

Globe 2002 Plenary, Wednesday 13th March 2002 – Globalization in the 21st Century

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An economic basis for development

As we look at the challenges which a globalizing world faces in the 21st century, there is one overarching issue – how do we develop sustainably? Not just economic development, but development which respects the environment and which delivers real social benefits. The UN World Summit on Sustainable Development in Johannesburg this year will undoubtedly, and rightly, focus on the eradication of the poverty in which so many of our fellow humans live. But it is not just about this. It is also about how the developed economies can grow sustainably.

Just as within our own countries we find it necessary and desirable to develop special support programmes for some areas or sections of our populations, so on a global scale will development aid be essential. However, while development support is needed, the aim has to be to develop viable businesses in areas where there is at present no economic activity. Without this there can be no sustainable development. A key to this is fair and equitable access to markets for both agricultural and manufactured goods. When the great economies of the world falter, it is not just their populations that feel the chill, but others all around the world.

Two big challenges

There are two big challenges that we need to address. First, how to deliver the energy needed for development, given in particular the challenge of climate change, and second how do we develop the governance structures without which we stand no chance of sustainable development. Others would undoubtedly highlight health issues, water, forests, agriculture, biodiversity, information technology, or education. These are vital and pressing needs, but history shows that given sound governance structures and a viable economic base, our societies do not make too bad a job of delivering these necessities. Energy is only different because the most economic and convenient present forms needed to meet growing demand are associated with an impact on the global environment. But even here, development of governance mechanisms is a key part of the solution.

Energy and Climate Change

As someone who has spent his life in the energy industry, let me take the energy issue first. What are the facts?

There is no doubt that energy can be used very much more efficiently so that the demand in the developed world can be reduced. Further more, there is clear evidence that at a certain stage we can decouple energy from economic growth – there is currently divergence at about \$15,000 p.a. per capita GDP and the link is broken at about \$25,000. Technology will bring both these levels down. But at lower levels of per capita income there is a strong and unavoidable correlation. Energy demand has grown by 80% since 1970, with developing countries taking an increasing share. With the bulk of the world's people still climbing the development curve, energy consumption could grow even faster in future. By 2030 the world could be consuming twice as much as now – 60% of it in today's developing countries.

Furthermore we have an urgent need to address the needs of the almost two billion people, one third of the world's population, who have no access to modern sources of energy.

The climate threat represents a more fundamental challenge to a world which clearly depends on fossil energy to support rising living standards. Anyone who has read the scientific section of the IPCC Third Assessment Report cannot fail to be impressed by a solid and unemotional piece of work. I commend it to you. The summary is short and clearly written. This is the quality of work on which we in business routinely base our investment decisions. The range of uncertainty is clearly identified, as are the assumptions. And there is no emotion or hyperbole.

The upper end of the scenario range is a simple extrapolation from the present and is, I believe, as unlikely as it is undesirable. The lower end results from a doubling of atmospheric carbon dioxide concentrations from pre-industrial levels. It assumes significant – but entirely achievable – changes in energy patterns. It shows carbon dioxide climbing to about 550 parts per million – raising temperatures by two degrees (range 1.4 to 3.2 degrees), and sea levels by 30 centimetres (range 10 to 55 cm), by the end of the century. The resulting changes are probably tolerable – although we would need to adapt. Changes approaching such levels are also probably now unavoidable, but I believe the emissions patterns which would stabilise atmospheric carbon dioxide at this level are certainly achievable. Shell long term energy scenarios – projecting energy demand to 2050 – show two routes by which carbon dioxide could be stabilised at around 550 ppm, assuming normal technological rates of change. One assumes a world in which renewable energy is developed rapidly, the other one in which the emphasis is on an economy turning to hydrogen as an energy carrier. Both assume continued growth of hydrocarbons, in particular gas, until the around the fourth decade of this century. There is little doubt that technological solutions can be developed, with changes of magnitudes and rates similar to the changes that we have seen over the last few decades.

So what do we, consumers, businesses, NGOs and governments need to do to achieve ensure that we do in fact end up at the lower end of the scenarios?

Ways forward for business

As businesses we should openly accept the science, with its error ranges, and begin to put in place sensible systems which will allow us to work towards something like a 550ppm target. This means measuring our emissions and setting ourselves reduction targets. The Canadian voluntary scheme is a good start at this. Putting a shadow cost of carbon into our economic evaluations is also an excellent way of getting up front thinking about emissions into our organisations. The impact of the shadow costs rising to say \$20 a ton often does not have a major impact on the economics, but it does have a big impact on thinking. Time and again we see in business that when we stop arguing about how much, by when and how damaging and impossible it is going to be to achieve, creativity is focussed on delivering results and surprising progress can be achieved. Look at the experience of removing lead from gasoline, installing seat belts or airbags in vehicles, or more generally the last time you set a challenging cost reduction target to remain competitive in your business. For all its shortcomings, this is the advantage of the Kyoto Treaty. Hopefully, as the treaty is ratified, nations whether in or out will focus on achieving results rather than the arguments over levels and mechanisms which have delayed progress for so long.

