

North/South business relations and Sustainable Consumption and Production: *A driving force for sustainable development?*



- Can business relations be an effective driver for sustainable development?
- Why are companies implementing Sustainable Consumption and production (SCP) considerations in business relations?
- What challenges do they meet?
- Who should do what to get more companies involved?

This is a report, with recommendations, on how North/South business relations can promote more sustainable production and consumption patterns. The report is based on the Nordic Roundtable in Oslo 9 to 10 March 2005, where Nordic companies that are pioneering SCP in their North/South business relations met with government experts, researchers and NGOs.

Why focus on North/South business relations and SCP?

Sustainable Consumption and Production (SCP) is about what products we want, which we buy, how we use them, what they are made of and how, and what happens to them when we do not need them. This is the world of business. Business means economic growth, employment, income, capacity development, technology transfer. But business can also mean environmental load, resource depletion, pollution, exploitation and occupational diseases. How much emphasis is placed on maximising the pros and minimising the cons is decided to a large extent by the business actors, based on their perception of the framework conditions and their own competence and values.

We cannot quantify how much business relations can contribute to sustainable development, but we do know that foreign direct investment is many times greater than global Official Development Assistance (ODA). Although much technology is in the public domain, private companies control many key technologies and skills. We know that consumer behaviour is strongly influenced by marketing budgets that are many times bigger than government information budgets. We know that the gap between the "best" and the "worst" production is often huge. There is every reason to believe that business relations can play a major role in sustainable development. The challenge is to make it happen.

Globalisation is giving multinational companies and business networks an increasingly larger share of the world economy. Business networks link companies and business units across the globe. These links are primarily established to move goods, but they also carry money, investments, technology, knowledge, skills, values, etc. The largest increase in trade is between what we refer to as the "North" (developed economies) and the "South" (emerging economies). This is also the case for the Nordic Countries¹⁾.

North/South business relations do therefore play an important role in promoting SCP and sustainable development.

This report

At the Oslo Roundtable, a number of pioneering Nordic companies presented examples of SCP activities in North/South business relations, results achieved, barriers met and ideas as to what should be done. The roundtable then discussed challenges and possible actions.

This report summarises the roundtable's answers to the following questions:

- What challenges were encountered? (pages 3 to 5)
- Who should do what to ensure that sustainability issues are incorporated into North/South business relations with optimal effect? (pages 6 and 7)

The points summarised here were the result of discussions as a whole and should not be attributed to any of the cases in particular.

The intention is that the recommendations of this report will be followed up in the relevant international processes: the 13th meeting of the United Nations Commission on Sustainable Development, the 2nd International Meeting of the Marrakech Process in Costa Rica, the European Commission follow-up of the European Stakeholder Meeting on SCP in Ostend, Belgium, in November 2004 and the Nordic Council of Ministers' implementation of the new strategy for sustainable development that includes a new chapter (chapter 2) on Sustainable Consumption and Production.

The report also proposes action to be taken by other actors, especially companies.

The report reflects a rather strong "North influencing South" perspective. This is due to the focus of the roundtable on Nordic business initiatives relating to SCP and the fact that mostly Nordic companies were invited to give presentations from their perspective. However, the roundtable tried to strike a balance and strove to view the opposite perspective as well – especially when considering the impact of rapidly growing major South economies on sustainability issues.

1) For example, Norway's import from Asia and Africa increased by respectively 23% and 26% from 2003 to 2004, as opposed to 15% for Norwegian import generally, which was nearly twice the increase in GNP.

Buying from the South/Supply Chain Management

The share of trade, especially North/South, in the economy is increasing fast. At the same time, companies are becoming increasingly sensitive to the importance of profile and reputational risks related to potential environmental and social problems in the supply chain.

Many companies are therefore implementing quality assurance systems for their supply chains that also cover environmental and social aspects.

Pioneers that presented cases:

Danisco

is one of the world's largest producers of food ingredients. They are committed to understanding what sustainability means for their business, building it into every component of their value chain, and involving everyone in the organisation in order to create long-term value on an economically, socially and environmentally sustainable basis.

More info: www.danisco.com/sustainability

Varner Group

is one of Norway's leading clothing retailers. Their largest import markets are China and Turkey. They have specified a code of conduct that suppliers have to agree on and implemented a self-evaluation scheme, which is backed up with monitoring and corrective action plans.

Star Tour / TUI Nordic

is one of the largest tourist agencies in the Nordic countries: ca. 1 million tourists annually. Their supply chain approach is based on a) certified environmental management systems for hotels, b) collaboration and education and c) branding their own resorts where they apply their standards.

