

Carbon Trading: Gone up in smoke

Cap-and-trade schemes have run into rocky waters. Kyoto is rolling off and Copenhagen did not bring a replacement. The Deepwater Horizon rig disaster put back Obama's deal on an energy policy in the USA. BRAVE Partners speculates whether there will be carbon markets beyond 2012.

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Carbon markets

The election of President Obama, with a clear commitment to cap-and-trade, and the (then) upcoming Copenhagen talks, the CO₂ emissions markets looked set for a boost for decades to come. The business then took a series of serious blows. Firstly, the Climate Change bill ran into delays in the US Senate. The Republicans forced a deal; cap-and-trade for a lifting of the offshore drilling ban. Where this has ended up is highly topical right now. Obama has just announced a six month ban on deepwater drilling following a significant spill from the Deepwater Horizon rig in the Gulf of Mexico. The recent news is that BP's attempt to top-kill the well has failed, so it continues to spill. This is enough even for ardent Republicans, including Arnold Schwarzenegger, to come out against deepwater exploration. However, it is also highly likely to derail the agreement reached to get the Climate Change bill through the Senate. Australia, which is high on the list of emitters, voted down a carbon trading scheme. This plan has now been put back to 2012 (or beyond).

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 CO₂ emissions will not be high on any Government's totem pole right now.

This is all likely to be linked to the failure to reach agreement on the post Kyoto emission reduction targets at Copenhagen.

What did happen in Copenhagen?

To the sceptics, which includes BRAVE Partners, very little happened at Copenhagen. Most importantly the developed countries failed to renew the Kyoto reduction targets. China and India, both huge emitters, sat on the sidelines waiting for the developed countries to lead the way. The USA failed to take the anticipated lead due to the

Administrations problems at home in passing the Climate Change bill through the Senate.

The BRAVE partners believe that Copenhagen is symptomatic of the current environment. All countries want CO₂ reduction, but none of them want it at their expense. This is overlaid with fragile Governments

in a weak economy who cannot afford to be characterised as costing jobs or economic prospects at home.

So the question is: "what impact does failing to renew GHG reduction targets in Copenhagen have on carbon markets?"

Renewable production vs carbon reduction

The Kyoto treaty defines the CO₂ 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.

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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: [CEO₂](#).

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.

The future of carbon trading

BRAVE Partners is a strong proponent of carbon markets. The firm believes that this is the most efficient method of developing the required energy renewable production for the future. The firm is however skeptical that the current infrastructure can support a large increase in renewable energy production. It appears that there is a lot of Government intervention and investment required and Governments are broke. It is unlikely that this will happen.

BRAVE Partners believes that energy projects that require carbon credits for their financing or economic success are currently marginal. From an investors perspective it is better to invest in technologies that improve the efficiency or availability of traditional energy sources.

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 state of the carbon markets. Strong, stable and supported carbon markets can form an excellent source of financing and revenue for the right renewable energy projects. However, BRAVE Partners does not believe that this is the current situation. The firm would advise any management to take this into account when creating an energy related business plan.

Interaction

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- BRAVE Partners believes that political uncertainties are dominating carbon markets.
- The firm believes that this situation will persist until broad international agreement is reached on carbon emissions.
- Furthermore the firm believes that even national renewable energy targets are at risk. Governments need to invest to support the development of the required infrastructure and this is unlikely to happen for a while.
- BRAVE Partners can advise management teams seeking to finance energy related projects on the current state of the carbon markets and how to adjust their plan accordingly.

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