ganisations would have been an ideal group to represent the interests of the industry.

No doubt, defining "sustainable development" will prove to be a difficult task. However, the difficulties must be grappled with as the proposal to develop policy to avoid or deal with disputes over the competing interests of development and environmental protection is of considerable importance to the country and is likely to have significant ramifications for the construction industry.

Peter Gill's article below treats the subject in some detail.

SUSTAINING DEBATE ON THE ECONOMICS OF CONSERVATION

- Peter Gill

The debate on sustainable development has achieved greater prominence but the issues raised in the National Conservation Strategy in the early 1980s remain unresolved and new factors have to be considered as Peter Gill reports.

"The real significance of the strategy proposed by the (national conservation) conference will be measured not so much by the words it contains as by the actions it generates." - the Prime Minister, Mr Hawke, endorsing the National Conservation Strategy for Australia, 1984.

The current debate over "sustainable development" brings with it a sense of deja vu.

After all, 20,000 people were consulted in the early 1980s, 550 written submissions were examined, and 150 delegates attended a four-day conference in Canberra in June 1983 - all of which focused on many of the same issues which now come under the all-embracing buzzword, "sustainable development".

While the concept of "sustainable development" is not new it has achieved greater prominence since the publication in 1987 of the report by the United Nations World Commission on Environment and Development (better known as the Brundtland Commission).

Sustainable development cannot yet be defined. In broad terms it is the concept which tries to balance the industrial and resource development needed for economic growth with the protection of the environment.

Put another way, it is the present use of the planet's resources in such a way that it does not erode the ability of future generations to use those same resources.

But sustainable development has only started to hit the headlines with recent major speeches by the Prime Minister and Environment Minister, Senator Richardson.

It appears to have captured the political imagination now because the Prime Minister and Senator Richardson have sniffed the electoral wind and found environmental concerns in the living rooms of middle Australia.

The one Federal Minister who has promoted the concept for years, Primary Industries and Energy Minister, Mr Kerin, was rarely heard. That was probably because Mr Kerin raised it in the context of his portfolio responsibility of resource development.

The Prime Minister and Senator Richardson are much more oriented to a "green" agenda, as highlighted by the Kakadu National Park decision to defer mining at Coronation Hill and virtually prevent all exploration in the area now known as Stage III of the park.

With "sustainable development" now rolling easily off people's lips the deja vu comes in for many people who were involved in the development of the National Conservation Strategy for Australia in the early 1980s.

All of the people the Prime Minister now wants to contribute to the sustainable development exercise aired their views in the early 1980s - the 20,000 people consulted, the 550 written submissions and the 150 conference delegates were all part of the national conservation strategy process.

Virtually all the same issues which are now on the table were canvassed then and a 20-page document on the agreed strategy produced.

"Conservation" and "development" were defined, specific acute environmental problems were identified as was the need to have both protection of the environment and economic growth.

Objectives were established and factors affecting the attainment of those objectives were identified. And most of those factors are still present in the debate - the division of Commonwealth-State decision making, the fear of unemployment from implementing conservation measures, the perception by some that conservation only involves national parks and wildlife protection.

So, what has happened since that very comprehensive process was undertaken in the early 1980s and a National Conservation Strategy for Australia was developed?

No much. The rhetoric was fine but the actions did not follow.

The process certainly has not contributed to a more rational approach to resolving multiple land use disputes.

It was argued that the strategy laid down principles but did not establish ways in which those principles would be applied and this is now the role of the renewed debate.

It should also be noted that the strategy preceded the big environmental debates like those concerning the Tasmanian Wilderness and Kakadu National Park - before the environment-development debate became so polarised.

But it can also be argued that the balance sought between conservation and development in the National Conservation Strategy has not been achieved. The fact that the Government is seeking another way of resolving conflict tends to confirm such a view.

The strategy effectively disappeared from the public and political view because there was no political momentum behind it despite the Prime Minister's view that actions would speak louder than words.

But that momentum is back with an election on the horizon and with the Government keen to enhance its "green" credentials. The Prime Minister endorsed the strategy in his major Environment Statement in July and it was a factor in developing the Government's three multiple-land-use principles last year.

