

Blueprint for a Healthy Environment and a Productive Economy

The Association of Superannuation Funds of Australia
ASFA Investment Interchange
Rethinking strategies for investment and retirement income

Sydney March 25, 2015
Melbourne March 26, 2015

Peter Cosier
Wentworth Group of Concerned Scientists

I am delighted for the opportunity to give this presentation, because the financial sector, particularly the super industry with its focus on long-term value for your customers, has a vital role in maintaining the health of our environment.

Where and how you invest matters.

A great many environmental challenges are coming down the tunnel at us, and are going to have to be addressed – not just climate change but also the health of a range of other environmental assets – land, water and biodiversity.

The problem is the narrative: jobs or the environment.

Despite substantial advances in environmental policy in recent decades, in recent years the public dialogue has increasingly shifted to a position that we must now sacrifice the environment to pursue a growing economy.

A consequence of this short-termism is that we are now seeing:

- the winding back of national water reform;
- the repeal of the Emissions Trading Scheme;
- constant attacks on the Renewable Energy Target;
- the approval of thousands of coal seam gas bores across the landscape without a proper assessment of their cumulative impact on water resources, agricultural land or native vegetation;
- the Commonwealth seeking to give away responsibility to protect matters of national environmental significance; and
- very significant cuts to national environmental programs.

This dramatic, myopic shift in environmental policy flies in the face of science, and it flies in the face of good economics because, in the long run, degradation of natural capital will come at an enormous economic cost to the community and business.

The consequences.

The destruction of native vegetation, over-extraction of water, degradation of agricultural soils, and poorly planned urban and industrial development have set in train processes that are driving long-term degradation of the Australian landscape.

As population and incomes continue to grow, future demands will place even more pressure on these assets, and climate change will add a whole new dimension to these pressures.

A sustainable economy.

Productivity is the key to long-term economic growth.

It is also a pillar of sustainability, because people can create greater value using less materials and less energy, and with less impact on the environment.

Energy use is and will continue to be essential to economic growth.

If more people are to benefit from industrialisation, the world will need to produce more energy.

How this energy is produced will be the foundation of a sustainable economy, because the world also needs to reduce greenhouse emissions by at least 50 per cent within the next 40 years.

This will require developed countries such as Australia to reduce our net greenhouse emissions by more than 95 per cent over the next 35 years. That's right, a 95% net reduction in emissions within 35 years.

The good news is that Australia can achieve that target without fundamental change to the economy, through a combination of energy efficiency, low carbon electricity generation, and carbon farming, but only if we act quickly.

Carbon farming is particularly important because not only does it provide an economic mechanism to offset Australia's existing greenhouse gas emissions, it also provides an economic foundation for the restoration of degraded land across the continent.

This is because natural landscapes and healthy agricultural systems store vast quantities of carbon.

The opportunity.

So how do we bring the economy and the environment together?

The challenge we all face, both business and consumers, is that economic transformations needed to create an economy that maintains its natural capital are far beyond the ability of any individual or company to address on their own.

Over the next 12 months, the Australian government is leading discussion on two major areas of reform: on the roles and responsibilities of the Commonwealth and states in the Australian Federation, and on tax reform.

The Federation and tax reforms, and the environment-economy debate are seen as separate, when in reality they are fundamentally linked.

They are linked because in the long run, degradation of natural capital will come at an enormous economic cost to the community and business.

The stated intention of the Australian government's Federation reforms are to reduce and, if possible, end duplication and make interacting with government simpler, and the government's tax reform agenda appears to be framed under these same priorities.

If they are to regain trust and support from the Australian community, they need to do much more than this.

Blueprint for a Healthy Environment and a Productive Economy.

This brings me to our *Blueprint for a Healthy Environment and a Productive Economy* which we released in November last year, in consultation with experts in economics, land use planning and land and water management.

In the Blueprint:

- we describe the magnitude of the environmental challenges Australia faces;
- we establish the case that it is possible to grow the economy and protect the environment; and
- we set out five long-term institutional and economic reforms that we believe Australia can implement.

We will be releasing further papers on each of the five reforms in coming weeks.

Let me briefly sketch out some of the main elements underpinning each of them.

1. Fixing our reactive land and water use planning systems. Not only is bad land use and infrastructure planning a drag on economic growth - delays and uncertainty in development approvals, congestion in our cities, and unnecessary damage from extreme weather events - it is also the driver of long-term environmental degradation because it fails to take into account the cumulative impact of development on environmental assets.

