Economics

Blue chips see the green light

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Smart regulation is now urgent for reasons even big corporations understand

Climate for change
Given the increasing frequency of meteorological convulsions, companies cannot defend their greed and waste by arguing that the case for climate change is unproven
Photograph: Paul Stanbury

The cream of British business lobbied Tony Blair last week. Executives from Vodafone, Unilever, BAA, John Lewis Partnership, Tesco, Shell and eight other companies demanded urgent action from the prime minister.

Nothing new in that, you may think. Business is forever bending the ear of ministers, and often gets what it's looking for. What was different in this case was that the blue-chip companies were not seeking lower taxes or a bonfire of red tape, but immediate steps to tackle climate change.

In a sense, this is not surprising. Capitalism has not survived for the past 250 years by allowing the grass to grow under its feet; it has adapted, changed, moulded itself to the evolving zeitgeist. And if you are Shell, Vodafone or Tesco, the strategic backdrop to your business for the foreseeable future is how to marry growth with environmental sustainability. The "red" challenge to capital in the 20th century has been replaced by the "green" challenge in the 21st century.

As ever, the tactics chosen by business have changed. Initially, the knee-jerk reaction is to argue that there is no problem and that those who say that there is are being "alarmist". Most companies – even the serial climate-change deniers – have worked out that this line of argument is no longer good business, if it ever was. The glossy reports put out by business detailing what they are doing in the interests of "sustainability" may be just so much hot air, but they are also a recognition that it is no longer cool to say that the science surrounding climate change is not proven.

In the second phase, business admits that there is a problem and says it wants to help. But only up to the point where there are no added costs to business through tighter regulation or higher taxes. When governments actually do something to tackle the problem – as with the current government's climate-change levy – business squeals like mad. The CBI, for example, described the EU directive on environmental liability in 2003 as "the final nail in the coffin of manufacturing" – a piece of pure hyperbole. The government calculated the cost of the regulation to be only 1% of the £1.8bn claimed by the employers' organisation.

More clout

Eventually, though, business enters a third phase. At this point, the smarter companies recognise two blindingly obvious facts. The first is that things are going to have to change; the second is that firms (and countries) who jump before they are pushed stand to make money – probably big money – by being bold.

So last week may well prove to have been the tipping point. Campaign groups such as Greenpeace and Friends of the Earth have been warning for years that time is running out in the battle against climate change. Lobby groups have come up with feasible ways of capping carbon emissions and allocating rights to pollute equitably around the globe. But the reality is that business carries far more clout in Whitehall than any NGO. When it speaks, ministers listen, especially if there is a risk of a political penalty from inactivity, as there is now.

David Cameron has made the environment a central plank of his new brand of conservatism and Menzies Campbell said last week the Liberal Democrats favoured higher green taxes in return for lower income tax. Labour will certainly not want to be outflanked by the Lib Dems and the Tories, particularly since business is now actively seeking tougher action on the environment.

The prime minister does not really need reminding about the risks. He is on the record as saying that "climate change is, without doubt, the major long-term threat facing the planet", and he made the environment – along with Africa – one of the twin themes of Britain's G8 and EU presidencies in 2005.

Nothing that has happened in the meantime has suggested that the threat from climate change is abating. In the past week, the National Hurricane Centre in the US has released forecasts for 2006 suggesting that the damage inflicted on New Orleans last year was not a once-in-a-lifetime occurrence. It expects a "very active hurricane season". Meanwhile, the Association of British Insurers has documented the costs of the claims from climate-related events – storms, floods, high winds – on its members. According to Nick Starling, its director of general insurance, even a 6% increase in wind speed could result in a 50%-75% increase in damage.

Britain, of course, is responsible for only a fraction of total carbon emissions. Even if the government took steps to reduce greenhouse gases here, there would be negligible impact globally. But the chances of securing the sort of international agreement needed to curb emissions would be greatly enhanced should the government face down the critics of tougher environmental regulation. It would also have considerable – and much needed – benefits to Britain's hi-tech business sector.

Regulation, please

The Aldersgate Group – comprised of industry groups, environmental agencies, NGOs and thinktanks – disputed the traditional business argument that tough regulation meant surrendering competitiveness and the ability to create wealth: "Quite the reverse: no economic policy which sacrifices environmental quality can succeed in the long term. Smart regulation will not only help to support the transition to an eco-efficient economy in the longer term – the 'green foundations' essential to underpin growth and jobs in the future – but also holds out more immediate business opportunities."

Indeed the debate about regulation in the UK is entirely lopsided and has failed to consider the economic benefits from environmental protection measures. These are direct – first-mover advantage for companies that come up with solutions to environmental problems – and indirect, via a workforce that is healthier and finds it easier to get to work.

This is perverse. The government accepts that the future of manufacturing industry in the UK is with the cutting-edge sector, where innovation is more important than unit labour costs. The environmental industry sector is the classic sunrise industry – promising an exponential increase in demand as countries respond to the climate challenge over the coming decades. In 2004 the UK environmental sector had a turnover of £25bn – up from £16bn in just two years. It comprised more than 17,000 companies – up from 7,000 in the same period – and employed about 400,000 people. Other countries are, however, doing far better and will continue to do better until the government adopts a more hands-on approach.

