The Dowse Grill, Sept 2007

Climate change policy

- **APEC was good for much-needed dialogue** between the US, Australia and China on climate change. It advanced the AP6's cooperative efforts. **But little more**. Two things stand out – 'aspirational' targets as being just that, and President Hu Jintao's insistence, along with the rest of the world, that any post-Kyoto agreement will be made through the existing UN Framework Convention on Climate Change. The hopes of PM Howard and President Bush to reinvent the wheel before they leave office are very slim indeed. Keeping tabs on the UNFCCC's negotiations on post-Kyoto is and always has been the best scenario planning you can do.

- You will recall (of course!) that the Garnaut Climate Change review is continuing… The good news is that land use and **agriculture emissions** are a focus of the review. At 16% of national emissions, agriculture is a bigger source of emissions than transport – belching cows are as much a part of the problem as Toorak tractors. The papers available from the agriculture public forum are a treat.

- **What's possible in emission reductions?** No one suggests cutting emissions by 60% by 2050 will be a walk in the park. But let's put the target in perspective. That's a 1.2% reduction per year in absolute terms, or 2% annual reduction in 'carbon intensity' – ie allowing for growth in GDP. Most firms with a reasonable plan in place are finding these reductions (absolute or in intensity) achievable – to name a few: BHP Billiton, Blue Circle Southern Cement, Coca-Cola, Diageo, Ford (in its manufacturing processes), Proctor & Gamble, Visy and Westpac.

- **Who's target is it anyway?** It's a target for the developed world – basically the OECD. Overall, the aim is to *stabilise* global emissions by 2050. The OECD reductions allow for emissions to double in the developing world. There's no way to stop that if you want China and India to continue to help drive global economic growth. And you do want that, don't you?

- The **NSW Greenhouse Gas Abatement Scheme is dying, right on time**. Carbon markets cannot exist without regulation – unlike markets for physical goods or indeed their derivative markets. The NSW scheme, now folding for an oversupply of questionable abatements, has served its awareness raising and technology-prompting purposes. The demand for a national scheme will rise in its absence. The likelihood of the state-based National Emissions Trading Taskforce guiding the ultimate national design will also increase with a change in government.

Networks

- **Social partnerships** are an essential part of a sustainability strategy – it's hard to make a real difference on a social issue without harnessing the trust, energy, expertise and experience of those who have made it their life's work. A recent UN survey of 445 international companies suggests that 61% are partnering with NGOs for their social investment, and 88% of the others said they will be soon. But there's limited experience in the set up and governance of these partnerships. At best, they should be subject to the same rigour as any other investment – think objectives, accountabilities, exit strategies, success factors and monitoring, risk mitigation etc. A helpful new UN guide has been published, with plenty of case studies, to help make these partnerships a success. We can also help you tap into the CSIRO's Sustainable Communities Initiative, which is building an impressive set of research and partnerships on these models.

- The **Australian Business and Climate Group** is a new business voice in town. The interest here is in the **relationships that are developing** between these partners, and their resulting access to ideas on climate policy and technology innovation. The ABCG report is no less strident than last year's Australian Business Roundtable on Climate Change in calling for an emissions trading scheme, but calls for even more

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support for low emissions technologies. Still, the ABCG expects only an aspirational national target on emissions, reflecting current policy realities. From the earlier Roundtable, Westpac, Swiss Re and BP remain, and Anglo Coal, Rio Tinto, Santos, Deloittes, VicSuper and Mirvac have joined in – still largely reflecting the mining/financial sector leadership in climate and sustainability issues in Australia.

Brand

- Ford is also playing catch-up. Toyota and BMW were the only major marques to increase their US market share between 1990-2005, and also the only ones to cut their emissions (average across fleet) over that time. A coincidence, or more evidence of innovation driven by asking different questions. BMW – market up 300% while emissions down 12%. Toyota – market share up 7 points while emissions down 3%. GM market down 10% while emissions up 3%. Ford market down 6% while emissions up 5%. DaimlerChrysler market down 3% while emissions up 5%. And Honda, with all those little cars, saw emissions up 4.4% because of increased truck sales. Does that suggest future re-branding of lines to maintain the 'green' credentials of the megabrand? What industries will follow?

People

- Forget the fence – I'm joining those who think we're kidding ourselves if we treat **gambling** as just another form of entertainment. Where it makes sense as part of their sustainability strategy, it may be an area ripe for companies to join with governments and NGOs in tackling the issue. The Productivity Commission reports that Australia's 130,000 problem gamblers deliver 33% of industry "revenue" – that's $5.4 billion, or **$41,500 a head, each year** from people who can least afford it, transferred to governments and to people who least need it. (No, I can't quite get my head around that figure either.) "Spending" on the pokies has risen fivefold to over $10 billion in the 15 years to 2005, while more communal forms of gambling (races, lotteries etc) have grown little or declined. As all those bleeding hearts at the Commission say, this is not a natural market outcome, but the product of regulation. That's before we get into the state fiscal dependencies…

Innovation

- As the saying goes – '**the stone age didn't end because they ran out of stone**'. Ford's Ontario plant has patented a Fumes-to-Fuel system, after testing it at its Dearborn and Michigan truck plants. A fuel cell converts fumes of CO_2, nitrous and sulphur oxides, and volatile organic compounds into 300kW energy. Energy from paint. Go figure.

- **The world is awash with cash**, so it's no surprise that for 'clean-tech' there are more funds available than can find a home. Putting aside any investment opportunity here, the time has passed for simply accepting the standard grid offerings of power sources. Being aware of and testing some low-emission options would be good portfolio practice, especially when brand, technology and network advantages are added.

- In that vein, fascinating to hear **Shi Zhongreng** (head of Suntech Technologies, China's 2nd richest man, an Australian citizen and an amazing story), say that solar energy will be price competitive with conventional sources in 10 years (8 in some reports). The Owen Inquiry confirming that "Carbon Capture and Storage (CCS) is being actively researched but is unlikely to be developed at utility scale for incorporation in baseload plants until beyond 2020". Would be an interesting side bet…

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