

# Viability of alternatives: Play the game

Allianz has sought to provide leadership in environmental capitalism. Their latest offering, the web based CEO<sub>2</sub> game, is an outstanding piece of marketing – and great fun too.

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## The corporate game

The corporate game is not for all of us. Niche players, like BRAVE Partners, exist because the firm finds that it can deliver its services more effectively in this format. In particular the firm is able to be more creative, more reactive and take a long term view on projects and opportunities. The corporate game is not for everyone. One corporate game that is very much enjoyed at BRAVE Partners is the latest web based offering from Allianz; CEO<sub>2</sub>.

## The CEO<sub>2</sub> game

The Allianz game has four industries to choose from: insurance, automotive, chemical and utility. The game has two periods; 2010 to 2020 and 2020 to 2030. In each period you are given a range of investment options, each with a cost and a CO<sub>2</sub> reduction level, and an overall budget. The objective of the game is to invest to reduce CO<sub>2</sub> emissions whilst making a profit for the firm. The firm's profit is measured by the stock price.

Governments will be unwilling to be seen to be doing anything that will damage economic growth in the current environment. Cheap energy is at the heart of economic growth and so cheap energy, from any source, will be on Government agendas. A price for CO<sub>2</sub> emissions will not be high on any Government's totem pole right now.

## Renewable production vs carbon reduction

The Kyoto treaty defines the CO<sub>2</sub> reduction targets for the signatory countries. It does not define how that is to be done. In particular it does not define the renewable energy production targets of individual countries. These are defined at a national level and remain intact post 2012.

Supporters of carbon markets, usually those whose business depends on the existence of carbon markets, are quick to highlight this fact.

There is certainly an argument to be made that national renewable energy targets will remain due to national policies to reduce dependence on oil for energy. The Deepwater Horizon disaster highlights the problems with current exploration to find oil.

## Long term

Increasing renewable energy, however, is a long term project with long term rewards. There is a lot of co-ordinated investment required. The difficulty and issues with this are well demonstrated in the excellent new online game from Allianz: [CEO<sub>2</sub>](#).

BRAVE Partners has frequently highlighted a number of issues in expanding renewable energy production, such as:

- Lack of availability of cable-laying ships to create the grid infrastructure for offshore wind farms. (eg "[I see ships](#)")
- Grid balancing issues in matching supply and demand from the uncertain production from wind and solar. (eg "[Eh Gringo, what do we do with all this electricity?](#)")
- Long distance electricity transmission issues in getting renewable electricity from sources of high production (sub Saharan Africa, US Mid West) to areas of high consumption. Northern European conurbations and the US coasts. (eg "[National rights issue](#)")

These issues require co-ordinated, long term investment. BRAVE Partners finds it tough to envisage where this will come from in the current environment. Without this investment, renewable energy will be tough to integrate and ultimately Governments will relax the targets.

"BRAVE Partners seeks to keep abreast of the long term infrastructure development needs for effective renewable energy production and use.

This is certainly an area of intense uncertainty that the Allianz game demonstrates well."

Christopher Cloke-Browne  
Managing Partner  
BRAVE Partners LLP

## The Allianz game

The Allianz CEO<sub>2</sub> game is an excellent summary of many of the issues facing sections of global business. The message is clear; "it is possible to balance carbon reduction and profit growth".

## Point of view

Naturally the game is based on the Allianz view of the cost, risks and benefits of the various options that the game puts forward. For example, carbon capture and storage (CCS) features quite prominently in the utility company options and the times that BRAVE partner, Christopher Cloke-Browne, has used it, his results have been pretty good. In contrast BRAVE partner Christopher Cloke-Browne cannot see why it is essential to develop a new, complex and uncertain CCS technology where trees exist. Trees would appear to be a tried and tested CCS technology.

## BRAVE Partners' services

BRAVE Partners will review any business plan and advise management on its viability. In doing this; the firm takes a strong interest in the current opportunities, risks and developments in the energy markets. Significant investment and development is required to make some technologies viable. In the firm's opinion certain niche technologies will add value regardless. One example is smart grid technology. There are clearly efficiency gains to be made immediately if the grid can be better balanced with less redundant capacity. The firm believes that renewable energy will develop from these core "efficiency" technologies.

## Interaction

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- Allianz has asserted itself as a leader in environmental business through its excellent online game CEO<sub>2</sub>.
- The game highlights many of the risks and uncertainties in investing in particular technologies. Certainly, over investing in pure renewable energy for a utility company is fraught with uncertainty and will often cause a sharp fall in the simulated share price.
- Many of the uncertainties revolved around Government policy and infrastructure development.
- BRAVE Partners can advise management teams seeking to finance energy related projects on the current political and infrastructure environment with a view to maximising the chances of success.

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