

**Implications of the International Sustainable Development Agenda for
Australian Companies**

1999 Joint BCA-WBCSD Forum-Future Directions for Business & the Environment -
H.M.Morgan 19/7/2000

We are all aware that the concept "sustainable development", gained world-wide recognition following the publication of the Brundtland Report "Our Common Future", first published in 1987. The Australian Mining Industry Council, as it then was, was quick to realise the importance of Brundtland by inviting the lead author, Jim MacNeill, to come to Australia and brief the industry and other participants in the debate on its implications.

The fundamental premise of the Brundtland Report was that aspirations which the developing countries had for sustained economic growth, and western Levels of prosperity, were legitimate aspirations and could not be set aside. At the same time the environmental aspirations of the peoples of the developed world were also legitimate, and had to be encompassed within our thinking and economic life. The measuring stick that was proposed was the requirement that we pass onto our descendants a world which was at least as productive and resourceful as the world we ourselves inherited.

This idea might easily have been taken from Edmund Burke who, in 1790, wrote

"Society is indeed a contract. It is a partnership in all science, a partnership in all art, a partnership in every virtue, and in all perfection. As the ends of such a partnership cannot be obtained in many generations it becomes a partnership not only between those who are living but between those who are living, those who are dead,

and those who are to be born."

Optimism and caution, therefore, were balanced throughout the Brundtland text. Development was both necessary and realisable, particularly for the third world; prudence in the use and management of our resources was also necessary, particularly in the developed world.

The Brundtland report was a staging post in an on-going debate. On the one side of that debate is the Malthusian position that the world is running out of resources and wilderness, and that sooner or later a massive depopulation of the world will have to take place, if not through population control measures, then through exogenous forces.

On the other side of that debate is the more optimistic view that men and women are capable of extraordinary creativity; that the problems which arise from the existence of many billions of people will be overcome in the future, just as they have in the past; and that while prudence is always desirable, our experience to date justifies an optimistic view of the future, not a pessimistic one. The best known optimist was Julian Simon, who won \$1000 or so from Paul Erlich in a wager concerning the prices, ten years down the track, of a list of commodities that were selected by Erlich.

Earlier this afternoon Bjorn Stigson and Richard Holme outlined the extent to which sustainable development has now emerged as a key concept in the Northern Hemisphere.

Their message is clear. In our globalised economy, sustainable development considerations critically influence public and private decision-making.

Business leaders not only have to meet their fiduciary obligations to their shareholders. They must also deal with the expectations of a broad range of interest groups on social justice and equity issues. And because the legitimacy of business will depend upon successfully meeting these new challenges, it is likely those companies which adapt successfully to the cultural and political changes that have taken place in

Europe and North America will be the ones most likely to prosper in the next millennium.

We have heard from Bjorn and Richard that corporate social responsibility increasingly extends to issues associated with human rights, indigenous peoples, consumer protection rules, labour rights and corporate philanthropy.

Any consideration of the international pressures reaching out across the oceans and impacting on Australia, should begin with a restatement of our geo-political situation.

Australia is a large country geographically (7.7 million sq km or 3 million sq miles) with a small population – 19 million. It is an English-speaking nation with western institutions and a Westminster system of parliamentary democracy. It is, however, far away from the metropolitan centres of western political power – Washington, Brussels, London, Berlin, Rome and Paris, and so our attention is necessarily focussed on Tokyo, Beijing, Bangkok, Singapore, and other Asian capitals.

For geo-political and cultural reasons it is therefore not surprising that we find ourselves reacting and responding to developments and pressures originating in the metropolitan centres of Europe and America, rather than leading political and cultural debates. The tyranny of distance is a double edged sword; it not only provides a degree of protection from outside influences, but it makes it difficult for us to get involved in the early stages of events. We are almost always reacting and responding.

