

# BITCOIN & OUR CLIMATE

Yesterday afternoon Elon Musk tweeted that the company will no longer accept BTC for its products because of the cryptocurrency's impact on the environment. Importantly, Elon also mentioned the company will not sell any of its Bitcoin. Although not enough information has developed to conclude the actual reason for the decision, ECI believes that there is an underlying incentive that is publicly unknown. The following outline's the team's viewpoint on the case.

This announcement casts a spotlight on an argument that critics have used against Bitcoin and other Proof-of-Work cryptocurrencies since their inception: energy consumption. Our take on the argument is three-fold and simple; (1) don't demonize energy consumption without weighing out the benefits/utility of consuming said energy, (2) don't forget to compare cryptocurrency energy consumption to that of its alternatives, and (3) Bitcoin mining is actually incentivizing the move to renewable energy.

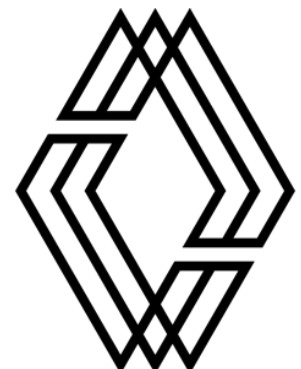
BITCOIN  
MINING  
●  
RENEWABLE  
ENERGY

An integral component of BTC's democratized functionality rests in the Proof-of-Work (PoW) protocol that is often criticized for its reliance on energy consumption. The PoW mechanism is what allows BTC to function without the need for third party validators (i.e. banks and payment processors) and gives the blockchain its characteristic of "computerized trust". This is done by giving anyone the ability to join the network as a validator or a creator of the currency with minimal amounts of resources up-front. This is the opposite of the legacy financial system where banks hold the currency/validate transactions and currency creation is illegal for anyone except the Federal Reserve.



The PoW protocol is what brings tamper-resistant banking and financial infrastructure to those who never carried the privilege of living in a society where it is commonplace, like the United States. Just ask someone from Nigeria, the global leader in Peer to Peer (P2P) BTC transactions, if the energy consumption of PoW blockchains is bad enough to outweigh the benefits. Citizens of Nigeria have recently turned towards BTC to fill the financial void their central government has repeatedly failed to fill. Now, the country is a global leader in BTC use and they have access to a currency that offers them freedom from the financial shackles of the central government that has suppressed them for decades.

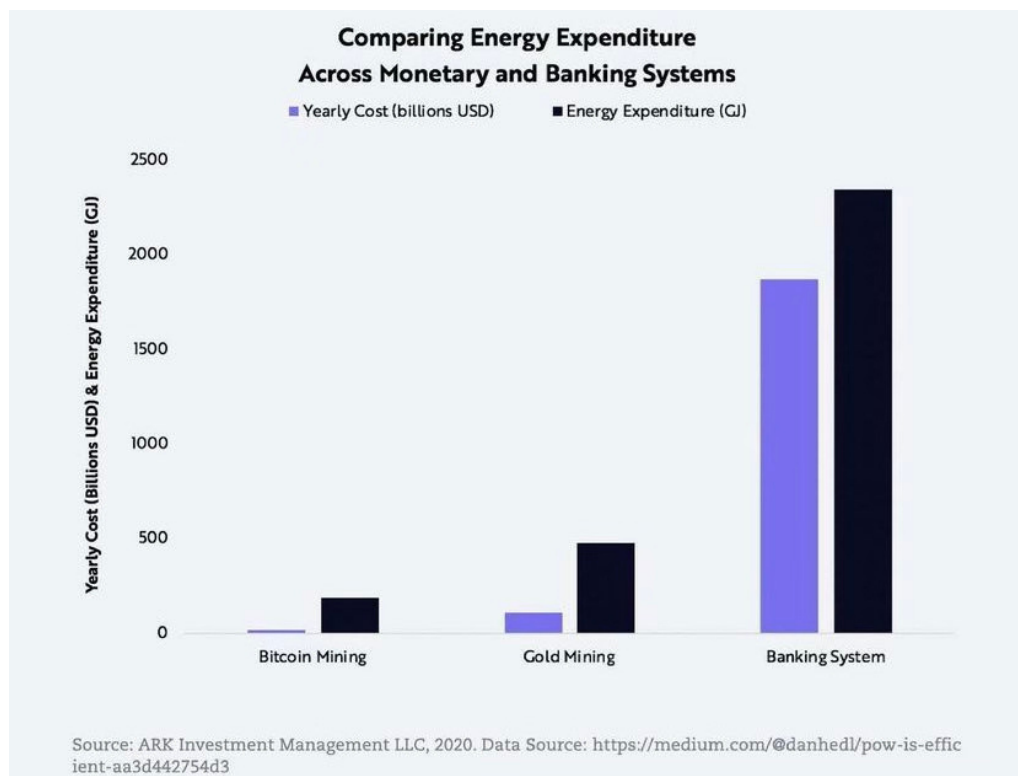
The list of countries that lack a viable fiat currency and/or central government goes well beyond Nigeria (i.e. Turkey, Kenya and other African countries) so, when critics demonize the energy consumption of BTC, it's important to acknowledge the magnitude of the benefits/utility it has already brought and will continue to bring to billions of people worldwide.



According to the latest study from the University of Cambridge, 76% of Bitcoin mining utilize renewable energy sources, and 39% of the total energy consumption of mining comes from renewables. Furthermore, the percentage of miners now using some renewable energy has increased 60% from the same study in 2018. This trend is expected to continue as renewable energy sources are increasingly more available, cost-efficient, and effective. The incentive structure created by Satoshi Nakamoto is directly aimed to incentivize the utilization and innovation of renewable energy. This is because, Bitcoin's protocol incentivizes miners to adopt the cheapest form of energy, which in the near future, will be renewables.

It has been observed that BTC requires far less energy expenditures and related costs than other banking and monetary systems. The chart below created by Ark Investment compares the energy consumption and annual cost of BTC and gold mining to the traditional banking system; it becomes clear that BTC isn't our biggest issue.

One thing is for certain, no matter what side of the aisle you stand on in this debate: energy consumption is required for the financial productivity that keeps the world running. Therefore, we see little reason to demonize the consumption of energy relative to any activity before weighing out its advantages and disadvantages.



**The term "watch what they do, not what they say" is highly applicable to Tesla's decision to cease the acceptance of BTC for its product and not convert its BTC back to dollars. Directly before the announcement, Tesla had motioned to enter the fuel credit market where President Biden is offering large subsidies to ecofriendly companies. ECI suspects that this was the underlying motive behind Tesla's move to cancel BTC payments over "environmental concerns".**

Based on the volatility created by a simple tweet, and the misinformation that is being spread by opposing parties, Bitcoin will still be a resilient asset into the future. While this unique headline risk situation is somewhat rare now for Bitcoin's sake, the volatility result is normal and ECI has significant experience dealing with times of immense volatility. The nature of these events is the quintessential reason why utilizing a risk-adjusted strategy when it comes to digital assets is crucial.

