

## The Grill No.7 – March 2010

Health is in the air. As the long debates continue it's worth noting how much is at stake. The US spends more on health than any other country (over US\$6,000 per person per year, or 15% of GDP), for outcomes that are [poor-to-average](#), so something needs to change. Australia spends about half that for outcomes that are [average-to-good](#), so with the glaring exception of indigenous health, we must be doing something right. Yet there is so much more that could be done before threatening referenda on the power to do it. Much is to do with data, and the tension between privacy and productivity. A sustainability lens might ask, for example, if governments might draw further on health insurance records that clearly show what procedures and devices work and why.

As always, The Grill reflects the Dowse CSP view that the link between sustainability and the financial bottom line lies in the demonstrated intangible values of brand, people, networks and innovation. Sustainable investment is where the market decides which of these are being taken care of, and climate change is today's major issue.

### Carbon and Climate Politics

- In the last Grill, I promised to review the post-Copenhagen situation. All we can do though is watch, wait and wonder. It's frustrating, the policy process. Politics and fact-based analysis seem like oil and water (a curiously apt analogy). Policy-wise, every sensible measure is needed, with a carbon price the most effective economy-wide measure regardless of what else is done. Now the opposition wants to impose a series of 'direct actions' (ie, direct government intervention) instead. Some of these may well be good, but as a strategy it's the opposite of what you'd expect from the Libs. I can't follow it any more, so I defer to two people who have called it as they see it, and called well:

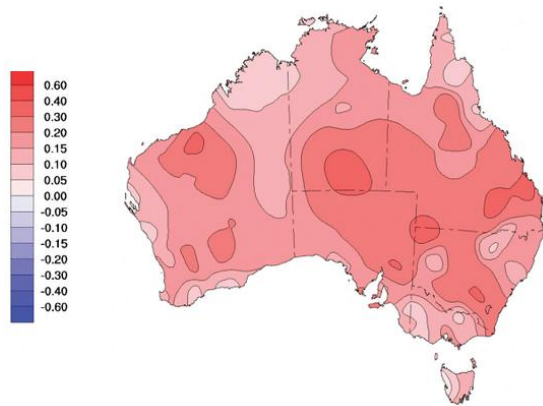
1. In July 2008, Roger Wilkins [reported](#) to the federal government on its then 62 existing climate change policies: "too many", many "ad hoc or badly targeted", "no framework of logic that could be said to render these a coherent set", "no clear commitment to least cost mitigation or a commitment to use markets to arrive at the most efficient outcome."

We now seem to be heading back to this pre-2008 position. Why?

2. Bernard Keane, the political editor for Crikey, explained back in March 2009: "There'll be much debate ... over whether the Government's ETS will navigate its way through the Senate. It won't. No one outside the Government thinks it is anything but a dog of a scheme. The Opposition, Xenophon, Fielding and the Greens only differ on the reasons why they dislike it.... Meantime, annoyingly, climate change continues. The debate therefore needs to move quickly to a post-ETS level. A carbon tax, the next best option, is liable to be just as poorly-designed and influenced by big polluters as the Rudd Government's ETS. We'll therefore have to move the Australian economy to a low-carbon path the old-fashioned way, via government expenditure and incentives. This approach is rife with opportunities for winner-picking and pork-barrelling ... but they look like the only solutions that will get through our political system."

- At last we're starting to see *The Revenge of the NerScientists*. The Bureau of Meteorology and the CSIRO issued *for the first time* a loud and public [statement](#) that, yes, climate change is real and unnervingly quick. Much of Qld, NSW, SA, NT and WA have already warmed up by 1°C to 2°C over the last 50 years, and are on track to warm up *another* 2°C to 5°C in the next 60.

Trend in mean temperature 1960-2009 (°C/decade)



**Could BOM/CSIRO be clearer?** Yes, I think they could. Many of us think of our average temperature as a 24° autumn day, with 'global warming' making us a degree or two cosier. The global average temperature is now about 14°C. (The average temperature over our oceans is 16°C and, believe it or not, over land it is only 8.5°C.) That means an extra 2° to 3° makes things a lot hotter. And with the extra heat, the Earth's climate systems get a lot more active...

- Despite the amassed resources of the IPCC, the 183 governments that stand behind it, NASA and CSIRO, it has been left to lone crusaders to compile rebuttals to reactionist arguments. Among the best is [www.skepticalscience.com](http://www.skepticalscience.com), which answers reasonable doubts about climate change science in a very telling way. Stand up and take a bow John Cook – proof that science is alive in Queensland. There is now an iPhone app for this juicy data, bringing it to our palms whenever Auntie Joan quotes Greatuncle Chris in saying it was warmer in '63 in Brewarrina, or in 1163 in Gaul. While Skeptical Science reads as a handy Q&A, the [Copenhagen Diagnosis](#) is an equally clear and comprehensive summary of the available science from the UNSW Climate Change Research Centre.
- A [survey](#) of 10 leading traders predicts that a tonne of carbon (CO<sub>2</sub>e) on the European ETS will rise from today's €13 (up from a low of a GFC-induced 2009 low of €8) to €15 in 2010, €19 next year, €23.7 in 2012, and an average €33.6 for the Phase 3 years of 2013-2020. Now be warned that they're investment banks that are forecasting, it's a commodity market, and the trend line looks to be rising in a suspiciously even fashion – so please don't shoot the messenger. But the prices are still comfortably above the \$20/tonne standard used for investment modeling.

