



World Business Council for  
Sustainable Development

Executive Member Update

April 2010

Dear Council Member,

### What risks are worth taking ?

The eruption of the Icelandic volcano, Eyjafjallajökull, was different from other major natural disasters in the past. No lives were lost, but it impacted a core element of the modern way of life in the rich world – the freedom to travel and source oneself of goods from all parts of the planet.

It also revealed both a poor understanding of the consequences of the forces of nature and weak planning for how to mitigate and adapt to the societal consequences of these forces.

The climate change simulation models, which are being criticized for being inadequate, look to me like wonders of sophistication compared to how we measure and simulate the much more mundane issue of volcano ash clouds and its impacts on airplane engines.

We have also created a more interconnected global society where the eruption of a small volcano on a tiny island in the North Atlantic has the power to shut down the global transport system. And volcanoes erupt with fairly certain, if long, intervals.

Imagine the political situation if it were not your airplane trip home that was disrupted but rather a life support system such as food and water.

### What are the lessons learned ?

We need much more of a risk management attitude as concerns disruptions of modern life by natural disasters. In former times, during the World Wars, mankind was capable of creating enough damage on its own without the help of nature. With less risk of these types of wars and with nuclear proliferation hopefully being managed, we seem to have downplayed the vulnerability of the infrastructure on which modern lifestyles depend.

In the week following the volcano eruption, we saw how retailers and manufacturing plants were starting to lack products, materials and components. The concept of long global supply chains has many risk elements associated with it.

During the last year, the financial crisis demonstrated the risks associated with complex systems where the value of default insurances is difficult to assess even if you have bought and paid for them.



Another key issue is risk-return evaluations. Sustainable development is very much about managing future uncertainty. How much are we willing to invest and when to avoid some future disruptions of ecosystems, societal infrastructures or social stability?

Risk-return equations are different for different parts of society. What looks like a profitable undertaking by society might be seen as unattractive by companies or individuals or as highly inadequate by a financial investor with a more short-term view. This is very much behind the frequent lack of understanding between governments and business on what is an acceptable risk-return balance for infrastructural investments in developing countries or why support from governments for risky technology development and deployments might be needed.

The risk-return issue has also been the most contentious part of the Stern Report on the Economics of Climate Change. Nick Stern chose a low discount factor (time value of money) which made investments today more profitable compared to a calculation by a traditional business investor. A discount factor of 8% makes any return beyond 10 years worth zero in today's money.

### **What are the consequences for the WBCSD's work ?**

Our Ecosystems Focus Area looks at the value of ecosystems services and how companies could measure and evaluate their dependence on these services. We should probably look more at the consequences of serious disruptions of these services.

I was a founding member of the IRGC, the International Risk Governance Council, a multi-stakeholder platform with a scientific focus. We should consider if WBCSD ought to start an initiative to look further at business disruptions and the consequences of disturbances of societal infrastructure. A special part of this is connected to Sustainable Value Chains, which we have recently launched as a systems solutions project focused on fast-moving consumer goods. The preparedness of governments on how to manage these types of disruptions of a core global infrastructure system – international air travel – seems rudimentary at best. It took the better part of 5 days before the EU Transport Ministers had a serious telephone conference on joint actions.

If we look at the consequences of climate change and other ecosystems degradation, the volcano eruption looks “like a walk in the park”. The comforting fact might be that the climate change and ecosystems degradation will hopefully be more gradual and give us more time to adapt. However, the consequences will be much more far reaching and politically challenging to handle.

How to look at the differences in risk-return balances between different parts of society seems like a topic that WBCSD should consider for further work. How do we express a business position on this ? What is an acceptable risk adjusted financial return for companies ?

As I am working on a draft WBCSD Strategy 2020 to be presented to the ExCo on June 2, I am struggling with how the WBCSD should respond to the post-Eyjafjallajökull world challenges. I welcome any input to my deliberations.



### **The Green Race**

I enclose an op-ed by Bill Gates and our former Chairman and Council Member, Chad Holliday, on the need for the U.S. to do more to win the Green Race through investment in energy innovation.

### **New Members**

We are delighted to welcome Komatsu (Japan) as a new member.

### **Cement Sustainability Initiative (CSI)**

After more than 10 years as the Director of the CSI, Howard Klee will be retiring from full-time activity around the end of 2010. We have initiated a search for his replacement and would welcome your thoughts and suggestions should you know of a qualified candidate among your respective teams. The CSI has been one of the WBCSD's most successful programs; we believe the next director is a high-caliber individual from one of our member companies. For inquiries and interest, please contact Margaret Flaherty at [flaherty@wbcسد.org](mailto:flaherty@wbcسد.org) by June 5.

### **Shanghai World Expo & WBCSD 2010 Council Meeting**

The Shanghai World Expo has now opened. When it closes on Sunday, October 31, the WBCSD 2010 Council Meeting will open the following day, on Monday, November 1st. We hope to see you there.

I was in Shanghai a few weeks ago and had a preview of the Expo. The pavilions and other structures are truly spectacular. The mayor of Shanghai, Han Zheng, is looking forward to welcoming us to his city and he hopes we can come in time to enjoy the final days of the Expo.

Best regards,

A handwritten signature in black ink, appearing to read "Bjorn Stigson".

Bjorn Stigson  
President

Attachments: 1 ment.