



ASX poised for role in greener world

Robert Elstone | *July 14, 2008* | An exclusive article for The Australian

AS record high prices for coal, gas and oil - together with speculation as to the impact of the forthcoming emissions trading scheme on the Australian economy - dominate the headlines, the existing infrastructure of the Australian Securities Exchange remains a conduit to help firms raise and allocate capital as well as manage the risks associated with fluctuating energy and environmental product prices.

The International Energy Agency estimates that a \$US45 trillion (\$46.5 trillion) investment would be required to reduce the world's carbon dioxide emissions by 50 per cent by the year 2030.

Domestically, the National Generators Forum estimates that \$150 billion is required to meet a 60 per cent reduction on year 2000 emissions by 2050.

While these estimates appear staggering, a well-designed ETS will generate an acceptable rate of return on the investment required. In other words, superannuants and other investors will be beneficiaries of the transformation process.

To put in context what needs to be achieved over the 42 years until 2050, one only has to look back over the same duration since 1966 to see how far that investment in new technologies and the sophistication of financial markets have advanced.

In 1966, we did not have personal computers or futures contracts on financial instruments such as equity indices and interest rate securities, let alone active derivative markets for compliance instruments such as emission permits and renewable energy certificates.

Following the evolutionary path of more developed markets in Europe and the US, Australia's own energy markets are maturing fast. For example, liquidity in the over-the-counter (OTC) and electricity futures markets, which is approximately three times the value of underlying system demand in the national electricity market, is already world-class.

This market liquidity, driven primarily by financial institutions with no ability to generate or sell electricity, enables companies in the Australian power sector to manage their exposure to fluctuating electricity prices and, in turn, compete to provide electricity at the lowest possible cost to customers.

Liquid derivative markets for various inter-related energy and environmental products at the ASX, including forthcoming markets for coal, natural gas and renewable energy certificates, will enable firms to optimise their exposure to market prices.

Once legislation has been passed to underpin Australia's ETS, standardised forms of trading agreements for the OTC markets, together with exchange-based trading in emission permits at the ASX, will complete the picture of price discovery and risk transfer mechanisms that companies will need to manage their market risks.

The ASX has signalled its readiness since the late 1990s to service any national ETS via its existing futures exchange, central counter-party clearing house and Austraclear settlement infrastructure.

Investors in new and existing companies are likely to be beneficiaries of their investment in the development and deployment of new clean technologies including carbon capture and storage, hot rocks, solar, wind, tidal, carbon sequestration and new modes of more carbon efficient transport.

For new and existing ASX-listed companies, the value of raising the necessary capital through debt and equity markets operated by the ASX is compelling.

Just as the development of the personal computer or the internet could not have been foreseen in 1966, it is not possible to predict how investment in new technologies will revolutionise the carbon intensity of our economy as we know it today.

The Australian Government will lay a solid foundation for Australia's ETS.

In turn, the "invisible hand" within the financial markets will facilitate the price discovery, liquidity, risk transfer, settlement integrity and capital raising necessary to ensure that Australia is well-placed to adjust to and, in very real terms, benefit from the transition to a carbon-conscious economy.