

**Economic Opportunities for the United States in the Wake of
Global Agreements on the Environment**

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It is always a pleasure and an honour to share a podium with Maurice Strong. It is also entirely appropriate that I do so, as Maurice is to blame for your having an excuse to put me on this podium in the first place.

For it was Maurice Strong who in mid-1990 asked me to serve as his principal advisor for business and industry, with the specific tasks of presenting a global business perspective on sustainable development, and stimulating the interest and involvement of the international business community. Maurice is one of those rare individuals who has achieved great success in two very different spheres – in his case in the world of international business and the world of international politics. I suspect it was his business side which told him that a cautious Swiss industrialist like myself would want to spread the risk of such a challenging assignment as much as possible.

I did just that, inviting business leaders from many regions of the world to become members of the Business Council for Sustainable Development. Almost everyone I approached was prepared to join, and we ended up with 48 members. I believe that their efforts represent the first time a group of business leaders has participated actively in the preparatory process of a major United Nations conference, and I hope that this participation sets a precedent for the future. Sustainable development is not a fixed goal, but a process of change in which the direction of investments, the exploitation of resources, the orientation of technological development, and the course of trade all become consistent with present as well as future needs. Business must play a major role in this process, or it simply will not happen.

We have organized 50 meetings in more than 20 countries, and we are producing a book called Changing Course: a Global Business Perspective on Development and the Environment. This book will be published in early May and will also serve as our report to the Earth Summit. Our Latin American members are producing a supplementary book on issues peculiar to their region, as are our African members. There is now a BCSD in Malaysia, Nigeria, the Middle East, Argentina and there are similar activities in India and Thailand. I thus feel we have achieved Maurice Strong's wish that we stimulate the interest and involvement of the international business community in UNCED and in sustainable development.

We have also been active in communicating our findings and recommendations to past meetings of the UNCED Preparatory Committee. Indeed, later this week, BCSD members will be speaking to heads of PrepCom delegations in New York. We have arranged a series of briefings on Changing Course to business

and political leaders all over the world, in hopes of spreading our message as widely as possible before UNCED. I am pleased to have a chance to discuss some of our findings with you tonight.

Our basic theme is that open competitive markets provide the only possible foundation for sustainable development. Such markets encourage innovation. They minimize resource use, provided those resources and the environmental services we use are properly priced. They provide greater equity of opportunity than any other system. Also, open competitive economic systems are inextricably linked with open, competitive, democratic political systems. Eastern Europe and the former Soviet Union have achieved the beginnings of democracy first; they are now seeking open markets. The dragons of Asia achieved relatively competitive markets first; now they are moving toward more democratic political systems.

Yet even the best such open markets are not perfect. If they were, we would not be suffering widespread environmental damage, exacerbated by widespread poverty and inequity of opportunity. Communism collapsed because it failed to tell either economic or environmental truths; market economic will collapse unless they can tell environmental truths. Our markets are distorted by the under-pricing of environmental resources and services; they suffer from policy failures such as subsidies which actually encourage environmental damage.

Much of our book is about the sort of policy framework business needs to use the market to move towards sustainable development: increased use of economic instruments such as pollution charges and tradeable permits; freer trade; more access to information to guide capital market investments, and so on. But I do not want to talk policy tonight; I leave that to Maurice. I shall talk business. I shall attempt to explain why it makes good business sense – right now – for any corporation to begin to move in the directions directed by the goals of sustainable development. There are many trends and movements progress which make this so.

We in the BCSD have coined the term “eco-efficient” to describe companies which add maximum value with minimum resource use and minimum pollution. We have also in our book urged governments to seek the most efficient and cost-effective mix of command-and-control regulations, self-regulations and economic instruments, but to rely more on economic instruments. These are more cost-effective and encourage continuous improvements and technological innovation. The main goal of such instruments is to implement the Polluter Pays Principle, agreed by OECD governments as long ago as 1972.

