

# INSIGHT | BUSINESS TOMORROW

► INTERVIEW • MICHAEL J WALSH, Executive Vice-President, Chicago Climate Exchange

## 'CCX offers market solutions to environmental issues'

Michael J Walsh is an old associate of Richard Sandor, who is better known as the father of carbon credits trading. So, when Sandor founded the Chicago Climate Exchange (CCX) in 2003, he chose Walsh as the executive vice-president. An accomplished economist, Walsh has been involved with carbon credits trading on behalf of CCX's predecessor, Environmental Financial Products. He has also conducted auctions of sulphur dioxide emission allowances for acid rain reduction. He spoke to FE's Rajiv Tikoo during his recent visit to India. Excerpts:

### How did Chicago Climate Exchange come into being?

It was in late nineties that Richard Sandor saw the need for building a bottom-up system to offer market-based solutions to solve environmental problems. So, he set up the world's first climate exchange in Chicago. It's a voluntary, but legally binding trading system to reduce greenhouse gas (GHG) emissions.

### What does voluntary, but legally binding mean?

The exchange members make a voluntary, but legally binding commitment to reduce their GHG emissions. If members more than meet their targets, they sell additional allowances to those who fall short of their targets.

### The US has not ratified the Kyoto Protocol. Is it hampering trading?

Probably, our activity would have been higher if the US had a mandated system, but we didn't set up the exchange in the hope that the US would ratify the Kyoto Protocol.

### Even the future road map leading to the new climate change treaty is not clear yet. How do you cope with this long-term uncertainty?

The space is completely saturated with uncertainty both at the national as well as at international levels. We are taking a lead to reduce the uncertainty by providing rules on emission reduction goals, standardised audits, standardised quantification and standardised trading rules.

The Multi-Commodity Exchange of India has a licensing agreement with us to list small versions of our carbon financial instruments. And it's easily accessible to Indian companies at Indian hours and in Indian rupees



### Do you think such market moves put pressure on political establishment to act?

I don't know whether it puts pressure or not, but it does provide working examples of proven rules and methodologies to ensure that significant emission reductions can be made immediately.

### How is your affiliate European Climate Exchange doing?

The European exchange has been active for three years now. Its mission

is to provide low-cost trading for instruments that have been established by government action.

It has already become the focal point for carbon credits markets in Europe and has captured large chunks of trading, offering transparency and low transaction costs.

### Are any more exchanges coming up in the near future?

We do expect there will be exchanges around the world and we are taking steps to make it happen. The

Montreal Climate Exchange should be activated this year.

Besides, we have indicated very publicly our intention to provide exchange services, standardisation, low transaction costs and price transparency in any environment.

### What is the nature of your tie-up with the Multi-Commodity Exchange of India?

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carbon financial instruments. It's easily accessible to Indian firms at Indian hours and in Indian currency.

### Is the response of Indian companies encouraging?

Our open market mechanism is very welcoming of Indian participation. Indian companies are already participating in the exchange to introduce mitigation projects in India. They want the opportunity to generate income and reinvest that income to reduce GHG emissions. Recently,

we offered a customised exchange service to Tata Motors for selling its carbon credits under the Clean Development Mechanism (CDM).

### What are your predictions for the CDM market?

It's impossible to say with certainty where the CDM would be after 2012. We consider it like any first-generation mechanism. What is important is to recognise the impact of capital flows to developing countries, engagement of developing countries and opportunities for clean technology, which are very important in building a global response to climate change.

### How do you ensure transparency and accountability?

The amount of material that we put out around the world is comprehensive and enormous. Perhaps the most important factor is providing information on the price of carbon, which is of critical importance in driving behaviours and responses as well as planning and launching mitigation projects. And we are completely transparent on pricing.

### How are you addressing the systemic shortcomings?

We need to make sure that all sectors have a clear set of rules and at a reasonable cost. It's critically important to have a structured approach that makes sense and is credible. To optimise the global response, we need to leverage the diplomatic and business resources. Markets don't drive emissions down; standards do. Technologies and methodologies do. So, we need to refine them as early as possible. If governments provide right signals and incentives to the private sector, capital markets will offer a robust response.

### Where do you see yourself in the next five years?

Although it's impossible to predict international policies and politics, there are strong signals that the US will have a mandatory carbon credits trading system. So, our transactions should increase manifold.

## Hybrids are good, but we need to do more

The way forward is a multi-pronged strategy to cut emissions

THE Budget provision to cut duty on hybrid cars from 24% to 14% is a step in the right direction to make them more affordable in India, thereby increasing their quicker adoption by people. The hybrid car uses both a combustion engine and an electric motor for propulsion and is an interim stage in the full development of a clean car.

This is a step that would bring India in step with advanced economies. It will bring down dependence on depleting fossil fuel reserves and reduce the environmental costs of vehicular emissions. It's also desirable because the growth in vehicular sales is increasingly putting pressure on infrastructure. Besides, the emission load from vehicles is leading to an increase in pollution.

What the finance minister has done is to encourage manufacturers to provide a futuristic technology to give Indians access to cars that run on alternative fuels. In fact, this year's auto expo in Delhi displayed a slew of hybrid car options. Hybrid cars will also provide relief to Indians willing or aspiring to adopt another option to cope with rising costs of petrol and almost phasing out of diesel cars.

