The Role of Government in Advancing Corporate Sustainability

Background Paper

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FOREWORD

This document was prepared as a working paper for the Environmental Futures Forum – an informal gathering of G8 country experts which was hosted by Environment Canada in Vancouver on March 11th and 12th 2002. The meeting was organized on the theme of "The Role of Governments in Advancing Corporate Sustainability". The conference design team, drawn from the Sustainable Enterprise Academy, York University, Toronto comprised Brian Kelly, Director of the Sustainable Enterprise Academy, Professor David V. J. Bell of the York Centre for Applied Sustainability, and ourselves.

The first draft of the paper was a product of Professor Bell's research; later it was shaped by both the preparations and the process of the Environmental Futures Forum. In its current form the paper also reflects some of the inputs of the G8 delegations to the EFF as well as some of the very rich discussions at the Vancouver meeting.

It was our pleasure and privilege to co-chair the Vancouver Environmental Futures Forum, so we would like to acknowledge the very focused and well prepared contributions of the G8 delegations, the support and encouragement of Environment Canada, the enthusiasm and commitment of the non-governmental and business participants, and the generosity of our keynote speakers. And as ever it was very rewarding working with close colleagues committed to advancing the cause of sustainability in government, business and civil society.

A fuller record of proceedings and presentations is available at the Environment Canada website (www.ec.gc.ca). We believe that the contribution of Professor Bell's paper will last well beyond the immediate need of the Vancouver meeting. For example, we are not aware of any other research which has attempted to classify trends and differing policy instruments for promoting sustainable enterprise across the G8. We hope this classification and analysis will be of value in years to come as governments weigh their options in facilitating more sustainable business practices. We also hope that the economic and business case arguments for sustainability will have lasting value for governments around the world, in addition to the very powerful cases and experiences presented and described by the G8 delegations.

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(with the assistance of Michelle Grinstein)

Abstract:

This paper describes the economic and business case for sustainable enterprise and then examines the role of governments in promoting corporate sustainability nationally and internationally.

(Note: The views and arguments expressed in this paper are meant for discussion purposes only and do necessarily reflect those of the Government of Canada or any other G8 government.)

INTRODUCTION

Governments at every level and in all regions of the world are beginning to recognize the importance of addressing the challenge of sustainability. Increasingly the language of sustainability is emerging in public policy discussions. Coming to grips with the challenges and opportunities of sustainability is an imperative that goes beyond domestic agendas. No country can be an island of sustainability in a sea of unsustainability. Equally, no single government, or any other organization, can easily create economic, environmental and social value through policy changes or innovative practices if global drivers and reward systems are working in the opposite direction. The global context must be factored in to the domestic policy agenda.

It has become increasingly evident that governments acting alone cannot achieve the far-reaching social and economic changes that sustainability will require. Though sustainable development began (in the report of the Brundtland Commission and the organization of the first "Earth Summit" in 1992) as a project for governments, the need to engage all sectors of society is now self-evident.

In light of its immense wealth and capacity, business must be part of the sustainability solution. At the World Economic Forum in Davos in 1999, UN Secretary General Kofi Annan invited world business leaders to "embrace and enact" the Global Compact involving nine principles covering topics on human rights, labour, and the environment. Some business leaders have even argued that as "the largest institution on Earth" "only business and industry can lead [toward sustainability] quickly and effectively."[2]

From this perspective, business must take the lead both domestically and internationally.[3] In relation to sustainability issues in developing countries, government's role is to encourage private enterprise to address the needs of the world's entire population (i.e. not just those fortunate enough to live in rich

[1] David Wheeler and Raymond Chiu provided very helpful comments on an earlier draft of this paper. John Besley, Daniel Drache and Fred Gorbet commented on the penultimate draft. This final version has benefited enormously from the discussions held at the EFF meeting March 11-12 2002; and the written inputs from the various G8 governments that participated in the Forum. Corina Hernandes and Nancy Sutherland provided assistance in formatting the document.
[2] Ray Anderson, *Mid Course Correction* (Atlanta: The Peregrinzilla Press, 1998) p.70
[3] According to the Environics 2001 Globe Scan poll of SD Experts, 35% of respondents believe that the leading role in achieving sustainability will be played by business. Next highest in the leadership hierarchy were NGO's at 30%. Government was in third place at 24%.

market economies) and to do so through a sustainability lens.[4] According to the World Business Council for Sustainable Development, "the business case for poverty reduction is straightforward. Business cannot succeed in societies that fail."[5]

One important aspect of the mission of Ministries of the Environment and other ministries[6] is to help foster and support sustainable economies/businesses. But what does this entail? What kind of economy is sustainable? What businesses are examples of "sustainable enterprise"?

In the business/economy context, sustainable enterprise includes any "business or economic activities" (whether these activities occur in the public or private sector, formal or informal economy) that are conducted according to principles of sustainability. Narrowing the focus to the "formal economy", sustainable enterprise features the production of sustainable goods or services by organizations that are transparent and responsible to all stakeholders (i.e. that operate according to some of the "process principles" of sustainability).

In summary, sustainable enterprises simultaneously create economic, social and environmental value while avoiding or minimizing damage to economic, social, or natural capital. They operate on principles of transparency and accountability.

This brings us to the central focus of the paper and the definition of the topic:

> **This paper focuses on the role of governments in promoting corporate sustainability, while noting the importance of promoting sustainability in the public sector (given that in most G8 countries the government is itself the biggest 'business' in the country).**

This last point bears further emphasis. In Canada, as in most other G8 countries, the government is the largest landowner; the largest fleet owner; the largest single employer; and the largest landlord or owner/operator of buildings. It is also therefore the largest consumer of energy, the largest producer of most environmental impacts; the greatest single source of support for social capital; and so on. A strong case can be made that governments should "walk the talk" by putting their internal operations on a firm sustainability foundation. Just as most governments try to conduct government operations and public enterprise according to sound business practices; sustainability principles should now be seen as integral to this process.

[4] See on this point C. K. Phahalad and Stuart L. Hart, "The Fortune at the Bottom of the Pyramid" in strategy+business - First Quarter, 2002. There are numerous examples of successful developing country private sector initiatives, or Public-Private-Partnerships, that have produced significant "triple wins" leading to economic, social, and environmental benefits. Of course there are also many counter-examples. The challenge for governments is to devise strategies that will produce sustainability successes rather than failures.

[5] WBCSD, "The Business Case for Sustainable Development," p. 11

[6] Though the EFF draws most of its government representatives from Environment Ministries whose focus is principally on the environmental component of sustainability, it is crucial to emphasize that sustainability is not simply about environment. The social dimension of sustainable development is of increasing importance to governments, business, and civil society. It cannot be omitted from full consideration in any discussion of sustainability. Equally important to the sustainable development agenda is the transformation of the economy required to achieve sustainability. Understood in its full context, sustainability is a "horizontal" project that requires "integrated decision making which must engage all government departments and agencies. The Government of Canada has recognized this imperative by establishing a Commissioner of the Environment and Sustainable Development and requiring all government departments and agencies to develop Sustainable Development Strategies. Regrettably, however, there is no requirement or provision for an overall Canadian government strategy. See Appendix A "The Importance of the Social Dimension of Sustainable Development and Integrated Policy Making."

WHAT IS THE ECONOMIC AND BUSINESS CASE FOR SUSTAINABLE ENTERPRISE?[7]

SUSTAINABILITY AND THE NEW ECONOMY

Efforts to move beyond the rhetoric of sustainability have sometimes lacked support because of the perception that a serious commitment to sustainability will limit a country's economic prospects. These sentiments have been echoed in many jurisdictions around the world, dating back to the rise of the modern environmental movement in the late 1960s. Businesses initially saw environmental obligations as an "added cost," and were very reluctant to go "beyond compliance" while often actively campaigning to minimize environmental regulation.

Whether or not sustainable development approaches might have posed a threat to economic prosperity in the "old" economy of the past, in the "new" economy, a number of factors have changed the sustainability equation.[8] In the new economy, failure to incorporate principles of sustainability into economic practices will (sooner rather than later) force enterprise to "hit the wall" either ecologically or socially. Dr. Karl-Henrik Robert, the Swedish founder of "The Natural Step" (TNS) illustrates this point with the concept of the "funnel":

The primary components of the environmental situation can be viewed as the walls of a giant funnel where societal demand for resources is one wall, or side, of the funnel and resource availability is the other side. As aggregate societal demand increases, and the capacity to meet those demands decreases, it is as if we are moving as a society into the narrower portion of a funnel. It is possible to change this situation as sustainable and restorative behavior opens the walls of the funnel and moves the sides further apart.[9]

As this last point suggests, vast opportunities will open up for those sectors and companies that are well positioned to move through the funnel to the "sustainable economy" of the future. These opportunities will be of such magnitude that sustainability-oriented business and industry, along with the information and communications technology sector, can form a cornerstone of the "next" or "new" economy.

The achievement of sustainability will mean billions of dollars in products, services, and technologies that barely exist today. Whereas yesterday's businesses were often oblivious to their negative impact on the environment and today's responsible businesses strive for zero impact, tomorrow's businesses must learn to make a positive impact. Increasingly, companies will be selling solutions to the world's environmental problems.[10]

In its recent analysis of *The Business Case for Sustainable Development*, the WBCSD (World Business Council for Sustainable Development -- a coalition of approximately 150 international companies united by a shared vision of achieving sustainable development through the simultaneous advancement of economic growth, environmental protection and social equality) concludes that "[p]ursuing a mission of sustainable development can make our firms more competitive, more resilient to shocks, nimbler in a fast-changing world, more unified in purpose, more likely to attract and hold customers and the best employees, and more at ease with regulators, banks, insurers, and financial markets."

