

The evolution of carbon markets

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Carbon markets have evolved dramatically in the past 10 years and interest in energy transition has increased as companies realise they need to take responsibility for their impact on the planet. Jenita Riat, EMEA Gas, Power and Energy Transition Lead at HC, speaks to Rene Velasquez, Head of Global Carbon at CBL Markets, to find out how digital technologies are changing the way corporations are using the carbon markets.



Ten years ago, carbon markets were seen as superfluous, said Rene Velasquez, Head of Global Carbon at CBL Markets (CBL), a global exchange providing market participants with access to the world's environmental commodity markets.

Although senior roles were beginning to grow in sustainability, the financial crisis of 2008 forced business managers to look at whether these roles were a necessity. “The focus came back to the bottom line for companies, and the carbon markets took a hit over the following years,” Velasquez said. “The global ambition around climate change then was not where it is today.”

Today we have the Paris Agreement, which will be a key driver of global sustainability efforts, and once the article 6 rulebook is finalised, a mechanism for emissions-trading activities will be established. Media coverage of climate change and recent worldwide protests have also played a key role in keeping the carbon markets resilient during Covid-19.

According to Velasquez, carbon markets are benefiting from corporations making voluntary commitments in anticipation of stronger regulation and policy frameworks. “Companies like policies because they provide certainty,” Velasquez said. “Regulations provide the rules they need to follow.” This explains why carbon policies are gaining traction and are being led by the private sector.

Organisations that have made a commitment to offset their carbon emissions are sticking to it, despite recent disruptions caused by the pandemic. These commitments are part of an organisation’s core business strategy, and carbon markets have a key role to play in providing an actionable, accountable path to carbon neutrality.

While governments focus on encouraging economic recovery post Covid-19, corporations continue to champion the fight against climate change. In May, more than 150 global corporations signed a statement urging world leaders to align Covid-19 economic aid and recovery efforts with the commitment to achieving a net-zero economy.

According to Velasquez, as companies continue to seek out greater efficiencies, the marginal cost of abatement increases, sometimes exponentially. As a result, he said, it is often cheaper to purchase emission reductions from other industries, and/or countries. This in turn, creates an opportunity to allocate vast amounts of capital to help transform entire economies and sectors.

A centralised marketplace

“It’s difficult for companies to reduce their carbon emissions to zero,” Velasquez said. “They can make significant reductions, but that last mile in distribution or shipping is the hardest to improve. Carbon markets help bridge that gap by enabling corporations to purchase emissions reductions from another industry or region. CBL has created a centralised marketplace for corporations that have carbon-neutral ambitions, or airlines looking to meet their compliance obligations.”

Velasquez explained that CBL simplifies the process by providing a transparent marketplace with access to a broad range of digital environmental products that can be transacted with no counterparty risk.

A centralised marketplace allows trades to happen in a matter of seconds, as opposed to weeks of bi-lateral negotiations. This efficiency, Velasquez added, provides greater market liquidity, attracting more investors to a level playing field.



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The power of data

CBL sister company Xpansiv correlates primary production information with verified external data to create an immutable record for each physical commodity that can be configured into innumerable digital ESG assets. By proving the origin of data so commodities can be valued according to their full life-cycle story, Velasquez explained, market participants can value energy, carbon, and water in an information-rich world.

Using distributed-ledger technology to ensure transactable data is absolute, Xpansiv creates a digital twin of physical commodities, like natural gas and cement. “There is the physical commodity in the real world, and we create a digital twin,” Velasquez said, “a tradable digital ESG asset that captures the environmental attributes of the physical commodities.”

For example, natural gas is inherently a cleaner form of fuel than counterparts like

coal—but only if you can prove that there are no methane leaks in the production and supply chain. Xpansiv codifies that information in a register, making environmental data available to the marketplace.

Finding the right talent

Velasquez found himself, like a lot of his peers, moving into carbon markets because of his interests. “When I was at university, there were no courses on carbon finance or carbon markets,” he said. “I found my way into the market at a time when I was looking for something that included my passion for corporate social responsibility. I started working for Climate Friendly, a carbon offsetting firm in Sydney, and they had just sold an equity stake to Macquarie Bank. What they needed was someone who could bridge the gap between their interest in climate and the investment banking side.”

Velasquez then went to work for First Climate, an intermediary brokerage house in the carbon space, and is now Head of Global Carbon at CBL, helping to attract more clients and top-tier talent. “So many young people are passionate about climate change, and it’s our role as custodians of this sector, and of the planet, to ensure they’re equipped to take the industry to the next level,” Velasquez said. “For instance, understanding transformative technologies around reducing emissions like we champion at CBL.”

Velasquez joined CBL in 2015, excited by the possibility of being part of a team that could help transform the carbon markets. “At the time, the majority of trades were being settled bilaterally, and the market lacked price transparency and liquidity,” he said. “Over the past five years, I have had the privilege of working with likeminded professionals, focused on a single mission. Today, we operate the largest environmental markets spot exchange—not just carbon, but also trading renewables, water and differentiated commodities.”

Senior positions in carbon markets need to be filled by people who can think strategically and have the courage to keep their head above the status quo, Velasquez concluded.

“We want to find innovative ways to incentivise global corporations to pursue a more sustainable path,” he said. “To do that, we’re looking for people dedicated to harnessing the power of global markets to deliver a world worthy of future generations.”



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