

## The Dowse Grill – October 2007

Money talks. Which is why I spend so much time looking at the data on whether investing in 'responsible' companies pays, and how companies might present that case internally and externally. In [Demystifying Responsible Investment Performance](#), launched yesterday (Oct 25) the excellent **UNEP Finance Initiative** reviews the research. Of 30 academic papers and analyst reports, 13 are positive, 14 are neutral and 3 are negative. The conclusions are pretty clear – there is no penalty for investing in companies that are striving for positive social, environmental and economic performance, and the potential for upside if you do it right. Like all things, though, there is potential downside if you do it wrong.

Here's some other bites from The Grill on doing it right. 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. Climate change is today's major issue, and sustainable investment is where the market really decides.

### Carbon

- I'm ducking the election for now. The government's record stands. The issue did provide the funniest moment of **the Combantrin Debate**, though – Mr Howard claiming credit for the US being on the verge of a new mood on climate change. And there I was thinking it was the 2008 US election.
- **Biofuels** are touted as a major plank in the US (and Australia's) fuel security and climate change strategies. But the concerns are many, from biofuel crops displacing food sources and natural habitats, to questions over whether its use really does reduce greenhouse emissions. A team of scientists from the US, Scotland, Germany and Austria have [found](#) (and testified to the US Senate) that using rapeseed fuel generates 70% more greenhouse gases than fossil fuels, and maize biofuels produce 50% more. These are the major biofuel sources in Europe and the US respectively. The sleeping factor is the nitrous oxide that exudes from the crops' fertilizers – N2O has a warming effect 296 times greater than CO2 by volume. Don't take biofuels as a sure fire element of your carbon plan – insist that your supplier can verify its worth on a lifecycle analysis. US\$4 billion in corn ethanol subsidies has been a strong incentive for the biofuel lobby to sing its environmental merits.
- The most useful annual data on what companies are doing on carbon management, the **Carbon Disclosure Project**, has released its [5th Report](#). In all, 383 of the FT500 companies (77%) responded. Among the juiciest datapoints, 82% of them thought climate change presented commercial opportunities and, Janus-like, 80% thought there were commercial risks. Further, 79% disclosed their greenhouse data, 76% had emissions reduction programs with targets (up from 48% last year), 64% had allocated board or senior management responsibility for carbon management, and 46% disclosed strategies for emissions trading. Note though the strong bias of the survey – a company responding to the CDP is much more likely to have these things in place. Across the FT500, the figures would be much lower. Outside the FT500, action would be much rarer still among smaller companies.
- Is it still poor form to be alarmist? The latest [CSIRO report](#) on what will happen in Australia caused headlines and nifty graphics. But the CSIRO has been characteristically conservative compared to its international peers. Note that the IPCC report released in February was based on research released in 2005. The published

science since then has hammered home past readings and future scenarios that can only be described as dire. Did any one see the Marty Feldman weatherman skit from the 1970s? We need him back.

- 12,000 miles can be another world away. The **UK Tories** have declared in their “[Blueprint for a Green Energy Economy](#)” that wealthy nations including Britain should be aiming for a 80 percent cut in emissions by 2050, and committed to a legally binding UK target of 25% reductions by 2020. Yes, that’s 80 rather than 60, binding rather than aspirational, and Tories rather than Labour.
- The UK is also pushing hard towards **personal carbon accounts**, about which [The Guardian](#) asks the telling question – “A progressive climate change solution, or a pain in the arse personal intrusion?” Rest assured the intrusion will be well explored overseas before it arrives here. In its first public demonstration, RSA Carbon Limited and 60 ‘keen-green’ residents reduced their nominal personal emissions by 23%. The major problem in the test – that most didn’t want to sell their emission rights, at least not to the “SUV-driving bloke opposite” – would presumably not occur in the anonymous world of exchange-based trades.

## Brand

- **Brand Tasmania** has taken a solid hit with the approval of the Gunns pulp mill. The Turnbull conditions are undoubtedly the strictest ever imposed on an Australian facility, and include two additional layers of regulatory oversight. But the Minister for Environment and Water Resources could only do what he could under the EPBC Act. Gunns investors might share the public concern over the mill’s reliance on diminishing native forests that surely don’t need to be turned into paper in Japan. And if the Japanese buyers are forced by global NGOs to restrict themselves to sustainable plantations? Given global commodity prices for pulp, all depends on the forests being ‘priced’ right ...leading to the big hit to Brand Tasmania: governance issues at Forestry Tasmania and the State itself.
- Companies ignore human rights issues at their peril. **Toyota and Honda**, leaders in environmental innovation, have been [struck from the FTSE4Good index](#) (the UK’s lead ethical index) for not having met its human rights criteria. The mandatory criteria (in brief) are public support for ILO core labour standards or the UN Global Compact, human rights responsibility with a Board member or a CEO report, clear support for the Universal Declaration of Human Rights or an equally strong human rights policy. In addition, the company must have two of the following in place: procedures to monitor human rights compliance and remedy breaches; global employee training; consultations with local stakeholders in “countries of concern” and a human rights impact assessment. It is hard to imagine companies with such valuable brands not qualifying here, but they haven’t, along with 22 other global names including JC Penney, Target and Texas Instruments.