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[7] Several of the following paragraphs are adapted from David V. J. Bell and Jonathan Myers, "Seizing the Opportunities, Seizing the Future…" prepared for NRCan in February 2001 and available at www.yorku.ca/ycas.
[8] The work of Michael Porter and his associates has generated the hypothesis that economic competitiveness benefits from strong environmental regulation.
[9] "What is the Natural Step?" (http://www.naturalstep.org/what/index_what.html).
[10] Stuart L. Hart "Beyond Greening: Strategies for a Sustainable World". *Harvard Business Review on Business and the Environment*. (Cambridge: Harvard University Press, 2000) p. 108.

The "Sherpa" division of the Toronto-based research and consulting firm Environics International offers the following definition of corporate sustainability: **"Corporate Sustainability means internalizing environmental and social responsibilities into a reinvented core business strategy in a phased manner that enables the corporation to deliver lasting benefits to current and future generations of shareholders, employees and other stakeholders."**[11] Some of the world's most dynamic and forward-looking companies provide evidence of the importance of sustainability for the new economy and demonstration of the positive correlation between stock price and economic and social performance.

By contrast many companies (including some that have begun to embrace sustainability) have encountered serious problems that underscore the impact on business of the social and environmental imperatives. For example:

- Several attempts were made to organize boycotts of Esso stations in Canada due to high sulphur content in Imperial Oil gasoline; and Exxon/Esso products in Europe have faced similar boycotts resulting in part from the company's opposition to the Kyoto Accord;
- Monsanto has suffered significantly in business terms following the debacle of having pushed ahead in the area of biotechnology despite strong warnings from stakeholders that they were embarked down an unsustainable path; indeed the company is now up for sale;
- Talisman Energy Inc. of Canada faced immense pressure from allegations that they were contributing to the civil war, and the resulting human rights violations, in Sudan, including downward pressure on share value.

These are but a few examples that point to a growing trend where companies must "do good" to do well.[12] It is becoming imperative for companies to build reputations and track records as socially and environmentally responsible corporate citizens if they are to ensure access to new resources, raw materials, skilled employees and markets in which to sell their products. This is particularly true in the natural resources sector, where firms have such a direct and visible impact on the communities in which they operate.

It is not enough any more for a forestry or mining company, for example, to provide employment for a community over the short and medium term. To obtain and maintain a "license to operate" in a host community, companies must build relationships and trust with these communities. They must provide lasting value to communities in exchange for the natural resources they are taking; and assure host communities that the company will leave them in a better position – socially, economically and environmentally – over the long term.

Leading companies (and in particular natural resource based companies) increasingly embrace sustainability principles and practices to maintain their global licenses to operate, and to increase both shareholder and "stakeholder value"[13]. Taking seriously environmental and social responsibilities has expanded the measure of corporate performance from the single economic bottom line to the "Triple Bottom Line" popularized by John Elkington of the British consulting firm "SustainAbility". This approach requires businesses to expand beyond financial accounting to also undertake environmental, social and ethical accounting and reporting.[14]

Companies that operate responsibly and in a sustainable manner can also impact businesses in their supply chain. Certification and labeling schemes for forestry products are one example of how this is

[11] See website at http://www.environics.net/eil/sherpa/definition.shtml

[12] The term "Doing Well by Doing Good" has been used by founder and CEO of Interface Flooring Systems, Ray Anderson. See the third chapter of his book, *Mid Course Correction (Op.cit.).*

[13] This term was coined by David Wheeler in the *Stakeholder Corporation*, Pitman 1997.

[14] See http://www.sustainability.co.uk/triple/triple.htm. As John Elkington pointed out in his presentation to the EFF, companies that have professed a commitment to sustainability vary considerably in terms of the depth and scope of that commitment as well as in terms of the impact their "conversion" to sustainability will have on economic, environmental and societal outcomes.

occurring.[15] Companies committed to sustainability are using supply chain management to further their interests by, for example, requiring all their suppliers to certify their environmental management systems under ISO 14001 or similar schemes.[16] Recent demands to label gasoline at the pump by specifying concentrations of sulphur and other harmful substances is yet another mechanism which will help ensure that some companies will prosper and others suffer as a result of their respective commitments to sustainability in the new economy.

Other benefits will also accrue to those companies that take sustainability seriously. In particular, reduced material inputs, reduced energy use and reduced waste generation can result in enhanced efficiencies and reduced costs for companies. For example, because it has achieved very low waste and emissions, a large DuPont plant in Mexico is able to stay open when air quality alerts occur and other local industry is shut down. There is less pollution, better community relations and more productive uptime for the facility – all of which contribute directly to the financial bottom line.[17]

Efforts to identify opportunities for improving sustainability performance can also give rise to technological innovations. New technologies in turn can open up new business opportunities and new research opportunities. Exploiting these opportunities generates “top line” benefits to those businesses, which can provide products, or services that actually help (re)solve sustainability issues and problems. Again quoting from the WBCSD “Business Case”, “[i]nnovation can enable our global economy to depend more on the progress of technology than on the exploitation of nature.”

Finally, companies can attract highly skilled employees more effectively by aligning their corporate culture with the sustainability values that are becoming increasingly attractive to young professionals and other workers.

SUSTAINABILITY AS A GUIDE TO INVESTMENT

As further evidence of the extent to which corporate sustainability is consistent with strong economic performance and enhanced competitive advantage, it is revealing to look at how sustainability is being recognized in the financial and investment worlds. There are two notable developments in this respect.

First, the **Dow Jones Sustainability Index (DJSI)** was launched in 1999 as the first significant stock market index to track the share performance of leading sustainability companies from around the world. Many of the sustainability leaders in each market sector of the DJSI are situated in G8 member countries. The DJSI defines “corporate sustainability” as:

> a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability leaders achieve long-term shareholder value creation by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks.

The DJSI has developed regional indices for America, Europe and the Asia-Pacific region, as well as the global index and a United States index. Included in the world index are 236 companies in 61 industries from 27 countries, with total market capitalization of $5.5 trillion (USD) as of August 2000.

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[15] The Forest Stewardship Council (FSC) operates an international program that certifies sustainable forestry management practices and, combined with a labeling program, enables retailers and consumers to distinguish between products and select those that have been produced using sustainable practices.

[16] *Tomorrow* Magazine (November-December 2000) reported that Ford Motor Company is the only auto company in the world to have all its facilities ISO 14001-certified. In addition, the company has challenged its 5000 suppliers to achieve certification by 2003 (see: http://www.ford.com/default.asp?pageid=72&storyid=663).

[17] Andrea Spencer-Cooke. “Hero of Zero” in *Tomorrow: Global Sustainable Business,* No. 6, Vol. X (November-December 2000).

The objective of the DJSI is to address "increasing investor interest in companies committed to corporate sustainability principles. These principles – innovative technology, corporate governance, stakeholder relations, industrial leadership and social well being – are a catalyst for enlightened and disciplined management, a crucial factor in making investment decisions." On the basis of these principles and the recognition that sustainability-oriented companies will pursue these opportunities in a pro-active, cost-effective and responsible manner, such companies are expected to outpace their competitors and provide increased, long-term shareholder value.[18] In the past, a portfolio invested in the stocks represented in the Dow Jones Sustainability Group Index performed better than a comparable globally diversified equity portfolio. Backtracking the index has also shown that the Dow Jones Sustainability Group Index has an above-average risk/return profile than standard global equity indexes such as the MSCI World or the Dow Jones Global Index.[19] Indeed, over a 5-year period from July 1996 to July 2001, the annualized return in % of the DJSGI World index was 18.35 compared to the DJGI World Index, which was only 14.81.[20] "Between the beginning of 1994 and the end of February 2001, the DJSGI posted a re-turn of 163%, while the Dow Jones Global Index managed only 114% (in Euro). At the same time, sustainability leaders performed better in seven out of nine industry sectors. The risk – in other words, the price fluctuation or volatility – was only very slightly higher in the case of the sustainability-driven investments."[21]

Second, there has been significant growth in the area of '**SD' and 'SRI' investing**. For example, in the UK, over £120 billion has been invested in institutional and retail funds with active socially responsible investment (SRI) policies. [22] In Canada, there are more than $3 billion invested in screened funds so far, while in the United States the assets in such funds doubled from $1.1 trillion in 1997 to $2.2 trillion in 1999.[23] Assets in professionally managed SRI portfolios rose by more than a third from 1999 to 2001.

According to the Social Investment Forum's "2001 Report on Responsible Investing Trends in the U.S." released last December, the 36% growth rate is one and a half times the 22 percent rise reported for all investment assets under professional management in the United States during the same two-year period.[24] The Forum's "2001 Trends Report" found that total assets under management in portfolios screened for socially concerned investors climbed from $1.49 trillion in 1999 to $2.03 trillion in 2001. The portfolios include socially screened mutual funds and separate accounts managed for socially conscious institutions and individual investors. Nearly one out of every eight dollars under professional management in the United States today is impacted by socially responsible investing practices at various levels.

While these trends are driven in part by investors who are concerned with avoiding firms that compromise their values, such as those with activities in tobacco, nuclear power and military applications, the most significant driver is fast becoming investment performance. As pointed out by

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[18] Dow Jones Sustainability Group Indexes. *Press Release: Dow Jones & SAM Sustainability Group Launch Sustainability Indexes*, Princeton and Zurich: 8 September 1999. Some critics have questioned whether these principles adequately constitute a commitment to sustainability.

[19] SAM Investment Funds, SAM Sustainability Index Fund Equity fund for future-oriented sustainability leaders, information brochure. www.sam-group.com/e/PDF/IF_Prospectus_E.pdf.

[20] Dow Jones Sustainability Group Indexes. *Report Quarterly 2/2001,* http://www.sustainability-index.com/news/newsletter.html

[21] SAM Investment Funds, SAM Sustainability Index Fund Equity fund for future-oriented sustainability leaders, information brochure. www.sam-group.com/e/PDF/IF_Prospectus_E.pdf

[22] Cassandra Higgs, "The UK SRI Market Booms," *Green Money Journal* February/March 2002, http://www.greenmoney.com/gmj/feb-march2002/3.htm). Note the distinction between Sustainable and Socially Responsible Investing (SRI) discussed in Alois Flatz, "Looking Forward: Sustainability and SRI." *Environmental Finance*, November 2000, p. 21. Although approaches and definitions vary from country to country, in general SRI funds are "screened" against various ethical standards that are applied to the nature of the business. By contrast SD investment screens attempt to identify leading companies (whatever type of business they are engaged in) which are top in their sector in relation to the "triple bottom line" of financial, environmental and social performance.

