

## Overview of CCI position – State Sustainability Strategy.

The term “sustainable development” is preferred by CCI to “sustainability”. Compared to “sustainability”, the ideas represented by the term “sustainable development”:

- are more clearly defined,
- are more capable of implementation,
- are more widely accepted by and acceptable to the state, national and international communities, and
- represent a more desirable and beneficial set of objectives.

CCI’s preferred definition of sustainable development is that of the World Business Council for Sustainable Development (WBCSD):

*“forms of progress that meet the needs of the present without compromising the ability of future generations to meet their need”*

Sustainable development policies should aim to maximise the capacity of the current generation to meet its own needs and goals not attempt to direct activity towards what are judged to be “genuine” needs.

Achieving social, economic and environmental progress requires that diversity, innovation and experimentation must flourish. This means that the role of government in achieving sustainable development should be to enable, facilitate and support, rather than to direct or prohibit.

CCI supports the idea that “improvement” is an essential part of sustainability /sustainable development, however, we disagree with the paper’s insistence that improvement be “simultaneous”.

CCI has two key objections. Firstly, the benefits of a particular initiative often eventuate only over time, not immediately or in tandem. Secondly, there are many activities whose value in one of the three spheres – economic, environmental or social – will generally outweigh its costs in others. Residential aged care, for example, is heavily supported by government subsidies and may never meet strict criteria of ‘sustainability’ in economic or environmental terms, but its social benefits outweigh its environmental and economic costs.

It is unrealistic for all proposals or activities, as suggested in the Draft Paper, to pass all three tests in order to be deemed sustainable. The balance of all activities should result in improvement across all three areas, not necessarily that every initiative should demonstrably generate improvement in all three areas.

Not all social, environmental and economic objectives should be given equal weight in every government decision, nor should each initiative be demonstrated to show positive results against all substantive objectives. The context and purpose of activity will determine the relevance of different objectives, and also the weight and attention given to the costs and benefits they are expected to generate.

For the Draft Report’s proposed definition of sustainability to be workable requires fairly complete, transparent and generally agreed understanding of what constitutes an economic, social or environmental “improvement”. Judging what is an improvement can be imprecise and subjective, especially as information is often imperfect, people’s values and worldviews differ. Evaluating social and cultural “improvement” is particularly difficult even where the consequences of a policy or proposals are well understood.



The Draft Paper systematically downplays the role of business and its contribution to the theory and practice of sustainable development. It does not recognise the extensive work already in place, it proposes many wholly new initiatives, rather than seeking to build upon and expand businesses' existing initiatives, and learn from their successes and failures. It fails to recognise that the initiatives businesses have taken are largely in response to changes in the business environment. In consequence, the Draft Paper places too little emphasis on measures which will reinforce and encourage business initiatives to explore practical and innovative approaches to sustainable development, and too much on government's role.

The Draft Paper's tendency to downplay businesses' concerns, initiatives and achievements is particularly evident in its representation of the WBCSD's "*Sustainability Through The Market: Seven Keys To Success*". The box in which the WBCSD's '7 keys' are shown does not reproduce the original or its summary verbatim from the source - the language and descriptions have been altered. In some cases this has the effect of changing the emphasis, or even meaning, of the original, and omitting some of the points clearly intended to be given considerable emphasis in the original document. This has the effect of presenting the role of business and the market as more passive, less significant, and less constructive than the WBCSD's original. Most mentions of the concerns of mainstream business economics - the importance of competitive markets and consumer choice, free trade, legal protections of property rights etc - have been toned down or taken out.

It is vital that sustainability assessments for any plan, policy, program or project is not overly onerous, unpredictable, time consuming or antidevelopment. There will be substantial negative social and environmental as well as economic effects if projects are unnecessarily delayed or costs increased because of sustainability assessment. CCI is especially concerned about the burden that could be placed on smaller businesses and others that do not have the resources or capacity to enter into a complex and opaque sustainability assessment process. CCI supports a sustainable development process that recognises:

- the essential role of the market in meeting the various and changing needs of the community
- a balanced governance framework that includes property rights, equitable trade terms, respect for comparative advantage, ordered competition between businesses, and predictability of government interventions. (taken in part from *The Business Case for Sustainable Development, 2002*)
- the value of the contribution of business to the process and the ability of business to set their own agenda
- equity in the contribution of all stakeholders to the process

- while consultation is an essential part of the sustainable development, it is not the panacea for success of the process
- government continues to have an essential role in decision making for the good of the whole community
- economic development is an essential component of maintaining and improving social and environmental conditions, both regionally and internationally.



CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA

**CCI Response to**  
***Focus on the Future***  
***The WA State Sustainability Strategy***  
***Consultation Draft***

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## Introduction and Summary

### Introduction

The Chamber of Commerce and Industry of Western Australia (CCI) is pleased to be able to participate in the development of the State Sustainability Strategy.

CCI is the premier business organisation in Western Australia.

It is the second largest organisation of its kind in the country with a membership of more than 5,000 companies in all areas of industry including manufacturing, mining, primary industry, transport, communications, retailing, building and construction, community services and finance.

Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

This submission is CCI's response to the Draft Report 'Focus on the Future: The Western Australian State Sustainability Strategy, Consultation Draft' release by the WA Government in September 2002<sup>\*</sup>.

CCI supports the Premier's statement in the Strategy foreword that the transition

<sup>\*</sup> referred to hereafter as the "Draft Paper"

towards sustainable development will be a journey. The journey should be characterised by frequent discussions about the best approach, with time to consolidate knowledge and further adapt the approach, with recognition that the speed of implementation will vary from time to time with the nature of the issues being addressed.

This submission is in two main parts. The first discusses the concepts of 'sustainable development' and 'sustainability', outlining CCI's preferred definition (which is broadly consistent with that of the World Business Council for Sustainable Development), and our concerns with some of the concepts and definitions of 'sustainability' currently being debated, including some of those in the Draft Report.

The second looks at the likely effects of 'sustainability' and 'sustainable development' in a business context. We have not delved into the specific proposed action statements. CCI has wide ranging issues with the detail of the action statements however, these are best addressed more specifically when the overall policy settings have been determined and in close consultation with relevant stakeholders. We would welcome the opportunity to discuss further any of the points made in this submission.

### Executive Summary

#### Key Concepts and Definitions

CCI believes that, in the context of the current debate and terminology, "sustainable development" is to be preferred to "sustainability" as the phrase describing the core objective of government, business and society at large. Compared to "sustainability", the ideas represented by the term "sustainable development":

- are more clearly defined,
- are more capable of implementation,
- are more widely accepted by and acceptable to the state, national and international communities, and
- represent a more desirable and beneficial set of objectives.

CCI accepts the definition of sustainable development proposed by the World Business Council for Sustainable Development (WBCSD) as:

*"forms of progress that meet the needs of the present without compromising the ability of future generations to meet their need"*

#### CCI's View of Sustainable Development

Rather than demanding trade-offs or compromises, CCI sees the objectives of economic, social and environmental progress as largely complementary, especially in aggregate and over the medium to longer term.

Social, economic and environmental well-





being depend on each other and are mutually reinforcing.

#### **Meeting The Needs Of The Present**

The Draft Paper changed its definition of sustainability to meeting the 'needs' of the present, from the word 'goals' originally proposed in the consultation paper for the State Sustainability Strategy, because submissions to the Sustainability Office argued that the definition of sustainability must include the notion of "genuine need".

CCI disagrees with this approach. Our preferred key gauge of progress in social, cultural and economic activities is in matching the aspirations of the WA community - giving people what they want, rather than what we think they should have.

People are mostly better judges of their own goals and needs than of the goals and needs of others.

In economic terms, the way in which people's goals and needs are most effectively expressed and most efficiently met is through competitive and efficient markets - although there are some exceptions.

CCI endorses the views of the World Business Council for Sustainable Development:

*"Consumer choice in a transparent and competitive market economy can improve everyone's quality of life. Market choices allow us the freedom to decide how best to use our own resources to enhance our quality of life. Providing choice is therefore a key part of promoting sustainable development."*

Meeting the needs of the present means that sustainable development policies should aim to maximise the capacity of the current generation to meet its own needs and goals - not a top-down, centralised attempt to direct activity towards what are judged to be "genuine" needs.

#### **Future Generations**

All definitions of sustainable development include the need to safeguard the interests of future generation.

CCI prefers the WBCSD definition of sustainable development as "...meet the needs of the present without compromising

*the ability of future generations to meet their need"* to the Draft Paper's definition as "...meeting the needs of the current and future generations..."

We do not and cannot know with any certainty what the needs of future generations are or will be.

Over the past few centuries, innovation and human creativity have been the most important ways in which people have found new ways to better meet their changing needs and goals. In the process, they have effected profound and unpredictable changes in their economies, societies, environments and cultures.

If this is the pattern for future generations - and there is every reason to hope that it will be - then many of the 'needs' of the future will be things we cannot anticipate or even comprehend, any more than even our recent ancestors could have imagined the needs and goals of the current generation.

This does not mean that we cannot or should not look to safeguard the interests of future generations. But it means that we will fail to safeguard them if we try to create or preserve for them detailed inventories of natural, social, human and built capital.

Rather, the bequest we should aim to leave to future generations is to provide them with the best possible chances to deal with their own threats and challenges, and to identify and satisfy their own needs and goals, in ways we almost certainly will not be able to anticipate.

The creative engine of social, cultural and economic improvement lies primarily with individuals and the voluntary associations they form and interest they pursue - in businesses, academia, the arts, community services and activities, interest groups, etc.

Achieving social, economic and environmental progress - or sustainable development - requires that diversity, innovation and experimentation must flourish.

#### **Role of Government**

This in turn means that the role of government in achieving sustainable development is mainly to enable, facilitate and support rather than to direct or



prohibit.

The key functions of government include:

- Ensuring the provision of public goods which the private and non-profit sectors would not deliver unprompted, or would not deliver efficiently.
- Providing the key legal protections and framework in which the market economy can perform efficiently (identified by the WBCSD as policies to promote competition, effective intellectual and physical property rights, reliable contractual terms, fair and transparent accounting standards, accountability for government intervention, freedom and democracy, and full-cost pricing of goods and services)
- Acting as regulators or service providers in markets which are unlikely to function efficiently left to their own devices, such as natural monopolies.
- Designing regulations effectively to minimise costs and maximise benefits – including a focus on outcomes, not processes.
- Correcting for negative 'externalities', such as the environmental costs that some economic or social activities incur.
- Supporting and in some cases providing goods, services and activities which have positive 'externalities' or spill-overs – such as education and training, research and development, and public health.
- Co-ordinating and facilitating projects.
- Safeguarding standards of living through income redistribution and social outlays.

A version of the precautionary principle is warranted in the case of government actions, especially those aimed at wholesale changes. Instances of government failure may be at least as widespread and potentially far more damaging than instances of market failure, in part because governments' financial and material resources, and their power to enact legislation, give them the capacity to effect more widespread and profound changes in the economy, society and environment than private individuals or organisations.

Many of the major environmental problems

faced in Australia today are primarily a result of government failure, not market failure, including policies that encouraged the clearing of native vegetation and overstocking of rangelands.

#### ***The Draft Sustainability Strategy's Definition of "Sustainability"***

While the Draft Paper acknowledges that the full meaning of sustainability is still far from settled, it provides the following broad definition:

*"meeting the needs of the current and future generations through simultaneous environmental, social and economic improvement."*

CCI supports the idea that "improvement" is an essential part of sustainability/sustainable development, and agrees that the needs of current and future generations have social, economic and environmental dimensions.

However, we disagree with the paper's insistence that improvement be "simultaneous", especially as interpreted by the paper.

CCI has two key objections to such an approach.

Firstly, the benefits of a particular initiative often eventuate only over time, not immediately or in tandem. Frequently environmental, social and economic systems will show a negative trend during a period of re-organisation or restructure which is then followed by a period of rapid improvement. To demand "simultaneous" improvement seems neither realistic nor necessary.

Secondly, there are many activities whose value in one of the three spheres – economic, environmental or social – will generally outweigh its costs in others. Residential aged care, for example, is heavily supported by government subsidies and may never meet strict criteria of 'sustainability' in economic or environmental terms, but its social benefits outweigh its environmental and economic costs.

The report proposes that a proposal or activity must be demonstrated to pass all three tests – of economic, social, and environmental improvement – to be deemed sustainable.



This approach is based on a variant of the 'fallacy of division' – the belief that something can be true of a thing as a whole only if it is true of its constituent parts. So overall activity is 'sustainable' only if all of the activities within the economy are 'sustainable'.

CCI believes that sustainable development is possible even if many individual activities are not contributing to improvement in all three areas of the economy, society and the environment. What is needed for ongoing environmental, social and economic improvement is that the balance of all activities should result in improvement across all three areas, not necessarily that every initiative should demonstrably generate improvement in all three areas. For example:

- Prohibiting the logging of old growth forest delivers environmental benefits at economic and social cost.
- Subsidised aged care delivers social benefits at economic and environmental cost.
- The mining industry delivers economic and social benefits at environmental cost.

All three could nonetheless be consistent with sustainable development, if the sum of all their benefits exceeds the sum of all their costs.

#### **CCI's View of Evaluating Sustainable Development**

CCI believes that sustainable development is achieved when improvement is attained in all three of the government's substantive objectives- environmental, economic and social. For this to be achieved demands that, in aggregate, the sum of positives from all initiatives must exceed their costs in each of the three key spheres – economic, social, and environmental.

In short, practical policies for implementing evaluation of sustainable development are a lot like traditional cost-benefit analysis, but with the added conditions that:

- overall benefits must exceed costs for all three of the sustainable development goals, not just in aggregate; and
- in consequence, sustainable development may demand a broader

evaluation of the likely consequences of particular initiatives, and especially the unanticipated and unintended consequences of initiatives expected to deliver benefits in one area in terms of their effects in other areas.

