

# *The Worshipful Company of World Traders*

## The XIXth World Traders' Tacitus Lecture

Delivered at the Guildhall in the City of London on

23<sup>rd</sup> February 2006

by

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### **Business and NGOs in Sustainable Development - common cause or endless wars?**

In the 1987 UN report "Our Common Future" Gro Harlem Brundtland defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Given the proportion of people in the world who are not adequately fed, not educated, have no modern medicine, and no means of adequate livelihood we are plainly not meeting the needs of the present generation. I do not take an apocalyptic view of the environment, but in relation to climate change we are potentially compromising the ability of future generations to meet their needs. If the needs of the developing part of the world are to be met, large amounts of additional energy will be needed. And yet we know that the fossil fuels on which our own economies are built are having an adverse impact on the global climate.

I have lived in ten countries and visited operations in another thirty or so in the business of developing natural resources, so I have been able to see the impact on development over time. When I first worked in Oman in the sixties as a field geologist, it was a mediaeval country. There were only a couple of doctors for a million people, the disabling eye disease trachoma was rife, and education was basic or non-existent. In the intervening years, with a change of ruler and wise government, Oman has become a modern country, with a reasonable distribution of its oil income, an excellent education system, medical care to be proud of and an elected Majlis or parliament with women represented.

In the same period Malaysia has been transformed from an economy dependent on primary resources – oil and gas, tin, palm oil and rubber - where race determined both perceptions and generally the actualities of occupations to a modern economy with a strong light manufacturing base, a sound educational system and a society where one can no longer guess occupation from race.

In Nigeria on the other hand, the outcome and application of income from oil and gas development has been less happy. Oil revenues have often been misapplied and in some cases stolen through corruption. There are divisions in society as arguments develop over the allocation of revenue expenditure to different parts of the country.

### **The causes of different outcomes**

What causes different outcomes? In each case, the main company was the same, operating with similar people and to similar principles. The actions of companies, both positive and negative, undoubtedly had some impact, but the real difference has come from the characters and motivations of

the government leaders involved. Oman and Malaysia have been blessed with leaders with very clear visions and commitment to development, providing frameworks within which business and civil society operate. You might not agree with the political system in either case, but there is no denying the results. Nigeria on the other hand has suffered from frequent changes of leadership, normally by military coup, with leaders whose agendas have often been more personal than national. The present democratic government is making progress in the battle to establish sound and uncorrupt governance systems. President Obasanjo certainly established his national leadership credentials when he returned the country to civilian democratic government, stepping down as President in 1979 to make way for a civilian government.

But government alone is not enough – different parts of society need to co-operate. In Malaysia, perhaps as a result of staring into the abyss of racial slaughter in 1969, different ethnic groups have developed working compromises. In Oman, it has been possible to build on strong social and religious structures. In Nigeria, the creativity and energy of civil society is evident in the way that in response to a severe deterioration of the education system, people have got together to start their own schools. Religious institutions are strong and family cohesion and support systems are something which would benefit this country. Without a government framework providing basic structure services, much creativity has gone in less socially constructive directions. You do not know how dependent society is on government until you experience the lack of it.

### **Limits to the Rôle of Business**

If effective government and functioning civil society are essential components of development, what of corporations? What are the limits of their role? When I joined Shell in the sixties, the involvement of ITT in developing country politics was an issue and the activities of United Fruit had given rise to the epithet “banana republic”. Corporate concerns were to avoid involvement in political activity in any form. In the seventies, I and many of my colleagues believed that if a company ran an efficient operation with sound staff development, employment, safety and environmental policies, did not bribe anyone, paid our taxes honestly and in the country where income was earned and engaged in a reasonable amount of community development, our responsibilities stopped there. The Economist newspaper still holds this line, expressing in a recent cover story the concern that companies might misguidedly take on responsibilities of host governments and vice versa. They stated “it is the job of elected politicians to set goals for regulators, to deal with externalities, to mediate among different interests, to attend to the demands of social justice, to provide public goods and collect the taxes to pay for them, to establish collective priorities where that is necessary and appropriate and to organise resources accordingly”. This is fine as an aspiration, but what about the large areas of the world where governments are either incapable or unwilling to carry out this role, or worse still, steal the means by which they are supposed to carry out the task? Where the proceeds of industry, particularly extractive industry, are mis-spent or mis-applied over long periods by governments, people turn to the company and say “You made money, but there is little in the country to show for it.” To protest that we paid our taxes is of no avail. It may not be our responsibility, but it becomes our problem. If we want the sort of functioning society in which we can do business, we need to work with others to create the capacities and conditions which sound governance requires. To say “once we have paid our taxes, responsibility stops” is like a fully paid up passenger refusing to help man the pumps on a foundering ship because it was the captain’s incompetence that caused it. It is short sighted at best, and certainly not in the interests of the shareholders.

