

Consultant puts a price on carbon for ETS future

By Simon Mumme

Pending the introduction of an emissions trading scheme (ETS), between 1 and 2 per cent of shareholder value in the top 200 Australian listed companies will be at risk if they do not reduce or mitigate their exposure to carbon.

Paul Newland, managing director of Arbor Partners, an advisor to institutional investors which focuses on the impacts of sustainability on portfolios, said the potential carbon liability of the ASX200 varied significantly across sectors, industries and companies.

Arbor has used various third-party researchers and analysis to calculate a price for carbon if the proposed emissions trading scheme, which uses a cap and trade mechanism, is legislated.

Companies in the energy, resources and utilities sectors, for instance, will be among the hardest hit in an economy that puts a price on carbon emissions.



Paul Newland ...
seeker of carbon alpha

But the aggregate carbon exposure of all companies in portfolios generated an investment risk that should be quantified and mitigated, Newland said.

When approaching carbon risk, “people have focused on the uncertainty rather than the certainty... The uncertainty that stops people from doing something is the very thing that people need to be looking at.

“Our objective is to make environ-

mental, social and governance risk as measurable as other areas of investment returns and look at strategies for managing them,” Newland said.

Climate change has increasingly been perceived by superannuation funds as a long-term risk to their investment performance and a fiduciary consideration for trustees.

To date, however, few in the industry have quantified the risk of carbon in investment portfolios.

“For the size of the Australian investment industry, we’re behind in this area. The market should be able to support some focus on innovation.”

Institutional investors that can quantify the exposure of their portfolios to carbon under an ETS would be better prepared for a carbon-constrained economy, he said.

Based on the draft ETS legislation, Arbor anticipated the Australian carbon market would be worth \$11 billion in 2012 and \$25 billion in 2020.

“It’s likely that the price of carbon will get more expensive.”

According to the World Bank, the Eurozone carbon market, the largest in the world, grew from US\$24.4 billion in 2006 to US\$91.1 billion in 2007.

Arbor is an independent advisory business that does not run investment products. Before founding the business, Newland developed climate change-related investment strategies for institutions at Merrill Lynch, after dealing with climate risk while working at a global reinsurance company.

The business is also investigating the links between capital markets and long-term economic sustainability.

“Capital markets and underlying economies can sometimes become disjointed. In the US, the dollar is starting to move lower, but there’s a much bigger story there,” Newland said. ■