Corporate Sustainability —
an Investor Perspective
The Mays Report
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Acknowledgements

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The energy and commitment from these individuals and organisations has been invaluable. I thank them for their contribution in furthering the debate on sustainable investing.

Shaun Mays

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The Howard Government believes that economic policy and environmental policy are intrinsically related.

The proper handling of environmental issues underlies the profitability and sustainability of our industries and the quality of life we enjoy and hope to pass on to our children.

Sustainability refers to the inter-relationship between the health of both the environment and the economy.

It is only with a resilient and vibrant economy that a nation can address the environmental challenges it faces.

It is on the back of a strongly performing economy that the Howard Government is now investing record amounts to address our nation’s key environmental issues — over $2 billion a year on a whole of Government basis.

The relationship between prosperity and good social and environmental governance holds at the company level as well.

It is now accepted that companies that effectively manage their environmental and social risks and report them to investors can provide more secure and profitable results for their shareholders.

The investment community is a fundamental player in moving Australia towards sustainability. Analysts now have a growing number of tools to assess companies’ sustainability performance. As use of these tools grows, business, society and the environment are set to profit.

I would like to congratulate Shaun Mays and the leading financial institutions that contributed to this important report. I am pleased that the Australian Government was able to facilitate its publication.

I commend the report to anyone with an interest in investing in Australia’s future.

Dr David Kemp MP
Minister for the Environment and Heritage
This report has been prepared under the stewardship of Shaun Mays, with extensive assistance from BT Financial Group — Governance Advisory Service and a steering committee comprising representatives of ABN AMRO Morgans, AMP Henderson Global Investors (AMP Henderson), BT Financial Group, Insurance Australia Group and Sustainable Asset Management.

The Department of the Environment and Heritage commissioned the research for the report, with the intent of contributing to discussion within the financial services sector on the value of including sustainability issues within mainstream investment evaluation processes. The Department has been working with business to raise awareness and improve understanding of sustainability issues, and sees the financial services sector as playing a pivotal role in deepening this understanding.

The report is based around case studies of corporate sustainability developed by BT Financial Group. The primary purpose of the report is to examine investor perspectives on corporate sustainability and identify how sustainability related risks and opportunities connect with investment outcomes. In having the report prepared by Shaun Mays, with assistance from the steering committee, it aims to provide a market-based investor perspective to these issues rather than a purely theoretical approach.

The audience for the report is both the Australian financial services sector and Australian business more broadly. Any linkage between corporate sustainability performance and investment performance should be of interest to investors, company management and boards alike. The report is available in both hard copy and on the Department of the Environment and Heritage website.

Obtaining copies

Copies of this publication are available by contacting:
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Sustainability continues to grow as both a challenge and opportunity for businesses and their investors. Corporate Sustainability — an Investor Perspective examines sustainability issues through the eyes of investors. This perspective has been shaped through a series of listed company case studies, examining a diversity of applications of sustainability principles at the individual business level.

The aim of the report is to contribute to awareness of sustainability as an investment tool. The report does not seek to define corporate sustainability but does highlight aspects of sustainability behaviour that contribute to risk minimisation and asset management. As an investment tool, sustainability offers insight into business efficiency and management competency. As a consequence it is deserving of greater prioritisation by both investors seeking sound long-term investments, and companies seeking to attract long term capital.

The report is offered in two parts. Part A of the report discusses the drivers behind corporate sustainability. Part B of the report contains a series of 10 case studies, documented across six business segments. The report should be read as a whole, however each part has been documented to enable individual consideration.

Some of the key findings of the report include:

→ Sustainability behaviours add value to commercial endeavour and make for good business sense. A number of Australian companies are undertaking sustainability initiatives in their business, even in the absence of a formal sustainability policy.

→ Sustainability is a particularly useful device for managing intangible assets such as brand and reputation. The case studies offer insight to different approaches at the company level. Benefits include human capital management, stakeholder management and product differentiation.

→ The potential for capturing sustainability benefits hinges on a successful move toward a common understanding of sustainability principles. In the absence of this, companies are not articulating their sustainability behaviours as well as they might, and in some cases value-adding sustainability behaviour is undersold. Equally, Australian investors do not seem to have developed a discipline for considering sustainability principles.

Corporate Sustainability — an Investor Perspective is produced as a stepping-stone towards a greater understanding of sustainability, how companies apply sustainability principles and how investors can manage investment risks in a more holistic way in the pursuit of outstanding financial returns.
Part A
The drivers behind corporate sustainability
1.1 Superior performance at lower risk?

The starting point for this report was to explore how companies pursuing a sustainability approach — whether at the corporate or project level — demonstrated superior investment credentials at a significantly lower rate of long term risk.

When the Department of the Environment and Heritage indicated their support for an investment industry-developed perspective on sustainability, I was privileged to have a distinguished group of investment organisations to whom I could turn for assistance. This report is as much about their perspectives as it reflects my own.

It should be acknowledged at the outset that sustainability continues to be in the early stages of development as an investment concern. Reflecting this, the report should be seen as one part of a complex equation. The report should not be read as promoting sustainability as some kind of magic bullet for investors aiming for the best performing investments. Investing will never be that simple. On the other hand, sustainability is an important aspect of business that could be better integrated into the analysis of companies by investors.

The driver for the Report is not to “save the world” or pursue a morally “right” cause. Rather it is to begin to form a deeper understanding of the inherent risks and opportunities in a company’s operations so that better investment decisions can be made. This is a more holistic approach to generating shareholder value and therefore better portfolio performance on a sustained basis.

This point was made clear by one of the steering committee members. When asked why they were willing to invest time and effort in the pursuit of greater understanding of corporate sustainability, their response was “because the more I look at these issues, the more I get to see the operation of the company and its management in a way I would not traditionally enjoy. The deeper my knowledge of the company, the better will be my investment decisions”.

Rather than attempting to define sustainability, we chose to elevate this discussion via a series of case studies examining corporate sustainability in situ from an investor perspective. Like many journeys, the initial path of our endeavour was not the one wholly travelled. While we examined the relationship between investment performance and sustainability behaviours, one cannot necessarily draw a line between sustainability and short term share price movements. This is not an unexpected result as the factors influencing short-term share price movements are complex and multi-faceted.

This does not reflect a flaw in the insight offered to investors by sustainability. It means that sustainability is another useful indicator of corporate performance and is certainly an important indicator of corporate risk. This is no different to the traditional financial indicators of investment performance. For example, a company with a low price to earnings ratio or a high dividend yield, while attractive at face value, is not necessarily an attractive investment.
Investors are therefore invited to look at sustainability as augmenting existing methods of company investment analysis. Sustainability does not replace the current methods of consideration, it is becoming part of the assessment of management competence, corporate governance risk and corporate longevity.

The report has been prepared in two parts. **Part A** looks at the issue of sustainability and the drivers behind corporate sustainability. It also looks at the concept of sustainability from the financial perspective of:

- Debt financing
- Equity financing
- Institutional investor and funds manager approaches to investment governance.

Each perspective sheds a different light on how the concept of sustainability can be applied to deliver financial value, demonstrating both the power and versatility of sustainability to both an investor and a company.

**Part B** then looks at a diverse range of company case studies in corporate sustainability. The 10 company case studies cover six business sectors and have been written to permit individual reading, however the report is best read as a whole. The case studies explore the nature of corporate sustainability as a tool to manage risk and exploit opportunity.
2.1 What is corporate sustainability?

In today’s investment environment, corporate sustainability is much discussed as a mainstream issue. However, sustainability is not always defined in a way that assists investors.

Many authorities, including Sustainable Asset Management (SAM), refer to the concept of sustainability as originally introduced in the 1987 Brundtland report, Our Common Future, which was commissioned for the United Nations. The central principle of this definition is —

‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’.

From a business and investor perspective sustainable development has become known as ‘corporate sustainability’ or ‘corporate social responsibility’. In this report we have used ‘corporate sustainability’ as an all encompassing term.

Unfortunately, in trying to answer ‘what is corporate sustainability and how do we look at it?’ i.e. what are our key performance indicators? — many companies get caught up in triple bottom line reporting. While transparency is an important aspect of sustainability, embedding the concepts internally in order to add shareholder value is the most important issue.

Leading investors look at corporate sustainability as creating long-term shareholder value by embracing opportunities and managing risks derived from social, environmental and economic factors. This means ensuring that companies make decisions that protect the long-term economic health of the company as well as short-term share market performance. Taking investment perspectives beyond the natural inclination towards short-term imperatives is a further advantage of sustainability.

Sustainability involves an examination of companies across all three pillars of governance: social, environmental and economic. These form the corporate governance model the company should be using. Corporate governance needs little introduction. The risk is that the recent memory of corporate collapses, and consequent focus on a limited view of corporate governance, act to overshadow the insight social and environmental governance can provide, particularly to investors seeking longer term corporate performance.

Sustainability, in a broad sense, deals with risk in the form of externalities and with opportunities in the form of efficiencies. Investment risks may arise where corporate activities adversely impact society or the physical environment. As stakeholders and communities recognise these potential (externality) impacts and advocate for their reallocation back to source; community, regulatory and litigation risks can arise. Opportunities for efficiency gains can be achieved via reduced resource consumption and/or a variety of productivity innovations.

Sustainability can be evaluated by a wide range of factors. Examples include: energy efficiency; community relations; eco design; materials efficiency; product recyclability; and employee relations. All relate back to the bottom line and to intangible asset management such as brand and reputation.

2. This is a broader interpretation of corporate governance than is currently focused upon in the market.
The following diagram represents potential linkages between corporate sustainability activity and shareholder value.

Diagram 1: Corporate sustainability – the ‘added value’ drivers

- Reduced regulatory intervention
- Enhanced reputation and stronger brand
- Alliances with business partners
- Better stakeholder relations
- Access to and lower cost of capital
- Minimise risks — operations and M&A
- Cost Savings
- New business opportunities
- Customer satisfaction — loyalty and higher sales
- Attractive employer

Shareholder Value

Source: Adapted from ABN AMRO Morgans

The following table is a company perspective of sustainability linkages to financial drivers and financial performance provided by Westpac Banking Corporation as adapted from SustainAbility. The table echoes the themes of this report — that sustainability considerations relate to improved (lower) company risk profile and enhanced brand and reputation.

3_See also http://www.sustainability.com/home.asp.
2.2 The rise of sustainability

The increasing focus on sustainability is a complex phenomenon that continues to evolve and grow. A number of key developments underlie why both business and investors are receiving, and will continue to receive, scrutiny on sustainability. These drivers underlie the proposition that corporate sustainability adds to shareholder value. The combination of community pressure and these drivers means that sustainability as an investor and corporate concern will certainly not go away.

The first driver has been the move toward smaller government. The growth of business relative to government has seen a shift in community expectations. This has placed increased expectations on business. Anti-globalism statements, sometimes expressed violently, have brought sustainability into focus in the boardrooms of company directors and Australian households alike. While the phenomenon is most pronounced in Europe, many Australian businesses are seeking growth opportunities beyond the equator and so risk being impacted. Sustainability is also a growing concern among Australian CEOs.4

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4 See for example 'CEOs agree on need for reform', Australian Financial Review, Chanticleer, John Durie, 9–10 August, 2003, where 23 business leaders were asked about key national and corporate issues. Priority responses (reported in summary format) included human capital, environmental sustainability, water policy, ethical leadership and culture — being a variety of sustainability criteria.
The second driver has been the democratisation of share ownership. This has occurred through a powerful combination of growth in superannuation, privatisation of government entities and the process of demutualisation. ASX data shows that in 2002 some 50% of all adult Australians owned shares, either directly or indirectly. This is a significant rise from the 34% share ownership level of only five years earlier and has brought about a commensurate increase in the scrutiny of companies by individual investors.

Finally, we have witnessed the establishment of the connected community. The technological platform for scrutinising all aspects of corporate activity has never been more sophisticated. This is often referred to as the ‘CNN world’, where all behaviours are observable and reportable through media, 24 hours a day, seven days a week. For example, internet penetration has reached a level where 70% of Australians have access to this highly efficient form of communication.

Together, these drivers are underpinning the shift to price in activities that previously were regarded as externalities. This process is known as the internalisation of externalities. Examples include early stage initiatives to price carbon at various levels of government, similar initiatives in the ownership and trading of water, community activities in relation to labour rights (for example the ‘Behind the Label’ initiative of 2001), a heightened focus by NGO’s on the finance sector, and the implementation of the ‘Equator Principles’ by leading banks, globally (see section 3.1).

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In looking at why analysts need to consider sustainability when assessing the investment case for a company, one area of growing relevance is in that of ‘cost of capital’ — be that debt or equity.

From a debt perspective, the issue of margin above risk free rate or pricing — or even in extreme cases, not making funds available — is already being related to a company’s sustainability rating.

Whether measured in the premium over benchmark that a company is required to pay for a loan, or the corporate bond spread that applies; understanding a company’s corporate sustainability rating has become a measurable input into the corporate cost equation.

This applies both from a static (the diminished likelihood of an environmentally challenged mining project receiving appropriate funding) or from a dynamic perspective (the capacity to lower the cost of funding by adopting a pro-active approach to resource management). For lenders, both credit and reputation risk is being factored into the decision-making checklist.

This process developed a more tangible dimension in June 2003 when ten leading banks from seven countries announced the adoption of the ‘Equator Principles’; a set of guidelines developed by those banks for managing social and environmental issues related to the financing of development projects.9

The banks (Westpac, ABN AMRO, Barclays, Citigroup, Rabobank, Credit Lyonnais, Credit Suisse First Boston, HypoVereinsbank, Royal Bank of Scotland and WestLB) have agreed to apply the principles globally to project financing in all industry sectors, including mining, oil and gas, and forestry.

Four further banks (ING, Dresdner, MCC of Italy and Royal Bank of Canada) have subsequently become signatories — underpinning expectations that the Equator Principles will soon be regarded as the de facto banking industry standard.

In adopting the Equator Principles, a bank undertakes to provide loans only to those projects whose sponsors can demonstrate to the satisfaction of the bank, their ability and willingness to comply with comprehensive processes aimed at ensuring that projects are developed in a socially responsible manner and according to sound environmental management practices.

Under the new approach, projects are to be categorized A, B or C, with ‘A’ projects having the highest risk for impact and the greatest need for mitigation and ‘C’ projects being merely financial transactions.

The challenge for companies is to develop strategies that deliver returns to shareholders above their cost of capital. The challenge for investment analysts is to assess company strategies and their capabilities to deliver on these. Both the company and the analyst are constantly looking for ways to identify a competitive advantage which provides the edge in an increasingly competitive environment. Sustainability and the management of sustainability issues are increasingly acknowledged as a way of identifying and building competitive advantage.
In considering a competitive strategy, both the company and the analyst generally use a similar approach:

- review the company's external environment to understand the market and identify a competitive position
- look internally to see if there is the capability to deliver on the strategy — analysts often call this assessing the 'quality of management'.

In assessing the external environment, approaches such as Porter's five forces are used. However, most companies and analysts also look at the political and social environment when looking at the future of the industry in which they operate. Sustainability provides a framework in which to assess this 'sixth force' — the political and social forces that are also driving a company's external environment. The questions most struggle with is 'What is sustainability and how can it help?'.

An expanded Porter analysis can be applied to either a company-specific or an industry situation. By way of example, the Canadian based CIRANO research centre applied it on an industry level in a study looking into environmental regulation and productivity.

This study delivered empirical evidence to support Porter's view that a measurable outcome of severe environmental regulation was, contra-intuitively, a positive economic effect on a corporate's future economic performance through the stimulation of innovations that enhanced, rather than detracted from, returns.

In considering the ‘sixth force’ in a Porter type analysis, the diagram below identifies key sustainability principles and the characteristics of less and more sustainable companies. The diagram demonstrates the approach to assessing corporate sustainability by one investment institution.

