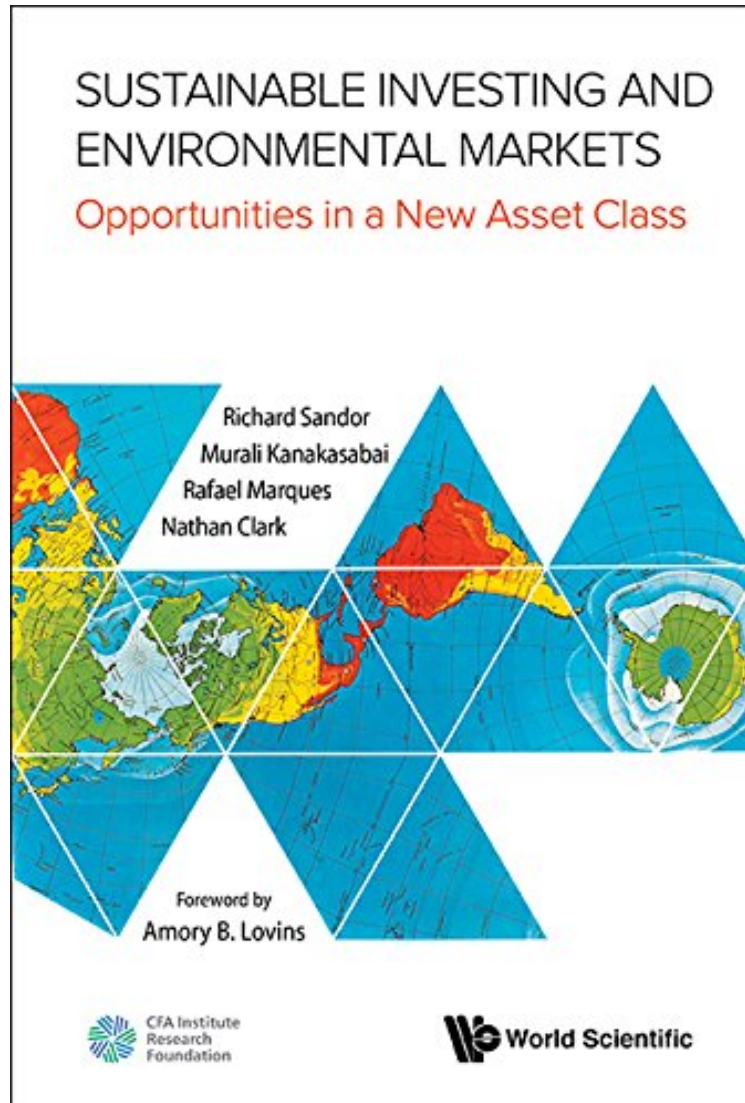


# Sustainable Investing and Environmental Markets:Opportunities in a New Asset Class

*Richard Sandor*

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**Richard Sandor : Sustainable Investing and Environmental Markets:Opportunities in a New Asset Class** before purchasing it in order to gage whether or not it would be worth my time, and all praised Sustainable Investing and Environmental Markets:Opportunities in a New Asset Class:

0 of 0 people found the following review helpful. No Acid Rain on This ParadeBy Jay SorkinSustainable Investing and Environmental Markets: Opportunities in a New Asset Class. Richard Sandor, Murali Kanakasabai, Rafael Marques, Nathan Clark. World Scientific Publishing Co. Pte. Ltd. 2015. 380 pages.Many commodity traders have found success in being trend followers. Not many have done so by being trend-setters, but you can count Richard

