Insurance Australia Group Joins UNEP FI

Nathalie Samia, Insurance Australia Group

Australia’s largest general insurer, Insurance Australia Group (IAG), became the latest locally headquartered insurance company to join the United Nations Environment Programme’s Finance Initiative.

IAG, whose Australian companies include CGU, NRMA Insurance, SGI Insurance and SGIC Insurance, also manufactures insurance products sold through RACV in Victoria. In New Zealand, the group offers personal and commercial insurance products under well-known brands, NZI and Circle.

IAG’s signature to the UNEP Finance Initiative was affixed by its CEO, Michael Hawker and its Chairman, James Strong.

“Following Insurance Australia Group’s commitment to sustainability, the Government looks forward to working closely with the Group on its journey to pursuing best practice in environmental management,” said Victorian Deputy Premier and Minister for Environment, John Thwaites, who witnessed the signing.
Mr Thwaites noted that as a first step, IAG is already purchasing more than 11 per cent green power in its offices in Sydney, Perth and Canberra.

By signing the Initiative, and more specifically the Statement of Environmental Commitment by the Insurance Industry, Michael Hawker said IAG’s 12,000 people are putting their commitment to the environment in the public domain.

“Our people, who work in communities across Australia, are committing very publicly to reducing the footprint we leave on the environment,” said Mr Hawker.

“As a leader in the financial sector and insurance industry, managing the risk we pose to the environment in how we use energy, and how we treat and dispose of our waste is a natural extension of how we want to do business.”

Mr Hawker said it also made good business sense that a major Australian employer and corporation should commit publicly to lessening its environmental impact, especially in how it manages risks associated with natural disasters such as storms, flood, bushfires and drought, and how it helps the community recover from these events.

Signing the Initiative commits IAG to finding a balance between economic development, the welfare of society and the environment through sound environmental practices.

“This is especially relevant to insurers because environmental issues such as climate change can have a big bearing on the events for which we insure,” said Mr Hawker.

He said Insurance Australia Group's work to lessen its environmental footprint aligns closely with the undertakings outlined in the UN Statement of Environmental Commitment.

In the last six months IAG has implemented a number of internal initiatives aimed at reducing its environmental impact. It is early days for the company, but it has gone a long way towards measuring its environmental footprint and designing processes to reduce its impact.

IAG has also included environmental performance targets in its 2003-4 corporate targets. These are around specific impact areas of waste, energy, fuel and air travel.

Insurance Australia Group has recently released details of its research into the impacts of climate change on the insurance industry. The company recognises that human induced climate change will impact on future weather events. As an insurer it is necessary to understand the relationship between climate change and weather events and the impact this has on insurance claims.

Paul Clements-Hunt, Head of the UNEP Finance Initiatives said from Geneva that he welcomed Insurance Australia Group as the newest Australian headquartered signatory to the Initiative.

“The action by Insurance Australia Group is seen as an expression of corporate leadership and environmental stewardship.”

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**HSBC Partners With Earthwatch to Create Conservation Champions**

**Penny Richards, Earthwatch**

Last year, 300 HSBC employees packed their bags and spent two weeks conducting fieldwork in the name of environmental conservation. Working alongside leading field scientists from all over the world, the employees contributed their time to conservation projects ranging from tracking a mysterious marsupial
In 2002, HSBC, one of the world’s largest financial services organisations, invested US$16 million in a partnership with Earthwatch Institute, an international environmental not-for-profit organisation which supports research, education and conservation programs across the globe.

Part of the larger Investing in Nature program, the partnership with Earthwatch is more than a simple donation. HSBC has undertaken to train 200 scientists and send 2,000 staff to work on Earthwatch funded projects.

Earthwatch projects give people from all walks of life the opportunity to participate on conservation projects. By sending staff to work alongside Earthwatch funded scientists, HSBC is providing the equivalent of 100 years worth of conservation research in just 5 years.

The first group of employees have now returned from the field and are already beginning to illustrate the benefits of the program, both for the individual and the company.

Manual Arias, Assistant Manager HSBC Philippines, who participated on the Earthwatch Bahamian Reef Survey Project in 2002 noted that “after my Earthwatch experience I came to value the small things ordinary people like me can contribute to environmental expeditions. I came to realise that no matter how small a part we take, all our individual efforts collectively have a global impact”.

One unique aspect of the program is its ability to engage people in both science and conservation, enabling them to feel like they can make a difference. Returning staff members become part of a network of environmental representatives within the Group and receive a grant of US$550 to become involved in a local project.

Stuart Davis, CEO of HSBC Australia and New Zealand says that “we want HSBC Fellows to become environmental ambassadors within the company, sharing what they have learnt with Earthwatch and their colleagues and encouraging us all to work towards a sustainable future”.

The projects undertaken by staff upon return from their Earthwatch programs have varied from setting up local recycling stations around the office to collaborating with the World Wide Fund for Nature (WWF) on a project to help save Humpback Whales in the Philippines.

Garry Richmond, Company Secretary at HSBC in Sydney participated on the Earthwatch ‘Rivers of the Peruvian Andes’ project. Upon his return he became aware of the plight of the critically endangered Northern Hairy Nosed Wombat and elected to use his time and grant money to help raise awareness of this plight of this enigmatic species. By utilising his knowledge and experience as Company Secretary of HSBC Bank Australia, Garry is working towards the incorporation of a charitable company which will aim to save this rare animal.

