



August 2008

Carbon trade to go global

US set to enter market and spur expansion

The carbon market is set to go global, with the US expected to set up a greenhouse gas cap-and-trade scheme as early as next year. Carbon trading might be the next big bubble.

"In ten years, the worldwide carbon market could exceed USD5 trillion," says Yves Lamoureux, a financial adviser at Blackmont Capital Inc., an independent investment firm.

Global carbon market seen at USD2 trillion by 2020 – experts

The value of the carbon market more than doubled to USD64 billion in 2007 from USD31 billion in 2006, according to "State and Trends of the Carbon Market 2008," a report by the World Bank that came out in May. Point Carbon, a company that analyses the carbon market, estimates that the global carbon market will reach a value of USD2 trillion by 2020.

Lamoureux is more bullish on the carbon market because, as he says, "People underestimate how quickly technology can go forward. The structural economy as a whole is about to be completely turned on its head. There will be cleaner energy through cleaner fuels and we'll get there faster than most people envision." "The sector isn't coming through the credit crunch unscathed, but it's still looking pretty healthy, because the fundamentals are strong and the main drivers are still there," said Michael Liebreich, CEO of New Energy Finance (NEF), a specialist consultancy that tracks deals and investment in the sector.

EU current market leader in emissions trading

Carbon trading grew out of regulatory efforts to reduce the impacts of human activity on climate change by putting a constraint on carbon emissions through caps, or allowable emissions. Companies that produce too much carbon can buy carbon credits from companies that are under the cap. The EU is the world leader with its EU emissions-trading scheme and currently dominates the global market. This should change once the US enters the cap-and-trade market, for according to Lamoureux, the idea behind emissions trading has its roots in the US.

"The US invented cap and trade for sulphur dioxide and it worked out the problem of acid rain in a few years for a fraction of the cost of any other solution. Not only was it cost-effective, but it achieved results faster than anyone expected," says Lamoureux.

"Carbon trading is going to be very successful in the US, as was proven by the case with the system set up for acid rain. The model of emissions trading comes from the US through how it decided to deal with acid rain. Companies took it upon themselves to cost-efficiently lower their sulphur emissions," says Lamoureux, "and the US Government should let companies take care of carbon emissions too, instead of thinking of imposing a tax. The whole planet's going for a cap-and-trade system and creating a system of taxation would be inefficient and incredibly costly."

Next US administration set to embrace cap-and-trade system

Both presidential candidates, McCain and Obama, support a cap-and-trade system. Though America's Climate Security Act of 2007, also known as the Lieberman-Warner Bill, failed to make it through the Senate, such a bill, bringing emissions trading to the US, is likely to pass when either man becomes the next president.

"At the moment, Americans are second-guessing themselves. Cap-and-trade is an opportunity and a job creator, and the reality is, it's an American idea," says Lamoureux. "It comes from the US and has already proven itself and will prove itself again."

Renewables are the future

"Whenever we had a source of energy we depended on, it came to pass. For example, wood, and then coal, and then oil displaced coal. And now renewables are going to displace oil," says Lamoureux. Longer term, Lamoureux sees oil at USD45 a barrel because of renewable energy, with even oil itself being transformed into a renewable source of energy through technology, e.g., through the use of oil-producing algae.

Lamoureux also says that analysts will increasingly adjust valuations of environmentally friendly companies higher. "They're going to have to assign a higher valuation to a green stock over one that isn't."

On a bright note for investors, Lamoureux sees one more bottom in the market before year-end and then the Dow at 15,000 by the end of 2009 or early 2010, according to a new movement of analysis called behavioural finance, a movement he spearheads.

By **Scott Solano**

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