Our advice that more use be made of economic instruments is hardly radical. Most governments of Europe and North America are seeking ways to rely more on such instruments. That is the first trend to which I wish to draw your attention. Companies that are eco-efficient will be best placed to benefit competitively from new instruments such as pollution charges, tradeable permits, differential pricing and the like

Another trend involves changes in liability. This is a trend most obvious in the United States, but increasingly felt in Europe. Laws on financial liability for past and present pollution are tougher now than ever before. I predict that banks will soon require environmental audits, perhaps even third party audits, from companies

seeking loans. Insurance companies are also becoming more aware of companies' environmental liabilities. They are also becoming aware of the damage caused by unsustainable development, as climate change may make natural disasters such as floods, storms and droughts more frequent and more severe. Given the roles of banks and insurance companies in the capital markets, eco-efficient companies will become more highly valued on the capital markets.

The third trend involves public perception on companies. Today the so-called "Green consumer" is concerned with the environmental impacts of businesses and their products. This concern is often relatively unsophisticated, in part because little information is available on the environmental impacts of products over their entire life-cycle, from raw materials and manufacture through to disposal or recycling. But the public is demanding more such information, and the eco-efficient companies are supplying it. In our Business Council debates over what we should say about making information public, our members did not want to be required by law to release more information than at present. But they agreed that it was better for them to do it voluntarily, making a virtue of openness, rather than be environmentally audited by outsiders. The best companies will thus by example apply pressure on the others to be more transparent.

Today consumers and the public demand environmental soundness, but I predict that within five years they will be requiring of companies soundness in terms of sustainable development, which of course has an environmental dimension, but includes concerns for equity, poverty, social investment, and effects upon future generations.

Thus eco-efficient companies will be more competitive as more economic instruments come into play; they will become more highly valued on the capital markets as environmental damages are increasingly translated into financial liabilities, and they and their products will be more highly valued among consumers and the general public as concern for eco-efficiency mounts.

Does any of this sound convincing to you? Or do you hear it as wishful thinking? Surely, you may argue, in the real world money spent on "protecting the environment" makes companies less, rather than more, competitive. Let us look then at the Real World – and given the venue, I had better start with a US expert.

Having researched various aspects of competitive advantage among nations, Harvard Business School Professor Michael Porter reported: "I found that the nations with the most rigorous (environmental) requirements often lead in exports of affected products. The strongest proof that environmental protection does not hamper competitiveness is the economic performance of nations with the strictest law." He mentions the successes of Japan and Germany, but he also includes US export performance in precisely those sectors subject to the highest environmental costs: chemicals, plastics, and paints.

Let me give you an example from the real world which – striking as it may be – is less well known than those about Japanese steel and cars. I am talking of the cement industry for which energy constitutes about half of total production cost. The US cement industry has a population of plants which is more than 30 years of age, which consumes about twice the amount of energy per ton of cement produced as compared to a European average, and the US industry transports the cement 2-3 times the distance – mostly on road – compared to Europe. The Technology to improve energy efficiency is known and readily available, but without the appropriate incentive – energy price signals in this case – the industry will obviously not make the necessary investments. A consequence of this situation has been that more than half of the US cement industry was taken over by foreign corporation over the past 10 years!

Such comparisons may reverse our view of the “blessing” cheap energy has been to the United States. It has played its role in US prosperity, but it has also made US companies less competitive globally. As we move toward a global “Law of the Atmosphere”, energy prices here must rise. The United States has a GNP about twice as big as that of Japan, yet it produces 25 per cent of the planet’s carbon dioxide emissions, compared to five per cent from Japan. The United States, given its technological expertise, will find it increasingly difficult to justify this discrepancy. Higher US energy prices will be painful, as US energy consumption per person is two and a half that of Japan and 1.8 times as much as Europe. So more expensive energy will mean more expensive US products. The US may thus find itself in the ironic position of buying eco-efficient equipment and processes from Japan and Europe so as to be able to compete with Japan and Europe.

For that is another benefit of eco-efficiency. It not only decreases resource use and pollution, it produces new products which can be marketed. You may have read in Business Week recently how Nippon Steel, a BCSD member, is reducing waste by converting coal ash to zeolite, a mineral used in water treatment. Several Japanese energy companies are working on a project to convert sulphur and nitrogen oxides – pollutants from fossil fuel burning which are the chief causes of acid rain – into raw materials for fertilisers. Already the technique has been licensed to research groups in the United States, Poland and Germany. Japan is forming joint ventures around the globe to export these and other eco-efficient technologies.