There are some important exceptions to this general rule. An example is our leadership position within the Cairns Group. Because of our situation as an exporter of agricultural products we find common interests, and they are significant interests, with developing countries who are also exporters of agricultural products. We have a common bond with these countries in that we will all benefit greatly from effective reform of the international trading regime with respect to agricultural products. The Cairns Group is arguably the most successful example of an international grouping which transcends the north-south divide. And since the north-south divide is a very

important fault line in the on-going debates over sustainable development, Australia is well positioned to contribute to a resolution of the tensions which drive this debate.

It is a matter of record that we are not strangers to sustainable development as a concept for integrating the goals of economic development and environmental stewardship.

For more than a decade, business and community groups from both the environment and social arenas, together with representatives from State and Federal Governments, came together to seek to forge a consensus on sustainable development, aimed at ensuring – in the Burkean spirit – that we leave a better Australia for our children and grandchildren than the Australia we inherited.

At times this was a difficult process. But the seemingly endless hours taken up in working through the issues, in such programs as the Hawke Government's Ecologically Sustainable Development process, has delivered benefits; not the least among them a greater understanding among all parties of each other's viewpoints.

This understanding of ecologically sustainable development was endorsed by the Council of Australian Government's (COAG) meeting in 1992 and the text is as follows:

The principles of ecologically sustainable development consist of:

(a) the following core objectives:

- to enhance individual and community well-being and welfare by following a path of economic development that safeguards the welfare of future generations;

- to provide for equity within and between generations;

- to protect biological diversity and maintain essential ecological processes and life-

support systems;

(b) the following guiding principles:

- decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equity considerations;
- if there are threats of serious or irreversible environmental damage, lack of scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation;
- the global dimension of environmental impacts of actions and policy should be recognised and considered;
- the need to develop a strong, growing and diversified economy that can enhance the capacity for environmental protection should be recognised;
- the need to maintain and enhance international competitiveness in an environmentally sound manner should be recognised;
- cost effective and flexible measures should be adopted;
- decisions and actions should provide for broad community involvement on issues which affect the community.

We have here a balance, a consensus, reached after years of debate, which provided a framework for moving forward with the ongoing development of Australia's resources, together with the stewardship of our environment. These words were repeated in full in the 1997 Natural Heritage Trust of Australia Act. They also appeared in full in the penultimate draft of the Environment Protection and Biodiversity Conservation (EP&BC) Bill, this draft resulting from the negotiations extending over many months, prior to its first introduction into the Senate.

During the 1980s there was much discussion of the various tax carts which were being built and ridden into tax summits and other events. The point about these various tax carts was the internal coherence and intellectual integrity of the different designs. The wheels, the axle, the frame, the side walls etc, all made a coherent whole. The same concepts apply to the sustainable development cart which also evolved during the eighties and early nineties and which I have just described.

The structural integrity of the Sustainable Development Cart has been put at risk by political developments that took place during the brief period 20-22 June last. These developments show that since 1992, the Australian business community, and its leaders, have failed to keep ahead of this debate.

During those days very significant amendments were made to the Environment Protection and Biodiversity Conservation (EP&BC) Bill. There were 500 or so amendments in total which were put into the Bill during political negotiations between the Government and the Australian Democrats. Given our focus today on sustainable development, it has to be emphasised that the COAG understanding of ESD was deleted from the Bill, and replaced with a version of ESD which is seriously unbalanced. The political fact is that during those two days, business groups were not consulted about these changes. The text of the new version of ESD is as follows:

- 3A Principles of ecologically sustainable development

the following principles are principles of ecologically sustainable development:

(a) decision making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;

(b) if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent

environmental degradation;

(c) the principle of inter-generation equity – that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;

(d) the conservation of a biological diversity and ecological integrity should be a fundamental consideration in decision-making;

(e) improved valuation, pricing and incentive mechanisms should be promoted.

