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Robust carbon trading system can be ours

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As the debate about Australia's policy response to climate change rages, the arguments on both sides of the question are well known.

Those of us who support the carbon pollution reduction scheme (CPRS) feel not only that Australia needs to be pulling its weight in the international efforts to contribute to climate change. We also believe the price signal the CPRS sends will generate green jobs in the alternative energy sector, a field in which Australia should be leading the world.

In the national debate on climate change, many of the arguments for acting now are well known. One that doesn't get much airplay is the benefit of the early establishment of a significant carbon market for our financial services sector.

The CPRS will create a new and significant type of financial instrument - an Australian emissions unit. Over time, Australian emission units will become a globally tradeable instrument. A report by industrial market research publisher SBI released this month projects that the wider global carbon market will be worth \$US669 billion (now \$728 billion) in 2013. The creation of this financial instrument will generate jobs in itself.

Australia should be looking to complement its well-developed financial markets with an emissions trading system which can set us up as the key carbon trading centre in the Asia-Pacific.

The government has designed the CPRS to allow a strong forward price signal to develop and ensure the early establishment of a deep and liquid domestic market for eligible emission units and related financial instruments.

The financial sector has an important role to play in this process, as it will develop carbon risk management services that allow businesses to secure forward prices, finance market transactions and insure against adverse conditions. This will enable business to make informed investment decisions.

Putting in place a CPRS now is as much about tackling the risk to the environment and our economy as it is about allowing Australian businesses and financial markets to take advantage of the certainty a CPRS will bring.

Carbon trading is an area where Australia has solid experience. Europe has had such a market for a

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long time but the NSW greenhouse gas reduction scheme is one of the first and largest emission trading schemes in the world. Establishment of the CPRS will ensure we build on this early competitive advantage in the global carbon market.

It is imperative that a well-informed and efficient carbon market, including secondary and derivatives markets, is rapidly developed to enable the Australian economy to reduce emissions cost-effectively and make the transition to a less carbon-intensive economy.

Further delays and uncertainty will put us at a disadvantage in establishing and developing these important markets. For example, although the Australian Securities Exchange recently developed certified emission reduction futures and options contracts (which will be listed in the first quarter of 2010) it cannot list futures and options on Australian emission units until the CPRS is established.

Australia is well placed to provide the necessary services to support developing carbon markets in the Asia-Pacific region. We are increasingly recognised as a regional financial centre with world-class financial institutions, mature capital markets, a skilled workforce and high standards of corporate, financial and regulatory governance.

The development of our financial services hub is one of the key ways Australia can move to the post-mining boom era.

It's not about picking winners, but getting the tax and regulatory settings right so we can make every post a winner.

Australia can be very pleased the World Economic Forum recently ranked us second in its annual survey of global financial centres. It reflects Australia's stability as the world around us has undergone the turmoil of the last two years. For several years to come the world's investors will be looking to see which economies withstood the turmoil the best. We'll have a very good case.

But we can't sit back and bask in the glory of our second-place ranking. For every survey that shows we are near the top of the global pile, there is another placing us outside the top 10, sending the clear message that there is more to be done.

To be a serious financial services hub we need to be the transaction centre of choice for a range of financial products in Asia, not just existing Australian dollar products. Looking for new opportunities outside the square, like the development of a robust carbon trading market, will be necessary. It is not an opportunity we should delay.

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