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Carbon Frontiers 2025 | Episode 2
Alasdair Were, Head of Environmental Markets, Abaxx Exchange

On our second installment of *Carbon Frontiers 2025*, we welcome Alasdair Were, Head of Environmental Markets at Abaxx Exchange, back into the SmarterMarkets™ studio. David Greely sits down with Alasdair to discuss how recent dramatic policy changes and hard economic realities are influencing both corporate and government approaches to the energy transition, what it means for the carbon and environmental markets, and some of the potential paths forward.

Alasdair Were (00s):
In this increasingly volatile world, there are more and more calls for better benchmarks, particularly physically deliverable benchmarks that allow for better price discovery.

Announcer (12s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
This episode is presented by Base Carbon, sensible carbon investing. For more information, visit basecarbon.com.

David Greely (52s):
Welcome back to Carbon Frontiers 2025 on SmarterMarkets. I am Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Alasdair Were, Head of Environmental Markets at Abaxx Exchange. We will be discussing how recent dramatic policy changes and hard economic realities are influencing both corporates and governments approach to the energy transition, what it means for the carbon and environmental markets, and some of the potential paths forward. Hello, Alasdair, welcome back to SmarterMarkets.

Alasdair Were (01m 25s):
Thanks Dave. It's great to be here again.

David Greely (01m 27s):
Well, it's great to have you here and I really appreciate you making the time to talk with us today. I know it's been a very busy week for you as you just returned from the E-World Energy and Water Conference in Essen, Germany, which for our listeners who may not know is a leading gathering of the European energy industry, but before we dive into the carbon and environmental markets, I wanted to ask you if you could share with us some of what the big topics of conversation were at E-World this year and what was the mood?

Alasdair Were (01m 56s):
So I think it was a, a fascinating event and I think it's very interesting to compare this year versus last year. Obviously Essen sits at the center of the German industrial heartland surrounded by a lot of the big utilities and so it was interesting to get their take on the state of the economy where Germany is going. Some of the challenges they're facing, I think particularly in light of Trump and some of the narrative that the current putting out, it's I think led to big industry in Germany kind of reconsidering the direction of travel they are going in. I think we are all aware the challenges German automotive sector has faced over the last couple of years, and it's interesting to see again today in announcement or a prediction that GDP will be down another half a percent this year, third year in a row, and whether there is room for reconsideration of some of the environmental policies.

Alasdair Were (02m 59s):
Obviously in the US we have seen a swing from left to right, we are running up into elections in Germany. I think we are seeing similar pendulum swings from left to right and high up on the agenda obviously is some of the environmental and climate focus policies that the Green Party pushed through over the last couple of years and so I think largely at the front of a lot of the conversations that have been had at E-World over the last few days is what's the direction of travel of Germany to a larger extent, what's the direction of travel in Europe over the next couple of years and it will be interesting to see how those conversations play out obviously recognizing that things tend to move incredibly slowly at the commission, but I think it's starting to swing towards a more commercially driven

approach. First is a more ideological, environmentally driven approach and so I think for me that was a big takeaway. I am looking forward to diving into that in a little bit more detail in this conversation.

David Greely (04m 10s):
Yeah, so many great threads to dive into and it, it ties into a lot that we have been hearing on the podcast this year. You know, you talk about German auto industry and remember Andy Holmes talking about how EV sales in Germany were actually down year on year with the removal of certain subsidies. And then just last week we had Mark Lewis on the podcast and he was discussing how with the EU ETS now at roughly the halfway point of its life to get to an absolute zero target that the baton for emissions reductions was being passed from the power sector to the industrial users and at the same time, energy's expensive in Europe, they have had the cutoff of Russian supplies, Europe very reliant on US LNG and now of course you have got President Trump pulling the US out of the Paris agreement once a more so the competitive landscape for European industrials is getting tougher, as you said, Germany is at the heart of the EU energy industry did you have a sense of how they are starting to think about what all this means for European industry?

