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**BUSINESS, TRADE AND THE ENVIRONMENT**

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## **BUSINESS, TRADE AND THE ENVIRONMENT**

With reasonable surety one can expect that the material conditions of life will continue to get better for most people, in most countries, most of the time, indefinitely. Within a century or two, all nations and most of humanity will be at or above today's Western living standards.<sup>1</sup>

These are the opening words of the last chapter of *Hoodwinking the Nation*, the last book of Julian Simon, the scholar who, more than anyone else, demonstrated what was wrong about so many of the environmental beliefs of our time.

Simon was influential with policy makers but was largely ignored by the popular media and vilified by the environmental movement as a tool of Big Business. Yet the new book *The Skeptical Environmentalist* by Danish academic Bjorn Lomborg which has been getting worldwide reviews essentially argues that Simon was correct. Lomborg once held what he calls "left-wing Greenpeace views". His book may turn out to be the most influential report on the environment ever written. It is an unfortunate mark of New Zealand's insularity that, with few exceptions, New Zealand newspapers have not covered it. The Ministry for the Environment, which has become much more an advocacy body than an impartial adviser to governments, has shown no interest in bringing Lomborg to New Zealand.

In this talk I want to make four main points.

### **1 The prophets of doom have a dismal record**

This is the main conclusion of Simon and Lomborg. The crisis virus goes back centuries. The shortage of wood in seventeenth century England was expected to cripple the navy and make home heating unaffordable. The Reverend Thomas Malthus warned that population growth made starvation inevitable and imminent. The economist Stanley Jevons predicted in 1865 that Britain was about to run out of coal, and in 1914 the US Bureau of Mines predicted that American oil reserves would last only 10 years.

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<sup>1</sup> Julian Simon, *Hoodwinking the Nation*, Transactions Publishers, New Brunswick, 1999, p 123.

In the modern era, starting with the notorious Club of Rome report of 1972, there have been four big environmental fears:

- Natural resources are running out.
- The population is ever growing, leaving less and less to eat.
- Species are becoming extinct in vast numbers; forests are disappearing and fish stocks are collapsing.
- The planet's air and water are becoming more and more polluted.

As Simon, Lomborg and many others have demonstrated, the evidence does not back up this simplistic litany. Energy and other natural resources are becoming more abundant; population is already trending downwards in the developed world; world food output is greater than ever; the risk of species loss has been grossly exaggerated; and most forms of pollution have diminished in the advanced countries and typically reduce as countries grow richer – beyond a per capita income threshold that appears to be around US\$5000.<sup>2</sup>

This is not to argue that there have been no genuine environmental scares or that none are in prospect in the coming century. We cannot possibly know what they will be – nuclear energy and cloning were unheard of a hundred years ago. But there are systematic reasons for the generally improving trends, and scientific knowledge continues to advance apace. As *The Economist* argued in a 1997 article:

... predictions of ecological doom, including recent ones, have such a terrible track record that people should take them with pinches of salt instead of lapping them up with relish.<sup>3</sup>

Even worse, they distract attention from real environmental and economic issues.

## **2 Economic growth and environmental improvement typically go hand in hand**

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<sup>2</sup> Air pollution in London peaked around 1890. Today London's air is cleaner than it has been since 1585. The number of 'bad air days' in major US cities dropped by two-thirds between 1988 and 1997. Even in Mexico City the air is now cleaner than in Los Angeles 30 years ago. In New York City in 1900 horses deposited 2.5 million pounds of manure and 60,000 gallons of urine every day. Every year the authorities had to remove an average of 15,000 dead horses from the streets.

<sup>3</sup> *The Economist*, December 20, 1997, p 19.

It is extraordinary that so many Greens remain anti-growth. Poverty is the greatest barrier to environmental improvement. Truly poor people cannot afford 'luxuries' like clean air and water; to survive they must exploit any available source of food and energy. Forcing environmental (and labour) standards down people's throats does nothing to elevate them out of poverty.

Market-oriented economic growth is the best friend of the environment. Richer countries adopt cleaner technologies, build better infrastructure and can afford the trade-offs between development and the environment where they occur. By contrast, centrally planned economic systems are environmental disasters: they entrench poverty and are callous about environmental degradation. Authoritarian governments can afford to turn a blind eye to pollution in a way that democracies sooner or later cannot.

Well-functioning markets economise on resources that become scarcer: prices rise, encouraging both conservation and the search for substitutes. Competition also spurs continuous discovery and innovation. Since 1977, the gross domestic product of the United States has doubled and its population has grown by some 55 million people yet the amount of physical material needed to supply the annual wants and needs of Americans has fallen from 1.18 trillion pounds to 1.08 trillion pounds.<sup>4</sup> People create resources that replace less valuable ones: the Stone Age didn't end because humanity ran out of stones. Lomborg is confident that cheapening solar power will make fossil fuels and their emissions redundant long before they run out or cause damaging global warming. Environmentalists can't be worried about both global warming and the depletion of fossil fuels: something has to give.