More info: <http://corporate.startour.no/templates/Page.asp?id=2124>

Experiences & challenges identified by the roundtable:

- A lack of accepted standards for sustainable procurement is leading to duplication of activities by procurement officers and conflicting requirements to suppliers.
- Communicating and implementing procurement requirements is often made difficult by supply chains that are long and complex as a) information is lost in the chain and b) suppliers at the start of the chain can be small, informal and uneducated (e.g. for textiles).
- Simply setting standards is not enough:
 - Monitoring is also necessary. This can be a challenge, especially for small and medium-sized enterprise (SMEs).
 - Supplier development may be required. Such development can often give positive spin-offs in the form of improved quality and working conditions and cost reductions, but may require close cooperation and development of competence/skills as well as capital for investments.
- The potential for cooperation and synergy between companies from different branches buying different products in the same geographical area is not being realised (e.g. between food producers and tourist destinations).
- Implementing SCP in the supply chain can lead to increased lead times unless procurement procedures are adapted accordingly.
- Lack of internal coordination within the company, e.g. between purchase and marketing, can lead to ineffective implementation of SCP measures and reduce commercial benefits.

Investing in production in the South

Foreign Direct Investment (FDI) in the South is already 4 - 5 times greater than equivalent ODA. FDI gives spin-off effects in the form of technology transfer, education and market development. Sustainable investment is a component in SCP.

Pioneers that presented cases:

Renewable Energy Corporation (REC) covers the whole value chain of solar energy - from the manufacturing of solar grade polysilicon feedstock to the marketing of photovoltaic systems to the consumer. Their mission is to increase the global use of clean and renewable energy. REC has invested in production facilities for renewable energy in, i.a., Africa. REC underlined the need for predictable and fair framework conditions to attract investors.

More info: www.rec-pv.com

ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. ABB employs around 102,000 people in ca. 100 countries. ABB underlined the central role that electricity plays in education and health services and, especially, job creation and the important role that good business partnerships play in implementing the necessary infrastructure for SCP.

More info: www.abb.com/sustainability

Basecamp Explorer develops responsible tourism/eco-tourism in parts of the world where the basis for the preservation, as well as the possibility to experience the most exciting local culture and nature, exists. They invest in the development of hospitality and tourism management skills, creating value in the local society which others can reap.

More info: www.basecampexplorer.com/en

Experiences & challenges identified by the roundtable:

- Lack of an effective regulatory framework and of monitoring institutions leads to regulations not being enforced fairly and evenly. Corruption and unpredictable framework conditions make planning difficult and increase risk, thereby reducing willingness to invest. Government can be an unpredictable commercial partner and a difficult legal opponent in case of litigation.
- Lack of infrastructure enabling sustainable behaviour (e.g. waste handling for sorted waste, energy from renewable sources).
- SMEs can be key players when developing new production, but these have met bureaucratic, slow and unpredictable processes when trying to collaborate with development agencies and governments. Scaling up of innovative, good practice is limited by available competent manpower.
- Dialogue between development agencies and companies willing to invest in export oriented production is perceived as weak. Relevant topics should include business needs for regulatory development and related institutional development, infrastructure development and capacity building/education.
- Expertise and experience from pioneering companies is not always being utilised when implementing donor-lead training programmes.
- Business investment in "soft" capacity building (e.g. competent staff or plans for building new factories) can leak to and be reaped by competitors (public and private). This investment risk could be mitigated by funded training, but "hardware" projects (e.g. buildings, machines, roads) often get higher priority than "soft" (e.g. commercial training).
- Some countries/regions have a weak quality profile/image, irrespective of the factual quality of the product. This hinders investment in these countries.
- Financial markets may view the South as high risk leading to high cost of capital and short term (non-sustainable) decision making.

Developing markets in the South

Historically, consumption and markets have been developed in the developed countries. But now, some markets in the South are expanding extremely fast, providing both opportunities for, and challenges to, sustainable development.

Pioneers that presented cases:

Telenor/GrameenPhone: Apart from serving the cities of Bangladesh, GrameenPhone's business and licence terms is based on the idea of Village Phones - providing communications infrastructure on a village basis:

- Typically, a woman buys a handset and subscription with a loan (micro credit, normally provided for other small business initiatives).
- She gets trained on how to operate it and how to charge the users for it.
- As a result she gets a job AND telecommunications is provided in rural areas, i.a. leading to better information on market prices, less need to travel, and a weakening of the position of middle men!
- The Grameen Bank network is used for loans and billing.
- Micro credits are based on women network groups.

More info: www.telenor.com/csr/commitment/cooperation/village/

ITT Flygt is the world leader in submersible pumps and mixers with 10% of their market in the South. Their strategy is to reduce life cycle costs through high energy efficiency giving low running costs. The challenge is persuading the customer to balance higher purchasing costs against lower life cycle costs, as budgeting structures, internal rates of return and planning horizons might work against such holistic decision making.

