

PORTRAIT: RICHARD SANDOR

Free Market, Cleaner Air

By Marianne Lavelle

The Chicago Climate Exchange may be an experiment, but don't suggest to its creator, economist Richard Sandor, that it is a humble one.

CCX, as it is known, attempts nothing less than using market forces to slow global warming. Sandor bristles at some environmentalists' doubts about the voluntary program, begun in 2003, for polluters to cut emissions of greenhouse gases such as carbon dioxide. "Our goals are not modest," he says, noting that some purportedly stringent Capitol Hill proposals would not force companies into commitments as ambitious as the ones they've already made to join his market-based solution. CCX's legally binding reductions, he says, are "a major environmental achievement."

Sandor, 63, is used to having a big impact—and to facing harsh skepticism. Known now as a leader in the free-market approach to environmental protection, he long ago made his mark as a finance pioneer. As chief economist for the Chicago Board of Trade in the 1970s, he helped develop U.S. Treasury futures—allowing traders to hedge interest-rate risk much as farmers manage exposure to market swings through pork belly futures. Financial futures are now a multitrillion-dollar market, accounting for 82 percent of the Chicago Board of Trade's business, and the financial industry's initial coolness to the concept is scarcely remembered—except by Sandor.

"I have been thrown out of almost every bank in America," he says. "They said that interest rates weren't volatile, and there was no risk in not hedging, and it was a stupid idea and I should go back to Berkeley," where he had been a professor in the 1960s. But he kept championing a financial futures market as a solution to the problem of tight money and soaring interest rates.

The same thinking, he says, underpins his approach to climate change.



“Back then, you had to price money, and now you have to price clean air,” Sandor says. “These are both scarce commodities.”

CCX members agree to reduce their overall carbon dioxide emissions by 1 percent per year. Those who can do more sell “credits” to other members who can’t cut as much—in effect, the latter pay a price to pollute. The 102 participants include American Electric Power, Ford, IBM, DuPont, the cities of Chicago and Boulder, Colo., and Tufts University.

The so-called cap-and-trade system is modeled on the program initiated in the early 1990s to combat acid rain; nationwide sulfur dioxide emissions have been cut far more rapidly than originally planned at a fraction of the anticipated cost. The program design drew heavily on a position paper by none other than Richard Sandor, then a Drexel Burnham Lambert executive. It was his first foray into environmentalism.

Sandor began writing on emissions trading as an antidote to global warming. He spoke at the 1992 United Nations environmental conference that laid the groundwork for the Kyoto agreement on climate change five years later. “There were literally no ideas on the table” about financing until Sandor came along, says Paula DiPerna, then a vice president of the Cousteau Society. She calls him a “practical visionary.” A few years later, as president of the Joyce Foundation,

DiPerna got the nonprofit’s board to fund the launch of the Chicago Climate Exchange.

Then, Sandor says, “everything that could have gone wrong went wrong.” President Bush withdrew from the Kyoto agreement, meaning U.S. businesses had

little incentive to reduce carbon emissions. The dot-com crash, recession, 9/11, and corporate scandals followed. Not the best time to convince companies they should sign a contract to reduce their greenhouse gases. “My knees were bloody from groveling,” Sandor says. Start-up of trading was delayed while he kept the project going with “as much money as I could put together from friends and family.” (CCX is a private, for-profit company. A spokesman declined to say whether it is profitable, but it stands to make money from transaction fees should trading take off.)

Finally, a vehicle was established on the London Stock Exchange through which institutional investors could plow money into San-

dor’s venture. CCX raised \$18 million a week before it opened for trading. Because Europe signed on to the Kyoto agreement, it has become an important locus of business for CCX. European companies trade carbon credits at a subsidiary, the European Climate Exchange. “We feel we are a good way towards our goal of being the international brand” as an emissions-trading platform, says Sandor.

Of course, while carbon dioxide emissions credits in Europe have surged in value from about \$9 to \$30 per ton since Kyoto went into effect early this year, in Chicago they have hovered between \$1 and \$2 since 2003. With no mandate from Uncle Sam, the market hasn’t put much premium on reducing carbon emissions here.

Chess match. But last week, the Senate held the first of several planned climate-change hearings, following a bipartisan “sense of the Senate” resolution adopted earlier this summer that mandatory greenhouse gas cutbacks were needed. Lawmakers have moved closer to the idea because businesses, like those involved in CCX, have shown it can be done. Sandor notes that he has been criticized by both left and right, but that as a chess enthusiast (he once beat the legendary Bobby Fischer when both were teenagers in Brooklyn), he knows that the game is controlled from the center.

While the Senate considers climate change, Sandor already is on his next big idea; the Joyce Foundation has given him \$440,000 to explore the idea of trading in another scarce commodity: water. “How can you create incentives for conservation without compromising people’s right to access?” asks Ellen Alberding, current president of Joyce (DiPerna now is an executive with CCX). “Again, his track record led us to invest another chunk of money.”

When he isn’t thinking about new markets, Sandor works on his art collection, which covers the 150-year history of photography. He points out that many authorities didn’t consider photography an artistic medium when he began his collection three decades ago; as in the finance world, his contrarian instincts proved prescient. “I always try to find the value proposition,” he says, “where one isn’t being recognized.”

“Back then, you had to price money, and now you have to price clean air.”

Born: Sept. 7, 1941

Family: Wife, Ellen. Children, Julie and Penya. Three grandchildren and another on the way.

Education: B.A., City College of New York, 1962; Ph.D., economics, University of Minnesota, 1967

Academic: Research professor, Kellogg School of Management, Northwestern University

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