If we compare the two texts we see a very great change in the balance. Economic considerations have almost vanished from the text. Biodiversity conservation and ecological integrity now become: "fundamental" in decision-making. No one could argue against the conservation of biodiversity, but at the same time we would like to think that no one could argue against the maintenance of "international competitiveness" and "a strong, growing and diversified economy". As a result of these very rapid negotiations we no longer see this balance reflected in the Act. In the final draft of the Bill, now an Act, environmental concerns have become almost incommensurable.

There are two issues arising from this event: the issue of process and the issue of substance. It has long been customary in Australia for those sectors of the Australian community that will carry the major impact of new legislation to be consulted at length, and in depth, about what the Government intends. This is a custom which has deep historical roots. Prior to the introduction of the Bill, this consultation had taken place and industry representatives – whatever concerns they might have had about the content of the legislation had few complaints about the process.

Abandonment of this process, and the sudden introduction of major changes in the

legislation, has created new expectations about the way in which legislation can be brought to the Parliament. Unless a political crisis is at hand, Parliament does not have the time to consider Bills of this kind in any detail. This Act has 500 pages. The language of the Act is replete with legal abstractions. The small number of people from business organisations who have been studying this Act do not claim to understand the full implications of its contents. This is a precedent which should ring alarm bells within the business community.

These events show that Australian business leaders (and I include myself) who are responsible to their shareholders for the security of the assets entrusted to them, and who are also responsible for the new investments which will keep this country competitive and prosperous, have not been as vigilant about the future levels of sovereign risk in Australia as they ought to have been. In order to understand how we got to these events we have to go back a decade or more, and work through the processes and the debates which have brought us to this present situation.

In "The Prince" Machiavelli reflects upon the extent to which Fortune governs the course of events, and whether there is any point in seeking to influence, at the early stages of developments, the future progress of affairs. Machiavelli writes

"I compare this to a swollen river, which in its fury overflows the plains, tears up the trees and buildings, and sweeps the earth from one place and deposits it in another. Everyone flies before the flood, and yields to its fury, unable to resist it; and not withstanding this state of things, men do not, when the river is in its ordinary condition, provide against its overflow by dykes and walls, so that when it rises it may flow either in the channel thus provided for, or that at any rate its violence may not be entirely unchecked, nor its effects prove so injurious. It is the same with Fortune, who displays her power where there is no organised valour to resist her, and where she knows that there are no dykes or walls to control her."

Using Machiavelli's metaphor, the important task is building dykes and channels, at times when it would seem quite unnecessary to do so.

From a substantive point of view the changes made to the EP&BC legislation arouse considerable foreboding. The Commonwealth Environment Minister now has very great powers with respect to granting approvals for new projects, and it is difficult to think of any part of Australia which would not, given the wide scope of the word "biodiversity", come under the Minister's aegis. However, the changes to the Act significantly constrain the range of his discretion to approve a new project. Saying "no" is easy. Saying "yes" is risky. When this fact is pointed out the assurance is given that decision-making by the Minister will be balanced and pragmatic. This is fairly described as the "trust me" response.

Let me return to this theme of sustainable development. If it means anything at all it means development which embodies the best environmental practices in the world. It means continuing progress, continuing research, and continuing improvement. But sustainable development does not mean an end to development. I do not say that we in Australia have the very best industrial and business environmental record in the world. But we have one of the best and we have the capacity to continue to improve. A domestic regime which creates additional and difficult hurdles in the path of new projects here will not promote sustainable development, either in the Australian context, or in the global context.

The Sustainable Development Cart is losing a wheel.

Looking out at the world from where we now sit, it seems to me inescapable that one of the most important issues in the sustainable development portfolio is Australia's response to concerns about global warming and greenhouse gas emission policies. This is not just a wheel problem on the Sustainable Development Cart. This is the sound of the axle beginning to split.

Our starting point for consideration is the obligations which may flow from the recently negotiated Kyoto Protocol. It has to be said that the Australian Government, in the period from the Berlin COP until Kyoto, worked hard to protect our national

interests.

First, in the face of fierce criticism from many of our OECD partners, it succeeded in establishing "differentiation" as an operating principle.