Sandor among the few. Sandor's glittering resume includes developing the first financial futures contract in the 1970's, the concept of environmental markets in the 1980's, and the introduction of the first SO<sub>2</sub> auction in the 1990's, which led to the cap-and-trade markets in carbon, nitrogen and other emissions markets. In his spare time Sandor founded the Chicago Climate Exchange to trade weather-related and environmental markets, and his current project, Environmental Financial Products. He also maintains academic affiliations (currently teaching at the University of Chicago) and has written other books. In sum, Sandor is an intellectual force to be reckoned with. This latest volume examines environmental issues with more than just an eye toward conservation and increasing the societal benefit. In true Chicago style, he and his co-authors (about whom, more later) explain how to develop tradable markets around these issues and, more importantly, how to make money doing so. Incentivize them, and they will come. In true Chicago style, the emphasis here is on how to price the asset and allow the free market to determine the types and magnitudes of the reductions. While not directly taking governmental interference to task, the authors show a clear preference for traveling with just a carry-on, rather than the bulky baggage that government programs seem to require. There is a place in the system for regulation of these programs, but it should be more for the authorization of the market and enforcement of the rules, not the implementation. One example is the original sulfur dioxide auctions. Enabled by the Clean Air Act Amendments of 1990, the first auction was held through the Chicago Board of Trade in 1993. Since then, SO<sub>2</sub> (and nitrogen oxide) emissions are over 75% lower than 1980 levels. Just as important, health costs for lung disease were lowered, as were smog levels, forest damage, and acidification of lakes and rivers. This was accomplished because regulation helped create the functions that enabled a market to emerge: it legalized the asset class as a commodity; it produced the property rights needed; and it established the infrastructure to allow for transfer of the asset. Then the market took it from there. In the past 20 years, cap-and-trade has been burdened with a great deal of political baggage, primarily from those whose oxen will be gored by change, as is often the case. Yet there are now enough programs operating to ensure that their benefits will continue to grow. But this is not a book about cap-and-trade programs or policies. Nor does it purport that cap-and-trade is the only way to go. This is a roadmap on how to develop markets to allow for other environmental assets to be priced and traded. Early on, the authors outline a seven-stage market development process that is needed. It is no surprise that the first three are similar to the three requirements outlined by Francis Fukuyama in his recent book, *The Origins of Political Order*, in which he says that a political state needs infrastructure, laws, and accountability in order to survive. So it is with a market as described here, albeit writ small. But the ideas presented here are not small. The first step is the recognition that the structure currently in place needs to be changed due to demand factors. Later explanations bring into play such examples as the "tragedy of the commons," a concept articulated by many, but notably by Mancur Olson (see *The Logic of Collective Action: Public Goods and the Theory of Groups*). It is here that we find the root of a market. Public goods vs. private goods and collective decisions vs. individual decisions are what make a market. Large groups operate differently than small groups and still more so than individuals. Their resulting decisions are based on the economic pressures affecting each of them, and by the incentives each is given. This is what makes a market. Secondly, there must be rules, preferably developed by the needs of the market. Chief among these is that the commodity must be transferable. This requires that someone can own it and then be able to sell it to someone else. This notion of property rights has come up before. Almost thirty years ago Hernando de Soto Polar's book, *The Other Path*, championed property rights as a means out of third world poverty. Ownership allows for buying and selling and, more importantly, establishing a value and price for doing so. If you don't own it, its value doesn't matter, and you don't take care of it. As Larry Summers famously said, "No one ever washes a rented car." The third component is accountability. We are careful here to distinguish between the rules that the market needs in order to work, and the regulations the market overseers need to ensure a level playing field. In Washington, this means regulation and enforcement. In Chicago, this means clearing: a neutral third party to ensure that buyers pay and sellers collect. Covering such diverse asset classes as emissions, renewable energy, weather-related events and water, and even global fisheries, this book details the necessary steps to develop each into a tradable market. Once a market is created, it can establish a price for the underlying commodity. This price will then become the driver for individual and collective behavior, because the price will factor in all the tangible and intangible (read societal) inputs from the disparate market participants. Sandor's three co-authors all have a long history of commitment to environmental issues. They have each been Managing Directors of Environmental Financial Products (EFP) and were involved in the Chicago Climate Exchange (CCX). Miurali Kanakasabai is a Ph.D whose work stretches from the first emissions auctions to designing some of these new products. Rafael Marquez has been in all phases of research and development of environmental products for over 15 years, and his portfolio has included the broadening of international growth and relationships for the Climate Exchange and now EFP. Nathan Clark also spent many years with the CCX and EFP before moving on to become a Vice-President of Wabashco, LLC, a clean fuels, carbon offset, and renewable energy development company. These are four men who have long-proven their dedication to helping the planet. *Sustainable Investing and Environmental Markets: Opportunities in a New Asset Class* is an important book in an important emerging field. We are currently at a place in the history of commodity markets similar to that of the 1970's when the first financial products were introduced. Back then the corn and pork belly traders couldn't understand how you could trade money and debt. That