Garry notes that “had I not become an Earthwatch Fellow, I would not have been motivated to make that first telephone call. I would not have become so utterly absorbed in rewarding efforts towards ensuring that, like with the Tasmanian Tiger, Australia is not mourning the loss of another unique mammal”.

In addition to sending employees, HSBC has also committed to sending young scientists from
developing countries to be trained on Earthwatch projects. The participants learn field techniques and gain insights into conservation issues from some of the world’s top scientists.

Surin Suksuwan, WWF Malaysia, worked with Australia’s forest marsupials in 2003. Surin said that “as a conservationist, the project is relevant to my work at many different levels. My participation in the project allowed me the opportunity to gain a better understanding of conservation in Australia...there are many parallels that I could draw in terms of challenges faced by my Australian counterparts and the strategies used to overcome these challenges”.

Over the next four years a further 1,800 employees and 100 young scientists will participate on Earthwatch projects. By taking their experience back into the community and workplace they will be demonstrating the positive impact of corporate and NGO partnerships in contributing to a sustainable future for our planet.

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Shorts

Jessica Hardy, EPA Victoria

New UK Assurance Standard

In response to the general community becoming increasingly interested in the accuracy, comparability and transparency of public reporting, the Institute of Social and Ethical AccountAbility recently launched a new Standard for corporate responsibility reporting. The AA1000 Assurance Standard seeks to ensure quality and credible social, economic and environmental reports. A number of international companies and assurance providers such as KPMG, Bureau Veritas and PriceWaterhouseCoopers have been testing the Standard. It is hoped that the verification system will help build public confidence in the standard of reporting, as investors will be able to use the Standard to evaluate company reports themselves.

To find out more about the new Assurance Standard, visit the AccountAbility website at: http://www.accountability.org.uk/

New SRI Publication

Russell Sparkes of the United Kingdom has recently published a book examining the socially responsible investment (SRI) maze from the perspective of the institutional investor.

The book offers practical examples and advice to the reader, focusing on four key subject areas: the environment, human rights, corporate governance and financial performance. As many investors no longer just consider the financial aspects of a company before investing, institutional investment choices can significantly influence the development of corporate
Charities Criticised for 'Unethical' Investment

For fundraising charities, one of their most important assets is their reputation, yet surprisingly nearly half of Britain’s largest charities and foundations still have no written policies on socially responsible investment (SRI) according to a new report by Just Pensions. The report identifies a number of ways to encourage charities to consider ethical or socially responsible investing. The report also reinforces the UK Charities Commission’s promotion to trustees that are not already investing in this manner to consider doing so.

For more information visit:
http://www.justpensions.org
or
http://society.guardian.co.uk/charityfinance/story/0,8150,955121,00.html

Climate Change: An Overseas and Australian perspective:

Tessa Tennant, ASrIA

A recent briefing organized by Asia’s sustainable investment forum, ASrIA, reported on the seriousness of the greenhouse gas (GHG) pollution problem in China, and looked at the advantages of using carbon trading and other tools for tackling emissions.

The energy demands of the Asian region are forecast to grow dramatically. China is already the second largest consumer of energy in the world, relying on fossil fuel for 93 per cent of energy consumption, but only 2 per cent from natural gas. The consequences of this in terms of climate change are significant.

Research undertaken by the University of Middlesex, UK, into the effects of climate change on people living on coastal floodplains reveals a very disturbing picture. By the 2080’s as many as 90 million people could be affected globally each year by coastal flooding, and by far the largest proportion of these will be in southern and south-east Asia. As a significant GHG emitter and the largest northern neighbour, China will not be able to ignore these impacts.
Participants in the project include Ford Motor Company, Motorola, International Paper and Du Pont. The combined CO2 equivalent (CO2e) emissions of these organisations are more than half of the UK’s total emissions. Companies are joining the scheme to gain knowledge and experience in anticipation of ever widening emissions reduction regimes.

In other regions, Japan and the European Union are both planning to introduce Emissions Trading Schemes in 2005. It would be prudent, therefore, if Chinese suppliers started to plan for these developments now, to enable them to benefit from the potential competitive advantages that could result from trading, thus helping them to maintain and grow their share of these export markets2.

On a per capita basis, OECD countries have a major challenge ahead of them to reduce emissions to an equitable amount. In comparison, China has only the smallest margin of opportunity in additional emissions allowance to deliver a sustainable energy strategy. It is important therefore, that China acts now to develop low carbon infrastructure and energy supply.

The implications of the potential impact of climate change on business worldwide have been mapped out by the Carbon Disclosure Project, a collaboration between thirty-five major institutional investors, who collectively represented more than US$4 trillion in assets. Significantly, although 80 per cent of respondents in the project recognise that climate change is a very serious issue, the report also noted that far fewer companies are taking action ahead of the introduction of climate change regulations.

One example of companies taking action to address the risks and opportunities is the Chicago Climate Exchange, set to go live in June. The project is entirely voluntary, and already has 12 companies and the municipality of Chicago committed to trading greenhouse gas emissions, with a goal of reducing these to 1 per cent below 1998-2001 levels this year.

