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2 April 2009

The Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: climate.sen@aph.gov.au

Re: Submission to the Senate Select Committee on Climate Policy

Dear Committee Members,

I have attached a short bio at the end of this submission in order to provide the qualifications in support of the points advanced in this submission. This submission is being made by me on behalf of my company, CarbonShift Pty Ltd.

Let me start with a few key points in summary form to get your attention:

1. there is a staggering amount of exaggeration concerning the costs of reducing carbon emissions in Australia---we can reduce emissions to 30% below 1990 levels at no net cost to Australian economy. The political challenge is dealing with the distributional effects where there will be some losers but many more winners.
2. there is no such thing as a "carbon emissions intensive trade exposed Australian company"---it is not that we will lose market share if our export prices go up to reflect our CPRS carbon costs; it is exactly the opposite. No one will buy, for example, high carbon alumina or aluminium and everyone will pay a small premium to get low or zero carbon Australian exports.
3. there is a growing global carbon market that will soon be worth US\$1-2trillion per year---our CPRS, as currently designed, does not allow us to enter into this massive market in which we otherwise enjoy staggering competitive advantages in terms of technology, capital, and innovation.
4. the only meaningful metric for success in reducing Australia's carbon emissions is the amount of capital that has been successfully moved towards reducing emissions. The amount of new capital required to support actual abatement of carbon emissions in Australia, on a scale and timescale meaningful to the problem based on the latest science, is approximately A\$10billion per year---the CPRS, as currently designed, will be fortunate to drive A\$1billion per year towards actual abatement
5. the key to driving down Australia's carbon emissions at the lowest possible cost in the near term is improving energy efficiency----State-based energy efficiency trading schemes will fail to move a sufficient amount of capital towards this goal. Improvements in energy efficiency must be directly rewarded within the CPRS with the issuance of AEU's directly to entities making the investments in energy efficiency improvements
6. the biggest current driver of change for Australian companies to improve their carbon management performance is coming from large institutional investors (e.g.

Superannuation funds)---any comprehensive Federal climate policy needs to find an effective way of harnessing this pressure to help simultaneously achieve our environmental and economic goals

I am completely convinced that Australia is uniquely positioned to dramatically reduce carbon emissions and, as a result, create substantial wealth that rivals the recent resources boom. The world is rapidly placing a substantial premium on low carbon solutions and Australia can out-compete almost every other nation in this new global market. The question is not “can we afford to reduce our carbon emissions if no one else does?” but, rather “how far in front of this new carbon constrained global economy can Australia find itself if we use a market-based Federal carbon policy to more rapidly and efficiently de-carbonise our economy?”

In the end, the design of Federal carbon policy comes down to whether you view climate change and the emergence of a carbon-constrained global economy as risk or as an opportunity for Australia. It takes real leadership and vision to view and leverage this challenge as the biggest economic opportunity in Australian history.

I will conclude with an example that illustrates many of my points. Australia enjoys a staggeringly large natural endowment in bauxite. Annually, we convert about 90% of the bauxite mined here into alumina but only 6% of the alumina is converted into the much higher value aluminium in Australia (some of it is transported to New Zealand where it is converted into aluminium and then exported). Australian aluminium executives are concerned that a price on carbon through the CPRS will increase the export price of both alumina and aluminium and we will lose market share as a result.

First of all, I am appalled by the fact that we convert such a small amount of alumina into aluminium within Australia and that, as a result, we are the world’s largest net exporter of alumina. I do not want to see our poor share of aluminium produced here reduced below 6%-----I want to use a carbon price to increase it to 50% and produce more aluminium wealth here and stop exporting it.

Most large downstream buyers of aluminium (e.g. Boeing and Toyota) now have real pressure placed on them by their large institutional investors to improve their carbon performance----this includes the carbon intensity of their supply chains. I believe EVERYONE will want to buy low or zero carbon aluminium produced in Australia because the small premium that will be charged is trivial relative to the value of a de-carbonised value chain for our global customers. USE A CARBON PRICE TO INCREASE MARKET SHARE NOT DECREASE IT. USE A CARBON PRICE TO CREATE WEALTH NOT DESTROY IT.

I would be happy to discuss these ideas further with the Committee.

Regards,

Michael Molitor
Principal

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Michael Molitor is the founder of CarbonShift Pty Ltd, an Australian company with a focus on helping clients develop, implement and communicate robust strategies to respond to the challenge of a climate system modified by human activity. CarbonShift, based in Sydney, works with many leading companies and organisations to deliver carbon management outcomes that both protect and enhance shareholder value and stakeholder relationships.

Dr. Molitor was responsible for launching Climate Wedge Ltd and the Climate Wedge Fund, the world's first voluntary carbon fund. Prior to his entrepreneurial activities, he served as 'Senior Advisor on Climate Change' at McKinsey & Company and, during 2000-2003, was the global leader of 'Climate Change Services' at PricewaterhouseCoopers based in London. In these roles his primary activities were in assessing the risks and opportunities presented by climate change to corporate performance, with particular emphasis on the cost of carbon emissions abatement.

Before entering the business world, Michael was a leading earth systems academic for 10 years. Dr. Molitor was a member of the faculty at the University of California, San Diego and the Climate Research Division at the Scripps Institution of Oceanography. In this capacity he served as an external advisor to BP on the development of the company's climate change strategy and attended all of the United Nations negotiations on climate change. Dr. Molitor recently joined the Climate Change Research Centre at the University of New South Wales as a Visiting Professorial Fellow.

Dr. Molitor earned his PhD from Cambridge University, England and spent 3 years at Harvard University on a Ford Foundation Post-doctoral fellowship. After receiving his B.A. from the University of Michigan, he went on to complete a joint M.Sc. between the London School of Economics and Political Science and Imperial College (University of London).

Dr. Molitor has also held academic appointments at Stanford University, the University of California, Berkeley and Columbia University. He served as Science Advisor on the film, THE DAY AFTER TOMORROW and has appeared on numerous television and radio programs in the US, UK, Germany, Canada and Australia.

Dr. Molitor, a citizen of France and the United States, resides in Sydney as a permanent resident.

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