2. Using markets to finance conservation: Our proposition is a simple but fundamentally important one: remove subsidies from activities that pollute the environment and create economic incentives for business and consumers to restore and maintain environmental assets that have been degraded in the past.

One way of doing this is to put a price on carbon and use carbon offset markets for the reasons I explained earlier: healthy landscapes store vast quantities of carbon.

Another way is to eliminate fossil fuel subsidies and tax expenditures that are costing the rest of the economy in the order of \$8 billion a year, and use some of these savings through an equitable, broad-based land tax to pay farmers, indigenous communities and other landholders to restore degraded environmental assets.

As a package, this second option would not only result in less tax on the rest of the economy, it would also go a long, long way, in combination with a price on carbon, to restoring and maintaining the nation's natural capital long into the future.

3. Relates to Conserving natural capital by closing the gaps in our public and private reserves, connecting these across the landscape, and committing to a long-term plan to conserve our native plants, animals and ecosystems.

In doing so, we will also create wealth and employment opportunities for more people, because access to nature in an increasingly congested world will be valued more highly by Australians and attract growing numbers of international visitors.

4. Regionalising management of Australia's natural resources so that investment decisions are underpinned by an understanding of how landscapes function.

It will also drive massive efficiencies in government.

I can tell you from personal experience, there is enormous scope for reducing duplication and improving the efficiency across all three levels of government.

We are not proposing a fourth tier of government. What we are advocating is that we streamline these institutions so that everyone - investors like yourselves, government, farmers and other private landholders - are all heading in the same direction.

5. Fundamental to all of these is creating a system of national environmental accounts.

We have heard throughout this Investment Interchange where your short term metrics are driving sub-optimal long term results.

Ours is a more fundamental problem. At its most fundamental level, our problem is we measure the benefits of economic growth but that's only half the ledger, because we are not accounting for the depletion of natural capital that some of these economic activities are causing.

It is not possible to manage the economy without economic accounts. Neither is it possible to manage the environment without accounts that measure the condition of the environment.

If you don't measure it, you can't manage it.

If ever you need proof, just look at the Intergenerational Report that was released by the Treasurer last week.

Putting aside the politicisation of what was supposed to be a 5-yearly 'State of the Nation' report Peter Costello originally intended, you will see the extraordinary sophistication in our understanding of the economy and social and demographic trends, but under the heading 'environment' the best the government can do is repeat its pre-election press releases.

We are completing a trial across Australia's Natural Resource Management regions, a model for constructing a common, non-monetary currency for accounting for the condition of environmental assets, at any scale, anywhere, and track and report on change over time.

We call this model *Accounting for Nature*, and we are confident that when we do create such national environmental accounts, it will change the way we manage the environment and the economy.

The role for business leaders.

So what specifically can business do?

I'd offer three suggestions. The first two are fairly obvious:

1. Firstly, knowledge of these big, long-term environmental trends will increasingly underpin your evaluation of the long-term opportunities and risks to your investment portfolios.
2. Secondly, you can make a contribution through your own business practices. At the very least if you haven't already, you could identify the many opportunities for your business to both save costs and at the same time reduce your environmental footprint.
3. The third is a bigger challenge:

I'd be very surprised if anyone here today would disagree with the propositions I have put. You might challenge some of the detail.

The problem I have is the same problem you have. As individuals we feel powerless against the state, but a specific opportunity struck me at this forum yesterday in Sydney.

Business leaders do get the problems and they do understand the structural reforms necessary to solve them, but as we know from history, our best chance of success is always when government does these things because our community demands it of them.

When industry sectors group, you do so because it's in your own self interest to do so.

And when you do speak with one voice, you have an enormous influence on public policy – and rightly so.

So my suggestion is this: if you accept that conservation of natural capital is in the long-term self interest of your customers, then it is in the long-term self interest of your industry for the Federation and Tax reforms to address the long term decline in the condition of our environment.

So please, as a part of your CSR, work with us and others to ensure that these reforms do lead to an economy that not only promotes economic growth, but one that also conserves our natural capital for the long haul.

We would be delighted to work with you on this journey.

Conclusion.

In conclusion, let me make this final point.

We live in an extraordinary country.

Australia is enjoying a remarkable 23 years of uninterrupted economic growth.

There is no reason why the Australia of today cannot grow the economy, create jobs and maintain a healthy environment.

Thank you.