Increased GHG emissions raise other considerations for China too, such as impacts on water availability and the potential havoc to agriculture created by unpredictable weather conditions. The Chinese Meteorological Association recently reported that the country’s agricultural output could shrink by 10 per cent in the next 30 years because of climate change factors1.

Studies and solutions

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Projected Energy Demand for 5 Asian Countries, million tonnes oil equivalent. Source: Harley Seyedin

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Annual per Capita CO2e emissions

Creating incentives for the marketplace to find low carbon solutions is likely to be the most cost-effective and rapid way to act. The experience of BP is telling in this respect.

1Professor Ding Yihui, China Meteorological Administration, reported in Sunday Post HK 30.3.03

2 For example, the EU may have a powerful case to restrict imports or to impose a carbon levy under GATT rules, which entitle refusal of imports of goods on public policy grounds.
In 1998, BP targeted a 10 per cent reduction in internal GHG emissions from a 1990 baseline (90MT) by 2010. The target was met, seven years ahead of schedule by many hundreds of different initiatives, carried through by tens of thousands of people across BP over the last 5 years. An emissions trading platform formed the centerpiece of the project. Significantly, BP reached the target at no net economic cost because the savings from reduced energy inputs and increased efficiency have outweighed the expenditure involved.

Importantly, emissions trading raised awareness of the climate change issue across BP, engaging a much wider audience throughout the company. The company’s new target is to hold net emissions at 10 per cent below 1990 levels over the next decade, through numerous actions including the use of carbon credits.

As BP’s experience shows, the benefits of reducing greenhouse gas emissions can be significant. Chinese businesses would also be advised to capitalise on the Clean Development Mechanism of the Kyoto protocol. This means that enterprises in the country can collect revenues for emissions they do not create, so long as their activities support sustainable enterprise. Financial institutions such as Rabobank International of the Netherlands and the World Bank are creating deal flows based on this additional financial benefit, and South East Asian countries will soon meet to explore the creation of a joint carbon trading pool.

For more information on the ASRI briefing, or to obtain copies of the presentations from experts from the Chicago Climate Exchange, Rabobank, FE Clean Energy Fund, BP and the European Emissions Trading Scheme visit the website at:
http://www.asria.org/events/hongkong/march03

Further details on the Carbon Disclosure Project can be found online at:
http://www.cdproject.net

Part 2 – Climate Change – Where are Australian Companies positioned?

Dr Ian Woods, AMP Henderson Global Investors

Reflecting the growing response by institutional investors to the climate change challenge, AMP Henderson recently reviewed the climate change risk management of the largest (by market capitalisation) 100 Australian companies, as well as those in energy-intensive industries to assess exposure to climate change of Australian companies.

The review found a mixed level of preparedness of Australian companies to the issues which arise from climate change. The results, which are similar to those of the Carbon Disclosure Project, indicate that only some companies appear well placed to manage and capitalise on potential opportunities.

Overall, approximately 50 per cent of respondents appear to have either considered the risk of climate change at a board level, employ a senior person with specific responsibility for climate change issues, have some form of risk management strategy in place or have considered the potential of climate change on the value chain of the business. The most widely developed aspect of a greenhouse gas risk management plan is the development of an emissions inventory, which nearly two-thirds of companies have done.

Some industry sectors, such as the healthcare, food, beverage and retailing, property and transport sectors seem generally poorly prepared, with less than 40 per cent of respondents from those sectors having developed a greenhouse gas inventory or considered the risk to their business of climate change. The review indicated that the real estate and property trust sectors appear to be particularly poorly prepared.

The main sectors that appear to be most prepared are the energy and utility sectors and the mining sector.
In these sectors over 80 per cent of company boards surveyed have considered the risks to their business and to their value chains from climate change. Nearly two-thirds have developed greenhouse gas inventories and have risk management strategies in place.

An investment view on the response to climate change

Given these results, AMP Henderson believes there is a need for urgent and constructive response to the challenges climate change presents Australian business.

To ensure that the Australian economy takes a productive and lower-risk course in managing the issues associated with climate change over the medium to long-term, constructive government policy framework could help to facilitate the necessary changes to the economy.

Given the likely potential structural and economic changes that policy and regulatory responses to climate change are expected to bring, it is important that companies are aware of and are managing climate change risks. Companies should also be positioning themselves to take advantage of opportunities that might arise as a result of climate change. This will require action by companies in the short-term and the incorporation of climate change issues in the development of medium to long-term business strategies. As many Australian companies operate in, or trade overseas, it is also important both for the Australian economy and for companies that the international context is considered. In addition, it is universally accepted that the lowest cost to the overall Australian economy to meet any greenhouse gas emission targets will be via some form of international emissions trading.

Any risk management plan instigated by companies should factor in short-term actions to understand the potential direct greenhouse gas liabilities (or opportunities) of the company, and factor these into business decisions. It will also require the identification and implementation of actions to reduce greenhouse gas emissions. Many companies, especially in the energy and resource sector, will need to incorporate climate change issues into medium to long-term business strategy.

What institutional investors can do is to raise with companies the fact that climate change is an issue for investors, and discuss with them their climate change risk strategies.

