

Driving Capital Markets through Clean and Green Agenda

In his Oxfam's Gilbert Murray Memorial lecture as the Chancellor of the Exchequer, Mr Brown said: "Prosperity to be sustained has to be shared. Prosperity and morality go hand in hand. And as we embark on a technological revolution, we must resolve to include in the new opportunities the people and places that the world has too long forgotten. We must strive for a more global social inclusion."

Capital markets are the best human innovation and the instruments of social inclusion and shared prosperity. But like parachutes they can function only when open. Their purpose is to enhance the profit and sustainability of each market participant. We agree with Milton Friedman that the purpose of the business is to maximize profits. The evidence shows that today green and clean agenda has become the biggest driver of profits. Marks and Spencer is a classic example. Their profit of £1 billion last year was to a great measure due to their sustainability efforts through zero waste, drive to carbon neutrality, fair trade and organic food.

A few heads had turned while back in 1996 when addressing the Annual American Quality Congress as chairman of the World Quality Council I asserted that environment will be the biggest business opportunity of the 21st century. Today almost every major multinational company uses environmental symbolism to market its products and services. What is still not realized is that in this pall of gloom over the financial markets, natural wealth could fuel the stagnating capital markets and open new opportunities for wealth creation.

The biggest stumbling block in inducing capital markets to engage effectively in green issues is the lack of measures for pricing natural wealth. The reason that natural capital has remained off balance sheet is the difficulty in obtaining cost information for the book building process and price discovery.

It is for that reason that last year's environment conference – the 9th World Congress on Environment Management held in Palampur from 30 May – 1st June

Capital markets are the best human innovation and the instruments of social inclusion and shared prosperity. But like parachutes they can function only when open.

2008 launched a global human chain to PROACTIVATE – a model focusing on pricing natural capital to create sustainable wealth and upgrade environment. The launch has changed a lot of mindsets. There are already investors who have realized the value of trees and rain forests and discovered that growing them is infinitely more profitable than destroying them for beef, soya beans or timber. Canopy Capital, a natural capital fund, has announced guaranteed payments over five years to the Iwokrama International Centre in Guyana in return for rights to the ecosystem services produced by a rainforest reserve two and a half times the size of London, which the Centre manages on behalf of the Commonwealth. The proceeds will be used to provide livelihoods for the 7,000 indigenous people dependent of the reserve and to help support the conservation of the rainforest.

The evidence shows that industry is aggressively responding to environmental challenges with a wave of innovations in alternative energy. In India Suzlon, a lacklustre company so far, has generated Rs 13700 crores for its promoter Tulsi Tanti through a recent IPO. Wind-turbine companies which had mini-busts in 2000 and 2004 are roaring today. Investor interest is switching to companies that develop the enzymes which break down plant matter and turn it into fuel. Wind turbines are being developed that ride 10 Km up in the jet stream to capture 100 times as much energy, which is transmitted to Earth on supporting cables. The U.S. military and India are studying the use of solar satellites for producing energy.

“Novozymes, a Danish company, was considered a boring old specialty chemicals company until the enzymes operation was recognized,” says Ronnie Lim, head of sustainable investments research at Morley, a fund management group.

Brazil is already meeting 40% of its transportation requirements from ethanol. Bio fuels can be produced without sacrificing land for food crops. India’s 600 million tonne agricultural waste can generate equivalent of 80,000 mega watts of electricity, ie 60% of its installed capacity, and empower the rural India by creating 30 million new jobs. Radical advances in energy conservation are taking shape. Hybrid cars, solar panels, windmills, ethanol plants, nuclear fission, desalination, biofuels, organic farming, precision farming and bioengineering are but few examples. Light Emitting Diodes (LEDs) are saving 90% of the energy wasted by incandescent lights. The experts of TechCast project directed by Bill Halal, Professor of Innovation and Technology at George Washington University detail “scores of new fuel cell technologies developed to create H2 directly from biomass. Photosynthesis is offering the prospect of converting sunlight into energy as plants do, at 100% efficiency.

Corporations are greening their businesses at an astronomical pace. Greentech could be the greatest business opportunity of 21st century. Cleaner energy companies that attract 1% of venture capital before 1999 are now getting 8% of all investment. The world market for pollution control was \$500 billion in 2000. It is expected to rise to \$10 trillion in 2020, larger than automobiles, health care and defence.

Lee Scott, CEO of Wal-Mart and Stuart Rose, CEO of Marks and Spencer both admit that they started their sustainability drive as “a defensive strategy”, but it has turned out a cash cow creating value for both customers & company in an unprecedented way while protecting environment.

