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Carbon Market Speculation

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Amid lingering concerns by some Senate Democrats, and others, that passage of a cap-and-trade bill would spur speculative carbon markets that could create economic problems similar to the recent housing crisis, a number of recent revelations are sure to exacerbate those concerns.

The Emission Marketing Association released a memo last month analyzing the effect of a provision in the Waxman-Markey bill that would require over-the-counter derivatives be cleared by the Commodity Futures Trading Commission. "Requiring that all OTC derivatives be cleared through a central counterparty could substantially increase collateral requirements on market participants, which are now generally transacted with substantial unsecured credit. The need for collateral will affect funding liquidity for market participants, and thus reduce market liquidity," the memo says.

On top of that, Rolling Stone magazine published a cover story that says Goldman Sachs has played the political and financial systems to its benefit, adding that cap-and-trade legislation being considered by Congress would result in huge profits for the investment bank. According to the story, by Matt Taibbi, "...cap-and-trade, as envisioned by Goldman, is really just a carbon tax structured so that private interests collect the revenues. Instead of simply imposing a fixed government levy on carbon pollution and forcing unclean energy producers to pay for the mess they make, cap-and-trade will allow a small tribe of greedy-as-hell Wall Street swine to turn yet another commodities market into a private tax-collection scheme. This is worse than the bailout: It allows the bank to seize taxpayer money *before it's even collected*."

Conservatives have jumped on the story in an effort to frame the Democrats' cap-and-trade system as a handout to big business. Moreover, the story comes as Goldman Sachs just reported a record profit for last quarter.

In addition, Karl W. Miller—a billionaire energy markets investor with extensive institutional investor experience and director-level participation in many energy companies, including PG&E Corporation, Electricite de France, El Paso Energy, Enron Corporation and JPMorgan Chase—is arguing in a statement this week that the renewable energy sector is being wildly inflated by rhetoric and unsound financial principles so as to be an investment crisis in the making.

All these developments come as Sen. Byron Dorgan gave a scathing critique of cap-and-trade on the floor yesterday. Dorgan warned that a carbon market is likely to result in "unbelievable speculation," adding that "some of us will resist very aggressively the trade side of cap and trade." Dorgan's July 16 floor speech comes a day after he told *Carbon Control News* that he would prefer a "cap and dividend" approach to cap and trade. "I have very little confidence in the trading mechanism in carbon securities," Dorgan said (see related story).