## Innovation

- The Pacific Institute (US) has released a useful [report](#) on building an organisational **water strategy**. The approach is comfortably similar to that used for other environmental resource issues (baseline, risks, prioritise, innovate, invest, multi-stakeholder initiatives etc). What I found interesting was that many examples of water ‘problems’ were drawn from Australia, but none among the many constructive

examples of 'solutions'. Given population growth, climate change and re-regulated water markets, a water strategy is surely next in line after carbon for Australian companies, if not before.

## Networks

- Corporate-NGO-public networks work best on specific issues that have broad public support. The vulnerability of the **Great Barrier Reef** to both climate change and nitrogen run-off is surely one such issue. While monitoring efforts are expanding, serious action to protect the Reef seems a distant prospect, with the tourism industry that depends upon it strangely silent. Between them, the Great Barrier Reef Marine Park Authority and the AGO seem to be spending only \$2mil on a 'Climate Change Response Program' – with not a single company listed as a partner. Nor does climate change rate a mention on the Australian or Queensland Tourism sites. As a thought-starter, here's a good international [article](#) on the (in)ability of tourism ventures to join the dots between climate change and the attraction they're offering. Not even an Alaskan glacier visitors' centre (now standing bare on a moraine) ventured to mention why its visitors had to take a ½ hour ferry to see ice.
- Marks & Spencer is one of the UK **retailers** leading the drive on low-emission innovation. Its CEO [Stuart Rose](#) details the scope of "Plan A" in a useful interview for The Climate Group – "Plan A will see us take action across 35,000 product lines, involving over 2,000 factories, 10,000 farms and 250,000 workers, as well as engaging our 75,000 employees and the 16 million people who visit our stores each week." It includes cutting energy use by 25%, using green energy, going carbon neutral, relabelling clothing to encourage low energy washing (75% of an item's carbon footprint is its washing), new teardrop lorries to replace standard cab-trailers (20% more fuel-efficient, and a marketing statement on the road if ever I saw one), supplier education, etc etc. Why is he doing this? "A survey we carried out showed that 73% of people have changed the way they behave in the last 12 months in response to concerns about the environment. They expect us to do more to protect our planet for the future, but many also want to reduce their own environmental impact as well. I believe that if you don't address this change in priorities now, you will lose customers' trust and that can only be bad for your sales and bad for your brand in future."

## People

- In **business travel**, there's a constant battle between the time/money/quality of life/environment red corner, and the face-to-face/real deal/relationships/make-it-happen blue corner. For those who want to keep the balance, a new free [Icarus](#) toolkit helps decide the eternal 'to-fly-or-not-to-fly' quest, and to keep cranking emissions down as you do so. Globally, air travel is expanding fast as wealth increases – so much so that the IPCC accepts that emissions from air travel will treble by 2050. There's little anyone can do about it, and it's the only sector for which the IPCC concedes emissions growth.
- The last Grill roasted **pokies**. Two days later, Russ a'Court put Souths Leagues Club's \$7m annual pokie revenues on notice, and the matter became national. I claim no connection, but great to see. Would be even better if the issue didn't now disappear again.

## Investment

- Investors are making more money out of clean energy, and wanting more options. Reacting to “shifting investor sentiment”, HSBC has launched three indices that track the stock market performance of companies whose strategies include responses to climate change. The [HSBC Climate Change Index](#) can be tracked back to 2004, since when it has outperformed the benchmark MSCI World Index by roughly 70%. HSBC is also offering three other indices that target low-emission energy, energy efficiency, and water, waste and pollution controls. I’ll invest when I can find a shekel.
- Investment analysts may have a different attitude to sustainability issues than the corporate **investor relations** teams who talk with them. From a trans-Atlantic study by [Thomson Financial](#), 36% of surveyed investors said they considered corporate responsibility criteria “very important” when making investment decisions, compared to just 8% of investor relations officers. Yet more than two-thirds of investors would go to the investor relations department for info on corporate responsibility actions, compared to just 14% who would go directly to the corporate responsibility officer. The gap may be due to the more intense focus that the financial services sector has had on sustainability than many other sectors. So is your investor relations team up to speed on why your sustainability approach adds value and investor appeal?
- The global **market for carbon emissions** is, in human terms, a toddler with the potential to play left wing for Brazil / the All Blacks / the Kangaroos etc etc. Just 2 years old, it’s now worth US\$36 billion a year, and has been growing exponentially (in the mathematical rather than journalistic sense). Sure they’re sorting out the accounting rules – but it’s taken the AASB over 120 years to do so for financial accounting, and they’re still fiddling. Global investment in carbon funds is fast approaching annual global aid (US\$62 billion). If you’re a developing nation wanting infrastructure, carbon funds rather than aid donors or international quangos are now the way to go.

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