Drawing the line of responsibility is difficult. Some time ago I had a discussion in London with a minister of a country in which the company I worked for played a major role. He asked me to intervene to try to stop the irregular activities of certain people in his country. We had, as a matter of

deliberate policy and principle, avoided any connection with their activities and the minister knew it. When I pointed out that this was no concern of mine, that it was not my country or my government so why me, he replied that when it all went wrong I could guess whose fault it would be seen to be. At first this seemed to me to be grossly unfair. But was it really so unfair? We were long standing friends and partners of the country. Had the issue been a natural disaster, or even a social issue for the nation, we would have immediately offered to play our part. Is it the act of a friend to avert one's eyes and walk down the other side of the street when a crime is being committed, just because it is not our business?

### **The Global Compact – bringing business, labour and civil society together**

At the World Economic Forum in Davos in 1999, UN Secretary General Kofi Annan called for businesses to commit themselves to a Global Compact based on nine principles reflecting the major UN conventions on human rights, the environment and labour standards. A tenth principle on corruption was added later. Some two and a half thousand companies in around fifty countries have committed themselves publicly to these principles. Part of the genius of Kofi Annan was that he involved civil society and labour organisations in the process. The Compact provides a forum where businesses, civil society and labour organisations can develop practical approaches to the delivery of the high level principles. A second contribution is the development of local and regional networks where different sectors of society can work together on issues critical to that country. Business can provide logistical support for such a local network, with local government and civil society participating. In the case of the Global Compact Networks the UN representatives such as the local office of the United Nations Development programme can provide neutral oversight.

Initially the Compact was criticised by some as being just talk, or “blue wash”. Indeed for some it may be so, but I was struck at a recent regional Global Compact Summit in Shanghai how sessions with government representatives addressed practical specifics on corruption and working conditions in local manufacturing plants and mines. International labour organisations and human rights Non Governmental Organisations (NGOs), whose presence was facilitated by the Global Compact, actively joined in and could see hard benefits from their involvement.

### **NGOs as enterprises**

The three strands of sustainable development – economic, environmental and societal - demand co-operation from different sectors of society. NGOs often say that business puts over-riding emphasis on the economic strand. None of the strands is the particular preserve of one section of society. Whether the organisation concerned is a company, an NGO, a labour union, a government agency or a religious or educational body, if you do not have the economic strand under control it moves rapidly to the top of the agenda. Economic failure threatens survival.

Two years ago I was on a dinner discussion panel in Davos on the governance of NGOs. The participants were almost entirely representatives of NGO's worrying about how they could ensure sound governance of their own organisations and protect the sector's reputation from the activities of unscrupulous participants of various kinds, including what an Indian participant called “brief case NGOs” formed by corrupt politicians seeking funds. One Chief Executive of a global NGO shared his worries as to whether every one of the tens of thousands of his workers were acting in line with the organisation's principles all of the time. I welcomed him to the not always comfortable club of multinationals.

The protection of the reputation of an organisation and a sector against substandard product is something businesses have faced for centuries. The first defence is branding - you can trust this sign to give you unadulterated beer. The second is a collective industry organisation with standards – book your holiday with an ABTA member and be guaranteed certain things. Indian NGOs have formed exactly such a sector organisation to combat the briefcase NGOs, requiring published accounts and results and so on. The final defence is legislated trading standards - but this only works if there is effective enforcement.

