

Brian Price interview with 21st Century Business Herald

Beijing, China

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21st Century Business Herald (CBH) – Australia’s Financial and Energy Exchange (FEX) and China Beijing Environmental Energy Exchange (CBEEEX) announced the joint signing of an agreement on comprehensive and strategic co-operation in December, 2009. How do you evaluate the cooperation?

Brian Price (BP) – Firstly, I want to thank you for the opportunity to speak to your readers and thank you for your question. Whenever I travel to China, I am always impressed by the improvements and advancement from my previous visit.

On the point of your question, our co-operation and relationship with CBEEEX has more than exceeded our expectations since we entered into our Memorandum of Understanding and Co-operation (MOUC). My current visit to China is to further discussions with CBEEEX on the matters within our MOUC, including contribution to the positioning Beijing into a global carbon financial centre, Part of this includes my speaking at the CBEEEX Earth Temple Forum.

Whilst in China, I also look forward to speaking to local Government and business leaders with a view to further developing markets for clean-technology and green-technology.

CHB – FEX and CBEEEX will work together to establish an international carbon trading platform which includes Australia and China, and which will enhance carbon price discovery. How’s everything going on?

BP – It is still early days on this front. The absence of a global climate change accord following the Copenhagen Conference of Parties has clearly impacted on this.

Let us just step back a bit. There are essentially only 2 ways to set a price on carbon – either from the top with a carbon tax (or equivalent) or from the bottom with a market determined price by constraining quantity. Without one of these, there cannot be a carbon price.

We believe that the best social, economic and environmental outcomes will be delivered by a flexible globally integrated market based approach through an emissions trading scheme. However, there does not seem to be a global consensus.

In the mean time, we continue to talk to CBEEEX on macro and micro emissions market structure issues, including how to build linkages between Australia and China.

CHB – Could you talk about Beijing International Carbon Finance Research Institute and the Beijing Green Finance Association that will be jointly established by CBEEEX and FEX?

BP – We believe that Beijing will become an International centre for green finance and we wish to assist in these endeavours. This is the basis for the Beijing Green Finance Association.

This association will work towards the research, promotion and co-operation of international green finance in Beijing, including through regular events such as this very Earth Temple Forum. Specifically, this association will specialise in carbon economy law and carbon finance.

CHB – The Sustainable Investment Market Venture Securities Exchange (SIM VSE) offers investors and companies a focused capital market, the only such in the world for Sustainable and Cleantech businesses to raise capital and trade their securities. What is the transaction condition in SIM VSE? What benefit could SIM VSE bring to Chinese Cleantech companies?

BP – The admission criteria for listing on the SIM VSE are a minimum of 50 investors holding at least AU\$2,000 of equity and 25% of the equity held by unrelated. Additionally, a potential listee must satisfy either the:

- Profit test – that is having an aggregated profit of AU\$500,000 for the previous 3 financial years; or
- Asset test – that is having net tangible assets of at least AU\$500,000 or having a post listing market capitalisation of AU\$1,00,000 plus and sufficient working capital to meet stated objectives.

With respect to benefits, evidence suggests that price discovery is enhanced by “clustering” similar sector businesses together in the same market in the same time-zone. This allows investors to better compare and contrast companies. For example, have a look at Nasdaq for technology stocks and London, Toronto and Australian Stock Exchanges for mining stocks.

Specifically on SIM VSE, the benefit for Chinese clean-tech companies is another avenue to raise both primary and secondary capital in a well regulated and stable market.

The benefits of SIM VSE also extend to Chinese investors who would be able to get an investment exposure to businesses that may be themselves investing in and supplying to China.

CHB – FEX has partnered with Envex to deliver environmental products on FEX’s exchange traded and over-the-counter (OTC) market infrastructure. Envex’s role is to design environmental products that meet the needs of market participants. Could you specify the environmental products?

BP – At the moment, the FEX/Envex joint offering is limited to operating an electronic over the counter market for environmental compliance and voluntary certificates. The most active markets at the moment are renewable energy certificates and NSW greenhouse gas abatement scheme certificates.

Subject to Australia adopting a mandatory emissions trading scheme, it is envisaged that there would be an electronic market for both Australian emissions units and CERs.

Unlike many over the counter markets, this “green” market is an electronic market which operates on FEX’s proprietary eSEF technology (swaps trading facility technology). This is a world class technology which is used by FEX in other regulated swap and OTC markets.

CHB – Envex’s initial product suite includes OTC versions of: Australian Emissions Allowances (AEAs), Certified Emissions Reduction Units (CERs), European Allowance (EUAs). What are the conditions of those transactions? Since it’s OTC market, what services could Envex supply?

BP – Envex is a product design and promotion business. Its core role is to leverage its understanding and experience in environmental markets to development environmental markets jointly with FEX. It achieves this by working with market users and participants to understand underlying product and risk needs.

At the moment, Envex’s sole market service is delivered over FEX’s market infrastructure, and specifically over FEX’s eSEF technology.

CHB – Would FEX create an exchange like BlueNext to trade AEAs, CERs and EUAs?

BP – Amongst its various functions, BlueNext operates a market for spot EUAs and CERs. FEX already operates such a market in Australia. FEX operates a market for both spot and forward environmental certificates. FEX does so “jointly” with Envex as described earlier.

Subject to regulatory approval, FEX will also be operating markets for exchange traded and centrally cleared futures and options over environmental certificates. This would be that same as what ECX does.

So with respect to your question, yes. FEX is working to build an exchange, but its markets for Australian environmental instruments require the Australian government to mandate a compliance carbon emissions trading scheme.

CHB – Do you think Beijing could be a global carbon financial centre? How?

BP – Of course I think Beijing, and China more broadly can become a global carbon financial centre. This, amongst many reasons is why I travel so frequently to China.

I will leave to the Chinese and Beijing policy makers the means by which to achieve this ambition, but based on the progress I have personally seen in the past 4 years, I have no doubt as to China’s and Beijing’s potential.