

HOT AIR

eResearch is pleased to provide an article written by Edmond G. Eberts of RAPPORT Capital Formation Strategists Inc.

Mr. Eberts entitled his latest paper “Hot Air”, a treatise on the global warming debate.

Some of the key excerpts from the article are quoted below:

With respect to government’s targeted reductions in carbon dioxide emissions, Mr. Eberts has this to say: “It is easy to generate a junk science scare. You make stuff up, exaggerate the risks, politicize the subject, and spin it into a bitter ideological battle. Above all, ignore the facts. Over-stated certainty of false claims is capable of lulling people into believing the solution to their woe can be found in government policies, prevalent with legislators as a means of imparting prestige to their propensity to pilfer public funds.”

“The warmest summers in the Arctic occurred ten thousand years ago; those of the last century the most temperate in the past thousand. Radiosonde thermometers have yet to discover a greenhouse signature hot spot. The collective verdict of the deniers, in a better position than most to judge whether human behaviour is at fault or not, is no.”

“Stéphane Dion’s suggestion that his salvation shtick will not require hiring a single civil servant is akin to the fairy tale of the National Gun Registry not costing the taxpayers a dime. Rather than have the carbon tax applied where it would have a direct impact on consumption, it will penalize fossil-fuel producing provinces as the National Energy Program of the 1980s did.”

“The U.S. spends upwards of \$160 billion annually fighting a war it cannot win, but only \$3 billion on energy research.”

“Since 1990, the world has spent \$50 billion and found little evidence carbon emissions cause global warming. Politicians are known to reverse course after reading the polls. Are we about to witness an about-face now that researchers have found Canadians to be more anxious of rising unemployment than climate change, man-made or not?”

Mr. Eberts is interesting to read, thought-provoking, challenging, and always entertaining.

We hope you enjoy the article.

Hot Air

Edmond G. Eberts

Chairman

RAPPORT Capital Formation Strategists Inc.



Hot Air

One of the attributes separating good leaders from the bad is their ability to admit when they are wrong, and do something about it. Yet the majority has a habit of blaming others when something goes awry. That is why we seldom give politicians the benefit of the doubt. Most have the conviction of a windsock, every speech with a built-in escape hatch, more interested in finding a bolt-hole than dealing with a contentious issue. Embracing change is an anathema.

One of history's great lessons everyone needs to learn is nothing is permanent. The world and its component parts are ever changing. The quest to establish an understanding of climate change began long before most had heard of anthropogenic global warming, two distinctly different subjects, never to be mistaken as air pollution. Nobody has the slightest idea how the targeted reductions in carbon dioxide emissions are to be brought about. Instead of panicking, a go-slow, go-frugal approach is recommended, no free rides allowed. The more profound the research, the better the strategy. It is easy to generate a junk science scare. You make stuff up, exaggerate the risks, politicize the subject, and spin it into a bitter ideological battle. Above all, ignore the facts. Over-stated certainty of false claims is capable of lulling people into believing the solution to their woe can be found in government policies, prevalent with legislators as a means of imparting prestige to their propensity to pilfer public funds. Prediction is difficult, especially about the future, and the weather. Climatological models ought to be regarded as convenient fictions. They do not justify bending the truth.

Cap-and-trade schemes place a defined limit, but there can be significant price volatility and difficult questions about fair allocation of rights. A carbon-pricing regime provides a clearer signal, easier to design and administer. Both fail to guarantee any particular quantity of emission reductions. As government will control the number and distribution of allowances, billions of dollars in assets, and hundreds of thousands of jobs will be at its mercy. And with offenders allowed to purchase unlimited offsets, there will be no impact on overall carbon dioxide levels. Imposing tougher targets and permitting more flexibility would appear to be at cross-purposes. Levying a supply depressing windfall-profit or emission tax, when the science of climate change is far from settled, makes no sense. Whatever the policy instrument, it must be transparent, stable and predictable, make maximum use of market forces, minimize compliance costs, not give any one sector or region an unfair advantage, and avoid significant interprovincial wealth transfers.

