

# ***What you don't know can hurt you***

## ***Address to LGA Conference, 2008 by Simon Upton***

- **Slide 1 Downer Cow video**
- **Click off**
- You will all be familiar with the food miles brouhaha of a year or so back. It has all subsided hasn't it? In fact, it all turned out to be a myth didn't it? Those clever people down at Lincoln University disproved it – didn't they?
- Well a quick scramble managed to show that there was more carbon embedded in British dairy products than our own. Distance proved to be a poor proxy for contribution to climate change. Some follow-up work including all greenhouse gases narrowed the gap a bit but we were still on the right side of the ledger. Our dairy products appear to be able to withstand any campaign by their competitors based on who's the worst contributor to climate change.
- It is worth pointing out, however, that there are some big error margins around the numbers. For instance, New Zealand's reported emissions of around 1 million tonnes of methane per year could be as low as half a million tonnes and as high as one and a half million tonnes. This is a huge potential variation!
- We can – and almost certainly will – go on refining the numbers. But people are interested in more than climate change. The whole life cycle environmental impact of products is what interests them. Here our information base is even more fragile.
- I am aware of a single paper that compares the NZ and European dairy industries against three parameters: global warming potential, acidification potential and eutrophication potential. Again, NZ came out better than most European systems mainly as a result of reliance on permanent grass feeding, but about the same as the Swedish organic dairy industry.
- But even here there are significant caveats: there is no definitive approach to life cycle analysis, there are significant uncertainties.
- Perhaps more important than the precise numbers is the trend. Are we moving in the direction of a lighter or a heavier footprint? I don't know. But I do know there have been significant productivity improvements,

heavier stocking rates and big increases in the application of urea in parts of NZ.

- What's our answer to that nationally? I hope we are getting one together because the concern about carbon footprints is just the beginning. Science is increasingly throwing the spotlight on the impact consumption has not just locally but globally. People are increasingly worried that we may be undermining the integrity of the biosphere to the extent that the survival of our civilisation may be at risk.
- The science is filled with uncertainties. Research over the last 25 years has made us realise how much we don't know about the biogeochemical cycles that drive the planet. We are gaining an increasingly detailed understanding of the nature of our intervention in the carbon cycle through the work of the IPCC. But there are other cycles – for example, the nitrogen cycle. Whereas human interference in the carbon cycle is at around 3% of the natural flux, our interference in the nitrogen cycle is around the 100% mark. Then there's biodiversity – how much do we need?
- Governments are searching around for ways to align our environmental impacts with the 'carrying capacity' or absorptive capacity of the environment. And people are coming up with tools. One particularly accessible one is the Ecological Footprint with which some of you will be familiar. For those who aren't, here a quick resume.

### **Slides 2-9 Ecological Footprint**

- **Click off**
- The Ecological Footprint is almost certainly wrong. But that's not the point. It is a work in progress that encapsulates an idea that is intuitively appealing. And it is being taken increasingly seriously by governments – Finland, one of the Gulf States and South Australia have adopted it. The European Commission has just conducted a detailed evaluation of it. And the European Parliament has passed a resolution calling for more information on labels about the carbon footprint of consumer products.
- The important message here is that we are living in a world where what you don't know *can* increasingly hurt you. That applies as much to businesses as it does to countries. But businesses can move much more decisively and swiftly than governments and regulators. So it's not surprising that leading companies aren't waiting. They're moving to anticipate the market – and potentially pre-empt regulators.
- With goods being drawn from long, complex global supply chains – there is increasing concern about how consumers can be reassured about where their products came from – about the 'back story'.