The climate change survey was the first phase of AMP Henderson's liaison with key companies on climate change.

The full Climate Change report is available online at: http://www.sustainablefuturefunds.com/research/researchpapers.asp

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Risk, the Environment and the Role of the Insurance Industry

Elayne Grace – Tillinghast-Towers Perrin

The consideration of sustainability issues can provide a range of positive implications and opportunities for the insurance sector. This includes the relationship between lower insurance risk and reduced environmental impact. In recognition of this, the UNEP FI Australasian Insurance advisory committee has undertaken a research project that assesses the management of environmental risks, including the use of insurance, within commercial enterprises. The results of the research project have been published in a paper, Risk, the Environment and the Role of the Insurance Industry.

Risk management, insurance and environmental risk

The paper highlights the four possible responses that an organisation may adopt in dealing with risk,
including: risk avoidance, reduction, transfer and retention. In determining the best management approach, the environmental aspects of risk were considered as a potential source of liability.

In this paper 'environmental risk' refers to the likelihood and severity of a potential event that would have an adverse impact on our natural surroundings. Environmental risk can manifest itself through areas such as credit, compliance, politics, operations, asset impairment or even technological development.

Companies managing environmental risk and Australian environmental law

The paper investigates how companies manage environmental risk as well as the consequences of not managing it.

It was found that approaches vary according to the type of company and industry, as well as the nature of stakeholders. For example, a company may be able to accept high financial risk via currency exposure but a similar equivalent loss with respect to environmental liability may be totally unacceptable to the local community. In addition, the risk transfer or insurance of environmental exposures has traditionally been problematic because of the time over which environmental impairment can occur.

The challenge for the insurance industry is to find a way of pricing long term environmental damage but also encouraging better company behaviour and a reduction in insurance risk.

When determining the potential source of liability from the environment, some impacts to be considered include:

- age and type of industry;
- volumes of discharges including greenhouse and wastewater;
- the location of the company's operations and community acceptance of the site. This may include proximity to rural or other sensitive areas;
- territory the company operates in including regulatory controls;
- types of materials used including toxicity or long term leakage to groundwater; and
- management controls including emergency response plans.

In looking at how Australian companies manage their environmental risks, discussions were held with a range of companies and industry groups including: The Australian Industry Group, Business Council of Australia, BP, Rio Tinto, Telstra and Visy. Key points from the discussions include the following:

- in general the environmental risk management philosophy was to manage risk in the first instance through an environmental management system or mitigation process with residual risk possibly eligible for insurance coverage;
- environmental management systems may take some time to set up and operate effectively;
- generally, statutory obligations or acquisitions and divestments are the occasions where companies looked at environmental risks in terms of insurance;
- companies generally integrate environmental risk assessment with normal business risks and insurance requirements;
- most companies viewed contaminated land liability as the environmental issue they are most likely to deal with. This typically involves the ownership or purchase of properties with a history of industrial use which resulted in impacts to soils and groundwater;
- many companies have not yet developed detailed approaches to address other more complicated
environmental issues such as salinity and greenhouse gas emissions; and
- companies interviewed noted that environmental insurance products are typically not purchased because:
  - in Australia most general liability policies will provide for sudden and accidental cover;
  - the cost is often too high and there are rarely any associated financial incentives with purchasing the product; and
  - insurance capacity in the Australian market is low and that which is available is not worth chasing.

The research paper also incorporates a review of the environmental legislative framework in Australia including an overview of the legal framework for environmental law and insurance as well as a review of legislation covering contaminated site liabilities and clean-up costs.

Insurance in an environmentally sustainable future

The paper notes that the volume of environmental insurance premiums is over $1 billion globally with the first environmental insurance products offered approximately 22 years ago.

Finally the paper investigates opportunities for insurers and the environment including the development of innovative insurance products. Illustrations of motor insurance products are given where there is often a clear relationship between lower motor insurance risk and a reduced environmental impact. For example, by encouraging policy-holders to reduce the number of kilometres travelled, benefit may be had for all parties. In Germany, discounts are offered to policyholders who drive low kilometres and / or catch public transport to work.

Tokio Marine & Fire Insurance in Japan has developed an all risk commercial insurance product with eco-expense for small and medium enterprises. The eco-expense covers the additional cost of repairing or replacing damaged machinery with products considered to be more ecologically compatible than the conventional alternatives.

Also in Japan, Yasuda Fire & Marine Insurance offers discount on auto insurance for low pollution vehicles. Such approaches are justified on the basis of these customers minimising their contribution to global warming, which experts expect will increase insurance costs in the future.

Also covered in the paper are examples of clean-up regulations, international environment insurance products and a glossary of terms including detail of environmental impairment covers in Europe.

It is hoped that this study will give both the insurance industry and the broader market a better understanding of the role the insurance sector could play in managing and possibly reducing environmental exposures. The research paper aims to provide a discussion point for additional research and encourage dialogue that will support and promote the further development of products in Australia to assist in reducing environmental impact and promoting environmental best practice.