[23] Anne Papmehl, "Green Investing goes from Fad to Mainstream," *Toronto Star*, 18 March 2000, P6.

[24] "Socially Responsible Investing News: Social Investment Forum's 2001 Report on Responsible Investing Trends," *Green Money Journal*, February/March 2002, http://www.greenmoney.com/gmj/feb-march2002/7.htm

Feltmate and Schofield, corporate commitment to sustainability is an effective predictor of share price appreciation because it serves as an indicator of pro-active management that is "ahead of the curve." Moreover, commitment to sustainability can translate into increased sales to green consumers, ease of establishing new facilities (particularly for natural resource companies), enhanced eco-efficiency/cost-effectiveness, enhanced access to financing from banks that are wary of lending to poor sustainability performers, and similar cost savings from reduced insurance premiums and diminished legal liability.[25]

Consumer Preferences as a Driver

In addition to investors, consumers are also putting greater pressure on companies to embrace sustainability principles. The Millennium Poll on Corporate Social Responsibility found evidence that reinforces what many companies have found out the hard way – that corporate reputation and sales are at risk when customers have negative perceptions of a company's behavior. Conducted by Environics International Ltd. in cooperation with the Prince of Wales Business Leaders Forum[26] and the Conference Board in 1999, the poll is the result of over 25,000 interviews with citizens in 23 countries on 6 continents. Among other related findings,

> The Millennium Poll asked people to describe in their own words how they form impressions of individual companies, allowing two mentions each. One in three (33%) mention attributes related to business fundamentals (e.g., financial factors, company size, business strategy or management) and four in ten (40%) mention traits like brand quality, corporate image or reputation. However, a majority of nearly six in ten (60%) mention factors related to a company's broader responsibilities – labour practices, business ethics, responsibility to society at large, or environmental impacts. This top-of-mind finding, remarkably consistent across all regions of the world, underscores the importance of meeting the broader social expectations of consumers in order to safeguard corporate reputations.[27]

A more recent national opinion poll conducted in Canada affirms that the public has high expectations of business performance and of corporate social behaviour. Among the findings:

- 72% of Canadians are more likely to buy goods or services from a company that commits resources to social and community concerns;
- 79% are more likely to want to work for such a company;
- 68% are more likely to invest their money in companies that demonstrably support the community;
- 57% believe that companies should engage in socially responsible activities even if it means charging higher prices for products and services;
- 41% believe successful businesses should focus on social and community issues rather than profits; and
- Close to 90% believe that private businesses should act ethically by respecting human rights, the environment and their staff (e.g., handle downsizing in a humane and respectful manner).[28]

These findings provide strong evidence that companies which integrate sustainability into all areas of

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[25] Dr. Blair Feltmate and Brian Schofield, "Sustainable Development Predicts Share Price Gain," *CMA Management Magazine*, Vol. 73, No. 5 (June 1999).

[26] A similar Executive Development program is run by the Sustainable Enterprise Academy (SEA), associated with the Haub Program in Business and Sustainability in the Schulich School of Business (York University, Toronto.)

[27] Environics International Ltd., The *Millennium Poll on Corporate Social Responsibility – Executive Briefing*, Environics International Ltd., September 1999. http://www.environics.net/eil/millennium/

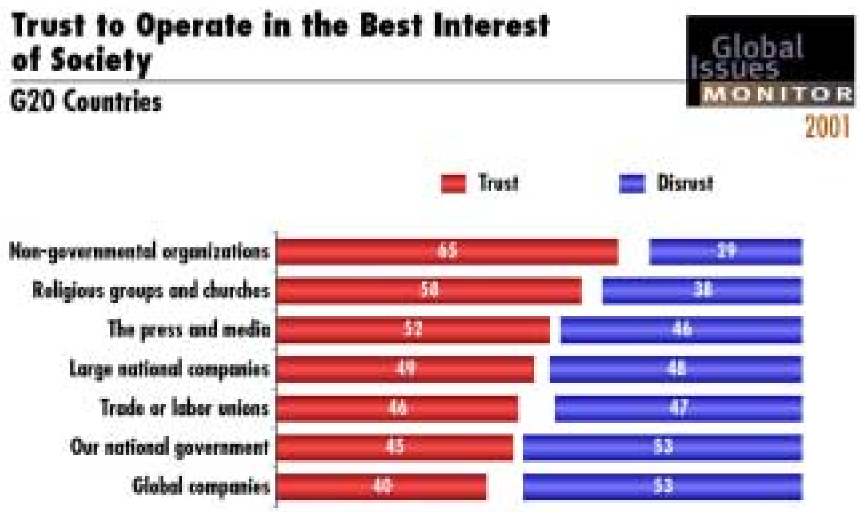
[28] The corporate citizenship poll was conducted in January-February 2000 as a joint initiative of Market Explorers, a marketing research firm, and the Conference Board's Centre for Business in the Community. See Maxwell Brem, *"A monthly roundup of news and information for Imagine Caring Companies,"* No. 3, May 2000 for a summary of the poll findings. Available on-line at http://www.ccp.ca/imagine/publications/imagine_news/no3may00.htm.

their operations, from business strategy and corporate policy through to production processes, community relations, research and development, have the potential to gain significant competitive advantages domestically and in the global economy.

THE ROLE OF NGO'S AND OTHER CIVIL SOCIETY ORGANIZATIONS (CSO)

Increasingly important to both public policy and business practices, civil society must be included in any discussion of sustainability. In sheer number, CSO's have grown rapidly over the past 25 years. So too has their public credibility. According to the Environics 2001 public opinion survey of G20 countries, NGO's and Religious Groups/Churches stand higher in the public's belief that they can be "trusted to operate in the best interests of society" than either business or national governments.

Figure 1: Trust to Operate in the Best Interest of Society [29]



NGO's are both drivers of change and verifiers/validators of performance. Some of them are respected for the research they conduct on environmental and social issues. The Internet and other forms of Information Technology permit instantaneous global communications among members of these organizations. They are increasingly recognized and appreciated as vitally important collaborators in partnerships for sustainability

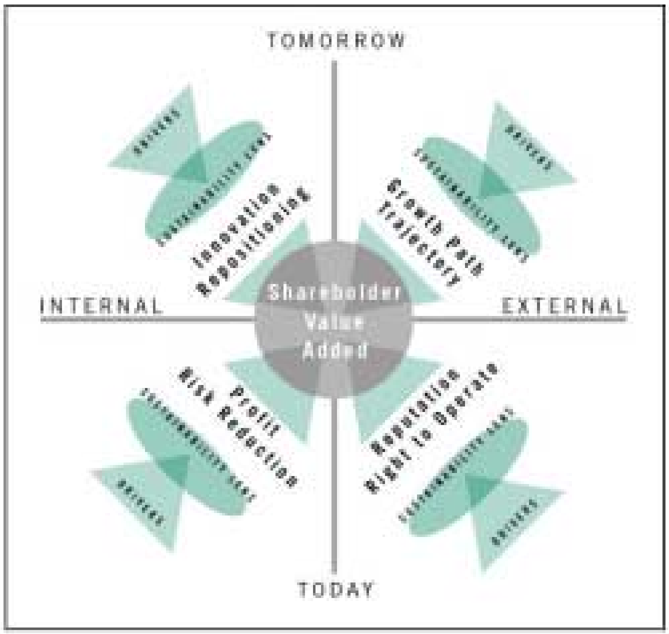
SUMMARY: WHAT IS "DRIVING" THE EMERGENCE OF SUSTAINABLE ENTERPRISE?

It may be helpful to summarize much of the above discussion in relation to the "sustainable shareholder value added model" developed for use in the Sustainable Enterprise Academy (SEA). A number of leading businesses are pursuing sustainable development because they see it as a "value proposition" and are able to make a strong "business case" for doing so. This is not to diminish the importance of other justifications for adopting sustainability, for example on ethical or moral grounds. The business case can be presented as a response to a number of "drivers" both from within the corporate system and from its external context. Some of these drivers are already shaping the current reality within which

[29] I am grateful to Chris Coulter of Environics International for providing this chart and for sharing the information he presented at the EFF.

companies operate “today”), while others are expected to gain in significance and impact in the future (“tomorrow”). See Figure 2.

Figure 2: The Sustainable Enterprise Academy Sustainable Shareholder Value Added Model



(Based on original work by Stuart Hart of the University of North Carolina)

A leading **internal driver** has been the pursuit of eco-efficiency – "the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle, to a level at least in line with the Earth’s estimated carrying capacity.” The WBCSD calls eco-efficiency “the basic business contribution to sustainable development”, and points with pride to having “invented” the term in 1992. By promoting dematerialization (the “de-linking of goods and services from the use of nature”) eco-efficiency allows businesses to “create more value with less impact.” Thus ecoefficiency contributes to both profits and risk reduction in the present, and innovation and repositioning in the future (bottom left and top left quadrants in the SEA model).

Other internal drivers include

- Employee retention and motivation
- Risk and cost minimization; and
- Innovation

A leading **external driver** is centred around the concept of stakeholder engagement and related concepts such as corporate citizenship and Corporate Social Responsibility (CSR). Here again the WBCSD has played a leading role in developing business support of CSR, which it defines as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.” Successful implementation of these strategies increases reputation and social legitimation (“right to operate”) in the present while influencing the trajectory of growth in the future (bottom right and top right quadrants of the model)

Stakeholders in the external environment influencing businesses to adopt sustainability include:

- Customers;
- Suppliers;
- Local communities
- Business Partners
- Investors;
- Insurers;
- Lending agencies;
- Civil society organizations;
- International Government Organizations (through International Agreements, etc); and of course
- Governments and regulators.