Second, having secured "differentiation" it then obtained a 108% target, based on 1990 emission levels, together with recognition for diminution of land clearing activities. And third, it made Australia's ratification of the Kyoto Protocol contingent upon ratification by the US.

However, in a letter to the Leader of the Democrats, Senator Meg Lees, dated 28 May 1999, the Prime Minister included the following text.

Measures for a Better Environment

"The Government will commit a further sum of \$ 100m per year to support greenhouse abatement programs to further assist Australia in meeting its Kyoto commitments. This will significantly build upon the Prime Minister's previously announced \$180m Greenhouse Program (Nov 1997) which is presently being implemented.

The Government, drawing on advice from the Australian Greenhouse Office, will develop options which will have maximum carbon reduction or sink enhancement capacity. The Australian Democrats will be consulted in the development of these options.

The Government in making program choices will also take into account such matters as the potential for employment growth, new technologies, innovative processes, export potential, and the capacity of the program to act as a catalyst for further non-government investment. Particular attention will be given to opportunities in rural and

regional Australia.

Program details will be announced in due course.

Greenhouse; National Environmental Significance

Greenhouse issues are treated as a matter of national environmental significance in the COAG Agreement on Commonwealth/State Roles and Responsibilities for the Environment

However, the COAG Agreement does not identify greenhouse issues as a trigger for environmental assessment and approval under Commonwealth legislation.

The COAG Agreement provides that further triggers will not be added other than in consultation with the States.

The COAG Agreement was endorsed prior to the national commitments Australia made under the Climate Change Convention at Kyoto in November 1997 to reduce greenhouse gas emissions.

The Government intends that upon passage of the Environment Protection and Biodiversity Conservation Bill 1998 it will commence a process of consultation with the States and other stake-holders on the issue of applying a Commonwealth Greenhouse trigger under that legislation in relation to new projects that would be major emitters of greenhouse gases.

This commitment moved the Government in the direction of unilateral commitment to the Kyoto targets. A few weeks later a late night adjustment to the final draft of the EP&BC Act, was the insertion of Section 520 (3) (k). The words of this section add to the list of international treaties and conventions which provide a constitutional head of power for Commonwealth authority in these matters. Those words are – "the

Framework Convention on Climate Change done at Rio de Janeiro on 5 June 1992".

We have to ask ourselves "Why did they do that?"

There may be a number of answers to that question. But it is difficult for the outsider not to believe that that insertion happened as part of the structure being put into place so that greenhouse can be included as a Matter of National Environmental Significance under the EP&BC Act.

A number of points need to be made, again, about Australia's situation in this Kyoto context.

If Australia eventually ratifies the Kyoto Protocol, how will we meet our legally binding obligations to reduce our growth in emissions of greenhouse gasses to the level stipulated? The economic implications will be profound and the decisions necessary to restrict annual CO₂ emissions to approximately 420 megatonnes will require some very courageous political choices. Let me quote from the recent Australian Greenhouse Office publication "National Emissions Trading – issuing the permits.

"Australia's trade exposed industries are essentially price-takers and their competitiveness is likely to be sensitive to the net impact of emissions restrictions on industries based in other countries. This factor takes on particular importance for industries that compete with producers situated in developing countries which are, at present, not subject to emission targets under the Kyoto Protocol".

Of more immediate political impact is the data, (first compiled in 1992 and supported by later studies in 1998) given in the AGO report setting out the average change in family purchasing power, by income group, under a carbon tax designed to achieve 1988 emissions levels. Not surprisingly, the group which suffers by far the most serious impact, are families with incomes in the range \$5,000 to \$25,000 per annum.

As we move from the lowest to the highest income group in this category, the reduction in income starts at 9.6% and comes down to 6.3%.

The AGO Report states

"The finding that an Australian carbon tax would be likely to be broadly regressive is also supported by more recent work by Creedy and Martin (1998)"

One should not place too much confidence in the exact figures which are quoted. But the trend is the important thing and it is beyond dispute. Carbon taxes (the other side of the trading emissions coin) hit the poor much more severely than they hit the comfortable and the rich. Imposing such a burden will require unusual political courage, particularly if the processes of consultation have been abandoned.