For further information on this research project or if you would like to contribute feedback or other suggestions, please contact:
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The Wilderness Society, WildCountry and Corporate Campaigning

Leanne Minshull, The Wilderness Society

The Wilderness Society (TWS) has been working to preserve Australia’s remaining wilderness areas for over 25 years. Whilst proud of its successes, the society has recognised the need to change the way in which it operates if it is to create an environmentally secure future for our continent. To achieve this vision, TWS also needs to build partnerships with...
corporations and organisations that will call upon the spirit of social responsibility that has built so many great institutions in the past.

TWS has been searching for a model ‘Protected Area’ program that will not only support its current attempts to guard Australia’s wild places, but also help define the path toward restoration.

TWS is now committed to the development and implementation of a project that will put Australia back on this restorative path. This project is called WildCountry.

A primary goal of WildCountry is to produce an Australia-wide, comprehensive system of interconnected core protected areas, each surrounded and linked by lands managed under conservation objectives. The protected area system will be established by identifying and protecting the ‘best of what’s left’ of Australia’s wilderness and other natural areas of high conservation value. The existing reserve system would be encompassed by the project and critical gaps in the reserve system identified and filled.

This identification work will be undertaken by a team of Australian scientists interested in seeing large areas of our landscape protected and restored to the maximum achievable level of ecological integrity.

One of the campaign strands to protect the ‘best of what’s left’ has been to work nationally and internationally on guidelines for investment into environmentally sensitive sectors. At a campaign meeting in Rome last year, TWS met with a number of other finance industry campaigners from across the globe. A number of campaign areas with international significance were identified. The Forestry sector rated as one of the most pressing and also one with the greatest options for reform.

To date, the ‘best of what’s left’ campaign has focused on two main areas. The first is the ‘softer’ end issue of corporation’s internal paper and wood consumption. Many companies and governments internationally ranging from IBM to the British Parliament have already committed to tracing the chain of custody for their wood and paper products. They have made a commitment to only purchase paper with a high percentage of recyclable product and wood that is either from plantations or Forestry Stewardship Council certified native forests. In Australia a number of organisations are in dialogue with TWS and others to implement similar schemes.

The second ‘harder’ strain of the campaign has been to concentrate on specific companies such as Gunns Ltd, one of Australia’s largest exporters of woodchips. Based in Tasmania, TWS maintains that Gunns Ltd is currently using sawlogs and pulp extracted from world heritage value tall eucalypt forests. Current government logging schedules show that the rate of destruction in these oldgrowth areas is set to escalate over the coming three-year period.

Unable to establish a meaningful dialogue directly with the company, TWS changed their focus to the Gunns’ institutional investors. It was felt that the support of the institutional investors was necessary to steer Gunns Ltd out of the high conservation forests into plantations. Due to the extremely flexible nature of forestry, it is felt that current logging plans could be rescheduled with a negligible financial impact to the company and its investors.

The Commonwealth Bank (CBA) through its investment arm Colonial First State has a significant shareholding in Gunns Ltd. At last year’s CBA AGM, a shareholder sponsored resolution that sought to limit the Bank’s ability to invest in companies which impact upon high...
conservation value forests received an amazing 23 per cent support of the total shares voted. Following on from this success, TWS then achieved 22 per cent support for an identical resolution put to the National Australia Bank. TWS has also had significant engagement with ANZ Bank that has included a trip to Tasmania’s forests with the chairman of the board, Charles Goode. TWS is working with shareholders in all of the major financial institutions to help it gain support for lending policies that reflect an acceptance of environmental responsibility.

ABN AMRO in the Netherlands has already adopted a model forest investment policy. The policy, adopted in 2000, states that the bank will not invest into any project that impacts upon high conservation value forest or any company involved in illegal logging operations. TWS is hopeful that an Australian financial institution will adopt a similar policy in 2003.

In Australia, TWS does not seek total disinvestment from the forestry industry. There already exists a thriving timber industry that operates in areas other than old growth forests. TWS also believe that the threat of disinvestment from major institutional investors would see companies such as Gunns Ltd exit out of old growth forests rather than lose its major investors.

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Eco-Footprint

Dr Mathis Wackernagel, originator of the ecological footprint concept, visited Melbourne, in March, for a series of speaking engagements to mark the anniversary of EPA Victoria’s Ecological Footprint Pilot Program. The range of organisations involved in the pilot program, from schools, to small businesses to large private corporations demonstrates the adaptability of the ecological footprint concept to communicate sustainability across a range of scenarios.

Put simply, an ecological footprint is a measure of our environmental impacts expressed in the area of land needed for the production and consumption of resources and the management of waste. The advantage of the ecological footprint is that it is calculated using measurable performance based data and sophisticated life cycle assessment with the results being easy to understand.

Minister for Environment The Hon John Thwaites with Dr Mathis Wackernagel

The ecological footprint of Australia shows that if everyone on Earth were to consume resources at the same rate as Australians, we would need at least three earths to sustain our habits. The Eco-footprint Calculators that EPA has developed through the pilot program will assist offices, households and schools to calculate how much they are contributing to Australia’s overall ecological footprint.

The Australian Conservation Foundation (ACF) is one of the organisations taking part in the pilot program. Other office-based pilots involved in EPA’s program include VicSuper, ANZ Bank, BP Australia and EcoRecycle Victoria. The Eco-footprint Calculator translates office performance into the area of land it takes to sustain office-based activities. By measuring
the consumption of electricity, water, paper and other goods, and surveying staff transport use, building size and the generation of waste, each organisation can measure the ecological impact of its office activities.