### **Slide 10 The chocolate wrapper 'back story'**

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- The problem is that not everyone has the time to read labels (especially when they're on the *inside* of the wrapper! Many people feel disempowered. A survey by Consumers International revealed, with respect to climate change, that while an overwhelming majority of those surveyed were concerned about the problem, only a small percentage felt able to do anything about it.
- Their clear preference was for businesses and governments to do something – which in practice meant governments making businesses doing things. 50% of respondents wanted governments to force the phase out of products that contributed to global warming. More than 60% wanted mandatory labelling to reveal information about the global warming impact of products.
- You'll be aware of the rising tide of green claims. After a hectic day of doing the rounds of the London carbon market recently, I felt rather smug about the prospect of dining quietly on board Eurostar on the way back to Paris as opposed to fighting my way to Heathrow for the usual round of indignities at the hands of security checks. To be then handed a menu extolling the virtues of a carbon neutral experience seemed to be the icing on the cake.
- *Tread Lightly* is the slogan Eurostar has chosen to brand its travel experience. Since November 14<sup>th</sup> last year, travellers are told that “all our journeys are now carbon-neutral at no extra cost to our travellers.” And as if that wasn't virtue enough, the card went on to explain that the caterers were working hard to make sure their menus had as little impact on the planet as possible.
- In practice that meant ensuring that cold starters and main courses were sourced locally in the UK from organic producers. To cap it off, tea and coffee (hard to grow in the Midlands) came morally certified from developing countries under the *Fairtrade* mark. In short, travelling to Paris was an eco-friendly indulgence.
- They didn't make a crude pitch for the food miles argument. Rather, the claim was made that local products equated with quality:
- Text of pamphlet:

“Enjoy more of London with Eurostar's new faster carbon-neutral journeys from Paris and Brussels.

“You could indulge in eco-gastronomy at Acorn House which focuses on seasonal food and locally-sourced ingredients. This means that everything, from the basil in your salad to the strawberries in your truly

British pud, has been left to reach its peak of ripeness or maturity. All waste food and packaging is recycled, so your leftover salad becomes the compost which grows tomorrow's tomatoes. It's a tasty example of the healthy state of British cuisine."

- You will be amused to learn that the last sentence doesn't appear in the French version of the text. No self-respecting Frenchman can believe that the British *have* a cuisine!
- I looked to see whether the wine list offered our carbon-certified Grove Mill but all I was offered was a (nonetheless palatable) Semillon/Sauvignon from Bordeaux. Its carbon status was mute.

Now I was pretty cynical when I read this – and I expect many people are. In fact the Consumers International survey I've already referred to picked this up. More than 70% of respondents said that if companies were going to make claims that some products were better than others, they should have to have the claims independently verified. So when I got home to Paris I checked out the *Tread Lightly* website. Sure enough, there was voluminous material including third party verification.

#### **Slide 11**      **Eurostar emissions compared to planes**

- Now we are developing companies that can do this sort of niche marketing as well as anyone else. To illustrate, I'd like to show you what two of our leaders are doing – Icebreaker, and Rissington.
- Icebreaker makes the superb range of fine merino wool undergarments and other apparel that probably half this audience is wearing. They are just in the process of launching a new approach to product traceability which is a world beater. It is all about being transparent about the human and environmental values that underpin the entire supply chain from the Southern Alps to the Chinese plants that spin the yarn and manufacture the garments. To check out the backstory of your purchase all you will need to do is enter the barcode on the garment. Here's how it works.

#### **Icebreaker website & video clips**

#### **Slide 12**      **Rissington brands**

- Rissington Breedlines is the world's largest international sheep breeding company. Making use of elite genetics and specialised farm management systems, its dedicated farmers are able to guarantee a supply of high quality lamb to premium retailers such as Marks & Spencer in the UK.
- Like Icebreaker, there's the same dedication to traceability without the baa-code style website – at this stage anyway!

#### **Slide 13**      **Rissington labelled product**

- And underlying that traceability is careful monitoring of the entire supply chain including environmental performance.

#### **Slide 14      The Rissington supply chain**

- Rissington is still at the developmental stage but is working with Marks & Spencer to achieve verifiable performance standards that M&S have specified.

#### **Slide 15      M&S Plan A home page**

- These cover:
  - Carbon neutrality
  - Zero waste to landfills
  - Sustainably sourced product
  - Ethical trading
  - Helping customers and employees live healthier lifestyles
- **Click off**
- This all involves a lot of ground-breaking work. But Rissington sees it as essential to underpin its relationship with a leading retailer. Like the NZ Merino Company, Rissington plans to put itself ahead of the pack. Rissington has a harder job than Icebreaker. I'm not sure whether video clips of abattoirs in full swing is quite the way to sell your product. (The very idea reminds me of the awful cartoon I saw in *The Spectator* many years ago following the release of the movie version of *Watership Down*. It depicted a customer staring at the window of a butcher's shop in which was displayed a sign saying: "You've read the book, you've seen the film, now eat the cast.")
- But the same sorts of drivers are at work. The meat that is being sold in Marks & Spencers is not just a hunk of meat. It represents a bundle of values, practices and processes that are being marshalled together to satisfy not just a physical appetite but an equally complex bundle of consumer preferences.
- Now one of the problems consumers face is the plethora of food, travel and other labels out there, even when the products are at the top end of the market. Check out [bbcgreen.com](http://bbcgreen.com) to get a feel for it.