More info: www.flygt.com

Experience and challenges identified by the roundtable:

- A significant population in the South (mainly urban) is acquiring consumer patterns that are similar to those in the North. Where North-like consumer communities have developed in the South, their behaviour seems to resemble that in the North, so many of the consumption challenges below apply equally to the North and South.
- Consumer awareness of the effects of the choice they make is in general low. This applies to environmental effects, social effects and even longer term economic effects (e.g. life cycle costs – LCC). It may be most effective to let retailers handle these decisions on behalf of the consumers.
- The tools/information necessary to make sustainable choices are either not available at the point of sale or are not noticed due to the information noise from advertising, etc.
- Marketing messages targeted at the consumer's conscience (e.g. "green" and "eco-friendly") alone do not work but can be used as supplements to e.g. quality aspects of a product. Don't preach – give good sales arguments.
- Many consumer markets are still distorted by unsustainable subsidies and lack of internalisation of environmental and social costs (e.g. inappropriate taxation and perverse subsidies). Policy makers need more awareness of the relative effectiveness of demand and supply side measures and investment in demand side management (e.g. water and energy).
- High interest rates, in particular in the South, discount future costs favouring short term decision making, low investments and higher running costs.

Recommendations on promoting SCP in North/South business relations

The United Nations and development agencies should

- Recognise the key role that business and business relations can play in sustainable development in general and sustainable consumption and production in particular by stimulating transfer of skills and knowledge, market development and investment in the South.
- Increase awareness in the development community of the opportunities that SCP provides for contributing to the Millennium Development Goals, in particular 1 (Eradicate extreme poverty and hunger), 7 (Ensure environmental sustainability) and 8 (Develop a global partnership for development.)
- Encourage fair and predictable market conditions that reflect environmental and social issues by:
 - Defining and promoting long term environmental and social standards
 - Implementing measures to avoid corruption and ensure stable government, transparent regulations and predictable application of these.
 - Promoting trade-related and other measures to ensure that environmental and social costs are reflected in market prices.
- Use the Marrakech process to establish country-lead task forces to target specific SCP challenges (e.g. energy efficiency/renewable energy) at the global level.
- Build up SCP skills in developing countries so as to enhance market access, e.g. by increasing knowledge about environmental product and management certification systems. This should build on existing mechanisms (e.g. Cleaner Production Centres).
- Use the experience and skills of companies that have pioneered SCP activities in the field when
 - Planning development activities so as to ensure that these contribute to market conditions that maximise business motivation for engaging in SCP investment and business development.
 - Implementing training activities so as to ensure that the skills and knowledge acquired in the field by the pioneer companies are reused effectively.
- Re-examine the distribution of financing between development aid, risk guarantees and loans and the role aid might play in reducing high risk premiums that deter investment in many emerging markets.
- Utilise the innovative capacity and field competence of SMEs by developing funding mechanisms geared to their requirements for quick response and little bureaucracy.
- Address the quality profiling challenge that is limiting investment in production facilities in some countries and regions and promote compensatory measures (e.g. quality labels, training, etc).

National governments should

Have the prime responsibility for framework conditions, implementing the list above and, specifically:

- Internalise environmental and social costs as much as possible by adjusting taxes and subsidies (“Green taxation”). Define goals and plans for the adjustment process so that changes will be predictable.
- Define, implement and monitor environmental and social standards.
- Establish SCP-oriented forums where existing and potential business developers can meet with authorities and development agencies to draft and plan :
 - Capacity building measures for SCP skills. E.g. corporate social responsibility (CSR), sustainable procurement criteria, sustainable supply chain management and labelling.
 - Infrastructure development.
 - Implementation, enforcement and monitoring of relevant legislation.
- Establish financial mechanisms in collaboration with international development agencies for simple, predictable and fair funding of development projects where the risk for the investor and the benefit for the community as a whole are both high.
- Implement and monitor Green/Sustainable Procurement programs so as to stimulate sustainable suppliers. Governments should lead the way in Sustainable Procurement.