Glaciers speak to glaciologists the way trees and rocks do to a shaman. Hidden in the layers of ice is a record of every atmospheric event of past summer melts, acid snow, cooling trends, volcanic activity, industrial pollutants, even bomb testings. The deeper down, the farther back in time, more valued the treasure trove of data. The more sophisticated the technology used to interpret the cores, the greater detailed the information retrieved. The warmest summers in the Arctic occurred ten thousand years ago; those of the last century the most temperate in the past thousand. Radiosonde thermometers have yet to discover a greenhouse signature hot spot. The collective verdict of the deniers in a better position than most to judge whether human behaviour is at fault or not, is no. Why spend billions just in case? Every dollar and hour diverted to a perceived threat has real and tragic costs.

Planet Earth is on a roll! The Gross Primary Production (GPP) – the daily output of the global biosphere – has been steadily climbing to levels not seen since these measurements began. Net Primary Production (NPP), an annual tally, shows biomass is flourishing. Satellite data capable of measuring the earth's output on a daily basis confirms it is the greenest in decades, perhaps in centuries. Why the increase? Studies point to the presence of CO₂, nature's indispensable accomplice, bathing the biota with its life-giving nutrients. Higher levels have enabled plants to grow faster and larger, and to live longer in drier climates. The abundance of food and release of oxygen is sustaining animal life. The beloved polar bear is able to feast on the growing population of well-fed seals, and humans are taller, healthier, and longer living than our forebears, seventy years of age the new fifty.

According to an impressive number of scientists, the period of warming is about to end. The oceans will start to take CO₂ back, the planet will become less hospitable and less green. If by chance the authorities are successful in enacting programmes to remove emissions from the atmosphere, they will do us all a disservice. In attempting to offset the dire effects they will have to encourage the manufacture of energy-intensive fertilizers, further depleting the store of non-renewable resources. Setting aside great tracks of boreal forest has merit, the sequestration of carbon dioxide derided as a pipe dream, the risks of action at least as real as those of inaction. Why then are environmentalists silent on the need to question proponents, or examine a range of options? They must if they hope to be believed. Once people gain a better understanding of the cost and fallacy of the concern they will cringe, any scheme unlikely to fly until there is reliable evidence and fiscal credibility, not to be confused with the toxic chemical stew of sulphur dioxide, nitrogen oxide, and ozone-based smog.

Stéphane Dion's suggestion that his salvation shtick will not require hiring a single civil servant is akin to the fairy tale of the National Gun Registry not costing the taxpayers a dime. Rather than have the carbon tax applied where it would have a direct impact on consumption, it will penalize fossil-fuel producing provinces as the National Energy Program of the 1980s did, the federal government failing to come to the rescue when the prices of crude oil and natural gas subsequently collapsed. Claiming to be revenue neutral, counterbalanced by corporate and personal income tax cuts, the idea has yet to be gone over in detail. Dion is not the least bit interested in having any kind of objective discussion, most ordinary citizens not bothered enough to educate themselves. Surfing the popular-fad wave, his supporters and many members of the media do not want to know the oilsands operate under a rigorous review process requiring hundred of millions of dollars be spent on permits, assessments, and recovery plans. Carbon dioxide emissions and water

use have been reduced by half per barrel in the past five years, and new installations will be more proficient. This is not just a matter of dead ducks, but an example of corporate morality not regulation, conviction over compliance. Companies that endorse broad-minded business practices have a history of outperforming those with narrow priorities. Campaigning on misconception and hysteria exposes the hollowness of promises to deal with issues surrounding accessibility to exploitable reserves. Meanwhile, self-righteous Americans fret about the security of supply from unstable sources, the use of “clean” coal and synthetic bituminous crude oil. They need be reminded their bargaining position is weak. As to NAFTA, we hold a winning hand. These are a challenging mix of views. Hopefully someone with poise, precision of thought, and a capacity to reduce complexities to bare essentials will emerge to examine the proposed policy in a holistic manner, and explain what structural changes would be needed. As it stands, Green Shift is but a revenue grab, a wealth redistribution racket, a backdoor way of having Canadians foot the bill for reckless government spending. We are more likely to see horses flying than a party leader of any persuasion capable of exercising restraint.

The great inflation wave began about 1895. The cost of energy has increased more than anything else. Consumers have a habit of faulting the big crude oil producers. Speculators may enhance the rise in trading volumes, but if the fundamentals are not improving they will have little to no impact on pricing. Though deliveries to the Strategic Petroleum Reserve have been halted, tanker capacity is short. The twelve-fold rise since the 1998 low of US\$11, to a high of US\$147 per barrel, is the reason why government authorities believe in offering grants, tax credits, and guarantees to encourage the development of interchangeable equivalents.

