SUSTAINABLE BUSINESS

Synergy between governments and corporations can make this happen

Sir Mark Moody-Stuart *has served on the boards of major corporations like Shell, Anglo American plc and currently the Saudi Aramco. He is also the chairman of the Foundation for the United Nations Global Compact. After a doctorate in geology in 1966 at Cambridge, he worked for Shell in various capacities. He is also one of the major patrons of Asian University for Women. In an interview with* **Tasneem Tayeb** *of* **The Daily Star**, *Sir Mark Moody-Stuart talks about how businesses and governments together can embrace sustainability.*

You have been very passionate in advocating the importance of synergy between corporations and governments to promote sustainable development. But often when big corporations try to expand their business in new territories, they have to face multidimensional problems, including resistance from local communities and expectations from governments. From your experience, how does a corporation work around these challenges?

The first thing is, in order to have sustainability, you need collaboration between governments and businesses. No one party—consumers, governments, corporations—can do it on their own. If you take climate for example, which is a big issue and one which needs to be addressed: there has to be a transformation from fossil fuel to renewable energy, or use fossil fuel with capture and storage. In order to do that, you need a regulatory framework. The market will do some things, but we need a framework to guide the market in the right direction.

For many years now, we have been advocating putting a price on carbon. So, for having every ton of carbon dioxide there is a price that must be paid. All of the major oil and gas companies support this, which is slightly surprising, because it means a tax on their product. But without that we won't have the incentive to shift the market to a lower carbon fuel, and so on. So, why doesn't the government set up a framework?

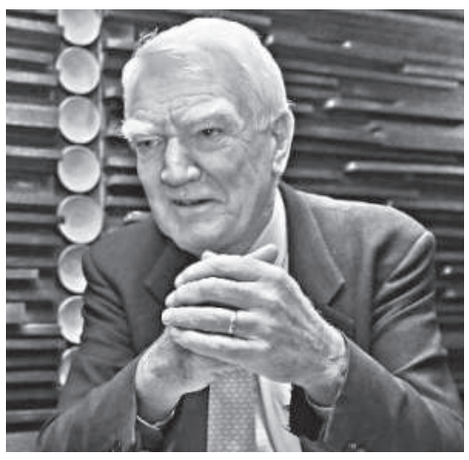
Governments worry about two things: they worry about consumers—the voters, who worry about cost increase. They also worry about the views of businesses. The normal reaction of many businesses, if someone suggests a business framework, is if you do it just in our country then we will become uncompetitive and our costs will go up. So, what we need is an alliance between civil society and responsible businesses, who would say this is what we need to do, in the context of a framework that is the same for all businesses. And the alliance needs to reassure the government that they would be supportive of such a framework. So, this needs everyone to put on a societal hat and look at how we can drive sustainability forward as a group.

When you talk about a company going into a new country, opening up a new venture, the essential thing is to listen; I think this way one can learn more rapidly about what's happening on the ground. That's one of the reasons why I think the United Nations Global Compact (UNGC), which I have a long-term association with, has an important role to play in facilitating this. One of the requirements of UNGC is the establishment of local network. For example, you have here in Bangladesh a local network. If you go somewhere new, join the local network of UNGC because there you have big national businesses, the affiliate of other international businesses, small businesses, big businesses, civil society and hopefully also the involvement of labour unions. Local networks have enormous potential as a learning opportunity for a new company.

> *Governments have to set the framework, but then corporations have to start modifying their normal processes to reduce their carbon impact. In many cases, this is a matter which can be a win-win because if you make the processes more energy efficient, you save money on energy and you also address the climate issue.*

You are the Vice Chairman of the United Nations Global Compact Board and Chairman of the Global Compact Foundation. Human rights and labour are some of its key focus areas. How do corporations like Anglo American plc deal with the issue of child labour, especially in the mining industry?

If you are talking about industrial mining, children are not involved in major copper mines. Where children become involved is in artisanal mining—small-scale community



Sir Mark Moody-Stuart PHOTO: **PRABIR DAS**

mining, and that often happens around the fringes of bigger mines that deal with precious metals and stones. The problem is that the governments have a problem with artisanal mining, because they say it is unlicensed, the artisanal miners don't pay tax, and they smuggle the resources abroad. This is often highly destructive for the environment and the working conditions for adults are also very dangerous. So, the attitude of some governments has simply been to say, we will remove these people, prevent them from doing it, chase them off. Now that can also lead to human rights abuses, because governments might resort to using force to drive these changes.