In October 2002, ACF moved into new office facilities in the landmark 60L Green Building in Melbourne. The EPA Eco-footprint Calculator will be used by ACF to compare the ecological impact of office activities in its old headquarters with that of the new 60L Green Building. The 60L Green Building is designed to significantly reduce environmental impacts, including close to 100 per cent reduction in greenhouse gas emissions and a 90 per cent reduction in mains water consumption, using clever design, careful materials selection and commercially viable ‘off the shelf’ technology.

Of course, measuring the ecological footprint of offices is only the first step. The real challenge is to collectively reduce our ecological footprint. If every new commercial building were built to the same standards as the 60L Green Building Australia would not only easily meet the Kyoto greenhouse target but it is estimated that the savings to electricity alone would amount to more than $600 million dollars per year.

During his visit to Melbourne, ACF hosted Dr Mathis Wackernagel for a tour of the 60L Green Building and discussion with other pilot organisations. Dr Wackernagel is Director of the sustainability program at Redefining Progress in California, and is internationally recognised for his work on the ecological footprint.

Many of the pilot partners found that the process of measuring the ecological footprint had been useful in drawing their attention to where their greatest use of resources was and highlighted areas of environmental impact they can influence.

It is hoped that the ecological footprint calculations will not only provide an indication of the resource efficiency of offices but also help to identify areas for environmental improvement. While some improvements can be achieved by changing the behaviour of employees and facility managers through management arrangements such as recycling programs and green purchasing policies, the most significant environmental impact is due to the office facilities themselves. The poor performance and design of standard office buildings work against the intentions of organisations trying to reduce their ecological footprint.

For example, many Australian buildings are not designed with the Australian climate in mind. They often use excessive air conditioning to compensate for poor design. Not only is this energy intensive and therefore economically and environmentally costly, but according to CSIRO research it is also a key factor in 'sick building syndrome' which impacts upon employee health and leads to lower productivity. A similar story can be told about the toxicity of building materials. In this way the environmental, economic and social costs of poor performing buildings are passed onto commercial tenants and their employees. ACF has launched a new Building Green campaign to focus on reducing the ecological footprint of Australia’s built environment.

For more information about the ACF pilot and how building green can reduce the ecological footprint visit the website at: http://www.acfonline.org.au

To download the EPA Eco-footprint calculators visit the website at: http://www.epa.vic.gov.au/Eco-footprint

Accounting For a Better Bottom Line and a Better Environment

Professor Craig Deegan, RMIT University and Gabrielle McCorkell, EPA Victoria

All professions have an important role to play in implementing sustainability. The role of the accountant is critical and yet often over looked.
Most management accounting systems typically pay scant or no attention to accounting for the environmental costs of business. This can be the case even where reasonably sophisticated environmental management systems have been installed into an organisation. Attempts to minimise the environmental costs of the business will to some extent be thwarted if individuals within an organisation are not aware of the environmental costs.

In recognition of this, during 2001/2002, a consortium involving the Institute of Chartered Accountants in Australia (ICAA), EPA Victoria and Environment Australia initiated an Environmental Management Accounting Project.

The primary objective of the Environmental Management Accounting Project was to promote improved practices and reform in management accounting so that organisations can improve profitability whilst achieving better environmental outcomes.

The project involved undertaking practical case studies that show the benefits from, and provide practical 'how to' examples of, environmental management accounting.

The case studies were undertaken over six months and involved a school (Methodist Ladies College, Perth), a plastics manufacturing company (Cormack Manufacturing Pty Ltd, Sydney), an office service provider (a service division of AMP, Australia wide) and a wool processor (GH Michell & Sons Pty Ltd, Adelaide). The results of the case studies have been published in a report, *Environmental Management Accounting: An introduction and case studies for Australia*.

For the purpose of the project, the practice of environmental management accounting was defined in a way consistent with definitions provided by such organisations as the United States Environment Protection Agency, United Nations Division for Sustainable Development, and the International Federation of Accountants. In essence environmental management accounting is the process of 'identifying, collecting and analysing information about environmental costs and performance to help inform decision making'. It may involve reporting and auditing in some organisations as well as life-cycle costing, full-cost accounting, materials flow analysis, and strategic planning for environmental management.

One of the first steps required when implementing an environmental management accounting system is to define 'environmental costs'. Environmental costs have typically been thought of as being the 'end-of-pipe' costs, such as the costs associated with the disposal of waste. For this project, the case studies applied a broader definition, one that saw the term also encompass material and energy used to produce goods and services, the input costs of generated wastes (including the capital, labour, materials and energy costs used to produce the waste) plus any associated disposal and storage costs for particular materials, insurance for environmental liabilities, and environmental regulatory costs.

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For some organisations, the environmental costs might also include the environmental impacts caused to other entities by the organisation’s operations. However, the costing of ‘externalities’ was deemed to be beyond the scope of the project’s case studies, and is something that is very rarely undertaken. It tends to lie outside of the ‘accounting entity’, as defined by accountants.