Large international NGOs are indeed multinational enterprises. They have career structures for their people, HR departments. As enterprises they provide services to their donors and supporters, whether in effective delivery of development funding or in carrying out a mission on behalf of their members. They compete for funding every bit as aggressively as commercial businesses compete for customers, for their jobs depend on it. Organisations such as Oxfam put commendable thought and effort into measuring outcomes and effectiveness of their work. They realise the importance of this, because the recipients of relief assistance – in one sense their customers – do not have the luxury of taking their custom elsewhere. The relationship between paid front line workers in the field and the recipients of the relief which they distribute is a complex one. Barbara Stocking of Oxfam and I were once on a panel together discussing accountability. She remarked that one of their challenges was that many people assumed them to be perfect. This is a big challenge for any organisation, although not one which I or the companies that I have worked for have ever had to face.

### **Protecting the reputation of the NGO Sector**

The NGO sector, like any other, is made up of a range of organisations ranging from the highly effective and responsible to the irresponsible. As in business differentiation along this spectrum is by brand. The major NGOs such as WWF, Oxfam, Greenpeace, Amnesty and Action Aid have brands which attract different types of supporters, often not entirely concordant with their main activities. Greenpeace for instance has an extremely effective and thoughtful policy group on climate. This is far removed from its dinghy and abseiling image, but if Greenpeace does not have some action involving dinghies and banners from buildings every year or so, much of their membership gets restless and thinks it has gone soft. Likewise, WWF is very thoughtful on the development needs of fishermen or forest peoples, but again their core brand image is not fish and the fishing industry but large woolly mammals such as tigers and pandas.

Just as in the commercial world, competition for customers and funds, or just over enthusiasm for a particular cause, can lead to behaviour which I consider to be unethical. The founder of a major NGO running a public campaign on indigenous people told me he knew that the company that they vilified in their campaign had nothing to do with the issue, but that it was their intention to get that company to bring pressure on the government concerned, using the company's high commercial profile to generate media interest. A major human rights organisation, for which I have a great respect and indeed support personally, have in my view falsely claimed in their fund raising literature that their efforts caused a company to change its policy.

After the last Shell AGM, I wrote to the Financial Times about the implications for corporate governance when about half of the twenty or so questions were asked by people from round the world brought to the AGM by one organisation, Friends of the Earth. In my opinion many of the statements made were at variance with the facts on the ground. Craig Bennett of the FoE referred in his summing up to FoE having brought all these people to the meeting. The FT chose to run the letter under the heading "Enjoy a free trip and get to ask Shell a question". A letter from Tony Juniper, the CEO of FoE, said that as usual Moody-Stuart had got his facts wrong as Friends of the Earth had not paid for

anyone to travel to the meeting. While this statement is doubtless strictly speaking accurate, Friends of the Earth in fund-raising documents certainly appealed for funds to enable them to bring people from around the world to the meeting. A corporation could not get away with this fine distinction for long. I once briefly considered bringing to a company's AGM some representatives of the many supportive bodies, including a democratically elected mayor. While this might have lent some balance to the discussion, people brought to a meeting by the company would unsurprisingly not be regarded as independent.

When there are problems, companies should be called upon in public to account for their actions or inactions. Surveys show that NGOs collectively enjoy higher public trust than corporations or politicians. Unscrupulous NGOs are betraying and endangering that collective trust, just as individual companies and politicians have similarly damaged collective trust. The issue is that such examples – which companies can be as guilty of as NGOs – drive a wedge of mistrust between organisations who do actually in many cases share a common cause. This is compounded by some NGOs who peddle the line that all the evils of the world originate in business, particularly big business. This is destructive, as it is clear that while development aid is necessary, the longer term solution is the development of sound economic activity. Also, without business, there is no development aid, and no money generated to donate to NGOs. NGOs did not thrive under communism.

### **Methods of building Trust between business, NGOs and society**

How can trust be built between companies, NGOs and the public at large? One way is through very open reporting on standardised indicators such as those developed by the Global Reporting Initiative (GRI). These indicators are developed by a very transparent public process involving representatives from NGO's, UN agencies, labour organisations, and companies. Reporting should cover the whole scope of a company's activities. Inevitable shortfalls in performance can be put in the context of overall performance. Clearly it is best if these indicators are independently verified. The GRI also develops guidelines for specific industry sectors, NGOs, governments and local governments. The GRI itself, some local governments and some NGOs are beginning to issue GRI compatible reports on their own activities, joining companies from all around the world in building a global standard.