Alasdair Were (05m 17s):
I think there is a realization that Europe needs to become more competitive. Only today we saw that the build out of coal power plants in China is at a 10 year high. Obviously the US is really promoting a growth first economy and I think it's going to be incredibly difficult for Europe to compete against these two factions if they continue down the path. I think there is a recognition that moving away from the environmentally driven approach towards a more pragmatic approach when to is probably inevitable. I think it would be fascinating to see how conversations go at the US driven negotiations on peace or potential peace in Ukraine and what that means for energy flows. I think it was surprising to hear the number of people talking about the reparation of Nord stream and potentially Germany going back to being somewhat suddenly less dependent upon Russian gas, but moving to a world where that's something under consideration because in the absence of cheap energy, I think the industrial heartland of Europe is going to continue to struggle.

Alasdair Were (06m 37s):
And so that's, for me, I think the big kind of takeaway remains somewhat interesting. What happens going forwards again, if we look at Japan is also making a shift back to nuclear, does Europe turn back on nuclear again I think that's probably a likely outcome as well. At the end of the day, Europe really needs to find that competitiveness again and I guess as an anecdote to that, we've seen Europe reassess the implications of CBAM and we will dive into that in a little bit more detail, but there is a realization that the historical approach that Europe has taken is perhaps not necessarily viable going forward.

David Greely (07m 19s):
And it's really striking to hear the reconsideration of becoming more reliant on Russian natural gas and clearly shows that no idea really seems to be off the table at this point in dealing with trying to make Germany and Europe more competitive. I was also curious at E-World there is a lot of different alternative energy providers, for lack of a better word you know, I think a lot of new sources of energy were being pushed in recent years as being more sustainable and I am curious was there a change in the conversation over sustainability and some of the newer sources of energy supply at the conference?

Alasdair Were (08m 00s):
What was quite interesting is a lot of the narrative around climate neutrality, carbon neutral fuels was really gong or less visible this year and even I would say that the presence from entities involved in the voluntary carbon market was less visible this year. There was a lot more focus on things like bio methane and some of these more climate friendly fuels and other big one that I think was interesting to watch was kind of the downgrade and ambition of hydrogen. Obviously Germany has been at the forefront of pushing the, the hydrogen agenda and I think there is a realization that the energy transition is going to take a lot longer than previously envisioned. If you look at some of the climate commitments that firms have made over the last few years, around 20, 30, 20 50 goals, for the most part they are well behind achieving those and whether that's down to consumers not necessarily desiring the products as we have seen with EVs or the fact that technology has not developed at the pace expected, we are seeing a lot more pragmatism when it comes to the kind of energy mix. That's not to say that renewables aren't visible and aren't at the forefront. Germany has done a phenomenal job at transitioning their grid to be increasingly reliant on renewables, whether that's wind, solar, hydro, etc. But I think there is also a realization that traditional fossil fuels are not going to be replaced at the rate that was originally expected and so it's about trying to create these intelligent solutions that achieve the climate goals that we may have as, as a population not at the expanse of economic growth.

David Greely (09m 49s):
And I am curious, has that pragmatism, do you see that extending over into the policy realm and the policy agenda in Europe, including the ETS and implementation of CBAM?

Alasdair Were (10m 04s):
So yeah, as mentioned, I think we had news earlier this week that they are going to reduce the participation in CBAM by about 80%. So the vast majority of small firms that were in theory going to be covered under CBAM no longer have to report. So it's really a, a focus and prioritization on the larger firms that have the ability to, to quantify their footprint. I think the other shift that's of interest is a focus on the carbon intensity of the goods moving in versus the economic value. So I think we are being a little bit more pragmatic or I think the policy makers are being a little bit more pragmatic. That being said, there is a lot that still needs to be resolved over the coming years and I think 25 and 26 are going to be crucial for the future implementation and success of EU ETS, particularly ETS 2.

