TITLE: **Logic of market blind to climate change risk**

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Children who use the "but everyone else was doing it" defence don't usually get very far. I remember my mother retorting: "If everyone else was sticking their head in an oven, would you do that too?" But while sharing risks may not be a great idea for kids, it is, it seems, the most popular way to invest trillions of dollars.

Climate scientists are more confident in their predictions about the long-run impact of continued fossil fuel use than economists are about their 20-year predictions. Similarly, big insurance companies are adamant that the climate-change risk is growing, threatening their profits and the viability of whole sectors of their industry including flood, storm and fire insurance.

But while those who know the most about managing climate risks are getting pretty nervous, those who charge billions of dollars in fees to manage financial risks for others don't seem nearly as concerned. According to the latest assessment of how the biggest investment houses in the world are managing climate risk, there are plenty of heads stuck firmly in the oven.

In releasing the latest Global Climate Investment Index, Julian Poulter, executive director of the Asset Owners Disclosure Project said: "The sheer scale and potential reach of climate risk is such that any fund cannot claim to be looking after the long-term interests of its beneficiaries if it's not managing the components of this climate risk."

One of the main problems for those interested in tackling climate change is that, for many investors and politicians at least, the logic of the market is such that as long as lots of people are doing something it must be OK.

Or, conversely, if no one is doing something, then it can't be a good idea.

FREE MARKET FALLACY

Tony Abbott appears to have fallen for this fallacy. We know that the government-owned Clean Energy Finance Corporation (CEFC) is making money for taxpayers by investing in energy efficiency.

Despite this profitability, the Prime Minster seems determined to scrap the CEFC arguing that: “If something is worth doing, why wouldn’t a normal bank do it? Why do we need this bank to give loans to green projects that fail all of the usual commercial tests … you either believe in the market or you don’t.”

It seems a bit strange for a Prime Minister in Coalition with the National Party to argue that you should leave things to the market. Maybe next he will be arguing that we should leave it to the market and scrap the CSIRO and let the agriculture industry fund its own research, or that telecommunications companies who don’t want to provide services to regional areas don’t have to.

But leaving aside this hypocrisy, there is a very simple reason why the government can profitably invest money in renewable energy when commercial investors won’t. The government doesn’t insist on a rate of return somewhere north of 15 per cent after tax.

Macquarie Bank, for example, recently announced it no longer wanted to own Sydney Airport. Not because it wasn’t profitable, but because it wasn’t profitable enough. Of course banks have an obligation to shareholders to maximise profits and are within their rights to refuse to invest in projects that “only” make a 10 per cent return.

But if the Commonwealth can borrow at 4 per cent to generate returns on investment in reducing emissions of more than 8 per cent, why wouldn’t it?

Tackling climate change will require big investments in new infrastructure, and some of the investors are going to need some patience early on. Remember the patient, taxpayer-funded investors who built most of our electricity generation and distribution capacity?

Just as the markets use the fact that all of the big investment houses are ignoring climate risk to justify their decisions, so too are governments using the fact that other governments aren’t acting on climate change to defend their own inaction.

It wouldn’t work in the playground, and in the long run such excuses won’t protect investors, or the planet, from the dangers of climate change.

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