We now shift our attention to this latter category.

WHAT IS THE ROLE OF GOVERNMENTS?

While much of the responsibility for advancing sustainability might appear to fall on the shoulders of the private sector, Peck and Gibson make some important observations about the role of government:

> Anticipating rising world demand for sustainable products, services and systems is also an obligation and opportunity for governments. Indeed, there is a crucial role for governments in facilitating the transition to an economy that is much more efficient, much more fair and much less damaging. Governments that lead will be in a stronger position to set the agenda and establish advanced positions for their industries and their citizens. Countries that lag behind will inevitably face increasing competitive disadvantage and lost opportunity.[30]

Support for this proposition is provided by "Green and Gold 2000", a study by the Institute for Southern Studies. The study finds that American states with the best environmental records also offer the best job opportunities and the most favorable climate for long-term economic development. A similar relationship exists between the worst environmental performers and the lowest ranked states for economic performance.[31] In short, government has an opportunity and a responsibility to take on a leadership role by creating a more suitable 'habitat' in which sustainable business can thrive. (See discussion below of government's role in creating "framework conditions" that promote sustainability.)

Despite having given the initial impetus that led to the formation of the Brundtland Commission and ultimately to the Earth Summit at Rio, in the post-Rio period governments started to have difficulty identifying an appropriate role as a promoter of sustainability.

THE CHANGING ROLE OF GOVERNMENT

Faced with new pressures in terms of authority, legitimacy, power, and resources, governments have had to re-think their role. For many governments deregulation, downsizing, and deficit reduction dominated the agenda of the 1990's. Some have described this process as the "reinvention of government." It might also be described as a process of "creative destruction."[32]

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[30] Steven Peck and Robert Gibson, "Pushing the Revolution," in *Alternatives Journal*, Vol. 26, No. 1 (Winter 2000).
[31] The study can be found on the Institute for Southern Studies website: www.southernstudies.org
[32] Joseph Schumpeter used this term to refer to the adaptive process by which new businesses and industries, typically based on new technologies, replace older ones.

One aspect of this change process involves a shift in focus from government to governance. Government refers to particular kinds of "public" institutions (the "state") which are vested with formal authority to take decisions on behalf of the entire community. Governance more broadly refers to the myriad other organizations and institutions, in addition to government, which take decisions affecting others.[33]

Governance encompasses collective decisions made in the public sector, the private sector, and civil society. It suggests the need for collaboration among these sectors to address the kinds of broad, horizontal challenges associated with sustainability.

Collaboration for sustainability means that increasingly governments must form partnerships – with other levels of government, with the private sector, and/or with civil society organizations. This imperative creates both dangers and opportunities. The danger (according to some skeptics) is that government will fail to recognize its distinct obligations within such partnerships; or will choose this approach even when it is inappropriate.[34] The opportunity is to extend the commitment to sustainability through strategies other than the use of law and regulation.

In addition to public-private partnerships, there is an increasing use of other new policy instruments (economic, voluntary, and informational) that expand the range of alternatives to regulation and legislation. Choosing the best "mix" of policy instruments from this wider array of possible options is not an easy task.[35] More research is needed to assess the effectiveness of these various alternatives and especially to determine the effect they have when used in combination.[36]

In selecting policy instruments to advance sustainable enterprise, it is important to recognize that businesses vary widely regarding their knowledge of, and commitment to, sustainability. Governments need to be aware of these differences and devise appropriate ways of dealing with businesses that are at different points along the curve. Old models of environmental regulation, which are still appropriate for the "laggards," may have limited relevance to businesses on the leading edge of sustainability.

KEY ROLES OF GOVERNMENT IN PROMOTING SUSTAINABLE ENTERPRISE[37]

We have identified five potentially key roles for government in promoting sustainable enterprise:

- Vision/goal setter
- Leader by Example
- Facilitator
- Green Fiscal Authority

[33] This definition of governance reflects social science rather than business usage of the term.
[34] Muldoon and Nadarajah (1998: 54) lament the "decline or retreat of government from its traditional leadership role of defining and promoting economic and social policy goals. Government sees itself as a stakeholder and an equal at the table rather than the 'regulator' protecting the public interest by intervening authoritatively in the 'regulated' industrial sector. The favoured image today is of a partnership with government brokering action where consensus prevails."
[35] "…[T]he choice of policy instruments is shaped by the characteristics of the instruments, the nature of the problem at hand, governments' past experiences in dealing with the same or similar problems, the subjective preference of the decision-makers, and the likely reaction to the choice by affected social groups." Michael Howlett and M. Ramesh, *Studying Public Policy: Policy Cycles and Policy Subsystems* (Toronto: Oxford University Press, 1995 p.162).
[36] The EFF conference identified a number of synergies created when two or more policy levers are used in combination. For example Italy is experimenting with an ecolabelling scheme that provides the purchaser with a modest (1%) sales tax reduction on the purchase price of green products. France has introduced a mandatory scheme of corporate sustainability reporting.
[37] Note that this section of the paper discusses government roles at a very general level. The next section examines the particular policy "levers" that informed the matrix each G8 government was asked to complete prior to the EFF Conference.

- Innovator/Catalyst

We will start by an examination of government's role as a creator of strategic vision.

- **Vision/goal setter: "Steering" society toward sustainability**[38]

The metaphors "steering" and "rowing" may help us distinguish the respective roles of government and business. Business is best equipped to generate wealth by providing products and services. As rowing moves a boat, so business activity is the force that propels a healthy economy. Government's role, by contrast, is to steer society toward goals that are articulated in public policy. Many believe governments must provide a vision and strategy to help guide policy in the direction of sustainability.[39]

For example the OECD Environmental Strategy for the First Decade of the 21st Century is intended to provide clear directions for environmentally sustainable policies in OECD Member countries, and will guide the future work of the OECD in the field of environment. It is a follow-up to the 1998 OECD Environment Ministers' Shared Goals for Action which "invited the OECD to develop a new environmental strategy for the next decade and agreed to review it when they meet in 2001". The Strategy should be implemented before 2010. The OECD Environmental Performance Reviews and the Environmental Indicators programme will be used for the monitoring of progress.

A more ambitious vision for the future might be based on the concept of "natural capitalism" as outlined by Lovins; Lovins and Hawken; the "eco-economy" of Lester Brown; or the "green economy" discussed by Milani.[40] These ideas have profound implications for nearly every aspect of the current economy. They require transformations in social and economic systems dealing with energy, waste, water, production, consumption, social inclusion, trade, and so on. Equally important changes would be required in education and governance. Some of these changes are anticipated in aspects of Agenda 21, but many go beyond that document (which has been described as a "blueprint for the 21st century"). A government that embraced a vision for its society that included developing an economy based on sustainability principles also needs to develop strategies for the transition, which requires considerable ingenuity[41] and innovation.

- **Leader by Example: "Walking the talk" by practicing sustainability in government operations and purchasing policies**

A recent Recommendation by the OECD Council (which includes the heads of delegations for each of the OECD's 30 member countries) cites concrete steps that governments should take to "Improve the Environmental Performance of Public Procurement". [42] This Recommendation illustrates the importance of public procurement as a stimulus for sustainable enterprise:

[38] The metaphor of steering is entirely appropriate given the etymology of the word government. It traces back through Latin (*gubernare*) to the Greek word for "helmsman" (*kybernes)* from which we have also derived the English word "cybernetic" which denotes self-steering systems.

[39] Of course visioning and goal-setting require the capacity to think and plan ahead. This is not simply a function of what the USEPA calls good "environmental [and presumably social and economic] foresight" – a skill which is necessary but not sufficient. ["The Environmental Future: Emerging Challenges and Opportunities for EPA." Report of the National Advisory Council for Environmental Policy and Technology (NACEPT), January, 2002.] Robert Kennedy was fond of quoting George Bernard Shaw: "Some see the world as it is and ask why. I see a world that has never been, and ask why not?" Sustainability leadership requires the ability to forecast coupled with the ability to envision a desirable future from which to "backcast" and identify actions and strategies that can bring it about.

[40] See Amory Lovins et al., *Natural Capitalism: Creating the Next Industrial Revolution* (Boston: Little Brown, 1999); Brown *op. cit*.; and Brian Milani, *Designing the Green Economy* (Lanham: Rowman and Littlefield, 2000).

[41] See in this regard Thomas Homer-Dixon, *The Ingenuity Gap* (New York: Alfred Knopf, 2000.)

[42] OECD Press Release, "OECD Governments Agree to Take the Lead on Buying "Green," January 23, 2002. http://www.oecd.org/.

Public procurement (the purchase of goods and services using public funds), an important instigator in facilitating the desired behavioural shift in business, is relevant to a wide variety of important environmental issues, including:

- Highway construction;
- Building construction;
- Power generation;
- Water;
- Sanitation Services; and
- Transportation.

Recently, the OECD reported that "excluding the cost of salaries, public procurement expenditures accounted for between 5% and 18% of GDP in OECD countries in 1997", and maintained that "buying 'green' at government level can help significantly to improve overall environmental conditions."[43] The OECD further upholds that environmentally sound public procurement can also result in a host of indirect benefits as well: "By 'kickstarting' markets for more innovative and environmentally-friendly goods and services, public procurement may encourage businesses to following the governments' lead."[44] In Canada approximately 21% of GDP is accounted for by government spending.[45]

The OECD report goes on to indicate that several countries are already actively promoting greener public purchasing. Commonly implemented techniques include:

- The targeting of information to procurement officers;
- Reliance on environmental pricing; and
- The utilization of various financial tools in the evaluation of investments.[46]

In the beginning of this year the OECD made a Council Recommendation[47] which "urges governments to build on these efforts by providing appropriate policy frameworks and support." The Recommendation also calls for:

- The establishment of appropriate procedures for the identification of greener products;
- Government-wide information, training and technical assistance to facilitate implementation;
- The development of indicators to monitor and evaluate programmes and policies; and
- An evaluation of the implementation of these steps to be completed in OECD member country's Environmental Performance Reviews.