If "simultaneous" improvement is not a realistic benchmark for sustainable development, then other criteria and means of establishing priorities will be needed to evaluate activities and decisions.

#### **Evaluation and Implementation in Private Organisations**

Most private organisations manage multiple and conflicting demands and aims as a matter of course. This includes not just businesses but also charities, lobby groups, trade unions, schools and universities, and sporting, religious and cultural institutions.

Businesses, for example, have always juggled the demands of customers, existing and prospective employees, suppliers, regulators, tax collectors, the communities they operate in, media commentators and investment advisors, and of course their shareholders.

These conflicts may not always be handled easily or competently, but they are part of everyday life in most organisations.

Organisations can reconcile conflicting and competing demands because they generally have a substantive goal, or a small set of closely related goals, that is ultimately used as the decisive criterion in decision making. In the case of businesses, this goal is the interests of shareholders.

CCI views concepts such as stakeholder models, corporate social responsibility, sustainable development and the triple bottom line as supportable and potentially beneficial at organisational level - but only if the multiple and conflicting demands that they impose are ultimately subordinate to the organisation's overarching, substantive goal.

We concur with WBCSD President Björn Stigson that:

*"Environmental and social considerations are crucial for today's corporations, but there is in reality only one bottom-line, namely the financial one."*

CCI rejects as undesirable in principle, and unworkable in practice, the view that an organisation's activities should only be deemed 'sustainable' if they can be demonstrated to equally satisfy multiple, contradictory criteria, or the competing and conflicting demands of a range of stakeholders.

#### **Evaluation and Implementation in General Government Policy**

An organisation may resolve conflicts between stakeholders, objectives and values with reference to its substantive objective. But for governments there is no such recourse, because their environmental, economic and social objectives are all substantive.

This does not mean that all substantive objectives should be given equal weight in every government decision, nor that each initiative should necessarily be demonstrated to show positive results against all substantive objectives. The context and purpose of activity will determine the relevance of different objectives, and also the weight and attention given to the costs and benefits they are expected to generate.

This is why a systematic and transparent cost-benefit approach to decision making will be required in developing policies for sustainable development.

Sustainable development policies will help governments to make good decisions, but they are not a substitute for the political process or democratic accountability.

#### **Values, Assumptions and Unintended Consequences**

For the Draft Report's proposed definition of sustainability to be workable requires fairly complete, transparent and generally agreed understanding of what constitutes an economic, social or environmental "improvement". But judging what is an improvement can be imprecise and subjective, especially as information is often imperfect, people's values and worldviews differ, and almost every human activity has unforeseeable consequences which may or may not be beneficial. Evaluating social and cultural "improvement" is particularly difficult.

Even where the consequences of a policy or proposals are well understood, there are

often stark differences of opinion about whether they are beneficial, and conflicts between winners and losers from any proposed activity.

The Draft Report takes as given many contentious propositions, on issues including global population growth, climate change and policies to address it, the means to preserve biodiversity, oil vulnerability, and the flaws of conventional economic theory.

CCI does not believe that the paper's views on these issues are universally accepted in the wider community, nor do they necessarily represent the consensus of those with expertise in the subjects they address. At the very least, they need to be supported with argument and evidence, not just asserted. And contrary views on these issues exist in the community that deserve consideration in policy development.

Some sections of the Draft Paper seek to pass off as commonly accepted a worldview and political philosophy which is in fact not generally held, and in some cases held only by quite a small minority. The discussion of economic instruments for sustainability is perhaps the most egregious example of this approach.

Other parts of the paper tend to selectively edit and interpret the views of participants in the sustainability debate to make them seem more consistent with the views of the Draft Paper's authors. An example is the selective editing of the WBCSD's *"Seven Keys For Sustainability Through The Market"*.

In combination, these characteristics give the Draft Report a tone that is at times ideological, proselytising and lacking balance. CCI believes that these characteristics detract from the useful analysis and positive recommendations that the Draft also contains.

#### **Politics or Policy?**

In proposing a sustainability framework that potentially encompasses and evaluates almost all activities of governments, businesses and the wider community, the Draft Paper proposes in effect a meta-policy, standing above and behind almost every private and public initiative.





In the process, it proposes that many activities and powers of government should be used to promote the sustainability agenda. Even exhaustive consultation processes do not necessarily guarantee community support.

The Government's key responsibility is to serve the whole community, and sustainable development is a tool to allow it to do this better.

#### **The Contribution of Business**

CCI believes that the Draft Paper systematically downplays the role of business and its contribution to the theory and practice of sustainable development.

CCI's complaint here is not simply sour grapes that its members are not getting the credit they deserve. Rather, our concern is that this lack of recognition of the achievements and positive contribution of business to sustainable development leads to three fundamental problems with the Draft Paper's approach.

Firstly, because it does not recognise the extensive work already in place, it proposes many wholly new initiatives, rather than seeking to build upon and expand businesses' existing initiatives, and learn from their successes and failures.

Secondly, it fails to recognise that the initiatives businesses have taken are largely in response to changes in the business environment. These include identification of new threats and opportunities, changes in the perceptions of the public, customers and community, reassessment of risk, a better understanding of the business benefits of measures consistent with sustainable development, and the need to protect and enhance corporate reputations. These have been, and in CCI's view will continue to be, the main factors driving businesses to pay greater attention to sustainable development issues.

Thirdly, in consequence, the Draft Paper places too little emphasis on measures which will reinforce and encourage business initiatives in exploring practical and innovative approaches to sustainable development, and too much on government's role.

In combination with the many other

proposals to manipulate and micro-manage the activities of the private sector, this means that the thrust of the paper is that businesses must be compelled or cajoled into conforming to the government's own sustainability agenda.

#### **The WBCSD's "7 Keys for Success: Sustainability Through the Market"**

The Draft Paper's tendency to downplay businesses' concerns, initiatives and achievements is particularly evident in its representation of the WBCSD's "Sustainability Through The Market: Seven Keys To Success".

The box in which the WBCSD's '7 keys' are shown does not reproduce the original or its summary verbatim from the source – the language and descriptions have been altered. In some cases this is clearly for the sake of brevity or explanation with little effect on the intent or meaning of the original. But in others it has the effect of changing the emphasis, or even meaning, of the original, and omitting some of the points clearly intended to be given considerable emphasis in the original document.

Typically, these redactions have the effect of presenting the role of business and the market as more passive, less significant, and less constructive than the WBCSD's original. Most mentions of the concerns of mainstream business economics – the importance of competitive markets and consumer choice, free trade, legal protections of property rights etc - have been toned down or taken out.

#### **Business Concerns, And Policies In Practice**

Part 2 of this paper discusses specific business concerns about how the Draft Paper's policy proposals might work in practice, and also highlights some of the sustainable development initiatives already being undertaken by the business community.

While CCI found many parts of the state Sustainability Strategy Consultation Draft wanting, CCI does not reject the move towards sustainable development.

CCI supports a sustainable development process that recognises:

- the essential role of the market in

meeting the various and changing needs of the community

- a balanced governance framework that includes property rights, equitable trade terms, respect for comparative advantage, ordered competition between businesses, and predictability of government interventions. (taken in part from *The Business Case for Sustainable Development, 2002*)
- the value of the contribution of business to the process and the ability of business to set their own agenda
- equity in the contribution of all stakeholders to the process
- while consultation is an essential part of the sustainable development, it is

not the panacea for success of the process

- government continues to have an essential role in decision making for the good of the whole community
- economic development is an essential component of maintaining and improving social and environmental conditions, both regionally and internationally.

CCI looks forward to participating in the development of a Western Australian sustainable development strategy.

## Key Concepts and Definitions

### Introduction

CCI believes that, in the context of the current debate and terminology, "sustainable development" is to be preferred to "sustainability" as the phrase describing the core objective of government, business and society at large. It believes that, compared to "sustainability", the ideas represented by the term "sustainable development":

- are more clearly defined,
- are more capable of implementation,
- are more widely accepted by and acceptable to the state, national and international communities, and
- represent a more desirable and beneficial set of objectives.

### Definitions

#### **Defining "Sustainable Development"**

CCI broadly supports the sustainable development agenda and concurs with many of the ideas expressed by the World Business Council for Sustainable Development (WBCSD) in its recent paper *The Business Case for Sustainable Development*. In particular, we agree that the pursuit of sustainable development is good for our enterprises, the planet and its people.

The WBCSD states that:

*"We define sustainable development as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs."*

This adopts and refines the widely-recognised definition 1987 Brundtland Commission's 1987:

*"development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*

Substituting the phrase "forms of progress" for the word "development" better reflects the fact that improvements in human welfare come from changes perhaps more broadly defined than the term

'development' might imply, while at the same time challenging the more static and anti-growth views of those who argue that 'progress' is not possible, or that 'sustainability' requires an end to economic growth and avoidance of social, cultural and particularly environmental change.

How to achieve our present objectives "without compromising the ability of future generations to meet their needs" is still problematic. We cannot anticipate what the needs of future generations will be, and innovation and technical change will continue to represent the most important way in which people find new ways to better meet their needs from the scarce resources available.

Providing future generations with the best possible chances to meet their own needs, in ways we may not be able to anticipate, is the most effective way to serve their interests.

For example, the natural resources, built assets and human capital which best met the needs of our grandparents' generation would likely serve our grandchildren very poorly.

CCI endorses the WBCSD's refined version of the long-established principle of sustainable development.

The WBCSD's approach has other features which CCI would support, and which have sometimes been overlooked or underplayed in the sustainable development/sustainability debate.

In particular, we would highlight the following observations from its report:

*"Sustainable development is best achieved through open, competitive, rightly framed international markets that honour legitimate comparative advantages. Such markets encourage efficiency and innovation, both necessities for sustainable human progress."*

*"Business remains the most potent force for wealth creation. The extent to which that wealth goes toward poverty alleviation depends largely on societal choices. Countries do not*



*have low incidences of poverty because of their welfare programs, but largely because they have created frameworks that encourage business enterprise. These enterprises offer people tools (business opportunities, jobs, wages, investment possibilities, training, and pensions) with which to build secure lives."*

### **CCI's View of Sustainable Development**

Rather than demanding trade-offs or compromises, CCI sees the objectives of economic, social and environmental progress as largely complimentary, especially in aggregate and over the medium to longer term.

Our prosperity underpins our quality of life in the wider sense.

As CCI has argued elsewhere<sup>1</sup>, economic welfare is only one component of a society's quality of life, but it is an essential one. A high and rising material standard of living is a legitimate aspiration for West Australians and for the governments and institutions that serve them.

Furthermore, the capacity of society to meet its social, environmental, political, humanitarian and cultural aspirations depends on the resources – human, technological and natural – at its disposal.

So a high and rising level of economic welfare is not only an important and legitimate objective in its own right, it is also a necessary component of improvement across most if not all of the activities that contribute to Western Australians' quality of life.

Around the world, growth in prosperity is associated with cleaner and healthier natural environments, better opportunities for education, safer conditions at work, in the community and in the home, longer life expectancies and generally better well-being in almost all senses of the term.

Indeed, the World Summit on Sustainable Development recognised that development is a central element of global action to fight poverty and protect the environment. Paragraph 2 of the Plan of Implementation from the World Summit states

*"...These efforts will also promote the integration of the three components of sustainable development – economic development, social development and environmental protection – as interdependent and mutually reinforcing pillars. Poverty eradication, changing unsustainable patterns of production and consumption, and protecting and managing the natural resource base of economic and social development are overarching objectives of, and essential requirements for, sustainable developments".*

Further paragraph 4 goes on to say:

*"The gap between developed and developing countries points to the continued need for a dynamic and enabling international economic environment supportive of international cooperation, particularly in the areas of finance, technology transfer, debt and trade, and full and effective participation of developing countries in global decision-making...."*

Appendix 3 discusses some recent analysis of, and evidence on, the relationship between prosperity and environmental protection.

This does not mean that economic considerations should take precedence over environmental or social ones.

It can equally well be argued, for example, that an efficient economy and respect for the environment are only possible in a healthy and functional society (see below).

At the extreme, neither society nor the economy can exist without some level of environmental services.

Social, economic and environmental well-being depend on each other and are mutually reinforcing. For particular activities, projects or policies there will be conflicts and trade-offs between them. But in the long run, improvements in one of these key areas of the economy, environment and society will be linked to improvements in the other two.



This understanding underpins CCI's interpretation of sustainable development.

### **Present Progress**

Part of the WBCSD's definition of sustainable development is of "...forms of progress that meet the needs of the present...".

The Draft Paper reports some debate on the word 'needs'. In preparing the Report, the Sustainability Office received several submissions arguing that its definition of sustainability should use the word 'needs' not 'goals' (the word originally proposed in the consultation paper for the State Sustainability Strategy) because *"the definition of sustainability must include the notion of genuine need and that the use of the word goals made the definition unnecessarily ambiguous."* (page 24). The word "needs" was substituted for "goals" in response to these comments.

CCI believes that such an interpretation is presumptuous and unworkable. Who is to judge whether or not another's goals represent *"genuine needs"*? By what right do they deny people the chance to pursue their goals, whether they represent *"genuine needs"* or not? What accountability mechanisms and sanctions are to be put in place to ensure the assessors of *"genuine need"* make the right choice and penalise them if they don't?

People are mostly better judges of their own goals and needs than of the goals and needs of others, and they have the right to act on their own judgement. This is an important philosophical point that distinguishes CCI's approach to sustainable development from that of the submissions arguing for *"genuine needs"* only to taken into account in defining sustainability, and indeed evident in other parts of the draft paper.

Our preferred key gauge of progress in social, cultural and economic activities is in matching the aspirations of the WA community - giving people what they want, rather than what we think they should have.

In economic terms, the way in which people's goals and needs are most effectively expressed and most efficiently met is through competitive and efficient markets.