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**Diagram 3: The key sustainability principals and characteristics**

<table>
<thead>
<tr>
<th>Assessing company sustainability</th>
<th>More sustainable</th>
<th>Less sustainable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low inherent risks</td>
<td>Environmental workplace and/or social risks</td>
<td>High inherent risks</td>
</tr>
<tr>
<td>Positive or no externalities</td>
<td>Externalities</td>
<td>Negative externalities</td>
</tr>
<tr>
<td>Inter and intra-generational equity</td>
<td>Distribution of costs and benefits</td>
<td>Inequity of costs and benefits</td>
</tr>
<tr>
<td>Indirect or non-core Involvement in high risk area</td>
<td>Materiality</td>
<td>Direct or core Involvement in high risk areas</td>
</tr>
<tr>
<td>Focus on prevention Lower life cycle impacts</td>
<td>Precautionary principle</td>
<td>Focus on remediation Higher life cycle impacts</td>
</tr>
</tbody>
</table>

Source: AMP Henderson Global Investors

10. This articulation has been contributed by Dr Ian Woods, Senior Research Analyst, Sustainable Funds, AMP Global Investors, Australian Equities.
Current issues as broad as climate change and the impact of globalisation can be brought into focus if seen through the sustainability lens.

An important element in the analysis of the quality of management is the performance of the company on issues relating to sustainability. In an increasingly competitive environment, traditional strategies, such as cost cutting, provide at best short-term advantage and simply raise the bar for all. Therefore, companies are looking for more innovative and embedded ways in which to maintain competitive advantage. The consideration of these issues does add complexity to company analysis and management. However, in an increasingly competitive world, complexity is a given and it is the successful management of complexity which will lead to better performance. The management of sustainability issues through corporate sustainability can bring about embedded and innovative advantages which deliver:

- better risk management
- cost savings
- management of intangible assets, such as brand and human capital
- extended corporate governance
- performance culture
- innovation to maintain continual improvement
- recognition and management of key stakeholders, eg suppliers.

For companies and financial analysts looking at corporate sustainability, it is not an alternative to traditional ways of looking at internal capability, but an additional framework through which company management can be assessed for areas which are important in delivering returns.

The figure below identifies a number of key areas that can be used in assessing corporate sustainability.

Diagram 4: Key areas for assessing corporate sustainability

Source: AMP Henderson Global Investors
From an investment analyst perspective, considering these issues can provide a unique and deeper insight into the ‘quality of management’. However, one of the challenges facing all analysts is the collection of relevant data — and, when collected, how to best utilise this.

Reflecting the limited reporting of sustainability performance by companies, a separate investment analyst community has developed since the late 1990s. This sub-set of investment analysts is sometimes referred to as Socially Responsible Investment (SRI) analysts.

SRI analysts have generally developed their own methodologies, frequently founded in a proprietary questionnaire. These questionnaires aim to collate empirical and other sustainability evidence on companies. This information could be very effectively utilised by all analysts in their research process.

While the current response by companies has been complaints of ‘questionnaire fatigue’ the trend will be towards sustainability data becoming more standardised and more widely available within the investment industry. SRI analysts have an important role to play in guiding the investment industry through this transition to mainstreaming sustainability in investment analysis.

Companies are often compiling similar sustainability performance data for groups such as AMP Henderson, BT Financial Group and Sustainable Asset Management (SAM). By way of an example, SAM provides companies with a 36-page, 78-question document.

These questions focus on three ‘dimensions’ of data — social, environmental and economic. Areas covered include: Human Capital Development; Talent Attraction and Retention; Stakeholder Engagement; Standards for Suppliers; Sustainability Initiatives; Sustainability Expertise; Environmental Policy; Environmental Performance; Corporate Governance; Investor Relations; Strategic Planning; Business Risk; Scorecards/Measurement Systems; Risk and Crisis Management; Codes of Conduct/Compliance; Customer Relationships Management; and Brand Management.

With access to these insights into sustainability performance, additional analysis can then be applied to company management to the benefit of investment decisions.

Two important steps forward would be setting some standards around the reporting of sustainability data, in the same way that financial data is standardised, and developing an index of listed companies’ sustainability performance.

Two perspectives on the linkage between sustainability and governance are provided in this section. The first approach is being taken by some leading Australian superannuation investment funds, and the second, that of funds manager AMP Henderson.
3.3.1_Institutional investor approach

Long term investors such as superannuation and insurance funds are most exposed to the social and environmental risks embedded in the companies in which they invest. The relative concentration of the Australian sharemarket and the widespread use of benchmark indices in investment means that as they grow, institutional investors increasingly become permanent owners of shares in companies. Sustainability considerations particularly benefit these long term investors.

Human capital and eco efficiency indicators are poorly disclosed to Australian investors despite a growing recognition that these elements of business are pointers to current and prospective company health. For example, leading institutional investors, the Public Sector and Commonwealth Superannuation Schemes (PSS/CSS) and the Catholic Superannuation Fund (CSF) have issued position papers on the governance of workplace health and safety and on energy use.

In the case of workplace health and safety, it was concluded that around 80% of S&P/ASX200 companies were not providing disclosure of lag (after the event) indicators of workplace health and safety performance. This is despite a well-established system for reporting this data to State and Territory WorkCover authorities. A media release on the position paper states:

‘Through their joint investment governance program, established to protect the long-term interests of their members, PSS/CSS and CSF are calling on companies to disclose relevant WH&S performance and risk management commentary to investors in their annual reports; and on fund managers and investment analysts to take a more active interest in WH&S risks.’

Energy use and greenhouse is another example of the potential risks relevant to longer term investment in companies yet to find its way into mainstream investment thinking. Governance research commissioned by the PSS/CSS and CSF found that in 2002, 90% of companies in the S&P/ASX200 Index did not provide information on the management of energy use, including greenhouse gas (GHG) emissions, in corporate disclosures. The funds stated:

‘Improved management and disclosure of energy use by companies is a win on two fronts. Firstly, it offers an immediate and measurable reduction in business costs, and thereby improved profits. Secondly, it is a sound approach to long-term risk management. ‘We are surprised that the mainstream investment community has not done more to ensure dialogue on this important matter…”

Investors are only at the beginning of a new approach to sustainability governance. A handful of superannuation funds are taking a hands-on approach to managing the longer-term risk implications of their investments.

The mainstreaming of sustainability will be assisted by more superannuation fund trustees walking the talk of long termism. As one of the most listened to members of the investment community has stated:


‘What I’m really about here is weakening the principal-agency effect. This fund has a heap of members with a genuine 40 or 50 year investment horizon. But the agents acting on their behalf… none of us have an interest anywhere near that’.

In the case of a 20-year old superannuation fund member at the beginning of their working life, newspaper quarterly investment performance tables are akin to analysing the prospects of an Olympic marathon runner in 100 metre segments. The overall concept of monitoring investment performance is important, however the investment pendulum has swung too far to the side of short-termism. Sustainability has the potential to bring this pendulum back toward a more balanced position.

3.3.2. Funds manager approach

Sustainability has an economic and risk focus. Management of company-specific risks and broader economy risks are key issues for financial stability and sustainability. For the long-term investor, this involves more than considering just financial data.

The way companies themselves are governed and the nature of the governance relationship between investors and companies is of vital importance in ensuring financial sustainability. It is in investors’ interests to ensure that the companies they own are well governed. Ensuring good governance can enhance returns, reduce risk and increase the accountability of companies to their owners. Fund managers play an important part in this as they are agents and representatives of their clients and also have a long-term relationship with the company. An overall chart of those relationships between investor, fund manager and company is shown in the diagram below:

Diagram 5: Fund managers’ and governance

Enhanced returns/reduced risks

Investment decisions

Ownership of decisions

Engagement

Accountability

Source: AMP Henderson Global Investors

Therefore, a fund manager’s role in the economic aspect of sustainability, is not only keeping a focus on financial returns, but also being active in the governance of the investee company.

The issues of corporate governance have been a focus for many since the collapse of high profile American companies such as Enron, Tyco and WorldCom, and Australian companies such as Harris Scarfe, HIH, and OneTel. In response to these events, the Australian Stock Exchange (ASX) has set up the Corporate Governance Council to actively address the issue locally. In addition, the Chairman of ASIC, David Knott, identified fund managers and institutional investors as playing a key role in monitoring corporate governance practice.16

Voting at company general meetings is one aspect of a fund manager’s approach to governance. However, it is through active dialogue or ‘engagement’ with companies and other stakeholders, that more significant impacts can be achieved. Communicating back to investors is also an important part of this responsibility and fund managers should provide regular updates on how they have engaged and/or voted.

Responsibility for financial sustainability extends beyond traditional corporate governance. Risks and opportunities to the broader Australian economy aggregate to represent medium to long-term investment risks and opportunities for investment managers. Here, there is another convergence of environmental and social aspects of sustainability with financial sustainability. Key sustainability issues, such as climate change, are a significant emerging risk management challenge to institutional investors. As part of its engagement with companies on this issue, AMP Henderson sought information on the extent to which the largest Australian companies, and those in energy intensive industries, have considered the risks of climate change to their business (see: www.sustainablefuturefunds.com/research_SRI.asp).

This is one of many potential examples of sustainability related engagement. Additional to the investment governance and sustainability approaches described above are investors taking a socially responsible or ‘SRI’ stance on investments. These approaches have been supported by a number of investors.

The perceived ‘us and them’ stand off between SRI investment strategies and mainstream investing is inefficient and is in the early stages of improving. SRI investment approaches have much in common with conventional investing. These linkages include a focus on management competency, business efficiency and strategy, human rights, OH&S performance, environmental performance, as well as traditional corporate governance.

Responsible ownership of companies can encourage them to improve their sustainability performance and enhance the value of their clients’ investments. The increasing link between the sustainability and business agendas means that companies that do not manage the issues effectively are likely to suffer in the marketplace. Engagement and a focus on corporate governance promotes greater accountability of companies to their ultimate owners.

4.1 The research process

From the outset, the aim of this report was to capture leading thinking in regard to sustainability and investing, consider the articulation of sustainability behaviours and risk management by companies, and to identify opportunities to improve investor decision-making.

The starting point for the report was the development of case studies that demonstrate corporate sustainability from an investor perspective. The case studies and subsequent assessment of how sustainability is being integrated into investment evaluation led us to a number of conclusions about the benefits of doing so.

There were five main steps to bringing this report together in as an objective manner as possible.

Firstly, we needed to collect leading investor thinking in relation to sustainability. A diverse group of five experienced representatives from investment organisations, with working knowledge of sustainability principles was selected.

Secondly, having agreed a steering committee representing five diverse perspectives, we collectively agreed a process to approach the task of identifying and filtering these studies. It was agreed that each steering committee member would nominate an unlimited number of their perspectives on investment candidates that in practice appeared to demonstrate sustainability principles. The process allowed for both company-wide and project-based nominations.
Having collected a list of 31 potential case studies, the third step involved agreeing a shortlist of case studies to be researched in depth. This short list was agreed by comparison against an agreed set of criteria including the extent to which sustainability principles were known to exist in the company, and the extent to which these practices were believed to be known to the market.

This process was not without active discussion, however each nomination was finally agreed on a unanimous basis. Some of our discussions included whether it was ‘sustainable’ to have company projects that seemed more advanced than the parent entity. Another debate was whether the report should recognise sustainability only as a business strategy, or whether an investor’s perspective on sustainability includes entities that tactically exploit opportunities that have arisen from broader business trends, including the shift to more sustainable enterprise behaviours. We agreed to document project-based sustainable enterprise even when enterprise-wide sustainability philosophy was not clear.

We sought to document a diversity of case studies in line with the diversity of the Australian sharemarket S&P/ASX300 index. This was to ensure the case studies were not unduly biased and also to make them relevant to the Australian sharemarket indices that drive so much of the Australian investment landscape. As a consequence, a number of strong examples were omitted from the short list.

Two observations were made at this point. Firstly, the resources sector under our approach, offered by far the greatest number of examples of application of environmental sustainability, hence our report sought to showcase an example of social sustainability in the resource sector. Secondly, and related to this point, readers of this report are reminded that the report does not seek to represent the best performing companies nor the very best examples of sustainability. Rather, these companies fulfill our mandate to agree, research and document a diversity of approaches to sustainability principles by companies, the common element to each being a focus on economic value-add.

The fourth step was to research and document, in detail, each of the agreed case studies. This process involved a review of publicly available data, including website reports and analysts’ reports sourced via the steering committee. This information was then written up and at that point the case study entity was offered the opportunity to verify and comment on the case study.

Finally, company-sourced feedback was incorporated where it corrected assumptions and where the independence of the report was not jeopardised.

The case studies developed for the report are:

- Property Sector — Listed Property Trusts — Investa Property Group (IPG) and General Property Trust (GPT)
- Resource Sector — GRD NL (GRD), BHP Billiton Limited (BHP), Rio Tinto Limited (RIO)
- Energy Sector — Origin Energy (ORG), Pacific Hydro Ltd (PHY)
- Insurance Sector — Insurance Australia Group (IAG)

17. Westpac Banking Corporation (WBC) and its group-wide commitment to social responsibility in business was nominated by a majority of the steering committee however WBC was omitted from the short-list to avoid the risk of perceived conflict of interest. This was on account of Shaun Mays being a former Westpac executive and the fact that BT Financial Group, who prepared this report, is a wholly owned subsidiary of WBC. The WBC perspective on sustainability can be viewed at http://www.westpac.com.au/internet/publish.nsf/60A6BC3EEFF53880CA256D7005625A75/$File/Social_Impact_Report.pdf.
Agriculture Sector — Intensive Animal Production — Chemeq (CMQ)
Industrial Sector — Commercial Services and Supplies — Corporate Express (CXP)

The case studies can be found in Part B of the report.

4.2 Insights from the case studies

Each case study has been presented with generic financial descriptions (market capitalisation, market weight, short and medium term investment performance). In addition, each case study includes sector comments followed by a detailed description of the sustainability principles observed at the company and/or project level. It is acknowledged that this data becomes obsolete with each company reporting period however our aim with this report is to record a perspective on sustainability that will endure beyond near-term reporting periods.

Whilst it might have been anticipated that each company would be on a common sustainability path, the reality we found was that companies varied in their application of sustainability principles. This included diversity of focus between social and environmental sustainability as well as diversity between whole-of-business and project-based application of sustainability principles.

It is clear that sustainability issues affect different sectors and companies in different ways. Companies used as examples in this report, such as Pacific Hydro and Chemeq, have recognised the sustainability issues within their industry and have a strategic position to capitalise on these new market opportunities.

The company examples (Insurance Australia Group, IPG, BHP Billiton and Origin Energy), within this report demonstrate how some companies have developed a corporate philosophy based on sustainability principles and seek to run their entire business in this way.

However, through all of this diversity a number of common themes can be observed. These include a focus on both the intangible benefits and the more traditional financial benefits associated with sustainability business behaviours. Sustainability is associated with resource efficiency (cost management) and is often aligned with internal management key performance indicators (KPIs). A recurring theme in researching the case studies was the immunity of sustainability behaviours from exogenous forces (i.e. external factors that impact business outcomes — currency and the SARS virus being two potential determinants of business and investment performance that cannot be controlled directly by management).

Sustainability therefore emerges as a particularly useful window into management efficiency and competency. To facilitate some comparability and commonality between case studies, we agreed to categorise each case study in regard to the following attributes:
These observations lie at the heart of this report. Sustainability behaviour at the enterprise level offers investors a unique and valuable insight into the competency of management to understand, manage and anticipate the dynamics of the external business environment and identify specific risks and opportunities.

Among these changing dynamics are the growing importance of intangible assets and the role of brand and reputation as valuable components of business. The connected community (discussed in section 2.2) means that risks to brand and reputation are accentuated.

It is clear from the case studies and the dialogue surrounding their compilation that companies can do more to articulate the manner in which they approach sustainability principles in their business. And in the case of investment analysts, it is clear that the awareness of, and therefore demand for, sustainability indicators is nascent. Sustainability considerations benefit investors by providing a deeper understanding of long-term business risks and opportunities. In parallel, companies can benefit by using sustainability principles to improve investor insight into their management skills with a view to improving total worth (capitalisation) of the company.

