A License to Print Money

By James Mackintosh

It is not often that investors get the chance literally to print money, but creating carbon credits is a pretty close second best.

The opportunity has been grabbed by investment banks, hedge funds and specialist venture capital groups, which have raised billions to spend on reducing emissions, mostly in the developing world.

The aim is to secure car bon credits for an emission reduction, which can then be sold to big industrial groups in the developed economies that find it cheaper to buy credits than cut their own emissions.

Precise details about how big this market is and every one active in it are impossible to pin down.

But London's Man Group is one of dozens of groups trying to cash in, having set up a special entity last week to oversee its environmental investments, Its first venture, MTM Capital's China Methane Recovery Fund, has raised €400m ($632m) to install methane extraction equipment, generating electricity from the greenhouse gas at Chinese coal mines.

Man expects to raise another two environmental funds of at least $500m this year, although it is aiming to minimize political and regulatory' risk by requiring another source of income, not just carbon credits.

Claude Devillers, founder of Merzbach Group, a New York adviser to green power projects now raising its own carbon fund, said investors were finding it difficult to deploy cash. "Finding the projects is the hard part," he said. "Our approach has been focusing on access to the hard assets."

The long-term nature of most projects make traditional hedge fund structures inappropriate. As a result, hedge funds entering the area are mostly adopting very long lock-ups, preventing investors leaving, or are using venture capital structures where money is returned only when projects are sold.

Investors are taking risks many are not used to. There are political and regulatory dangers and often the financial risk of falling permit

prices, which are not always hedged.