success may ease the way a bit for this new asset class, but market participants are a sticky group. They will not embrace a new market until it has proven itself to be viable. Are we facing, as Shakespeare wrote, "a tide in the affairs of men Which, taken at the flood, lead on to fortune?" The market will tell us, because that is what a market does. Jay Sorkin is a 40-year veteran of the futures and options markets. He traded at the Chicago Board of Trade and the Chicago Board Options Exchange, and later was on the management team of two start-up electronic exchanges. He has taught futures and options for over 30 years.

0 of 0 people found the following review helpful. Five Stars  
By ronney traynor  
interesting 0 of 0 people found the following review helpful. A FASCINATING AND IMPORTANT BOOK!  
By J.D. Simon  
Richard Sandor, Murali Kanakasabai, Rafael Marques, and Nathan Clark have written a remarkable, comprehensive and important book that will appeal not only to business and financial professionals and investors, but also to anybody who is concerned with the future of our environment. This is one of the most creative and thought-provoking books yet to be written on how market-based mechanisms such as cap-and-trade can be used to address many different environmental challenges, including acid rain, global warming, the scarcity and quality of water, and other critical issues. The authors illustrate through several fascinating examples (and a wealth of data, charts, and analysis) how environmental markets can work to be a positive development in protecting the environment. Among the successful cases discussed in this book are how sulfur dioxide allowances reduced acid rain in the United States, how renewable energy certificates in New Jersey stimulated the development of solar power; and how carbon dioxide allowances in the European Union Emissions Trading Scheme are being used in the battle against global warming. Other examples of environment markets at work are water rights in Australia to combat drought and fishing rights in Alaska to prevent overfishing. Perhaps the most impressive achievement of this book is how the authors present a complex issue in a concise and highly readable manner. Those who take the time to read carefully this book will be rewarded with both an understanding of environmental markets and a new way to look at some of the most pressing issues of the 21st century. **SUSTAINABLE INVESTING AND ENVIRONMENTAL MARKETS: OPPORTUNITIES IN A NEW ASSET CLASS** is destined to be the classic work in this emerging and important field.

Environmental asset classes are not a hope for tomorrow but a reality today. This new asset category promises to grow dramatically in the 21st Century as financial analysts, investors, and corporations around the world try to find ways to profit or reduce costs while promoting environmental social benefits. **Sustainable Investing and Environmental Markets: Opportunities in a New Asset Class** presents a groundbreaking new way to "do well and to do good". With a combination of over 50 years of practical experience in the field of environmental finance, Richard Sandor, Nathan Clark, Murali Kanakasabai and Rafael Marques provide a solid preliminary understanding of the promising and transformational new investment category of environmental assets. Three broad asset classes — air and water; catastrophic and weather risk; and sustainability — are covered across 12 chapters which analyze how these environmental asset classes are currently being incorporated into commodities, fixed income, and equity instruments and what the future holds for the field.

**Contents:** A Brief Survey of Environmental Asset Classes  
Market Failures and Policy Responses  
Acid Rain Pollutants as an Asset Class  
Greenhouse Gas Pollutants as an Asset Class  
Emerging Geographies for Greenhouse Gas Emissions Markets  
Forest Carbon as an Asset Class  
Clean Energy Markets and Associated Asset Classes  
Water Markets and Associated Asset Classes  
Water Quality Trading and Its Associated Asset Classes  
Sustainable Fisheries Management and Its Associated Asset Classes  
Weather Risks and Associated Asset Classes  
Sustainability and Associated Asset Classes  
Conclusion: You Can Put a Price on Nature

**Readership:** Readers interested in the environment as an asset class; investors, financial analysts, policymakers, undergraduates and postgraduates of finance and economics.