A final observation from the steering committee relates to sustainability considerations and a perceived disparity between Australian and UK/European investors. There appears to be greater interest in sustainability issues in the European market at present, compared with the Australian market. We wonder whether this is aimed at mitigating community concerns over institutional investor participation in the public debate surrounding participation at company meetings. In general we would expect a greater level of participation in this debate within the Australian investment community.

In the past, emphasis on company performance at most meetings has focussed purely on financial outcomes, primarily as a result of investment analysts’ one-dimensional approach. Sustainability issues have tended to fall into the ‘SRI’ category and rise to the surface on an exceptions basis, mostly after the event. We believe a more rounded approach to investment is a necessity — if only as an attempt to pre-empt problems within companies before they become apparent, both in fact and in share valuations.

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### Financial benefits

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<thead>
<tr>
<th>Revenue generation</th>
<th>Enhanced social license to operate</th>
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<td>Cost savings</td>
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<td>First mover benefits/competitive advantage</td>
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*Ultimately we offer this report as being about a single bottom-line whereby intangible benefits eventually roll into expense and/or revenue benefits.*
5. Conclusions

Drawing upon the case studies and discussion with the steering committee a number of conclusions are noted:

1. Sustainability behaviours add value to commercial endeavour. The case studies offer insight into companies that have either created new business opportunities from sustainability, enhanced established businesses or lowered their overall risk profile. As a result companies should be including sustainability into strategic decision-making and risk management processes.

2. Sustainability offers value to investment analysts, funds managers, superannuation trustees and insurance funds. All parties have a role to play in deepening the understanding of the relationship between corporate sustainability and shareholder value. The long-term nature of sustainability means it has a role to play as a lead indicator of future investment performance. As an indicator of the progress companies are making in the area of sustainability, the development of a sustainability index of Australian listed company performance would be useful to investors.

3. A number of companies undertook sustainability initiatives despite the absence of a sustainability policy. Sustainability in these cases proved to be good business practice by minimising risk exposure or maximising exploitation of opportunities.

4. Sustainability initiatives are particularly useful in the management of intangible assets such as brand and reputation. By their very nature intangible assets are difficult to measure but they are no less real. Intangible assets require active management if they are to be maintained or increased in value to the company. Sustainability therefore provides an additional insight into the competency of management.

5. Sustainability needs improved definition to increase its rate of adoption. Challenges exist at both the company and the investor level. Companies are not providing investment analysts with sufficient insight into their sustainability policies and practices. Equally, investors are still not asking the right questions. However, as the awareness to the relevance of sustainability to investment outcomes grows, there is good reason for companies to report on sustainability in a fashion that meets finance sector needs.

6. A shift towards a common framework for sustainability dialogue offers a company and investor win-win. Perhaps some common standards for reporting of social and environmental data should be established along the same lines as the accounting standards. A successful example of such an initiative was the development of standards around the reporting of mining reserves. A similar development would help companies understand what is required and provide the investor with a consistent basis for assessing sustainability performance.

7. Sustainability principles can be applied at either a corporate, strategic, project or operational level. The type of application will depend upon the nature of the
sustainability driver, i.e. new market opportunity, risk management, brand and reputation protection or enhancement or cost saving.

8. Superannuation funds and other investors do not have a formal process for assessing their investments other than on an after-the-event investment performance basis. Fiduciary duty involves two arms; these being both risk and return. The practical understanding of fiduciary duty should be refined to accommodate a more thorough understanding of long-term risk, including sustainability considerations. Superannuation fund trustees will then match their fund investment horizon more closely to the working life of their members.
Part B
Case studies of corporate sustainability
During the past 10 years the listed property trust sector has become an increasingly large component of the broader Australian Stock Exchange (ASX) sharemarket indexes. In December 1992 there were only five listed property trusts (LPTs) in the ASX300. This number peaked at 45 LPTs in 2000 and dropped to 30 at the end of 2002. This decrease was primarily due to consolidation. The market capitalisation of the sector has continued to increase from $5 billion in 1992, to $45 billion in 2002.

Australian superannuation funds allocated an average of 10.1% of assets to LPTs as at 30 May 2003.

On Sustainability and the Property Sector

“Anyone who wants to be in the business in five or ten years time will need to have a good understanding of these issues and what they mean for them”

Mark Quinlan, Executive Director, Property Council of Australia

The size, coupled with the recent consolidation of the LPT sector has led to increased scrutiny of the sector’s sustainable behaviours by both the community and institutional investors.

From an investor’s perspective, the social and environmental aspects of property are increasingly perceived as key risks that need to be managed. These risks are a result of:

1. Climate change and regulatory risks

According to the Australian Greenhouse Office, the energy used in buildings accounts for 27% of all energy-related greenhouse gas emissions. Building sector emissions are expected to increase by 48% in 1990-2010, well above any targets set under the Kyoto Protocol.

As a result there is an increased likelihood that compulsory energy building ratings will be introduced. Some schemes already in place include:

— Sydney City Council requires a minimum 4.5 star SEDA energy rating for all new commercial property developments over $5m
— the Queensland Government has signalled its intention to follow the Greenhouse Benchmark Scheme
— the Victorian Government has announced plans to legislate that all new residential developments have a five-star energy rating (awaiting finalisation of NABERS rating tool)
— the ACT Government requires all home disclose energy ratings at point of sale. Other states have expressed interest in this initiative.

The AMP Henderson position paper on climate change identified the LPT sector as poorly prepared for the impacts of climate change relative to other industry sectors. Ground breaking research by AMP found that less than 50% of companies in the “poorly prepared” sectors had developed a greenhouse gas (GHG) inventory or considered the risks of climate change to their business. By incorporating sustainability into current business models, LPTs can manage exposure to current regulatory requirements and insure against future regulatory developments.

2_Water and waste management requirements
Construction and demolition waste and commercial and industrial waste contributes approximately 25 and 40% of all the waste produced in NSW respectively. There will be increasing pressure placed on this sector to factor environmental considerations into property design and to consider the life cycle of building materials and the provision of waste management services in office, retail and industrial properties.
At present this pressure is being reflected in voluntary initiatives, such as the development of waste management plans as part of development approval, the NSW Government’s waste reduction and purchasing policy and the move towards extended producer responsibility.
Similarly, incorporating the use of recycled water is increasingly required as part of residential and industrial development to help minimise water usage. With water and sewage costs likely to increase by 50–100% over the next couple of years there will be increasing pressure and incentive for property managers and developers to manage these issue.

3_Community/customer pressure
Company reputation is increasingly important in the approval process of residential and commercial developments, and industrial redevelopments. Community engagement and acceptance of projects will be built around the transparency and reputation of developers.
As more large listed companies start gauging performance against sustainability indicators, so too will the LPT sector face pressure to report against many of the same performance metrics, such as energy and water use. The LPT sector will also face increasing pressure from those larger corporate tenants considering supply-chain issues and therefore wishing to report on the environmental and sustainability impact of the properties in which they operate.
There is already similar pressure from the public sector. For example, the NSW Government will not lease or develop any building unless it meets stringent guidelines on energy, sustainability and occupational health and safety measures.

Investa Property Group (IPG) and General Property Trust (GPT) are two publicly listed entities that have incorporated sustainability into business operations, yielding financial benefits to shareholders. IPG’s focus on sustainability evolved through board-level support and technological developments by internal engineers. IPG is currently integrating sustainability principles across all parts of the business through detailed gap analysis. GPT has taken a slightly different approach to sustainability, focusing on particular projects and optimising the sustainable features of the developments.
Company details

IPG is a fully integrated property group focused on the Commercial Office Sector. Listed on the ASX with a market capitalization of approximately $1.8 billion, IPG is the largest entity in the Commercial Office Sector and among Australia’s largest 70 listed companies.

Through its internalised management structure IPG is primarily involved in office property investment, funds management, property and facilities management, corporate property services and property development.

As at 30 June 2003, IPG had total assets of $2.6 billion, and $3.2 billion in total assets under management, including its funds management business. IPG owns interests in 27 commercial office buildings with a Net Lettable Area of 552,000 square metres. The average occupancy rate is 98% and the average lease term is 5.4 years. The geographical allocation in 2002 was NSW (52 percent), VIC (30 percent), QLD (11 percent), ACT (5 percent), SA (1 percent) and WA (1 percent).

Financials at 31 May 2003
Market Capitalisation: $1.74bn
Market Weight (S&P/ASX200): 0.32%

Investa Property Group performance

How sustainability is considered

The following table summarises the key tangible and intangible asset benefits arising from IPG’s sustainability behaviours:

IPG believes that by distinguishing itself as a market leader in sustainability it is better positioned to attract and retain key tenants and minimise potential income leakage arising from vacancies, which is one of the biggest risks to income for the LPT sector.
IPG has developed sustainability initiatives throughout the organisation. For instance, the board recently established a Sustainability Committee at board level, while efficiency gains are a key performance measure for all new facility managers. As a result, many of the energy efficiency measures and life cycle replacements have been the initiative of the internal facilities managers. Asset management is encouraged to operate as a ‘business assessment overlay’ to ensure all projects have business benefits and contribute to the underlying value of the business. Development of a socially responsible investment program with particular focus on resource management and building operations is also in IPG management’s key performance indicators.

IPG was the first LPT to SEDA rate1 its entire property portfolio. The National Safety Council of Australia (NSCA) recently awarded IPG with Australia’s highest occupational health and safety rating making IPG the first Australian organisation to comply at 5 Star level across a property portfolio.2

IPG was also judged a finalist in the Leadership and Socially Responsible Investment category of the 2003 Banksia Environmental Awards.3

IPG anticipates that the benefits from efficiency improvements and establishing themselves as a sustainability leader will come from tenants wanting to address supply chain issues. As tenants begin to consider their environmental impact through buildings occupied, IPG will be able to respond to reporting requirements. This will enhance the owner-tenant relationship, particularly where opportunities exist to extend base building energy initiatives to within the tenancies, and other areas such as waste stream performance.

**IPG’s sustainability program**

IPG have employed external consultants to measure and benchmark its sustainability platform. This has involved a detailed review of all aspects of operation, including the cultural values of the organisation and underlying business objectives. This review has improved understanding of its capabilities and helped IPG better prioritise its business activities as it seeks to meet its underlying business objectives.

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1. A SEDA rating provides accredited assessments of the greenhouse intensity of office buildings by awarding a star rating on a scale of one to five. A building with a high star rating will be more energy efficient and cheaper to run, and will result in lower greenhouse gas emissions.

2. The award follows an extensive audit of the group’s 16 commercial properties in Sydney and Melbourne. The NSCA 5-Star audit covers the categories of: policy, organisation and program management; management of health and safety risks; control of specific work risks; work environment issues; and emergency preparedness and management. Merrill Lynch Property Daily — 11 June, 2003

3. _ibid_
IPG aims to further incorporate sustainability into all core business models. Management believes the broader benefits of sustainability initiatives — including financial paybacks, clearer definition life cycle and retrofit planning, risk management and relationship investment — will deliver long-term financial returns to IPG shareholders.

Initiatives sample

IPG believes that its asset managers need to treat environmental proposals in the same way they would treat any other proposals — considering all the potential costs and benefits. Examples of recent environmental proposals include:

H₂O

Water sub-monitoring was established because of the potential long-term benefits to shareholders. The main considerations supporting this assessment were the absolute returns of lower consumption from operational changes, and tariff and capital cost savings from suppliers as a result of committing to consumption targets.

Energy/ emissions

IPG are responsible for an electricity budget of around $3 million pa. The opportunities to deliver efficiency dividends in this budget were targeted as substantial for IPG. Improved energy management is consistent with improved emissions management.

Electricity metering was undertaken in much the same manner as water metering described above. IPG established arrangements with third parties to leverage the economic outcome on capital employed. Key outcomes include:

- guaranteed seven percent reduction in energy consumption
- payback period averaging two years
- initial outlay of approximately $25,000 per site.

Installation of electricity sub-metering systems across the IPG portfolio allows facilities managers to obtain details on energy consumption daily. These systems allow managers to identify when and where power spikes occur, leading to shorter times to rectify energy wastage. Management reports are generated weekly for operation managers and monthly to the heads of facility management.

The system also generates a SEDA rating at the push of a button, which enhances the IPG's brand and sustainability reputation potentially enabling IPG to attract like-minded tenants.

With a guaranteed seven percent decrease in energy consumption and approximately 60% of the portfolio under gross lease¹ there are substantial cost savings to the business from installing electricity sub-metering systems.

60 Martin Place, Sydney

As a result of assessing the energy management at 60 Martin Place, Sydney, IPG saved 1153 megawatt hours, which equated to a 16.7% or $185,000 reduction in energy costs. The resultant reduction in CO₂ emissions was 1,500

¹ Gross Lease: the tenant lease includes all utilities. Therefore, any saving made through efficiency gains are financially located in IPG.
tonnes per annum. Management achieved these outcomes through the following initiatives:

- installing a multi-stage low-load chiller, which reduced energy consumption
- adjusting the air conditioning settings by 1°C saved 133 MWh of energy per annum
- installing new lighting controls enabled more efficient management of after-hours lighting, which has saved 510 MWh per annum
- reducing the number of hours per day that the air conditioning system operates has saved 380 MWh of energy per annum
- refitting the office space lights with triphosphor tubes and electronic start-ups has saved 130 MWh of energy per annum.

IPG has initiated discussions with other corporate customers to undertake retro fitting projects on a shared cost basis such as that recently completed at 60 Martin Place.

**Summary of value add of sustainability projects**

- benchmarking process improves understanding of business and enhances decision making process
- supplier of choice
- able to attract and retain tenants
- improved human resource outcomes, e.g., engineers implementing their internally-developed technologies and seeing the beneficial outcomes. As all employees participate in an Employee Share Acquisition Plan, they also have the potential to share in the financial success of the company
- enhanced corporate reputation through recognition of sustainability leadership by Sustainable Asset Management, and the Banksia Environmental Foundation Awards Finalist 2003
- energy efficiencies leading to significant cost savings from gross lease premises.
Company details

GPT is Australia's largest diversified property trust. GPT owns, develops and manages a portfolio of commercial office, industrial, retail and hotel properties throughout Australia.

At 30 June 2003, GPT's property portfolio was valued at $6.8 billion of retail, office, hotel/tourism and industrial/business park assets throughout Australia. The sector split across the portfolio was:

- retail $3.5 billion (51 percent)
- office $2.6 billion (38 percent)
- hotel & tourism $518 million (8 percent)
- industrial $213 million (3 percent).

Almost two-thirds of GPT's business is derived from segments where IPG does not operate, making GPT a useful additional viewing point for sustainability and the LPT sector.

Financials at 31 May 2003
Market Capitalisation: $5.72bn
Market Weight (S&P/ASX200): 1.07%

Source: ITG Australia

Sustainability behaviours observed

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<tr>
<th>GPT</th>
<th>Not applicable</th>
<th>Low</th>
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<td>Revenue generation</td>
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Source: ITG Australia
Within each property portfolio, property managers are required to have a program for managing environmental risk. The programs are tailored to each sector and require defined objectives and targets, reports on current initiatives and planned initiatives, and monitoring via regular external audits.

**Key sustainability achievements**

- **Energy and greenhouse gas (GHG)**
  - reduced GHG emissions by 14.2% through Lend Lease Retail Group’s (manager of GPT’s retail assets) membership in the Greenhouse Challenge Program
  - reduced GHG emissions by 14.2% through Jones Lang La Salle’s (manager of GPT’s office assets) membership in the Greenhouse Challenge Program
  - energy analysis of retail property portfolio to enable reduced energy use and promote more energy efficient designs in future developments.

- **Waste**
  - development of integrated waste management services across GPT’s portfolios.

**Sustainability programs**

- **Minimising Externalities — Retail Portfolio Initiatives**
  - “Providing ecologically sustainable real estate is becoming a key to deriving solid returns from real estate ownership and development”

Nic Lyons, Chief Executive Officer, GPT

GPT manager, Lend Lease has used sustainability as a principle to differentiate their property services in the market place and minimise the externalities of their business on the community. Similarly to IPG, externality risk management helps GPT manage assets and liabilities, including license to operate, regulatory risk and human resources.