In many countries, including New Zealand, governments are still not exploiting approaches that are win-win from both an economic and an environmental viewpoint. The use of roads is often underpriced, adding to congestion. Markets for common property resources such as water are not created, leading to wasteful use. Efficiency and innovation are sacrificed by keeping industries in government control. Central planning approaches are applied to the management of conservation estates and biodiversity with predictable results. Regulation is needed to deal with some environmental problems, but far more scope exists to

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<sup>4</sup> Ronald Bailey, 'Dematerializing the Economy', *Reason Magazine*, <http://www.reason.com/rb/rb090501.html>

harness the power of private property rights, markets, prices and the rule of law for both economic and environmental gains.

### **3 Trade and environmental agreements should be kept apart**

Openness to trade and investment promotes development and higher incomes, which enable developing countries to make environmental gains. Trade liberalisation seeks to reduce subsidies which are often the worst cause of environmental degradation.

Nations with low environmental standards tend to attract far less foreign direct investment than those with high standards.<sup>5</sup> Globalisation encourages a race, not to the bottom, but toward the top. The World Bank recently concluded after six years of study that so-called 'pollution havens' – developing countries that provide a permanent home for dirty industries – have failed to materialise. Anti-globalisation environmentalists are once again on the wrong side of the argument: the evidence shows that free trade is good for the environment.

Environmental problems are predominantly local – not even national – in nature. Few call for multilateral action. Multilateral environmental agreements (MEAs) have a place for problems of a global nature such as cross-border pollution, ozone-damaging fluorocarbons and international trade in endangered species (although the focus of CITES on trade is too narrow). Some of them, however, have been poorly conceived, for example the Basel convention on hazardous wastes, and others have made insufficient use of market mechanisms. Moreover, there is no case for industrialised countries seeking to impose their own environmental standards on poorer countries through MEAs or trade agreements. Such action would be a violation of sovereignty: their own governments are best placed to determine the trade-offs appropriate for their economies' level of development.

MEAs typically contain their own monitoring and enforcement standards. This is as it should be. Contrary to the position of the European Union in the lead-up to the World Trade Organisation meeting in Doha, there is no need for 'clarification' of the relationship between WTO and MEA rules to be a matter for negotiation. This is a 'make believe' problem. Still less is there a case for trade sanctions for breaches – these would be a poison pill for a new WTO round.

Equally the EU's attachment to the so-called 'precautionary principle' is misplaced. This 'principle' adds nothing to well-established risk analysis techniques. Practically everything societies use – food, water, fire, electricity, cars – poses some risk of harm to humans or the environment. The precautionary principle adds nothing to the standard case for basing public and private decisions on valid scientific evidence. It ignores the very real dangers to humans and the environment of blocking technological advances such as genetic modification.

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<sup>5</sup> See Daniel Griswold, 'Trade, Labor and the Environment: How Blue and Green Sanctions Threaten Higher Standards', Cato Institute, August 2001.

Developing countries are right to be suspicious that the motivations for WTO initiatives of this type are not the new concern for higher standards but the old desire for protectionism. As Victoria Curzon Price, an eminent trade authority, has put it in arguing against including social and environmental clauses in the WTO framework:

The law as it stands is consistent and needs, as far as I can see, no major modification. To the extent that public opinion in the rich, developed world keeps up the pressure 'to do something', this should be channelled into voluntary labelling of products, private boycotts and shareholder activism by the socially conscious. All the WTO needs to do is to continue the constant battle for more open markets.<sup>6</sup>

#### **4 Business should 'do the right thing'**

No business person I know disputes that businesses have social responsibilities, which include responsibilities for the environment. Corporations have been affirming such responsibilities in their mission statements for years. Businesses and business organisations that have defended the institutions of the market economy and the case for rigorous scientific evaluation of environmental issues have been on the right side of the environmental debates of the past 30 years. They have no need to cede the moral high ground to their critics.

To the contrary, the danger for business and for society at large is to stay silent in the face of bogus environmentalism and seek to appease critics by engaging in false notions of corporate responsibility. Patrick Moore, the former head of Greenpeace who has since dissociated himself from it, has rightly said that most of the major environmental battles are now won in the developed world and that many environmental movements are looking for funding by drumming up imaginary problems. Australian Bureau of Statistics surveys have found that Australians are becoming less worried about the environment, not more. If Bjorn Lomborg can say that "Global warming is not anywhere near the most important problem facing the world", business people should surely have the courage to do likewise. It makes no sense for New Zealand to ratify the Kyoto Protocol in advance of action by our main trading partners and other major emitters, and in the absence of sound

analysis showing that it would be in New Zealand's interests to do so. Arguments advanced to date by the government, such as the proposition that New Zealand could avoid the economic costs of higher energy prices by devaluing, are simply incorrect.

