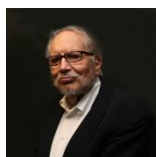


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Blood And Gore: Making A Killing On Anti-Carbon Investment Hype



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Former US vice president Al Gore (Image credit: AFP/Getty Images via @daylife)

Surprise! Al Gore and his carbon credit huckstering partner David Blood, both principals at Generation Investment Management (GIM), warn in their [October 30 Wall Street Journal op/ed feature](#) of peril to fossil fuel investments due to “*The Coming Carbon Asset Bubble*”. They argue that such “*unwise and increasingly wreck less*” investment strategies pose three broad risks which will cause carbon assets to become “stranded” and lose economic value: through direct government carbon regulation; as a result of market-share losses to “already competitive” renewable technologies; and due to “sociopolitical pressures” causing carbon-intensive businesses to lose their “license to operate”.

Marketing Climate Alarm:

Of course this carbon regulation is posited upon saving the Earth based upon a “*consensus within the scientific community that increasing the global temperature by more than 2°C will likely cause devastating and irreversible damage to the planet.*” And where it comes to promulgating and capitalizing upon carbon-climate-crazed sociopolitical pressure, you would be hard-pressed to find two better authorities.

Gore and Blood, the former chief of Goldman Sachs Asset Management (GSAM), co-founded London-based GIM in 2004. Between 2008 and 2011 the company had raised profits of nearly \$218 million from institutions and wealthy investors. By 2008 Gore was able to put \$35 million into hedge funds and private partnerships through the Capricorn Investment Group, a Palo Alto company founded by his Canadian billionaire buddy Jeffrey Skoll, the first president of eBay Inc. It was Skoll's *Participant Media* that produced Gore's feverishly frightening 2006 horror film, "*An Inconvenient Truth*".

In 2007, following an investigation of the movie, Sir Michael Burton, a judge in London's High Court, ruled that it can be shown in secondary schools only if accompanied by guidance notes for teachers to balance Mr. Gore's "*one-sided*" views. Judge Barton pointed out that its "*apocalyptic vision*" was politically partisan, and not an impartial analysis. He stated: "*It is built around the charismatic presence of the ex-vice president Al Gore, whose crusade is to persuade the world of the dangers of climate change caused by global warming...It is now common ground that this is not simply a science film- although it is based substantially on science research and opinion, but it is [clearly] a political film.*"

The Browning of those Green Investments:

As for taking their recent investment advice, it might be worth mentioning that some of GIM's [earlier low-carbon deals](#) haven't always worked out so great.

Optimistic that a Democrat-controlled Congress would pass cap-and-trade legislation Gore lobbied for, GIM and David Blood's old GSAM firm took big stakes in the Chicago Climate Exchange (CCX) for carbon trading. Accordingly, CCX was poised to make windfall profits selling CO₂ offsets if and when cap-and-trade was passed. Speaking before a 2007 Joint House Hearing of the Energy Science Committee, Gore told members: "*As soon as carbon has a price, you're going to see a wave [of investment] in it...There will be unchained investment.*"

After all, what better way to reduce evil carbon than to make it a profitable commodity? But unfortunately for GIM and CCX investors, trading hot air credits proved just too good to be true.

Between May of 2008 and October of 2009 the CCX market value for one metric ton of carbon plummeted from \$7 per metric ton to \$0.10 along with the shareholders' investment values. Losers included the Ford Motor Company, Amtrak, DuPont, Dow Corning, American Electric Power, International Paper, and Waste Management, along with the states of Illinois and New Mexico, seven cities, and a number of universities.

<http://www.forbes.com/sites/larrybell/2013/11/03/blood-and-gore-making-a-killing-on-anti-carbon-investment-hype/2/#3705e2923301>

By 2010, GIM approximately doubled a 9.6% stake it had purchased in Camco International Ltd., a manager of products to limit greenhouse gases. But by October of that year disaster struck again. Republicans took control of the House, dashing all cap-and-capitalize hopes along with huge profit prospects for either Camco or CCX. The latter shut down operations in November of that year.