The retail assets of GPT represent 51% of the portfolio at $3.5 billion.

GPT has surveyed customers to develop an understanding of community expectations towards retail shopping premises. One key finding was that retail consumers preferred shopping centres in which they feel comfortable and which contribute to a positive or enjoyable shopping experience. GPT’s retail investments are designed with sustainability features to exceed those customer expectations.

**Sustainable project 1:**

Erina Fair — NSW

Erina Fair, located on the NSW Central Coast, is valued at $224.7m in which GPT has a 50% interest. The $210 million redevelopment of Erina Fair should be completed in November 2003.

Customer surveys pointed to a desire for fresh air and natural light in retail shopping complexes, which was subsequently made a distinguishing feature of the Erina development. GPT anticipates that a more comfortable shopping centre will encourage customers to stay longer, leading to increased spending at the facility.
Displacement ventilation techniques have provided a cost effective method for maintaining comfort conditions. Cool fresh air is introduced at floor level and as the air gets warmer it rises. Sub-floor cooling coils will assist in extremely warm conditions and should only be required a few days a year.

The cooling system has a neutral capital cost; however, the operating and maintenance costs are forecast to be less than conventional cooling techniques. GPT expects the key business benefits will be derived from an innovative combination of customer satisfaction and reduced energy consumption.

To compliment the displacement ventilation system, a unique shading system has been developed to maximise natural light. The system maximises exposure to the morning and afternoon sun, while limiting exposure during the hottest part of day.

The Erina development has also incorporated civil facilities, including a library, gymnasium and ice-skating rink. These social and economic features encourage customers to visit and stay at the complex.

The sustainability initiatives have already started to pay off with 80% of the premises committed at May 2003.

The $45 million redevelopment of Floreat Forum, Perth includes the creation of a ‘town centre’ and restaurant precinct derived from incorporating sustainability initiatives.

A key environmental feature of the redevelopment is the use of ‘shower towers’. These towers cool common areas through simple evaporative cooling principles. Benefits include increased fresh air movement and thermal comfort for customers and improved energy and cost efficiencies. As the thermal conditions of the complex will be more comfortable, consumers should be more inclined to visit the complex and stay longer, increasing average customer spend. Over time, rental income from the property should reflect these benefits to business owners.

Like the environmental initiatives at the Erina Fair development, these projects are capital cost neutral compared to other less environmentally responsible technologies. By choosing which technology is used based on sustainability, GPT expects they will make substantial savings in operating costs and potentially increase revenue from rental income.
Summary of value add of sustainability projects

“Property solutions in tune with the environment are being demanded by users and owners alike”
Nic Lyons, Chief Executive Officer, GPT

Retail

→ high demand for space in retail premises
→ better incorporation with local communities and customers. GPT have developed ‘a space where people want to be’
→ lower operating costs.

Company wide

→ enhanced reputation as being Australia’s leading green property trust
→ insurance against potential future regulatory change for energy efficiencies.
Concluding observations

The property sector is not a traditional focus for sustainability behaviours and in many circles is regarded as being nascent in its embrace of sustainability risk management and opportunity maximisation.

IPG is a case study running counter to this perception. Led from the board and implemented across the business, IPG is managing sustainability risks and opportunities as a strategic platform to further business growth. IPG has a significant commitment to energy management, as well as demonstrating a commitment to workplace health and safety that is unique in the sector.

GPT is a further case study where strategic use of sustainability enhances the development of new opportunities linked to group lease income. In the case of a 'retail snapshot', GPT demonstrates the benefit of viewing property through the experience of customers, to the benefit of tenants and thereby investors.
The resource sector is exposed to a high level of sustainability risks. Many resource companies have started addressing this risk exposure and implementing sustainability measures and programs accordingly. However, given the scale and visibility of the sector's operations, there remains a perception at least that the resource sector has a significant negative environmental and social impact. While this perception remains, the sector will continue to be scrutinized by non-government organisations (NGO), community groups and regulatory bodies.

Key risk areas

- cost of funds
- license to operate
- regulatory risk due to environmental impact
- social license to operate
- reputation risk eg boycotts/protests from NGOs and ability to gain approval for operation expansion or further developments
- insurance costs — premiums are beginning to reflect the increasing recognition of the costs of climate change and environmental hazards
- human resources — ability to attract and retain key employees in both remote areas and corporate offices. (Lowering population base in regional areas and skilled employees are increasingly considering the company’s reputation in selecting employers).

GRD NL (GRD), BHP Billiton (BHP) and Rio Tinto (RIO) are three companies that have taken a different approach to incorporating sustainability into the business model. GRD adapted the technologies from its gold mining operations to extract the most valuable materials from municipal waste. BHP has been able to develop an innovative, cost-effective way to manage hazardous wastes through a supportive corporate framework for developing sustainable technologies. While RIO, in recognising the need to have a sustainable workforce, have developed indigenous employment programs in remote areas.
Company details

GRD is a diversified group involved in gold exploration and production, waste disposal and minerals processing, mining and construction services in Australia and New Zealand. GRD has completed over 200 projects in 30 countries ranging in value from $5M to $250M (total value over $15 billion).

Unlike BHP and RIO, GRD exposure to resource sector risks is weighted towards gold mining operations. Sustainability risks facing the company arise from the use of cyanide and environmental degradation and rehabilitation issues associated with open cut mining operations.

Financials at 31 May 2003
Market Capitalisation: $200m
Market Weight (S&P/ASX300): 0.02%

GRD performance

Urban Waste Management.

Program

Outcome
Waste management system and technologies designed to give GRD a significant competitive advantage over competitors in the long-term.

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<th>GRD as a result of GRL</th>
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<tr>
<td>First mover benefits/competitive advantage</td>
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</tbody>
</table>

1. EBIT for 2002, 2003, and 2005 combined with and without the GRL facility estimates the benefit to the project to be $3m in EBIT (conservative estimates on fertiliser operation and ERUs source: BBY)
Sustainability behaviours observed

Macraes, the gold mine operated outside Christchurch in New Zealand has an excellent environmental management record. Stakeholder engagement undertaken at a community level has enhanced its social license to operate. GRD believes the benefits of its environmental management systems and strong community support played a crucial role in gaining approval to expand operations by 15% and to develop the Globe Progress in Reefton, on the west coast of New Zealand.

Recent business developments also reflect GRD’s focus on sustainability. GRD has established a carbon-trading arm (Global Carbon) to hedge against potential future exposure to energy and greenhouse risk. GRD intends to separately list Global Carbon in the second half of 2003 through an initial public offering.

GRD’s wholly-owned subsidiary, Global Renewables (GRL) has won approval to build the first Cool Waste Management plant in Australia at Sydney’s Eastern Creek. The GRL facility is the focus of this case study because it shows that through incorporating sustainability into its business modelling, GRD was able to internalise part of its risk management process and thus have greater control over how it manages its exposure to risk.

Internalising risk management —
(Urban Resource — Reduction, Recovery, Recycling) UR–3R Facility

“The 21st century will be the century in which sustainability is addressed and nations, industries and technologies that contributed to sustainability will prosper”
John White, MD, Global Renewables Limited

GRL develops sustainable solutions for residential solid waste. GRL was initially founded by GRD to avoid pollution and greenhouse gas risk exposure for the entity using GRD’s mining and process engineering experience.

Using the skills and experience developed from its mining operations, GRD has created technology to “mine the waste stream like an urban ore body”. GRD is targeting rapid roll out of its UR–3R (Urban Resources — Reduction, Recovery, Recycling) facilities as the first step to developing a significant renewable resources business. This facility will include a $100 million, 250,000 tonne per annum processing plant, which should be fully operational by mid 2004.

GRL plans to recover resources at their highest net resource value. The facility is based on the principle that by minimising waste (including greenhouse gas emissions) you maximise efficiency. The facility receives unsorted Municipal Solid Waste (MSW), which includes collected household and green waste. The facility will recover 17,000 tonnes of plastic, glass, paper and metals each year from MSW. The operation then separates and cleans the organic waste to produce renewable energy and organic fertiliser.
### Waste (%)

<table>
<thead>
<tr>
<th>Waste</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green waste</td>
<td>31</td>
</tr>
<tr>
<td>Food scraps</td>
<td>26</td>
</tr>
<tr>
<td>Total other</td>
<td>12</td>
</tr>
<tr>
<td>Paper</td>
<td>12</td>
</tr>
<tr>
<td>Film</td>
<td>5</td>
</tr>
<tr>
<td>Sand</td>
<td>2</td>
</tr>
<tr>
<td>Colour glass</td>
<td>2</td>
</tr>
<tr>
<td>Clear glass</td>
<td>2</td>
</tr>
<tr>
<td>Ferrous metal</td>
<td>2</td>
</tr>
<tr>
<td>Other plastic</td>
<td>2</td>
</tr>
<tr>
<td>Non-ferrous metal</td>
<td>1</td>
</tr>
<tr>
<td>PVC</td>
<td>1</td>
</tr>
<tr>
<td>PET</td>
<td>1</td>
</tr>
<tr>
<td>HDPE</td>
<td>1</td>
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</tbody>
</table>

### Resources (%)

<table>
<thead>
<tr>
<th>Resources</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total evaporation</td>
<td>30</td>
</tr>
<tr>
<td>OGM</td>
<td>20</td>
</tr>
<tr>
<td>Residuals</td>
<td>11</td>
</tr>
<tr>
<td>Solid loss as CO2</td>
<td>11</td>
</tr>
<tr>
<td>ADC</td>
<td>10</td>
</tr>
<tr>
<td>Paper</td>
<td>6</td>
</tr>
<tr>
<td>Biogas</td>
<td>5</td>
</tr>
<tr>
<td>Metal</td>
<td>3</td>
</tr>
<tr>
<td>Glass</td>
<td>3</td>
</tr>
<tr>
<td>Plastic</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: GRD

Expected returns over the project are in excess of 12% pa. While this may not seem significant for a resources company, GRL is effectively a utilities operation.

A 25-year government contract has been signed ensuring $1b of revenue.

There is also an unquantifiable potential financial benefit from environmental credit trading. This will depend on the opportunities Australian companies have to participate in trading opportunities developed under the Kyoto protocol.

Further financial benefits are possible from the development of the organic compost arm of the operations. The operation will allow for the production of tailored organic fertiliser valued between $60–200 per tonne. With a potential output of 40,000 tonnes, revenue gains could be in the range of $2.4m and $8m per annum.
The market for organic fertiliser has not yet developed in Australia. The graph below shows the increase in demand for organic fertilizer following regulatory change in Europe 15 years ago. Problems now evident due to the lack of carbon in Australian soils means we will have to shift to the use of organic fertilizer as it is the only means of putting the carbon back into the soil.

![European Union Organic Fertiliser vs Manufactured Fertiliser](source: EU CAP and EFMA)

“For us the business case is evidenced in closing the material loop”
John White, MD, Global Renewables Limited

Recognising we live in an increasingly carbon constrained era, GRL commissioned research into life cycle analyses to determine the potential for reducing greenhouse emissions by recovering and reusing wastes for manufacture of new product versus use of virgin materials, including extraction and processing. The findings indicated a net reduction of about 60% in GHG emissions, providing confirmation of the long term business case for recovery of wastes, recognising that carbon intensive production from virgin materials will be subject to increasing cost imposts through carbon levies.

**Value add to the company**

**Social license to operate benefits**

GRL undertook an extensive stakeholder engagement program, involving local residents, NGO, and state and local governments. As a result of this engagement, GRL faced no objections to the development, and they received approval within three months of the lodgement date, which is unprecedented for a waste facility development application in Australia.

**Credit trading**

As a generator of renewable energy (ie, green power) the UR–3R Facility will be eligible for Renewable Energy Certificates (RECs). Generators are entitled to one REC for every megawatt hour of electricity generated from an eligible renewable power source. GRL will preserve the potential value of these RECs by securing agreements with liable entities for the forward sale of RECs. Current market value

for REC’s is $38 per REC. If the facility generates the anticipated 17,000 megawatt hours per annum the value of the REC’s will be approximately $640,000.

The company conducted a study to assess the UR–3R Facility’s emission reductions against selected competitor technologies. The UR–3R Facility demonstrated a significantly greater potential to generate Emission Reduction Units (ERUs) than competitors by recovering a broader range and greater quantity of resources at their highest net resource value.

GRD has already brokered a deal with BP Plc, Europe’s largest oil company, to buy as much as 1.05 million metric tonnes of ERUs, with an option for a further 500,000 tonnes. GRD will sell the credits to BP over a period of 3.5 years beginning in 2004. The value of this project cannot be disclosed however the current Australian market price for ERUs is between AUD$5 and $10 per tonne of CO₂ equivalent emissions abated.

Ability to attract capital

While there has been a lot of interest in the project, there is negative sentiment in the market due to recent failures of environmental and renewable energy initiatives. Despite this sentiment, GRL has attracted a 50% equity partner in Hastings Funds Management (representing $60 million). The Commonwealth Bank is debt financing the project.

Future projects

The GRL technology is not only sustainable, it is also a highly efficient way to deal with the problem of growing waste streams and land scarcity issues for disposal.

In 2001/2, GRL responded to calls for Expressions of Interest in possible projects in South Australia, the Australian Capital Territory, New South Wales, Queensland, Western Australia and New Zealand. In March 2002, GRL signed a Memorandum of Understanding with the Western Region Waste Management Authority in Adelaide to investigate establishing a UR–3R Facility to process 120,000 tonnes per annum of MSW. A feasibility study will be complete within the next 12 months.

There is also significant opportunity for GRL to export the UR–3R Process elsewhere in the Asia Pacific region. On 5 February 2002, GRL signed a Memorandum of Understanding with DASMA CDM, an Australian recycling and construction services company, to jointly develop a project in China.

Apart from the global expansion, there are also opportunities for each individual plant to develop as markets grow for different types of waste. For example, a portion to the “total rejects” comprises less valuable plastics (see waste/resource composition graph above). As technologies develop to recycle these plastics, GRL is in a position to add the facility to recycle to their own operations or guarantee supply (through the 25 year contract) to a third party that would allow the technologies to become economically viable.
Even in the last 12 months a demand for components of the ‘total reject’ waste has increased with offers of up to $40 per tonne after a tender process.

Intangible asset contribution

There are significant potential reputation benefits for GRD as a result of being the ‘first mover’ in such sustainability development. For instance, the scale at which the Eastern Creek facility will operate has not been paralleled anywhere else in the world.

The project has gained significant support from Greenpeace. While it is not possible to quantify the exact value of such support, the potential negative outcomes of not gaining support from such groups was highlighted recently when Deutsche Bank in Germany placed a ‘hold’ recommendation on Exxon Mobile due to Greenpeace’s successful StopEsso campaign. Similarly in Australia protests against Southern Pacific Petroleum shale oil project in Queensland threatened the government subsidies contingent upon the oil being sold to the Australian market. Shell and BP have both confirmed they will not purchase the product. The Federal Government did extend the $36million annual rebate to exports.

While the value of NGO’s stakeholder support cannot be quantified, the Deutsche Bank-Exxon and Southern Pacific Petroleum examples highlight the benefit of successfully engaging key stakeholders in parallel with expansion of enterprise.

Impact on share price

After the ASX announcement of the GRL project in October 2000, the GRD share price rallied significantly. See above.

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Company details

BHP is a major international resources company and one of the largest companies listed on the Australian Stock Exchange. In March 2001, BHP and Billiton (a UK-based resources company) agreed to a merger to establish a dual-listed diversified global resources group, BHP Billiton. Key interests include aluminium, copper, gold, coal, iron ore, manganese, nickel, diamonds, chrome/ferrochrome and mineral sands.

Sustainability issues in BHP are driven by the recognition of the inherent environmental and social impact of their business. For example, the BHP Health Safety and Environment (HSE) Policy is based on the goal of ‘zero harm to people and the environment’.

BHP have made a strategic decision to combine the policy outcome with top-down and bottom-up initiatives. HSE policy is strongly supported at board level and employee driven initiatives are encouraged.