Hybrids are also more fuel efficient. Hybrid engines, however, are still much more expensive, which is limiting

their popularisation and growth. In fact, all new things are expensive until they attain a critical mass. We've seen that happen in the case of mobile telephony and mobile handsets. So, such initiatives need support from all quarters.

While hybrid technology is more eco-friendly, the initial overall impact—even if the penetration increases to 5% (in the US it's about 3%)—on the environment would be minuscule.

The way forward is to adopt new technologies, but at the same time not to forget the big picture. While taking these steps, we should not stop short of making other efforts that can have far-reaching impacts on the issues under question. There is a need to have a multi-pronged approach to make sus-

tained progress. It includes taking steps to address our basic systemic issues like providing better quality roads, working signals, better equipped traffic police and better public transport infrastructure.

While advanced economies have exhausted these options and depend on radically new ones like hybrids for further improvement, we should consider hybrids only as another weapon in the arsenal in our fight for a cleaner tomorrow.

The writer is associate director, Synovate Business Consulting



Guest Column

KARTHIK RAMAMURTHY

## Electric car market rides green concerns

Green consumers or Hollywood types looking for an eco-cachet buy electric vehicles to make a lifestyle statement

Kristen Hall-Geisler

ECOMOTION is not a typical car dealership. First, there is the coffee shop just inside the front door. Second, the cars in the showroom are small and shaped a little funny. Some have only three wheels; one is available in a zebra print. All are powered by electric motors.

Ecomotion opened in Portland in September 2007 and has sold about 125 automobiles, including the used hybrids that are kept in a separate showroom behind the information desk. Ecomotion has become one of the top-selling electric vehicle dealerships in the country, selling cars from Zap and Myers Motors.

"It was overwhelming for us to see that it started out pretty smooth," said Steve Sharer, the general manager, who sold regular cars for years before being hired to run the dealership. "We want to be different."

There are dozens of dealerships in the country selling electric vehicles, or EVs, including ones made by Zap, Zenn Motor Co and Myers. Many dealerships sell models from several companies.

"Dealerships are what we need more than anything right now," said Alex Campbell, a Zap spokesman. He said there were about 50 independent dealerships that sell their car, with the majority on the West Coast.

"We find that most auto dealers are not even aware that electric cars are available today," he said. "Also, there is the challenge of finding a dealer that believes in the opportunity and is willing to work for it."

Environmental Motors in Glendale, California, has become an EV dealer for the second time, reopening in 2007. The Sokolow family, which owns several traditional dealerships in the area, established Environmental Motors in 2000, but the store closed in 2003. In May 2007, amid rising interest in alternative-power vehicles, Taryn Sokolow reopened the store, selling Zaps and Zenns.



Ford Motor's Think Neighbour vehicles are lined up at the company's Ride and Drive show at Bay Harbour, Michigan

—Bloomberg

Though there are EV dealerships around the country, many are taking advantage of the West Coast's fusion of car culture and green sensibilities. Tom Kelly of Davis, California, attended a car show in San Francisco and was impressed by the electric vehicles on display. In April 2007, he and his partner, Theo Drushell, opened Davis Electric Cars, which sells Zaps and Zenns.

Alternative power once had the alternative lifestyle image of hippie owners driving odd vehicles. Many dealers said buyers were now people concerned about the environment or Hollywood types looking for eco-cachet. Sokolow said she would not mind if her showroom, which usually has six models on display, had a more crunchy-granola feel than a standard dealership to fit the image of the vehicles.

That is one of the reasons she

will be moving the dealership this spring from a former Buick showroom started by her grandfather to a warehouse.

For celebrities looking to make a statement, Tesla promises that its EV sports car will hit the streets sometime this year. The first Tesla dealership is scheduled to open in Los Angeles, possibly in April, according to Darryl Siry, a Tesla vice-president. He said many Tesla buyers are in the technology business in California. "They're very intelligent people with an engineering orientation," he said. "They feel technology can solve problems." Dealers said many people buy an electric car—be it a \$11,200 Zap Xebra Sedan or a \$99,000 Tesla Roadster—as a second, statement-making vehicle.

"It's not a typical car that you go out and buy and drive to the coast," Sharer said. These cars work well, where the land is flat.

In Davis, California, Darlene Kelly, Tom Kelly's daughter-in-law and the store's manager, said that Davis Electric Cars has sold approximately 25 vehicles in the last nine months and they have gone mostly to families. "They have kids, run errands and take the kids to soccer practice," she said, adding that EV owners "are giddy about their cars—they give them nicknames."

Some of the store's customers are professionals who live and work in nearby Sacramento, where she said parking and charging are free in some places.

Ecomotion has sold more Zap cars, about 50, than any other dealership in the country, according to Campbell of Zap and Sharer, but it's hard for a dealership to survive selling EVs exclusively, which is why Ecomotion also sells used hybrids like the Prius.

Buying a car from an EV dealer-

ship is similar to buying from a traditional dealer. Many dealerships offer test drives and financing, and service the cars they sell. But there are also differences—they could actually try to talk you out of buying the car.

The dealers said they needed to make sure the car is right for the buyer. The sales staff has to explain that driving a limited number of miles at a limited speed is feasible for most people, but not for everyone. Drivers with highway, hilly or long commutes should buy something else. Sokolow says she often asks a prospective buyer, "How far is it from your work to your home? I need to know miles."

EV dealers also do not negotiate on prices. "It's not a traditional thing that they're buying," Sokolow said. "And it's not a traditional thing that we're selling."

—NYT