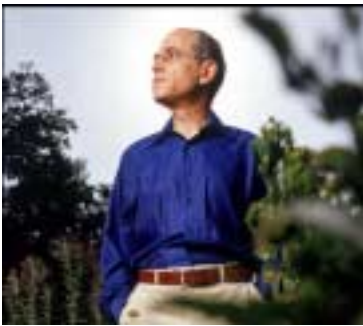


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HEROES FOR THE GREEN CENTURY



Richard Sandor His Market Is a Gas

Richard Sandor's vast collection of vintage photographs reflects his fascination with divergent thinkers, from Albert Einstein to Fidel Castro to Man Ray. Yet his tactic for saving the earth couldn't be more Establishment. He wants to entrust the task to financial markets.

Sandor, 60, the CEO and founder of Environmental Financial Products, based in Chicago, is one of several innovators who think the key to stopping global warming is to encourage companies to cut greenhouse-gas pollution by making it profitable for them to do so. The trick, contends the economist, who was a pioneer in the development of financial futures contracts at the Chicago Board of Trade, is to create a market in permits to emit greenhouse gases. "The power of the free market is that it can restore nature's wealth as it increases financial wealth," Sandor says. Just how much wealth? He estimates that a global market in greenhouse gases—released with the burning of oil, coal and other fossil fuels—could amount to hundreds of billions of dollars a year.

To begin harnessing those billions in the service of a cleaner planet, Sandor plans by early next year to launch a trading forum called the Chicago Climate Exchange, in what would be the first U.S. marketplace for greenhouse-gas emissions. More than two dozen major U.S. companies, including Ford, DuPont and American Electric Power, plus five Mexican and Canadian firms, along with Chicago and Mexico City, have been involved in setting up the exchange and have expressed interest in participating, pending further negotiations. As a group, Sandor says, they represent emissions nearly equal to those of Germany.

The exchange is modeled after the largest and most successful experiment to date involving pollution permits. Under the 1990 amendments to the Clean Air Act, the U.S. government set a cap, or limit, on sulfur dioxide emissions, a contributor to acid rain, and distributed tradable emissions permits. Companies able to reduce their emissions below the cap could sell their unused permits to others. The Environmental Protection Agency says the program has reduced SO₂ emissions more than 30 percent from 1990 levels and cost industry a mere 20 percent of what the government originally estimated.

The buying and selling of permits for greenhouse gases is permitted under the Kyoto treaty to combat climate change. Despite the rejection of the pact by the U.S., other major governments, including Japan, have ratified it, and trading in permits for carbon dioxide, a leading greenhouse gas, is increasing in Europe. In the U.S., many executives who expect eventually to face more rigorous laws are eager to get experience coping with caps. "We really have endeavored to construct a program that will be highly credible and successful—and by success we mean it will reduce greenhouse-gas emissions," says Dale Heydlauff, senior vice president for environmental affairs for American Electric Power and one of Sandor's collaborators. Participation will be voluntary, but firms will be monitored for compliance.

The initial targets for greenhouse-gas reductions seem modest. The project's website proposes reductions of just 2 percent below 1999 levels, plus an additional 1 percent cut with each passing year. In contrast, scientists warn we must cut our fossil-fuel addiction by as much as 70 percent to confront global warming effectively.

Even so, the Chicago Climate Exchange will be ahead of U.S. law, and will be a test of corporations' readiness to act on their own. "This is the Wright brothers' version of an aircraft," Sandor says. "It's not the 747 that exists after 50 years, but it's a start. And that's going to be important to your children and my grandchildren."

— **By Katherine Ellison**

Ellison is co-author of *The New Economy of Nature: The Quest to Make Conservation Profitable*