One finding from the case studies was that many costs of an environmental nature are accumulated in overhead accounts. For example, an organisation’s overhead accounts often include rent, repairs and maintenance, training costs, auditing costs, waste removal and disposal, energy, packaging, transportation and water costs, indirect material and labour, and insurance. The case studies found that because of this, fairly simple questions pertaining to the waste costs of an organisation, or to the water or energy used to produce particular products cannot be easily answered. At AMP, waste and energy costs were incorporated within the rental charge paid by the company, making it difficult to monitor and manage such costs. At MLC, waste costs were incorporated within ‘administrative and general overheads’, which also made them hard to identify. In these cases managers have limited incentive to reduce environmental costs and executives are often unaware of the extent of environmental costs.

Where a variety of costs are being accumulated in overhead accounts, it was also noted that subsequent allocation of the costs to particular products are frequently made in terms of such bases as production output, floor space occupied by particular departments, or machine hours. Whilst making the task of allocation easier, using such allocation bases can lead to the mis-allocation of many costs, including those relating to the environment.

GH Michell & Sons Pty Ltd found that all types of wool were being allocated the same processing costs, most of which were environmental in nature. By tracking the processing costs associated with each type of wool they found that ‘dirtier’ wools consumed more resources in processing. As a result it became apparent that under the existing accounting system the ‘cleaner wools’ were subsidising the ‘dirtier wools’.

Launch of the EMAP report

The four case studies demonstrate that refining existing management accounting systems can lead to changes in strategies that improve both financial and environmental performance. Indeed, an initiative that refines an existing management accounting system, so as to enable it to focus on environmental costs, can be considered to have generated an environmental management accounting system. ‘Doing environmental management accounting is simply doing better, more comprehensive management accounting, while wearing an “environmental” hat that opens the eyes for hidden costs’.

Given the current infancy of environmental management accounting, the design of a particular system is really about incremental progress. The case studies suggest that a number of benefits can follow from introducing environmental management accounting. These benefits can span from direct to indirect and include:

- More informed decision making: explicit consideration of particular costs that are otherwise obscured by traditional accounting approaches;

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Uncovering opportunities: an analysis of environmental costs might reveal opportunities, some of which might lead to revenues through recycling, or use of ‘waste’ in other activities;

Improved pricing of products: explicit consideration of particular costs will enable more informed pricing of products;

Assist with internal and external reporting: identifying environmental costs will help organisations collect data about their environmental impacts for internal and external reporting purposes;

Increased competitive advantage: given the infancy of environmental management accounting, explicit consideration, and associated publicity, might provide an organisation with a competitive advantage;

Improved reputation: efforts to reduce environmental costs and related impacts will have reputation implications;

Staff retention and attraction: it has also been argued that by showing that an organisation is trying to manage and account for the environmental implications of its operations this may in turn enable it to retain and attract better staff, as well as improve staff morale; and

Generation of societal benefits: efforts to reduce environmental costs and impacts (which will assist in creating a cleaner environment) will generate human benefit.

The report suggests a number of steps that might be taken when developing an environmental management accounting system and clearly details the lessons that were learned by the case study participants. The steps will be of relevance to a broad group of organisations, including small and medium sized organisations. It is hoped that the Environmental Management Accounting Project Report will be a valuable resource for individuals seeking to improve both the environmental and financial performance of their organisation.

To obtain a copy of the report, Environmental Management Accounting: An introduction and case studies for Australia visit the website at:

http://www.epa.vic.gov.au/Programs/Accounting/results.asp

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**Boards, Brands and the Business Model – 2003 Sustainability Series**

Jessica Hardy, EPA Victoria

Edmonds Management recently concluded the sixth annual Sustainability Series following the holding of seminars in Adelaide, Brisbane, Melbourne, Perth and Sydney.

The theme for the 2003 series was 'Boards, Brands and the Business Model', in recognition of how the Triple Bottom Line spotlight is shifting to include the corporate governance agenda, and how customers, consumers and investors are joining the Triple Bottom Line conversation.

The keynote speakers who addressed these three focus areas at the day-long seminars were:

- Sir Mark Moody-Stuart, Chairman of Anglo American Pty Ltd and member of the UN Secretary-General's Advisory Council for the Global Compact;
- Dorothy Mackenzie, Founder and Director of Dragon Brand Consulting Limited; and
- Deborah Zemke, Director Corporate Governance, Ford Motor Company, USA.

Sir Mark looked at sustainability in the boardroom, and discussed the experience gained on Shell’s journey towards sustainable development. Sir Mark explained that from his perspective sustainable development was less likely to work if it was not
integrated from the Board right through to the frontline of the organisation. Such integration was necessary, he noted, to allow the whole organisation the confidence to make operational sustainability decisions with confidence.

Dorothy MacKenzie discussed her experiences working on the relationship between brands and trust, and how brands may have a role to play in increasing corporate accountability. Dorothy described some of the changes she had witnessed through professional interaction with companies and their brands, including the gradual alignment of brands with good causes, and the proliferation of product labelling schemes and partnerships through certification and assurance programs.

When discussing the role of sustainability and the development of a brand, Dorothy noted that sustainability concepts work best when integrated into the brand, such that the consumer’s effort is taken out of having to choose a particular product or service. Environmentally friendly office furniture, for example, should be aesthetically pleasing and of high quality in order that the purchaser need not feel that they have to compromise to reduce their environmental impact.