To ensure that we achieve reductions in the most cost effective way we clearly need cap and trade systems. Within companies if we can agree nothing wider, but much better on a national scale – and internationally if possible. And that must include a workable Clean Development Mechanism to ensure we make the investments also in developing countries, where there are some of the biggest benefits of upgrading technologies. We are also working to bring lower carbon solutions such as natural gas to India and China, as well as more efficient and cleaner coal technologies – for they will inevitably continue to use some coal.

All of the things I have been speaking of are practical. All of the corporate elements I have seen working in practice, without adverse economic effect and with considerable benefits to morale and to the way we work.

Partnerships

But business needs to work in partnership with governments and NGOs if we are together to really achieve results. And we should never forget the contribution of individual citizens as consumers and voters. If they consider that either business or government is doing something undesirable, whether in behaviour or in trying to bring in a product or regulation which they do not support, we will be punished. I believe the same is true of an NGO which is perceived as being irresponsible.

Working with NGOs brings benefits to corporations in environmental expertise and in considering the social impact of actions, as well as awareness of emerging issues. But some NGOs need to think whether always pointing to the extreme consequences, for example the high end of the IPCC scenarios, is a wise tactic. From life experience, people tend to discount the apocalyptic and it can have a counter effect. Again, in my experience, working together on stretch but achievable targets is more satisfying all round. I hope that the external climate panel working on Shell Canada's oil sands project feels that way. I know that they make a real difference to performance.

Creating regulatory frameworks

Governments have a key role to play in creating conditions in which markets can work to deliver sustainable solutions, and this includes creating appropriate regulatory frameworks.

At the mention of regulatory frameworks, the business people in the audience will now be listening. We have a real sensitivity about regulation, and nowhere is it more true than on this side of the Atlantic. But I am not talking about the regulation that binds us hand and foot and buries us in forms, but frameworks which make delivery of a reasonable outcome through market forces more likely. In fact no market can operate without a regulatory framework.

A framework for energy

Most obviously we need a framework to establish emission trading systems. But we also need a framework to encourage the sensible development of renewable energy globally. Developed countries need to give a lead on this, for developing countries will not apply technologies which we in the developed countries do not use. One of the findings of the G8 Task Force on renewable energy was that the large markets of the developed countries are necessary to bring down the costs of technologies. Consumers will see the sense, as they have done in the example we quoted from Texas, of deriving a proportion of their electricity from

renewable energy, provided it works reliably and does not hit them in their pockets. Because the mandated percentage of renewable energy from unspecified sources is small and with tax breaks, the cost impact is small. The market decides the optimum technology, in the case of Texas largely wind, and a trading system ensures that the most cost-effective alternatives are developed. The technique may vary from country to country, but we clearly need frameworks of this kind to encourage the development of new energy sources. One of the great contributions of the United States in this area is the ability to develop simple, workable solutions. For that reason, apart from any other, the whole-hearted involvement of the United States would be of great benefit to all.

We should look carefully at the very large amounts of subsidy which currently flow to various forms of conventional energy and nuclear and adjust the flows to eliminate some of the perverse outcomes. I do not believe that we need new subsidies – the present flows are very large – but we do need to ensure that renewable energy is not disadvantaged.

.....and for transportation

Given their contribution to energy consumption, we must also look at building-construction and transportation, with the target being to deliver the same levels of comfort and performance that consumers expect and to do so in an economically effective way.

In both North America and Europe we have seen over the last decade a significant fall in total emission levels of almost all transportation pollutants in spite of a significant increase in total mileage. This excellent performance by the auto and fuels industries has taken place through the market working within a regulatory framework which is seen to drive in the direction of cleaner engines, and has certainly not inconvenienced the consumer. The picture is different in carbon dioxide emissions. The great steps in engine efficiency made by the auto industry in the United States has been used in delivering larger and heavier vehicles, so that there has been little impact on total consumption. In a world coming to recognise the threat of climate change, this is a perverse outcome.

It is plainly unrealistic to expect consumers in the developed world to accept a reduction of comfort or reasonable performance, let alone abandon their personal transportation. Equally, hundreds of millions of people in the developing world aspire to similar access to transportation. Progress in conventional engines, as well as the development of gasoline/electric hybrids and fuel cell vehicles, including revolutionary models such as are being developed by Hypercar Inc, show that the industry is capable of delivering the necessary comfort and performance at much greater efficiency. But the market needs the guidance of a regulatory framework. It seems strange that in an industry where increasingly tough mandatory standards for safety and for emissions are normal in almost every country, there is little regulatory framework for efficiency, within which the market can work. My wife and I drive a Toyota Prius hybrid, a beautiful piece of engineering which delivers comfort, safety, acceleration and a top speed of a hundred mph with very low emissions and over 50 mpg. It is not a hair shirt option, although it costs less than an upmarket saloon. It is essential that we create frameworks in which the markets can meet consumers expectations and needs, but at very much greater levels of efficiency.