On top of that bad news, First Solar Inc., another GIM investment, got squeezed out of the solar panel market by cheaper Chinese products. According to *Bloomberg*, GIM dumped its last First Solar stock at a \$165.9 million loss in 2012.

The Alarming Cost of Carbon Crazyiness:

Al Gore and David Blood not only emphasize the regulatory risk of fossil fuel investment, they have aggressively worked to ensure it. Their article provides a roadmap to disaster, including: *“direct regulation on carbon led by authorities at the local, national, regional or global level; indirect regulation through increased pollution controls, constraints on water usage, or policies targeting health concerns; and mandates on renewable energy adoption and efficiency standards.”* “They further note that *“Even the threat of impending regulation creates uncertainty for long-lived carbon-intensive assets.”*

There can be no doubt that they have found a strong advocate for these strategies in the current White House. The Small Business Administration estimates that compliance with such regulations costs the U.S. economy more than \$1.75 trillion per year — about 12%-14% of GDP, and half of the \$3.5 trillion Washington is currently spending.

Still, the U.S. Government Accounting Office can't figure out [what benefits taxpayers are getting](#) from those many billions of dollars spent each year on policies that are purportedly aimed at addressing climate change. A [May 2011 GAO report](#) noted that while annual federal funding for such activities has been increasing substantially, there is a lack of shared understanding of strategic priorities among the various responsible agency officials. This assessment agrees with the conclusions of a 2008 Congressional Research Service analysis which found no *“overarching policy goal for climate change that guides the programs funded or the priorities among programs.”*

The Obama administration's latest ploy to justify these economic regulatory burdens conjures statistical sorcery purporting to assess a [“social cost on carbon.”](#) This is supposed to represent an accounting method to quantify market externalities attached to human fossil-burning emissions, whereby each ton of CO₂ leads to a future societal cost of about \$40 (in today's dollars). The idea is that any newly-proposed regulation

intended to reduce future CO₂ emissions will get to claim an equivalent social cost credit for each ton avoided. This scheme is intended to enable EPA and other regulatory organizations to build stronger political cases for their burdensome policies.

The plan is already so wildly successful that the administration has raised its previous estimate of social cost-saving benefits by more than 50% from its May assessment. At the same time, even the UN's alarmist Intergovernmental Panel on Climate Change has had to finally admit that global temperatures have been flat for at least 16 years despite rising atmospheric CO₂ levels. IPCC has also confessed that their theoretical simulation models have grossly exaggerated climate sensitivity to CO₂. As a result, those social costs resulting from human-caused climate change are at least one-third less (and more likely 100 percent less) than those in the administration's calculations.

An even larger glitch in this accounting contrivance is a failure to credit [positive social costs of adding atmospheric CO₂](#), (aka. plant fertilizer). A recent analysis by Dr. Craig Idso of the Center for the Study of Carbon Dioxide and Global Change estimates that over the past 50 years, the value of global food production has increased by \$3.2 trillion as a result of those CO₂ emissions. This suggests that if anything, those social cost estimates should actually be negative.

And Regarding those “Competitive” Renewable Alternatives...

Gore and Blood urge that *“Investors should pressure executive teams to divert cash flow away from capital expenditures on developing fossil fuels [which have embedded carbon risks] and toward more productive uses in the context of a transition to a low -carbon economy.”* Instead, they urge that portfolios be tilted towards assets with low or no carbon emissions which provide opportunities to capitalize on emerging solutions such as energy generation (e.g., solar, wind, geothermal). This, they argue, can help to avoid pitfalls of “carbon stranding” due to market influences of renewable technologies which they claim *“are already economically competitive with fossil fuels in a number of countries without subsidies.”*

Really? And which renewable technologies and countries might those be?