Another dimension to the problem is that artisanal mining is a means of livelihood for the people involved. The ideal solution would be to try and regularise it, build it into a cooperative. Encourage the use of proper equipment. You could have the product of these small mines taken into major facilities to properly process them, the people paid for it and then export the product to the buyers.

These artisanal workers and their working conditions need to be better. These people can be easily exploited by criminal gangs. Back in 1990s, when I was involved with Shell, and the question of child labour arose, my initial reaction was child labour is not a problem for us because we are a heavy industry and you don't see children working in oil fields. But then our Brazilian affiliate said, yes but we put ethanol into gasoline and that comes from sugarcane plantations, which has a big problem of child labour. Then you have to go in and address the problem at the sugarcane plantations. It's a challenge and it needs constructive collaboration to steadily improve the situation at all stages of the supply chain.

What role do big corporations like Shell have to play in the fight against climate change?

As I said, governments have to set the framework, but then corporations have to start modifying their normal processes to reduce their carbon impact. In many cases, this is a matter which can be a win-win because if you make the processes more energy efficient, you save money on energy and you also address the climate issue. So, there are many things you can do which actually have a cost benefit for the companies. And then you need to look at other methods of making sure that the energy that we use is cleaner. Then a business can say, can we acquire our energy from renewable energy sources, may be backed up by fossil fuel energy initially, but eventually we will opt for battery storage?

But on the surface of it, these initiatives increase cost per unit, which ultimately trickles down to the consumers.

In some cases, this is true. For example, it used to be true in renewable energy, but the cost of renewable energy is now no more than the cost of fossil fuel energy; so, it is already becoming more attractive to use renewable energy. But then you need to address the question of how you back up renewable energy, for when the sun doesn't shine, or the wind doesn't blow. So, cost is progressively less of a problem now. The bigger problem is intermittency and for that we have to look at storage. And then you have battery storage, and what goes in the battery—these metals which are mined very often in difficult countries with labour abuses, and we are back to where we started.

There is something I have been enthusiastic about for the last 20 years. There are processes that are difficult to electrify, such as heavy transport, shipping and aviation. If we could produce hydrogen which can be generated by electricity just from water, we will have a medium which could be used to fuel these processes. Also, it's a way of storing energy. The problem with that is the cost. There are two costs in producing hydrogen: making the electrolyser, and what catalyst you need in it—because you need metals like platinum in it, so people are looking to see if we can replace that.

The other is electricity cost, which in a way is the easy bit, because if you are converting an economy to one that is driven by renewable energy, often, particularly at times of strong winds and sun, you have surplus of energy, and then you have to shut down the system. This is called curtailment. Somebody mentioned to me that the power of curtailment in China is enough to supply the whole of the United Kingdom. And if that surplus renewable energy, which means essentially zero marginal cost, could be used to make hydrogen, that would be very exciting, because you would have a storage mechanism which would not be dependent just on batteries but on hydrogen.

To finish off on a different note, you have been supporting Asian University for Women (AUW) for a long time now. In Bangladesh, 46 percent of the total unemployed are university graduates. How does AUW address this challenge?

One of the things that I have been enormously impressed with is the creativity of our students. These are young women who are very creative and imaginative. These girls can drive future progress. Imagine a network of young women from so many different countries—I think this is what makes the university special. A degree should teach you how to think, challenge and have a perspective of the world and this is what AUW aspires to achieve. The energy of this university is what captured my attention. The fact that you are enabling these unusual humans who just happen to be women, and when they get into the corridors of power and the changes that they can bring to this world, is fascinating.

How can insurance play a role in tackling climate change?

POLITICS OF CLIMATE CHANGE

SALEEMUL HUQ

THE 15th annual global microinsurance conference was held last week in Bangladesh for the first time with the theme of "Coping with climate risk". It was inaugurated by the prime minister who felt that the insurance industry could play a key role in not only managing recovery from natural disasters, but also in tackling climate change in the future. The conference brought over a hundred international participants from around the world from the insurance and reinsurance sectors as well as disaster risk managers.

The insurance industry globally consists of many hundreds if not thousands of insurance companies who provide insurance to individuals (e.g. life insurance, health insurance, etc.), or households (e.g. fire and flood insurance, etc), or companies (e.g. fire, floods or other damages) and to governments as well. All these insurance companies then reinsure their policies with a relatively small number of very big global reinsurance companies. The business model for the insurance company is based on very sophisticated mathematical or actuarial models that give them probabilities of pay-outs against the premium they charge their customers. They are able to take on the risk on behalf of their clients by spreading the risk across the globe. Thus for example, if there are major floods requiring pay-outs in one part of the world, then they will still collect premiums from other parts of the world where there are no floods.