A second method of building trust is for groups of NGOs and companies to work together on particular issues. There are some excellent examples of this. Arising from the "Publish what you pay" campaign by Global Witness and the Soros Open Society Foundation, the Extractive Industries Transparency Initiative was launched by the UK government. It involves oil, gas and mining companies publishing what they pay to host governments and the host government declaring what they have received, both being independently audited. It may be possible to extend this transparency to the vitally important ultimate use of the government revenue.

Similarly the Kimberly Process, which grew out of concerns over the use of diamonds as a source of funding for conflict, now covers over ninety-nine percent of diamond production and prevents the fuelling of conflict. In another example, the Voluntary Principles on Security and Human Rights were developed through co-operation between the UK Foreign Office and the US State Department, with involvement of major companies and human rights NGOs. The Voluntary Principles provide agreed guidelines for the use of armed security, the evaluation of risk and the steps to be taken if government forces are used. Proper application of these principles helps protect companies from accusations of complicity in human rights abuses.

## **Supranational or national legislation?**

There is a third and somewhat more contentious area where the building of mutual trust between companies and NGOs is needed. Many NGOs believe that international, legally binding, regulation is needed to govern the behaviour of multinational corporations. They view the strong opposition from companies with deep suspicion. On the other hand multinational companies fear an extension of – mainly US – judicial activity, believing that this is just going to result in a plethora of frivolous cases brought in New York courts by ambulance chasing lawyers, facing companies with an unattractive choice of making large out of court settlements, much of which goes to the said lawyers, or proceeding with lengthy and expensive litigation ending before an unpredictable jury relatively unaware of the background and conditions against which actions take place.

There is no doubt that there are many offences against human rights and the environment carried out by companies, but the vast majority of these occur not in major transnational businesses but in poorly regulated national businesses, in manufacturing as well as artisanal mining, and underground coal mining in many countries.

Despite clear and universally acknowledged agreements such as the Universal Declaration of Human Rights, the ILO declaration on rights at work, the Rio Declaration on Environment and Development and the UN Convention against Corruption, offences are daily committed against these in very many countries. At the heart of the problem is an understandable lack of trust in national governance in many states, but superimposing international legislation applicable only to international companies does not address this. Business is prepared to work with governments and other sections of society to ensure that in each and every country national legislation is enacted, and then enforced, to ensure that the principles of these major UN Declarations and conventions on which the Global Compact is based are honoured. This is a major job. It could not be progressed in every country simultaneously or evenly. But this, not grandstanding in New York or Geneva, is what is needed if we are to make real progress across the world.

In this process, the practical learning and dialogue activities of the UN Global Compact are very important. In their work, companies need the experience and expertise which civil society organisations and others can bring to bear. Groups of companies and NGOs, both national and international, need to continue to come together to make practical progress in the complexities of real world situations in various countries, and to back that up with well thought out and properly enforced national laws and regulations.

## **The challenge of climate change – working together is essential**

I started this talk with a suggestion that the biggest threat to sustainable development and intergenerational equity was climate change, driven by increasing need for energy to fuel growing developing economies and our relatively profligate use of energy. There is perhaps nowhere more important for different sectors of society to work together towards the common goal of limiting over time the build up of greenhouse gases in the atmosphere. At present we make little progress because each sector tends to pass the buck to another.

Caricaturing the positions slightly, business shifts the buck to consumers, with a sideswipe at government regulation. Energy companies work successfully on the energy efficiency of their own operations. They set targets for themselves well in excess of the Kyoto agreement. But these targets ignore the much larger impact of fossil fuels in the hands of their customers. Energy companies offer advice to their customers on energy efficiency and carbon footprints. Several have renewable energy

or hydrogen businesses. But we cannot sell what customers do not want. In transportation Bill Ford has made this dilemma clear – he does not think that large 4 wheel drive vehicles are a good thing environmentally, but that is what the customer wants and that is where the biggest margins are made. So Ford is trapped in an uncomfortable position. The buck is quietly passed to consumers.

