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Green Is Gold (Though Not Yet In NYC)
by Sam Williams
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Those attending an event known as the Green Trading Summit in midtown this month had two unshakeable convictions, one backed by science, the other by finance: Global warming is doing damage to the environment, and efforts to reduce its severity have proven lucrative; green, they say, is gold.

Michael Liebreich of a financial information company called New Energy Finance who traveled from London to give a presentation at the conference, calls it the "Kyoto Effect." After most of the world's nations signed the Kyoto Protocol, the 1997 agreement calling upon industrial nations to reduce the emission of harmful “greenhouse” gases such as carbon dioxide and methane, there was a surge in European investment in technology companies working to help reduce consumption of the fossil fuels that produce these gases, or, failing that, to boost fuel efficiency.

The United States did not sign the Kyoto Treaty, and, Liebreich pointed out, it shows: There has been a 68 percent drop-off in investment in clean energy on this side of the Atlantic.

Had the Senate chosen to ratify the Kyoto Protocol, U.S. manufacturers and utilities would face the same pressure as their European counterparts to switch to low emissions energy sources such as solar, wind, and nuclear power. As things currently stand, however, American companies have a free pass from Congress and the courts to dump as much carbon dioxide as they wish into the atmosphere, leaving the investment in clean energy to a handful of risk-tolerant companies.

In a global marketplace where businesses and industries often flock to the friendliest stock exchanges, that spells bad news for New York City. However, there was optimism at the conference. Citing a 50 percent surge in registrations for this year's conference, Green Trading Summit organizer Peter Fusaro credited post-Katrina anxiety over bad weather and high energy prices for forcing a mood change on Wall Street. Throw in the success of European investment markets and you had the sentiment that, ratification or no ratification, the world's money is already voting in favor of Kyoto compliance.

"Everybody and his brother knows the U.S. will have a greenhouse gas regime sooner rather than later," Fusaro said, meaning he believes the federal goverment is certain to create a policy that attempts to limit greenhouse gas emissions. "And when that happens, New York will be the center of financial trading.”

Of primary interest at the conference was the proven success of the European Emissions Trading Scheme, a direct outgrowth of the Kyoto Protocol. Since January 1, 2005, the European utilities and manufacturers that invest in clean energy have been able to recoup the costs through the sale of “credits” to their dirtier peers. In other words, for every ton a European company falls under its government-imposed emissions target, that company can sell a credit that knocks a ton off the total net emissions target that another company is required to meet.

Similar to the “cap and trade” programs used to curb acid rain pollution here since the 1980s, the European trading scheme focuses primarily on carbon dioxide, the chief byproduct of fossil fuel combustion. For decades, scientists have seen a linkage between rising global temperatures and rising levels of carbon dioxide in the atmosphere. While agreement on carbon dioxide's role in climate change may not be unanimous, European nations have been enthusiastic supporters of reduced carbon dioxide emissions and have passed strict regulations.

As a result, the price for each ton of carbon dioxide eliminated at the smokestack has risen from $10 last year to $34 now. Last year's market participants bought and sold more than 360 million tons of carbon dioxide credits, giving the market a conservative value of $3.6 billion.

So far, the only place where U.S. traders enjoy a home field advantage is in Chicago, where the Chicago Climate Exchange has been offering U.S. utilities a chance to recoup their own clean air investments. Unlike the European system, however, the Chicago Climate Exchange is voluntary. To qualify, companies need only reduce their emissions by four percent between now and 2012, a little more than half the seven percent target requested by Kyoto. As a result, Chicago's activity, 6 million tons, is less than two percent of European volume. The average price per ton of carbon traded is less than one-tenth the European price.

"The bottom line is carbon trades for $3 in Chicago and $30 in Europe," says Fusaro. "That's what's known in the business as an arbitrage opportunity and companies are already moving to take advantage of it."

So are state governments. Noting federal inaction on Kyoto, New York's Governor George Pataki in 2003 issued a challenge to fellow governors to set up a regional cap and trade system for carbon dioxide and other greenhouse gases. Last December, Pataki joined six counterparts in signing the Regional Greenhouse Gas Initiative, or RGGI.

Pronounced "Reggie" by market participants, the initiative applies only to utility companies but aims for the Kyoto-worthy target of a 10 percent greenhouse gas reduction between 2009 and 2019. New York's 2002 State Energy Plan already calls for similar reductions, so the initiative is in many ways an attempt to broaden state policy to the entire region and give local businesses a head start on credit trading should Fusaro's prediction of a federal greenhouse emissions policy prove correct. Under the terms of the now eight-state agreement, utilities who do business in New York must cap their carbon dioxide output at a collective 64 million short tons (roughly 58 metric tons) in 2009 and reduce that output at a rate of 640,000 tons each year thereafter. Overall, the regional program covers roughly 121 million tons, which means that New York utilities who invest in alternative fuel sources and clean air technologies now would conceivably control half of all trades in the marketplace once trading starts. That type of situation would give Con Edison and other local companies the chance to set the market price for carbon credits and would give brokers working with Con Edison a distinct early advantage.

Charles Fox, New York's deputy secretary for energy and the environment and an attendee of the Green Trading Summit, said the governor's office has yet to decide on where that trading will happen. Noting that the Chicago Climate Exchange recently opened a New York subsidiary, the New York Climage Exchange, Fox hesitated to say anything that might indicate favor for that exchange or the New York Mercantile Exchange, the city's 132 year-old hub for commodities trading. He did, however, affirm the governor's commitment to make New York City the regional center for new energy trading, if not the world center.

"We want to see these trades being made by people who are sitting at desks in Lower Manhattan," Fox says. "New York City is the world's financial capital, and this is a financial market that's growing. It's important that the city not miss the boat."