As the WBCSD puts it:

*"Consumer choice in a transparent and competitive market economy can improve everyone's quality of life. Market choices allow us the freedom to decide how best to use our own resources to enhance our quality of life. Providing choice is therefore a key part of promoting sustainable development."*

CCI<sup>2</sup> endorses the WBCSD's analysis, and adds that the benefits of competition do not only lie in generally leading to the best match between scarce resources and people's needs at any given time. Competition also contributes to sustainable development in the long term (see next section).

This emphasis on competition does not deny an economic role for government in sustainable development<sup>†</sup>. A market system cannot work effectively without certain rights and processes being maintained and protected by government.

The WBCSD summarises these succinctly:

*"Legislation and regulations should promote competition, effective intellectual and physical property rights, reliable contractual terms, fair and transparent accounting standards, accountability for government intervention, freedom and democracy, and full-cost pricing of goods and services. Governments' most effective means towards better market frameworks is specifying a desired result rather than paths towards that result."*

These are the crucial priorities of economic sustainability<sup>‡</sup> and maximising the capacity

<sup>†</sup> the broader roles of government are discussed on page 8

<sup>‡</sup> While this section has focussed mainly on the economic aspects of meeting present needs, CCI has parallel concerns about some of the Draft Paper's attempts to define and promote social and cultural sustainability. In a similar vein to the attempt to distinguish "goals" from "genuine needs", these policies risk pushing a particular interpretation of what is socially or culturally acceptable on a population that might not mostly, and certainly won't entirely, concur with than interpretation.

These concerns are addressed in more detail

of the current generation to meet its own needs and goals – not a top-down, centralised attempt to direct economic activity towards what are judged to be “genuine” needs.

### **Future Generations**

Competition not only leads to the efficient use of resources at any point in time, it also induces innovation and experimentation that leads to more effective use of resources over time.

This improved effectiveness is measured in economic activities as productivity growth – notably the labour productivity growth which allows economies to produce (and therefore people to consume) more goods and services for any given amount of employee effort; and materials productivity growth, which allows the goods and services that people value to be produced by using a lower volume, and progressively lower values, of physical inputs.

This process, sometimes called ‘dematerialisation’, is vital if social, economic and environmental improvement is to be maintained in developed economies and extended into developing ones over the longer term.

This is particularly important for the second key plank of sustainable development – serving the needs and interest of future generations.

In the WBCSD and Brundtland definitions of sustainable development this is expressed as:

*“...without compromising the ability of future generations to meet their needs.”*

While the Draft Paper’s proposed definition is:

*“...meeting the needs of the current and future generations...”*

CCI believes that the WBCSD/Brundtland definition is preferable, because we do not and cannot know with any certainty what the needs of future generations are or will be.

Over the past few centuries, innovation and human creativity have been the most

below.

important ways in which people have found new ways to better meet their changing needs and goals. In the process, they have effected profound and unpredictable changes in their economies, societies, environments and cultures.

If this is the pattern for future generations – and there is every reason to hope that it will be – then many of the ‘needs’ of the future will be things we cannot anticipate or even comprehend, any more than even our recent ancestors could have imagined the needs and goals of the current generation.

This does not mean that we cannot or should not look to safeguard the interests of future generations. But it means that we will fail to safeguard them if we try to create or preserve for them detailed inventories of natural, social, human and built capital<sup>§</sup>.

Rather, the bequest we should aim to leave to future generations is to provide them with the best possible chances to deal with their own threats and challenges, and to identify and satisfy their own needs and goals, in ways we almost certainly will not be able to anticipate.

In the context of defining sustainable development, this means respecting the “ability” of future generations to meet their own needs, rather than trying to meet them ourselves.

It also demands a model of development that is more decentralised, and a decision-making processes that is more devolved, than the orchestrated, government-directed and legally-enforced approach frequently advocated in the Draft Paper.

Virginia Postrel is a notable enthusiast for the creative and vibrant dynamism that arises from human creativity and spontaneous order, while recognising that its uncontrolled unpredictability can seem threatening. In “The Future and its Enemies”, she argues that:

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<sup>§</sup> Although of course, the likelihood that future generations will need and value the essentials that we and all past generations have valued highly – such as breathable air and drinkable water – is high enough that these should be accorded very high priority in sustainable development.





*"In our post-Cold War era, for instance, free markets are recognized as powerful forces for social, cultural, and technological change—liberating in the eyes of some, threatening to others. The same is true for markets in ideas: for free speech and worldwide communication; for what John Stuart Mill called "experiments in living"; for scientific research, artistic expression, and technological innovation. All of these processes are shaping an unknown, and unknowable, future. Some people look at such diverse, decentralized, choice-driven systems and rejoice, even when they don't like particular choices. Others recoil. In pursuit of stability and control, they seek to eliminate or curb these unruly, too-creative forces."*

CCI does not share all of Postrel's optimistic enthusiasm for spontaneous and unpredictable creativity – it can have negative consequences. Furthermore, we recognise that there are many things that current and/or future generation need which individuals and markets left alone cannot deliver, or will deliver more effectively with government assistance and guidance. This means that CCI recognises a greater role for governments and technocrats in helping to achieve sustainable development than Postrel and her Dynamist colleagues would accept (see below).

But we share her view that the creative engine of social, cultural and economic improvement lies primarily with individuals and the voluntary associations they form and interest they pursue – in businesses, academia, the arts, community services and activities, interest groups, etc.

And we agree that achieving social, economic and environmental progress - or sustainable development - requires that diversity, innovation and experimentation must flourish.

#### **Role of Government**

This in turn means that the role of government in achieving sustainable development is mainly to enable, facilitate and support rather than to direct or prohibit.

We have already discussed the role of governments in providing the legal protections necessary for the effective operation of markets (see page 10 above).

In addition, the key functions of government include:

- Ensuring the provision of public goods<sup>3</sup> which the private and non-profit sectors would not deliver unprompted, or would not deliver efficiently.
- Acting as regulators or service providers in markets which are unlikely to function efficiently left to their own devices, such as natural monopolies.
- Correcting for negative 'externalities', such as the environmental costs that some economic or social activities incur.
- Supporting and in some cases providing goods, services and activities which have positive 'externalities' or spill-overs – such as education and training, research and development, and public health.
- Co-ordinating and facilitating projects.
- Safeguarding standards of living income redistribution and social outlays.

It is often pointed out, correctly, that the textbook model of perfectly competitive markets is seldom if ever encountered in reality. This does not mean, however, that significant and harmful market failures warranting government intervention are widespread. Most markets function with a fairly high degree of efficiency. Even those that don't can't often be readily remedied.

Where there is a remedy available, often the best solution is one that makes the market work – for example, by conferring clear and defensible property rights (the success of the licensing system in managing WA's rock lobster resource is a good instance).

And where regulatory solutions are appropriate, they should be carefully designed to generate the maximum benefit at the minimum cost.

This is particularly important in the context of regulations to promote sustainable development, where popular debate tends to focus on the judgemental and the punitive – how to prevent the occurrence of negative externalities entirely, or punish

the perpetrators.

Ronald Coase, a groundbreaking theoretician on externalities and property rights, suggested a judgemental approach fails to recognise the reciprocal nature of externalities:

*"The question is commonly thought of as one in which A inflicts harm on B and what has to be decided is: how should we restrain A? But this is wrong. We are dealing with a problem of a reciprocal nature. To avoid the harm to B would inflict harm on A. The real question that has to be decided is: should A be allowed to harm B or should B be allowed to harm A? The problem is to avoid the more serious harm"*

These cautions indicate that government interventions in the wider economy need to be carefully thought through and demonstrably justified before being implemented.

This is particularly true because a version of the precautionary principle is warranted in the case of government actions, especially those aimed at wholesale changes. Instances of government failure may be at least as widespread and potentially far more damaging than instances of market failure. Their potential to do more harm derives from many factors, including:

- the greater financial resources available to governments, and the expectation that this makes them responsible for 'nation-building' investments and programs,
- their capacity to legislate to enforce policies,
- The importance of the reputation for fair and good governance encapsulated in political capital,
- the separation of decision-makers from the providers and consumers of goods and services who sometimes have the greatest awareness of which will work in practice, including unintended consequences, and
- the protection of decision-makers from the consequences of their actions because they do not own the resources they use and cannot usually be held legally or financially accountable for the consequences of poor decisions –

or even politically accountable, if those consequences emerge over a number of years.

While the theoretical analyses of the causes and effects of government failure are found mainly in economics, the adverse consequences are as often as not social and/or environment, not economic.

Many of the major environmental problems faced in Australia today are primarily a result of government failure, not market failure:

- It was government that encouraged and even compelled the removal of native vegetation from land in Western Australia, making the clearing of trees a condition of land grants. The result today is the growing problem of salinity, and the associated environmental degradation and economic and social costs it has imposed.
- In WA's rangelands, pastoral leases still require minimum stocking levels which exceed what many believe are sustainable stock numbers, and may prevent pastoralist from shifting from grazing to more sustainable activities such as tourism.
- Visionary government planners gave us the Snowy Mountain power and irrigation scheme, whose over-use of water resource now threatens the water quality of Australia's greatest waterway, the livelihood of a major farming region and the drinking water of hundreds of thousands of people.

The statutory powers and financial and material resources at governments' disposal make them more capable of implementing far-reaching change, and therefore more capable of inflicting widespread damage, than most private individuals or institutions.

How governments should go about assessing their appropriate involvement in sustainable development is explored in more detail in CCI's View of Evaluating Sustainable Development on page 16 below.

#### **Defining "Sustainability"**

The terms 'sustainable development' and 'sustainability' have been around for many



years. Viewed in isolation from the interpretations that have come to be associated with them, and based on the meanings of the words themselves, there is little to choose between the two expressions as descriptions of policy objectives.

However, both have been interpreted in a range of ways that reflect the values and philosophical predispositions of the individuals or groups discussing them.

This is true of both the phrases 'sustainability' and 'sustainable development'. While the Brundtland definition of 'sustainable development' remains the authoritative benchmark definition of the term, there is a wide diversity of views about what it can and should mean in practice.

In current policy debate, the term 'sustainability' has sometimes been used interchangeably with 'sustainable development' (as defined broadly by Brundtland) or perhaps with a more detailed agenda for putting the Brundtland principles into practice.

But it has also come to be associated with wider policy agendas which CCI views as at times vague, internally inconsistent, overly ambitious in scope, prescriptive in its philosophical leanings, and at times hostile to economic growth and hence (in CCI's view) to human welfare.

The Draft Paper acknowledges that the definition of sustainability is far from settled:

*"There is considerable discussion about the meaning of sustainability, particularly in academic and professional circles. Pezzoli has found ten types of definition on sustainability in four key areas of concern. For many, the difficulty in pinning down a precise meaning is reason enough for them to consider that the concept has no relevance.*

*"Such dismissal misses the point. The concept has not come from academia or the professions, it has come from global politics as a way of asking the world to resolve a fundamental tension that has developed between environmental, social and economic improvement.*

*The resolution of this tension is the challenge for sustainability."*

This also, in CCI's view, misses the point. The problem posed by the absence of precise meaning of the term "sustainability" is not one of "relevance" but of application.

A range of vague and contradictory concepts and political philosophies, and of benign and potentially very harmful policy prescriptions, coexist under the umbrella term 'sustainability'. They also exist in the Draft Paper. They make a useful basis for an important ongoing debate, but that debate is unlikely to be resolved definitively for many years.

But until these are resolved, it would be irresponsible of CCI (or indeed any other participant in the policy debate) to give unqualified endorsement to a 'sustainability' strategy, still less for government to use it as the basis for comprehensive policy agenda. Ideas can fruitfully evolve through analysis and dialogue. Regulations can't.

Government cannot demand that businesses, community groups or even its own agencies conform to a sustainability policy if it cannot tell them, in a meaningful way that can underpin practical actions, what sustainability is.

#### ***The Draft Sustainability Strategy's Definition of "Sustainability"***

While the Draft Paper acknowledges that the full meaning of sustainability is still far from settled, it provides a broad definition:

*"meeting the needs of the current and future generations through simultaneous environmental, social and economic improvement."*

CCI is pleased that this proposed definition incorporates the ideas of progress and improvement – an contrast to some definitions of 'sustainability' that are hostile to the concepts of "development", with it implication that economic growth is a desirable objective.

CCI is also comfortable with the fact that the definition spells out that the needs of current and future generations have social, economic and environmental dimensions. Indeed, with this exception the definition seems at first glance broadly similar to the



WBCSD and Brundtland definitions.

**"Simultaneous" Improvement**

However, the requirement for "simultaneous" improvement is potentially of great concern and has potentially widespread ramifications – as the paper acknowledges:

*"The definition of sustainability in the draft Strategy is challenging and visionary. It implies, for example, that an activity that only addresses two of the dimensions simultaneously (say provides both economic and social gains but 'trades off' the environment) is ultimately not sustainable."*

To call this "challenging" is an understatement.

CCI has two key objections to such an approach.

Firstly, the benefits of a particular initiative often eventuate only over time, not immediately or in tandem.

Frequently environmental, social and economic systems will show a negative trend during a period of re-organisation or restructure which is then followed by a period of rapid improvement.

For example a community may suffer terribly over an extended period while a drug gang is pursued and removed from the community.

There is no doubt that there will be a significant improvement eventually, but a period of pain both socially and probably economically must be suffered first.

Similarly, an ecosystem such as a river may suffer a series of shocks over a long period during a program to eradicate a weed, resulting in a decline in the health of the river ecosystem, to be followed by an improvement.

Economic restructuring and reform can cause short-term stress but lead to stronger growth in the longer term, as the experience of Australia in the past 20 years attests.

To demand "simultaneous" improvement seems neither realistic nor necessary.

Secondly, there are many activities whose value in one of the three spheres –

economic, environmental or social – will generally outweigh its costs in others. Residential aged care, for example, is heavily supported by government subsidies and may never meet strict criteria of 'sustainability' in economic or environmental terms, but CCI believes that its social benefits outweigh its environmental and economic costs.

To deny ourselves the benefits of particular initiatives which have the potential to contribute greatly to our economy, society or environment on the basis that they do not make immediate, concurrent, demonstrably positive contributions to all three would be poor public policy.

