CIRCULAR BUSINESS ACADEMY

Topic 1.4
Implications: How will this impact our business?

Consequences of excessive resource demand result in excessive resource extraction and scarcity.
This, in turn, creates their price increase and volatility.

Excessive extraction provokes the loss of biodiversity, land degradation, water and air pollution, and excessive greenhouse gas emissions, all this at levels that far exceed the ability of the nature to regenerate itself, while negative consequences on the human health are severing.

Implications for the world economy and the markets

Under the present **aggregate production function**, the market mechanism – the forces of supply and demand - do not allocate optimally the resources to allow for the balanced regeneration of resources.

- Production capital is overvalued.
- Human capital is undervalued.
- Natural capital is not valued at all.

  This creates widening economic, social and natural imbalances.

Source: https://www.resourcepanel.org/sites/default/files/documents/document/media/janez_potocnik_slides_for_the_irp_yee_youth_dialogue_on_biodiversity.pdf

Implications for businesses

1. Increased uncertainty due to:
- Natural disasters and other extreme climate – related events
- Geopolitical tensions and wars

2. A race for natural resources has been driving geopolitical relations and, consequently, terms of trade.

3. Increased pressure on the limited living space causes massive migrations.

4. New regulatory framework has been arising, what represents a possible new weight point for a new „**global order**“.

A hypotetical example

	19x	20x0
Revenues	100	100
- Material Costs	20	30
- Energy	10	20
- Services	20	25
- Labour	40	35
Contribution margin	10	-10
	10%	-10%

Implications for businesses and possible solutions

5. Altering labour market due to:
- Increased supply
- Different perceptions of mobility
- Changed employees preferences
- Need for continuous education and training, and
- Aging

6. Fundamentally changing consumer habits and preferences

7. Cost pressures and shocks due to the raising and volatile cost of materials and energy.

Focus on solutions:

1. Systemic approach
- Multi-level, steered and coordinated transition required by the regulators, globally
- Re-assessement of the relationship between a firm and the state is ongoing (See Mazzucato et al.)

2. Intensive innovation needed to provide solutions for sustainability at various levels
- Intensity of innovation focus and resources as well as the ability of th einnovation uptake will largely decide the race towards the decarbonisation.

3. New businesss opportunities on the rise through innovation

Implications for policy-making actions

Considerations for future policy

Each country is different: developed countries may require absolute decoupling (absolute resource use decline), while developing/emerging economies may require relative decoupling (rate of resource use is lower than economic growth rate).

- Use taxation or subsidy reduction to move resource prices upwards in line with documented increases in resource productivity.
- Shift revenue-raising onto resource prices through taxation of resources or in relation to product imports, with recycling of revenues back to the economy.
- Remove technological and institutional barriers to innovation in resource productivity.
- Create favourable conditions for investment in technology.
- Influence corporate behaviour and public consumption patterns to reduce resource use.

Source: (UNEP (2011) Decoupling natural resource use and environmental impacts from economic growth, A Report of the Working Group on Decoupling to the International Resource Panel. Fischer-Kowalski, M., Swilling, M., von Weizsäcker, E.U., Ren, Y., Moriguchi, Y., Crane, W., Krausmann, F., Eisenmenger, N., Giljum, S., Hennicke, P., Romero Lankao, P., Siriban Manalang, A., Sewerin, S. Copyright © United Nations Environment Programme, 2011