Businesses can certainly work with non-governmental organisations in pursuing environmental goals, but in a discriminating way. Greenpeace has done some good work but it is also notorious for peddling lies and false statistics – Patrick Moore has written that "Greenpeace policy on genetics lacks any respect for logic or science".<sup>7</sup> Greenpeace has also engaged in misguided campaigns such as its successful attempt to force Shell to dispose of its Brent Spar oil platform on land rather than at sea, an outcome that brought both higher economic costs and greater environmental damage. Such campaigns should be resisted not appeased: the World Business Council for Sustainable Development did world business a disservice by not speaking out over the Brent Spar episode.

A new concept of Corporate Social Responsibility (CSR) has been promoted in some quarters, partly in responses to hostile critics of corporations but with support from sections of the international business community as well as outside commentators. It holds that businesses should embrace 'corporate citizenship'. They should run their affairs, in conjunction with a range of 'stakeholders', so as to pursue 'sustainable development'. Meeting 'society's expectations' in this way is said to hold the key to public support for businesses and to long-term profitability.

Former OECD official David Henderson has criticised this development in his book *Misguided Virtue: False Notions of Corporate Social Responsibility*.<sup>8</sup> He points out that concepts such as 'sustainable development' are neither well defined nor agreed; that CSR accepts a false view of the market economy and globalisation; and that making profits in a competitive market means doing the right thing by 'society', not just (as is often thought) benefiting shareholders to the exclusion of other 'stakeholders'. Profits are the difference between a firm's revenues (the value people place on what it produces) and the costs of meeting their needs. Hence

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<sup>6</sup> Victoria Curzon Price, 'Right and Wrong Ways of Addressing Labour Standards and Environmental Concerns', in *Reason Versus Emotion: Requirements for a Successful WTO Round*, [www.rirdc.gov.au/pub/cat/contents.html](http://www.rirdc.gov.au/pub/cat/contents.html)

<sup>7</sup> See [www.greenspirit.com](http://www.greenspirit.com)<<http://www.greenspirit.com>>, 15 October 2001.

profits are the prima facie measure of the good that a business is doing for people in general.

Former *Australian Financial Review* editor Alan Kohler has also cautioned against the triple bottom line thesis which "has become an excellent tool for expanding the size of corporate PR departments across Australia". Lomborg's book, Kohler writes:

... should sound an alarm for those companies rushing towards uncritical acceptance of triple bottom line reporting. All businesses should obviously minimise the mess (pollution) they make, but that does not mean accepting all the nonsense talked by environmentalists, which simply burdens the world with unnecessary costs.<sup>9</sup>

Journalists should be far more sceptical about claims of corporate virtue. Enron is just the latest 'triple bottom line' company that has come to grief. An internal memo reveals that it lobbied self-servingly for the Kyoto global warming treaty on the grounds that it would "do more to promote Enron's business than almost any other regulatory initiative". Fletcher Challenge was a company that climbed on the sustainable development bandwagon but gave far too little attention to its first bottom line – the duty to create, not destroy, shareholder value. The triple bottom line concept lacks a meaningful foundation. Companies should have other bottom lines beyond profit but they don't stop at three – they should have an ethical bottom line, for example. It seems Enron had several bottom lines missing.

To sum up: to be on the side of business, the market economy and economic development is not to be against people and the environment. Both the wealth created by business and environmental amenities are part of the quality of life. Environmental claims need to be rigorously assessed: too often in the past they have turned out to be unfounded. Science should not be displaced by superstition. Economic and environmental progress go together – richer is typically cleaner – and market-oriented approaches promote both. Policy responses to environmental problems are best assessed using the conventional tools of public policy analysis, particularly the concepts of property rights, transactions costs, public goods and externalities, which are the subject of a large and rigorous literature. The concept

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<sup>8</sup> David Henderson, *Misguided Virtue: False Notions of Corporate Social Responsibility*, New Zealand Business Roundtable, Wellington, 2001.

<sup>9</sup> Alan Kohler, 'Environmental costs scrutinised', *Australian Financial Review*, 14 August 2001.

of sustainable development seems more a slogan than a useful policy construct.<sup>10</sup> Where there are genuinely global environmental problems, these should be dealt with through sound multilateral environmental agreements – they should not get tangled up with trade negotiations.

Finally, the business world needs to examine closely its contribution to public debate on these issues. Businesses and business organisations should stand up for the truth as they see it, and not yield to threats or hostile actions on the part of anti-business activists or opponents of the market economy. Every failure in this respect by individual corporations makes it harder for the rest. Appeasement of radical critics, or even endorsement of their views and aims, might look like prudent conduct and good public relations. But it is not responsible behaviour, and it goes against the true interests of both businesses and society as a whole.

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<sup>10</sup> See Jerry Taylor, 'Sustainable Development: Common Sense or Nonsense on Stilts?', *The Freeman*, September 1998.