Developing a policy on sustainable development has appeal to middle Australia because they can feel that the

Government is moving in the right direction, that their concerns are being taken on board by a conservation-conscious Government.

But middle Australia will not want to refrain from participating in the debate over sustainable development. There is much for middle Australia to think about.

The standard of debate will also have to improve. Plans by Mr Kerin to have the economic cost of protecting the environment properly assessed were dismissed out of hand by the Australian Conservation Foundation director, Mr Phillip Toyne, as another manifestation of "economic rationalist" principles.

But the general public could well be interested when future decision-making on environment and development questions start impacting on economic activity and jobs.

And it will not simply be the economic cost of compromising on development, or preserving the environment, but rather the cost involved in finding new technologies to remedy existing environmental damage.

It will involve the cost of developing new industry which is more compatible with the environment and it will involve the social cost of compromise on the lifestyle of Australians.

Take the Greenhouse Effect and the (subsequently dropped) goal of the Toronto, Canada, environmental conference last year of a 20 per cent cut in greenhouse gases, predominately carbon dioxide, by the year 2005.

Analysis by the Australian petroleum industry, represented by the Australian Petroleum Exploration Association and the Australian Institute of Petroleum, suggests meeting such a goal will be difficult.

Converting half Australia's motor vehicle fleet to run on a cleaner fuel like gas (at a cost of around $13 billion), achieving fuel efficiency in new motor vehicles to equal the difference in consumption between a V8 Commodore and a small engined car like a Holden Barina or Daihatsu Charade, and converting half Australia's coal fired electricity generating capacity to gas, would still leave Australia 16 per cent or 120 million tonnes of carbon dioxide a year over the Toronto target.

The Federal Treasury has been among the few voices urging caution in the Greenhouse debate and signalling the costs involved.

In a paper this month, Treasury said of the Toronto ambition:

> "Unless relatively inexpensive means can be found to increase greatly the efficiency with which countries generate and use energy, meeting such a target could require absolute reductions in the levels of production activity, implying a substantial effect on economic growth."

The Washington-based Worldwatch Institute has suggested that a "carbon tax" of $US50 ($A64) a tonne be applied to Greenhouse gas emissions caused by fossil fuel burning, with the tax imposed on the fuel used. It acknowledges that this would raise electricity prices by 28 per cent. That would dent economic growth.

United States energy and environmental expert, Dr Amory Lovins - who contends that much environmental advantage could be gained from greater energy efficiency - offers another view on the Australian electricity scene.

On a recent visit to Australia, Dr Lovins said that "most electric authorities in Australia believe they're in the kilowatt hour business. They're trying to sell more electricity.

> "But what customers want is cold beer, hot showers, the services that energy provides. If they can get that cheaper by buying less electricity and more efficiency, they ll eventually do so. The only question is who will sell them the efficiency?"

The Treasury paper noted that Australia's State-owned electricity utilities did not recover the real capital costs involved and that rural and domestic users were cross-subsidised - a method of supply which did not encourage efficient power consumption.

Treasury also noted that inefficiencies in coastal shipping and rail transport pushed freight onto road transport and higher greenhouse gas emissions.

With reference to the transport and power generation, Treasury said:

> "Allowing distortions that encourage Greenhouse emissions to continue while concurrently introducing measures to limit emissions is like driving with one foot on the accelerator and one on the brake."

Consideration of a sustainable development policy will have to get to this sort of level if it is to be at all worthwhile.

But in the interim there are more fundamental elements of Government policies, like taxation policy in the resources field, which will have to be addressed.

At present, mine site rehabilitation costs are not tax deductible because end-of-project costs are not regarded as expenses incurred in the earning of income.

This anomaly will have to go if the resource sector is to be encouraged to put the maximum required effort into rehabilitation of mine sites and other resource developments.

But here the financial headaches for the Government - which solves its financial problems by reaching into the public's pocket - begin.