“Unless you have a strategy on what you are doing from a community-social issue, unless you have a strategy on environmental issues, then you haven’t got a defensible position, in my view”. Don Argus, Chairman BHP Billiton

As a result, there are many sustainability initiatives that are driven from all levels of the business. At a corporate level, the company has joined the United Nations Global Compact to address globalisation issues such as human rights, labour standards and the environment. A specific employee-driven sustainability initiative has been the Manganese Sludge Pelletising project.

Financials at 31 May 2003
Market Capitalisation: $31.7bn
Market Weight (S&P/ASX300): 5.75%

<table>
<thead>
<tr>
<th>BHP Billiton performance</th>
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<tr>
<td>40%</td>
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<td>30%</td>
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<td>20%</td>
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<tr>
<td>10%</td>
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<tr>
<td>0%</td>
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<td>-10%</td>
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</table>

Sustainability issue
Program
Outcome

Hazardous Waste Management.
Manganese sludge pelletising project.
Waste management system with superior environmental outcomes and financial benefits.

BHP, like all resource companies, outlays significant sums of money each year to manage hazardous waste. They are also exposed to significant community and regulatory risks if hazardous waste is not managed effectively. As a business where sustainability has been progressively developed as a core value, the Manganese Sludge Pelletising Project is an example of how BHP have transformed a cost and risk exposure into a business opportunity.

“This project demonstrated that, with some ingenuity, what were once thought of as intractable wastes, can be turned into useful product. This not only helped the environment, but also had a profitable outcome”
Dr Harry Blutstein, former Director, Sustainable Development, EPA Victoria, Australia

Historically, BHP stored hazardous manganese sludge in expensive lined dams with no prospect of eventual recovery, resulting in an ever-increasing environmental liability threatening the sustainability of the alloy business. Due to stricter environmental legislation, no available land for further storage dams and community pressure from adjacent residential areas the practice became unacceptable and posed a serious threat to the sustainability of the operation and the business.

Over three years, BHP assessed various potential solutions to the problem of hazardous waste disposal. The last dam was at near capacity and a solution was needed that accommodated a variety of waste streams accumulated over time and that could cater for future changes in the composition of contaminants. The solution also had to be environmentally responsible and acceptable to BHP, the authorities and the community.

Options suggested by external consultants and suppliers were both costly and impractical. An internal team set about developing their own process using a mothballed plant on the site for pilot studies. The result was the Manganese Sludge Pelletising Project.
The Manganese Sludge Pelletising Project converts the hazardous manganese sludges and dusts to pellets that can be converted to high-value manganese alloys. The resulting project offers a solution that is not only acceptable to the authorities and the community, but also offers a healthy economic return compared to other environmental solutions. No further land will be required for storage dams. Furthermore, old dams will be recovered, land rehabilitated, and the expectations of both the authorities and the local community will be exceeded. This will lead to further savings by minimising clean-up costs at the time of site closure.

**Summary of value add of the project**

- **Reputation:** The project helps change the traditional negative environmental image that was associated with metalloys and exceeds the expectations of other stakeholders, including regulatory and community groups. The project also insures against potential social and regulatory 'licence to operate' issues.

- **Financial:** The project has a NPV of about US$1 million and a payback period of 3.3 years. The process produces a superior raw material suitable for the production of high-quality manganese alloys, and no further land will be required for landfill. The alternative projects put forward by external consultants were significantly more expensive (exact figures cannot be disclosed) and did not have the intangible benefits outlined. While BHP is an organisation with NPAT of $2bn pa, the value of the project is relatively small, in a competitive world each marginal contribution is a component of material gain.

- **Employee morale:** The project won the BHP Billiton Environment Award in 2002. The award program was set up to recognise employees that embody the values of the BHP Charter, which is based on sustainability. So while this was a bottom-up initiative, recognition from the management and board level builds employee morale across the company.
Company details

RIO is a diversified mining company holding a portfolio of interests in aluminium, copper, diamonds, gold, coal, iron ore and industrial minerals. It operates in environmentally sensitive areas and its operations have potential for significant social and environmental impact.

RIO is predominantly engaged in the mining and smelting of minerals and metals and is a major producer of iron ore, coal, copper, diamonds, aluminium and industrial minerals. It also produces substantial volumes of gold, nickel, uranium and salt.

It has operations across six continents and is the second largest mining company in the world as measured by market capitalisation.

Financials at 31 May 2003
Market Capitalisation: $9.2bn
Market Weight (S&P/ASX300): 1.67%

RIO Tinto Limited (RIO)

Sustainability issue

Skilled labour shortages.

Aboriginal employment.

Outcome

Improved social outcomes in surrounding areas, cost savings, stable workforce.

<table>
<thead>
<tr>
<th>RIO Aboriginal employment project</th>
<th>Not applicable</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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<tbody>
<tr>
<td>Financial benefits</td>
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<tr>
<td>Revenue generation</td>
<td>X</td>
<td></td>
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<tr>
<td>Cost savings</td>
<td>X</td>
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<td></td>
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<tr>
<td>Improved market share</td>
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<td>Intangible benefits</td>
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<tr>
<td>Enhanced social license to operate</td>
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<tr>
<td>Insurance against regulation risk</td>
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<tr>
<td>Product differentiation</td>
<td>X</td>
<td></td>
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<tr>
<td>First mover benefits/competitive advantage</td>
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Since the mid 1990s there has been a skilled labour shortage in mining operations in Northern Australia. RIO developed its Aboriginal Employment Program to support the economies of areas surrounding its mines and participate in community engagement. Among other benefits, the program helps local Aboriginal communities gain a greater degree of economic independence.

There is strong support at Board and executive level for the Aboriginal Employment Program and Indigenous employment ratios have been made one of the performance requirements that operational sites agree to meet. Initially there was little enthusiasm for the employment program at sites, reflecting difficulties with resourcing and government red tape, hence a strong business case had to be developed for operations managers and their teams. Developing a compelling business case was easier for sites experiencing high staff turnover and difficulty in re-locating employees from southern and eastern Australia.

Indigenous employees now comprise 5% of RIO’s group-wide workforce in Australia, up from 0.5% in the mid 1990s. While 5% is more than double the representation of Indigenous people in the Australian population, the company’s targets are stretching for greater participation; seeking to match Group operation’s local demography.

RIO has signed Memoranda of Understanding (MOU) with three Commonwealth Government agencies working to enhance Aboriginal opportunity. These MOUs outline a framework for cooperation between RIO and each government department covering direct employment, traineeships and apprenticeships, the development of joint ventures and the establishment of indigenous small business operators contracting to RIO mines. Through these relationships RIO aims to further increase the employment and business development opportunities for Indigenous Australians within its operations.

**Summary of value add of the project**

The Aboriginal Employment Program benefits and issues are still emerging. In many instances, the program has proved challenging for the people involved. The benefits that are beginning to emerge are both surprising and potentially far-reaching. For example:

- A readily mobile local pool of employees who can move between different businesses as they develop and as demand or personal preferences dictate
- Enhancement of locally-based service and supply enterprises
- Over time, the development of competitive market forces that lower costs of service and supply to the mine and the community
- Growing diversity of local capacity for non-core business contracting
- The inherent stability of local government by local people ‘managing their own country’
- A stable mature workforce of locally-committed employees living ‘at home’
- The growing presence of institutions such as banking infrastructure and health facilities
- Social attractiveness in the form of the arts, ecology management, ceremony and living culture.
Relationships

In demonstrating a commitment to employment, RIO's operations have greatly improved relationships with local Indigenous people. They see RIO mines as willing to make a difference for them and their families. After many years of being excluded from mainstream employment, local communities are benefiting from opportunities that were once solely the domain of outsiders.

Financial benefits

For all of RIO's sites in northern Australia there are significant costs in relocating employees and often their families. The development of local skilled people who can compete and win jobs against those from elsewhere will benefit the bottom line of the operation. The local employment experience at Argyle Diamond Mine is demonstrating these benefits. For the past 20 years most of the 500-strong workforce have resided in Perth and commuted to the site. These fly-in fly-out (FIFO) employees participate on a two-weekly or weekly 1,500 km commute by commercial jet to the mine. The FIFO employees also receive a site allowance that adds significantly to labour costs. Moving to progressively higher levels of local (Indigenous) employment will not only greatly improve the mine's community interface, but is anticipated to also reduce its FIFO operational costs.

RIO also needs to manage criticisms of the program being contrary or destructive of Aboriginal values:

“We reject any portrayal of what we are doing as ‘assimilation’; the now discredited policy under which Aboriginal people were essentially coerced into adopting the lifestyles and values of mainstream Australia. Rio Tinto’s Indigenous employment programme is not about assimilation, but rather about choice, and about diversity in the workplace” Bruce Harvey, Chief Advisor Aboriginal & Community Relations, Rio Tinto Ltd, Australia

RIO recognises that the people most affected by a mining operation should receive the most benefits and that local economies need to be robust beyond the life of its mines. The development of local employees in a range of employment options provides people with transferable skills. The critical test is the transition beyond mine life, recognising that training and employment programs contribute to wider community capacity building. To this end, RIO business units also help establish joint venture businesses, initially contracted to its operations, but also encouraged to become independently sustainable. RIO operations also support education development programs to ensure that young indigenous people can access employment opportunities, both on the mine sites and in the wider region.

Reputation

RIO believes the financial markets will place value in its ability to operate in a sustainable way in diverse environments. Also, the Group's achievements, such as employing an additional 181 Indigenous employees in Australia since 1999 with greater than 75% retention over 18 months, were recently recognised by the Federal Government. In late 2002, RIO received the Prime Minister's Inaugural Corporate Leaders Award for Indigenous Employment.
Concluding observations

The resources sector is an orthodox focus of sustainability concerns, and offers much in the way of leadership to other sectors of business. BHP and RIO offer practical examples of how sustainability benefits their licences to operate, resource efficiency and bottom line outcomes.

GRL provides useful insight into how a sustainability culture can identify and successfully develop new business opportunities from ‘old’ resources. Whether the opportunity is waste, energy or other resource efficiency, sustainability is a cultural approach (asset) that can uncover value to the benefit of investor interests. In the case of GRL, an instance of previously uneconomic waste provides a valuable source of income. Given this experience, investors can benefit from identifying enterprises with a sustainability culture, and thereafter making an assessment of their ability to make the ‘aspiration-perspiration-valuation’ transition.

In the case of BHP a continuing drive toward a sustainability culture saw an internal team overcome technological challenges to help overcome sustainability challenges. This provided significant resource efficiencies and a new source of revenue. Without top-down support it is unlikely the BHP team would have persevered through many years of research and successful development.

In the case of RIO, the challenge of sourcing reliable employees is being addressed by thinking locally and working with Indigenous communities to develop local people. This has demonstrable financial benefits to RIO, reduces its travel and re-location account, and intelligently improves its social license to operate through greater integration with local communities.

In both the BHP and RIO case studies, there are clear human resource benefits over and above the tangible benefits described, namely the hard-to-measure but valuable ‘esprit de corps’ that comes with problem solving and successful execution.
The financial risks to Australian companies of not managing their energy-use and greenhouse gas (GHG) emissions are increasing through a variety of related regulatory and reputation factors. These risks could have a direct cost and contingent liability implications. Sustainability culture can help companies evaluate these risks early and respond strategically and progressively as the risks evolve.

**Regulation**

Ratification of the Kyoto Protocol\(^1\) and the shift towards a carbon-constrained business platform internationally is potentially a risk for Australian companies who fail to address their greenhouse and energy risk. Energy producers and suppliers are particularly exposed.

In Australia, trends toward mandatory regulation of energy efficiency and GHG reductions are emerging at the State level. In Victoria, companies emitting more than 1,400 tonnes of energy related CO\(_2\) will be required to prepare an action plan for implementing measures for energy efficiency. The NSW Government has introduced compulsory GHG benchmarks for electricity retailers, effective 1 January 2003 in which retailers must reduce emissions by five percent per capita by 2007 compared with 1989–90 levels.

**Reputation**

Companies perceived as being major emitters of GHG and that appear obstructive to mitigation efforts may face boycotts or other consumer protest actions, as has occurred in Europe.

Green campaigners shut down all of Esso’s 28 fuel stations in Luxembourg following Greenpeace’s claim that ExxonMobil contributed to the US decision not to ratify Kyoto\(^2\). Deutsche Bank has warned ExxonMobil that investors should be worried about the brand risk associated with the Greenpeace-backed StopEsso\(^3\).

Institutional shareholders in the US are using their voting rights to pressure companies to reduce energy and GHG-related risks to shareholder value\(^4\). In 2001, resolutions were moved to 19 US companies Annual General Meetings seeking disclosure of GHG emissions and the adoption of energy-use reduction policies. In May 2003 a resolution presented at ExxonMobil’s annual meeting demanding that the company take positive steps to reduce risks associated with greenhouse and energy intensity received 21% of the preliminary vote.

Origin Energy (ORG) and Pacific Hydro (PHY) are two Australian companies that are well placed to deal with the carbon-constrained world we are moving towards and take advantage of the reputation benefits associated with being ‘green’.

---

1. Under Kyoto, most developed countries have agreed to binding targets to reduce GHG emissions. Australia negotiated a target of 108% of 1990 levels to be achieved between 2008–2012. 108% represents a significant reduction to ‘business as usual’ emissions. Despite not ratifying Kyoto the Australian Government remains committed to meeting the 2008–2012 target through voluntary measures.


Origin Energy Limited (ORG) is a major Australian integrated energy company, focused on gas and oil exploration and production, energy retailing, power generation and network management.

ORG supplies gas and electricity to over two million customers across Australasia. Over the past few years, ORG has increased its market share in Australia to nearly 20% through acquiring the Victorian electricity retailer, Powercor (June 2001), and CitiPower (September 2002).

The Cooper Basin in South Australia is Origin’s primary producing asset. Other projects include the Yolla field in the Bass Basin (offshore) and Perth, Carnarvon, Eromanga, Surat/Denison, and Otway basin projects (onshore). ORG is also developing the Thylacine and Geographe gas fields.

The company announced a profit after tax of $162m for the six months ended 30 June 2003.

Financials at 31 May 2003
Market Capitalisation: $2.84bn
Market Weight (S&P/ASX200): 0.52%

Observable sustainable behaviours

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<thead>
<tr>
<th>ORG sustainable behaviours</th>
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<th>Medium</th>
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<td>Financial benefits</td>
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<td>First mover benefits/competitive advantage</td>
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</table>

Source: ITG Australia
“To meet our strategic commitments over the long term, all aspects of our business, as they impact on economic stakeholders, the environment and the communities in which we operate must be sustainable.”

Grant King, Managing Director, Origin Energy

ORG recognises that the production and use of energy has environmental impacts, particularly from greenhouse gas emissions. ORG also acknowledges that it is exposed to considerable community and reputation risk given 45% of EBIT is from the highly competitive retail business, in which it has over two million customers.

ORG believes that unless it manages its GHG emissions, it will not maintain its licence to operate. In response to this risk, ORG has reduced the greenhouse intensity of its energy production activities through technology such as the Yellowbank Project and is minimising exposure to risk through investment in solar panel technology.

Yellowbank project

“Origin is pleased to be announcing this innovative project, which is a first for the company and delivers on Origin’s commitment to reducing the environmental impact of energy production and use.”

Grant King, Managing Director, Origin Energy

ORG worked with Oil Company of Australia (OCA) and Santos to use an emerging market mechanism to support investment in a GHG mitigation program. Under contract to ORG, the Denison Trough Joint Venture has installed advanced flaring technology to eliminate the venting of waste methane\(^1\) at the Yellowbank gas production facility in Queensland. The remote location of the project and the low quality of the waste gas meant that the energy value of the gas could not be extracted; therefore, the waste gas was being flared. Flaring gas emits considerable amounts of GHG into the atmosphere. The project has enabled the investment in new flaring technology that reduces the GHG impact of the operation.

The project will reduce GHG emissions over four years by 700,000 tonnes.

