Investment growth in the greenhouse

Recent Securities Institute professional development seminars have focused on critical industry issues, including investment opportunities in the "clean energy economy" and the outlook for the Australian currency in the wake of the September 11 terrorist attack on the United States.

The quest for "clean energy" could create an industry as big as information technology or mass communications, according to a NSW government spokesman on greenhouse emissions.

John MacLeay, of the Sustainable Energy Development Authority, told delegates at a Securities Institute seminar in August that environmental repair was "the next big thing" and was now a mainstream business issue.

Speakers at the seminar, titled "Emission Impossible — the Market Moves on Despite Kyoto", discussed the sustainable energy outlook in the wake of the United States' rebuff of international targets for greenhouse gas reduction.

MacLeay pointed out that 180 other countries had agreed that "business as usual" was no longer an option for energy users. Economic growth could continue but only with no further increases in greenhouse gases.

Globally, greenhouse abatement was already a $1000 billion a year market and Australia's sights were set on capturing 5% of this — although this would demand a greater commitment to new technologies.

Elsewhere, energy generation from landfill gas, solid waste and wind power was now economically viable, although projects faced difficulties in attracting finance. Despite this, Australian private-sector capital had opportunities to develop high-tech industries that would live up to the "knowledge nation" label.

"It is now up to industry to scope out potential projects and think about innovative financial models." MacLeay said.

Louise Drolz, of Tullet & Tokyo Liberty Pty Ltd, a pioneer of trading in emission credits, told the seminar that industry could not ignore the market in carbon dioxide equivalents. "For emitters, some form of carbon cost in the future is an absolute certainty," she said.

The market in emission credits had already established its credibility, demonstrating that it could enhance financing options and boost cashflow for marginal projects. Potential participants in the market were power generators, miners, manufacturers, speculators and project developers.

Even conservationists now conceded that the sector would succeed and agreed that working through the market was a better course than prescriptive government regulation.

"Financial markets are ultimately more powerful than governments and can usually be relied on to act rationally over the long term," Drolz said. "They think strategically, not politically."

Perry Toms, of Primergy Limited, focused on the changing economics of energy, reminding the seminar that large centralised power plants were becoming obsolete. "Now, we have to produce energy where we live," he said, citing innovations such as micro-turbines.

Investment opportunities would arise from the bundling of small energy projects exploiting wind, wave, solar, landfill, hydro and biomass technologies.

Whither the Australian dollar?

In another PD seminar, speakers discussed the effect on the Australian dollar of the economic aftermath of the terrorist attacks on New York and Washington on September 11.

Dr John Edwards, chief economist in Australia of HSBC, attempted to dispel a number of conceptions about the connection between the US and Australian currencies. The weakness of the $A, he said, could not be explained simply by the strength of the $US or by commodity prices, or by differential growth rates in the two economies. In fact, in the 1990s Australia outperformed most major economies in terms of growth and productivity.

Nor could the fall in the $A be blamed on Australia's "old" economy. "Old" industries such as farming and mining accounted for only 10% of output; more significant contributions came from technology and manufacturing.

Dr Edwards pointed out that the US currency had appreciated by about 40% against all other countries since 1995 before contracting in the middle of this year. September 11 resulted in a continuing decline which could be expected to persist — an outcome good for the US and Australia.

The $A could be expected to rise gradually by mid-2001, perhaps to as much as US58c.

Another speaker at the seminar — NAB currency strategist Greg McKenna — observed that the Australian dollar appeared to have become "stuck" in a correlation with the eurodollar rather than the $US. He said that as currency markets became more volatile, hedging costs increased, and this "substantially changes the way investors view the Australian dollar".

Dr Dennis Sams, head of investment research at InTech, agreed that the $A was "generally well priced where it is". Currency markets were difficult to forecast and would depend on whether investors chose active or passive management of currency risk.

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