Europe's green energy debacles offer teachable lessons for investors everywhere. Slightly more than 12% of Germany's electricity comes from “renewables”: 7.8% now comes from wind, 4.5% from solar, 7% from biomass, and 4% from hydro. Meanwhile, German households pay the second highest power costs in Europe... as much as 30%

more than other Europeans. Only the Danes pay more, and both countries pay roughly 300% more for residential electricity than we Americans do.

Speaking at a June 12 energy conference in Berlin, Chancellor Angela Merkel called for scaling back renewable energy subsidies to contain spiraling costs. [She warned](#): “*If the renewables surcharge keeps rising like it did in recent years, we will have a problem in terms of energy supply.*”

Yet despite huge investments, German wind has produced [only about one-fifth of its rated installed capacity](#). And while half a dozen wind farms are still being built in the North Sea, there are no follow-up contracts due to high consumer utility rates. Ironically, since shutting down some of their older nuclear plants in response to the nuclear accident in Japan, they now have to import nuclear power from France and the Czech Republic.

If romance with increasing reliance upon renewables isn't being strained enough by painful electricity costs, power blackouts are adding to buyer's remorse. The German energy industry group BDEW warns that the surge of renewables is increasingly clogging the power grid operational efficiency.

A 2009 study reported by CEPOS, a Danish think tank, found that while wind provided 19% of Denmark's electricity generation, it only met an average 9.7% of the total load demand over a five year period, and a mere 5% during 2006. Since Denmark can't use all the electricity it produces at night, it exports about half of its extra supply to Norway and Sweden where hydroelectric power can be switched on and off to balance their grids. Still, even with those export sales, high government wind subsidies cause Danish customers to pay the highest electricity rates in Europe.

In 2011, U.K. wind turbines produced energy at about [21% of rated installed capacity](#) (again, not demand capacity). And this was during “good” wind conditions. As in Germany, unreliability in meeting power demands has necessitated importation of nuclear power from France. Also similar to Germany, the government is closing some of its older coal-fired plants—any one of which can produce nearly twice more electricity than all of Britain's 3,000 wind turbines combined.

In Australia, a resounding September right-of-center Liberal Party defeat of the Green Party-backed Labor Party following its six years in power reflected a rude public awakening. It was broadly recognized to be a referendum victory to dismantle and

consolidate the myriad anti-carbon global warming-premised schemes spawned under the previous government.

Inconvenient Truth about Ethics:

The question now remains how long it will take before majority population segments in America and the rest of the world realize, as Australia now finally does, that they have been duped by unaffordable and unreliable climate benefit-premised “green energy” promotions. For example, perhaps recall when then Vice President and presidential candidate Gore cast a tie-breaking 1994 Senate vote in favor of ethanol mandates.

Speaking in 2010 at a green energy business conference in Athens, Gore admitted: *“It is not a good policy to have these massive subsidies for first-generation ethanol.”* Reuters quoted him saying in retrospect, *“First-generation ethanol I think was a mistake. The energy conversion ratios are at best very small.”* Gore then explained: *“One of the reasons I made that mistake is that I paid particular attention to the farmers in my home state of Tennessee, and I had a certain fondness for the farmers in the state of Iowa [the first-in-the-nation caucuses state] because I was about to run for president.”*

Then there’s the matter of that estimated [\\$70 million net](#) he received for his 20 percent stake in the January sale of the *Current TV* network, to the Qatari-owned *al -Jazeera Satellite Network*. Given that Al Gore is so green and all, it struck many people that buying into the Big Oil-drenched deal might be somewhat hypocritical for someone who for years has inveighed against dreaded fossil-fueled global warming. Yup, this is the very same Albert Arnold Gore, Jr. who said, regarding the proposed Keystone XL pipeline: *“there is no such thing as ethical oil”,* there’s *“only dirty oil and dirtier oil”*.

Daily Show television host Jon Stewart once questioned, *“Can mogul Al Gore coexist with activist Al Gore?”* And perhaps another question which was highlighted on the screen at the conclusion of his 2006 *An Inconvenient Truth* science fiction movie is warranted as well.

Mr. Gore, “Are you ready to change the way *you* live?”

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