Business is also paranoid about regulation. This is because of bitter past experience of the cost of unnecessary or overly prescriptive regulation which kills business. Bureaucracy is anathema to business. No less a person than Khrushchev said that bureaucrats are like crows, if you chop down the tree in which they are roosting they flap around for a while and settle somewhere else. Regulator's trees can grow many branches. Business acknowledges that regulation is essential to the sound working of markets – regulation on transparency, on quality, on competition etc. We all know the tragic consequences of inadequate or laxly enforced building regulations. In spite of this business people in general remain deeply suspicious of the tool in the hands of politicians and governments.

Consumers, who in democracies are also voters, have considerable power. They can destroy a company or government. Polls increasingly suggest that consumers, including those in the United States, believe that climate change is a potential problem, even if it is not fully understood. In countries all across the world, I have found consumer attitudes very similar. People want instant, economic and reliable energy. Where they do not get it – whatever their level of affluence – they go to great lengths to acquire it, whether it be through very expensive and inefficient generators, or by lugging lead acid batteries on a bicycle miles to be recharged, a dangerous, environmentally unfriendly process. Such is the demand that the very poor are prepared to spend a disproportionately high share of their meagre income to acquire energy.

The demand for personal transportation is also similarly global. In China and India, people progress from bicycles via motor scooters to cars, allowing them to bring goods to market and take themselves to a more remote place of work. Demand for transportation fuel in these markets is booming way ahead of GDP growth. For both power and transportation the consumer is often very well aware of the problems, but is normally loath to forego any personal convenience to address the problems. That is something that we all think “they” should do something about, where “they” is the government or business.

Economists have a ready answer to influencing consumer choice - use price signals in the market by internalising costs through taxation. In many societies, consumers react in a very negative way to this, certainly above a certain price threshold. Look at the fuel tax protests in this country, which forced Gordon Brown to reverse the policy of automatic fuel tax increases above inflation. The wrath of the consumer voter is something democratic governments rightly fear.

And what of governments? They are fearful of offending the consumers, their voters. Government's two main levers are regulation and taxation. In regulation they tend to fiddle at the edges in things which are often costly to business, but whose price impacts are not directly visible to consumers. In taxation, fearful of the wrath of consumers, they also try and attack in areas somewhat remote from consumers. Given its lack of votes, business in turn defends itself with the best weapon at hand, the argument that international competitiveness will be lost.

Given all this buck passing between business, government and consumers, is there genuinely a chance of a three cornered approach which will encourage us down energy paths which are more likely to deliver a low carbon outcome?

## **The essential elements of an approach to climate change**

Any successful approach needs to have the following elements clearly and openly expressed. First, utility to the customer has to be preserved. Consumers are happy to use renewable energy as long as it is reliable, that power is available all the time, and that it does not cost a great deal more than the traditional. In transportation, they will not give up personal mobility, or will aspire to it if they do not have it, except in locations where public transport gives clear advantages.

Second, the market on its own will not deliver solutions, we need a framework to guide it. The market is an unsurpassed mechanism for allocating resources to deliver goods and services. Through the market, technologies compete and are optimised or discarded, which opens the field for creativity in competing businesses and for consumer choice. I am a strong believer in the power and value of markets. But like most things, markets have limitations. Markets will not on their own deliver things which are of no immediate benefit to the individual consumer making his or her choice, even though they may be beneficial to consumers collectively, in other words society. Markets without regulation would not have delivered unleaded gasoline, autocatalysts or seatbelts and airbags, nor would they in isolation have delivered clean air to London after the killer smogs of the fifties. The Montreal protocol phased out the fluorocarbons which were damaging the ozone layer, delivering the only global atmospheric success to date. All of these benefits needed regulation to channel the power of the market. Consider the benefit of a regulatory framework mandating steadily increasing vehicle efficiency. Competition to meet consumer preferences for power or space would still take place within the efficiency mandate, but there would be a non-fiscal commercial premium on efficiency which would benefit all.

Regulatory frameworks have to be simple and practical. The gut opposition of most business people to regulation comes from bitter experience of regulations which do not frame the market but bind it hand and foot and legislate on how things must be done. This simply kills markets and takes all the fun and variety out of life.