This might not be a problem if the intent were to evaluate social, environmental and economic improvement holistically, looking across society, the economy and the environment as a whole.

But the Draft Report clearly intends applying this definition of sustainability not only to the economy, society, or the environment as integrated and interacting systems, but to particular initiatives and activities within these spheres.

And not only that, but a proposal must be demonstrated to pass all three tests – of economic, social, and environmental benefits – to be deemed sustainable.

This approach is based on a variant of the 'fallacy of division' – the belief that something can be true of a thing as a whole only if it is true of its constituent parts. So activity is 'sustainable' only if all of the activities within the economy are 'sustainable'.

For example, the Draft Report states that there have been "...mining activities showing net environmental benefit, for example, where companies purchase pastoral leases to mine a small proportion and manage the majority of those leases for nature conservation." By implication, a loss making pastoral lease and an environmentally destructive mine site are each unsustainable in themselves, but a business can become 'sustainable' if it does both.

Yet the overall impact on society, the environment, and the economy is identical whether the activities are undertaken by one 'sustainable' organisation or two



'unsustainable' ones.

### **CCI's View of Evaluating Sustainable Development**

CCI believes that sustainable development is possible even if many individual activities are not, in isolation, sustainable. What is needed for ongoing environmental, social and economic improvement is that the balance of all activities should result in improvement across all three areas, not necessarily that every initiative should demonstrably generate improvement in all three areas.

So, for example, it may be that:

- Prohibiting the logging of old growth forest delivers environmental benefits at economic and social cost.
- Subsidised aged care delivers social benefits at economic and environmental cost.
- The mining industry delivers economic and social benefits at environmental cost.

All three could nonetheless be consistent with sustainable development, if the sum of benefits exceeds the sum of costs for all three.

Sustainable development demands that the balance of the effects of all initiatives taken should, in aggregate, generate ongoing and enduring improvement in all three spheres, not that each separate initiative be made to demonstrate improvement in all three (see page 18 below).

For individual initiatives, it is necessary only that their aggregate benefits exceed their aggregate costs if they are to make a positive contribution to social welfare. While in aggregate, the sum of positives from all initiatives must exceed their costs in each of the three key spheres – economic, social, and environmental.

In short, practical policies for implementing evaluation of sustainable development are a lot like traditional cost-benefit analysis.

There are, however, two important additions.

Firstly, traditional cost-benefit analysis focussed only on the size of the balance of outcomes for a particular initiative, project or program, without much concern for the components of the benefits and costs.

In theory, under such a framework it would be possible to initiate (for example) a government policy agenda comprising programs which all delivered environmental benefits at social and economic cost, thereby leading to an aggregate outcome delivering substantial environmental improvement but a deterioration for society and the economy.

Sustainable development demands not only that individual activities yield more benefits than costs, but also that the overall composition of activities yields improvement, on balance, across all substantive objectives.

Secondly, sustainable development may demand a broader evaluation of the likely consequences of particular initiatives, and especially the unanticipated and unintended consequences of initiatives expected to deliver benefits in one area in terms of their effects in other areas.

It has been argued that cost-benefit analysis cannot quantify and evaluate social and environmental costs and benefits as readily and objectively as it can measure economic costs and benefits, especially when these are narrowly defined.

There is much validity in these criticisms, but they do not constitute a case for adopting other means of assessment.

Short of ignoring things that are hard to quantify and whose value is subjective, disputed or impermanent, any method which seeks to choose between options or activities faces the same difficulties.

In choosing to discontinue the logging of old growth forests, for example, the government demonstrated that it believes the value of the un-logged forest to exceed the value that would be derived from logging (or it believes that the community's values incline this way).

However difficult it may be to put a 'value' on old growth forest, such judgements are inescapable in everyday political decision making.

Cost-benefit analysis tries to make such judgements in a way which is, as near as possible, systematic, methodical and transparent.

So do the various interpretations of

sustainable development sustainability assessment – including that proposed in the Draft Report.

Indeed, the Draft Paper's description of how sustainability assessment might work in practice look a lot like cost-benefit analysis:

*"Sustainability assessment involves gathering information about the impact of the project, plan, policy, policy or program (PPPP) against relevant sustainability principles and government goals. Once that information has been collected, an assessment can be made as to*

*whether the PPPP has an overall net benefit relative to other alternatives.*

*"It is recognised that some PPPP may have an adverse impact on some sustainability principles and that some trade-offs are inevitable. In short, a PPPP will be acceptable as long as it does not compromise the government's ability to achieve any of its sustainability principles and it has a greater net benefit than alternatives when all relevant economic, social and environmental factors are taken into account."*(page 38)

### Evaluation and Implementation Concerns

If "simultaneous" improvement is not a realistic benchmark for sustainable development, then other criteria and means of establishing priorities will be needed to evaluate activities and decisions.

#### **Evaluation and Implementation in Organisations**

This need not be especially problematic in principle in the course of decision-making processes within most organisations.

Businesses, for example, have always juggled the demands of customers, existing and prospective employees, suppliers, regulators, tax collectors, the communities they operate in, media commentators and investment advisors, and of course their shareholders.

Other organisations also manage multiple and conflicting demands and aims as a matter of course, including charities, lobby groups, statutory authorities, schools and universities, and sporting, religious and cultural institutions.

These conflicts may not always be handled easily or competently, but they are part of everyday life in most organisations.

Organisations can reconcile conflicting and competing demands because they generally have a substantive goal, or a small set of closely related goals, that is ultimately used as the decisive criterion in decision making.

As Elaine Sternberg explains in a critique of stakeholder theory<sup>1</sup>:

*"if the purpose of the corporation is*

*to maximise long-term owner value, or to produce the environmentally-friendliest widgets, or to provide employment for the blind, that purpose enables managers to identify which groups need to be considered, and which of their perceived benefits are relevant and legitimate; it indicates how benefits are to be ranked, and how conflicts are to be resolved."*

However, if the organisation does not have a single overarching substantive purpose but recognises conflicting interests as having authority to influence the organisation's operation (what Sternberg calls "stakeholder entitlement theory"), then the capacity to rank and evaluate conflicting claims breaks down:

*"To be workable, stakeholder theory must employ the very substantive objectives that it explicitly rejects."*

Or, as WBCSD President Björn Stigson put it in the keynote speech<sup>2</sup> at a meeting of the Austrian Business Council for Sustainable Development in Vienna in April 2002:

*"Environmental and social considerations are crucial for today's corporations, but there is in reality only one bottom-line, namely the*

<sup>1</sup> Similar comments were made in Stigson's speech on corporate social responsibility to participants in the December 2002 workshop at Curtin University, held in the preparation of the draft discussion paper





*financial one.*<sup>10</sup>

CCI's view of sustainable development in the context of businesses and other organisations is broadly consistent with the underlying rationale of both Sternberg's and Stigson's statements.

It regards concepts such as stakeholder models, corporate social responsibility, sustainable development and the triple bottom line as supportable and potentially beneficial at organisational level - but only if the multiple and conflicting demands that they impose are ultimately subordinate to the organisation's overarching, substantive goal.

In the case of businesses, this goal is the interests of shareholders.

CCI rejects as undesirable in principle, and unworkable in practice, the view that an organisation's activities should only be deemed 'sustainable' if they can be demonstrated to equally satisfy multiple, conflicting criteria (see also page 16 above).

#### **Evaluation and Implementation in General Government Policy**

An organisation may resolve conflicts between stakeholders, objectives and values with reference to what Sternberg calls its substantive objective. But for governments there is no such recourse, because their environmental, economic and social objectives are all substantive.

This does not mean that all substantive objectives should be given equal weight in every government decision, nor that each initiative should necessarily be demonstrated to show positive results against all substantive objectives. The context and purpose of activity will determine the relevance of different objectives, and also the weight and attention given to the costs and benefits they are expected to generate.

This is why a systematic and transparent approach to decision making will be required in developing policies for sustainable development, in line with the cost-benefit principles outlined above (page 16).

It also requires that all processes are, in the final analysis subject to the scrutiny and approval of Parliament and the

accountability of the ballot box.

Sustainable development policies will help governments to make good decisions, but they are not a substitute for the political process or democratic accountability (see *Politics or Policy?* on page 21 below).

#### **Values, Assumptions and Unintended Consequences**

For the Draft Report's proposed definition of sustainability to be workable requires fairly complete, transparent and generally agreed understanding of what constitutes an economic, social or environmental "improvement". But judging what is an improvement can be imprecise and subjective, especially as information is often imperfect, people's values and worldviews differ, and almost every human activity has unforeseeable consequences which may or may not be beneficial.

Evaluating social and cultural "improvement" is particularly difficult, as is (perhaps to a lesser extent) environmental improvement. Grand plans are vulnerable to the law of unintended consequences. History provides numerous examples of ideas which were initiated in the expectation of social improvement but which delivered the exact opposite, including the stolen generation and high density state housing (which happily in Australia never reached the bleakness of Britain's urban-fringe council estates or Le Corbusier's high-rise French ghettos).

Australia's grandest "nation building" project was the snowy mountain scheme, who's undoubted engineering achievement and immediate social and economic benefits have come at longer-term environmental cost that we have only comparatively recently started to appreciate.

Even where the consequences of a policy or proposals are well understood, there are often stark differences of opinion about whether they are beneficial, and conflicts between winners and losers from any proposed activity.

Many contemporary social phenomena, and the proposed policies that might influence them, are highly contentious.

Is the rise of the single parent family and persistent high divorce rate a reflection of the greater freedom and autonomy of

people (particularly women) in contemporary society, or a sign of societal breakdown?. Should the government support working women by introducing paid maternity leave, encourage parents to raise their own children full-time by targeting benefits at those who stay at home, or leave such choices to parents? Is Australia's multiculturalism producing a vibrant and exciting society gaining strength from its flexibility, diversity and tolerance, or a fractious and disunited one losing its unique and valuable cultural identity to an ideology of political correctness? Should the Government encourage the decline in Australia's fertility rate as an environmentally responsible contribution to slowing global population growth, or try to reverse it because of its perceived negative economic and social impacts?

Rather than confronting such deeply divisive issues, the Draft Report takes as given many contentious propositions:

- *"global population needs to stabilise, as a continuously growing population undermines sustainability"*. and that *"it is important to consider what Western Australia can do to play its part addressing this fundamental sustainability issue"*. (pages 75 and 76).
- *"Biodiversity conservation is intimately linked to issues of population growth and consumption, planning and development, greenhouse and the management of natural resources."* (p. 80)
- *"The evidence is overwhelming; human activity has interrupted the global carbon cycle and is beginning to have a profound impact on the Earth's climate. Over the past 25 years, the South West of Western Australia has experienced a 50% reduction in rainfall run off. This is at least partly due to global climate change. We must now adapt to climate change and work to achieve a global reduction in greenhouse gas emissions."* (page 86).
- The picture of oil vulnerability described on page 89 reflects only one interpretation of the world's oil future, and a relatively alarmist one. Other authorities (such as the US Energy

Information Administration) project that world production will peak much later.

CCI acknowledges that all of these views are defensible. Our key argument is not that they are wrong (though we believe some are), but that they are controversial.

The paper's views on these issues are not universally accepted in the wider community, not do they necessarily represent the consensus of those with expertise in the subjects they address. The Draft Report asserts many such claims as the premises underlying its policy proposals.

But at the very least, they need to be supported with argument and evidence, not just asserted. And other views of these issues exist in the community that deserve consideration in policy development. There is a danger that, by identifying these views with sustainability, they will pass indirectly into accepted policy without receiving the scrutiny and debate they should.

Similarly, some sections of the Draft Paper seek to pass off as commonly accepted a worldview and political philosophy which is in fact not generally held, and in some cases held only by quite a small minority. The discussion of economic instruments for sustainability is perhaps the most egregious example of this approach, and is analysed in more detail in Appendix 1 on page 32. Another is this statement:

*"We are living in an age that seeks to invent a new system of partnership between the government, business and civil society, recognising the need for the market to be regulated consistent with the government's commitment to sustainability. This new partnership will enable Western Australia to seize the economic opportunities that the sustainability agenda can provide."* (p. 195)

Other parts of the paper tend to selectively edit and interpret the views of participants in the sustainability debate to make them seem more consistent with the views of the Draft Paper's authors. An example is the selective editing of the WBCSD's *Seven Keys For Sustainability Through The Market*, analysed on page 24 and set out in

tabular form in Appendix 2 on page 36.

In combination, these characteristics give the Draft Report a tone that is at times ideological, proselytising and lacking balance. CCI believes that these characteristics detract from the useful analysis and positive recommendations that the Draft also contains.

### **Means and Ends**

This lack of a clear understanding of what sustainability means in practice (see discussion on page 14 above) may be the reason for one of the Draft Paper's other main weaknesses its focus on processes not outcomes. When the ends are not clear, the policy becomes overly preoccupied by means.

Government interventions work best when they specify clear and measurable outcomes and leave the means of achieving them to be determined by the affected parties. In this respect, we endorse the views of the WBCSD, and indeed would argue that its principle of good regulatory design is applicable more widely than the design of market frameworks:

*"Governments' most effective means towards better market frameworks is specifying a desired result rather than paths towards that result."*

The Draft Paper's overarching concern to ensure that sustainability is pursued across a range of government activities. This leads it to propose that government can enforce sustainability through virtually any of the regulatory and licensing mechanisms at its disposal, virtually none of which were never intended or designed to be used in this way.

So, without regard to property rights, consumer preferences or social consequences, it proposed that sustainability criteria can be enforced through building approvals processes and the renewal of pastoral leases, government purchasing policies and the provision of business incentives. This goes far beyond the initial limitation of sustainability principles to 'state significant' projects (see *Scope of Assessments* on page 28 below). Furthermore, it appears that these rules are to be used to enforce sustainability principles before it has been

determined definitively what sustainability actually means (see page 14). And there is no suggestion that these regulatory imposts are to be subject to critical cost-benefit analysis (page 16) to determine whether their anticipated benefits exceed their costs.