Alasdair Were (10m 59s):
I think what else, what will also be interesting is the role of tariffs and, and how tariffs impact some of these environmental policies and obviously we are going to see some fairly aggressive tariffs being pushed out by the US even if they are just ideas versus actually implemented. It will be interesting to see how Europe reacts to some of these tariffs. One of the, I guess potentially more positive outcomes of these tariffs, these kind of an on-shoring of supply chains and it could lead to reduced environmental footprints for products that consumers buy. As supply chains become less global in nature we see a lot of near shoring of production. There could be some interesting unintended environmental benefits to some of these policies that the current administration is pushing out.

David Greely (11m 58s):
It's fascinating the thing that you could get emissions reductions through shrinking supply chains driven by tariffs and a lot of the increasing hard line on trade that a number of countries may be taking. It was interesting, I was listening to someone the other day who said that the vast majority of global trade now occurs within companies and kind of within the subsidiaries of the different companies. A good often goes back and forth between countries. I think this was in the case of like US and Mexico and Canada, like 25 times before it's actually a finished good. So when you have to start accounting for that, you can see it really has an impact. Maybe we could broaden out the conversation a little bit, you know, from Europe to the wider landscape facing the voluntary carbon markets and how do you see that relationship between the compliance markets and the voluntary markets evolving given the pressure on compliance markets like the EU ETS and a lot of the difficulties that the voluntary markets have had to deal with over the past couple of years?

Alasdair Were (13m 00s):
So I mean obviously Mark did a wonderful job in last week's episode of explaining the potential linkages between and Article 6 market and the EU ETS in light of a reducing allowance cap. On a global basis I think we are seeing a lot more focus on regional compliance markets and utilization of foreign tree credits towards achieving that compliance, whether that's in Japan with a JCM or Singapore with the Singapore carbon tax. I think that's where we are seeing demand for the most part, gear around an absence of fallen through demand currently and I think it's going to be interesting to see how, again, the Trump administration's kind of anti-climate push impacts the decision making of some of these large American corporates. Obviously we saw last week the Bezos Earth Fund pulling out of funding of SBTI, I know the FT framed that as being an intention to align more closely with Trump administration's thinking. It will be interesting to see whether more large American firms follow that direction and pull back from some of these voluntary participations but what we have seen even today is an announcement from a bipartisan group, including Microsoft and Exxon, creating a task force focused on the voluntary carbon market. So I think it could be that we see corporates really stepping up into the abyss as the US pulls out of supporting climate initiatives. It's going to be interesting to see how the voluntary market evolves and how that intersects with compliance markets.

David Greely (14m 53s):
It's easy to understand the motivations of corporates who might want to pull back at this point, but when you mention corporates that might step forward, what is motivating them that you are able to see?

Alasdair Were (15m 03s):
So I think for the most part it's really just a social license to operate. If you look at the, the hyperscalers, obviously their emissions footprint is, is going through the roof currently with the rise of computing linked to AI and I think there is a recognition that that footprint is only going to continue to grow as the level of compute grows. So in the absence of government supervision and regulation, it is probably the right thing to do and I think there was a very nice anecdote that someone gave at E-World a few days ago as morally

conscious individual, if you drop trash on the floor, you pick it up and I think a lot of corporates are thinking about their missions footprint much in the same way as a morally conscious corporate. If you understand and can calculate your footprint, if you have got the financial issues to do so, you should probably do something to counteract that and the profit margins of the hyperscalers remain very healthy for the time being and I think that some of the few that are in a position to really do something very meaningful about it. So then I guess going to lead the path forwards of the next few years.

David Greely (16m 24s):
It's interesting and if you kind of look at the other side of it on the supply side, the project development side, how serious has the overall impact on and need for carbon finance been affected by these recent policy changes in governments and corporate boardrooms? How big an impact, how big a dearth of carbon financing do you think we're seeing for project developers these days?

