possible**
- **Certainty is needed far-out.**
  - ✓ Future trade requires a certain future.
  - ✓ Rules must be set and left alone.