There are three prongs to the greenhouse debate: scientific, economic and political. I should state at the outset that I have my doubts about the science of greenhouse. These doubts are generated by the knowledge that there is no consensus about greenhouse theory, despite the repeated emphasis on a majority view which accepts the theory.

However, putting the science to one side, the greenhouse debate is particularly difficult for Australia because of our position in the global economy. We have in this country efficient and competitive energy intensive industries. These industries are the visible sign of our most important international comparative advantage. In any rational international analysis of where energy intensive industries should be located, from a sustainable development perspective, Australia ranks very high. World energy consumption is going to increase substantially, and this will occur regardless of whether the Kyoto Protocol is ratified by the OECD membership or not. As far as tradeable goods which require a high energy input are concerned, it makes good environmental as well as good economic sense to produce those goods in Australia. This is sustainable development at work.

However, while our energy is low-cost energy, we do not waste it. The Greenhouse Challenge program, primarily a no-regrets commitment (as distinct from the precautionary principle), has focussed attention on energy usage, particularly in those energy intensive industries which are so vital to our export performance.

From the AGO report that I have already cited we find that the AGO 's initial estimates of the value of sale of greenhouse permits that will have to be sold to meet the Kyoto targets is around \$12b per annum, based upon a value of \$30 per tonne of carbon dioxide equivalent. The \$30 figure which the AGO uses is, notably, lower than all of the comparable figures quoted in Table 1.1. These figures vary from \$191 to \$40. To make \$30 seem reasonable the prospect of international trade in emissions permits has to be realised.

The AGO report states:

Minimising the socioeconomic impact of Kyoto targets is likely to be best achieved by using the wealth embodied in permits in ways that address equity and efficiency goals. This could involve distributing permits among those whose growth potential is likely to be most affected by emission constraints, selling permits in order to fund adjustment packages, tax cuts or other initiatives, or some combination of those options. [AGO 1999]

Twelve billion dollars is a lot of revenue, and the impact of it will be felt most acutely by energy intensive industries and by the poorest sections of the community. However, every sector of Australian business will indeed be affected by the AGO recommendations. There will be a long list of demands for compensation and the transaction costs, both economic and political, in processing these demands for compensation, will be high.

The international economic consequences of the AOG recommendations and their impact upon Australia's exporting competitiveness has been recognised by the Prime Minister.

On July 4 last he made the following statement:

"Nothing that the Government I lead will do will ever take away from the competitiveness of the Australian mining industry or the Australian agricultural industry."

His assurances are very important for the mining and rural sectors. For WMC the consequence \$30 per tonne CO2 tax, amounting to some \$100 millions per annum, would have serious implications, extending well beyond the immediate impact on our bottom line. The Prime Minister's assurance will, likewise, be welcome to our colleagues at BHP, since their estimate of the cost to their bottom line is in excess of \$1 billion.

The AGO Report lists the contribution which different sectors make to Greenhouse emissions. Some of the figures are predictable, some are surprising. Electricity comprises 35%, and agriculture, forestry and fishing 15.7% of all emissions. Households (including motor vehicles) comprise 11.4%. I would be surprised if the consequent increase in the price of electricity (which will follow a carbon tax) to every Australian household, does not carry with it a substantial political fallout.

