



UPDATE 1-Chicago Climate Exchange to offer Kyoto contracts

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(Recasts, adds details about pricing and players that may trade the contracts)

By Timothy Gardner

NEW YORK, Aug 23 (Reuters) - The Chicago Climate Exchange said on Thursday it will launch a futures contract on Friday representing clean projects under the Kyoto Protocol that are designed to cut greenhouse emissions.

It will be the first time such futures contracts will be offered on an exchange in the United States. Credits representing greenhouse reductions from the projects are known as certified emissions reductions.

"CERs are widely accepted as the global currency in carbon trading," Richard Sandor, CCX chairman and CEO said in a statement. "Participation in this market from North America is expected to escalate, presenting opportunities for existing and new participants."

President George W. Bush withdrew from the U.N.'s Kyoto pact in his first term, a move that had previously hampered some U.S. market players from investing in clean development mechanism projects.

The mechanism allows companies in rich countries that ratified the Kyoto protocol to meet their emission reduction obligations by investing in the clean projects in developing countries. Often the projects cut emissions by destroying greenhouse gases at places like coal mines and chemical plants.

The news comes as politicians such as California Gov. Arnold Schwarzenegger, lawmakers supporting bills in the U.S. Congress that would lay down mandatory greenhouse emission reductions, and greenhouse gas brokers seek ways to link the world's developing carbon markets.

The contracts will be offered on the Chicago Climate Futures Exchange, a wholly-owned subsidiary of CCX, which also operates a voluntary greenhouse gas market.

CCX is a subsidiary of Climate Exchange Plc <CEV.L>, which also owns the European Climate Exchange, the world's largest live carbon emissions trading market.

A source at the futures exchange said anyone with access to CCFE clearing firms, including Barclay's Capital Inc, Goldman Sachs & Co, JP Morgan Futures Inc, UBS Securities LLC, and Fimat USA, LLC, will be able to trade the contract.

One CER credit is equivalent to a reduction in emissions of one tonne of carbon dioxide. The CER contracts will be offered on the CCFE and will be cash settled instruments priced in U.S. dollars.

The CCFE conducted a survey on Thursday that found the initial price indication for a December 2008 CER on its bourse is \$21.85.

CERs on European exchanges on Thursday were listed at a bid/offer spread of about 15.90/16.40 euros, quite close to the Chicago price.

Deals can be lucrative. Some 750 of the projects have been registered with the U.N. climate change secretariat. In one deal 10 investors bought 129 million CERs from two projects in China. The credits doubled in value and imply potential profits for the investors of over 1 billion euros.

For more information on CER prices visit <http://www.reutersinteractive.com/carbonnews>.

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