

P R O C E E D I N G S  
(Wednesday, March 8, 2000)

PANEL 5: FINANCING RENEWABLE ENERGY POWER PROJECTS  
SESSION CHAIR: VIVEK TALVADKAR, DIRECTOR OF POWER  
DEPARTMENT, INTERNATIONAL FINANCE CORPORATION

MR. TALVADKAR: Our next speaker, and last speaker, is Carlton Bartels. He is the Managing Director of Cantor Fitzgerald Environmental Brokerage Services, which provides brokerage and consulting services for national emissions trading and global greenhouse gas offsets trading. Mr. Bartels has written a number of articles and provides expert testimony on this subject. He is a member of the Board of the Emissions Marketing Association.

Mr. Bartels.

(Applause.)

THE GLOBAL CARBON MARKET AS A STIMULUS TO RENEWABLE ENERGY  
DEVELOPMENT: A PRIVATE SECTOR VIEW  
CARLTON BARTELS, MANAGING DIRECTOR, CANTOR FITZGERALD

MR. BARTELS: Good afternoon. It is a pleasure to be here. To be honest, it would be nice to be outside. It's a gorgeous, gorgeous day.

Don't be afraid that we are running late, because I have previously traded five minutes of my time to the other panelists and we should be right on schedule.

(Laughter.)

MR. BARTELS: By way of introduction and commercial, I just want to say, normally, it is interesting, I get up before people and I know 90 percent of the audience. It is unusual for me not to know everyone. Cantor Fitzgerald is the world's largest auctioneer of financial securities. We do about \$45 trillion a year annual volume. We are involved with G-7 sovereign debt, equities, et cetera, et cetera, et cetera. And what we do is run and help create a very efficient marketplace.

I came to Cantor Fitzgerald seven years ago to create a marketplace for what was then a new and novel idea of environmental credits. And at this point in time, I tell people I do nothing but broker and buy environmental credits in various U.S. domestic programs, and now in greenhouse gas markets. Last year, we did greenhouse gas transactions that, depending on how you count it, will range between 12 million and 20 million tons of greenhouse gases. And I am just talking carbon dioxide equivalents.

If this were Dickens' "A Carbon Carol," I would be the Ghost of Funding Yet to Come.

(Laughter.)

MR. BARTELS: Because I envision a future where it is 2008, and REEF has a trader who comes in in the morning and picks up his keyboard and opens up to the Cantor Exchange, our electronic futures exchange, and decides what part of the 42 million tons of carbon dioxide that they have accumulated, carbon dioxide reductions that they have accumulated, they are going to sell in today's market, move in tomorrow's market, or auction, and how are they going to hedge their investment in projects that they are yet to invest in.

They will be looking at that projected carbon stream and say, I better place some of those out in the market today so I can secure financing based upon that expected carbon stream. They will be able to protect it by putting in some options. And it will be a marvelous world. And all this funding will be available to those that create reductions through renewable energies and energy efficiencies.

Of course, I started with the optimistic scenario. Thinking, is this the future that will be or is this the future that can be? It is one that can be, but there are clouds on the horizon. We are at the very early steps of a market -- baby steps. We are doing transactions, but they are largely done now for demonstration purposes, people trying to show that there is a market out there, and forge ahead and develop a market. The early Carbon Fund is an example of someone who is pushing ahead, making investments in carbon-reducing technologies and projects on the hope that these will have value some day. But there are no guarantees.

While I applaud that act, I applaud the Fund, because I think it is essential that we have movement like that, both in the Fund, at the World Bank Fund, and in what my private sector clients are doing, that would be building important infrastructure and institutions here so that we can have that future, there are, in the political dimensions, a few things that are going to

threaten and are threatening them as we develop it. There are people that say we must have very strict tests, that no carbon reduction that would otherwise have occurred without a market should get recognized. Nothing in the REEF would qualify, therefore -- 42 million tons of real reductions that might be monitored and verified and demonstrated to actually have occurred would not be to this market.

And when one starts to think of these things, what does this mean? It is a hypothetical. Would this have occurred otherwise? It is not clear to me. Could I actually have talked 10 minutes if I did not sell my five minutes? We will never know. And will you sit there and talk for another 10 or 15 minutes to prove whether or not I should have talked 10 or five minutes?

(Laughter.)

MR. BARTELS: And that is the path that we are going down. There are also proposals on supplementing parity. This says that no country should be able to buy more credits than they create production themselves. How does this work? We are into the budget period, it is 2012, and now somebody is going to go back and look at the United States and say, well, you were supposed to reduce by 500 million tons and you are up 300 million tons, so 50 of what you purchased is voided. This is 2012.

Unfortunately, it is nailed to the year 2000, and I am trying to raise money for a renewable energy project in order to fund it and get some carbon sales. So I am 12 years in advance, I am trying to raise funding, and I am telling my investors that I think if you buy into this project it is going to generate a million tons a year and you are going to have this big cache of these. And, you know, 12 years from now, somebody might tell you whether it has got any value.

This is not really an attractive investment.

(Laughter.)

MR. BARTELS: Even though I talk to the same people, they never quite know what I am going to say along those lines, but there is one thing I always do try and work in. And that is, in emissions trading, the perfect is the enemy of the good. And there are forces that when you look at it and say every single trade must be bona fide that it is contributing to the environmental excellence, improvement of the planet, then you get no trades at all, because you cannot put that kind of truth in.

And you will walk away from the incredibly powerful device that can create massive reductions and promote energy efficiencies, renewable energies, and other decreases in carbon intensity, because they are afraid of two things that will slip through in the margins. And these are the terms that are being debated right now as we go into COP-6, which is the Conference of the Parties, the sixth meeting in The Hague, in November. These are the topics that are on the table. And if they are not resolved to facilitate trading and ensure confidence in that market, then this funding and this future is not going to come.

I think in a properly developed market, you are going to find a few surprises. One is the price of carbon reduction is going to be a lot less than many people thought. Now, I will say that people are thinking that it is going to be a lot less than they were just a year ago. We were triple digits and double digits a year ago, and now we are into single digits. And we are making transactions now that are in the dollar range, 50 cents to a dollar, dollar and a half.

But of course everything today is speculative. And in fact, most of the really good investments in carbon, it is just the little juice to push the investment over through some hurdles. And that is why things like financial objectivity are so painful, because you cannot prove it, that this payment is a thing that tipped it from a 15-percent return on equity to a 16-percent return. These are the things that are not proven. And we cannot have these tests. We have to have a market that says a ton is a ton is a ton, not that we accept anything as a ton. We must have environmental rigor. We must demonstrate that fact -- and it is going to be a hurdle -- that there were coal plants that were displaced.

I say make the environmental case very strong, but let's not worry about the motivations. And that is what a lot of the debate is now. It is focused on the motivation of the creator. And if we are there, we are not going to have this market. And everyone here who is trying to push ahead in the environmental and energy efficiency programs are not going to have this incremental source of funding that will push yet another way of investment in your direction.

So, before I go into noncompliance and get penalized, I will stop there.

Thank you very much.

(End of Mr. Bartels' presentation.)