Japan has successfully used green procurement of low emission automobiles to stimulate technological innovation in this important area of the transportation sector. This in turn has contributed to better environmental performance, increased international competitiveness, and lower consumer prices for these vehicles. This initiative has broken the vicious circle that surrounds many innovative environmental technologies: low (initial) demand means less production and therefore higher prices.

- **Facilitator: Creating appropriate "framework conditions" for sustainability**

It is through the creation of "open, competitive and rightly framed markets," that governments can ensure the maximization of the potential gains of sustainable enterprise. Nearly a decade ago the WBCSD recommended that government initiate a "steady, predictable, negotiated move toward":

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[43] Ibid.
[44] Ibid.

[45] "The Nuts and Bolts of GDP" *Globe and Mail* March 1, 2002 p. B2

[46] Ibid.
[47] The full text of this Recommendation is available at http://webdomino1.oecd.org/horizontal/oecdacts.nsf/linkto/C(2002)3

- Full-cost pricing of goods and services;
- The dismantling of perverse subsidies;
- Greater use of market instruments and less of command-and-control regulations;
- more tax on things to be discouraged, like waste and pollution and less on things to be encouraged, like jobs (in a fiscally neutral setting); and
- More reflection of environmental resource use in Standard National Accounts.[48]

Subsequently, the U.S. President's Council on Sustainable Development advocated the benefits of similar courses of action. Nevertheless, to date there has been minimal political support for the advancement of this agenda. In a recent article in *The Futurist* magazine Lester Brown observes:

> Although the concept of environmentally sustainable development evolved a quarter century ago, not one country has a strategy to build an eco-economy – to restore carbon balances, to stabilize population and water tables, and to conserve its forests, soils, and diversity of plant and animal life. We can find individual countries that are succeeding with one or more elements of the restructuring, but not one that is progressing satisfactorily on all fronts.[49]

The WBCSD cautions that "[i]f basic framework conditions push us all in the wrong directions, then that is the way society will go – until extreme, vociferous forces compel a change."

- **Green fiscal authority: Getting the prices right through "greening budgets" and introducing "ecological fiscal reform" (EFR)**

The tax system is one of the most important elements of the framework for a sustainable economy. Since Rio, research on "green budgeting" and EFR has expanded enormously. A recent OECD report entitled "Environmentally Related Taxes in OECD Countries: Issues and Strategies" points out that a greater use of market-based instruments is an important framework condition for sustainable development. The report examines how economic instruments have been playing a growing role in environmental policies of OECD countries. All countries have introduced environmental taxes to a varying extent. An increasing number of countries are implementing comprehensive green-tax reforms, while others are contemplating doing so. The report identifies obstacles to a broader use of such taxes -- in particular the fear of loss of sectoral competitiveness -- and ways to overcome such problems.

The WBCSD also strongly supports greater reliance on "market solutions" pointing out they are not only "among the most powerful tools available, but – properly structured – they can be among the less painful."

Noting that the market is "not good at pricing many environmental assets and services like a stable climate or a rich biodiversity and forest cover," the WBCSD also favours such approaches as tradable permit schemes and other efforts to "create a market" by assigning monetary values to natural resources and natural services. "We do not protect what we do not value…. Establishing such prices – in ways that do not cut the poor off from crucial resources – could reduce resource waste and pollution."

- **Innovator/catalyst: Promoting innovation within government and in other sectors**

In approaching the challenge of sustainability and strategizing about ways to help bring about meaningful change in governance practices, it is useful to keep in mind Einstein's observation that "The world we have created today, as a result of our thinking thus far, has problems which cannot be solved by thinking

[48] WBCSD, "The Business Case."
[49] Lester Brown, "The eco-economic revolution: Getting the Market in Sync with Nature". *The Futurist,* (March-April 2002) p. 26. Brown goes on to make the encouraging point that "glimpses of the eco-economy are clearly visible in some countries."

the way we thought when we created them." Efforts to advance sustainability - in government, the private sector and civil society - will demand fundamentally new ways of thinking and doing. It is here that a desperate need arises for innovation, including technological innovation and policy innovation. Government must play a strategic role in stimulating and facilitating innovation within government and in all sectors of society. More specifically, government has an important contribution in building a strong *capacity* for innovation that supports sustainability. As the WBCSD has pointed out, "[i]nnovation can enable our global economy to depend more on the progress of technology than on the exploitation of nature."

WHAT SPECIFIC "POLICY LEVERS" CAN GOVERNMENTS USE TO ADVANCE SUSTAINABLE ENTERPRISE?

We have identified five categories of policy levers which may be explored by government in delivering on their role in promoting sustainable enterprise. There are:

- Rebalancing the Roles of Government and Public Enterprise
- Direct Regulation
- Market Instruments and Economic/Fiscal Measures
- Voluntary/Non Voluntary Initiatives
- Education/Persuasion/Information for Decision Making

We start with:

- **Rebalancing the roles of Government and Public Enterprise (including Public-Private Partnerships, outsourcing, etc.)**

Every G8 country has had some form of public enterprise, though the extent and focus of government ownership has varied considerably. By the same token, during the 1980's and 1990's, nearly every G8 government reconsidered the appropriateness of these arrangements, and experimented with some degree of privatization. Is there an optimum balance in order to promote sustainability? This question cannot be answered in the abstract. Context and circumstance are crucial. Perspectives vary from different countries and different positions along the political spectrum.

More consensus obtains on the importance for sustainability of effective partnership and collaboration. This has implications for all sectors of society. The key players are not limited to government and business. Civil society organizations are becoming increasingly important. From the perspective of business, according to the WBCSD, collaboration for sustainability will require moving beyond stakeholder dialogue to embrace "the next step: practical partnerships composed of players in different sectors. Not only do such partnerships combine skills and provide access to constituencies that one partner may not have, but they also enhance the credibility of the results – results that might be less effective and believable if they come from only business, or only civil society, or only government."

The OECD has sounded a similar note, promising that in implementing its Sustainability Strategy, "governments and the OECD will seek active partnership with the private sector and civil society, and promote co-operation among stakeholders, for example in the workplace."

- **Direct Regulation**

When environment first came onto the radar screen of governments (perhaps beginning in 1967 with the establishment of Japan's Basic Law for Environmental Pollution Control) the focus of public policy was on regulation. Environment policy meant pollution regulation. As the kinds of environmental problems became more complex – for example less clearly identifiable with single-point sources; and as the policy paradigm broadened from an end-of-pipe focus on environmental pollution to an "integrated" sustainability perspective that encouraged "moving upstream" and encouraging innovation, new policy instruments came into the picture. Some began to argue that regulation (to its critics "the old system of command and control") was no longer relevant.

A more balanced view sees regulation as a necessary backdrop or framework for newer approaches (such as Voluntary and Non-Regulatory Instruments) to function properly (see below.) The challenge for government is to find the appropriate "mix" of policy instruments and to determine how to make regulation a useful part of that mix. For example, regulation is still needed to ensure minimum performance from environmental "laggards"; and in some instances to set performance standards in sectors which are critical to the public good even if the private sector is allowed to assume functions previously performed by governments in areas like health care, education, and public utility sectors like electricity and water.

- **Market Instruments & Economic/Fiscal Measures (Including subsidies, taxes, public procurement policies, ecolabelling, etc.)**

One of the most powerful ways government can encourage sustainability innovation from the private sector is through the creation of conditions that reward such behaviour. According to Stephen Barg, "A country that encourages innovation through its regulations and fiscal policies and refuses to subsidize non-sustainable practices and declining industries is more likely to gain a leadership position in the industries of the future, whatever they may be." Lester Brown echoes this point: "Unless we are prepared to shift taxes from income to environmentally destructive activities, such as carbon emissions and the wasteful use of water, we will not succeed in building an eco-economy."[50]

- **Voluntary/Non Regulatory Initiatives (VNRI's)**

"Voluntary and Non-regulatory Initiatives" (VNRI's) became popular in the post-Rio period. They cover a range of approaches including compacts, self-imposed targets, industry codes, MOU's etc. They have been heralded by many businesses as effective ways of encouraging action that goes "beyond compliance. How effective are they? Some of the best work on identifying the conditions that must obtain in order for voluntary instruments to succeed has been carried out by a Canadian multi-stakeholder body called the "New Directions Group" which published a report[51] suggesting the following criteria and principles for effective use of VNRI's (See Table 1):

Table 1: New Directions Group Criteria and Principles for the Effective Use of VNRI's

[50] *Op. cit*. p. 27.
[51] New Directions Group, "Criteria and Principles for the Use of Voluntary or Non-Regulatory Initiatives to Achieve Environmental Policy Objectives," 1997

Criteria for the Utilization of VNRI's to Achieve Environmental Policy Objectives

1) VNRI's should be positioned within a supportive policy and regulatory framework.
2) Interested and affected parties should agree that a VNRI is an appropriate, credible and effective method of achieving the desired environmental protection objective.
3) There should be a reasonable expectation of sufficient participation in the VNRI over the long term to ensure its success in meeting its environmental protection objectives.
4) All participants in the design and implementation of the VNRI must have clearly defined roles and responsibilities.
5) Mechanisms should exist to provide all those involved in the development, implementation and monitoring of a VNRI with the capacity to fulfill their respective roles and responsibilities.

Principles for the Design of VNRI's

Credible and effective VNRI's:

1) are developed and implemented in a participatory manner that enables the interested and affected parties to contribute equitable;
2) are transparent in their design and operation;
3) are performance-based with specified goals, measurable objectives and milestones;
4) clearly specify the rewards for good performance and the consequences of not meeting performance objectives;
5) encourage flexibility and innovation in meeting specified goals and objectives;
6) have prescribed monitoring and reporting requirements, including timetables;
7) include mechanisms for verifying the performance of all participants; and
8) encourage continual improvement of both participants and the programs themselves.