The emission reduction units (ERUs)\(^2\) produced from the Yellowbank project have been purchased by BP Australia for use in its BP Global Choice Program, which provides a greenhouse offset fuel, BP Ultimate. The value of the BP deal cannot be disclosed however the current Australian market price for ERUs is $5–10 per tonne. It is expected that 700,000 tonnes of GHG will be saved over the life of the project meaning ORG potentially made $5–7million from the deal. The engineering solutions used at Yellowbank would not have been economically justified without the BP deal; that is, it would have been cheaper to keep flaring the gas. The BP deal gave ORG the impetus required to justify the capital investment.

1. A greenhouse gas with a Global Warming Potential 21 times that of carbon dioxide.
2. ERUs also known as ‘carbon credits’ are credits obtained from reducing greenhouse gas emissions from a pre determined baseline by implementing new technologies of efficiencies.
Investments in solar power

Origin Energy Solar, launched in February 2002 in Victoria and South Australia, installs solar photovoltaic (PV) power supply systems to homes and businesses. The PV power supply systems generate electricity with zero GHG emissions, feeding excess electricity into the grid.

Due to its ‘first mover’ status, ORG has captured more than 50% of the solar grid market in Victoria. ORG was awarded a contract in conjunction with BP Solar to supply and install 1,300 solar panels at the Queen Victoria Market in Melbourne and partnered the South Australian Museum to build the North Terrace Solar Power Station in Adelaide. The estimated value of these projects was $1.75 million.

Since 1998, ORG has invested $6 million in research and development of new technologies for solar cells and power inverters to produce an improved solar module. ORG received a $1 million grant under the federally funded Renewable Energy Commercialisation Program to support the construction of a pilot plant to manufacture solar systems using this new technology.

The silicon solar panels are currently being tested in the US and planning for the pilot plant construction is near completion. Key capital equipment is being built and the panels should be in production by end 2004.

Investments in hot rock energy

Origin Energy announced on 6 August 2003 that it had entered into an agreement with Geodynamics Ltd to acquire 19% of the company. The other cornerstone investor in the company is Woodside Petroleum.

Generating geothermal energy in Australia became possible after the SA Government in 2001 became one of only two state governments — the other is NSW — to recognise geothermy as an energy source. Geothermal energy harvests heat from the earth core by pumping water down wells sunk to about 4.5 km from the earth’s surface. The return heated water is converted to steam to turn turbines that generate electricity.

Value add of sustainability

“Sustainability provides a management framework where the company’s contributions to economic prosperity, environmental quality and social well-being are reflected in its management planning and measurement systems. Ultimately sustainability makes good business sense”. Origin Energy

Reputation

45% of ORG EBIT is from the retail component of the business, which should grow over the next few years. ORG believes it has a competitive ‘first mover’ advantage in the green energy market and is committed to ensuring the community are aware of its sustainability objectives.

ORG has been endorsed by environmental NGOs as a key provider of renewable energy. Green Electricity Watch identified them as a market leader provider of ‘green energy’. While it is difficult to quantify the value of NGO
support, the potential costs like those experienced by Southern Pacific Petroleum due to community and NGO backlash against their shale oil operations is considerable.  

Investments in solar technologies coupled with investments in wind power generation have further boosted the company's 'green' reputation.

**Insurance against regulatory developments**

ORG is well positioned to deal with regulatory change relating to GHG emissions given that the company has started addressing the energy intensity of the business and GHG emissions.

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Company details

PHY is engaged in the development, construction and operation of hydro-electric and wind power electricity generation power stations. Its focus is on renewable forms of energy generation in Australia and the South East Asian and Pacific area. In August 2001, PHY sold its 50% stake in the Bay of Plenty Electricity Ltd, a NZ renewable energy generation and electricity supply business (411MW). In August 2002, PHY announced the Victorian State Government’s approval of the Portland Wind Energy Project.

PHY reported a headline NPAT of $23.9m for the six months to 31 December 2002 versus $24.6m in the pcp. On a normalised basis, NPAT increased by 23% to $19.7m.

PHY’s operating assets include the 30MW Ord River hydro project in Western Australia, three hydroelectric projects in Victoria, the Bakun A/C Project (50% stake) in the Philippines, and the Codrington wind farm in Victoria. The company is currently commissioning the 52.5MW Challicum Hills wind farm near Ararat in western Victoria. PHY has recently received planning approval for the 180MW Portland Wind Energy Project, the 67.5 MW Clements Gap wind farm and the 7.2MW Fremantle wind farm.

On 6 June 2003, PHY announced its participation in a joint venture to develop the world’s first dual-purpose wave energy generator.

Financials at 31 May 2003
Market Capitalisation: $380m
Market Weight (S&P/ASX200):0.06%

PHY performance

Source: ITG Australia
Sustainable behaviours observed

PHY renewable energy

<table>
<thead>
<tr>
<th></th>
<th>Not applicable</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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<tbody>
<tr>
<td>Financial benefits</td>
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<tr>
<td>Revenue generation</td>
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<tr>
<td>Cost savings</td>
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<tr>
<td>Improved market share</td>
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<td>x</td>
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<tr>
<td>Intangible benefits</td>
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<tr>
<td>Enhanced social license to operate</td>
<td></td>
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<td>x</td>
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<tr>
<td>Insurance against regulation risk</td>
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<td>x</td>
</tr>
<tr>
<td>Product differentiation</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>First mover benefits/competitive advantage</td>
<td></td>
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</tbody>
</table>

PHY is a unique case study of sustainability because it is sustainable in both the product it offers and in its business model.

PHY is Australia’s largest non-government producer of renewable energy. If all outstanding planning applications proceed as currently anticipated, the company could develop a portfolio of over 2000MW of electricity from wind sources.

PHY is capitalising on the medium to long-term opportunities emerging from the need to provide renewable or low-carbon emission energy in view of climate change risks. It is well positioned to benefit from the global trend in regulatory and policy regimes to increase reliance on renewable energy as opposed to fossil fuels. According to Windforce 12, wind energy could account for more than 12% of the world’s electricity consumption by 2020.

<table>
<thead>
<tr>
<th>Year</th>
<th>Global wind energy market (MegaWatts)</th>
<th>Wind energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>Not applicable</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>Low</td>
<td>5000</td>
</tr>
<tr>
<td>1998</td>
<td>Low</td>
<td>10000</td>
</tr>
<tr>
<td>1999</td>
<td>Low</td>
<td>15000</td>
</tr>
<tr>
<td>2000</td>
<td>Low</td>
<td>20000</td>
</tr>
<tr>
<td>2001</td>
<td>Low</td>
<td>25000</td>
</tr>
<tr>
<td>2002</td>
<td>Low</td>
<td>30000</td>
</tr>
</tbody>
</table>

Source: Pacific Hydro

PHY believes that the anticipated benefits for the renewable energy business model can be realised regardless of the existence of climate change. The financial credentials of the business model provide a strong business case irrespective of the environmental and social benefits. While there are further potential benefits if Australia ratifies the Kyoto Protocol, the underlying feasibility of PHY's numerous projects is not dependent on these externalities. This point has been highlighted in the Philippines and Chile, where companies are
participating in hydro projects without the potential benefits from participating in Clean Development Mechanism (CDM) projects.

Environmental performance is at the centre of PHY business strategy. This is reflected in the company’s singular focus on the production of clean, renewable energy, its pursuit of triple bottom line objectives in all developments, the use of 100% renewable energy in all office premises and the accreditation of all Australian assets to ISO 14001 standards. PHY’s commitment to state-of-the-art technology and hence best practice further enhances the its corporate reputation and helps mitigate environmental risk.

Challicum Hills wind project

The Challicum Hills wind project, located near Ararat, western Victoria, is comprised of 35 wind generators for a total capacity of 52.5MW and will be fully operational by late 2003. The project is an indication of the extent to which sustainability processes are incorporated into the feasibility study, planning and development of projects.

From the outset, all potential projects are assessed on sustainability criteria. For example, local community support for a possible project is as important in the assessment of a potential site as is the nearest grid connection. In addition, extensive environment sensitivity assessment is undertaken beyond what is required under the regulatory framework.

PHY’s risk mitigation procedures also include extensive community consultation and engagement and environmental initiatives. For the Challicum Hills project PHY, spent approximately $60–$80,000 over two years on community engagement. PHY met each landowner that was potentially impacted by the project and held a number of open days and information sessions. As a direct result, there were no objections lodged in the approval process. Approval was granted within three months of application, which represented a significant cost saving for this $75million project.

The location of the Challicum Hills project is already affected by considerable erosion problems. While it is not vital to the project, PHY has participated in seed collection programs with landowners to promote native plant regeneration in the area. Participation in this program has boosted PHY’s reputation in the area and its relationships with local landowners.

PHY has also established minimum limits on locally-sourced content for equipment, which further enhances community relations and should yield additional long-term financial benefits. The Australian wind farm industry will always be considered a small market by Northern European standards despite growth in recent years. As a small global producer, PHY could not negotiate the best contracts and price for parts. By initiating local production, PHY is ensuring its access to equipment. Australian production better equips PHY for expansion into Asia and the Pacific.

1. The Clean Development Mechanism (CDM) is one of the mechanisms available to signatories of the Kyoto Protocol. The mechanism is designed to make it easier and cheaper for industrialised countries to meet the greenhouse gas (GHG) emission reduction targets with the assistance of developing countries. The participating developing countries have the potential to obtain credits for the projects. (www.cdmwatch.org).
Due to the deregulated energy market in Victoria, PHY has created the product ‘Blue Wind Energy’. Consumers can now purchase wind energy directly from their energy retailer. The product is marketed through the retailers and adds to PHY’s reputation as a sustainable company.

While Blue Wind Energy has had limited uptake since its release 18 months ago, this is primarily due to existing contractual obligations. Over the next 18 months, as these contracts come up for renewal, PHY believe there will be considerable demand particularly by companies addressing their environmental impact.

Value add to the company

- Reputation benefits. By offering a green product, PHY have been able to differentiate themselves in the energy market. Further to the high levels of demand for the product, PHY have also found themselves as an employer of choice. This was highlighted in a recent advertisement for an environmental engineering position that attracted over 1000 applicants. PHY also receive on average one offer per week from final year students wanting to work voluntarily for the company.

Due to the number of projects successfully completed and the solid relationships PHY has with local communities, the company has attained and retained key agreements with landholders for the best wind sites in Australia. These agreements are a key competitive advantage as new companies enter the market.

- Potential benefits from carbon trading. Renewable energy companies are likely to be major beneficiaries from such carbon trading initiatives due to the large volumes of carbon dioxide emissions that are abated by substituting renewable energy for fossil fuel energy sources.

- ‘First mover’ benefits. PHY’s leadership role in the development and marketing of renewable electricity in Australia puts the company in a strong position within the industry.

- Regulatory risk abatement. Relative to the energy and utilities sectors as a whole, PHY is particularly well placed to deal with the medium to long-term risks presented by regulatory, legal and community liabilities in relation to greenhouse gas emissions and climate change, maintaining a distinct advantage over its industry competitors that are more reliant on fossil fuels.
Concluding observations

The energy sector is a leading example of sustainability behaviour serving as both a business continuity risk management tool, and an opportunity for competitive advantage and therefore acceleration of business growth.

Origin Energy provides investors with an example of sustainability giving rise to a more rigorous approach to growing an existing business in the face of external threats to growth. In so doing, it can also provide advantages over competitors, to the benefit of sales and customer retention. Pacific Hydro demonstrates how these behaviours can give rise to a distinguished business in themselves.

Regardless of the path taken by businesses exposed to the energy sector, sustainability considerations have obvious links to the financial bottom line and hold the potential for above median investment outcomes.
The insurance industry has a logical affinity for sustainability because a range of environmental, social and economic factors influence its core business challenge of calculating risk and setting appropriate premiums. They also influence its core purpose of helping people to manage and reduce risk.

“The combined effect of increasingly severe climatic events and underlying socio-economic trends (such as population growth and unplanned urbanisation) have the potential to undermine the value of business assets, diminish investment viability and stress insurers, reinsurers, and banks to the point of impaired profitability and even insolvency” — United Nations Environment Programme Finance Initiative, 2002.

Weather-related risks, which are being influenced by climate change, are major drivers of claims costs for the insurance industry in big-ticket areas like home and motor cover. Natural disasters like hailstorms, floods, cyclones and bushfires represent a major driver of losses — both insured and non-insured — for the community and the economy. An inability to underwrite such risks would not only have ramifications for individual insurance companies, but global economies.

The following Hazard Table, prepared by Insurance Australia Group (IAG), demonstrates how a small change in weather and climate conditions materialises in cost of claims.

<table>
<thead>
<tr>
<th>Hazard</th>
<th>Cause Of Change In Hazard</th>
<th>Resulting Change In Damage/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme temperature episodes</td>
<td>1°C mean temperature increase</td>
<td>300-year temperature events occur every 10 years</td>
</tr>
<tr>
<td>Windstorm</td>
<td>Doubling of windspeed</td>
<td>Four-fold increase in damagesIncrease of 5–10% in hurricane wind speeds</td>
</tr>
<tr>
<td>Floods</td>
<td>25% increase in 30 minute precipitation</td>
<td>Flooding return period reduced from 100 years to 17 years</td>
</tr>
<tr>
<td>Bushfire</td>
<td>1°C mean summer temperature increase</td>
<td>17–28% increase wildfires</td>
</tr>
<tr>
<td></td>
<td>Doubling of CO$_2$</td>
<td>143% increase in catastrophic wildfires</td>
</tr>
</tbody>
</table>


Australia has enormous potential to suffer from impending climate change. More than 80% of its population resides within 50 km of the coast with increasing concentrations in regions already vulnerable to weather hazards (CSIRO, 2002).

In addition, $1,500 billion of Australia's wealth is locked up in homes, commercial buildings, ports and other physical assets (ABS, 2002). This is equivalent to nine times the current national budget or twice our gross domestic product. The insurance industry currently underwrites the risk to the bulk of these assets from weather events but climate change threatens its ability to do so as effectively in the future.
Internationally, insurers and re-insurers such as Abbey National and Swiss Re are beginning to address their exposure to sustainability risk. In Australia the leading general insurer, Insurance Australia Group (IAG), has taken the first steps to incorporate sustainability into its business model. At the organisational level, IAG has implemented staff development programs and increased eco-efficiencies. At the product level, it has assessed how to incorporate sustainability principles into products. IAG is further enhancing brand and reputation through participating in community programs and focusing on its corporate climate change position and research.
Company details

IAG operates in Australia and New Zealand, providing personal, compulsory third party (CTP) and commercial insurances as well as retirement solutions. The Group comprises a number of brands throughout Australia and New Zealand, including NRMA Insurance, SGIO, SGIC, State Insurance, ClearView Retirement Solutions and Circle. In January 2003, IAG acquired CGU Insurance in Australia and NZI in New Zealand, adding these brands to its stable.

IAG posted a profit of $62m for the half year to December 2002, up 26% on the Pcp. The improved result was due to a strong contribution from the insurance business.

The Group’s insurance profit rose 132% to $290m, while underwriting profit was up 92% to $71m.

Financials at 31 May 2003
Market Capitalisation: $5,536 m
Market Weight (S&P/ASX200): 0.97%

IAG performance

<table>
<thead>
<tr>
<th>IAG</th>
<th>Industry (Insurance)</th>
<th>Index (ASX 300)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-20%</td>
<td>-30%</td>
<td>-40%</td>
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<tr>
<td>-10%</td>
<td>10%</td>
<td>0%</td>
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<td>0%</td>
<td>10%</td>
<td>20%</td>
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<tr>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
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</table>

Source: ITG Australia

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<thead>
<tr>
<th>IAG</th>
<th>Not applicable</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
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<td>Revenue generation</td>
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<td>Cost savings</td>
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<tr>
<td>Improved market share</td>
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<tr>
<td>Intangible benefits</td>
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<tr>
<td>First mover benefits/competitive advantage</td>
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</table>
IAG and sustainability

IAG has embraced a sustainability action framework that focuses on creating value for the business and for society. A key business objective is to reduce the size, frequency and ultimate cost of claims. Being more proactive in areas such as preventing workplace accidents, mitigating against climate change and promoting safer communities can translate directly to a lower claims burden.

