

Environmental Business Group Interview with EBG Co-Head Bernd Schanzenbächer

The Business of Green Energy Investing Is Booming

Interview: Matt Allen

Bernd Schanzenbächer, the Environmental Business Group (EBG) Global co-head, spoke to Bulletin about the opportunities and challenges in the environmental sector. He explains Credit Suisse's involvement in the ambitious Abu Dhabi Masdar initiative, which seeks answers to the post-fossil-fuel era.

The alternative-energy business, driven by public demand for ecological reform and the scarcity of natural resources, has snowballed into a booming trade. According to the United Nations, the industry generated 70.9 billion US dollars in 2006 and predicts the market for low-carbon energy products is worth at least 500 billion dollars by 2050. Credit Suisse set up the EBG to tap into these underdeveloped and often misunderstood environmental markets.

Bulletin: How much potential does the green energy sector hold for Credit Suisse?

Bernd Schanzenbächer: We see a lot of potential. Increasing concerns about climate change is just one issue. Another aspect are high oil prices that are fuelling the development of alternative energies and technologies that increase energy efficiency. We see scarcities on many fronts beyond energy – you just have to observe agricultural commodities prices going up, for example wheat and soya beans, to see this. This is really a growing business because if there are scarcities there is money to be made.

How great is the market and how big are the potential returns?

You can generate significant financial re-

turns in many areas – just think about the fortunes that were made in solar technology by the early movers. At this moment, the size of the deals is still relatively small. For example, look at the recent multibillion dollar IPO of PetroChina. If a solar company's IPO is worth a billion dollars it is already a major deal. But looking 10 years down the road, solar companies may have higher market capitalization than oil companies.

How fast will the sector expand?

It depends on a number of factors but the way how the price of oil develops plays a major role – if we see continued prices of 100 dollars or more this will continue to fuel development of alternative-energy sources and of technologies that increase resource efficiency. But it can be a bit difficult to tell because some of the markets are the result of regulation, like the Kyoto protocol and the European Emission Trading Scheme – the market for carbon credits.

Here's another example: Approximately 25 percent of global carbon emissions come from deforestation. If you want to really do something about climate change you have to address this issue which ultimately means to compensate countries and the people living there for protecting the rain forest.

The Stern report estimates that this market could be in the 15- to 20-billion dollar range annually.

How is EBG tapping into this potentially vast market?

We are looking at climate change, carbon, clean technologies, efficiency, environmental markets and alternative energy as the overriding themes. Within those themes we are developing new products, such as the Clean Tech private equity fund. And we are just about to launch a carbon fund investing in alternative-energy projects in emerging markets. These projects generate a dual revenue stream – selling electricity out of projects and generating carbon credits that could be sold on the market.

The green energy sector has been compared to the dot-com boom. How can you manage the risks in such an expanding market?

You cannot compare this with the dot-com era because what you see on the supply side is increasing scarcities. During dot-com there was a proliferation of inventions, such as Internet products and mobile phones, which are nice to have but not really essential for our everyday life. But you do need water, energy and something to eat – so this is the big difference. Having said that, of course you have to be careful and we might see corrections because there is a lot of money flowing into this area and only the fittest will survive. The environmental sector also has more solid foundations because it is driven by public sentiment that wants to



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More About the Environmental Business Group

The Credit Suisse Environmental Business Group (EBG) is run as a profit center and concentrates on three core activities: (a) building strategic business partnerships with leading pioneers in the environmental space, (b) leveraging the Credit Suisse platform to develop, structure and distribute new and innovative products and (c) to advise on and manage selected projects for the group’s clients resources.

preserve the environment for future generations, and that is not likely to change.

We have seen grain prices rise with negative social consequences as biofuel demand increases. How can such problems be avoided in future?

This is an example of a nascent market where people are learning about the direct and indirect consequences of their actions, economically as well as ethically. First generation biofuel will simply not solve our problem because it has often a very low efficiency rate of conversion, some experts argue that it takes more energy to produce a liter of biofuel than the energy gained. You are also competing for the production of food and often negatively affect biodiversity which raises a set of ethical questions.

How significant is the Masdar initiative?

The Masdar initiative represents the first time that an oil-rich country, Abu Dhabi, has launched a project aimed at making it fit for the post-fossil-fuel age. The initiative includes different activities, and one of those is the Clean Tech Private Equity Fund managed by Credit Suisse. It is a 250-million-dollar fund investing in early stage technologies in the area of resource efficiency and alternative energy. It was among the first private equity funds investing in the area of cleantech globally.

What is Credit Suisse’s involvement in the World Future Energy Summit?

We are the principal sponsor for this summit that brings together governments and companies engaged in providing alternative-energy solutions. Our Innovation Zone showcases a number of companies that display their capabilities in areas of resource efficiency and alternative-energy technologies that we think have great growth potential.

Can such a summit make more difference to the environment than the recent Bali climate conference?

Each will have its own significant impact. In Bali politicians negotiate about rules and regulations the private sector has to adhere to, while at the WFES the private sector is displaying solutions which we already hold in our hands. <