Third, we must use market mechanisms to make sure that on a global basis we apply resources where they can have the maximum impact. Climate change is a global issue. It is essential to ensure that developing economies, where much of the growth in energy consumption will occur, apply the most efficient technologies. International carbon trading schemes and the Clean Development Mechanism (CDM) of the Kyoto agreement are critical in this. Ensuring that current generation capacity in India and China is up to average OECD standards of efficiency would have a greater effect than the total impact of Kyoto on the developed world. The CDM provides a way for OECD companies to gain carbon credits for expenditure in such upgrading rather than a similar sum spent for marginal return on their own already efficient plant. There is a tendency to demonise the United States in relation to Kyoto. We should remember the deep suspicion from other nations of the US espoused trading and market mechanisms. This was in part at least responsible for the failure of the US to join in. That suspicion lingers on today, with many projects proposed for the CDM languishing on the stocks because of endless complexity of the conditions and regulations proposed.

If one accepts these broad assumptions – that we have to continue to provide consumers with the utility that they expect and at reasonable cost, that the creativity of the market is necessary to allow choice and to guide the allocation of resources, but that a broad regulatory framework driving efficiency is necessary to guide the market – where do we go from here?

**A proposition saleable in democracies?**



For a saleable consumer and electoral proposition to work it has to have broad government, business and NGO support. The proposition runs something like this;

*To avoid excessive damage from climate change we need to limit greenhouse gases to somewhere around the equivalent of 550 parts per million of carbon dioxide. This will result in some sea level and climate changes (10 to 50 centimetres and 1.5 to 3.5 degrees C) over the next century, but we believe that that the effects can be mitigated. To restrict the changes to this level we will have to radically increase the efficiency of energy use all around the world as well as seeking new sources of energy. With the development of technology in the areas of transportation, building efficiency, renewable and other energy sources this can be done, but in order to encourage this development it will be necessary for government to create regulations to guide the development of markets, but we believe that this can be done without depriving consumers of the standards of performance that they enjoy.*

There will be much argument about the target level. Indeed it should perhaps be even lower, but most people accept that anything lower will already be extraordinarily difficult to achieve, and part of the object of this statement is to establish a common acceptable goal towards which we can work.

There will be arguments that the consequences are dismissed too lightly. That too may be true, but again, we should be getting people to consider what steps are needed to counter what are likely to be unavoidable changes. Telling everyone that it may be a lot worse will not make it easier to sell, and there is always the argument that some unforeseen effect may mean that it is not so bad in the end.

There will certainly be arguments that we need radical changes of lifestyle in order to achieve the targets. Some brave politicians rightly say that we need to cut emissions by 60 percent. This conjures up in the mind of a consumer doing sixty percent less driving, heating or cooling their homes, taking fewer overseas holidays. This simply pushes people into denial and is not in fact what is needed. Furthermore, drastic changes in lifestyle are not saleable politically in a democracy – unless the crisis, such as a war, is manifestly absolutely at the door. It may come to that, but I suspect the boiling frog analogy is uniquely apt in this context. We need to emphasise that we will deliver the same for very much less – a classic challenge for business. And there will of course be many in business who also say that that is impossible. That is quite normal. In any business when a cost or efficiency target is first raised, the cry is always that it is impossible. Surprisingly when the arguments over the theoretical level of the target cease and creative minds are focussed on practical implementation, the targets are often exceeded.

Lastly there will be arguments from enthusiasts for one or other technology who will insist that their particular enthusiasm represents the holy grail - whether it be solar photovoltaics, wind power, biomass, nuclear, hydrogen, geothermal, carbon sequestration, hybrid vehicle technology or tidal power – and that that technology should receive special attention or even subsidy.

I do not know which of these technologies will win, and I am not confident that anyone else knows either. The frameworks we need to guide the market should be technology blind. It would probably be best to use carbon intensity as a framework rather than a broader area such as renewable energy. But I would accept some mandating of different broad power sources as a first step.

In order to achieve progress in addressing the challenge of climate change, as in other areas, different sectors of society will have to work together to achieve a common goal. In the process, each sector will have to give up something. In the case of business, I suspect that the most difficult hurdle to

overcome will be the instinctive distrust of regulation, while for many NGOs it will be a distrust of business and the market.

It is only by working together that we can address the big common causes of climate change and development, helping to meet the needs of the present without compromising the ability of future generations to meet their needs.

Thank you.