Submissions
Garnaut Climate Change Review
Level 2, 1 Treasury Place
Melbourne VIC 3002

15th April, 2008

Dear Sir/Madam

**arkx submission to the Garnaut Emissions Trading Scheme Discussion Paper**

In principal, arkx agrees with the majority of the assertions in the paper. We believe that the ETS should be a conduit to developing renewable energy in Australia as an export industry of the future. Australia currently runs a healthy budget surplus on the back of tax receipts from our commodity exports. It is essential that we develop industries of the future to insure against the time when we can no longer rely on Australia’s mineral wealth.

The main areas of discussion are:

- Offsets and their role – not all offsets are created equal
- International linkages
- Australia developing as the hub for Asian carbon trading
- Banking but not borrowing
- Development of a Cleantech Fund

We would welcome the opportunity to provide further information in support of our review of this discussion paper.

Yours sincerely

Lisa Wade & Geoff Evison
Background to arkx

The aim of the arkx carbon fund is to achieve long term wealth creation for investors whilst at the same time striving to contribute to an environmentally sustainable economy. The arkx carbon fund seeks to achieve these objectives by entering into an investment approach across global markets.

The Fund aims to achieve superior investor returns whilst investing in assets that predominantly contribute to the reduction of global carbon emissions.

The arkx Carbon Fund will focus on the clean energy & renewable energy sectors.

arkx aims to be involved in the Australian ETS from the commencement of trading. We have over 60 years of global financial markets experience between us. Our suggestions on the design of the system are in the interest of promoting Australia as a leader in this field.

arkx response to the Emissions Trading Scheme Paper

- **The opportunity**: arkx would encourage the scheme designers to be bold in their vision. Australia has the opportunity to create a world leading ETS in coverage, targets and design. We also have the opportunity to learn from the mistakes made during the initial period of the European ETS.

- **Linkages**: Australia is only circa 1.5% of global emissions. In order to make our system relevant we need to be linked to a global system. Linkages need to be two pronged, utilising CDMs and permits. We agree with the paper that the best way to achieve this goal is to link our offset system to the UN CDM system. This will have two effects. Firstly it will allow Australian technologies exposure to larger markets in order to develop, commercialise and establish renewable energies as an Australian export sector. Secondly it will achieve Australia’s political aspiration of being seen as a leader in this area, encouraging and incentivising developing nations to reduce their carbon emissions. This would be done through the provision of technology and the development of projects in such countries.
• **Australia to give offsets credibility:** We understand the concerns expressed in the document regarding the credibility of offsets. However, if Australia were to work with the United Nations to link their offset approval system with Australia’s own conditions such as renewable energy only, that would allow Australian companies to export their offsets as opposed to being a net importer of offsets. Having a viable and liquid globally linked offset market would provide a financial incentive to the producers of energy technology and give the industry the incentive it needs to survive.

• **Australia to export credits:** Page 48 comments “Australia, as a high income country with relatively high emissions, is likely to be a net importer of permits, finding it cheaper at the margin to buy permits than to reduce emissions down to the emissions reduction trajectories.” We strongly disagree that this needs to be or should be the case. If Australia is linked to international systems with a credible emissions trading system, we should be a net exporter of “offsets” via the technology platform created. We believe that it is unacceptable to think that Australia, as a wealthy country, will merely import credits and in doing so export its emissions. Australia should be aiming to assist developing countries in reducing their emissions by exporting our knowledge and technology, and by creating offsets from these projects.

• We strongly believe **The Australian Securities Exchange** is the institution most suited to manage the nascent Australian carbon market. The ASX has the required international profile and can develop the market with a truly global interface. This would allow Australia to export our ETS and become the Asian hub for emissions trading. Australia’s stable governance, legislation, financial market expertise and critical first mover advantage in the region puts us in an ideal position.

• **Banking and borrowing:** We agree with the ideas for banking but do not agree that borrowing should be allowed. Borrowing allows emitters to delay reducing their actual emissions, therefore delaying any investments in emission-reducing technology for the future. We need to act now to reduce overall emissions. Furthermore, if we don’t invest in emission-reducing technologies now, there is no guarantee that these technologies will be developed in the future, as investment is required to support the fledgling industries. Furthermore, a company which borrows credits and forward sells them, could potentially use the income stream as a funding vehicle before disappearing, leaving the government to foot the bill. If Australia is to be globally linked, borrowing could make our system vulnerable to market manipulation.
• **Fund for development of new technologies**: Proceeds from the auctioning of permits should go into a fund to develop new technologies. We want Australian technologies to remain Australian owned, and to be a vehicle for wealth creation and export. We do not want them to become technologies which we have to buy back at a later date. There are already two examples of companies in Ausra and Suntech, which went offshore for funding. This resulted in a loss of expertise and income to Australia. Australia does not suffer from a lack of technology— it suffers from a lack of capital being invested into those technologies. Only with such investment can we create a viable industry that is able to compete with traditional producers of high emission fuels.

