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Carbon trading: Where greed is green

By James Kanter

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LONDON: Seeking to match a desire to make money with his environmental instincts, Louis Redshaw, a former electricity trader, met with five top investment banks to propose trading carbon dioxide. Only one, Barclays Capital, was interested in his proposition.

Three years later, the situation has turned around entirely, and carbon experts like Redshaw, 34, are among the rising stars in the City of London financial district. Managing emissions is one of the fastest-growing segments in financial services, and companies are scrambling for talent. Their goal: a slice of a market now worth about \$30 billion, but which could grow to \$1 trillion within a decade.



"Carbon will be the world's biggest commodity market, and it could become the world's biggest market overall," said Redshaw, the head of environmental markets at Barclays Capital. But he said that in his current job, unlike some of his previous ones, including a stint as a British power trader at Enron, "I don't have to compromise on anything when I get out of bed in the morning."

If greed is suddenly good for the environment, then the seedbed for this vast new financial experiment is London. A report released Tuesday by International Financial Services London, a company promoting British-based financial services, said that British companies were the leading global investors in carbon projects and that more carbon was traded in London than in any other city.

The rapid emergence of carbon finance in London - not only trading carbon allowances but investments in projects that help to generate additional credits - is largely the result of a decision by European governments to start capping amounts that industries emit.

Factories and plants that pollute too much are required to buy more allowances; those that become more efficient can sell allowances they no longer need at a profit. The system, started in 2005, is part of the Kyoto Protocol and bears the imprimatur of the United Nations. Even so, doubts remain as to whether carbon finance can deliver tangible emissions reductions, let alone the huge economic transformation needed to tackle climate change.

For now, however, green-minded graduates and an eclectic range of professionals from banks, consulting companies and aid organizations are eagerly joining one of the most vibrant new sectors in London finance.

"We don't have to advertise," said Mark Woodall, 45, the chief executive of Climate Change Capital, an investment company based in an elegant 18th-century townhouse in the heart of the upscale Mayfair district of London. "People feel quite good about working in an organization like this."

Woodall has a staff of 120 employees with an average age of about 30 and more than 10 full-time employees in China. He is moving to larger offices to accommodate the additional 80 people he expects to hire over the next two years.

To be sure, carbon traders and investors do not yet make the same staggering amounts of money as some of their counterparts in foreign exchange and corporate finance.

But remuneration is rising rapidly. A successful financier at Climate Change Capital, which manages a fund worth \$1.25 billion to invest in credit-generating projects, might in a very good year take home as much as 10 times the basic salary, Woodall said.

"Do we pay the same as top investment banks? Not today, but maybe tomorrow," said Woodall, a former British Army officer who started his first company 15 years ago cleaning up waste and chemical spills.

The industry has run into criticism. One reason is that European governments handed out too many free allowances in preparing for the start of the program, rendering the system less effective than was hoped. The over-allocation fueled volatility, and some traders reaped fatter-than-expected profits.

Controversy has also dogged some of the projects promoted by the financiers to generate new credits.

But overall, prospects for the industry are good, especially if the United States joins Europe in establishing a trading system, said Imtiaz Ahmad, 34, senior carbon trader for Morgan Stanley in London. Ahmad has already lured a senior European Union environment official and a BP employee to join his three-member trading team, and he plans to hire more.

Human activities create about 38 billion tons of carbon dioxide each year, and governments regulate only a fraction of that amount. But if more governments decide to cut billions more tons of emissions, as leaders of industrialized nations discussed this month in Germany, and if the existing system in Europe is enlarged to cover transportation, there will be many more credits available - and a lot more finance and trading.

Carbon could become "one of the fastest-growing markets ever, with volumes comparable to credit derivatives inside of a decade," said Chris Leeds, 38, the head of emissions trading at Merrill Lynch in London, who plans to expand his team to five traders from two by the end of this year.

Early this decade, Wall Street firms like Cantor Fitzgerald, which calls its environmental subsidiary CantorCO2e, were successfully using markets to reduce industrial pollutants that caused acid rain in North America, and had begun investing in credit-generating projects. But New York lost its lead in carbon finance after President George W. Bush refused to ratify the Kyoto Protocol in 2001.

"Technically U.S. companies had the expertise," said Garth Edward, 37, the trading manager for environmental products in London at Shell Trading, a unit of the oil company Shell, who formerly worked in New York for Natsource, one of the first greenhouse gas brokerages. "Then the Europeans really delivered."

Edward, a Scot who studied Chinese at Oxford and who worked in Kenya for the United Nations Environment Program, was among those who headed for London, where interest in carbon finance was developing after the introduction of a voluntary market by the British government in 2002.

Edward's team of five traders sits next to power and natural gas teams on a floor festooned with computer screens. He buys and sells carbon for Shell and devises investment projects that generate additional credits. Across town at Barclays Capital, Redshaw's team of three helps power companies, and investors manage the costs of emissions from coal or natural gas plants now and in the future, when the cost of emitting could rise sharply.

One of the few items distinguishing Redshaw's row of desks from hundreds of others at Barclays Capital is a picture of an iceberg - an award from an environmental finance publication. The way his team blends in is as it should be, Redshaw said: "Only when you're among hard-nosed traders do you know that a new commodity has truly arrived."

Lionel Fretz, the chief executive of Carbon Capital Markets, a trading and finance company also located in Mayfair, is among those who fiercely criticize projects to clean up refrigerants in China that

generated hundreds of thousands of credits and large profits for other investment companies like Climate Change Capital.

Fretz said those projects had done too little to reform other substandard environmental and labor practices and promote renewable energy. "The moral issue is that we shouldn't be providing a subsidy to a plant that operates at lower standards than our own," he said.

Fretz has concentrated his funds, worth €150 million, or \$201 million, on projects to capture and burn methane, another greenhouse gas, that is emitted by dumps in countries like the Philippines. Those projects are a new source of electricity. They also produce some carbon dioxide, but in amounts that are far less harmful than the methane, earning carbon credits.

Even though Fretz's projects are far more modest than some of those at Climate Change Capital, a company he helped found before he sold his stake in 2004, he too sees no shortage of qualified applicants for jobs.

"We're getting fantastic people," said Fretz, who was a financial adviser on road and pipeline projects for PricewaterhouseCoopers before taking a year off in the late 1990s to sail and rethink his career. "Maybe it's a generational thing, but there seem to be plenty of people from world-class companies who want to do something more meaningful with their lives."

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