For example:

- With regard to project developments – *"In addition to institutional arrangements, the ability to set social and economic conditions for project approvals as well as environmental conditions needs to be established to make sustainability assessment of projects function as an integrated process. This may require legislative change in the medium term."* CCI is supportive of businesses' efforts to integrate social and environmental considerations into their projects, and to demonstrate these and the economic benefits of their activities to the wider community (see *Business Concerns, and the Policies in Practice* on page 27). But we would strongly oppose the imposition of a raft of non-commercial conditions on businesses as a condition for project approval. Such practices have proved in the past to be ineffective and damaging, and at times skirted close to blackmail.
- With regard to residential building: *"Planning for building development, especially residential planning, requires rethinking the existing approvals process to explicitly support sustainable building guidelines in terms of placement, access, shape and orientation."* Again, the implication is that plans failing to conform to the planners' sustainability values will not be approved.
- In the pastoral industry: *"There are significant opportunities for the pursuit of sustainability to contribute to a viable future for the rangelands. There is potential to extend the work of the Gascoyne-Murchison Strategy Regional Environmental Management Program to other parts of the rangelands to ensure sustainable management into the longer term. In addition, such a process could provide the mechanism by which the government would recognise accreditation prior to consideration of*



*lease renewal, so that the state in its capacity as land owner and landlord can be confident about the likelihood of future management being consistent with sustainability principles."*

- In government policy setting and purchasing – *"Part of the government's leadership role is to ensure that its agencies embrace and pursue sustainability principles, supporting a transition to a more sustainable future through its considerable influence in setting policies, making decisions, purchasing and procurement and managing its own activities to positively support sustainability."* Areas where the draft suggest that purchasing might be used to promote sustainability include recycling, innovation, and renewable energy. This overlooks the poor historical record and negative impacts of governments' attempts to manipulate the market through its purchasing decisions, from local content rules to the promotion of Total Quality Management.
- Education and the arts are to be recruited to sell the sustainability message, for example: *"the arts can be extensively employed as a means to engender sustainable community development goals through problem definition, communication, collaboration and celebration. In addition arts and cultural organisations have the capacity for reflection, criticism and articulation of community concerns."*

CCI is confident that WA's vibrant and diverse artistic community will continue to perform such functions. But to argue that the arts "can be extensively employed as a means to engender community development goals", suggests a directed propaganda role that is quite disturbing.

It is one of many instances in which prescriptions of the Draft Report imply a directing hand in social, cultural and economic affairs that CCI believes is excessive, inappropriate and intrusive.

#### **Politics or Policy?**

This leads to a final concern about the ambition and scope of the Draft Report. In proposing a sustainability framework that potentially encompasses and evaluates

almost all activities of governments, businesses and the wider community, it proposes in effect a meta-policy, standing above and behind almost every private and public initiative.

In the process, it proposes that many activities and powers of government should be used to promote the sustainability agenda. CCI believes that using policy tools intended for other purposes in this way would be intrusive, counter productive, inefficient and in some cases profoundly damaging.

CCI is comfortable with the notion that sustainable development (as properly defined) has wide application and relevance, and can be used as a benchmark and guide in many different contexts and circumstances.

However, we would oppose the treatment of sustainable development (or sustainability) the universal or dominant paradigm by which all policy is evaluated and shaped, as the examples in the preceding section would imply.

In many situations a dispassionate and uncontested assessment of what is or is not sustainable is not possible, because of subjectivity of assessment, the necessity for compromise and trade-offs between interest and objectives, the impossibility of satisfying all stakeholders equally, the inevitability of uncertainty and ignorance about the consequences of particular actions, and deeply held disagreements about how the world does and should work.

It is because of these complexities, conflicts and ambiguities that the ultimate forum for evaluating and approving or rejecting policy is Parliament, not the bureaucracy.

The Draft Report emphasises consultation and stakeholder dialogues, and these can be useful in providing the government with the full range of views from the community, in apprising it of the detailed concerns of parties whose interest will be significantly affected by its decisions, and through these processes in maintaining legitimacy by being seen to consult.

But consultation is not a substitute for democracy, nor is accommodating vested interests necessarily the same as serving

the broader community interest.

As the government learned to its cost in its consultation on the Roe Highway development, even exhaustive consultation processes do not necessarily guarantee community support.

The Government's key responsibility is to serve the whole community, and sustainable development is a tool to allow it to do this better.

But it gains its legitimacy and is held to account through the ballot box, not stakeholder dialogues.

Sustainable development must not become a substitute for the democratic process, nor a means of elevating a particular worldview and political philosophy into a position of presumed superiority over alternative or conflicting ideas.

### The Contribution of Business to Sustainable Development

CCI believes that the Draft Paper systematically downplays the role of business and its contribution to the theory and practice of sustainable development.

#### Community, Government And The Market

This is evident in the model (figure 10 in the Draft Paper, reproduced below) and discussion of "The interconnection of community, government and the market." on page 165.

The accompanying text reads:

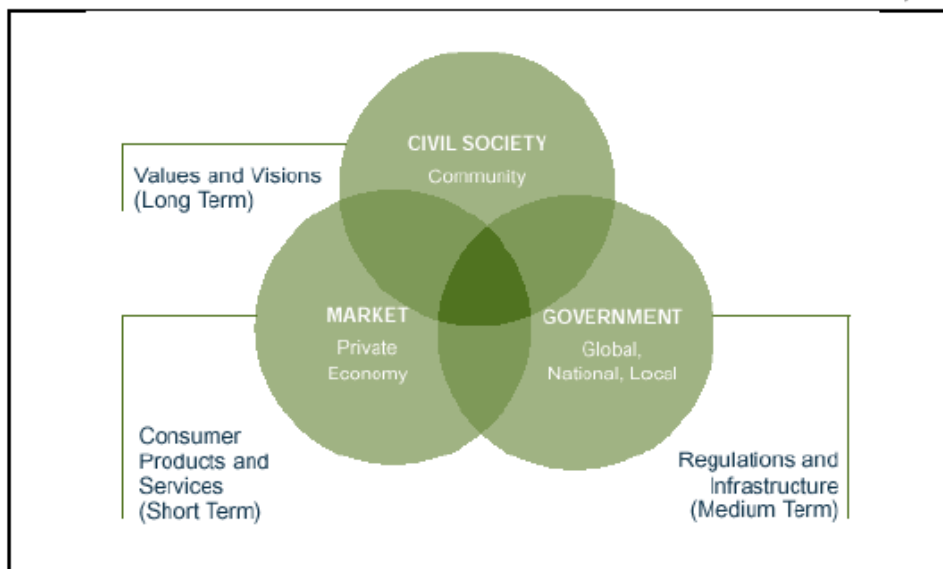
*"The primary function of government is to provide regulation and infrastructure, the market's function is to provide goods and services-but neither of these is about the direction and purpose of development. The community is the major provider of the values and visions for the future. This section*

*will follow through on the values and visions set by the community and will emphasis the importance of finding partnerships that enable a true interconnection between government, market and civil society."*

The market is, in fact, the "interconnection" between producers and consumers, the means by which the community gives expression in the economic sphere to its goals and needs, "values and visions".

It provides a more meaningful, productive and effective interconnection than can be mediated by either government or "civil society", and responds more quickly to changes in community visions and values than bureaucracy or interest groups are likely to manage.

Definitions of the term "civil society" differ,



and in its broadest interpretation civil society is the community. However, CCI rejects strongly any identification of the community and "civil society" if the latter is taken to mean the range of non-government organisations, political and environmental lobby groups, charities and special interest that are often termed "representatives of civil society". These agencies cannot speak with authority for the community at large (rather than the particular interests within the community that they represent, which they often serve very effectively).

We also reject the claim that "civil society", by this definition, is able to represent the long-term visions and values of the community. It comprises coalitions of people pursuing particular interests, values and policies. Many make a useful contribution to policy debate, while others provide valuable community services. It is not CCI's intention to denigrate these important functions. But individually or in aggregate, these agencies do not represent the whole community.

The inference that the market exists as a vehicle to serve the agendas of governments and the community's values expressed through "civil society" implies a tractability which also profoundly misreads the nature of the market. Markets work because they are an effective dialogue between contracting parties. Introducing a third party into the process will mean a worse outcome for both consumers and producers.

#### **The Business role in Sustainability**

Admittedly, the Draft Paper mentions some of the achievements of the business community in developing the concept and principles of sustainable development, and in dealing with the pragmatic difficulties of putting these principles into practice.

But in CCI's view these important initiatives are given less prominence than they merit, with the section dedicated to "Sustainability and business" comprising just 15 of the Draft Report's 236 pages (and three of these comprise an attack on a misrepresentation of economics rather than a discussion of business activities - see Appendix 1 on page 32)

Where businesses' contribution is recognised, it is perceived as limited in

scope and recent – for example:

*"Individual companies in Western Australia are also **beginning** to take innovative approaches to sustainability" (page 195, emphasis added).*

In fact, many WA companies have been developing, elaborating and fine-tuning approaches to sustainable development over many years.

For example, consideration of social, environmental and economic benefits has been an integral part of the assessment of resource development by the Water Corporation (and its predecessors) for over 20 years. Other organisations, such as the Main Roads and Shire Councils, have also been incorporating social and environmental factors as well as cost into their project assessments.

Industry has also been incorporating sustainable development principles into day-to-day operations. Companies such as Woodside, WMC, Hamersley Iron, Newmont, Shell, BP, Alcoa, Wesfarmers CSBP and Chevron Texaco have been incorporating community and environmental aspects into their operations (as a quick search on the Internet will show), and regularly report their social and environmental performance along side their financial performance.

CCI's complaint here is not simply sour grapes that its members are not getting the credit they deserve. Rather, our concern is that this lack of recognition of the achievements and positive contribution of business to sustainable development leads to three fundamental problems with the Draft Paper's approach to sustainable development.

Firstly, because it does not recognise the extensive work already in place, it proposes a wholly new approach, rather than seeking to build upon and expand businesses' existing initiatives, and learn from their successes and failures. That approach is to impose from outside a one-size-fits-all model which CCI believes is unlikely to deal with the complex, varied, contradictory and unpredictable problems that sustainable development principles confront in real business environments.



Secondly, it fails to recognise that the initiatives businesses have taken are largely in response to changes in the business environment.

These include identification of new threats and opportunities, changes in the perceptions of the public, customers and community, reassessment of risk, a better understanding of the business benefits of measures consistent with sustainable development, and the need to protect and enhance corporate reputations.

These have been, and in CCI's view will continue to be, the main factors driving businesses to pay greater attention to sustainable development issues.

Thirdly, in consequence, the Draft Paper places too little emphasis on measures which will reinforce and encourage business initiatives in exploring practical and innovative approaches to sustainable development, and too much on government's role.

In combination with the many other proposals to manipulate and micro-manage the activities of the private sector (some of which were outlined under *Means and Ends* on page 20) the thrust of the paper is that businesses must be compelled or cajoled into conforming to the government's own sustainability agenda.

#### ***The WBCSD's "7 Keys for Success: Sustainability Through the Market"***

The Draft Paper's tendency to downplay businesses' concerns, initiatives and achievements is particularly evident in its representation of the WBCSD's "Sustainability Through The Market: Seven Keys To Success". These are listed on page 195 of the Draft Paper. The box in which the WBCSD's '7 keys' are shown does not reproduce the original or its summary verbatim from the source – the language and descriptions have been altered. In some cases this is clearly for the sake of brevity or explanation with little effect on the intent or meaning of the original. But in others it has the effect of changing the emphasis, or even meaning, of the original, and omitting some of the points clearly intended to be given considerable emphasis in the original document.

Typically, these redactions have the effect of presenting the role of business and the

market as more passive, less significant, and less constructive than the WBCSD's original. It gives greater emphasis to the role of government and other actors besides business, and presents the initiatives proposed in the '7 keys' as things that should be done, while omitting the WBCSD's clear inference that many will be done by businesses acting largely on their own initiative. It emphasises the political, social and cultural context in which businesses operate more than the original.

Most mentions of the concerns of mainstream business economics – the importance of competitive markets and consumer choice, free trade, legal protections of property rights etc - have been toned down or taken out.

A side-by-side comparison of the WBCSD's own summary of its '7 keys' and the version printed in the Draft Paper is given in Appendix 2. Some of the more telling differences include:

- on key 1 (innovation) the WBCSD argues that *"today all businesses must innovate to survive and to prosper"* (ie they already do it) but that *"...innovators today must innovate openly, and identify and publicize the values that underpin their approaches to innovation. Any innovation process must be sensitive to the interests of the public."* This is rendered in the Draft Paper as *"Establish a culture and capacity for technological and social innovation to generate sustainable solutions, products and services."*
- on key 2 (practice eco-efficiency), the WBCSD's summary begins by describing eco-efficiency as *"a management strategy that combines environmental and economic performance."* The Draft Paper's summary makes no mention of either economic performance or management strategy.
- on key 4 (provide and inform consumer choice) the WBCSD makes a powerful statement about the value of markets and consumer choice – *"Consumer choice in a transparent and competitive market economy can improve everyone's quality of life. Market choices allow us the freedom to decide*

*how best to use our own resources to enhance our quality of life. Providing choice is therefore a key part of promoting sustainable development."*

These points (and all others emphasising the positive contribution of markets to sustainable development) are omitted completely in the Draft Paper's summary. Also on point 4, the WBCSD's statement says that *"Business and other stakeholders can use the media and advertising to promote sustainability messages, fostering a consumer culture that helps people wield the power of demand in a thoughtful way."* This is rendered in the Draft Paper as *"Business, Government and community organisations using the media, advertising and other forms of communication, combined with behavioural change programs to promote sustainability messages, fostering a consumer culture that helps people wield the power of demand in a thoughtful way."* (changes emphasised). The addition of 'behavioural change programs' appears entirely gratuitous.

