

The Carbon Disclosure Project

In February 2005 a group of institutional investors representing \$20 trillion funds under management sent out a questionnaire regarding disclosure on Greenhouse Gas (GHG) Emissions to the world's 500 largest quoted companies by market capitalisation, in order to improve their understanding of the possible material impacts on the value of their investments driven by a number of factors connected with climate change. They were looking specifically at the following factors: taxation and regulation, technological innovations, shifts in consumer attitude and demand, and changes in weather patterns.

Similar questionnaires had been sent out in 2002 and 2003. 45% of companies questioned had completed the questionnaire in 2003 and 60% in 2004. The questions were probing and asked for considerable detail in the responses. Responses will be particularly significant since the relationship of GHG emissions to climate change and the resulting damage to the planet is becoming far more generally accepted. The basic questions were:

1. *General*: Do you believe climate-change, the policy responses to climate-change and/or adaptation to climate change represent commercial risks and/or opportunities for your company? If yes, specify the implications, detail the strategies adopted and actions taken. If no, why.
2. *Responsibility*: Do you allocate specific responsibility to executive and independent directors for climate change related issues? If yes, what is the title of the person/department/board committee with this responsibility? If no, are you planning on doing so, and if so when?
3. *Innovation*: What are the relevant technologies and/or processes that can be employed in your company/sector to achieve emission reductions? Have you taken any steps to develop/implement these technologies and do you anticipate being able to profit from their commercialisation?
4. *Emissions Trading*: Do you have a strategy regarding emerging greenhouse gas emissions regulation and trading initiatives such as the EU Emissions Trading Scheme and the Chicago Climate Exchange? If yes, specify the implications, detail the strategies adopted and actions taken to date. If no, are you planning on doing so, and if so when?
5. *Operations*: What is the quantity in tonnes CO₂e of annual emissions of the six main GHG: Carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs) and Sulphur Hexafluoride (SF₆) produced by your owned and controlled facilities in the following areas?
 - Globally.
 - Annex B countries of the Kyoto Protocol.
 - EU Emissions Trading Directive.
6. *Products and services*: Do you estimate the emissions associated with:
 - Use and disposal of your products and services?
 - Your supply chain.
 - Other indirect emissions (e.g. business travel)If yes, for each of the above, please provide further information. If no, are you planning on doing so? When?

7. *Emissions reduction*: Do you have emission reduction programmes in place? If yes, when were they established and what are the targets? What have been the reductions achieved, the investment involved and the associated costs or savings? Please also detail any targets relating to Questions 6 and anticipated costs or savings. If no, are you planning on doing so, and if so when?

8. *Emissions intensity*: Do you measure emissions intensity against production, sales or other output measures? If yes, what is your historical and current intensity data? What are your emissions intensity targets? If no, are you planning on doing so and if so when?

9. *Energy costs*: What percentage of your total revenue is represented by the costs of fossil fuels and electric power?

The response of the **Anglo American Corporation** to question 1 revealed some of the ambiguity inevitable in their operations:

'We produce energy-intensive products and one product (coal) that is usually combusted; CO₂ is emitted during the combustion process. We are well aware of the general risks to our operations and markets from regulation that will be imposed in many developed countries as a result of implementation of the Kyoto Protocol. At the same time, most of our operations are located in developing countries which will mean a likely lighter regulatory regime and certain opportunities might be available through the CDM. Earlier in the year, we surveyed the risks and opportunities for Anglo American in a carbon constrained world.'

The company acknowledged that it did not measure emissions associated with use and disposal of their products and services directly, but they explained that their coal was almost entirely combusted and that it was important to note that a significant volume of sales were to end-users located in countries which currently did not have local or regional CO₂ emission reduction targets. They claimed:

'Our UK operations should be able to meet any reasonable targets that result from the UK GHG permit allocation process. Our operations in central Europe are investigating both energy efficiency and fuel switching possibilities. Our Canadian operations have already greatly reduced their GHG emissions over the last ten years and we believe should receive some recognition for early action. The costs and savings are difficult to calculate, as the technologies utilised have offered higher production efficiencies, as well as reducing emissions. We are currently incorporating the cost of GHG emissions into future investment decision making, which will help make the costs and savings associated with GHG abatement measures more explicit.'

Glaxo-Smith-Kline had targets to reduce GHG emissions based on various specific energy saving initiatives at GSK sites world-wide. These efforts took into consideration various national, regional and international targets but they were predicated on achieving business objectives and benefit.

We had no estimated costs or savings summarised for these initiatives. They stated that they intended to develop projects for achieving reductions in GHG emissions based on business benefit which in certain cases might exceed existing national, regional or international targets, but that was not set as a specific target.

BP saw climate change as both posing potential risks and opportunities. BP accepted that the risks from climate change were potentially serious and precautionary action was justified. BP had announced a target for 2010: that greenhouse gas (GHG) emissions from its own operations would be 10 per cent lower than emissions in 1990 – a tougher target than those set for many industrialized countries by the Kyoto summit in 1997.

This target was only one element of a strategy to tackle the issue. Other elements included promotion of flexible mechanisms, accelerated development of new energy technologies, participation in public policy processes and investment in research both for energy efficiency (e.g. efficient fuels and engines) and to combat fossil fuel combustion impacts (e.g. capture and storage of CO₂).

BP also engaged in a number of experimental forestry projects (e.g. Noel Kempf, Scotland Forestry Alliance). BP achieved its target at the end of 2001, 9 years ahead of schedule, and gained around \$650 million in net present value due to many projects to increase operational efficiency, apply technological innovation and improve energy management.

After achieving its target, in March 2002 BP set a new target for the year 2012. While in some years their GHG emissions may increase, their objective is that net emissions will show no increase by 2012.

It was expected that continued work on energy efficiency and flaring reductions would eliminate around half of any emissions growth otherwise created and they intended to account for the other half by demonstrating how their actions were reducing emissions through the products sold.

'The new target is again only one part of our overall strategy, which includes promoting market-based solutions, participating in policy dialogues, working with others on new energy technologies and investing in research.'

For **Barclays Bank**, climate change represented both a risk and an opportunity to the financial sector. The challenge of climate change for them was to accurately interpret increasingly detailed climate projections in terms of their impact on the broad range of sectors that they support. This could be done by providing, for example, finance and advice.

Inevitably, there would be impacts, which in turn would spawn opportunities and risks: opportunities in respect of new products and services - for example:

'Our Environmental Services Team in UK Banking provides financial services to renewable energy projects; risks in respect of changing patterns of consumer demand (tourism) or crop yields (agriculture), or the curtailment of insurance for properties in low lying (flood risk) areas.'

The responses to the second questionnaire showed that more firms than last year consider climate change to present risks and opportunities to their business. More are quantifying GHG emissions and preparing to trade emissions. Corporate climate strategies are becoming more coherent and comprehensive.

The concept of 'GHG-neutral' products and companies is taking root. Many firms have established multi-disciplinary teams to manage the climate risk file. However much more needs to be done. There are many examples of lack of correspondence between a company's response status and what is known publicly about its actual climate-change stance.

Daphne Norden

More information can be obtained from www.cdproject.net

ECCR Bulletin no. 58 Sept 2005