#### **Slide 16      The 60 second guide to food labels**

- Even when claims are independently verified, there's a question of which verification process is the most reliable. In the face of this, the choices made not by consumers, but by some very big players could be decisive.
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- Those big players are consumer facing companies at the head of global supply chains. Their motives are robustly commercial: they're seeking to drive down costs and pull customers through the door. They are also aware that they live in a world where concerns are growing and the risk of regulations is ever present. So they have an anticipatory and to some extent pre-emptive strategy.
- These buyers at the top of supply chains are responsible for what is known as "choice editing" – making decisions for consumers. Their choices can be very powerful ones. The global grocery trade is forecast to be worth about \$6 trillion by 2012. The top three players – Carrefour, Wal-Mart and Tesco – will account for about \$1 trillion of that. All three are heavily into the sustainability stakes. If they decide to require suppliers to provide assurances about the life cycle impact of their products you can be sure suppliers will either fall in line or be discarded.
- Now there's an obvious difference between niche products that command huge premiums from those who can afford luxury goods and undifferentiated commodities that end up being sold to the mass of humanity. To put it crudely – and I accept that this risks being a caricature of the issue - Icebreaker's North American customers want to know more about the backstory of their undergarments than do Vietnamese consumers of Fonterra's milk powder.
- So the current landscape is one in which there are pockets of very detailed attention to sustainability concerns which can command big premiums and large markets in which, beyond consumer safety and product reliability, the backstory is less relevant.
- Even so, it would be a mistake to draw too stark a distinction between these two product universes. Consumers in developing economies will become discriminating purchasers faster than we have. Environmental concern is rising sharply as the costs of rapid modernisation. And, as I say, global brands with big reputations at stake can afford to be more and more demanding in probing the production and process methods that feed in to their supply chains.
- What, you may ask, has all this to do with environmental regulation by local authorities? After all, all of you – and particularly Regional Councils – are accountable not to people in shopping malls in Singapore or Seattle, but to local voters (within the boundaries of the Resource Management Act). I certainly wouldn't want anyone to go away thinking they heard me say that environmental regulation should be turned over to the environmental consciences – or lack of them – in foreign supermarkets. Clearly, looking after our environment is fundamentally important for us as New Zealanders. It's our air, water, soil and wildlife that are at stake and if we don't look after them, nobody else will.

- Businesses and regulators don't have the same interests. Businesses are there to make a profit. Regulators are there to secure certain public goods that even the most benevolent private interest could not secure. Public and private goods are not always aligned. But that's not to say they are always in collision either. As consumer consciousness greens on a global basis, the possibilities for aligned interests increase.
- Capitalism as we have known it has turned the monitoring and management of financial flows into an art. Anything with a price is amenable to meticulous and fine-grained analysis. You're seeing it with particular clarity as energy prices skyrocket. The pursuit of efficiencies has become a matter of financial urgency. But to this signal must now be added the embodied carbon. And it won't end there. As societies come to grips with pollution, things that didn't used to be measured will be measured – and once they're measured, they can be priced. I believe we are witnessing the arrival of an era which in due course will see all material and waste flows monitored and measured because, one way or another, they will carry a price.
- In this emerging world, New Zealand's environmental quality has a value for our businesses. That value will vary depending on the market but it would be safe to say that it is not diminishing. A company like Icebreaker is, in one sense, 'selling' a bundle of tangible and intangible qualities that depend on very isolated, low-intensity land use. Other businesses will extract more marginal value from the generic selling power of our physical isolation and low population density (bundled up in the '100% Pure New Zealand' slogan).
- As regulators, the integrity of the story rests partly in your hands. Even in the Icebreaker story you make an appearance. The farm and land management part of the Icebreaker backstory is handled by the New Zealand Merino Company which assures farming practices under its Zque accreditation programme.

**Slide 16**     [www.Zque.com](http://www.Zque.com) front page

- Click on the environmental tab on Zque's website [**Slide 17**] and you will read that "In NZ, the RM Act establishes rules to protect the environment through
  - sustainable management of natural and physical resources
  - governing the use and development of our land, air and water resources; and
  - managing the environmental effects of human activities
- I don't get the impression that the RMA has played a particularly big part in the Icebreaker story. They've gone ahead of the game. But it does suggest that anyone thinking about environmental protection in merino growing country should be working very closely with leading edge producers like these people.