These criteria and principles indicate an important leadership role for governments in ensuring that a "supportive policy and regulatory framework" is in place. Voluntary instruments cannot exist in a regulatory vacuum, nor can they function (generally speaking) as a total replacement for law and regulation. Webb and Morrison[52] compare the advantages and disadvantages of regulatory and voluntary approaches. Their findings are summarized in Table 2, "Comparing Regulatory and Voluntary Approaches to Policy":

Table 2: Comparing Regulatory and Voluntary Approaches to Policy

[52] Kernaghan Webb and Andrew Morrison. " Voluntary Approaches to Environment and the Law: A Canadian Perspective," in *Voluntary Approaches in Environmental Policy*, ed. Carlo Carraro and Francois Leveque (Dordrecht: Kluwer Academic Publishers, 1999) pp.230.See also the recent report of the Tellus Institute, "Do Voluntary Mechanisms Work?" (Executive summary available at: http://www.tellus.org/risk/publications/Michigan%20Vol%20Mech%20Exec%20Sum.pdf

Regulatory Approaches	Voluntary Approaches
Main advantages • Visibility, • Credibility, • Accountability, • Compulsory application to all (including free-riders) • Likelihood of rigorous standards being developed, • Cost is borne by the entire society, and • The availability and range of sanctions.	**Main advantages** • Great flexibility, • Lower compliance and administrative costs, • Speed in establishing and amending rules and structures, • Avoidance of jurisdictional concerns, • Potential for the positive use of peer pressure, • Internalization of responsibility, and • Informality.
Typical drawbacks • High formality, • Expensive operation costs, • Adversarial relations between regulator and regulated, • Limited scope (i.e. jurisdictional limitations), and • Difficulties in development and amendment	**Typical drawbacks** • Low visibility and credibility, • Difficulty in applying the rules to free riders, • A lower likelihood of rigorous standards being developed, • Uncertain environmental accountability, and • A limited array of potential sanctions.

As to whether voluntary agreements have any real force, Mark Moody Stuart argued persuasively at the EFF that business promises may carry considerably more weight than political promises. "With transparency, once you've said you're going to do it, it's hardly voluntary any more." This point highlights the importance to the success of VNRI's of transparency and reporting, and points to a role for civil society organizations as verifiers and validators of business voluntary commitments.[53] Moody-Stuart's comment echoes the statement of John Ruggie, special advisor to Kofi Annan, that "Transparency and the accountability of public opinion can be as powerful a force as any enforcement mechanism that can be devised."

- **Education/Persuasion/ Information for Decision Making (including, reporting, goal-setting, etc.)**

Governments have the opportunity – and perhaps the obligation – to provide information for decision making to all sectors of society. As this relates to individual consumers, the WBCSD believes that business, too, must play its part.

> If business believes in a free market where people have choices, business should accept responsibility for informing consumers about the social and environmental effects of

[53] There is a growth industry emerging in "third party verification" of VNRI's conducted by both companies like KPMG and NGO's.

those choices. Informed, responsible, and knowledgeable consumer choice helps achieve sustainability through the market via a triple-win: by improving quality of life for consumers, by reducing environmental and social impacts, and by increasing the market share of sustainability minded companies.

The OECD has developed a unique approach to assist governments in environmental decision making. The current "Environmental Outlook," evaluates "recent and projected future environmental improvements for which current policy approached in most OECD Member countries appear to be adequate," uncertain, or urgent. Accordingly, each environmental issues receives a designated classification of either being a "green light" (i.e. industrial point source pollution), "yellow light" (i.e. biotechnology) or "red light" (municipal waste generation).[54]

By drawing attention to issues that have significant economic, financial and social costs, or are surrounded by a great deal of uncertainty, the OECD is highlighting the imperative of devising better management schemes and is encouraging governments to explore policy options which could help to alleviate the situation.

RECENT POLICY TRENDS IN THE G8 COUNTRIES

In preparation for the EFF meeting, each country delegation was asked to provide an overview of the policy trends emerging in their country by completing a matrix. Across the top of the matrix were arrayed the five "policy levers" discussed above. Down the side of the matrix were a number of key economic sectors. In each cell, a symbol was used to indicate whether the expectation in that country was for increasing (plus sign), decreasing (minus sign) or relatively constant (equals sign) use of that particular policy lever. The number of plus or minus symbols indicates the strength of the trend. The matrix below (Table 3) and the following bullet point summary entitled "Trends across Sectors" provide the results of the survey as submitted by the seven countries that participated in the EFF meeting (Canada, France, Germany, Italy, Japan, UK, US.)

[54] OECD, " OECD's First Ever Environmental Outlook," www.oecd.org/env

Table 3: Government Policy Instruments with Respect to the Private Sector: Exploring Trends in Policy Levers Across Sectors

<u>SUMMARY G8</u>

POLICY / SECTORS*	REBALANCING GOVERNMENT OWNERSHIP/ PUBLIC ENTERPRISE	DIRECT REGULATION	MARKET INSTRUMENTS & ECONOMIC/ FISCAL MEASURES	VOLUNTARY/ NON REGULATORY INITIATIVES	EDUCATION/ PERSUASION/ INFORMATION FOR DECISION MAKING
Agriculture	+ ++ ++ =	+ + = = =	+ - -- ++ + ++	+ ++ + + +	+ ++ ++ ++ ++ ++
Energy	+ + - ++ + + +	- - + -- = +	++ ++ + +++ ++ ++ ++	+++ ++ = + ++ ++ -	+++ ++ = + ++ ++ ++
Financial Sector	= = + + +	++ = = = =	+ + + + ++	= - + ++ ++ -	++ + + ++ ++
Forestry	+ = + + = =	= = = = =	++ + + + = ++	++ = + ++ + -	++ + ++ ++ + ++
Manufacturing	+ - = + ++ +	= = = = ++	++ + + ++ = ++	++ + + ++ ++ -	++ ++ + ++ + ++
Infrastructure	+ - = + +	+ ++ = =	++ + + ++ ++	+ + + ++ -	++ ++ + ++ ++
Mining	= = =	= + = =	+ + = ++	+ + = -	+ + =
Water	+ = = = + =	+ - = = + +	++ + = + = ++	+ - + + = -	+ + = + ++ +

Trends Across Sectors[55]

- Overall trend to increased use of Market Instruments & Economic or Fiscal Measures; Voluntary/Non-regulatory Initiatives; and Education, Persuasion, Information for Decision-Making
- Less change in terms of Rebalancing of Government Ownership/Public Enterprise; and Direct Regulation

Agriculture

- Most significant increase in use of Education, Persuasion, Information for Decision-Making Measures. Consistent across all reporting nations.
- Consistent increase in use of Voluntary/Non-regulatory Measures, but not as significant as Education and Information
- Trend to increased use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- Two-thirds of reporting nations increasing use of Market Instruments & Economic/Fiscal measures; one-third decreasing use.

Energy

- Most significant and consistent increase is in use of Market Instruments & Economic/Fiscal Measures
- Followed closely by an increased reliance on Education, Persuasion and Information measures, and a general trend to increased reliance on Voluntary and Non-Regulatory Initiatives
- More modest upward trend in use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- Variance in approaches to Direct Regulation, all changes modest

Financial Sector

- Consistent increase in use of Education and Information measures
- Also consistent but more modest increase in use of Market Instruments and Economic/Fiscal Measures.
- Slight upward trend in use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- Variance in approaches to Voluntary/Non-regulatory Initiatives across reporting countries
- Only one nation reported increased use of Direct Regulation, otherwise status quo

Forestry

- Increase in use of Education and Information measures, consistent across all reporting nations
- More modest increase in use of Market Instruments and Economic/Fiscal Measures
- Slight upward trend in use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- Variance in approaches to Voluntary/Non-regulatory Initiatives across reporting countries, but overall upward trend
- Status quo in use of Direct Regulation

Manufacturing

- Increase in use of Education and Information Measures; Market Instruments and Economic/Fiscal Measures and Voluntary/Non-regulatory Initiatives
- Less consistency, but overall increase in use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- Only one nation reported upward trend in use of Direct Regulation, otherwise status quo

[55] This summary and the matrix preceding it was prepared by David Wheeler and Kathy Partridge on the basis of responses sent by representatives of the G8 countries attending the EFF meeting. In at least one instance the country representative cautioned that the assessment for his country had been prepared by officials in only one ministry, and might not reflect an accurate government-wide assessment.

Infrastructure

- Increase in use of Education and Information; and Market Instruments and Economic/Fiscal Measures. Consistent across all nations
- Modest, upward trend in use of Voluntary/Non-Regulatory Measures
- Two of four reporting nations indicate increased use of Direct Regulation, otherwise status quo
- Modest and inconsistent changes to use of policies aimed at Rebalancing Government Ownership/Public Enterprise

Mining

- Along with Water, sector with most modest changes in uses of policies
- Limited data but modest trend to increase in use of Education and Information measures; and Market Instruments and Economic/Fiscal Measures
- No change in use of policies aimed at Rebalancing Government Ownership/Public Enterprise
- One of four reporting nations indicates increase in use of Direct Regulation; otherwise status quo

Water

- Modest upward trend in use of Education and Information; and Market Instruments and Economic/Fiscal measures
- Two of six reporting nations indicate modest increase in use of policies aimed at Rebalancing Government Ownership/Public Enterprise; otherwise status quo
- Inconsistency in changes to use of Direct Regulation policies and Voluntary/Non-Regulatory Initiatives

DISCUSSION AND CONCLUSIONS

Over the last part of the twentieth century, the trend line in most countries was toward less government – what Susan Strange called "The Retreat of the State". Driving this trend initially was the desire to reduce government expenditure in order to reduce deficits and debts, coupled with various beliefs that weaker governments meant stronger markets and greater economic competitiveness. Sometimes called "the Washington consensus" this set of beliefs was widely shared -- until recently.