Table 3.2 Australian direct emissions by sector and major fuel, 1996 (excluding estimates of land clearing emissions)

	Combustion-related emissions		All emissions	
	Million tonnes (Mt)	Share of combustion	Million tonnes (Mt)	Share of all

		emissions			emissions (%)
BY SECTOR	1.1	0.4	18.7		4.5
Coal mining	6.3	2.1	15.2		3.6
Oil & gas field production	7.1	2.4	7.4		1.8
Petroleum refining	0.2	0.1	3.1		0.7
Gas production & distribution	0.4	0.1	0.5		0.1
Natural gas transmission	1.4	0.5	1.4		0.3
Coke ovens & briquettes	141.8	47.3	141.8		34.0
Public electricity	5.5	1.8	5.5		1.3
Private electricity	3.5	1.2	3.5		0.8
Mining (non-energy)	3.9	1.3	65.5		15.7
Ag/forestry/fishing	11.3	3.8	11.3		2.7
Iron and steel	4.8	1.6	9.9		2.4
Non-metallic mineral products	13.7	4.6	17.2		4.1
Non-ferrous metals	31.8	10.6	31.8		7.6
Commercial & military transport	19.6	6.6	36.8		8.8
Other manufacturing and services**	47.6	15.9	47.6		11.4
	300.0	100.0	417.0		100.0
Household***	160.0	53.3	160.0		38.4
	100.5	33.5	100.5		24.1
Total emissions	39.4	13.1	39.4		9.4
	300.0	100.0	417.0		71.9
BY FUEL*					
Coal					

Oil				
Gas				
totals				

* Biomass fuels and associated net emissions (estimated at about 2 Mt of CO₂) have been omitted. ** This category represents emissions from the following industries: food, beverages and tobacco, chemicals, wood, paper and printing, construction, commercial premises, waste and miscellaneous manufacturing groups. *** This category represents direct emissions from private household energy use including motor vehicles.

Source: AGO 1999, National Emissions Trading – Establishing the Boundaries, p.18.

We do not understand the full economic and social consequences of introducing carbon trading. Nevertheless, we seem to be in the vanguard of OBCD countries in moving rapidly towards the development of a carbon tax and an emissions trading scheme.

The social perspective is an important element of sustainable development but it has been lost in the greenhouse debate. It is evident from the AGO's paper that there will be regional contraction and unemployment consequences in meeting the Kyoto targets. We need to consider these consequences. We need to answer some fundamental questions regarding Australia's future. For example, what population levels can Australia carry under various greenhouse response scenarios? What social upheavals will follow if the AGO forecasts turn out to be accurate?

We need to begin a new level of debate on greenhouse in order to be confident that we really do understand the consequences and the implications of Kyoto, and whether those consequences are going to be politically sustainable. One of the important structural elements in the Sustainable Development Cart was that "decisions and actions should provide for broad community involvement on issues which affect the community".

[section (b) (vii)]

The Business Council of Australia provides a unique focus for CEO business representation in such a debate.

The Brundtland Committee recognised that the peoples of the developing world are not going to accept as a permanent arrangement, a standard of living which condemns them in perpetuity to per capita energy consumption levels that are 5 per cent or less of the levels we take for granted in Australia and in other developed countries.

There will be continuing improvements in the conversion efficiency of carbon fuels to electricity. Developments in the science of fuel cells may give us a change in technology which will allow direct conversion of hydro-carbons to electricity rather than through thermo-dynamic processes. That would have major impacts on energy production and consumption around the world.

During the last century the world has changed greatly, and for the better, because of technological and scientific innovation. It is arguable that this process could come suddenly to a halt, but it is difficult to see how that could happen. It is much more likely that the next century will see even greater scientific discoveries and technological changes than the last century has seen. And thus our capacity to respond successfully to unpredicted changes in the earth's climate, be they warming, or cooling, or greater variability, will be correspondingly enhanced.

A regime of enforced carbon withdrawal does not travel easily, if at all, in the Sustainable Development Cart which was so painstakingly put together some years ago. That cart was a vehicle in which we could all travel together towards a clean environment and a standard of living for all the world's peoples, commensurate with what we take for granted as civilised in Australia.

This does not mean that we abandon energy conservation measures. But it does mean that we should not foreclose on Australia's future.

In Australia we do have to respond to the political, cultural and technological changes which originate in other parts of the world. But we can also make our own contribution and continue to play an important role in mediating and shaping those changes.

These matters constitute a real challenge for the BCA.