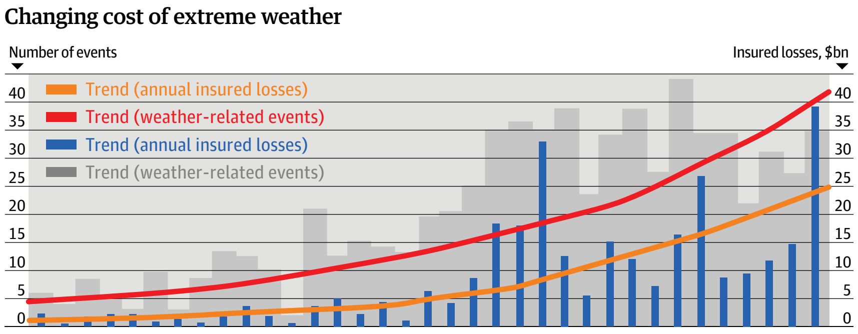
This, ironically, is what the private sector wants. In their submission last week the 14 executives waxed lyrical about the many promising low-carbon technologies that were feasible but required further investment to bring down costs and enable them to be commercialised. The government could help, they said, by changing public procurement policies so that "a government department or agency offers to buy in the future a product or service which delivers specified carbon-emission benefits at a defined volume and at a cost that it can afford. Once the product is available in the marketplace normal market forces will determine competition and price."

All very logical and sensible. The executives demonstrated, however, that they had a stick as well as a carrot. "We are very serious about our offer to work with you to make the UK a world leader in the transition to a low-carbon economy," they said. "We also intend to work with the other major political parties as it is clear that cross-party consensus will be critically important for ensuring that such leadership is sustained over the long term."

In other words, prime minister, if you don't take us seriously we know somebody who will.

Cost of weather

Changing cost of extreme weather



SOURCE: ABI

Construction

Families join in bid for biggest housebuilder

Two of Britain's richest families are working on plans to take over the country's biggest housebuilder, according to weekend reports. The property tycoons Simon and David Reuben and the Lyons family have set up Augusta Capital, which aims to acquire McCarthy & Stone for £1bn. McCarthy & Stone builds 60% of British retirement homes. Augusta is headed by the former investment banker Jacob Lyons, a grandson of Jack Lyons, who was jailed for his part in the 1980s Guinness scandal. If the deal is successful it will be the biggest takeover to date in the sector. Permira is also a contender. **Julia Finch**

Insurance

Standard Life flotation windfalls likely to be cut

Last week's stock market turbulence could reduce the flotation windfalls for Standard Life policyholders. Analysts believe a cut in the value of Standard Life is inevitable after recent rollercoaster markets. Weekend speculation suggested the company could reduce the value of its flotation by 10%. That would make it worth £4.4bn to £5bn, down from the £4.8bn to £5.5bn proposed in April. Average windfalls would fall from £1,700 to about £1,500. The life insurance sector is down by an average of 12% since Standard said it would float. A decision on the price range is expected tomorrow. **Julia Finch**

Banking

RBS offers dual-language hotline to lure Chinese

Chinese students in Britain are being offered a dual-language hotline by the Royal Bank of Scotland in cooperation with the Bank of China. The service is launched today as one perk offered by RBS to attract some of the 55,000 Chinese nationals said by the British Council to be in higher education in the UK. An RBS Student Royalties account is being offered in pre-departure briefings with local Bank of China staff in an initiative that shows deepening ties between the two banks. "We are uniquely placed to offer them banking facilities," said Gordon Pell, head of retail markets at RBS. **Terry Macalister**

Company reports

Today Interims Alternative Networks, Civica, Education Development, ImageScan. Finals Carclo, IFX, Latchways, London Merchant Securities, Workspace Group. Trading statement Alliance & Leicester.
Tues Interims ATH, Compass Finance, First Choice, Pursuit Dynamics. Finals CML Microsystems, Oxford Instruments, Patientline, Ten Alps, William Ransom. Trading statements Ted Baker, Group 4 Securicor, Austin Reed, RBoS.
Wed Interims Tesco, Accident Exchange, Celsis, Ensor, London Asia Capital. Trading statements: Woolworths, House of Fraser.
Thur Interims MyTravel Group, OMG, Wogen. Finals Avesco Group, Dart Group.
Fri Final Debtmatters Group.

Tourist rates

	Bank buys	sells
Australia dollar	2.62	2.35
Brazil real	(Mid-price)	4.10
Canada dollar	2.23	2.0
Cyprus pound	0.89	0.80
Denmark krone	11.70	10.58
Egypt pound	11.94	9.77
Eurozone euro	1.56	1.41
Hong Kong dollar	15.58	14.05
India rupee	(Mid-price)	85.21
Israel shekel	9.06	7.89
Japan yen	224.9	202.4
Norway krone	12.23	11.10
Singapore dollar	3.18	2.86
South Africa rand	12.74	11.47
Sweden krona	14.67	13.22
Switzerland franc	2.44	2.19
Turkey lira	3.14	2.70
United States dollar	2.0	1.80