In the last few months new drivers have begun to shift the trend lines. Strong anti-globalization demonstrations in Seattle Quebec City, and Genoa, have, if nothing else, indicated a bitter backlash to what many see as the triumph of markets over the "public domain."[56] In North America the Enron scandal has widened and deepened suspicions about the motivation and integrity of business leaders. By contrast a steady decline in public confidence in government which began in North America nearly 30 years ago has been sharply reversed following the terrorist attacks of September 11 2001.

THE IMPACT OF SEPTEMBER 11

What are the implications for the sustainability agenda of the new "War on Terrorism"?[57] For some policy makers, it appears to have displaced it entirely. The US EPA's National Advisory Council for Environmental Policy and Technology (NACEPT) acknowledges on the first page of its recent report on "The Environmental Future" that the war has "turned the nation's focus to homeland security and the work of disabling international terrorist organizations." Does this mean that the sustainability challenge can now be ignored, or shifted to the back burner? On the contrary:

[56] See Daniel Drache, ed., *The Market or the Public Domain? Global Governance and the Asymetry of Power*. London: Routledge, 2001.
[57] Some believe that security should now be viewed as the "fourth leg" of the sustainability stool. For a discussion of some of these issues see David V. J. Bell, "Sustainability and its Implications for Peace and Security". Powerpoint presentation available at www.yorku.ca/ycas.

> "Sustainable development is also essential for reducing social unrest and the danger of international terrorism. No mixture of conditions would be more combustible than rapidly expanding numbers of restless young people living in poverty, without opportunities for improvement, constantly exposed to media images of affluent lifestyles, and influenced by new ideologies that preach hatred against America."[58]

Understood properly, sustainability is not simply a topic to be added to (or deleted from!) the agenda of governments. It is the lens through which to view the entire agenda – including the security agenda – in order to develop integrated, coherent strategies for dealing with key issues. This has important implications for the G8 Environment Ministers meeting, the G8 Summit, and, ultimately, the World Summit on Sustainable Development that will follow. Indeed the three topics Ambassador Fowler (in his luncheon address to EFF) indicated would be on the agenda for the G8 Summit – economy, African development, and terrorism – must be viewed through a sustainability lens to ensure an appropriate strategic response.

The events of September 11 have had an interesting impact on public opinion. In one recent U.S. poll slightly over half the respondents reported that their trust in national government had increased.[59] Recent Environics polling indicates that the public in most wealthy countries (including the U.S.) has gone beyond the "crack down on terrorism through armed response" strategy that has dominated the governmental reaction to 9-11. The public is much more amenable to considering the "root causes" of terrorism and addressing poverty and other global social equity issues

If these new figures represent a new trend (rather than simply a blip on the scale) governments will acquire stronger legitimacy that will likely be matched by stronger public expectations of a more active government role across a whole range of sustainability policy areas.

Will this translate into support for stronger sustainability commitments and public policies? This is difficult to determine. Business is getting mixed signals from governments. In many jurisdictions there remains little public enthusiasm (or understanding of the need) for far-reaching measures such as embracing natural capitalism or implementing EFR – or even for removing "perverse subsidies" of unsustainable products and industries. The EFF heard that in Germany EFR (or as they call it ETR – Ecological Tax Reform) has been on the policy stage for several years, though it is playing to mixed reviews. Part of the reason for this ambivalence stems from the fact that the focus of ETR has largely been on energy pricing, a highly political and volatile area where fluctuating prices are seen and felt by consumers. It is difficult to disentangle the impacts of energy taxes from market fluctuation in the price of oil. A recent assessment focused on "the consequences for economic growth, the labour market, energy consumption and CO^2 emissions, and the effects on income distribution." The authors concluded that:

> The results point to mostly positive effects of the reform. The impact on economic growth will be minimal, employment will rise, and energy consumption and CO^2 emissions will decrease. The fear that the ecological tax reform might interfere with the goals of social and income-distribution policy is not justified in this blanket form.[60]

Given the absence of appropriate "framework conditions" for sustainability as called for the WBCSD, passivity is not an unreasonable strategy for some companies. There may be too few incentives for leaders and too much support for laggards. Little evidence exists of a shift from traditional public policy paradigms to the new sustainability paradigm. According to a recent EU Green Paper some progress may, however, be possible:

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[58] NACEPT Report. Op. cit. p.7.

[59] See Robert Putnam, "Bowling Together." *The American Prospect,* Volume 13, Issue 3. February 11, 2002. Available on-line at http://www.prospect.org/print/V13/3/putnam-r.html.

[60] DIW, "The Effects of the Ecological Tax Reform in Germany." Available at www.diw.de/deutsch/publikationem/diskussionspapiere/jahrgang01. The full report is to be published in German.

> At the European level the challenge is about how corporate social responsibility can contribute to the Lisbon goal of building a dynamic, competitive and cohesive knowledge-based economy. The Lisbon European Council made a special appeal to companies' sense of social responsibility regarding best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development. The Commission's European Social Agenda, subsequently supported by the European Council in Nice, emphasised the role of corporate social responsibility in addressing the employment and social consequences of economic and market integration and in adapting working conditions to the new economy. In addition the European Summit in Nice invited the Commission to involve companies in a partnership with the social partners, NGOs, local authorities and bodies that manage social services, so as to strengthen their social responsibility. The European Council in Stockholm welcomed the initiatives taken by businesses to promote corporate social responsibility and made reference to this Green Paper as a means to encourage a wide exchange of ideas in order to promote further initiatives in this area. The Commission's Communication on sustainable development, supported at the Göteborg European Council, emphasised the importance of Corporate Social Responsibility: *"Public policy also has a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that businesses integrate environmental and social considerations into their activities.. Business should be encouraged to take a pro-active approach to sustainable development in their operations both within the EU and elsewhere."*

IMPLICATIONS FOR WSSD

Without government support for private sector sustainability it will remain difficult to generate momentum leading up to Johannesburg, and to engage the business community in the WSSD process. Within the G8, the EFF heard that the British Government is trying to take a very strong position in support of making the WSSD a success, and has devoted considerable attention within government to shaping the agenda at Johannesburg and attracting support from both businesses and civil society. According to a report prepared for the EFF conference:

> In the UK, the Prime Minister instigated five sectoral initiatives in March 2001, partnerships for the delivery of sustainable development between government, business and civil society. These cover water and sanitation, financial services, tourism, energy and forestry…. In addition, the UK government is actively engaging with the wider business community, both in the UK and elsewhere, to ensure that they are able to participate in a meaningful way in the Summit and its outcomes.

The more forward-looking North American, European and Japanese companies are also embracing sustainability ahead of clear government action.[61] Some have done so as part of a "parallel path" approach in which they plan to continue making money in areas of their business that they expect will disappear as the new "sustainability economy" becomes more pervasive.[62] Thus a number of oil and gas companies have re-positioned themselves as "energy companies" and have begun to expand their investments in renewable or alternative energy while continuing to exploit fossil fuels, even though they acknowledge that this energy source is not sustainable over the balance of this century. Moreover they

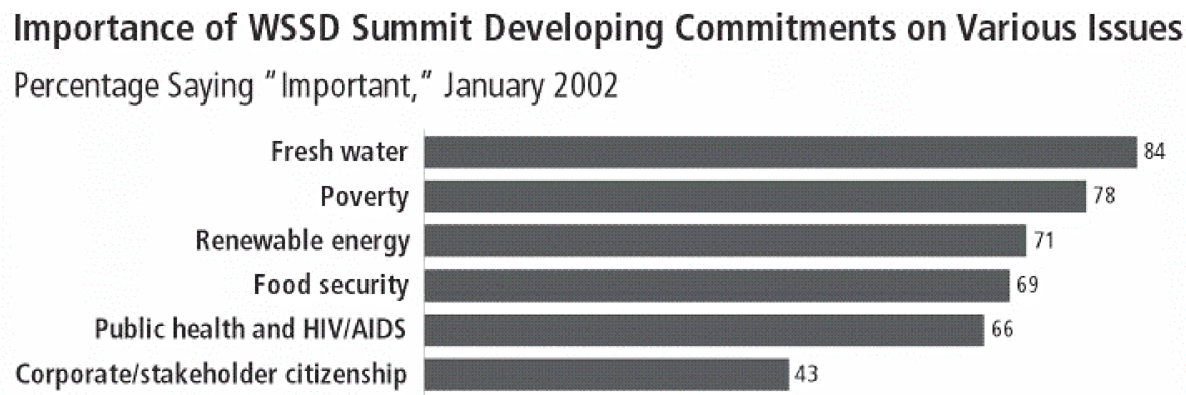
[61] It is instructive to consider what some of these companies have been saying about the role of government. A March 2001 forum held in Toronto attended by representatives of some leading Canadian businesses (including General Motors, TransAlta, and Alcan) identified as a "key message" the importance of government using flexible instruments, and taking a systemic approach will help business manage risks by cutting across the "silos and stovepipes" of vertically-organized bureaucracies. See Public Policy forum, "North American Integration Roundtable on Environmental Protection and Business Competitiveness." Report of a Conference held March 21-22, 2001 at the Toronto Congress Centre, Toronto, Ontario.

[62] Lester Brown reminds us that "In this new economy, some companies will be winners and some will be losers. Those who anticipate the emerging eco-economy and plan for it will be winners. Those who cling to the past risk becoming part of it." *Op. cit*. p. 32.

recognize that the problem is not one of supply. As Amory Lovins pointed out so eloquently, “The Stone Age did not end because we ran out of stones; the Oil Age will not end because we run out of oil.”

The signals both governments and businesses are getting from the general public are also ambiguous. Evidence from **polls** of latent public support for taking action more quickly and comprehensively on environmental and sustainability challenges is contradicted by evidence from consumer and citizen **behaviour** of continuing in the business-as-usual direction – or moving backwards (the SUV mentality). For their part, the 300 “sustainability experts” surveyed by Environics (See Figure 4) have strong and fairly consistent ideas about the issues that should get top priority at Johannesburg:[63]

Figure 4: The Importance of WSSD Summit Developing Commitments on Various Issues



All of this suggests that any bold new policy initiatives will require strong leadership support, including from first ministers. Governments need to have a clear picture of where and how fast they want to take their societies along the curve toward sustainability. Society has still not yet reached a “tipping point” – but there is momentum in the private sector from leading companies.

