Leading through volatility

Randy Lack, founder and co-president of Element Markets talks to *Environmental Finance* about how his firm has navigated the disruption carbon and renewable fuels markets experienced in 2020

***Environmental Finance*: What trends have you observed in compliance and voluntary carbon markets this year?**

Randy Lack: For Element Markets it was a great year in the compliance markets, but 2020 was a tough year for some traders in the California carbon market.

During the early part of the Covid-19 pandemic, the market shocked lower and wiped out several speculators. That same ripple also impacted carbon offset prices, with the offset market getting knocked down by both covid-related market effects and the oversupply caused by the restrictions to 2% out-of-state offsets beginning in 2021. Having said this, it feels like we are bottoming out as regards to both California carbon allowance (CCA) and California carbon offsets (CCO) prices.

The Regional Greenhouse Gas Initiative (RGGI) has been quite a different story. While we experienced a sharp downturn in March there was a quick V-shaped recovery with the market now up over 25% YTD. We attribute this run-up to the addition of new states into the program along with a premium in the market associated with the incoming Biden administration. While there was some hope that RGGI would converge into federal climate legislation, that has been tempered following November's general election and the strong possibility for continued Republican control of the Senate (pending the outcome of the Georgia runoff election). I think the market overall will ride the momentum higher for some time, especially if we see more states join in.

In comparison, the voluntary market has been incredibly resilient this year and we have seen prices trend strongly higher driven by additional commitments by large corporations, universities, and utilities. We expect the demand to continue to increase. We are excited about the future of the voluntary carbon market, and we are laser-focused on new and innovative pathways to bring large volumes of high quality supply to the market as well as investing in new projects under existing protocols.

EF: In the UK, Prime Minister Boris Johnson has recently proposed a Green Industrial Revolution – are you preparing for a similar set of initiatives in the US?

Randy Lack, Element Markets

RL: I love that Prime Minister Johnson refers to this as the Green Industrial Revolution, and President-elect Joe Biden introduced a plan for a Clean Energy Revolution as part of his campaign. A similar call to action is reflected in how Element Markets sees our role: our slogan is "Leading the Clean Energy Revolution."

We have witnessed a fundamental shift in the last year, with companies and institutions wanting to undertake decarbonisation initiatives that make real, positive impacts.

At Element Markets we see our role as not only leading this change, but enabling that leadership for our clients; acting as a trusted resource in helping them understand commodity markets and giving them the confidence to make informed, strategic decisions. Historically our clients shied away from the regulatory risk of the environmental markets. We are now showing them how to embrace the regulatory markets and use them as a tool to finance change.

Environmental commodities are a new currency of business with upside opportunity for those who are early adopters. Corporations who don't evolve or lag behind entering these markets will fall behind their peers and become a price taker, which will result in significant value erosion.

EF: With low carbon fuel programs such as California's Low Carbon Fuel Standard (LCFS) poised to expand, what opportunities do you see ahead?

RL: California once again is demonstrating leadership in the environmental industry. Oregon has followed suit and now we have Washington, Minnesota, Colorado, and most of the Northeast US looking at starting LCFS programs. This is resulting in robust growth for all parts of the renewable fuels sector, especially those with ultra-low carbon intensity such as renewable gas (RNG) from agricultural waste. As an example of the scale of investment we are seeing, Dominion and Smithfield have committed to spending over $500 million in project development to convert swine waste into biomethane.

These projects yield good returns while making a real impact on carbon reduction with wonderful co-benefits such as decreased nutrient loading in the waterways and odor reduction. We expect a continued boom in the RNG space as market participants continue to convert landfills, wastewater treatment plants, agricultural waste, and organic waste into a high value fuel.

EF: As you reflect on your strong performance in this year's Market Rankings, how is Element Markets positioned to continue the momentum?

RL: I truly believe we have the best and most dedicated team in the US, and they are essential in growing and maintaining our client relationships. We have worked hard to cultivate an environment of creativity, adaptability to change, a focus on impact, and a fostering of knowledge that we share with clients and regulators to propel this market further. We have executed extremely well in the face of adversity in 2020, and I am proud to say that this turned out to be another year of consecutive growth for the company. Element Markets is well positioned for the growth we see ahead in the RNG, carbon, emissions, and LCFS markets.