



Sustainability "Megaforces" Impact on Business Will Accelerate, Finds KPMG

-The costs of environmental impacts of business operations are doubling every 14 years.

-Companies should expect increases in external environmental costs which today are often not shown on financial statements.

-Businesses and policymakers must take joint strategic decisions and act now.

NEW YORK, Feb. 14, 2012 /PRNewswire-USNewswire/ -- New research from KPMG International has identified 10 "megaforces" that will significantly affect corporate growth globally over the next two decades.

The KPMG study, *Expect the Unexpected: Building Business Value in a Changing World*, explores issues such as climate change, energy and fuel volatility, water availability and cost and resource availability, as well as population growth spawning new urban centers. The analysis examines how these global forces may impact business and industry, calculates the environmental costs to business, and calls for business and policymakers to work more closely to mitigate future business risk and act on opportunities.

Michael Andrew, Chairman of KPMG International, said: "We are living in a resource-constrained world. The rapid growth of developing markets, climate change, and issues of energy and water security are among the forces that will exert tremendous pressure on both business and society."

"We know that governments alone cannot address these challenges. Business must take a leadership role in the development of solutions that will help to create a more sustainable future. By leveraging its ability to enhance processes, create efficiencies, manage risk, and drive innovation, business will contribute to society and long-term economic growth."

The KPMG research finds that the external environmental costs, which today are often not shown on financial statements**, of 11 key industry sectors jumped 50 percent from US\$566 to US\$846 billion in 8 years (2002 to 2010), averaging a doubling of these costs every 14 years.

The report calculated that if companies had to pay for the full environmental costs of their production, they would lose 41 cents for every US\$1 in earnings on average, the study found.

[Yvo de Boer](#), KPMG's Special Global Adviser on Climate Change and Sustainability, said global sustainability megaforces will significantly increase the complexity of the business environment.

"Without action and strategic planning, risks will multiply and opportunities will be lost. Corporations are recognizing that there is value and opportunity in responsibility beyond the next quarter's results; that what is good for people and the planet can also be good for the long term bottom line and shareholder value," said Mr de Boer.

John B. Veihmeyer, Chairman of KPMG's Americas region and Chairman and CEO of KPMG LLP (U.S.), said KPMG has taken a leadership role in helping organizations to understand the opportunity side of the equation, not just the risk. "KPMG's clients and others are seeing the link between sustainability and financial results becoming increasingly clear. Companies that recognize the external influences on their organizations and leverage them as opportunities are realizing a competitive advantage. To that end, the exercise of measuring and reporting sustainability activities to stakeholders with clear, accurate data is increasingly relevant and quickly becoming a priority."

The report was released on the opening day of KPMG's global "[Business Perspective on Sustainable Growth: Preparing for Rio+20](#)" summit occurring this week in New York. The event has attracted more than 400 top CEOs and senior business leaders from many of the world's major corporations, along with key policymakers. KPMG International is hosting the event, in cooperation with the UN Global Compact (UNGCC), the World Business Council for Sustainable Development (WBCSD) and the United Nations Environment Programme (UNEP).

Notes to Editors:

** These external costs would not be something reflected on a balance sheet because the bearers of such costs can be either particular individuals or society at large, and they are often both non-monetary and problematic to quantify for comparison with monetary values

Media are invited to the Sustainability Summit: Please click [here](#) to view our registration site which contains the speakers, agenda, and general information about the summit. **Please register as at your earliest convenience.**

The 10 global **sustainability megaforges** that may impact business over the next two decades are:

Climate Change: This may be the one global megaforce that directly impacts all others. Predictions of annual output losses from climate change range between 1 percent per year, if strong and early action is taken, to as much as 5 percent a year—if policymakers fail to act.

Energy & Fuel: fossil fuel markets are likely to become more volatile and unpredictable because of higher global energy demand; changes in the geographical pattern of consumption; supply and production uncertainties and increasing regulatory interventions related to climate change.

Material Resource Scarcity: as developing countries industrialize rapidly, global demand for material resources is predicted to increase dramatically. Business is likely to face increasing trade restrictions and intense global competition for a wide range of material resources that become less easily available. Scarcity also creates opportunities to develop substitute materials or to recover materials from waste.

Water Scarcity: it is predicted that by 2030, the global demand for freshwater will exceed supply by 40 percent. Businesses may be vulnerable to water shortages, declines in water quality, water price volatility, and to reputational challenges.

Population Growth: The world population is expected to grow to 8.4 billion by 2032. This will place intense pressures on ecosystems and the supply of natural resources such as food,

water, energy and materials. While this is a threat for business, there are also opportunities to grow commerce and create jobs, and to innovate to address the needs of growing populations for agriculture, sanitation, education, technology, finance, and healthcare.

Wealth: the global middle class (defined by the OECD as individuals with disposable income of between US\$10 and US\$100 per capita per day) is predicted to grow 172 percent between 2010 and 2030. The challenge for businesses is to serve this new middle class market at a time when resources are likely to be scarcer and more price volatile. The advantages many companies experienced in the last two decades from "cheap labor" in developing nations are likely to be eroded by the growth and power of the global middle class.

Urbanization: in 2009, for the first time ever, more people lived in cities than in the countryside. By 2030 all developing regions including Asia and Africa are expected to have the majority of their inhabitants living in urban areas; virtually all Population Growth over the next 30 years will be in cities. These cities will require extensive improvements in infrastructure including construction, water and sanitation, electricity, waste, transport, health, public safety and internet and cell phone connectivity.

Food Security: in the next two decades the global food production system will come under increasing pressure from megaforges including Population Growth, Water Scarcity and Deforestation. Global food prices are predicted to rise 70 to 90 percent by 2030. In water-scarce regions, agricultural producers are likely to have to compete for supplies with other water-intensive industries such as electric utilities and mining, and with consumers. Intervention will be required to reverse growing localized food shortages (the number of chronically under-nourished people rose from 842 million during the late 1990s to over one billion in 2009).

Ecosystem Decline: historically, the main business risk of declining biodiversity and ecosystem services has been to corporate reputations. However, as global ecosystems show increasing signs of breakdown and stress, more companies are realizing how dependent their operations are on the critical services these ecosystems provide. The decline in ecosystems is making natural resources scarcer, more expensive and less diverse; increasing the costs of water and escalating the damage caused by invasive species to sectors including agriculture, fishing, food and beverages, pharmaceuticals and tourism.

Deforestation: Forests are big business – wood products contributed \$100 billion per year to the global economy from 2003 to 2007 and the value of non-wood forest products, mostly food, was estimated at about US\$18.5 billion in 2005. Yet the OECD projects that forest areas will decline globally by 13 percent from 2005 to 2030, mostly in South Asia and Africa. The timber industry and downstream industries such as pulp and paper are vulnerable to potential regulation to slow or reverse deforestation. Companies may also find themselves under increasing pressure from customers to prove that their products are sustainable through the use of certification standards. Business opportunities may arise through the development of market mechanisms and economic incentives to reduce the rate of deforestation.

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