- on key 5 (improve market framework conditions) the WBCSD re-states the widely-held views of business about the importance of appropriate legal structures to support its wealth-creation role. These views are strongly endorsed by CCI, and are reproduced here in full:

*"Markets depend on a stable and supportive framework of public policy. The rule of law, freedom of competition, transparent accounting standards, and a safe social context all contribute to the ability of business to create wealth. Market aspects which hinder sustainability include monopolies, corruption, perverse subsidies, and prices which do not reflect real economic, social, and environmental costs."*

*"Legislation and regulations should promote competition, effective intellectual and physical property rights, reliable contractual terms, fair and transparent accounting standards, accountability for government intervention, freedom and democracy, and full-cost pricing*

*of goods and services. Governments' most effective means towards better market frameworks is specifying a desired result rather than paths towards that result."*

- Of these, only the explicit market failures are mentioned in the Draft Paper: *"Market aspects which hinder sustainability include monopolies, corruption, perverse subsidies, and prices which do not reflect real economic, social, and environmental costs."*, and the implication is that only these need to be addressed through legislation and regulation: *"Legislation and regulations to address these market failures are required in order for business to help achieve sustainability"*, not the positive framework for competition, protection of property rights and emphasis on outcomes not processes which are the main thrust of the WBCSD's position.
- on key 7 (*"make markets work for everyone"*) the WBCSD's key message is that bringing the poor into effective market frameworks is the best way to alleviate poverty. This is entirely overlooked in the Draft Paper's analysis, which chooses to interpret the proposal as a call for re-distribution and technology transfer. The WBCSD summarises this argument as:

*"Poverty is one of the single largest barriers to achieving sustainability through the market. The 2.8 billion people living on less than two dollars a day have little or no access to the market to improve their lives. The market does create enterprises and jobs, but there will be rewards for companies who deliberately create more opportunities and a better quality of life for the poorest. Many of these opportunities will lie in the areas of healthcare, water, housing, nutrition, electricity, education, appliances and sanitation."*

*"Protectionism makes it harder for business to seize such opportunities. Making the market work for everyone involves two basic measures: enabling access to effective markets and spreading consumer purchasing power. Many successes are based on partnerships between businesses and*



*government or civil society organizations – or often on alliances involving all three.*

*"Our vision is that as society approaches a balance among economic, environmental and social sustainability, markets will become transparent, stimulate innovation, and be catalysts for change toward a better quality of life for everyone.*

*"Realizing this vision may require that business acts on opportunities and responsibilities that may have traditionally been considered outside the realm of the market. The primary function of business – to create wealth via its economic activities – will not*

*change. Yet business must work with government and civil society organizations to determine what roles are best for business and what roles best left to the other sectors."*

This is interpreted in the Draft Paper as:

*"Ensure that new technologies and sustainable goods and services are affordable to all in society, and that they are transferred to developing regions of the world to alleviate poverty and increase intra-generational equity."*

In combination these changes serve to misrepresent the policies that they purport to report. They omit or downplay many of the most important of the WBCSD's points.



## Business Concerns, and the Policies in Practice

The preceding two sections outlined CCI's in-principle concern with the concept and definition of 'sustainability', particularly as proposed in the Draft Report. It outlines CCI's support for the more clearly defined and widely recognised concept of 'sustainable development'.

This section expands on our concerns about how it might work in practice, particularly in the business environment or with respect to issues that affect CCI's members directly.

### Sustainability Assessment

The Draft Paper argues that "*sustainability assessment is not meant to provide another set of barriers or 'hoops to jump through'*" (p.36), but CCI is concerned that this is what the Draft Paper in fact proposes.

It is vital that any sustainability assessments for any plan, policy, program or project (or, as the Draft Paper abbreviates it, PPPP) is not overly onerous, unpredictable, time consuming or anti-development.

WA needs a system of development approvals that is simple, predictable and transparent, and allows the State as a whole to grow and develop in a sustainable manner and contribute to sustainable development in the rest of the world.

There will be substantial negative social and environmental as well as economic effects if projects are unnecessarily delayed or costs increased because of sustainability assessment. CCI is especially concerned about the burden that could be placed on smaller businesses and others that do not have the resources or the capacity to enter into a complex and opaque sustainability assessment process.

CCI is particularly concerned to draw a clear distinction between:

- the sustainability assessment which government may undertake in evaluating PPPPs which are the initiative of its own departments and agencies;
- the sustainability assessments which

the business sector and other non-government sectors may choose to undertake – and which larger businesses in industries such as mining **are** increasingly choosing the undertake – in evaluating and supporting their own proposals (often in co-operation with government); and

- the requirements that proponents of business and other initiatives must comply with in order to gain approval to proceed.

CCI believes that it is appropriate and beneficial for government agencies (including government business enterprises) to undertake sustainability assessment of its own proposals and activities.

As addressed on page 16 above, we view properly defined sustainable development assessment as an appropriate extension of the cost-benefit analysis that should precede and support all significant government initiatives.

The fact that such assessment processes are already in place in many agencies, and have been used for many years, is indicative of the fact that such assessment is established practice.

CCI is also broadly supportive of the sustainability assessments, triple bottom line analyses and other initiatives being undertaken voluntarily by a growing number of business enterprises, especially larger corporations in industries such as mining and manufacturing.

Two of the examples quoted in the Draft Paper illustrate the initiatives already being undertaken in WA, namely Hamersley Iron's adoption of sustainability assessment as an "*an internal decision-making process*", and the exhaustive sustainability assessment being undertaken of the proposed Gorgon project.

As noted previously (p 23) other organisations such as WMC, Newmont, Alcoa, Shell, Woodside and BP are evaluating their day-to-day operations in a sustainable development context and willingly reporting their performance in



public annual reports.

Such voluntary initiatives by the private sector are important to businesses in demonstrating the benefits of their business, identifying ways of adding value to their operations, and establishing community support and understanding of their operations.

Proponents of new proposals can be greatly assisted in this process by the active support and involvement of government, both because of the expertise and experience it can bring to bear, and for its credibility as an impartial assessor acting in the community interest.

CCI believes that such voluntary assessments will continue to become more widespread and common, and that government has a role in supporting and encouraging this process.

But techniques such as triple bottom line accounting are still relatively new, with no authoritative standard on how the social and environmental bottom lines are to be measured, still less how then can merge into one. As Roger Kerr has said:

*"Financial reporting has evolved over centuries to provide meaningful information about company profitability, but even so accounting practices can be controversial and subject to change. No one has the foggiest idea how to go about environmental and social reporting in an equally rigorous way, let alone how to lump three bottom lines together meaningfully. Nor is it obvious why three bottom lines should be preferred to four or five - including things like ethics and corporate governance. There are serious risks that by going down this path companies will neglect their prime duty to create shareholder value, waste money on consultants and corporate bureaucracies, and create multiple objectives which blur the accountability of boards and management for performance."*<sup>7</sup>

This may not be an insurmountable problem for businesses undertaking sustainability assessment for their own purposes and on their own initiative.

However, there is a major difference

between the activities which businesses undertake on their own behalf – often to provide evidence in support of a major project, and especially in industries like mining with above-average environmental and social sensitivities – and the requirements which they are obliged to meet in order to gain permission to proceed.

CCI does not support obligatory sustainability assessment reporting which makes project approval contingent on demonstrating positive benefits on hard-to-measure, subjective and often contentious criteria such as social value.

This point was made in CCI's submissions to the Review of the Project Development Approvals Systems (the Keating Review), which produced its final report in April 2002. While CCI was broadly supportive of the intentions and direction of the Keating review, it expressed reservations about its proposals on sustainability.<sup>8</sup>

#### Scope of Assessments

The Draft Paper uses the Keating review as its starting point to determine where sustainability assessment might be applied in the private sector:

*"It is proposed that sustainability assessment **will begin** by focusing on state significant projects, as set out by the Review of Project Development Approvals System. These are projects with a high level of formal environmental assessment or are of significant public interest."* (p.38, emphasis added)

But the Keating Review assigned less likelihood and importance to extending the system beyond 'state significant' projects:

*"Given the complexity and potential costliness associated with attempting to assess sustainability, at least in the short term, and, as smaller developments will most likely have a commensurately smaller impact, it is suggested that only the proponents of major developments should be asked to provide to government and public a statement of the impact of the development in terms of sustainability."* (p.118)

To the extent that the government's

sustainability framework is extended to smaller and less significant projects, Keating envisaged that it would be government operations, not business requirements, that will be the main engine of change:

*"For smaller projects the economic and social impact will typically be relatively insignificant, although some small projects may still have a significant impact on their local environment, especially if their collective impact is taken into account. As government moves to implement its policies for sustainability, the main changes that can be anticipated for smaller projects will be a change in the way government fulfils its responsibilities for development. Smaller proponents may experience relatively little change in the information demanded of them when seeking approvals, but more will be expected of larger proponents."* (p.108)

although:

*"It may be that as the new integrated approvals system beds down, the opportunity will arise to expand the system to smaller projects and/or to urban developments."* (p.119)

This emphasis on using government's co-ordinating capacity for achieving improvements across social, environmental and economic activities, rather than requiring that each initiative itself demonstrate social, economic and environmental benefits, is broadly consistent with CCI's understanding of the means to achieve sustainable development outlined in on page16.

The Keating Review also made the point that:

*A key risk to proponents is one of increased expense and delays associated with a new sustainability-based assessment and approvals process where the objectives, roles and responsibilities, and processes are unclear. If the requirements for a sustainability-based assessment are well defined, however, such an assessment could avoid unnecessary*

*delays by providing a more holistic approach to a development."*  
(p. 105)

Yet, as the Draft Paper concedes, *"Not all large projects could begin to be assessed using sustainability assessment as the processes are yet to be properly developed."* (p.38) CCI does not support compulsory sustainability assessment, and would be particularly opposed to compulsory assessment for any large project until such time as clear and well-defined processes are properly developed.

### **Compulsory Sustainability Assessment**

This leads to a more pragmatic consideration of sustainability assessment.

Although CCI does not support compulsory assessment, it recognises the political reality that the Government may choose nonetheless to proceed with it.

In that event, CCI believes that the following consideration should shape the design of policy, echoing the Keating Review's caution on the need for clarity and definition. The assessment process must also be consistent and equitable, giving proponents confidence that approval will be granted if their projects meet specified criteria.

To achieve this, the assessment process should establish the minimum requirements for proponents. Some proponents will exceed the minimum requirements in response to the nature of the proposal, its location or its technology, while others, in meeting the requirements will be able to establish that their project meets sustainable development criteria.

The transition from the existing system of minimising environmental impacts for net economic benefit to a system that strives for net environmental, social and environmental benefits should occur over a period long enough to allow for adjustment and correct for mistakes.

CCI is very concerned that the development of a sustainability assessment process under the Draft Paper's proposed definition of sustainability may hinder beneficial development of key infrastructure such as transport networks, power generation, schools, commercial centres, water collection and storage



assets, waste management facilities and industrial processing facilities that are necessary to sustain our communities because:

- They may not be able to demonstrate simultaneous social, environmental and economic benefits.
- The assessment system will be so onerous that proponents will be discouraged from entering it.
- Mitigation requirements to ensure net benefits across all three criteria will be expensive and beyond the competence and core business of the proponent.
- This in turn will undermine competitiveness.
- The consultation process will result in 'stakeholder fatigue' and an overly lengthy process for no significantly better outcomes (see below).
- The consultation process will undermine the established democratic process and property rights (see above).

Table 2 on page 37 of the draft strategy lists possible criteria for a sustainability assessment, from a 'positive' and a 'negative' perspective. CCI provides cautious support for the nature of the criteria and suggests that the criteria should be progressive, ie be managing the negative criteria **with a view** to the achieving positive criteria.

For example, using two of the criteria proposed on page 37:

- Minimises impacts on access, equity and human rights in the provision of material security and effective choices **with a view to** increasing access, equity and human rights in the provision of material security and effective choices
- Minimises the damage to biodiversity, ecological integrity and life support systems **with a view to** improving biodiversity and ecological integrity and building life support systems.

Proponents would meet the 'negative' criteria as a minimum, but identify and negotiate areas where they can promote positive outcomes.

CCI notes that industry has already taken the initiative and several sectors have

developed and are further developing their own principles for sustainable development performance, including the business sector through WBCSD and the mining and minerals sector through the International Council on Mining and Metals. The oil and gas sector are currently developing principles based on existing codes and the principles developed by the mining and minerals sector. Much of this work has been undertaken on a global scale to fit the particular needs of each sector, further emphasising that a one size fits all approach will be to the detriment of the aims of sustainable development.

WA's sustainable development cannot be viewed only in isolation. Our ability to contribute to sustainable development globally, and particularly in developing countries, also needs to be taken into account.

Careful consideration should be given to the recommendations from the Keating Review to ensure the key requirements for an efficient process are incorporated into the new process. Review of existing established processes, such as that of the Water Corporation, should also be undertaken.

CCI believes if an assessment process is to be imposed, it should be developed in close consultation with stakeholders, particularly with industry and government proponents who will be required to navigate the system. It should be a government-lead process in which inputs and consideration from wider non-government organisations are not given disproportionate influence relative to their stake in the process.

Government needs to show leadership and ensure that the process is not overly onerous or anti development.

CCI strongly believes that using citizen's juries for complex-planning decisions does not provide equitable, cost efficient or balanced outcomes. Rather, it is likely to be expensive, protracted, and unpredictable, and not safeguard against perverse outcomes that would be difficult to implement.

CCI would participate in an Industry-Government working group on Sustainable Development Assessment if Proposed Action 1.2 is implemented.