## Innovation

- It's *possible* I'm biased, but the flow of research claiming that 'sustainability breeds innovation and profitability' seems to be becoming a torrent. The latest, [A New Mindset for Corporate Sustainability](#), comes from 6 academics sponsored by BT and Cisco. It has to be said that both the sponsors and the academics are of the Christine Keeler school ("They would say that, wouldn't they."), and that their white paper doesn't actually prove a case, but gives a lot of nice evidence to believe in it. Still, that seems the norm in management research.
- Among that evidence is the excellent example of [Hyflux](#), the Singapore water technology firm. It's worth remembering that, when they 'separated' in 1965, Singapore had to cut a deal with Malaysia to keep the water pipe open – Singapore had no other supply. Not

wanting to rely on a potential rival for water (hello Gaza), Singapore kept innovating on turning 'used and salty' waters into quaffable H<sub>2</sub>O. Now, Hyflux is booming throughout Asia, Africa and the Middle East. Ideas from adversity – a useful Aussie trait, and part of sustainability philosophy.

## People

- A good sustainability strategy should make people more inclined to come to work, and more productive when they're there. Dowse CSP has been working on ways of valuing the additional productivity a well-designed building may bring (ie, the value to the user, not the capital value to the owner). A building we'd love to try that out on, not to mention work in, is Sydney's highest-rated [6-Star Green Star](#) building, emerging at 1 Bligh Street from behind the usual street rubble. Besides a 28-story fresh air atrium, the building has a solar cooling system feeding into a tri-gen energy system to provide cooling with next-to-no operating costs (perhaps the advertised 'free cooling' isn't quite the right term). With the commercial property market still in the doldrums, higher-rated office blocks are holding their own a little better.
- Many of us may have missed a small storm in the US about Asperger's syndrome being more common in Silicon Valley than elsewhere in the country. Triggered by a 2004 [article](#) in *Wired*, the news made the *Fin Review* this week. The speculation is that software coding is a task for which people with high-order autism or Asperger's syndrome may be well suited. If it is, then happy days for all concerned. Many people with a disability in one field are terrific in others, and finding the right match is well worthwhile. Many years ago I worked as a legal publisher. Towards the end of my time there, I needed another in-house writer and found one who seemed perfect: great academic record, good practicing experience, clear prose, energy and charm. She hadn't let her being blind hold her back. To a well-rehearsed question, my 1994-going-on-1894 boss answered "What do you think we are? A sheltered workshop?" An opportunity missed.

## Brand

- Dowse CSP's views on social media are luddite: witness that *The Grill* is not facebooked, blogged, twittered or lunkedin. But we may be watching a new brand-watching site a little closely. [Brand Karma](#) seeks to apply these social media and a lot else to the world's brands. The brainchild of advertising pillar Craig Davis, the site is a genuine attempt to get a non-filtered view of what's good and bad about global brands we love, scorn or ignore. The site asks a lot of its members, so I'll be interested to see how they respond. Though there are very clear risks, in time the aggregated views may be a little less subjective, and a little more meaningful to the market, than currently available sustainability ratings.
- Australia Post is making inroads towards sustainability, and [reports](#) earnestly on a range of initiatives. However, taxpayers may be a little alarmed that it is using its outlets to sign up new Tabcorp customer accounts. (So good for those in the queue buying Smith Family Xmas cards to know that Post is sponsoring the business that drives the Smith Family's business.) Tabcorp was pleased to [announce](#) that "The arrangement with Australia Post supports Tabcorp's strategy of offering our customers the best products, service and convenience in what is now a national wagering market." Yes, but how does it support Post's strategy?

According to Interbrand's [2009 Best Brand Report](#), our direct mail giant has tumbled from its 2002 leadership – ie, Australia's most valuable brand – to 14<sup>th</sup>. Its reduced brand value of \$900m has sunk below Billabong, for example (8<sup>th</sup>, \$2,200m), or Commonwealth Bank (2<sup>nd</sup>, \$7100m). Does that mean they've destroyed over \$6 billion in value? Surely not – that's about what Allco has lost, and we've heard about that. But if so, we taxpayers may also thank previous bouts of Post myopia: insisting that letters weren't communication and so ignoring the potential of email, or making bill payment its only online offer (such a brand buzz, paying bills). Biggest of all was promoting direct mail over personal mail, forgetting that news from Gran delivered rain, hail or shine, ready-to-read to the kitchen table was what gave Post its brand in the first place. (Now, incidentally, the [Postcard Crossing Project](#) is reclaiming that value.)