As an industrialist, I naturally resist government interference with business. But recent experience raises the question of just how governments can best help industries towards improving their global competitive positions. Britain was once famous for many makes of fine cars. British governments have traditionally been “friendly” to the domestic auto companies, requiring little from them in the way of improvements in fuel and emissions efficiency. Innovation dried up and exports declined. Today the British car industry has been reduced to a few luxury brands. On the other hand, the “friendliest” thing the US government may have ever done for the US car industry is to require of it improved fuel use and emission standards -requirements much resisted by the industry.

As I said, I am an industrialist. Not only that, I am the fourth generation of a Swiss industrial family. I am not a radical, a maverick or a revolutionary. Nor are the other 47 members of the Business Council for Sustainable Development, men and women who have the daily responsibility of running some of the world’s most

important, and most prosperous firms. Yet we would be poor business leaders indeed if we did not respond to a revolution which we found ourselves in the middle of. The concept of sustainable development, and the obvious need to create markets which reflect environmental realities and which do not rob future generations, are causing a new industrial revolution. Those who do not respond, who do not change course with changing conditions, will eventually be seen in the same category as those manufacturers who continued to rely on sales of horse-drawn carriages after the birth of the motor car. I believe it was the United States which gave the world the expression “No pain, no gain”. It applies perfectly to the “sustainable development shake-out” now in progress.

We of the BCSD have produced a 400-page book – rigorous enough to have been accepted by a leading US academic publisher, MIT Press – which states these basic truths and offers more than 35 case studies of companies responding to the sustainable development challenge. We are in a sense offering a hostage to both governments and to environmental groups. Either may read our book and say to us, “All right, if you believe it, do it!” We understand this, and are willing to accept this sort of pressure.

But we hope our book is also a source of pressure on governments and environmental groups as well as upon ourselves. We hope it will help governments to find the political will to create the frameworks in which business can be a force for sustainable development. We hope it will encourage environmentalists to become more sophisticated in their understanding of how markets and businesses operate, and thus to improve the sophistication of their advice and campaigns. Many of them have been helpful partners in the past, and will doubtless be more helpful in the future.

Eco-efficiency is profitable; it improves competitiveness; and it is personally satisfying to those striving towards it. Eco-inefficiency in today’s world is simply unethical. But eco-efficiency is still an act of faith – faith that the pain of change will lead to gains in the future, both personal gains and gains for one’s society and one’s offspring.

Those who care about society and its progress have learned to understand that business never operates in a vacuum. It interacts at many levels with society, and society is now entering a period of rapid and fundamental changes.

Business has developed remarkable skills in market intelligence to spot and to a certain extent predict changing demand patterns. It must also construct a system of “social intelligence” to spot, understand and interpret signals of change in development patterns. Those who are quickest to receive and act on such signals will have a great advantage over competitors who react only when changes in society become apparent in the form of changed consumer habits.

The environmental challenge has grown from local pollution to global threats and choices. The business challenge has likewise grown – from relatively simple technical fixes and additional costs to a corporate-wide collection of threats, choices, and opportunities that are of central importance in separating tomorrow’s winners

from tomorrow's losers. Corporate leaders concerned about deserving the salaries they earn must take this into account when designing strategic plans of business and deciding the priorities of their own work.

Sustainable development is also about redefining the rules of the economic game. We must move from a situation of depletion, waste, consumption, and pollution to one of conservation, and from one of privilege and protectionism to one of fair and equitable chances open to all. Business leaders will want to participate in devising the rules of the new game, striving to make them simple, practical, and efficient.

No one can reasonably doubt that fundamental change is needed. This fact offers us two basic options: we can resist as long as possible, or we can join those shaping the future. I am very pleased and proud to have had the opportunity to work with my fellow members of the BCSD, and with Maurice Strong and all his colleagues laboring to make the Earth Summit a success, as we have all chosen the more promising and morale rewarding option of participation.

Thank you