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- Both Rissington and the NZ Merino Company have remarked to me that when you are seeking to improve and monitor practice across a wide physical fraction of New Zealand, it would be helpful if the regulatory setting was the same. We've heard this from a variety of industries over the years – it doesn't seem to go away. Is there a role for greater central government co-ordination? I simply pose the question
- Now some of you will accuse me of choosing easy, niche cases. What about dairying which is sweeping all before it in so many parts of lowland New Zealand and imposing, as it does, a much heavier footprint. It is, by definition, a more intensive land use that makes sustainability a much harder goal.
- I haven't come here with a prescription. A lot of work is going on funded by both the industry and the government to advance a host of technologies and practices designed to mitigate a wide variety of impacts. Some are available now; others are down the track. I would make the following observations from where I stand.
- I don't think New Zealand dairy farming inhabits a fundamentally different universe from that inhabited by the high-end niche players. If I am right about consumer and supply chain management trends, the backstory probing I have spoken of will in time extend all the way to the cowshed. That's not something to be frightened of. It's all a question of being prepared with the answers. Dairying is so important to us that we have to have better answers – and a better record - than anyone else can provide.
- Our disclosures don't have to reveal perfection. There are trade-offs – some environmental impact is inevitable (as it is with merinos in the High Country). But whatever answers we give must surely reveal an improving trend. And they do have to be independently verifiable.
- Regional Councils set the framework within which those trends will emerge. I would suggest to Councillors that my theme – that what you don't know can hurt you – applies as much to your role as regulators and monitors as it does to businesses. Nearly ten years after leaving the Environment Portfolio I remain surprised by just how fragmented our understanding of environmental trends is in this country.
- Prior to attending this conference I made the sort of tour of Regional Council websites overseas consumers and buyers might make if they were wanting to dig a little below the surface on environmental quality in New Zealand. I was underwhelmed by what I encountered.
- The best Councils have technical reports on their sites which present raw data but even these are missing (or are too hard to find) on some. But what seem almost universally lacking are clear statements that

acknowledge the environmental weak points allied to measures designed to address them within measurable timeframes.

- If you think I'm being hard on Councils, I feel exactly the same way about the Government's national level state of the environment report published last year. A decade on since our first ever national report – which put the spotlight on a host of pressure points and negative trends – we don't seem to be any closer to putting ourselves on the line as a country and nominating hard outcomes that we're setting out to achieve. If you have read this morning's *Dominion Post* or *Christchurch Press* you will know I have an equally dim view of the proposed National Policy on Freshwater Resources.
- Even more worryingly, I have the impression that there may even be some people out there who don't want to know what's going. I've had, for instance, a number of Council staff in different parts of New Zealand tell me that they've been accused of zealotry by elected representatives for wanting to measure certain aspects of environmental degradation.
- It's a dangerous attitude. The day is not far away when businesses will derive far more value from rigorous environmental monitoring and enforcement than trading in ignorance. What Regional Councils are unable to tell businesses – and the world at large – about the state of their environment could be very costly. But long before then, central government politicians may be tempted to take back powers if they can't see progress on the ground.
- I note with interest the Opposition's policy commitment to handing responsibility for environmental reporting to the Parliamentary Commissioner for the Environment. Even more radically, Guy Salmon recently floated the idea that perhaps it was time to dispense with elected regional government and bring the often excellent technical skills assembled at the regional level back under central government direction.
- No-one should be worried about getting the facts out in the open. As I noted with respect to global environmental science, establishing them is much harder than many people think. And the same can apply locally. But neither can we wait for perfect information. We need to understand the trends, reinforce the good ones and curb the bad ones. In doing that, Councillors and their staff alike could do a lot worse than get themselves closely in touch with where some of our leading exporters have got to. In my view, companies like Icebreaker and Rissington are the advance guard – both in terms of discerning changing consumer demands and in their willingness to put themselves at risk through transparent performance measurement.
- Identifying leading resource users and learning from them should help Regional Authorities to set ambitious but achievable benchmarks. They should be prepared to put themselves at risk in the same way that industry leaders do. And they should keep in mind that the consumer sentiments

that are influencing supply chain managers and overseas regulators are not so very different from those that lurk in the minds of consumers and voters here in New Zealand.