The EFF discussions generated a surprising degree of coherence about possible areas for leadership from G8 countries with respect to Type 2 Initiatives for Johannesburg.[64] In her “Concluding Observations” Co-Chair Elizabeth Dowdeswell identified four areas that merit further exploration by G8 governments:

- government co-operation to expand the use of the Global Reporting Initiative (GRI)
- Green Procurement
- London Principles for Sustainable Finance
- Renewable energy

[63] GlobeScan Survey of SD Experts.

[64] As per the PrepCom II document entitled *Proposal for Partnerships/Initiatives to Strengthen the Implementation of Agenda 21:* “The Second type of outcomes of the Johannesburg Summit would include a whole range of partnerships focused on concrete and specific initiatives to strengthen the implementation of Agenda 21. Such initiatives will be announced at the partnership events scheduled to take place during the official meetings of the Summit. “

APPENDIX A: THE IMPORTANCE OF THE SOCIAL DIMENSION OF SUSTAINABLE DEVELOPMENT AND INTEGRATED POLICY MAKING[65]

John Robinson and Jon Tinker[66] have developed a very useful systems-based definition of sustainability as a creative, integrated response to three "imperatives" -- ecological, economic, and social:

- The **ecological imperative** is to remain within planetary biophysical carrying capacity
- The **economic imperative** is to ensure and maintain adequate material standards of living for all people
- The **social imperative** is to provide social structures, including systems of governance, which effectively propagate and sustain the values people wish to live by.

While environmentalists, economists, and social scientists all call for "pre-eminence" of their imperative over the others, Robinson and Tinker argue that sustainability requires that we treat each of the ecology (or biosphere), economy and society as co-equal "prime systems" that are "independently crucial", "urgent", and sufficiently "interconnected" that "any attempt to address one system in isolation not only runs the risk of intensifying problems in the other systems, but also may give rise to feedback effects from the other systems which overwhelm the effects of the first intervention."

This in turn demands integrated policy making based on a new comprehensive paradigm that embraces the key elements of all three imperatives.[67] The integration between economic and social policy is fairly well established (as the term "socio-economic" suggests). But integrating social and ecological aspects of policy is less developed; and the triple integration sustainability requires is almost non-existent. Analytic tools such as cost-benefit analysis, EIA, SIA, or even "Integrated Assessment" provide only partial information and insights.

The complexity of all three prime systems, and the extensive interactions between them, call in addition for more powerful analytic tools including "integrated modeling and scenario analysis" that combine quantitative with qualitative techniques. The ultimate objective is to assess policies according to their ability to constructively "reconcile the three imperatives".

In order to accomplish this reconciliation, **two "policy wedges**" are required. **First** economic growth must be separated from growth in material and energy throughput through the wedge of **ecoefficiency** and dematerialization. In addition, our economy must shift from one based on selling products to one based on providing services.[68]

More challenging is the task of separating economic growth from perceptions of quality of life. This

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[65] This appendix was added to the paper to address concerns raised at EFF about the perceived over-emphasis at the conference on the environmental dimension of sustainability.

[66] John Robinson and Jon Tinker, "Reconciling Ecological, Economic and Social Imperatives: Towards An Analytic Framework." Paper Prepared for the International Development Research Centre, April 1996. Available at www.sdri.ubc.ca/publications/reconcil.html

[67] Even though at the outset of this paper they include governance as part of the social system, later on Robinson and Tinker use the image of the three systems as forming the base of an "equilateral pyramid … with politics at the apex."

[68] The NACEPT Report to US EPA (op. cit. p. 29) points out that "In today's economy, providers profit by selling more things more often, increasing the 'throughput' of energy and materials through the economy, which is the primary source of environmental impacts. A shift toward selling the services that things provide changes the incentive structure for providers and consumers alike so that both benefit from more energy and materials-efficient solutions." Though compelling in theory, this principle has been difficult to put into practice (note the challenges faced by Interface Flooring's Green Lease program.) Clearly this change in business practice will require a cultural shift away from current consumerist beliefs – constantly reinforced by advertising – that owning things brings happiness.
(This cultural trait that can be traced back at least as far as the early modern period. In the *Leviathan*, English philosopher Thomas Hobbes noted the emergence of a new breed of "masterless men" driven by "a restless desire for thing after thing.")

requires a **second** policy wedge of **"resocialization"** in order to encourage the development of what I have called a "culture of sustainability".

What would such a culture entail? It might have some of the following characteristics:

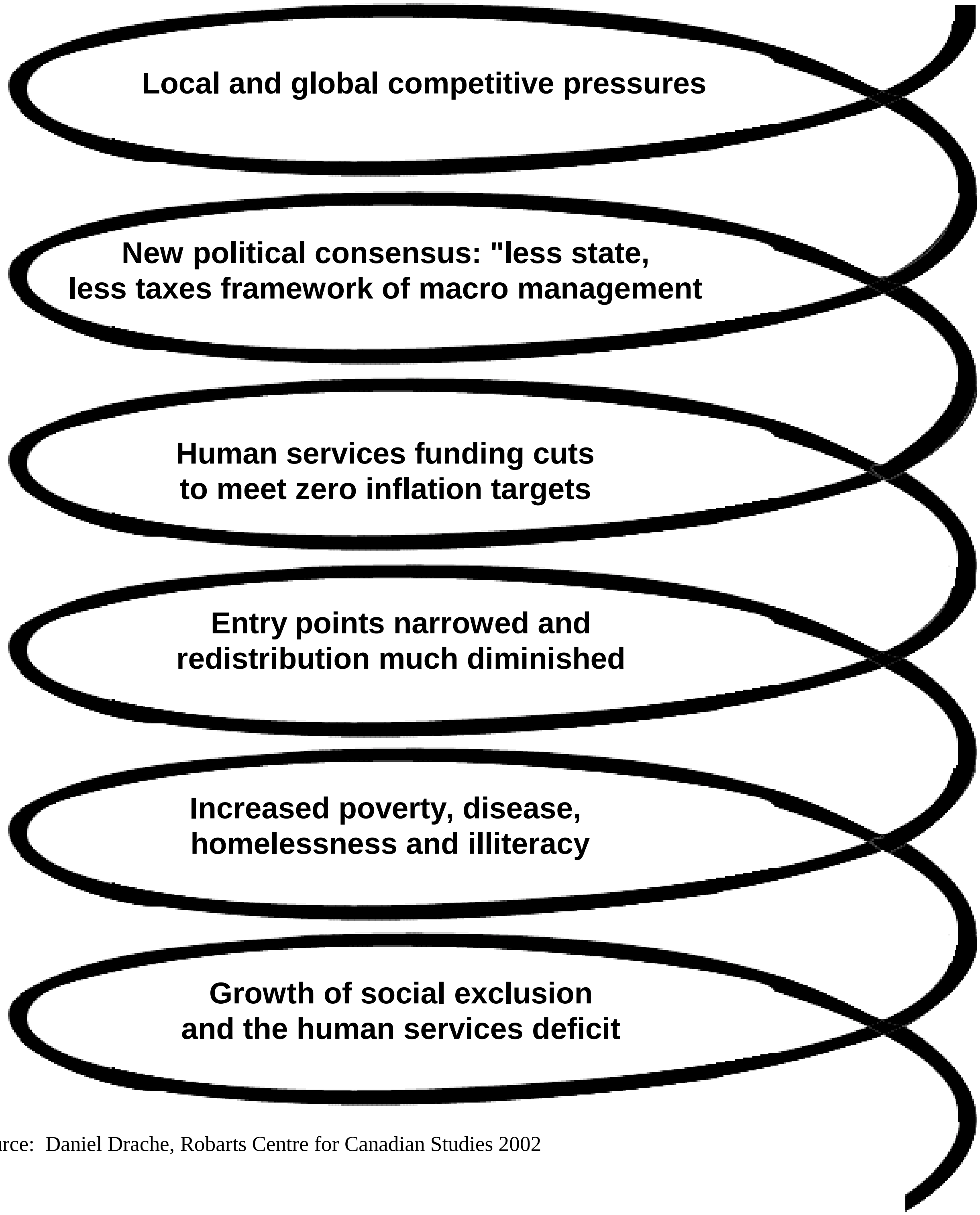
- A shift from overconsumption ("Whoever dies with the most toys wins") to sufficiency
- "Voluntary simplicity" (which has been described as one of the fastest growing social movements in the United States)
- Greater concern for nature, and the well-being of the ecosystem
- Greater concern for other human beings living today
- Greater concern for "temporal equity" and the needs of future generations
- Support for decisions that take long term effects into consideration
- Support for decision-makers with that perspective and for businesses, governments, and civil society organizations that embody sustainability principles and practices

Education for sustainability would be a key element of the resocialization policy wedge. However necessary, resocialization is not a sufficient response to the social imperative of sustainability. Equally important is the urgent need to reverse what Daniel Drache has called "the downward spiral of social exclusion." (See Figure 5). Whether intended or not, policies associated with the "Washington consensus" have exacerbated social inequities both domestically in many countries, and internationally. World Bank data indicate that over the past 20 years, "the ratio of global average income of the top five percent to the bottom five percent has increased from 6 to 186…."[69] Similar though less dramatic shifts have occurred within Canada and the United States as well. Contrary to the beliefs of "trickle down" theorists, the rising tide of GNP appears to have lifted mainly the yachts.

The challenge for sustainability policy is to reverse the downward spiral of social exclusion by adopting policies that will rebuild social inclusion both within countries and within the global community. It is entirely appropriate to focus international efforts on Africa given both the absolute condition of many of its countries and peoples; and the steep declines occurring there across many social inclusion indicators.

[69] NACEPT Report op. cit. p. 32

Figure 5: The Downward Spiral of Social Exclusion



Source: Daniel Drache, Robarts Centre for Canadian Studies 2002