DuPont claims to have reduced GHG emission by 50%. Dow Corning has made \$1 billion through eco-embedded innovations. Ford has boosted productivity and saved money by rebuilding its River Rouge plant in Detroit ecologically, installing skylights and a ‘living roof’ that reduces toxins. Several companies have followed suit. Genzyme Corporation uses waste steam for heating. The New York Jets stadium was designed to use solar cells and wind turbines to reduce energy. It now sells excess energy to the city’s electrical grid. UPS & FedEx are equipping vans with hybrid and fuel cell engines to reduce fuel costs & pollutants. Starbucks claims it saved \$36 million in 2001 through CSR and sustainability projects that helped keep employees loyal and cut down turnover costs.

The trend is unmistakable. California Edison increased its use of renewables from 1% in 1985 to almost 30% today, and California now requires 20% of its energy to be renewable by 2017. Maine now derives 30% of its energy from hydroelectric plants and other renewables. Hawaii, and other states aim to produce 20% of all energy from renewables by 2020. The U.S. DoE thinks renewables will reach 28% by 2030, and the EU expects renewables to reach 22% of energy use by 2010.”

Melting of glaciers is reducing the water supply for future generations. Water promises to be in the 21st century what oil was in the 20th century. Gangotri glacier the font that supplies fresh water to millions in India is receding by 23 meters every year. Desalination technologies will change the equation. According to TechCast studies, innovations in desalination have brought down the overall desalination costs from \$20 per gallon in 1950, to \$6 per gallon in 1960. The cost is now approaching 1 cent per gallon. Ovation Products claims it can distill water contaminated with anything into pure drinking water for 1 cent per gallon.

New business models are emerging which are material efficient and service based. The classic example is Interface Corporation, a \$ 1.1 billion company that provides “carpet service” rather than selling carpets. They learnt to recycle carpets and found recycling makes carpets last four times longer and uses 40% less fabric while reducing the amount of replaced carpeting by 80%. This

resulted in 35 fold reduction in overall use of materials. Ray Anderson the CEO says: "Sustainability doesn't cost. It pays. Our costs are down. Our products are the best they have ever been. Our people are motivated by a shared higher purpose. And the goodwill in the marketplace is astonishing. Doesn't it feel good to have this kind of commitment made by the company that you are part of? Don't you feel proud?"

Smart investors are realising that modern technology can give multiple benefits. The intimate interplay between a DNA molecule, the IT power, atomic matter, bioengineering has driven commercial innovation through the roof. Bridgestone, the Japanese tyre company no longer sells tyres in Europe. They charge customers on "pay as you use" basis. Tyres have sensors to track their usage. So instead of proliferating models, the company focuses on improving the durability of tyres. Because customers pay on usage, even the poor can afford thus the company enhances its market, improves its sales and boosts social inclusion. Lots of other companies operate similarly multiple agenda that improve their bottomline, alleviate poverty and save the planet.

Solar energy is ripe for breakthroughs and offers the best opportunity for investors. The material which forms the basis of the vast majority of today's solar cells, silicon is expensive and cumbersome. There is no compelling reason why new materials of a tenth of a twentieth the price of silicon could not be used. Eventually thin-film technology will prove a cheaper replacement. However, there may be other solar opportunities through these cell technologies. Stephen Mahon of the Low Carbon Initiative, which recently launched a £44.5m (\$82.5 m) environmental fund, says it is investing in Heliodynamics, a company which use mirrors to focus the suns rays and thus increase the power generated.

But nanotech can provide plastic solar cells at \$0.20/watt and increase efficiency. Nanosolar Company is mass producing solar cells at far less cost by simply printing them, and expects to increase the global supply 20-fold. The world's largest solar power plant, located in the Mojave desert, is 30% efficient. The CEO says that "11 square miles could produce as much energy as Hoover Dam." The consensus is that costs will become competitive with other energy sources about 2012 to 2015, and some experts estimate solar and wind power will reach 10% of U.S. energy by 2013.

Nuclear fission produces no pollution, has a sound safety record, and compares with oil on cost. New designs like the pebble bed reactor are immune to meltdown, and waste can be stored safely if coated in glass or socked away in stable mountains for 200,000 years. A "fast breeder" design recycles spent fuel to reduce radioactive waste from 95% to 1% of the fuel used. Worldwide, the number of nuclear power plants is expected to grow from 435 today to 600 by 2010.