In IAG’s view, it is good business to operate in a way that creates value for the community, including better environmental and social outcomes, while also reducing the risks that drive the number and cost of claims. Insurance is, after all, essentially a community service, and with about 11 million policies in place IAG serves a significant portion of the Australian and New Zealand populations.

“As an insurance group, our business is to pay claims. But to fulfil this role we must stand for more. We need to be able to help our customers and the community beyond just paying claims. To do this, we need to share our experience and knowledge with the community to help manage and reduce risks. We also need to build a culture which allows our people to develop and work to the best of their abilities. We must ensure that our business is sustainable and can deliver ongoing value to our shareholders” - an IAG perspective

In pursuing its sustainability strategy within its own operations and beyond, IAG has identified three priority areas that align its business interests with societal interests. They are:

- **safety** — pursing a strong safety culture within IAG’s own workplace to anchor its role as Australia’s leading provider of workers’ compensation services
- **environment** — improving environmental performance starting with the inhouse ‘basics’ such as recycling, energy efficiency, less paper use and reduced travel, but extending to the entire value chain through supplier and customer relationships
- **community** — supporting communities in efforts to reduce risk, including being safer and cleaner, thus reducing the potential for claims.

These initiatives, individually and collectively, are aligned with existing core drivers that allow the business to generate value. They:

- support premium pricing (through enhancing brand and reputation) and growth through increasing volumes and improving product mix
- reduce claim frequency and size, and cost of claims processing
- improve employee culture and therefore productivity as well as the ability to recruit and retain the best people
- decrease operating expenses e.g. lower energy costs, reduced workers’ compensation costs.

Practical examples

IAG has confirmed its commitment to reducing its impact on the environment by becoming a signatory to the United Nations Environment Programme’s Finance Initiative (UNEP FI). Part of this commitment means incorporating environmental considerations into its day-to-day activities.
The insurer conducted extensive research into its sustainability ‘baseline’ including workplace safety and environmental performance. Subsequently it has developed and implemented corporate safety and environmental targets that focus on reducing injuries and accidents, and also cutting its paper, fuel and energy use, and minimizing carbon dioxide (CO2) emissions.

The first round of aspirational targets came into force for the 2003/4 financial year and included the following reductions:

- energy and paper consumption by 15%
- fuel (tool-of-trade cars) and air travel kilometres by 5%
- carbon dioxide emissions by 15%.

Customer and consumer-focused initiatives include the web-based Green Safe Car Profiler, a user-friendly tool on the Internet that allows easy comparison of new vehicle models in terms of their safety and environment attributes including fuel efficiency. Other current initiatives include working with a network of Preferred Smash Repairers to improve their overall business performance, including environment and OHS modules, with the ultimate combined benefit of improved service to IAG’s customers, better outcomes for the wider community and business gains as well.

IAG also has begun to ‘sustainability road-test’ a number of initiatives and ideas by engaging a broad range of external stakeholders from business, government and civil society, including organisations covering environment, consumer advocacy, social welfare and other fields that attract significant community support.

Going forwards, IAG initiatives include reducing the extent of possible climate change through policy strategies and innovative product offerings. There are numerous potential benefits from products or policies that aim to reduce car emissions by offering cheaper insurance premiums for lower usage and support for the public transport system. The most obvious benefits are improved air quality and decreased road congestion. Lower congestion rates would reduce aggressive driving, a factor that is responsible for half of all accidents in the USA (Mills et al., 2001)

In terms of product differentiation, opportunities exist to assess differentiating factors, such as the relationship between distances travelled in an insured vehicle and the average number and severity of claims. This type of assessment would allow insurers to factor the extent of vehicle usage (with environmental consequences) into insurance premiums. This would not only allow IAG to better cost their premiums, but if the product encouraged people to use public transport, their marginal contribution to global warming would decrease, lessening the long-term variability of climate change. For the same reason, IAG are also considering the possibility of factoring the fuel efficiency of vehicles into premium calculations. Likewise eco-efficient housing lessens the impact of climate change. Better urban design has the benefits of:
lower theft & burglary rates
→ reduced vehicle usage & lower accident rates
→ lower greenhouse emissions.

IAG and climate change

Weather and climate are ‘core business’ for the insurance industry. At its most basic, insurers underwrite weather-related catastrophes by calculating, pricing and spreading the risk and then meeting claims when they arise. A changing, less predictable climate has the potential to reduce its capacity to calculate, to price and to spread this weather-related risk.

IAG believes that climate change is a real threat based on the assessment of the science presented by the Intergovernmental Panel on Climate Change, its own scientific modelling work and re-insurance sector research.

Currently IAG is developing a climate strategy which includes:

→ investing in world-leading research to learn more about the problem and its expected impact, using international experts to look at specific Australian scenarios such as Sydney’s hailstorms and northern Australia’s cyclones
→ considering possible adaptation strategies to minimise vulnerability, for example comparing the merits of rival roofing and other building materials
→ exploring and adopting strategies that minimise IAG’s and its customers’ contribution to climate change through innovative products and processes, and new business models that contribute towards reduced greenhouse gas emissions, and
→ establishing a clear public advocacy positioning and a call to action to business, governments and community groups to work together to find sustainable solutions to the challenges.

Assessing business value creation

IAG’s sustainability strategy, business value created as a result of sustainability initiatives should be rigorously measured and financially evaluated wherever possible. As well as providing accountability and incentive, this will allow the company to understand the long-term connections between its sustainability-related initiatives and business opportunity and growth.

Value creation is assessed through aggregating areas of initiative, developing metrics across each, and incorporating these into existing business performance frameworks. In addition, an annual review will collate these metrics and assess their overall creation of value for the business.
This process — which is still under development — is summarised in the following schematic:

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Desired outcome</th>
<th>Nature of value created</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder engagement and advocacy</td>
<td>Enhanced brand and reputation</td>
<td>Intangible, difficult to attribute to SEC alone</td>
<td>Aggregate outcomes</td>
</tr>
<tr>
<td>Climate change positioning and research</td>
<td>Employee engagement</td>
<td></td>
<td>Brand Tracking Index (monthly) Reputation Index (bi-annual) “Your Voice” Survey (annual)</td>
</tr>
<tr>
<td>Workplace health and safety</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal eco-efficiencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply chain</td>
<td>Cost savings, superior work environment</td>
<td>Attributable to SEC Net Tangible Benefit ($)</td>
<td>Initiative-specific outcomes</td>
</tr>
<tr>
<td>Community initiatives</td>
<td>Reduce claims costs and supply chain eco-impact</td>
<td>Attributable to SEC Net Tangible Benefit ($)</td>
<td>Quarterly reporting Corporate targets $ value creation assessment</td>
</tr>
<tr>
<td>Product differentiation and development</td>
<td>Reduce claim size and frequency, enhance reputation</td>
<td>Difficult to attribute to SEC alone</td>
<td>Pilot Study — lever existing indicators</td>
</tr>
<tr>
<td></td>
<td>Increase GWP</td>
<td>Attributable to SEC Net Tangible Benefit ($)</td>
<td>Under development</td>
</tr>
</tbody>
</table>

**Concluding observations**

Sustainability provides a framework within which IAG can better understand the communities in which it operates and the risks inherent to them. Doing so allows the business to identify new sources of competitive advantage — including opportunities to lower costs, reduce risks, increase growth prospects and boost efficiency — and therefore to deliver responses to tap them ahead of its competitors. It is through this understanding that IAG seeks to simultaneously maximise the value it delivers to society and that which it passes on to its shareholders.

At IAG a range of sustainability initiatives are becoming aligned with existing business strategy and are being embedded into existing decision-making and management processes. The initiatives are simple, containable and achievable, and do not set out to be a major challenge to existing direction.
Sustainability risks facing agriculture are many and varied. In Australia the problems of land salinity and water management threaten the viability of many rural industries. A less discussed sustainability risk in agriculture is that faced by the intensive animal rearing industry due to the use of antibiotics.

High volume, intensive rearing of animals, especially pigs and poultry is conducive to the proliferation of microbiological diseases such as E. coli. Microbiological diseases are usually treated with antibiotics. To treat animals individually for disease in intensive farming is not economic or practical. Animals are usually treated by adding antibiotics to water or food supply.

It is also common for antibiotics to be given to animals as standard practice to decrease mortality rates and increase average weight (if an animal gets sick, it is less likely to gain weight quickly). A US study found only 7% of antibiotics produced each year are used on farms and in feedlots to treat sick animals, the remaining 93% is given to healthy animal to accelerate growth and/or prevent disease.

Problems can arise as bacteria develop a resistance to the antibiotics and through mutation ‘super bugs’ emerge. These ‘super bugs’ require increased dosages of antibiotics leading to greater antibiotic resistant bacteria and the cycle continues. Antibiotic resistant bacteria or ‘super bugs’ are then passed to humans through animal feed carcass and the environment and are now starting to appear in homes and hospitals around the world. A study in the Netherlands showed that over 70% of chickens tested at the retail level had antibiotic resistant bacteria present. In studies of the European population, it has been found that between 2–17% have multi antibiotic resistant bacteria present in the bowel. As these bacteria develop a greater resistance to antibiotics, we may have the situation where common infections are no longer treatable with antibiotics.

As a result of these studies and potential negative health implications for humans there is a case for sustainability via reduced antibiotic use in animal rearing. This leaves the intensive animal rearing industry exposed to risks in the form of community risk, regulation risk and increased costs to operate.

Business risks associated with use of antibiotics

Community risk

As consumers become more aware of the potential health implications of consuming meat with antibiotic resistant bacteria, they will increasingly demand antibiotic free meat. Planet Organic, a UK based organic produce chain increased annual sales to 4 million pounds after a UK E. coli outbreak in 1996, due to the number of new customers wanting organic meat and vegetables. This UK outbreak which claimed 21 lives also led to the creation of lobby groups such as the Pro-organic Soil Association who lobby against the overuse of antibiotics. Community initiatives of this type are a business risk.

References:
4. Ibid.
Regulation risk

Worldwide, regulatory authorities are rapidly legislating to prevent the use of antibiotics designed for human therapy, being used for animal purposes. In Europe the antibiotic avoparcin has been banned. A review of the use of the antibiotic was initiated by the Joint Expert Technical Advisory Committee on Antibiotic Resistance in 1998 due to links between use of the antibiotic and concerns over the likelihood of acquired bacterial resistance. While there were no regulatory outcomes (In principle this is correct — however, the APVMA have introduced a risk assessment for all antibiotic use and are currently re-evaluating the registration status of Antibiotic Growth Promotants (AGP) in food animals) in Australia, avoparcin is no longer found in any Australian products. There have been calls to ban use of all for antibiotics for weight gain. Farmers would no longer be able to administer antibiotics via feeding, meaning that antibiotics may have to be administered selectively at greater cost.

There is also the possibility of civil action. The E. coli outbreak in the UK in 1996 led to class actions against a butcher that sold infected meat. It is possible that such class actions could be mounted against the primary producers of meat containing antibiotic resistant bacteria.

Financial risk

If bacteria grow more resistant to antibiotics, greater costs will stem from the increased amount of antibiotics required, higher rates of animal mortality, and lower average weight of stock. The community and regulatory risk also have the potential to materialize into significant financial risk.

2_Julie Smyth, Sunday Times, E.coli victims may lose out, April 26, 1998, Sunday.
Company details

Chemeq Ltd (CMQ) is an Australian research-based veterinary pharmaceutical company, developing, manufacturing and marketing antimicrobials.

CMQ has traded strongly on the ASX over the last 3 years with an average annual return to shareholders of 67%.

Financials at 31 May 2003
Market Capitalisation: $490m
Market Weight (S&P/ASX300): 0.04%

CMQ performance

Source: ITG Australia

CMQ: product development from addressing the sustainability risks facing the intensive animal rearing industry.

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<thead>
<tr>
<th>CMQ product development</th>
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Sustainability issue

Antibiotic use in animal rearing.

Program

Development of antimicrobial to replace antibiotics.

Outcome

Product to lessen the development of antibiotic resistant bacteria.
In recognition of the sustainability issues facing intensive animal rearing, CMQ has developed a ‘polymeric antimicrobial’. CMQ's polymetric antimicrobial is unlikely to leave resistant bacterial strains thereby alleviating the issue of antibiotic resistance as outlined above.

Trials of the product on chickens and pigs have found the CHEMEQRTM polymeric antimicrobial also:

- is effective in control of disease
- leads to increased growth (10% more growth in piglets)
- lowers the animal husbandry mortality rate
- increases animal, human and environmental safety.

The global animal market for CHEMEQRTM polymeric antimicrobial is now estimated to be worth approximately AUD$10 billion per year. Regulatory approval for the product has been granted in South Africa and New Zealand, and applications are current in Australia, USA, UK/EU, Thailand and Korea. Recent sales in South Africa (where the product was first approved) to the value of AUD$1 million represents approximately 20% penetration of the South African market.

A $25 million manufacturing facility is due for completion towards the end of calendar year 2003, having an expected 20 tonne per annum output and when finally upgraded to full capacity in later years, outputting 1,000 tonnes per annum.

"As far as we know, CHEMEQRTM polymeric antimicrobial is the only direct substitute available for the use of antibiotics in animals, for growth purposes — a practice which is being increasingly banned around the world".
Dr Melrose, Chairman & Chief Executive Officer, Chemeq Ltd

In recognizing the sustainability issue facing the intensive animal rearing industry, CMQ has developed a market-leading product that is already proving to not only be financially beneficial for the company, but potentially eradicates the sustainability issues facing its customer base. The product development also has potential benefits to human health, creating extensive reputation for the company.

CMQ has performed particularly well both against the ASX 200 and its sector peers. In 2002, the Company was awarded the No.1 position in the 'CEO Sustainable Growth Award' from Deloitte Touche Tohmatsu. The survey of the top performing companies in Western Australia found that product development was a key strategy of the best performing companies. If successful, manufacturing and marketing of the CHEMEQRTM polymeric antimicrobial will add to the business case for sustainability. So far, shareholders have benefited from this strategy.
Concluding observations

CMQ is an example of a strategic approach to sustainability. Driven in response to changing physical limitations to the effectiveness of antibiotics used in animal husbandry, CMQ has responded with a product that overcomes a number of key sustainability concerns. CMQ is an outstanding case where this potential has been reflected in sharemarket valuation, seen in the graph below.

The case study reinforces the benefit of understanding sustainability drivers across a variety of business types. Health, education, renewable energy and food production are all areas that lend themselves to such sustainability and investment opportunity.
Key drivers of risk and opportunity in the services sector

Reputation risk
Reputation is a key exposure for service entities. Other than price, service and product quality, reputation is a key determinant of service entity business success, or failure. Reputation measurement is an embryonic but growing science. While delivery/service times and ease of access to company representatives are critical attributes of service businesses, sustainability does appear to be moving from ‘optional extra’ to standard business platform.

Examples of sustainability impacts in the services sector include recyclability of goods and packaging, sourcing of labour and the ecological integrity of materials used in goods supplied. Product labelling is one aspect of managing sustainability risks and opportunities however the Pan Pharmaceuticals experience in Australia has demonstrated product labelling and regulation do not, of themselves, assure the quality of outcomes that are required for business continuity, let alone sustainability.

Sustainability can also provide sources of competitive advantage. This includes first mover advantage in key areas of product development/sourcing and the opportunity to involve the customer in the journey toward more sustainable business practices. In many cases this provides a values based means by which relationship management can be carried out. Benefits of such an approach include a deepening of the relationship with customers that ‘values-based’ drivers such as sustainability lend themselves. In this way, sustainability behaviours can be used to cost effectively augment traditional hospitality-based relationship management that can be limited on account of a tenuous connection to core business and reliance on individual relationships. Increased transparency of business and community behaviours are likely to see further shifts in this area over time.

As an example, many government relationships have either bans or strict limitations on corporate hospitality. Sustainability can prove an intelligent way to managing valuable relationships.

