

Carbon trading: Mexican standoff

Against the odds there appears to have been a breakthrough at the Cancun Climate Change Conference. BRAVE Partners assesses the likely impact on carbon markets.

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Cancun Summit

The 2009 Climate Change Conference in Copenhagen was seen to be a failure with no agreements emerging. Expectations for Cancun this year were therefore set low and for most of the conference those low expectations were met.

Breakthrough

Late on December 10th news began to emerge of a breakthrough. Despite the resistance of Bolivia and Saudi Arabia, the conference chair, Mexico, decided to adopt a resolution to:

- Cut emissions
- Establish a climate fund, thought to be \$100bn
- Protect forests

Whilst the ambitions of the resolution are admirable and the proposed funds significant, ultimately there is nothing to commit any nation to cut carbon.

Back to the tea party

BRAVE Partners strongly believes that there will be no significant movement on climate change until America, China and India are fully involved and committed. As the firm commented recently, in "[More tea vicar?](#)", the resurgence of Republicans in the US mid-term elections has set this process back. In fact it is quite possible that Obama could be a one-term President.

The announcement from the Cancun Climate Change Conference really looks like face saving. There is no commitment to specific targets, which means that there is no incentive for any nation to limit greenhouse gas emissions.

Overall BRAVE Partners sees this as a step backwards for carbon markets.

Carbon markets

In terms of carbon markets Cancun looks like a step backwards. There are no reduction targets to support the prices of carbon markets. Moreover, there is to be (assuming the cash goes in) a fund to assist developing countries in moving to low carbon technologies. This fund

would diminish the need for financing and subsidy for low carbon technology through carbon credits.

Overall, BRAVE Partners believes that the Cancun “breakthrough” will be bad for carbon markets – which will ultimately be bad for carbon reduction.

BRAVE Partners’ services

BRAVE Partners believes strongly in 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.

However, the firm believes that the political environment makes carbon markets highly fragile. Even within the established EU market, futures do not trade beyond 2012, because there is no clarity post Copenhagen on the global accord to replace Kyoto that will expire then. US commitment, or the lack thereof, was an important feature in the failure to agree in Copenhagen. The agreement reached in Cancun has done nothing to resolve any of these issues.

The firm continues to monitor developments within carbon markets globally.

BRAVE Partners offers advisory services and arranges financing for alternative energy projects.

The firm believes that in the current environment, projects need to stack up on their own economic merits and then view any value of carbon reduction as an addition, rather than an essential part of the proposition. Such projects do exist. The firm is proud to be working to develop one such plan that not only assists with carbon reduction, but also tackles another emerging global issue – the supply of clean water.

Interaction

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- The Cancun Climate Change Conference was expected to be a disappointment.
- Despite an announced agreement, Cancun has not disappointed in disappointing.
- The participation of the USA is a critical element to effectively tackling climate change.
- The Republican right in the USA is highly opposed to cap-and-trade.
- The recent electoral success of this element has 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.
- 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.

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