Organic farming is making the planet and humans both healthier. It uses less resources, improves the soil, reduces drought and erosion and improves profit through higher yield. Studies also show that organic foods produced a "dramatic and immediate" drop of pesticide levels in the bodies of children. "Free range" chicken, and grain-fed beef have less fat, less cholesterol, less vitamin A & Omega Acid compared to 'factory raised' chicken or animals. Vegetables also lose nutrients when grown with chemicals. Surveys show 90% of the public favors organic produce.

Innovations in precision farming are unfolding new opportunities of profits for companies with improved soil productivity, healthier people and healthier planet. It involves the computerized control of irrigation, seed distribution, fertilizer, and pesticides to suit variations in land identified using GPS and geographic information systems. Twenty percent of farmers in the U.S. are adopting these practices because PF reduces the amount of costly chemicals needed, raises yields, and protects the environment. A farm equipment manufacturer said, "In 10 years, every farmer will use this technology."

The most controversial area is that of carbon credits, which requires energy producers to buy permits to emit greenhouse gases. In 2006 the European Union's emissions-trading scheme was crippled by the over-allocation of permits by member countries, prompting the price to plunge by two-thirds. But James Cameron, a founder of Climate Change, is optimistic. He has raised an \$830 m fund to invest in carbon trading and says the scheme "is the best chance we have of reducing large amounts of greenhouse gases at relatively low cost".

World economy is fueled by 2 billion teenagers whose value system is vastly different from their parents. A study of their shopping behaviour reveals they punish companies with poor record on environment and social issues and reward those who champion these issues. They are the ones who are clanking the tills at Marks and Spencer and Wal-Mart egged by the social and environmental promise of these companies.

The downturn in the financial market is a God-sent opportunity for investors to reflect on what they are investing for? Can growth focusing only on fueling consumerism be sustainable? Would cluttering this planet with proliferation of products of questionable utility not harm the quality of life for our own children and their children?

The other day I asked a billionaire participant of my programme: if you have made your first billion, what's the point of the next? Mistily, he replied: 'It's to give my grand children the future I never had'. According to Oliver James excessive consumerism and acquisitive culture causes Affluenza, an emotional disorder that afflicts most rich people and makes them miserable.

Our greatest challenge is to dematerialize this world. What will happen to this planet if all 8 billion people own cars, cookers, refrigerators, washing machines, plasma televisions and flush their toilets with the same intensity of water as only a few millions can afford today? The saving grace of poverty is that the per capita use of natural material by the poor countries is a fraction of rich countries. Do we realise we are able to breathe fresh air only because 5 billion people cannot afford to buy these objects. Our obsession with materialistic growth is a recipe for disaster. Even Adam Smith had a problem with capitalism's wasteful materialism and rued, "how many people ruin themselves by laying out money on trinkets of frivolous utility".

How can markets replace the acquisitive model by one that creates competitiveness and enjoyment through experience without causing environmental damage. Can we have better measures to reward entrepreneurship and instill competitiveness? A whole lot of companies like the Disneyworld and Nintendo are creating huge wealth by letting people have fun. Others like Japan's Bridgestone and US's Interface Corporation no longer sell their products and charge customers usage. Indian Premier League has set a shining example of creating wealth in sport. Why limit IPL to Cricket? Why not IPL for Kabaddi? These models have a huge innovation and wealth creating potential. Kahneman, a Nobel economist at Princeton University and Daniel Gilbert a Psychology professor at Harvard University and author of "Stumbling on Happiness" reckon people cherish experiences over commodities. People love 'doing' than 'having'.

In a national survey of more than 12,000 Americans conducted by Harris Interactive on behalf of Northwestern Mutual Financial Network, respondents were asked to think of an experiential and a material purchase they had made with the "aim of increasing your happiness." Van Boven, a Colorado University professor found that when asked which made them happier, most respondents chose their experiential investment over their material possession. The most durable amusements are the ones which have application and attention. Can investors focus on exploring and exploiting the enormous possibilities inherent in capitalizing the nature and the biodiversity in a way that its preservation and not destruction adds value and move our economy from this acquisitional and destructive mode to an experiential and sustainable mode? The alternative is catastrophic to humanity's survival.

It strikes at the heart of a truism that the businesses community will grudgingly have to come to terms with in coming decades, that the global economy is a wholly owned subsidiary of the environment. For generations our business forbears have sold us the idea that nature's resources can be plundered willy nilly for wealth creation. In the coming years investors will have to reckon, are they creating wealth that's worth having?

*Dr Madhav Mehra is President of World Council for Corporate Governance, UK