

---

# Where there is scarcity, there is money to be made



By [Grace Segran](#)

**The alternative energy business, driven by public demand for ecological reform and the scarcity of natural resources, has been booming. The United Nations predicts the market for low-carbon energy products will be worth at least \$500 billion by 2050, but the current turmoil on the stock markets and the global economic downturn have led to significant corrections in the prices of alternative energy stocks. So how will the current market environment impact the environmental investment space?**

Even though the S&P green energy index has already lost 60 per cent more than the rest of the market this year, **Bernd Schanzenbächer**, a managing partner of EBG Capital, a Zurich-based alternative asset management boutique, is convinced that the alternative energy boom is not over.



“I think it is important to distinguish between short-term corrections and long-term underlying trends. Access to cheap oil is over and we desperately need alternatives to fossil fuels,” he told INSEAD Knowledge on the sidelines of the Indevor/energy annual conference held recently at INSEAD’s Europe campus in Fontainebleau. “I see these corrections on the stock markets as a short-term phenomenon; bearing in mind also that alternative energy stocks had outperformed the market the last couple of years.”

## **Environmental sector potential**

In the long term, Schanzenbächer sees a lot of potential in a number of areas, given increasing concerns about climate change and the cost of fossil fuels. He says that while the supply side is attracting attention and capital for developing alternative energy infrastructure and technologies, there is also potential on the demand side that includes technologies that increase energy and resource efficiency.

“We also see scarcities on many fronts beyond energy. For example, prices of agricultural commodities such as wheat and soy beans keep going up. The agricultural sector therefore is a growing business,” argues Schanzenbächer, who focuses on investments in the environmental space.

Schanzenbächer cites the example of the Masdar initiative in Abu Dhabi. The initiative represents the first time that an oil-rich country has launched a project aimed at making it ready for the post-fossil fuel age. In total, it is committed to putting \$20 billion to work in different areas of the clean-tech sector. The initiative includes a \$250 million fund launched back in 2006 that is investing in early stage technologies in the area of resource efficiency and alternative energy.

## **Another ‘dotcom’ boom?**

The green energy sector has often been compared to the dotcom boom. However, Schanzenbächer says the expanding green energy market cannot be compared to the dotcom era because of the increasing scarcities on the supply side. “During dotcom there was a proliferation of inventions, such as internet products and mobile phones, which were nice to have but not really essential for our everyday life. But you do need water, energy and food - so

therein lies the big difference.”

“However, you have to be careful and we might even see further corrections particularly in the public markets because there has been a lot of money flowing into this area and only the fittest will survive,” he cautions. But he adds that the environmental sector also has more solid foundations because it is driven by public sentiment that strives to preserve the environment for future generations, and that is not likely to change.

Clean-tech ventures have continued to show strong growth despite the unprecedented turmoil in the credit markets. The Clean Tech group, for example, reported that during the third quarter of 2008, venture capitalists invested \$2.6 billion in 158 companies across North America, Europe, China and India, a 37 per cent increase on clean-tech investments during the same period last year, and a 17 per cent increase on the second quarter of 2008.

## **Beyond energy**

Water is an area to keep an eye on, says Schanzenbächer. As with oil, the supply of freshwater is limited but demand is growing. Unlike oil, there are no alternatives. “In certain parts of Asia, issues related to water management, conservation and treatment are particularly acute. This has major impact on Asia's two most important economies, China and India.”

The water sector can be broadly divided into three sub-sectors: water treatment/cleaning, distribution, and water management/efficiency. Solutions are available for all three sectors, he says, but the capital requirements are significant. The OECD, for example, estimates that annual expenditure for water and wastewater management in China will be in the \$250 billion range until 2025. “Fast solutions will only become available if the public and private sector work closely together,” says Schanzenbächer.

Very closely linked to water is the issue of food supply and food security. Approximately 70 per cent of freshwater is used in agriculture. Agricultural commodities as a derivative of trading water is another area to look at, he adds.

*Dr Bernd Schanzenbächer was a panellist at the Indevor/energy annual conference held recently at INSEAD's Europe campus in Fontainebleau.*

**Find article at**

<https://knowledge.insead.edu/responsibility/where-there-scarcity-there-money-be-made>

---

**About the author(s)**

**Grace Segran** is a writer and editor at INSEAD [View full profile](#)