Alasdair Were (16m 50s):
So I would say that there is still a real challenge out there for project developers to track the kind of finance they need in certain segments of the market and I would largely say that's removals focused. There is demand, but probably not enough to create that sort of ramp up to a gigaton size market. I think the avoidance space is probably struggling a little bit more. We have seen the US government pull back their funding or pull out of their funding for the LEAF Coalition who has been probably the forefront of the development of a jurisdictional red market and on the secondary market side of things, I think the market remains very quiet. So you have got a somewhat active primary market. The secondary market is struggling, although I think there is an expectation that it will begin to take up but a number of the, the more speculative entities, whether that's trade houses, hedge funds, etc., that had made a, a bet on the future of the VCM or perhaps dealing with write downs and, and right sizing of their, their businesses.

David Greely (18m 03s):
Absolutely. In addition to like potentially the trend of the path forward changing, how much is just the kind of radical uncertainty that's kind of permeating due to not knowing the direction of policy, not knowing the direction of where and when and at what level tariffs will be? How much is that you think causing people just to freeze or you know, maybe more politely just step back and wait and try to figure out how things are moving and in what direction before they take any strong action or investment?

Alasdair Were (18m 36s):
That's absolutely a challenge. The market faces, and I think we see that in the CORSIA market currently. Obviously airlines are aware of the obligations that they have to be held to. The challenge I think is currently there remains only one project that's eligible for delivery into CORSIA, and so airlines are sitting on the sideline trying to understand, okay, what is the supply side going to look like? How many more standards are going to be eligible? How long is it gonna take for more projects going to come to market And part of that is challenges around host countries issuing LOAs. Part of that is project developers struggling to find the financing that's required to develop the projects that CORSIA will need And a portion of it is really kind of capacity building at the country level. It still remains, I think, a challenge for a lot of countries to understand what's required of them to, to comply with the needs of the market and what it takes to issue those letters of authorization to become CORSIA eligible.

David Greely (19m 45s):
Yeah, and of CORSIA Phase 1 contract is one of the future's contracts you have listed at Abaxx Exchange where you Are the head of environmental markets, the other current carbon offset futures contract is for J Red plus methodologies. Curious, how are you thinking about your current futures contracts in this environment?

Alasdair Were (20m 05s):
So I think when we launched those products, we were cognizant of the fact that they were perhaps a little bit ahead of their time. The intention was really to put contracts out into the market that would be relevant one or two years after launch and so I think we still feel like those are the right products to have, that's where the market is evolving to but beyond that, we are looking at what are the next compliance markets that need the, the price discovery that a futures curve provides and so going forward, I think there's really two areas that would make sense for us. One would be something much more removals focused. Obviously the two contracts that we have today, the underlying supply is avoidance based and the other is some of these regional compliance markets that are in the process of developing, whether that's in Singapore, as I discussed, Japan or elsewhere where there is a, a floor in demand. The challenge historically with the voluntary carbon market is trying to identify where that demand is going to sit and we have seen something of a, a whack-a-mole type scenario play out over the last couple of years with various different methodologies being criticized and corporates

jumping from one safe space to another. Obviously compliance markets avoid all of those challenges. We really kind of will look to cater to that certainty of demand.

David Greely (21m 32s):
And over the past few years, while the voluntary markets were being stuck in that game of whack-a-mole, as you said, did seem like we were seeing more and more regional compliance markets coming forward or at least being in the planning stage. Is that still kind of a trend that you are seeing of more areas developing their own compliance markets or implementing carbon taxes that can utilize these types of offsets?

Alasdair Were (21m 59s):
I think we are certainly seeing more and more jurisdictions actively developing carbon markets and carbon trading. We have seen that recently in Brazil, in South Africa, in Indonesia and Malaysia as well as Singapore and Australia and Japan. So the number of jurisdictions that understand the benefits of carbon markets is continuing to grow. I think the challenge is building out that capacity and understanding and that doesn't happen overnight. That's a multi-decade phase. As Mark identified in last week's episode, the EU ETS is now going on 20 years old and it's been through ups and downs and there's been a lot of learning along the way and I think all these other regional compliance markets are gonna go through the same learning curve. They are not necessarily gonna get it right first time round, but they are going to continue to evolve and improve and I think it's still my expectation that we will see a variety of global carbon prices develop over the coming decades.