One of the predicted consequences of human induced climate change that scientists have been warning about for several decades is that major fires, floods and cyclones will become more frequent around the world and will thus put the reinsurance industry in great risk. This is one of the reasons why the global reinsurance companies have been at the forefront amongst the business community to accept the reality of human induced climate change.

One innovation in the insurance industry that has been developed with climate change in view is called Index Based Insurance (IBI) or parametric insurance. This is an innovative insurance scheme with a number of pilot schemes in the Caribbean, Africa and Asia, providing some initial interesting results. The difference between IBI and traditional insurance lies in the fact that whereas traditional insurance pays the client after the damage is done and assessed by the insurer, with IBI, the trigger for making payments is a previously agreed threshold of climate event, such as a cyclone reaching a certain speed or a flood above a certain level at a predetermined point. In such a case, once the threshold is reached, everyone who is insured gets paid immediately regardless of how much damage each individual incurs.

These IBI type pilot schemes are also being tested in Bangladesh and have had some interesting early results.

The real overlap between dealing with climate change and the role of insurance comes in tackling the issue of loss and damage, which is a very politically sensitive topic in the international negotiations under the United Nations Framework Convention on Climate Change (UNFCCC), where the issue is linked to liability and compensation. At the 19th Conference of Parties (COP19) of the UNFCCC held in Warsaw, Poland in 2013, countries agreed to set up the Warsaw International Mechanism (WIM) for Loss and Damage with a five-year workplan to look at the issue in more detail, including the possible role of innovative finance for loss and damage. The WIM had an Executive Committee who carried out the workplan and will be reporting the results at the upcoming COP25 to be held in Madrid, Spain next month in December.

At the upcoming COP25, one of the key agenda items will be the review of the WIM and its next steps. While the Executive Committee of the WIM has made good progress on the other items in their workplan, the progress on exploring innovative sources of funding has been confined to insurance by the developed countries.

While insurance and reinsurance companies can certainly play a role as described above and their climate risk modelling capacity can be of great use, the most vulnerable communities and countries simply cannot afford to pay the high cost of premiums that would be required in a world affected by climate change. In fact, many insurance companies are already withdrawing from fire and flood insurance in developed countries due to the enhanced frequency and intensity of such events in the last year or two.

Hence, Bangladesh along with the Least Developed Countries group as well as other vulnerable countries will be pushing very hard in COP25 for the WIM to be given a much stronger mandate to explore financing loss and damage beyond insurance. It will be a tough fight, but one we must not back down from.

Many houses and trees were damaged by cyclonic storm 'Bulbul' which lashed Bangladesh's coastal districts on November 10. PHOTO: **SUZIT KUMAR DAS/STAR**

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QUOTABLE *Quote*

ANNE FRANK (1929-1945)
Jewish girl whose diary of her family's two years in hiding during the German occupation of the Netherlands became a classic of war literature.

In the long run, the sharpest weapon of all is a kind and gentle spirit.

CROSSWORD BY THOMAS JOSEPH

ACROSS
1 Petty argument
5 Racket
9 Voice, in slang
11 Polite refusal
13 Push out
14 Usher's place
15 Trouble
16 Baby baldies
18 Finders, they say
20 Cinch
21 Burner setting
22 Proofing note
23 Try out
24 "Fifth Beatle" Sutcliffe
25 Tabloid fodder
27 Ship poles
29 Roadhouse
30 Snood
32 Attic use
34 Mine matter
35 Bat abodes
36 Cherishes
38 Bloodhound's clue
39 Used up
40 Hector's home
41 Low card

DOWN
1 Command to Spot
2 Sprites
3 Bakery buy
4 Kickoff aid
5 Sailing hazards
6 Spring part
7 Ratio of net sales to property
8 Berle nickname
10 Jacket part
12 Stopwatch button
17 " – we there yet?"
19 Fence part
22 Sirius or Polaris
24 Sales pitches
25 Harrow blades
26 Unbroken
27 Slump
28 Peaceful
30 Rash
31 Irritable
33 City on the Truckee
37 Be decisive

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YESTERDAY'S **ANSWERS**

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