**Key Features:** There is no equivalent book in the market right now that covers environment-financial issues from a practitioner's standpoint. This book combines economic theory and practical experience — making it a valuable tool for anyone who is interested in the environment as an asset class (investors, analysts, policymakers, students of finance and economics)

"A "how-to" manual for using eco-markets to save the planet... laced with deep, important history and the foresight of the truest financial and environmental market pioneer, this book tells the tale of how, with leadership, we can change the world.." -- Commissioner Bart Chilton, US Commodity Futures Trading Commission "With this book, Dr Richard Sandor and his colleagues help bridge a critical gap between academic theory and business practice. A must-read for students, investors, policymakers, and anyone interested on the worldwide opportunities for markets to tackle pressing issues such as climate and water. An important reference piece, written by someone who has helped shape the field of environmental finance as both an academic and practitioner." -- Joseph P Kenendy II, Founder, Chairman, and President of Citizens Energy Corporation and Member of the US House of Representatives for Massachusetts 8th District (1987–1999) "This is a great book. Every student should read it as a freshman. It is the handbook of how different innovative approaches accelerate the creation of a sustainable future for all of us. Nature has a monetary price, and Richard Sandor and his co-authors tell you in this book how price discovery leads to environmental protection." -- Alexander J B Zehnder, Nayang Technological University, Singapore Former President of ETH Zurich, and a father of the concept of the "2000 Watt Society" From the Inside Flap

classes are not a hope for tomorrow but a reality today. This new asset category promises to grow dramatically in the 21st Century as financial analysts, investors, and corporations around the world try to find ways to profit or reduce costs while promoting environmental social benefits. Sustainable Investing and Environmental Markets: Opportunities in a New Asset Class presents a groundbreaking new way to -do well and to do good-. With a combination of over 50 years of practical experience in the field of environmental finance, Richard Sandor, Nathan Clark, Murali Kanakasabai and Rafael Marques provide a solid preliminary understanding of the promising and transformational new investment category of environmental assets. Three broad asset classes air and water; catastrophic and weather risk; and sustainability are covered across 12 chapters which analyze how these environmental asset classes are currently being incorporated into commodities, fixed income, and equity instruments and what the future holds for the field.

About the Author Richard Sandor is Chairman and Chief Executive Officer of Environmental Financial Products LLC, which specializes in inventing, designing, and developing new financial markets. A financial innovator known as the "father of financial futures," he has been at the epicenter of environmental and financial markets for more than four decades. He founded the Chicago Climate Exchange (CCX), the European Climate Exchange (ECX) and the Chicago Climate Futures Exchange (CCFE). Dr Sandor is also the author of Good Derivatives: A Story of Financial and Environmental Innovation, published in 2012. In July 2013, Dr Sandor was named a Chevalier in the French Legion of Honor. Murali Kanakasabai is Managing Director with Environmental Financial Products, LLC. Prior to this position, Dr Kanakasabai served as Senior Vice President with the Chicago Climate Exchange (CCX) and its affiliates where focuses on research and education in greenhouse gas emissions markets, new product innovation, management of emission offsets and International business development. He is frequently invited to speak at industry conferences and educational seminar around the world and has contributed extensively literature on environmental markets. Rafael Marques is Managing Director of Environmental Financial Products. Prior to this position, Mr. Marques served as Senior Vice President of the Chicago Climate Exchange (CCX) where he was actively involved in all phases of the feasibility and design phases of the Chicago Climate Exchange and worked on the program's membership outreach and expansion into Latin America. He also previously worked as a researcher at the Brazilian Embassy in Washington, where his responsibilities included research and analysis of trade-related issues. Nathan Clark is Vice President of Wabashco LLC, a clean fuels, carbon offset and renewable energy development company and formerly a Managing Director of Environmental of Financial Products, LLC. Prior to his work at EFP, Mr Clark was Senior Vice President and Managing Director of Offset Programs for Chicago Climate Exchange (CCX). In that capacity, Mr Clark managed the process of defining and implementing project-based emission reduction initiatives. He served as Chair of the Subcommittee on Permanence for the Novecta Soil Carbon Sequestration Standards Committee and was a member of the Greenhouse Gas Evaluation Task Group of the American National Standards Institute.