Companies and business associations should

- Ensure that anti-corruption rules and environmental and social standards are integrated in company policy and in management and reporting structures. Coordinate SCP activities throughout the company to optimise commercial impacts. Develop sustainability indicators, timetables, benchmarks etc. and report on these (using the Global Reporting Initiative standards).
- Ensure that all business and management education includes basic coverage of sustainable management, including environmental and social aspects.
- Investigate selling product-service systems (PSS) matched with consumer demand and not just physical objects (e.g. Grameen Village Phone Service).
- Make sustainable goods and services attractive to consumers and encourage an understanding for SCP that couples quality with sustainability.
- Develop a sustainable supply chain management strategy and support/assist the suppliers in implementing it.
- Cooperate with
 - A. Companies in the supply chain to establish and monitor minimum training levels.
 - B. Companies using the same supply chain to standardise sustainability criteria. Standardisation of information exchange can take the form of labels or certified product declarations. The final choice should balance the need for efficiency without reducing the opportunity for innovation.
 - C. Complementary companies operating in the same geographical area to find product and organisational synergies in the South, e.g. by pairing sustainable tourism products with sustainable coffee production or telecommunications with banking. This can be particular relevant when a big company helps a small actor into new markets.
 - D. Local government/authorities/development agencies in developing and implementing appropriate capacity building measures, infrastructure and market and legislative frameworks.
 - E. The infrastructure/support mechanisms implemented by donors and UN development collaboration agencies in developing countries in planning and implementing capacity development programs.
- Couple local investments with the general business plan including company profile.

The Nordic Countries / Council of Ministers should

- Use the opportunities that the Nordic countries and companies have to influence international processes, like the UN Commission on Sustainable Development, the Marrakech Process and the EU.
- Encourage and support the development and implementation of effective standards for sustainable procurement and supply chain management.
- Encourage cooperation between Nordic companies and mobilise development aid support to find and exploit opportunities for sustainable collaboration between business sectors in the South.
- Continue to stimulate awareness and debate about SCP in a North/South perspective and support forums where this can take place with participants from business, government, the development agencies and other relevant actors.
- Promote mechanisms to ease financing of SCP initiatives in developing countries.

NGOs and consumer organisations should

- Partner with relevant companies and media/TV to promote SCP-awareness, especially with respect to the Millennium Goals, and changed patterns of production and consumption.
- Raise awareness of the consumption challenges in the North and in the consumer segment of society in the South and the relations between these.
- Focus particularly on nutritional patterns to ease the heavy environmental load on water supplies (e.g. by reducing the meat proportion of the diet).

The Nordic Roundtable on North/South business relations and SCP, Oslo 9-10 March 2005

The roundtable was organised by the Nordic Ad-Hoc Group on Sustainable Consumption and Production (SCP) in collaboration with GRIP, the Norwegian Foundation for SCP, with support from the Nordic Partnership, as part of a project funded by the Nordic Council of Ministers.

50 experts from business, government, research communities and NGOs met to analyse SCP experiences from pioneer companies with the aim to formulate recommendations on how North/South business relations can promote more sustainable consumption and production patterns.

The recommendations are being considered by the Nordic governments as input to relevant international sustainable development processes, particularly in the United Nations, the European Union and the Nordic countries.

The Nordic Ad-Hoc Group on SCP

The group was established by the Nordic Council of Ministers to strengthen the work on SCP. The ad-hoc group comprises representatives from the Nordic countries and is currently chaired by Sweden.

GRIP, the Norwegian Foundation for SCP (www.grip.no/eng)

GRIP was established in 1995 by the Norwegian Minister of the Environment to develop, test and distribute methods that public and private enterprises can use to be more eco-effective. GRIP has prioritised areas that lie outside the regulatory framework, like procurement, tourism, environmental management, eco-design, retailers, etc. The management board represents business, trade unions, local authorities, NGOs and the research community.

The Nordic Partnership (www.nordicpartnership.org)

The Nordic Partnership is a member-driven NGO-business network that works to make progress towards global sustainable development. It was initiated prior to the Johannesburg Summit to provide Nordic input on sustainable business models and how to make sustainability a rewarding business. It has focussed on investments, supply chain management, the partnership agenda, and the Nordic governments' follow-up to Johannesburg, including the SCP commitment.

Links – about the Oslo Roundtable and related processes:

The Nordic Roundtable:

- GRIP: www.grip.no/osloroundtable2005
- IISD coverage: www.iisd.ca/sd/nordic/SDWCP/

The Nordic Strategy for Sustainable Development (revised: 2005-2008):

- Nordic Council of Ministers: www.norden.org/pub/ovrigt/baeredygtig/uk/ANP2004782.asp

The Nordic SCP report to UN/CSD12 (3,5 Mb): www.grip.no/scp/2004-04-21%20nmr-300dpi.pdf

The Marrakech process

- UN/DESA: www.un.org/esa/sustdev/sdissues/consumption/Marrakech/conprod10Y.htm
- UNEP: www.uneptie.org/pc/sustain/10year/home.htm

European Union SCP activities:

- EU: europa.eu.int/comm/environment/wssd/scp_en.htm

This report has been prepared by GRIP on the basis of the Oslo Roundtable as part of an SCP project initiated and funded by the Nordic Council of Ministers and lead by the Swedish Ministry of Sustainable Development.



norden

Nordic Council of Ministers