• We recognise the need for the highest possible carbon price to encourage economic investment in new technologies.

For further information please contact Lisa Wade or Geoff Evison on (02) 9264 5544 or e-mail: lisa.wade@arkx.com.au or geoff.evison@arkx.com.au

arkx carbon fund
INTRODUCTION TO ARKX

“arkx is Australia’s first carbon fund whose major objective is to deliver long term shareholder returns whilst contributing to a low carbon economy.”

WHY?

The carbon credit market is the fastest growing commodities market in the world, currently growing at a rate of 300% per annum. Last year, US$30 billion was traded, and one European fund raised US$1 billion.

It is estimated by the UNFCCC that over $200 billion a year is required over the next 23 years to maintain greenhouse emissions at current levels.

With a target fund size of AU$250 million, and aiming to provide absolute returns of 15%, arkx benefits both the environment and the investor.

arkx is majority owned by the investment team, and is run by an experienced management team, employing an extremely robust investment process.

Investment in Australia’s first carbon fund is essential for anyone wishing to contribute to a sustainable environment and economy, whilst receiving long term returns.
FUND OVERVIEW

Investment Objective
The aim of the arkx carbon fund is to achieve long term wealth creation for investors whilst at the same time striving to contribute to an environmentally sustainable economy. The arkx carbon fund seeks to achieve these objectives by entering into a focused strategy investment approach across global markets.

arkx is a signatory to the United Nations Principles for Responsible Investment and these principles will be adhered to in the investment process.

Investment Style
arkx carbon fund will invest across a universe of carbon related assets, using a robust investment process.

Fund Size Target
The arkx carbon fund’s target size is A$250 million, the fund will close upon reaching this target.

Fee Structure – Performance Based
Our fees are principally based on our performance. Our rewards are therefore aligned with those of unit holders.

Fund
The arkx carbon fund (“Fund”) is structured as an open-ended unit trust. The Fund is unlisted; therefore, there will be no secondary market.

Trustee
arkx Pty Ltd (“Trustee”) ACN 125 684 166 is the trustee of the Fund and will manage the Fund’s investments.

Investment Team
Geoff Evison, Lisa Wade and Tim Buckley.

Unit Price
Units will be issued at a price of $100 with respect to all applications received and accepted prior to 5pm on 17th December 2007. Thereafter the issue price of units will be the net asset value per unit in the Fund.

Objective
The Fund aims to achieve superior investor returns whilst investing in assets that predominantly contribute to the reduction of global carbon emissions.
**Policy**

The Fund’s investment policy is flexible and aims to allow the Fund to generate positive returns irrespective of the direction of financial markets.

Limits on the Fund’s exposures are detailed in this information memorandum. Hedging and leverage may be applied to the Fund’s assets in order to increase return and/or reduce risk.

**Style**

The arkx Carbon Fund will focus on the clean energy & renewable energy sectors.

**Portfolio weight limits**

- Clean energy equities: up to 100%
- Global carbon credits: up to 50%
- Global carbon projects: up to 50%
- Unlisted clean energy companies: up to 10%

**Distributions**

Annually (if any), normally paid within 60 days of 30th June each year. Distributions will be automatically reinvested in further Units unless a Unit holder elects otherwise.

**Reporting to Unit holders**

Current Value per Unit will be available monthly (within 15 days after month end).

**Base Management Fee**

1.50% per annum of Net Asset Value at the end of the month payable out of the Assets monthly in arrears.

**Performance Fee**

Payable twice yearly and calculated in arrears equal to 20% of the amount by which the increase of the Net Asset Value per Unit exceeds the Hurdle Rate during the relevant Performance Period.

**Entry Fee**

Nil

**Exit Fee**

A 3% exit fee will be payable if Units are redeemed within 6 months.

**Buy/Sell Spread**

0.5%

**Applications:**

Monthly Issues. Applications must be received prior to the third last Business Day of the month, to be processed that month.

**Redemptions:**

The Last Business Day of each quarter of the months of March, June September and December on 15 days notice of intention to withdraw prior to the next Redemption Day.
**Administration:** The Manager has appointed Kingsway Taitz Fund Administration Pty Ltd as the Fund Administrator.

**Custodian:** The Manager has appointed JPMorgan Chase Bank to act as its third party custodian.

**Auditor:** The Manager has appointed Moore Stephens Sydney Pty Ltd to act as the Auditor of the Fund.

**Minimum initial investment**  
A$500,000*

**Minimum additional investment**  
A$100,000**

**Minimum redemption amount**  
A$100,000

**Minimum balance**  
A$500,000

* The Trustee may waive this minimum amount with respect to some investors.

** The minimum additional investment will be A$500,000 for investors who do not fit into any other category of wholesale client under the Corporations Act 2001 (Cth).

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