## Networks

- The Carbon Disclosure Project is being expanded. Its next phase is for companies to join a volunteer [Supply Chain Leadership Collaboration](#) (SCLC). Eleven large purchasers such as Dell, PepsiCo, Unilever, Tesco, P&G etc agree to work with their suppliers to provide integrated carbon information. They'll each work with 50 suppliers in the project's 1<sup>st</sup> phase, and up to 2,000 suppliers in the 2<sup>nd</sup> phase. Which means if you want to sell to one of these companies, you'll need to be their carbon partners as well.
- The thinking behind the new [Eco-Patent Commons](#) is impressive. IBM, Nokia, Sony and Pitney Bowes have established the commons with the World Business Council for Sustainable Development (WBCSD), making 31 patents publicly available. Any company is welcome to join the commons by sharing innovations with environmental benefits, or use the patents, subject only to a 'defensive termination' where the free use has been abused. Obviously a company wouldn't give away its crown jewels. But it may have generated some useful IP that would not be a priority to commercialise. Making it available to others may be a catalyst for further innovation by both parties, and for new business collaborations between them. There are strong economic arguments for making such data public. Interestingly, these arguments are most persuasively put by the Director of our [Bureau of Meteorology](#).

## Sustainable investment

- Gunns has joined James Hardie as a clear high-profile Australian example of the value of ESG analysis. Gunns share price this week dropped to 50 cents, about a quarter of its average price over the last decade. The low price reflects Gunns' failed bet-the-company strategy to establish the Bell Bay pulp mill, the glaring weaknesses in its governance exposed by the pursuit of that strategy, its failure to gain finance for the mill, the fact that Japanese pulp buyers will no longer buy its product and that, of its 3 other mills, two are "temporarily" closed and one is operating at half its capacity. These factors are of course interrelated. They suggest that getting your own way in a small pond doesn't translate to getting your own way in a big pond. ESG analysis is in part seeing how a board is taking into account the perspectives of a firm's stakeholders in that larger pond. Gunns didn't go close.

- Sustainability is all about having a wide-angle lens. [The American Enterprise Institute](#) (sheesh, am I really quoting them?) reminds us that US no-deposit (and often no-doc) mortgages were promoted by the legislation of successive US governments, going back to Carter, on to Clinton's *Community Reinvestment Act* and to Bush's superbly titled *American Dream Downpayment Act*. Why? To meet the demands of social activists looking for better access to finance and home ownership for the poor. Hindsight suggests there may be better ways of achieving that. The point is that many SRI funds were overweight in the very financial institutions that pushed these loans. While applauding their diversity policies, they missed the inherent risks of their core business. As in any field, there's analysis, and there's good analysis. In SRI, sustainability viewpoints are only valuable when integrated with good traditional analysis.
- Many readers would know of Bangladesh's Grameen Bank and its microfinance success. Its model was doomed to failure in foresight, and destined for glory in hindsight. Lend profitable amounts (ie, small, avg US\$85) to the brains of the family (the wife) using reliable IT (book and pencil), a hardwired distribution system (village peers) and a powerful enforcement mechanism (group guarantees) – and don't sell the book. That's right, sub-prime lending in reverse. Grameen's return on equity is running at 21.2%, with portfolio at risk 2.57%. In a comprehensive review, [Deutsche Bank](#) sees microfinance loans growing tenfold between 2006 and 2015 – confirming that socially responsible finance can be profitable...
- While national policies on climate change waver, investment regulators are pressing on, with the weight of investor opinion now behind disclosure of climate risks. In a 3-to-2 vote on January 27, the U.S. Securities and Exchange Commission **required companies to weigh the impact of climate-change regulation** when assessing what to disclose. US companies should also consider **international accords, indirect effects such as lower demand for goods that produce greenhouse gases, physical impacts** and the potential for increased insurance claims. The commission voted along party lines with the two Republicans rejecting the proposal, saying "scientific claims that man-made emissions are contributing to global warming are 'unsettled' and today's move could swamp investors with unnecessary information". On which the influential blogger Joe Romm [commented](#): "*Yes, wouldn't want to swamp those investors with unnecessary information... Thank goodness we didn't swamp investors with information about risks pertaining to mortgage-backed securities and credit default swaps a few years ago. Who knows what bad decisions they might have made ...*"

The Dowse Grill is information and opinion from Dowse CSP, advisers on corporate sustainability, responsible investment and related actions. For all enquiries contact [thegrill@dowse-csp.com.au](mailto:thegrill@dowse-csp.com.au), or call us on 02 8249 8103.

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