In summary, in the event that sustainability assessment is implemented, the process should:

- Build on existing examples and experience
- Take heed of the Keating Review

recommendations

- Be clear, consistent and equitable
- Be appropriate for the level of development
- Be government lead rather than community driven
- Be consultative

## Appendix 1: Economics and Sustainability

Draft Paper Text	CCI Comment
<p>Changes in the approach to economics recognises that neo-liberal economics contains many assumptions that are false and that undermine efforts to protect the environment and achieve sustainability. For example, the following assumptions have been common in conventional economic theory:</p>	<p>Economist J. Bradford DeLong has pointed out that, <i>"As with any intellectual and policy movement named by its adversaries, it is sort of hard to figure out what neoliberalism is."</i><sup>40</sup></p> <p>Andrew Norton argues that while it may not be clear what the term 'neoliberal' implies of the people it is used to describe, it helps to describe the people who use it:</p> <p><i>"Using 'neoliberal' is code for 'I am a left-winger who does not like markets'. It is a leftist version of the secret handshake; a signal that the reader is with fellow travellers. It is especially useful for academics seeking overseas recognition and the globalised anti-globalisation movement"</i><sup>41</sup></p> <p>The opening sentence infers:</p> <ul style="list-style-type: none"> <li>• that "conventional economic theory" and "neo-liberalism" are the same, a claim that most "conventional economists" would contest.</li> <li>• that there has been a mass conversion within economics because its "assumptions" are now known to be "false". This is wrong.</li> <li>• that the 'assumptions' listed below are those of "conventional economics" or "neo-liberalism" or both. In fact, CCI is not aware of any school of economic thought based on these assumptions.</li> </ul> <p>These opening sentences set up and attempt to refute a distorted 'straw man' misrepresentation of conventional economics which bears no relationship to the discipline as actually practiced.</p>
<ul style="list-style-type: none"> <li>• the economic system is separate from ecological systems</li> </ul>	<p>This statement is in one sense trivially true - the economic system is of course part of ecological systems, but so are the laws of cricket and the deliberations of theologians. Identifying them as such does little to help analyse or evaluate them, nor does it establish some priority or superiority of ecological over economic values, as the statement might infer.</p> <p>If, however, it argues that economics takes no account of the dependence of economic activity on natural resources, or of the interaction of economic activity on the environment, then it is wrong. Perhaps the most widely quoted definition of economics is "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" (Robbins 1935). "Conventional" economics textbooks have for decades addressed pollution and externalities, common goods, property rights, resource depletion and innovation etc.</p>

<ul style="list-style-type: none"> <li>trends in prices show there are no limits to resources because technology and innovation will always find replacements for scarce resources</li> </ul>	<p>Economists argue that, when a resource become scarce relative to the demand for it, its price tends to increase. This in turn causes consumers to reduce demand and producers to search for new sources and substitute goods. The historical evidence supporting this view is widespread and persuasive. Some go further and argue that this process is so effective that there is in effect no meaningful physical limit on available natural resources. This is a more controversial position, but merely asserting that it is "false" does not make it so,</p>
<ul style="list-style-type: none"> <li>access to information to guide consumer choice is perfect</li> </ul>	<p>Perfect information is a technical condition for perfect competition, but this a model, not a description of real markets.</p>
<ul style="list-style-type: none"> <li>the value of a resource, good or service today is always greater than its value in the future.</li> </ul>	<p>The value of future use of a good or service may be more or less than its present value. However, it is generally the case that, other things being equal, present consumption is preferred over future consumption. This is not because the value of the resource is assumed to be greater now than in future, but because there is a risk that future benefits will not be realised than does not attach to immediate consumption. An asset's owners may die, the asset may be stolen or otherwise taken from them, or the asset's technology might become outdated or be superseded. See also below.</p>
<p>New approaches to economic theory acknowledge that:</p>	
<ul style="list-style-type: none"> <li>the economy is a creation of and is contained within the society and that the society is a creation of and is intimately connected with the ecology</li> </ul>	<p>see above</p>
<ul style="list-style-type: none"> <li>material, energy and water flows in the global economy are currently not sustainable and have exceeded the carrying capacity of the planet</li> </ul>	<p>This is a circular argument – the "unsustainable" nature of the current global economy is surely a proposition to be proven, and, if proven, addressed as a policy issue.</p>
<ul style="list-style-type: none"> <li>consumers and producers usually act in the absence of information, particularly information on the ecological and social consequences of a decision</li> </ul>	<p>This has long been acknowledged in mainstream economics.</p>
<ul style="list-style-type: none"> <li>discounting procedures in economic policy work against inter-generational equity, and can result in perverse ecological and social impacts.</li> </ul>	<p>Discounting is entirely rational (see above), and need not work against inter-generational equity. However, it can be problematic assigning values to benefits and costs expected be incurred over very long timeframes. The literature suggest many possible solutions, including variable discount rates</p>
<p>This new approach to economics will fundamentally redefine how we conceive of progress and development. We will begin to see a new direction in economic development emerge. Alternative approaches to the economic assessment of private investment decisions and government policy will become standard and will help drive society toward sustainability.</p>	<p>This may be the author's view, but it is not supported by argument or evidence.</p>
<p>Alternatives to Gross Domestic Product (GDP) will also become important in measures of eco-efficiency. For example, currently eco-efficiency</p>	<p>This is another straw man. The deficiencies of GDP as a measure of economic well-being are very widely acknowledged. More comprehensive</p>

<p>at a macro-economic level is determined by the amount of material, energy and water required to produce a unit of GDP. More accurate measures of eco-efficiency will use alternatives to GDP that are capable of reflecting human progress in an ecological context as the coefficient in eco-efficiency ratios.</p>	<p>measures have not yet been developed because of the difficulties of measuring certain key items accurately, and the necessary subjectivity in choosing the weights of different components of alternative welfare measures.</p> <p>The issue of materials productivity is discussed on page 11.</p>
<p>... The Dow Jones Sustainability Index and other similar indices are showing consistently higher rates of return for investors than traditional indexes. The scale and rate of growth of the global ethical investment sector, and the incorporation of sustainability principles into the investment behaviours of the market in general has enormous implications for the development and transfer of sustainable technologies and businesses. Government has an important role to play in encouraging the direction of a greater proportion of capital to sustainability. In particular, small and medium size businesses often have difficulty accessing ethical investment funds, and government can play a useful role in linking Western Australian innovations for sustainability with these funds.</p>	<p>The apparently superior performance of ethical investment and similar finds observed in the late 1990s took something of a battering in the past couple of years, as the high-tech and high profile businesses they tended to favour suffered disproportionately in recent share market corrections.</p> <p>CCI recognises that these initiatives reflect a legitimate desire on the part of some investors to direct their finds towards some types of business and away from others. However, we think that the paper may be over-stating their significance – though fast-growing (until recently at least) they still represent a small proportion of all .</p> <p>We do not support a role for governments in "encouraging the direction of a greater proportion of capital to sustainability", because of the subjective and personal nature of judgements about ethical or sustainable investment, and because determining these values is the prerogative of investors.</p>
<p>... The structure of the economy is partly determined by the subsidies and indirect support that has been used to attract and support particular industries. A 1996 study of subsidies by the Commonwealth Government in Australia was able to identify \$13.7-14.8 billion that are provided for the use of natural resources. These subsidies are often important in maintaining international competitiveness, supporting new industries and jobs and can enable the state to ensure that the economy moves in a particular strategic direction. However, they also distort the market, and can encourage unsustainable patterns of development.</p> <p>Through the Department of Industry and Technology and the Small Business Development Corporation, government provides a range of incentives and support measures to assist in the development of business in Western Australia.</p> <p>There is potential to guide the allocation of these measures to promote sustainability.</p>	<p>CCI has always been sceptical of the benefits of most forms of government subsidies for industry. Subsidies have a poor record of supporting new industries and jobs, and we believe that the shape and composition of economic activity is best left to individuals, businesses and entrepreneurs to determine, and should not be made to conform to a "particular strategic direction".</p> <p>Introducing additional sustainability criteria into existing support schemes is likely to lead to multiple and conflicting objectives and reduce the capacity to judge the effectiveness of schemes.</p> <p>However, we agree that perverse incentives can distort the market and encourage unsustainable development, and would endorse the World Business Council for Sustainable Development's view that <i>"The market system needs accurate and timely price signals so that resources are not wasted and future opportunities squandered."</i> This will typically mean fewer subsidies, and matching costs and prices.</p>
<p>The government can take a lead in generating the necessary financial reforms and economic policies for sustainability. For example, over the long term government could progressively introduce the triple bottom line to the State budget, and could develop a full cost accounting system that better reflects the environment and social costs of decisions. The state government also has significant reserves at its disposal and has the potential to stimulate markets in the way</p>	<p>CCI agrees that the government can set the lead in introducing sustainable development though its own agencies – many are far advanced in this already.</p> <p>However, we would have strong reservations about directing the treasury's investments towards political ends. Its primary responsibility is good stewardship. The history of ideologically driven government investment decisions in WA</p>





it invests these reserves and in the banking and finance decisions it takes. The Department of Treasury of Finance could examine how it may be able to help drive the shift to sustainability through its financial decisions on issues like reserves, investment and banking decisions.

and elsewhere is not a happy one.



## Appendix 2: WBCSD and Draft Paper Summary Compared on “7 Keys to Success”

WBCSD Original	Draft Paper
<b>Key 1 Innovate</b>	
Today all businesses must innovate to survive and to prosper. Both technological and social innovation can do much to improve quality of life and address the depletion of resources and the build-up of pollution around the world. Yet innovators today must innovate openly, and identify and publicize the values that underpin their approaches to innovation. Any innovation process must be sensitive to the interests of the public.	Establish a culture and capacity for technological and social innovation to generate sustainable solutions, products and services.
<b>Key 2 Practice eco-efficiency</b>	
Eco-efficiency is a management strategy that combines environmental and economic performance. The strategy enables more efficient production processes and better products and services while reducing resource use and pollution. In short, it is creating more value with less impact. Eco-efficiency can open up significant business opportunities. Its pre-eminent goal is to grow economies qualitatively, not quantitatively. The WBCSD has developed a framework that companies can use to measure and report progress toward eco-efficiency.	<p>The World Business Council on Sustainable Development defines eco-efficiency as being “achieved by 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.”</p> <p>There are three areas that are critical to practicing eco-efficiency:</p> <ul style="list-style-type: none"> <li>• reducing resource use, impacts, and operational costs</li> <li>• cooperation between companies to improve cost efficiencies while moving towards a zero waste target;</li> <li>• delivering better design and functions for lower impact in use and higher market share.</li> </ul>
<b>Key 3 Move from stakeholder dialogues to partnerships for progress</b>	
<p>The dialogue among business, civil society, and governments has matured notably since the 1992 Rio Earth Summit. Now the time has come to move beyond talking to one another to acting together for the purpose of sustainable development. Partnerships for progress are built on common goals, empathy, open feedback, flexibility, ability to compromise, and sharing rewards. Such alliances can offer business, government, and civil society new solutions to common concerns facing us all.</p> <p>Innovation, eco-efficiency, dialogue, and partnerships have become familiar elements of business action on sustainable development. The practices have been proven effective, but not yet at a scale sufficient to make a real difference. The next four keys represent a much tougher challenge for business and its partners in government and civil society.</p>	Promote the establishment of partnerships for progress which are built on common goals, empathy, open feedback, flexibility, ability to compromise, and shared rewards. Such alliances can offer business, government, and civil society new solutions to common concerns facing us all.

WBCSD Original	Draft Paper
<p><b><u>Key 4 Provide and inform consumer choice</u></b></p> <p>Consumer choice in a transparent and competitive market economy can improve everyone's quality of life.</p> <p>Market choices allow us the freedom to decide how best to use our own resources to enhance our quality of life. Providing choice is therefore a key part of promoting sustainable development. Business and other stakeholders can use the media and advertising to promote sustainability messages, fostering a consumer culture that helps people wield the power of demand in a thoughtful way. Companies increasingly find that they must communicate the values and principles on which they base their operations – values that their stakeholders can identify with over the long run. Individuals will change their consumption practices when they realize that they can gain added value from sustainable behavior in terms of financial benefits, quality of life and security. Consumer choice helps achieve sustainability 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.</p>	<p><b><u>Key 4 Provide and inform consumer choice</u></b></p> <p>Business, Government and community organisations using the media, advertising and other forms of communication, combined with behavioural change programs to promote sustainability messages, fostering a consumer culture that helps people wield the power of demand in a thoughtful way.</p>
<p><b><u>Key 5 Improve market framework conditions</u></b></p> <p>Markets depend on a stable and supportive framework of public policy. The rule of law, freedom of competition, transparent accounting standards, and a safe social context all contribute to the ability of business to create wealth. Market aspects which hinder sustainability include monopolies, corruption, perverse subsidies, and prices which do not reflect real economic, social, and environmental costs.</p> <p>Legislation and regulations should promote competition, effective intellectual and physical property rights, reliable contractual terms, fair and transparent accounting standards, accountability for government intervention, freedom and democracy, and full-cost pricing of goods and services. Governments' most effective means towards better market frameworks is specifying a desired result rather than paths towards that result.</p>	<p><b><u>Key 5 Improve market framework conditions</u></b></p> <p>Market aspects which hinder sustainability include monopolies, perverse subsidies, and prices which do not reflect real economic, social, and environmental costs. Legislation and regulations to address these market failures are required in order for business to help achieve sustainability.</p>
<p><b><u>Key 6 Establish the worth of Earth</u></b></p> <p>The market system needs accurate and timely price signals so that resources are not wasted and future opportunities squandered. We can improve our markets so that they reflect the true costs of environmental goods and services and social impacts. Often this is by moving towards full-cost pricing – including removal of perverse subsidies; often it is by new property regimes. Economic instruments such as tradable permits can encourage business towards constant environmental improvements.</p> <p>Proper valuation will help us maintain a diversity of species, habitats and ecosystems; conserve natural resources; preserve the integrity of natural cycles, and prevent the build-up of toxic substances in the environment. Realistic pricing is the optimal means of supporting change in the market.</p>	<p><b><u>Key 6 Establish the worth of Earth</u></b></p> <p>Create accurate and timely price signals so that resources are conserved and future opportunities are not squandered. Markets should reflect the true environmental and social costs of good and services, requiring the removal of perverse subsidies. The use of economic instruments such as tradable permits are recommended.</p>
<p><b><u>Key 7 Make the market work for everyone</u></b></p> <p>Poverty is one of the single largest barriers to achieving sustainability through the market. The 2.8 billion people living on less than two dollars a day have little or no access to the market to improve their lives. The market does create enterprises and jobs, but there will be rewards for companies who deliberately create more opportunities and a better quality</p>	<p><b><u>Key 7 Make the market work for everyone</u></b></p> <p>Ensure that new technologies and sustainable goods and services are affordable to all in society, and that they are transferred to developing regions of the world to alleviate poverty and increase intra-generational equity.</p>