David Greely (23m 09s):
You had brought up earlier that there is still a preference amongst many, I think the hyperscalers, especially for removal type projects as opposed to reduction or avoidance. Are there certain types of removal projects that are becoming more interesting as they develop? I know the, the knock on removals has always been about scalability.

Alasdair Were (23m 35s):
It really depends what you are looking for. I mean, as an exchange, obviously we are focused on kind of to that pool of liquidity. And I would argue for the most part, most of the removals methodologies remain too niche today to really allow for deep liquidity to develop. That being said, there are segments that probably are now being developed to an extent that there is a depth in liquidity. Thinking about things like BIOCHAR and ARR for the time being, recognizing that DAC in the long term probably represents the deepest potential pool of liquidity and the most homogeneous pool of liquidity. There are still obviously technological challenges to overcome, particularly with DAC and BIOCHAR that will allow it to kind of rescale and for the price to come down to a point that is commercially viable. I think if you look at most of the DAC off take today, there is still north of $500 a ton and that that obviously feeds to challenges around scaling the market.

Alasdair Were (24m 40s):
But what we are starting to see is the interplay between, let's say, DAC and some of the sustainable fuels And certainly in Singapore we Are seeing a real push for the growth in sustainable aviation fuel and sustainable marine fuel, as well as things like bio LNG and bunkering, some of these sustainable fuels in Singapore. So the market is growing. There are obviously an abundance of more niche methodologies out there like enhanced rock weathering and hopefully the likes of Microsoft will continue to deploy capital for those technologies to mature to a point that they, they really allow for scale because obviously the end of the day we want to hit that gigaton type market and we are going to need a little bit of everything to achieve that.

David Greely (25m 29s):
And as I said, you're head of environmental markets at Abaxx, which is much wider than just carbon markets. Starting off with the J Red plus and CORSIA Phase 1 carbon unit offset contracts, I wanted to get your thoughts, you know, when you look at a market as kind of dynamic and as uncertain as the environmental markets maybe just how are you thinking about developing new products for the market and for a market that has so much to react to and where people are struggling to see the path forward?

Alasdair Were (26m 03s):
That's a great question and I think if I think back to my expectations of how the market would've evolved four or five years ago versus where we are today, there is a bit of an inflection point. It's certainly clear that the energy transition is going to take a lot longer than I think most of us expected and will be a lot more complicated than most of us expected. The concept that coal is on the way out is probably somewhat unrealistic, particularly in light of China's record high growth in power plants, I think we are trying to do is work

out what are the more viable approaches going forwards. Obviously hydrogen is still kind of high up on the agenda for Europe, but I think it's going to take a lot longer for that to be a viable fuel that we can depend on, and that's going to require the physically deliverable benchmarks that we at Abaxx look to build out.

Alasdair Were (26m 58s):
That being said, there are areas of opportunity, and I think in this increasingly volatile world, there are more and more calls for better benchmarks, particularly physically deliverable benchmarks that allow for better price discovery. We are seeing that in some of the sustainable fuels like ammonia and methanol, but also in more niche subjects like weather derivatives where the role of renewables is leading to increasing price volatility. Nowhere is that more apparent than Germany where you have got pretty major swings in power pricing equally in Japan where we have seen a number of the merchant traders set up Japanese power trading businesses. So I think there are real opportunities out there. It's about working with the market to identify them and build solutions that work for all.

David Greely (27m 56s):
Thanks again to Alasdair Were, Head of Environmental Markets at Abaxx Exchange. We hope you enjoyed the episode. We will be back next week with another episode of Carbon Frontiers 2025. We hope you will join us.

Announcer (28m 11s):
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