An example is the eventual removal and disposal of the 13 oil and gas production platforms in Bass Strait which have fuelled Australia for much of the last two decades. Cost estimates of removing those platforms to return that waterway to its previous environmental state are around $1 billion.

In its most recent addition to a patchwork quilt of taxation measures, the profits-based taxation system for the offshore petroleum industry, the Government has allowed rehabilitation costs to be a legitimate offset against the tax already paid. Such a deduction should be applied broadly across the resource industry.

There are other dimensions to the economic rent argument which impact on the debate.

The environmentalists constantly talk of the value of the nation's national parks and wildlife to the present and future generations.

Professor John Skidmore of the University of Technology, Sydney, in a paper this year, ranked the most damaging impacts on Kakadu National Park in order of severity as: water buffalo, a South American weed *Salvinia*, fire and tourism. He said other activities, including mining, have been "relatively minor so far".

Tourism has led to noise pollution, litter, car tracks and over-fishing and while some of these effects have been overcome, it has been "at the expense of an increasingly intrusive park infrastructure and road network".

Professor Skidmore said:

> "What was formerly a tranquil wilderness occupied by a small number of Aborigines, mining prospectors and government officials is now a well regulated and extremely popular park for tourists from the ends of the earth."

And the Prime Minister said recently that tourism was projected to increase three-fold by the turn of the century, from the two million visitors last year.

Many of those tourists will want to visit Kakadu. The sustainable development argument will throw up consideration of what sort of national parks Australia wants - is it pristine wilderness or areas in which high access fees will have to be charged to pay for park services which try to keep these areas in the natural condition they once held.

Or will access need to be restricted? And who will explain that to the camera-toting tourist who has travelled thousands of kilometres to see some of Australia's "natural" environment?

The sustainable development argument is about to get underway. It is a massive task the Federal Government has taken on and the public should be aware that costs, as well as benefits, will be involved.

This is not to argue that the exercise should not be attempted but to indicate that people should enter the debate with their eyes open.

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CREATIVE LENDING

With traditional lenders shying away from new projects, developers now have to give a large part of their profits to those prepared to accept the risk. Florence Chong reports.

The forest of towers rising in the heart of our capital cities, particularly Melbourne and Sydney, probably owes as much to the ingenuity of financial engineers as to the structural engineers, to whom office blocks are no longer a great challenge.

With commercial interest rates at about 20% against commercial property yields of 5-6%, a large gap must be covered, largely by the capital gain when the completed building is sold.

Traditionally, that gap was covered by the developer, who had to contribute at least 30% of the cost of a building in equity funds. But CBD towers of any substance now cost $300 million or more and few developers have the capital base to support that level of equity contribution. Whatever happens to the property market, costs are likely to keep rising.

Now, the risks inherent in a commercial property boom are being carried by non-traditional investors, ranging from blue-chip companies to adventurous merchant banks and the public. They have been attracted by the returns promised by "mezzanine" finance, also known as subordinate or second-ranking debt, which provides the investor with a fixed return as well as capital gain. The risk is similar to that of an equity holder. Instruments such as convertible notes, preference shares or participating mortgages are used.

An example is the package put together by Project Finance Indosuez for Australia's most expensive building, the $1 billion Chifley Square in Sydney. Since Bond Corporation's stake in that project is now up for tender, the financing is in abeyance, but Indosuez director Peter Elliott explains how he intended to cover the financing gap.

> "If the total project cost is $1 billion and you take the total net rental income of $65 million a year, the income cannot support a loan, even when working on a conservative interest rate of 16%. The income can only support a debt of up to $400 million, so you have a gap of $600 million or thereabouts," he says.

The only way such a project can be financed, he says, is to capitalise the interest and halve the amount of debt the developer has to service.

> "You get someone in from day one to take up quasi debt in the form of, say, convertible notes, and raise $200 million from the notes. You can get rid of another $200 million by leasing plant and equipment over 10 years," he says.

Elliott says lenders of the quasi debt will get an income of 8-10% during the term of the construction. On completion, the building will be worth $1.4 billion, which will give the investor an effective annual yield of 16%. Elliott says the investor would receive half the returns in cash and