

# UNLOCKING FINANCE

**A new vision is needed on how markets interact with climate change, a British expert told finance industry leaders recently. Nicholas Taylor was there.**

Late last year, a renowned public advocate of climate change action – and a former permanent representative of Britain to the UN and the Security Council – spoke with a small number of local thought leaders about the investment implications of climate change.

“The manner in which we choose to address our energy needs is key for any response to climate change,” Sir Crispin Tickell told a finance industry lunch co-sponsored by the Earth Champions Foundation and Five Oceans Asset Management.

“Copenhagen is only part of a much larger process [and] the financial sector has an immense role to play.”

Radical reform is required, he argues, both of industry practice and external regulation. Industry insiders will have to challenge traditional notions of financial theory, including getting to grips with the emerging conception of environmental and social considerations as investment risks.

Critics do question the prudence of such developments under trust law. One lunchtime diner also suggested “investors are only just seeing [such issues] as part of their return paradigm”, which puts them at a disadvantage to companies who have been conceptualising environmental and social issues as risks for decades.

Sir Tickell notes “markets have been marvellous at recognising prices but terrible at recognising costs”. The global financial crisis, for instance, speaks volumes about the imbalance in investment paradigms. But the industry has never been more ripe for reform.

“Recent crises have served a positive social function if they are able to bring issues such as climate change into the consciousness of institutional investors,” says Sir Tickell.

It is a view gaining traction elsewhere. In the September edition of *New Scientist*, Professor Harvey Rubin of the University of Pennsylvania colourfully suggested “bankers are like bacteria” in that they possess a strong instinct for survival at all costs, including the expense of others.

Testing times incentivise finance sector participants to appreciate the complexity of the risks they are attempting to control and to devise better ways to manage them, for those who don’t will surely perish.

## Command and control

Within this bacterial colony of financial markets, Sir Tickell sees a significant number of regulating mechanisms from the three arenas of political science: state, market and civil society. He’s no fan of *laissez-faire* capitalism.

“Despite what we are led to believe, there is no such thing as

a free market. All have some form of control imposed on them.”

Controversially, he sees non-democratic states such as China as having an advantage in actualising the sorts of energy responses needed to address climate change.

“The Chinese commonly view markets as instruments that should operate within a framework of the public interest,” says Sir Tickell, and this is closer to the thinking necessary in a carbon-constrained world.

China’s government has in the past two years pushed fast forward on renewable energy, while a recent report from the China Environment Services Industry Association estimates energy conservation and environmental protection sectors will contribute up to US\$776 billion, or 10 per cent, of China’s GDP by 2015, up from 4.9 per cent in 2008.

China is also emerging – along with South Africa – as a leader in effectively using uranium to match its rocketing energy needs, a worrying sign for more developed states such as Australia and the US that are heavily committed respectively to coal and old technologies in handling uranium.

More alarmingly, Sir Tickell argues Australia and the US will find it near impossible to keep up. Energy policy in China has moved ahead during the past 20 years “without democratic institutions, able to move without public opinion”.

This has occurred for the simple reason that “free market capitalism, and investment capital in particular, isn’t as effective or direct at filling opportunities as government policy”.

What is needed, he argues, is a complete paradigm shift from western government policy-makers to “view what’s happening not as climate change, but as climate *destabilisation*”, and all the risks that involves. If this occurs, Sir Tickell reasons, Australia and the US can adjust their policies to restore balance through appropriate policy and action.

Ultimately, this change will involve all actors – from governments and companies, to investors and individuals – to start to “treat the Earth as if we intend to keep it”. It’s no small job.

Nicholas Taylor is principal of Outcrop Research Consulting (<http://outcrop.com.au>) and a lecturer in economic ethics at La Trobe. **WME**