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Making a profit while doing good

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Australian companies have little to fear and much to gain from an early start to emissions trading, writes Graciela Chichilnisky.

Carbon markets are controversial institutions. Most businesses fear them, but in reality carbon markets are quite simple. Each trader has emission limits. Those who over-emit have to buy rights from those who under-emit. This penalises the bad guys and compensates the good guys without meddling tax authorities.

The system works successfully at the US Chicago Board of Trade. Its sulphur dioxide market decreased acid rain in the United States in a very effective way. Everyone in the world can trade in the secondary market.

Carbon markets create fear in some, and draw great enthusiasm and anticipation from others. The prevalent fears are about the sharply increased costs of doing business - for sectors such as power plants and commodity producers, which are central to the Australian economy and generate substantial carbon emissions.

Rio Tinto and Victoria's coal-power plants in Gippsland are concerned about sharply increased costs of doing business because they will have to pay for their carbon emissions, and also about the volatility of carbon prices when the market starts trading. This is at a time when Australia is reaping the benefits of dramatic increases in energy and commodity demand from China and the rest of the world. The concerns of power plants and commodity business are real and must be addressed.

At the same time many Australians are concerned about the continued extraction of resources from fragile ecosystems and soil. And some business leaders perceive potential gains in technological innovation and profitable opportunities arising from the carbon market. The largest investors in the world are betting a substantial percentage of their risk capital in the renewable energy sector, a sector that has increased in importance from 4 per cent to 18 per cent of total Silicon Valley investments in just four years.

How can business opinion sustain such a polarised view of the situation? Is the carbon market a villain or a hero?

Both views are right - looking at the carbon market with two different lenses, the before lens and the after lens. Before the

carbon market, the uncertainty is damaging to business, there are risks and perceived costs, but no benefits. The price signal does not operate. As it starts to operate, the carbon market creates a price signal that makes cleaner technologies much more profitable than the rest. Clean technologies do not pay for emissions. Emitters do. And therefore when the carbon market operates, moderated by government limits, the invisible hand rewards under-emitters and penalises over-emitters, aligning business and environmental interests. Not a small feat.

The opportunities are open to all, and the rewards can be very substantive once the transition from the before to the after is completed. The International Energy Agency predicts an energy revolution arising from worldwide restructuring of the power plant sector - a \$US43 trillion (\$49.2 trillion) infrastructure - a major business opportunity. Gippsland coal can become the largest source of electricity in Australia, while adopting cleaner technologies. General Electric is trying to build clean-coal plants in NSW and Queensland involving \$3.1 billion investment. And with negative carbon technologies, Victoria's coal plants can capture and store most of the carbon emissions of the nation and benefit from the global carbon market by selling carbon credits to the rest of the world. For this it is crucial that Australia joins the rest of the world in the Kyoto process, because an Australian carbon market can achieve nothing without the global carbon market of the Kyoto Protocol. Prime Minister Kevin Rudd took a crucial step in this direction by ratifying the Kyoto Protocol in 2007, and as Australia is the representative of the industrial nations in the global negotiations since Bali Conference of the Parties in December 2007, it has a major global role to play.

Australia's carbon market can become an example to the world. Making a profit while doing good would give a major boost to Australian business. Thus using economic incentives in an Australian carbon market, business could react very positively to such a market-based scheme, and the world could follow their leadership.