Dorothy also noted that in the same way that sustainability concepts have to be integrated into the product or service, the business principles of an organisation need to align with the brand as perceived in the market place. Sustainability concepts in this sense need to permeate and be seen to permeate an organisation’s intent, impacts, strategy and engagement process.

In conclusion, Dorothy noted that one way in which brands and sustainability can work together is through the use of sustainability ‘stories’ – getting the market close to the sustainability story behind production or supply. Such methods, she explained, are a way to build trust, and engage or educate the market as to the merits of a particular product or service.

Deborah Zemke of Ford Motor Company, USA, offered an honest description of Ford’s path to sustainable growth. Through a discussion of the sometimes rocky road that Ford is following in their organisational shift towards sustainability, Deborah offered a summary of important lessons for those undertaking a similar journey:

- sustainability should be approached with clarity and transparency;
- specific and concrete actions should be planned and communicated early;
- an organisation’s sustainability strategy should be well communicated internally;
- focus on the organisation’s capacity to change;
- insist on internal buy-in to the change; and
- find good partners and invest in them.

One of the most important lessons that Deborah shared was that for many of the issues Ford Motors USA tackled, it soon became apparent that they could not be solved in isolation. Issues such as climate change for example, presented a complex, long-term challenge which would require an innovative long term approach from a multitude of organisations.

At each of the seminars, the keynote speakers were supported by local presenters, who were also able to offer their insights into the way in which sustainability impacted on their board, brand or business model.

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UNEP FI Update

Henry Thomas and Ken Maguire, UNEP FI

Climate Change Working Group (CCWG) 2003 Activities

The UNEP FI Climate Change Working Group (CCWG) convened its first meeting of 2003 on 10 February in Geneva, Switzerland. Thomas Loster, Head of Weather and Climate Risks Research at Munich Reinsurance Company, was formally introduced as the newly elected chair of the working group for the coming year.

Committed to following through with key recommendations presented in their latest study, 'Climate Change and the Financial Services Industry', the CCWG has successfully laid the groundwork for implementation. The study itself, in terms of international publicity, attracted media interest from BBC, Reuters and the Financial Times, among others.

With regards to the 2003 work programme, an awareness raising campaign in the financial services sector will be launched with the aim of inspiring individual financial companies to better understand climate change. The working group is also in the process of assembling a project team to develop a quantitative methodology for asset managers that will capture the implications of global climate change regulations. UNEP FI was also approached by the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat to assist in the formation of the agenda for the special insurance workshops which took place recently in fulfilment of the Marrakech Accords. The IPCC Fourth Assessment Report, due to be published in 2007, will require a chapter on climate change and the insurance industry. The working group will seek to ensure that UNEP FI work is integrated in an appropriate manner.

On another front, collaboration with the internationally recognised Carbon Disclosure Project (CDP) is currently underway. The UNEP FI CCWG will engage in follow-up CDP activities in the coming months, thus contributing to the continuing effort of seeking disclosure of investment relevant greenhouse gas emissions data among FT500 companies.

For a copy of ‘Climate Change and the Financial Services Industry’, please visit the UNEP FI website at:
http://www.unepfi.net/cc

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African Task Force

The African Task Force (ATF) Chair and Co-Chair are presently working on an action-oriented plan to involve ATF members in the development of the Sustainable Banking in Africa Report. It has recently been announced that the five case studies to be included will be South Africa, Nigeria, Botswana, Kenya and Senegal. The inclusion of Senegal broadens the activities of the ATF beyond Francophone Africa, which will begin to meet some of the original objectives established by the ATF to become a more all-encompassing African initiative. In addition, UNEP FI are entering discussions with the Egyptian Environmental Affairs Agency’s Environmental Protection Fund (EPF) and USAID Egypt on a potential training programme for Egyptian financial sector representatives in 2003. If feasible, this would also be an opportunity to expand ATF activities within North Africa.
North American Task Force

In March, the North American Task Force co-sponsored an event with the North American Free Trade Agreement Commission for Environmental Cooperation (NAFTA CEC), HSBC, PricewaterhouseCoopers and the American Bar Association. The focus of the New York event was the effectiveness of the United States legal and regulatory system of disclosure in financial statements, and in particular the materiality and disclosure of environmental information. The results of the discussion will be made available in a report.

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Upcoming UNEP FI Events and Activities

UNEP FI 2003 Global Roundtable

The annual Roundtable, the flagship event of the UNEP FI is scheduled this year for 20 and 21 October in Tokyo, Japan. Workshop sessions will range from 'Insuring Sustainability' to 'Sustaining Biodiversity', and delegates from around the world are invited to come and hear the international finance and sustainability speakers. Registration details and a provision agenda are available online at the Roundtable website at:
http://www.unepfi.net/tokyo/

New UNEP FI Signatories:

- Insurance Australia Group, Australia
- Desjardins Group, Canada
- Calvert Group, USA
- CDC Capital Group

CONTACT US

If you would like to write an article or receive a copy of the next edition of the Australasian UNEP Finance Initiatives Newsletter please contact either:
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