

Finance -- The final frontier

Innovations in Green Financial Markets

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Last Tuesday afternoon, as we all enjoyed a glorious-and very unusual-warm, sunny day, energy consultant Peter C. Fusaro spoke to a full room of various graduates and undergraduates about the changing trend in energy policy, new green financial markets, and job opportunities cutting the national "carbon footprint". As Chairman and founder of Global Change Associates, Mr. Fusaro has worked for the past seventeen years on issues relating to greenhouse gas emissions, sustainable and renewable energy sources, and global warming. He began his career in the 1970s, working on technologies to take lead out of gasoline. As early as the 1990s, he collaborated with Toyota on their successful hybrid, the Prius, and today works adamantly to inform the public of the carbon problem we are all faced with.

Fusaro has been involved with emissions regulation and trading in the US since the 1990s. He uses his mantra "education breeds market liquidity" to encourage legislators to improve public knowledge through public policy in order to reduce the transaction costs of emissions markets trading. The value of emissions is not intrinsic, but rather dependent on a set limiting amount of emissions, designated by legislation. The U.S. has been grappling with the notion of a carbon tax, or other carbon emissions regulatory regime, since it committed to, and then later withdrew from, the Kyoto Protocol.

A global carbon market is emerging, starting with the E.U.'s Emissions Trading Scheme (E.U. ETS) in 2005. The E.U. ETS is based on the trade of carbon credits, which are given out to each country based on an estimate of their carbon emissions. However, many countries could not measure their emissions accurately and thus were given too many or too few credits. "Now the value of carbon credits, which was pretty stable a year ago, has dropped through the floor," says Ian Black, Erb Institute MBA/MS. The E.U. ETS will operate as a market-within-a-market of the emissions trading established by Kyoto, which will go into effect this year. Kyoto has 169 signatory countries, of which the U.S. and Australia are not a part of, and among other things includes a goal of 5% reduction in emissions by 2012 and a plan for emissions trading. Along with these markets, Canada and Japan are developing their own internal markets in 2008, both of which will likely link to the E.U. ETS.

The problem emissions traders are currently faced with is the lack of common standards. With many global and domestic markets cropping up, all with their own standards, elements, and thus different prices, a global trading market is a long way off. All the big names have a stake in carbon or energy-JP Morgan, Goldman Sachs, Dexia, etc. Emissions trading in the U.S. is led by Morgan Stanley, with Goldman Sachs following with a renewable portfolio invested in 12 states and 11 developing technologies. These prestigious banks' involvement shows that the idea of green financial markets is truly a new, reachable investing frontier.

The next few years are key in creating change in our carbon footprint, and opportunities for lucrative investment are everywhere. Mr. Fusaro described an excitingly large portfolio of technologies and strategies, including alternative energy (solar, wind, hydro), bio-energy and ethanol, energy efficiency technologies (lighting, buildings, energy recycling), medical and biological research, and information technology. Many of these innovations are ready for widespread use and now require the capital to enter larger market segments.

Wind power, for example, has become a booming global market, including the recent announcement of a project in Texas, valued at over 2 billion dollars.

Mr. Fusaro discussed some of his favorite technologies, such as a "plug-and-play" car that charges overnight and then runs on battery power, something he says will be on the market soon. While he felt that this product would do very well in the auto market, he seemed to overlook his own idea that consumers have a very steep learning curve. Although the car may be fun to check out, many of us are still attached to our Jeeps and Mustangs. This issue may be partially a generational difference; while I would certainly consider buying today's hybrid, my mother would never give up her huge SUV. However, inertia is manifest: many of our peers own the same Suburbans or Tahoes as their parents and so their willingness or ability to change to a smaller, more efficient electric or battery-powered car is uncertain.

Of perhaps more interest to Ross students are job opportunities in "green" markets. In New York, an emerging field called environmental finance (a class offered to MBAs is taught by Gautam Kaul) and sustainability gives financial services a new angle. Brokers, so-called "green" hedge funds, and venture capitalists such as Cleantech Venture Capital are all investing in new technologies and projects. Deloitte is beginning a sustainability practice, though other top tier firms have yet to develop dedicated practices. Job opportunities also exist at banks, as an analyst on trading desks, with investment banks such as Spencer Clark, with corporations such as GE's project financing, as well as with law firms and the media. California, especially the Bay area, has many opportunities with venture capital and law firms, and Washington, DC offers consulting and public policy jobs. The best way to find out more about these types of opportunities here on campus is to take advantage of student clubs like Net Impact, and sponsored events and speeches, such as Mr. Fusaro's lecture, held by the Erb Institute.

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