Access to information and the flow of information also serves to broaden and strengthen business relationships beyond the traditional individual relationship. As well improved communication methods do help in promoting sustainable decisions in product and service selection. As an example to this Corporate Express (CXP) has successfully evolved the internet as a vehicle to enhance its communication with customers, providing process transparency and detailed content assisting its customers in selecting environmentally sustainable products and the like. Leveraging such communication systems to strengthen client relationships will drive competitive advantage, as in CXP’s situation it now conducts more the 56% of its interaction with clients via electronic commerce.
Human resources

While every business reports its people as being important to its continuing success, service sector companies have significantly increased exposure on account of the relative weight that falls on the human interface. Experienced, reliable staff who reflect a consistent culture are valuable assets and should be managed accordingly. Sustainability behaviours offer opportunities to build staff loyalty via an intrinsic platform of shared values. The benefits of this are frequently called ‘employer of choice’ status, which is another expression for minimising transaction costs with human capital both in sourcing and retaining. Employer of choice aims to attract the brightest of human capital and non-financial benefits, such as a sustainability culture, have proven to be successful ‘at the margin’ drivers of employee behaviour.
Company details

CXP is a specialist procurement company operating in the service sector. Its business interfaces between suppliers and customers making CXP a unique sustainability case study. CXP is not visible in the traditional sense but has a significant sustainability profile. Consideration of the CXP sustainability profile provides a useful insight into how sustainability risks and opportunities will present themselves in the increasingly technology and service-based investment landscape of the 21st century.

Being at the hub of supply chain ranging from pens and pencils, to computer hardware to coffee, tea and alcohol, CXP has substantial exposure to product stewardship risks. Equally, CXP has supply chain opportunities arising from how the company chooses to manage these risks.

As a service entity, reputation and brand management is critical to the ongoing delivery of business outcomes and thereby returns to investors. This goes to the heart of the sustainability strategy that is driven from the board and cascades throughout CXP. In this way, sustainability is a material component of intangible asset management linked to the financial bottom line.

Financials at 31 May 2003
Market Capitalisation: $492m
Market Weight (S&P/ASX300): 0.08%

CXP performance

CXP operates in both Australia and New Zealand supplying a growing range of non-production business supplies and services. Having a distribution focus, CXP is located in larger urban areas (28 locations) and its operations involve around 1700 employees. Strong financial performance through a number of years has seen the business enter and rise in the S&P/ASX200 index. The business has a majority shareholder (Bührmann NV) holding approximately 52% of issued share capital.

The company has adopted a ‘triple bottom’ line approach to operations and management of its businesses. Adopted as a strategy some three years ago the company has made significant inroads into building a sustainable social and environmental strategy.
CXP operates in a traditionally benign sector of business as far as sustainability interests are concerned. The entity has not been targeted by non-government organisation campaigns and is not obviously in the cross hairs of looming regulation.

CXP offers a unique viewpoint of the potential application of sustainability as a strategic driver of long-term business success.

How sustainability is considered

The following table summarises the key tangible and intangible asset benefits arising from the entity’s sustainability behaviours:

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<th>CXP</th>
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The most prominent of CXP’s link to sustainability behaviours are:

- a top-down, strategic approach to sustainability
- whole of business approach
- linked to core business sales,
- ancillary human resource benefits, and
- a desire to associate sustainability behaviours with its brand.

A strategic approach to sustainability

CXP has a top down strategy to link sustainability to business outcomes. Through its cross functional ‘GreenXpress’ environmental management committee, a team of eight provides oversight of the company’s environmental initiatives. This structure operates as a bridge to the broader business via its membership, including board representation via the Finance Director, national business representatives, legal, supply and sales/marketing personnel. In this way, sustainability initiatives of the company can be reviewed for their link to generating financial outcomes via the involvement of key stakeholders.

Across the business

A striking feature of the CXP case study is the extent to which sustainability seeks to operate across the whole of the business, not just pockets.

A specific brand, EarthSaver, has been developed to create a specific business line with a sustainability sales attribute. EarthSaver office products include
labelling for percentage of recycled material in original manufacture, products
that are manufactured using environmentally progressive processes, products
that do not impact the environment when in use and the end use impact of
the product (recyclability, biodegradability etc). Primary business lines that have
found their way into EarthSaver include paper, general stationery,
re-manufactured toner cartridges and some cleaning products.

Sales and marketing behaviours are integrated into the EarthSaver initiative.
Members of the Buy Recycled Business Alliance (BRBA) receive discounts for
purchases of EarthSaver products, thus driving toward a niche market
and strong barriers to competitors through an integrated customer relationship.
Product brochures clearly highlight the EarthSaver brand and customer
newsletters include environmental news, educating and encouraging the
customer base in relation to reuse and recycling initiatives and the availability
of environmentally progressive product.

Reporting to customers is another means by which CXP links sustainability to
their sales and marketing effort. Customers can request specific reports to track
the volume and percentage of EarthSaver products. This reinforces the initial sale
as well as allows customers to conduct this information as they in turn either
develop or enhance their own sustainability brand attributes. CXP also provides
additional reference information in its product catalogues to assist clients in
selecting EarthSaver alternative products.

The financial impacts of the EarthSaver initiative are commercial in confidence.
Key benefits however are the ability to source ‘generic’ goods and develop
branding at a lower cost. It would appear that CXP have succeeded in lowering
their cost of goods sold via intelligent purchasing, have enabled a discounting
process while also ensuring volumes of sales continue to build. In this way,
sustainability has been integrated into core business.

CXP includes a number of other initiatives across its business. These include:

- Reduced intensity delivery and packaging initiatives. Highly advanced systems
calculate the number and size of boxes required to process a customer order.
Cardboard box packaging is designed to be assembled without need for
packaging tape and to be collapsed after use. This reduces cost, as well as
aligns with sustainability branding and 95% of packaging is recyclable and
initiatives for back loading the collapsed boxes (after use) have been trialled.

- Delivery itself is designed to minimise carbon emissions. CXP participates in
Greenfleet Australia, a process whereby trees (carbon sinks) are planted to offset
the emissions of carbon from company vehicles. A strong signal of company
culture is that the contracted delivery fleet is included in this initiative, funded by
CXP rather than the contractors themselves. Vehicles are marked as members
of greenfleet. This initiative is therefore a branding/reputation and human
resource initiative.

- External supply, CXP sources domestic paper from ISO9001 and ISO14001
quality and environmental accredited suppliers, using plantation timbers for
paper pulp. Offshore suppliers are requested to evidence their certification and environmental management systems via the request for tender (to supply) process. Printer toner cartridges are subject to a take-back and re-manufacturing process with free of charge pick up of used toner cartridges. Toners are a sensitive aspect of landfill waste on account of volume and content, and the fact that remanufacturing is a lower cost means by which toners can be supplied. The CXP programme accounted for around 13% of all Australian recycled toner cartridges in 2001.

Internal sustainability. CXP itself uses remanufactured printer toner cartridges and has an integrated paper-recycling programme. Warehouse lighting is linked to order processing to ensure energy use management links with the process of business activity.

Links to sales

CXP's EarthSaver initiative has already been discussed in terms of getting better volumes of sales, at better margins and without compromising on ecological impacts. Another aspect of this initiative is the growth of businesses who themselves require ecological considerations in their procurement policy. In this way sustainability is not merely a brand advantage but a business continuity platform. A key feature of the CXP platform is its integrated nature, reporting to clients, brochure preparation, all of which appears aimed at achieving a strong and consistent message in relation to the entity culture (brand and reputation).

Human resource benefits

Human resource advantages go hand in glove with sustainability. These include staff involvement in the EarthSaver initiative and the other whole of business behaviours including involvement in recycling and greenfleet.

Community activities have been introduced to bolster the connection between staff and their personal values. Included in this initiative is paid leave to work in the community, thus creating more linkages with the broader customer base via local selection of charities by staff for staff involvement.
Concluding observations

CXP recognises its commitment to the community within which it operates as well as its commitment to create and maintain a working environment promoting loyalty and a sense of belonging for its employees. Just as the company identifies its people as its most valuable resource, it believes the future development of the wider community rests firmly on the support and nurturing that community provides to its children.

In keeping with these interlinked views, the company believes providing support to its employees when they choose to have children, is something it should do as a ‘Good Corporate Citizen’, as well as an example of good and progressive family friendly human resource management practice. CXP provides financial assistance to employees choosing maternity leave as well as considering family friendly alternate working relationships on their return to work.

Collectively these environmental and social initiatives provide a sustainability advantage that take human resource management beyond merely financial rewards but offering a more complete reward package for employees via integration of values attributes.
### Useful publications and websites

<table>
<thead>
<tr>
<th>Publication/Initiative</th>
<th>Topic</th>
<th>Source</th>
<th>Website</th>
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<tbody>
<tr>
<td>Carbon Disclosure Project</td>
<td>Finance and Climate Change</td>
<td>The Carbon Disclosure Project provides a coordinating secretariat for a group of institutional investors. The group has asked for the disclosure of investment-relevant information concerning greenhouse gas emissions.</td>
<td><a href="http://www.cdproject.net">www.cdproject.net</a></td>
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<tr>
<td>Do socially responsible equity portfolios perform differently from conventional portfolios? If so: how and why (2001)</td>
<td>Asset Management and Sustainability</td>
<td>ABN AMRO Asset Management Global Consulting Group</td>
<td>n/a</td>
</tr>
<tr>
<td>Dow Jones Sustainability Indexes</td>
<td>Asset Management and Sustainability</td>
<td>SAM Indexes GmbH</td>
<td><a href="http://www.sustainability-index.com">www.sustainability-index.com</a></td>
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<tr>
<td>Environmental Reporting (website)</td>
<td>Environmental Reporting</td>
<td>Department for Environment, Food and Rural Affairs (DEFRA) UK</td>
<td><a href="http://www.defra.gov.uk/environment/envrp/">www.defra.gov.uk/environment/envrp/</a></td>
</tr>
<tr>
<td>FTSE4Good Index Series</td>
<td>Asset Management and Sustainability</td>
<td>FTSE Group</td>
<td><a href="http://www.ftse.com/ftse4good/">www.ftse.com/ftse4good/</a></td>
</tr>
<tr>
<td>More about the PSS/CSS Investment Governance Advisory Service</td>
<td>Asset Management and Sustainability</td>
<td>Commonwealth Superannuation Scheme (CSS)</td>
<td><a href="http://www.css.gov.au/css/governance/advisory_service.htm">www.css.gov.au/css/governance/advisory_service.htm</a></td>
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<tr>
<td>More gain than pain — SRI: Sustainability pays off (2002)</td>
<td>Asset Management and Sustainability</td>
<td>WestLB Panmure</td>
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<tr>
<td>SocialFunds.com (website)</td>
<td>Finance and Sustainability</td>
<td>Website on SRI mutual funds, community investments, corporate research, shareowner actions, and daily social investment news.</td>
<td><a href="http://www.socialfunds.com">www.socialfunds.com</a></td>
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<tr>
<td>Sustainability Investment (2001)</td>
<td>Asset Management and Sustainability</td>
<td>UBS Warburg Ltd</td>
<td>n/a</td>
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<tr>
<td>The Equator Principles — A framework for banks to manage environmental and social issues in project financing</td>
<td>Finance and Environment</td>
<td>An industry approach for financial institutions in determining, assessing and managing environmental &amp; social risk in project financing.</td>
<td><a href="http://www.equator-principles.com">www.equator-principles.com</a></td>
</tr>
<tr>
<td>World Business Council for Sustainability Development (WBCSD)</td>
<td>Business and sustainability</td>
<td>A coalition of 165 international companies united by a shared commitment to sustainable development.</td>
<td><a href="http://www.wbcsd.ch">www.wbcsd.ch</a></td>
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<tr>
<td>Your Financial Institution and the Environment</td>
<td>Finance and Environment</td>
<td>Environmental Bankers Association (EBA)</td>
<td><a href="http://www.envirobank.org">www.envirobank.org</a></td>
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</table>
ABN AMRO Morgans is Australia’s largest national full-service retail stockbroking and financial planning organisation, with over 280,000 clients, 400 advisors and 640 staff operating from 42 offices in all mainland states and territories. Its parent, the global banking group ABN AMRO, is a leading provider of investment banking and wholesale banking products and services in Australia and New Zealand. The bank’s managing board has made a key commitment to the area of Sustainable Development, including its active sponsorship and adoption of the Equator Principles, a lending framework for project finance based on key environmental and social guidelines. www.abnamromorgans.com.au.

AMP Henderson Global Investors is the wholly owned investment management subsidiary of AMP Limited, the ultimate controlling entity in the AMP Limited Group. Our investment business is a dynamic participant in investment markets across the world, and offers a comprehensive investment management service, access to global markets and an impressive track record across a broad range of asset classes. Our investment business currently manages close to A$248 billion for retail and institutional investors worldwide, including A$62 billion sourced in Australia (as at 30 June 2003), and we have a presence in the major markets of Europe, North America and the Asia-Pacific. www.amphenderson.com.au and www.sustainablefuturefunds.com.

BT Financial Group has been offering a wide range of services to help people achieve their financial goals for more than 30 years. BT manages more than $41 billion on behalf of more than 700,000 investors through superannuation, retirement solutions, managed funds, investment platforms and margin lending. We also provide a full-service superannuation solution to many of Australia’s leading businesses. BT is part of Westpac Banking Corporation, one of Australia’s largest companies with a recognised commitment to sustainability principles. www.btonline.com.au.

The Department of the Environment and Heritage advises the Australian Government on policies and programs for the protection and conservation of the environment and significant heritage places. The Department manages a number of major programs, including the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality. The Department also works with Australian business organisations and industrial sectors, the community and other government agencies on matters of national environmental significance. It is also responsible for Australia’s participation in a number of international environmental agreements and administers environmental laws. www.deh.gov.au.
Insurance Australia Group is Australasia’s leading general insurance group, providing motor, home, caravan, boat, travel, commercial and rural insurance, workers’ compensation cover and financial products and services to customers across Australia and New Zealand. IAG considers its core business is to pay claims and provide insurance to the community at an affordable cost by operating efficiently, managing risk effectively and holding sufficient reserves to always be able to pay claims. Some of Australasia’s most respected brands are members of the Group, including NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance and Clearview Retirement Services in Australia and State Insurance and NZI in New Zealand. www.iag.com.au.

Investa Property Group (IPG) is a highly focused and fully integrated property investment group. It currently has funds under management of $4.9 billion which includes a commercial office investment portfolio, development assets, and funds managed on behalf of retail and wholesale investors. IPG also manages the Westpac Banking Corporation corporate property portfolio.

Investa Property Group has a market capitalisation of $2.7 billion, which is within the top 100 listings on the Australian Stock Exchange. The key strength of IPG is its ability to offer investors an integrated property investment team incorporating asset management, funds management, development, and accounting services, all operating within a well founded governance framework. www.investa.com.au.

The Securities & Derivatives Industry Association (SDIA) is the peak body for the stockbroking industry, representing 69 stockbroking firms and over 1300 practitioners across Australia. With over 98% of the market represented by the Association, it has a clear understanding of the challenges and opportunities facing the industry. It delivers a comprehensive education platform for practitioners and holds active engagement with governments, regulators and other market participants to further strengthen and enhance the integrity of the profession in Australia. www.sdia.org.au.
The Securities Institute is Australia's premier professional organisation for people working in the finance and investment markets with over 10,000 members and approximately 15,000 students nationwide. Members are drawn from a wide range of professions including stockbrokers, bankers, investment analysts, fund managers, corporate advisors, financial advisers and planners, dealers, lawyers and accountants.

The Securities Institute is committed to raising standards in the industry through:

- practical, contemporary and innovative education
- fostering ethical and effective markets
- advocating the highest professional conduct.

www.securities.edu.au

Sustainable Asset Management (SAM) is a Zurich-based investment company that has sustainability assessment to structure its investment process for funds management. This methodology underpins the annual global Dow Jones Sustainability Index and the annual SAM Australian sustainability leaders assessment. SAM presently provides investment management services to wholesale superannuation fund clients in Australia, as well as banks, insurance companies, pension funds, trusts, foundations and some private investors on a worldwide basis. SAM regards sustainability assessment as an investment methodology for delivering better medium- and long-term returns to clients, with better economic, social and environmental outcomes as well.

www.sam-group.com