

Carbon trading: California Uber Alles

In a rare, but welcome development, the State of California has made strides toward implementing cap-and-trade legislation in the State.

October 7, 2011

California Über Alles is the debut single from the controversial California hardcore punk band The Dead Kennedys. The band name caused controversy in its time, especially when booked to play a gig on the anniversary of the shooting of JFK. The band members protest that the band name is not set out to be disrespectful to JFK and the family, but rather to symbolise the demise of The American Dream. In that respect is possibly a suitable theme tune for the demise of cap-and-trade legislation in the USA despite the best intentions of the new Democratic wunderkind, Barack Obama.

Über alles?

Given the environmental credentials of Germany, the country might debate whether California is über alles (above all). However, in the context of current United States environmental policy development the State of The Governor (Arnie) clearly is steps ahead.

On September 29, the California Supreme Court issued an order that allows the California Air Resources Board (CARB) to continue to implement a cap-and-trade program for carbon. This ruling overturns a ruling by a junior court that prevented CARB from proceeding with cap-and-trade legislation before all appeals to the action brought by the Association of Irrigated Residents (AIR) were exhausted.

Supreme

On September 29, the California Supreme Court issued an order that allows the California Air Resources Board (CARB) to continue to implement a cap-and-trade program for carbon. This ruling overturns a ruling by a junior court that prevented CARB from proceeding with cap-and-trade legislation before all appeals to the action brought by the Association of Irrigated Residents (AIR) were exhausted.

One step beyond

The California Supreme Court ruling does not immediately open the door for CARB to implement cap-and-trade. However, the action does remove all hurdles apart from an impending decision by the California Court of Appeal. This decision relates to the original action brought by AIR where the group alleged that the cap-and-trade legislation violated State law in a number of ways and that the State had not adequately considered all alternatives, such as a carbon tax.

The impact of the legislation

This is both an important step for California, but also the USA and the Globe. The USA is the second highest CO₂ producer behind China. Ever since Kyoto, the USA has been behind the curve on reducing its Green House Gas (GHG) emissions – which in turn has allowed China, India and other emerging economies to delay. This is despite the fact that the concept of cap-and-trade was developed in America (see "[Emission Impossible](#)").

The Obama administration sought to change the American attitude to cap-and-trade. Federal legislation was on the Obama agenda when he was elected in 2008 and acted upon rapidly as the administration took office. However, as the reality of office sunk in and the Democrats needed their political favours and deals to pass Obamacare, the healthcare initiative – cap-and-trade began to slip off the agenda. The final nail in the program was the 2010 mid-term elections where not just the Republican party emerged triumphant, but really the hard right Republican tea-party (see "[More tea vicar?](#)").

California is leading the way and once more invigorating cap-and-trade policy in the USA.

Global importance

BRAVE Partners has long argued that without US participation cap-and-trade would eventually disintegrate. Whilst this has not yet happened, and BRAVE Partners would not have expected it to so quickly, carbon trading schemes have been under pressure as the global economy shrinks and power demand declines with it. There does not seem to be the money, nor the point to cap-and-trade right now.

Whilst California is not the USA, it is a large economically active, Republican State. Passing cap-and-trade legislation in California provides a benchmark for the USA as a whole.

Whilst California is not the USA, it is a large economically active, Republican State. Passing cap-and-trade legislation in California provides a benchmark for the USA as a whole.

Stabilisation

Having America make progress towards a cap-and-trade regime is important to stabilise the system elsewhere. The UK, and most other developed nations, are struggling with their energy policy. In a recent white paper, "Planning our electric future: a White Paper for secure, affordable and low-carbon electricity", the UK Government estimates that £200bn will need to be spent on building electricity generation capacity for that country alone.

Uncertainty around the incentive regime is one of the major factors deterring investors from supporting new energy projects. BRAVE Partners has seen this at all levels from the feed-in tariffs for small domestic renewable generation to the renewable obligation certificates (ROCs) for large commercial plant. The feed-in tariffs have not been helped by the fact that both Spain and New South Wales (Australia) did retrospectively change their tariffs. The decision in New South Wales was reversed after public outcry.

This decision in California provides a much needed glimmer of hope for carbon markets and the prospect of some stability in the existing programs.

California might not be über alles, the Germans would like to think that they are further ahead, but they are at least setting the pace in the USA.

BRAVE Partners' services

BRAVE Partners has long advocated an established, credible and stable global carbon market. Such an entity could provide an invaluable source of financing for viable alternative energy projects and create the catalyst for real and necessary reductions in carbon emissions.

The firm believes that the political environment makes carbon markets highly fragile. This is undoubtedly an impediment to funding energy projects. However, this recent announcement from California provides some much needed positive momentum to cap-and-trade and carbon trading. Whilst, the issues will not disappear overnight there is a glimmer of hope. The firm continues to monitor developments within carbon markets globally.

BRAVE Partners has been highly successful in offering advisory services and arranging financing for alternative energy projects.

Interaction

If you enjoyed this commentary and would like to receive a weekly update by E-Mail, then please contact BRAVE Partners on commentary@bravepartners.com

If you would like to comment on the content of this piece, then please send an E-Mail to discussions@bravepartners.com

- BRAVE Partners always believed that cap-and-trade legislation was a long shot for Obama.
- The mid-term elections handed significant power to the Republicans – and much of this was driven by the Republican right.
- The Republican right is so opposed to cap-and-trade that BRAVE Partners believes that this has actually put the USA backwards in its ability to implement cap-and-trade policies.
- Moreover, if the USA does not participate in cap-and-trade then BRAVE Partners believes that the entire carbon market is in jeopardy.
- The progress in Republican California on implementing a State cap-and-trade program can give fresh hope to the system both for America and the Globe.
- BRAVE Partners seeks to monitor developments in carbon trading globally.
- The firm believes that alternative energy projects going forward will need to emphasise their stand-alone economic proposition. Projects that rely on a carbon price will struggle to find financing.

enquiries@bravepartners.com

www.bravepartners.com