

# Carbon Trading: Hot and bothered in Copenhagen

---

November 16, 2009

*BRAVE Partners has long been a skeptic of the USA implementing a cap-and-trade scheme any time soon. The firm reads the recent announcement from the APAC summit as the closest yet to an admission by the USA that it won't get there as the Administration had hoped.*

As the global leaders gathered at APAC announce that the Copenhagen summit is unlikely to bring agreement on carbon emissions post 2012, when the Kyoto accord runs out, BRAVE Partners believes that the discussions there will be a little heated – and not just due to rising global temperatures.

## Too much too soon

American culture is engrained with the concept that cheap energy is abundant. In his outstanding book, *The Prize*, Daniel Yergin describes the early days of oil prospecting right from the time that oil was first gathered as it bubbled to the surface in Pennsylvania. Since those days the USA has strived, and succeeded, to find enough oil globally to feed the rapidly growing, and now huge, domestic demand. Often this oil is found in countries that are hostile to the USA.

## “Drill baby drill”

Energy was a major topic during the 2008 Presidential election campaign. Oil had just come off a peak of \$147 a barrel – and Americans had tasted (and spat out as firmly as they could) \$4 gas (more like \$12 for those of us who call it petrol).

“Drill baby drill” became a Republican campaign slogan – deep water, ANWR (an Alaska nature reserve), anywhere. The Republicans supported renewable and alternative fuel and carbon trading, but their message was clear: until America developed alternatives – the machine must be fed.

*American culture is engrained with the concept that cheap energy is abundant. In his outstanding book, *The Prize*, Daniel Yergin describes the early days of oil prospecting right from the time that oil was first gathered as it bubbled to the surface in Pennsylvania. Since those days the USA has strived, and succeeded, to find enough oil to feed the rapidly growing, and now huge, domestic demand.*

## Committed to cap-and-trade

The Obama campaign was more cautious in their approach to energy. However, Obama committed to implementing a cap-and-trade program.

## Something must go

During March and early April 2009, as the BRAVE partners headed to the UK from working in New York, all of the news media was reporting that the Obama Administration had too many issues to deal with.

The US economy remained in the doldrums, healthcare reform was top of the agenda; pundits predicted that the cap-and-trade policy would be postponed.

## Confidence

In contrast, the US Administration acted swiftly and decisively. On Friday April 17, 2009 the Environmental Protection Agency declared that carbon dioxide and other greenhouse gasses were a significant threat to human health and thus listed as pollutants under the Clean Air Act. This paved the way for regulation of the emission of these gasses – ie cap-and-trade.

*On Friday April 17, 2009 the Environmental Protection Agency declared that carbon dioxide and other greenhouse gasses were a significant threat to human health and thus listed as pollutants under the Clean Air Act. This paved the way for regulation of the emission of these gasses – ie cap-and-trade.*

## Growing skepticism

As the months wore on the US Administration's program began to get bogged down. Healthcare reforms were not as smooth as perhaps the White House might have hoped. News footage, even in the UK, showed angry town hall meetings. The Waxman Markey bill made it through congress, but this appears highly prescriptive to BRAVE Partners; almost a carbon tax structure rather than carbon trading. Over 85% of carbon credits are to be given away. Currently, the bill allocates these 88% of carbon credits for free to the following select projects:

- 35% electric utility
- 15% carbon intensive industry (steel, cement)
- 10% states renewable energy and efficiency investments
- 9% local natural gas
- 5% tropical deforestation projects
- 3% automakers for advanced technology development
- 2% domestic adaptation to climate change
- 2% international adaptation and clean tech. transfer
- 2% carbon capture and storage
- 2% oil refineries
- 1.5% programs for helping home heating oil and propane users
- 1% for clean energy innovation centers for R&D funding
- 0.5% for job training

### Acceptance in the Senate

Against a current approval rating of 15% on opencongress.org, the Senate Environment and Public Works Committee approved a cap-and-trade bill on November 5<sup>th</sup> despite the best efforts of the seven Republican members to delay it. This is then to be combined with the work of at least five other Senate committees to produce a comprehensive Senate Bill. The comprehensive bill is to be sponsored by Senate Majority Leader, Harry Reid.

*Republicans are seeking to slow the pace of the development of cap-and-trade legislation while the full impact of it on the economy is assessed. Most Republicans want the legislation to also allow other energy options such as offshore drilling ("drill baby drill") and nuclear. Surprisingly, despite the large energy demand and vast size of the USA it does not exploit nuclear power much and offshore deep-water oil drilling was banned following a major leak.*

Republicans are seeking to slow the pace of the development of cap-and-trade legislation while the full impact of it on the economy is assessed. Most Republicans want the legislation to also allow other energy options such as offshore drilling ("drill baby drill") and nuclear. Surprisingly, despite the large energy demand and vast size of the USA it does not exploit nuclear power much and offshore deep-water oil drilling was banned following a major leak.

### Cultural shift in America

America has a charismatic leader, but it needs more than that to embrace cap-and-trade, which in the short run will push up energy prices. America needs a cultural shift. Cheap energy is seen a constitutional right in the centre of the USA. No matter how right anyone is about raising energy prices for the long term good of the USA and the world, they make themselves a political target by taking any action that will have an immediate rise in energy costs. Doing this in an economic downturn is even more politically risky.

### The price of carbon

The International Energy Agency recently called for a doubling of the price of carbon. As world leaders head to Copenhagen without:

- (i) any prospect of an emissions pact to replace the Kyoto accord in 2012; and
- (ii) one of the world's largest emitter of carbon, the USA, showing no signs of pricing carbon effectively in the near future

then BRAVE Partners believes that the price of carbon will fall rather than rise.

### Business sense

Technologies that depend on carbon credits for commercial viability make less sense in the current environment. However, this does not mean that there are not highly viable businesses that will reduce carbon emissions. BRAVE Partners calls these Flagship Businesses.

A Flagship Business is one that is economic because it is more efficient. The business works because of its efficiency and any carbon saving is a result of this efficiency.

### Methanol

Within this Flagship Business space, BRAVE Partners has become struck by the emerging technologies to convert methane gas to methanol. The traditional methane to methanol process is large and expensive. However, a number of technologies are emerging that are smaller, cheaper and can accept dirty methane. The applications are almost boundless. Converting methane gas, which is often flared from rigs or compressed and injected back into the ground, into methanol is a major application. There are many more, including using the methane gas emitted by garbage.

Interestingly ExxonMobil has just committed to this technology.

### BRAVE Partners services

BRAVE Partners believes in true, free carbon markets. However, the current state of the political process makes the firm skeptical that these will emerge for a number of years. The carbon markets are currently destined to be inefficient, which will only serve the traders and not the global economy.

However, BRAVE Partners does remain positive. The firm believes that there are many efficiency driven technologies that can be developed on their own economic merit. These will reduce CO<sub>2</sub> emissions as a by product and ultimately help to drive carbon markets and set the price.

BRAVE Partners can assist entrepreneurs to develop and fund their businesses and to maximize the value of carbon credits.

- *BRAVE Partners believes that carbon credits are underpriced.*
- *The firm believes that this situation will persist due to lack of political and cultural pressure to increase the cost of carbon.*
- *BRAVE Partners LLP is seeking to work with companies whose business model reduces carbon emission by creating natural efficiencies.*

[enquiries@bravepartners.com](mailto:enquiries@bravepartners.com)

[www.bravepartners.com](http://www.bravepartners.com)