The biggest constraint to crude oil output is nationalism, lease restrictions limiting exploration and production. Competition has enabled host governments to dictate fiscal terms, some too onerous for publicly traded companies to consider. OPEC’s limited excess capacity, amounting to just 3 percent of global demand, means the member countries have significantly less influence than before. The stench of loose monetary policy, a negative real growth rate, the threat of inflation, and the US dollar’s demise are mostly to blame for the substantial price increase. Institutional investors and hedge funds are not hoarders, nor do they restrict supply. Government agencies do, stressing the value of everything and the cost of nothing. The strategy has not worked, officials lacking the knowledge required and the responsibility to make money.

Technological advances have dramatically reduced the amount of energy consumed per dollar of gross domestic product. There is a severe degree of inelasticity – the stimulus to cut fuel consumption far less than many people pretend. Changes in driving habits can only be achieved in the long run. Time is of the essence. It makes little sense spending countless hours in traffic. Urban cores are again becoming centres of technology, job and economic growth, as talented, ambitious individuals trade space for shorter commutes.

Corporations realize concern for the environment has gone from the eccentric to the mainstream, the strategic goal being to embrace sustainability and implement a mechanism to lower costs. Not green for green’s sake, but the new black in earnings statements, and improved stock price performance. Industry associations are bent on helping to shape the new regulations before the fanatics get their say. Wishing does not make things so, nowhere more true than in the fantasies of eco-entranced enthusiasts. Though renewable energy possibilities are not contained by the need to be practical, it will

be a protracted period of time before they become mainstay sources. Which ones, for what purposes, and at what cost, is but a blind guess. The switch from conventional fuels will be the result of entrepreneurial innovation and private initiative, not stakeholder committees taking months, even years to arrive at funding decisions with political and bureaucratic conditions attached.

The US spends upwards of 160 billion dollars annually fighting a war it cannot win, but only three billion on energy research. The suggestion that one third of North American vehicles could be made to run on compressed natural gas is unrealistic given the massive infrastructure required. Solar has the potential to meet world demand many times over, engineers trying to solve the problem of intermittency on cloudy days and long-distance transmission. Wind is the latest clean-power fancy, requiring lavish subsidies for the towers to stand tall. Turbines are remarkably efficient operating at full capacity, but oftentimes electricity from the grid is required to keep them running until the wind blows again. Turning cattle manure into biogas-derived electricity is a dung deal. Coal-to-liquid and coal-fired facilities are gaining in popularity, particularly in countries with abundant and relatively inexpensive reserves. Turning woodlot and forest waste into energy makes sense, but the idea of geothermal energy is cooling off. Hydro may be the only truly sustainable fuel, yet most of the great rivers have been harnessed, with little remaining opportunity to expand capacity. Tidal technology is but a dream. Miraculous cures have a tendency to backfire, the “cornagraphic” panacea converting an anxiety into a multi-million dollar cash crop. Many are not convinced bio or cellulosic ethanol reduces emissions or energy use once the entire production cycle is taken into account. Critics say it does more harm than good, a mixed impact at best, moral crusaders fearful of being “husked.” There is mounting pressure to roll back production incentives as food-price inflation cuts deeper into peoples’ pockets. The absence of carbon dioxide is the primary argument for nuclear power, those opposed stacked up like rods of radioactive waste. It has never made economic sense and exists purely as a creature of government. Proponents argue freedom from wildly fluctuating fuel charges more than justify the sticker price. With natural gas or crude oil feed stock being 80 to 90 percent of conventional power outlays, compared to uranium at just 10, its price can jump without causing much of a deterring impact. As a consequence, the refurbishing of old, and construction of new, facilities is being considered by a number of provinces. There should be no fear of an inadvertent release of radiation, or production of enriched, weapons-grade essential for building a nuclear bomb.

Since 1990 the world has spent \$50 billion and found little evidence carbon emissions cause global warming. Politicians are known to reverse course after reading the polls. Are we about to witness an about-face now that researchers have found Canadians to be more anxious of rising unemployment than climate change, man-made or not? Hiring Corn Cob Bob as his press agent will not be enough to assure Stephen Harper a majority in the next federal election if he does not back off before the voters do. If the goal is to reduce fossil-fuel consumption, the only solution guaranteed to work is simple: use less. More political hot air will never do the trick!