World Business Council for
Sustainable Development

Executive Member Update

June 2010

Dear Council Member,

## "Is there life after debt?"

In my Executive Member Update for May, I wrote about public sector debts and the lack of a proper accounting model for countries.

In its June 26 issue, *The Economist* had a special report on debt and the challenging situation that many economies are facing. The report states that "for the developed world, the debt financed model has reached its limit … each government will have to find its own way of reducing the burden. The battle between borrowers and creditors may be the defining struggle of the next generation."

A basic problem is the poor state of public accounting. *The Economist* quotes Moody's, a rating agency, as saying that "the state of public-finance accounting is extremely rudimentary relative to private-sector accounting."

Substantial sums of debt are not recorded in the statistics of debt burdens. This is particularly true for future pensions and healthcare costs for aging populations.

*The Economist* report states "A 2009 report of the Cato Institute in Washington, DC, estimated that the average EU country would need a fund worth 434% of its GDP, earning interest at the government's borrowing rate, to meet such liabilities; alternatively, it would need to save 8.3% of its GDP each year. Neither seems realistic. The only answer is to cut future benefits. But the elderly form a powerful voting block, with a higher turnout than their children, who will pay the bill."

The environmental debt that needs to be dealt with in the future related to degraded ecosystems and loss of critical services, like fresh water, also does not appear in public balance sheets. Nor do we have debts for the radical transformation of the global energy system and adaptation to climate change. Add to this the funding requirements to alleviate poverty and build functioning urban infrastructure for an urbanized world and you have a rather challenging picture.

The Rio+20 process and the Summit in 2012 will clearly be colored by these financing concerns.

## "Deep pockets" will be asked to pay

Big business, perceived as having "deep pockets", will be targeted as we can see from the oil spill disaster in the Mexican Gulf. BP is pushed to pay, irrespective of what the formal legal liabilities might be.

When major societal political interests are at stake it is very difficult for big corporations to win the debate against politicians who bring the issue to the "court of public opinion".

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*The Financial Times* made the statement in a recent article, "Oil has become the new tobacco" which underlines the challenge for companies going forward.

There will be other environmental problems surfacing, I am certain. We have pushed the limits of technology not only in deep-water oil drilling but also in other areas. And there are other risks like the financial innovations made possible by modern information technology and demonstrated in the financial crisis.

Overall, for governments with heavy debt burdens it seems likely that big business with perceived "deep pockets" will be a target. We need to start some serious work on these matters to be better prepared for the challenges that we will meet going forward.

## Other oil spill consequences

It is likely that perceptions of risks in new energy ventures will be more of a challenge in the future. There will be more questioning of the safety of technology solutions and growing demand for risk assessments and assurances.

This will impact not only oil but also other technologies like carbon capture and storage.

A further consequence will be higher energy prices and a push for a faster transformation of the energy system, not the least to reduce oil dependence.

All of this will cost but it will also underpin an even faster Green Race about who can deliver the more resource efficient and less polluting technologies and solutions.

## "The only way out is growth"?

This is the message in the headline of *The Economist* article mentioned above. We know from the Vision 2050 work that if 9 billion are going to live well within the limits of the planet we need to find ways to grow. Growth, yes, but with lower resource use and impacts as well as changing lifestyles and consumption patterns to lower the consumption of "stuff". I would rephrase *The Economist* headline as "The only way out is sustainable growth", or Green Growth as it is called by some.

This is manifesting itself in The Green Race between both countries and companies that I have repeatedly been promoting.

In June, a group of US business leaders including Chad Holliday, Bill Gates and Jeff Immelt, launched an initiative called the *"American Innovation Energy Council".* They presented "A business plan for America's energy future" to … "reestablish America's energy technology leadership … and to foster economic growth and create jobs."

Another example is Germany. In June I met the Committee of State Secretaries chaired by Minister Ronald Pofalla as part of the Peer Review of German sustainable development policy that I recently chaired. There is a clear recognition that Germany must upgrade its planning and actions to stay in the lead group of countries in The Green Race.

The CCICED (The China Council for International Cooperation on Environment and Development), of which I am a member, has initiated two new task forces: one for Green Growth and one for Sustainable Innovation. I will be part of both these task forces which are to present recommendations to the government by the end of 2011.

Finally, during June we had discussions with the OECD about a deepened cooperation connected to their Green Growth Initiative which has been agreed on by the OECD Council of Ministers.

The good news is that these actions signal that The Green Race is gaining momentum and speed in leading economies.

## Business & Development

The Green Race is, however, not yet a driving force for the majority of the poorer countries. It is very timely that our Development Focus Area has launched a new *Business & Development Report*. The document outlines the key challenges and opportunities in developing countries and emerging economies, and what they mean for business leaders striving to succeed in a sustainable world.

## UN Summit on the MDGs, September 20-22 in New York

The MDGs, Millennium Development Goals, to attain by 2015, were agreed in 2000 by the UN General Assembly.

At the UN General Assembly meeting this year in September, focus will be on taking stock of progress as we are now 10 years into the implementation process.

The WBCSD, together with partners, is convening a high-profile event on September 21 focused on “Accelerating Progress Towards the Millennium Development Goals (MDGs) Through Inclusive Business”. Inclusive Business, which was launched as a concept by the Development Focus Area, has become a brand in the effort to expand access to goods, services and livelihood opportunities for low-income communities in commercially viable ways.

## WBCSD Council Meeting 2010, November 1-2 in Shanghai

Preparations are continuing for our Council Meeting and we are seeing strong interest from both Chinese members and foreign member companies active in China. We are also receiving expressions of support from both representatives of the Chinese government and the Mayor of Shanghai. We are looking forward to seeing you in Shanghai.

## New Members

We are delighted to welcome on board the following new members: Acer Group (Taiwan), Cementos Argos (Colombia), Korn/Ferry International (United States), and Danisco A/S (Denmark).

With kind regards,

Bjorn Stigson
President