WBCSD Original	Draft Paper
<p>of life for the poorest. Many of these opportunities will lie in the areas of healthcare, water, housing, nutrition, electricity, education, appliances and sanitation.</p> <p>Protectionism makes it harder for business to seize such opportunities.</p> <p>Making the market work for everyone involves two basic measures: enabling access to effective markets and spreading consumer purchasing power. Many successes are based on partnerships between businesses and government or civil society organizations – or often on alliances involving all three.</p> <p>Our vision is that as society approaches a balance among economic, environmental and social sustainability, markets will become transparent, stimulate innovation, and be catalysts for change toward a better quality of life for everyone. Realizing this vision may require that business acts on opportunities and responsibilities that may have traditionally been considered outside the realm of the market. The primary function of business – to create wealth via its economic activities – will not change. Yet business must work with government and civil society organizations to determine what roles are best for business and what roles best left to the other sectors.</p> <p>We are convinced that it is in our enlightened self-interest to ensure the realization of an inclusive and effective global market system.</p> <p>Business cannot succeed if the society around us fails. We must fully engage the entrepreneurial spirit of commerce in order to profit from solutions that transcend borders – be they geographic, cultural, or economic. Through responsible entrepreneurship progress towards sustainability can be won for all.</p>	

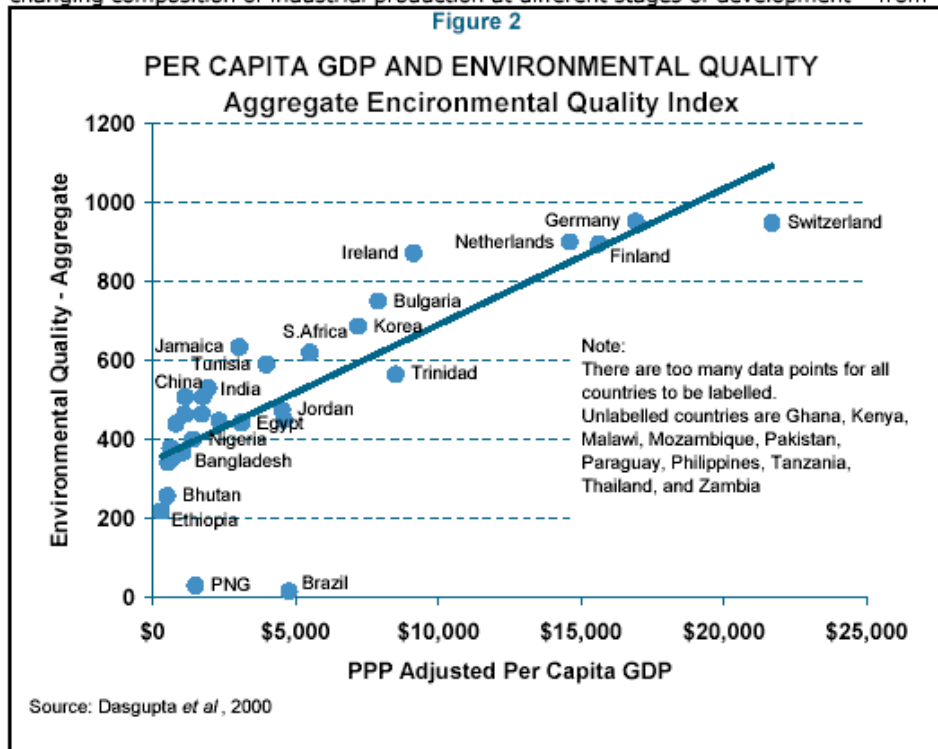
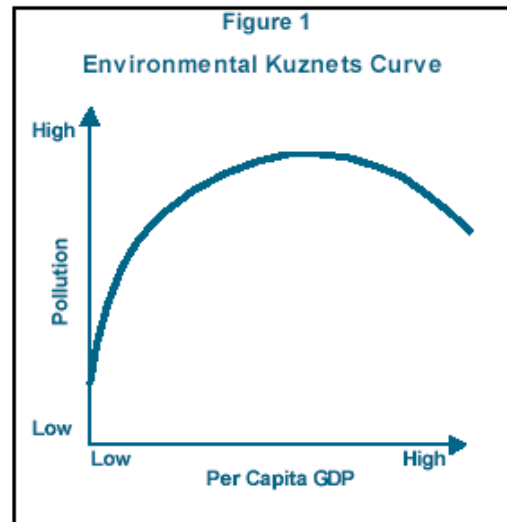


### Appendix 3: Economic Growth and Environmental Quality

A popular theory of the relationship between environmental quality and economic growth is the environmental Kuznets curve. This suggests that there is a U-shaped relationship between environmental quality and GDP, with environmental quality deteriorating as an economy grows from very low levels of development, but improving steadily beyond a certain point, generally estimated at a per capita annual income of around US\$5,000 to US\$8,000 (Illustrated in Figure 1). Australia's per capita income is well in excess of this range, suggesting that it is likely to be in the income range where environmental quality increases as income rises.

The rationale for the environmental Kuznets curve is fairly straightforward. Societies with very low income levels are assumed to place a higher premium on additional consumption than on protecting the environment, but beyond a certain point, the marginal utility of additional consumption falls relative to that of better environmental amenity.

Another factor that might produce or contribute to the environmental Kuznets curve is the changing composition of industrial production at different stages of development – from



subsistence agriculture that accounts for the bulk of economic activity in the least-developed economies, through the greater proportion of manufacturing and processing in developing economies, to a preponderance of services in the richer economies. Typically, manufacturing and related activities generate more negative environmental impacts than service industries and (sometimes) subsistence agriculture.

Technological and institutional factors might also contribute to the environmental Kuznets

**Table 1**  
**Income and Environmental Performance Indices**

	GDP*		Environmental Performance Indices**				
	Actual	At PPP	Air	Water	Land	Living Resources	Aggregate
Ethiopia	120	310	20	56	67	75	218
Bhutan	190	510	39	54	70	93	256
Tanzania	110	540	50	90	103	98	341
Mozambique	80	620	56	98	112	102	378
Malawi	200	670	93	116	122	111	352
Zambia	420	810	87	115	123	114	439
Bangladesh	210	1050	77	89	109	91	366
Kenya	370	1120	85	127	130	121	463
India	350	1150	105	132	143	127	507
Nigeria	290	1420	75	106	114	105	400
Papua NG	860	1500	54	91	100	84	29
Ghana	390	1720	93	124	129	118	464
Pakistan	380	1770	105	131	144	128	508
China	370	1950	98	127	151	153	529
Philippines	730	2320	93	113	123	118	447
Jamaica	1500	3030	114	168	193	158	633
Egypt	600	3100	92	134	118	97	441
Paraguay	1110	3120	84	117	123	119	443
Tunisia	1,440	3979	128	158	161	142	589
Jordan	1240	4530	95	131	138	110	474
Thailand	1420	4610	98	113	129	109	449
Brazil	2680	4780	113	127	130	123	15
S.Africa	2530	5500	136	165	173	145	619
Korea	5400	7190	150	170	189	177	686
Bulgaria	2,250	7900	168	198	199	185	750
Trinidad	3610	8510	118	149	159	138	564
Ireland	9550	9130	203	223	229	216	871
Netherlands	17320	14600	219	226	229	226	900
Finland	26040	15620	214	229	231	220	894
Germany	22320	16920	236	242	241	232	951
Switzerland	32,680	21690	231	240	238	238	947

\*per capita, in real US 1990 dollars. At PPP is adjusted for purchasing power parity.

\*\*Maximum values are 250 for each separate index, 1000 for the aggregate

Source: "Environmental Regulation and Development: A Cross-Country Empirical Analysis" by Susmita Dasgupta, Ashoka Mody, Subhendu Roy and David Wheeler, World Bank, February 2000

curve. Developed economies may have access to pollution controlling technologies not readily available in less developed ones. Institutions such as regulatory frameworks and data collection agencies may also be more effective.

Intuitively plausible though this theory is, the evidence for it is mixed. According to a recent study<sup>11</sup>, the result of empirical analysis have varied depending on whether the study examines a cross section of countries at a point in time or a time series for particular countries, and whether the variables measured are GDP and environmental quality **levels**, or **changes** in those levels. Some pollutants show a close positive relationship with income across all income levels while others show a close negative relationship. Lack of reliable and comparable data across countries and over time makes comparisons difficult.

"Confronting the Environmental Kuznets Curve", also found tentative evidence of two important and positive aspects of the relationship between environmental quality and economic growth – the curve may be flattening (ie for each given level of per capita GDP, the associated pollution level is lower than it was previously) and moving leftwards (the point at which pollution levels start to improve is occurring at lower income levels than in the past).

They found that:

"In light of recent research and policy experience, the most plausible long-run forecast is for rising, not falling, environmental quality in both high- and low-income economies. Indeed, it is likely that the environmental Kuznets curve has begun to flatten downward under the combined impact of economic liberalization, improved information, and more stringent and cost-effective approaches to regulating pollution under developing-country conditions."

Although the authors discuss a range of possible risks to this scenario, they conclude that they are "cautious optimists" about the possibility of achieving simultaneous economic growth and environmental protection.

Some of the authors of "Confronting the Environmental Kuznets Curve" were also involved in a World Bank study<sup>12</sup> comparing real per capita GDP (adjusted for purchasing power parity) with a composite index of environmental policy comprising measures of regulation of air, water, land, and living resources for 31 countries. It found a fairly straight linear relationship, rather than a curve – the composite environmental policy index improved as incomes increased across all income levels, both for the aggregate index and for its components:

"Our results do not support the conventional assumption that environmental regulation only emerges in the middle stage of development. Instead, we find a continuous relationship between regulation and national income per capita. In our regressions we get a better fit when national incomes are adjusted for purchasing power parity. The income elasticities of our indicators are positive and highly significant in all environmental dimensions. Our results suggest that protection measures for land and living resources precede those for water; action for reducing air pollution comes later." (pp 22-23).

The aggregate results are represented in chart form in Figure 2, while Table 1 provides the source data including the components of the aggregate index.



## Endnotes

<sup>1</sup> This position is presented, and is explained in more detail, in a joint CCI/CME Industry Policy released in December 2001 "Developing WA's Future"

<sup>2</sup> For a detailed exposition of CCI's views on the benefits of a market economy see In Support of free Enterprise, Chamber of Commerce and Industry of WA, April 2001

<sup>3</sup> "Public good" here is meant in the sense used by economists, as something non-rivalrous, and non-excludable. Non-rivalrous means it can be enjoyed simultaneously by any number of people without its availability to any one user being diminished (eg free-to-air television). Non-excludable means people cannot be prevented from consuming it, even if they have not paid for it (eg the benefit a lighthouse confers on shipping). Private markets will often either fail to supply or under-supply such goods.

This definition of the term 'public good' does not reflect any particular virtue or characteristics of the good or its consumers. A free to access pornographic Internet web site is a public good, a public hospital bed is not.

<sup>4</sup> Coase, R, THE PROBLEM OF SOCIAL COST, University of Virginia, October 1960.  
<http://people.ucsc.edu/~wittman/JLE60Coase.html> [20 January 2003]

<sup>5</sup> Sternberg, Elaine 'The Stakeholder Concept: A Mistaken Doctrine', Foundation for Business Responsibilities, Issue Paper No. 4, November 1999. p.20.

Sternberg differentiates between two essentially benign ideas about stakeholders and a third strand she calls stakeholder entitlement theory:

"Two of usages of 'stakeholding' are commonplace and unobjectionable. The first is a conventional observation about motivation: people are more likely to take an interest in a process when they consider that they have a stake in its outcome; the stake need not be financial. The second innocuous usage is simply a reminder that the world is complex: many factors must ordinarily be considered when pursuing even ostensibly simple outcomes. This is a basic truth that successful businesses have long understood and respected"

<sup>6</sup> Reported in the WBCSD's quarterly newsletter Sustain, Vol 19, July 2002, p.16

<sup>7</sup> "Making Sense Of Sustainable Development", Roger Kerr, New Zealand Business Roundtable, speech to the Hutt Valley Chamber Of Commerce And Industry Annual General Meeting, 25 November 2002  
[http://www.nzbr.org.nz/documents/speeches/speeches-2002/making\\_sense\\_development.doc.htm](http://www.nzbr.org.nz/documents/speeches/speeches-2002/making_sense_development.doc.htm) [20/1/03]

<sup>8</sup> For copies of CCI's submissions to the Keating Review, contact John Rampton on 08 9365 7555

<sup>9</sup> . Bradford DeLong, "Review of Stiglitz book proposal: The Economic Role of the State", J.U.C. Berkeley May 20, 1999

<sup>10</sup> Andrew Norton, "Naming the Right", Quadrant Volume 45 Issue 12, December 2001, p 62-5.

<sup>11</sup> "Confronting the Environmental Kuznets Curve", Susmita Dasgupta, Benoit Laplante, Hua Wang and David Wheeler, Journal of Economic Perspectives, Volume 16, Number 1, Winter 2002. Pages 147-168

<sup>12</sup> "Environmental Regulation and Development: A Cross-Country Empirical Analysis" by Susmita Dasgupta, Ashoka Mody, Subhendu Roy and David Wheeler, World Bank, February 2000