Governance

You will notice that while I have been talking about energy I have also been talking about regulatory frameworks within which the market can operate. This leads to challenge of governance, which is needed to both develop these frameworks and to ensure that such regulations and laws that exist are respected.

I am not talking about big government, constitutional committees or even major international agreements, but the accepted framework within which we can develop local schools, health care and commerce; commonly agreed frameworks for the common good. At a recent meeting celebrating thirty years of the IIED, I heard a speaker from Porto Alegre declare “What the world needs is not more markets but more community”. While I believe in that in some places we actually need more markets to offer individuals choice, in others we do indeed need frameworks to channel market activity and prevent abuses. But I strongly agree with him on the need for more community.

The world is not short of the financial or technical resources to address the issues of poverty and development. I believe that wisely used we also have the natural resources. But if the finances were made available tomorrow – and we have seen how tens of billions of dollars can be mobilised in short order to address crises – we still could not do the job because in much of the world there is a lack of community or effective governance structures to deliver it. Much would be wasted or leak through corruption before it reached its intended goal.

What is the role of business in developing this governance? It is certainly not one of saying – this is what needs to be done and when you have fixed it give us a call and we will be happy to think about an investment. There is a chicken and egg situation here – countries need economic activity to develop, it cannot be done sustainably by development aid alone. And it is in the interests of business that that development takes place – creating new markets and reducing instability. It is in the interests of global businesses in energy, water, communications, information technology and many other areas to see how they can begin to develop business to serve these customers. This also means the development of the thousands of local small businesses which are essential for a healthy society. This is what Prahalad and Hart referred to as “The Fortune at the Bottom of the Pyramid”.

The development of economic activity may be essential, but business certainly cannot do it alone. We need to work with NGO’s, governments and development agencies, as well as through our own industry groupings to deliver results together. And that is indeed happening in the run up to Johannesburg, with a group of business and civil society organisations working together to see how capacity to address Sustainable Development objectives can be strengthened. If we in business are to do that, our own governance has to be sound. To build trust that means transparency. It means not bribing people and working together to eliminate the practice of bribery. It means very open reporting on our activities. The Global Reporting Initiative is an important element in this. It provides common standards for reporting, an essential if we are to be able to benchmark performance. But more than this it demonstrates how different players - NGO’s, business, labour movements, international agencies – can come together and develop the governance systems necessary to agree on global reporting. This is a very important development in many ways.

The WSSD in Johannesburg

As we move towards the World Summit on Sustainable Development in Johannesburg in September, we can begin to see the shape of a possible outcome emerging: an

intergovernmental agreement probably largely recommitting to what was agreed in Rio and Agenda 21, with below that a series of partnership initiatives which will not need to be agreed to by all, but will be acknowledged as part of the Johannesburg package.

This is where business has much to contribute. In Business Action for Sustainable Development, a joint initiative of the International Chamber of Commerce and the World Business Council for Sustainable Development which is supported by many business organisations, we see many initiatives linking business, NGOs and other players such as the Energy and Biodiversity Initiative, The Global Mining Initiative, the Marine Stewardship Council, Responsible Care of the chemicals industry and so on. I have already mentioned the GRI and the partnership initiative on Governance. These initiatives are all partnerships and they should contain trackable objectives. They begin to build sound governance of industries and issues. But there is a real battle to be fought in each country to ensure that existing laws and structures, including the behaviour of business, amount to sound governance. Global governance is necessary, but it will not be effective unless there is local governance to support it. Global business is far from perfect, but the standards applied by international companies are almost always higher than those of purely domestic companies. To address global governance without addressing national and local governance will lead to disappointment.

Also at Johannesburg we will illustrate the many examples of contribution to sustainable development in normal day to day business, achieved in partnership with others. In general they address all three legs of sustainable development. We will emphasise the need to demonstrate measurable results and the importance of being able to replicate successful projects. In partnership with the UNDP we are also working on a virtual exhibition of projects from all around the world which will be accessible globally through the internet. This will also make activities at the WSSD more accessible to all.

In Conclusion

In conclusion, if we are to address the issues of energy for development and climate change, we will need regulatory frameworks within which the market can work to find solutions to meet the aspirations and needs of customers. With this we should be able to achieve a result close to the lower end of the IPCC climate scenarios. There will inevitably be change, but at a level which it should be possible to handle.

None of this will be achievable without sound governance frameworks at all levels. Good governance at the local and national level is just as important as at the international level. The world is not short of the financial and technical resources to attack its problems, but in many areas we are desperately short of community structures in the widest sense. Business is prepared to play its part in partnership with others both in individual countries and internationally to address these issues. We in business realise that this puts an onus on us to set clear targets in conjunction with others, taking into account environmental and social effects, and to report very openly on progress using the GRI, itself an example of how governance can work. If we do this, I believe we can develop across the world the sound economic basis of businesses large and small on which sustainable development depends. This is what globalisation in the 21st Century should be about.