



## **How Copenhagen Paved a Bright New Path for Sustainable Investing**

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The widely held perception among many environmentalists, policymakers, technologists, and green investors is that the recent summit in Copenhagen was a disaster, potentially setting back international environmental policy for years. However, the reality going forward may be quite positive for sustainable investing, and Copenhagen may come to be viewed increasingly as *the* critical inflection point for environmental policy.

How so? Although the Kyoto Protocol of 1997 established a template for international coordination among many nations, it had also become increasingly clear that future agreements could not simply expand on the Kyoto model, given that emerging markets countries had been excused from meeting many of the binding emissions targets, measurement and incentives had proved problematic, and key countries like the US had simply elected not to participate. Indeed, the Kyoto Protocol had likely been much more successful in shifting *where* greenhouse gases are produced rather than actually controlling *how much* total emissions are produced.

Despite the limitations inherent in the Kyoto Protocol, many policymakers had clung to the hope that Copenhagen would simply ratify and expand the Kyoto framework. Indeed, the theme of the pre-Copenhagen meeting at the United Nations in September was “seal the deal,” which conveyed neither openness to new ideas nor willingness to consider new directions.

In spite of this reticence, the Copenhagen Summit had the immediate impact of making regional solutions a more practical approach to controlling global greenhouse emissions. Regional solutions have the virtue that they can meet the specific needs of key countries and regions such as China, the United States, India, and Europe, but also face the challenge of greater potential complexity in international coordination. What became especially striking at Copenhagen, however, was that in contrast to Kyoto some 12 years earlier, virtually all conference participants were credibly committed to improving the world’s overall greenhouse footprint. In this sense, Copenhagen has already proved to be the essential ingredient in allowing a coordination of regional solutions to move forward.

So what do these regional solutions look like? Although it is too early to tell what the final set of incentive systems will look like for every country/region (especially for the US), Europe and Japan will continue to develop their regional cap-and-trade systems, and

China has committed to lower the energy intensity of its GDP by 45%. In contrast, solutions for the US— including utilities-based systems (patterned after the very successful acid rain cap-and-trade system), building energy efficiency initiatives, and consumption-based incentives—can now be developed in ways that make the most sense for the US economy. Before the Copenhagen meeting, progress towards creating effective regional solutions had simply stalled.

Unlike the adoption and implementation of the Kyoto Protocol that was incomplete and had limited effectiveness, the regional solutions made possible by the Copenhagen Summit are likely to be both more comprehensive and have much more rapid implementation. For example, a utilities-based national renewable power system could be implemented in short order in the US to the extent it leveraged the existing framework for the acid rain cap-and-trade system. In 2002, *The Economist* proclaimed that the acid rain cap-and-trade system had been “probably the most green success story of the past decade” by reducing sulfur dioxide (SO<sub>2</sub>) emissions by over 25% and ambient SO<sub>2</sub> concentrations by 40% at an estimated annual cost average of only \$1.8 billion.

This utilities-based cap-and-trade system for renewable power could now be applied in the US, for example, to replace the hodge-podge of state renewable power targets with a more efficient and effective national standard. Such a national system would result in torrent of new energy-based projects (including renewable, nuclear, and carbon capture and storage) in exactly those regions and for those utilities where they are most economically advantageous. Moreover, the experience of the acid rain cap-and-trade system proves that the national incentive market is necessary for such projects to be initiated in the most cost-effective and sensible manner possible.

Although such utilities-based solutions are natural, effective, politically viable, and low-cost approaches to addressing important emissions issues in the US, such solutions could simply not be part of the political dialogue prior to Copenhagen. Rather than being a setback for controlling the world’s greenhouse emissions, Copenhagen thus represents the essential breakthrough, allowing effective country/regional solutions to develop and thrive.

## **Biography**

Mr. Read leads C Change Investments which is dedicated to identifying, developing, and commercializing game changing technologies related to energy and natural resources. Prior to founding C Change, Mr. Read served as Chief Investment Officer of CalPERS, North America’s largest pension fund, where he spurred the successful investment of over \$3 billion in green-related technologies and projects. He is a member of the Board of Governors for the New York Academy of Sciences and has (Statistics) undergraduate and

(Finance and International Business) masters degrees from the University of Chicago and his (Political Economy) doctorate from Stanford University.