

# The Business Case for Offset Inclusive Carbon Management

## Introduction

In the transition to a low carbon economy, carbon management represents a new and fundamental challenge for business. How companies respond to this challenge is fast becoming a strategic issue.

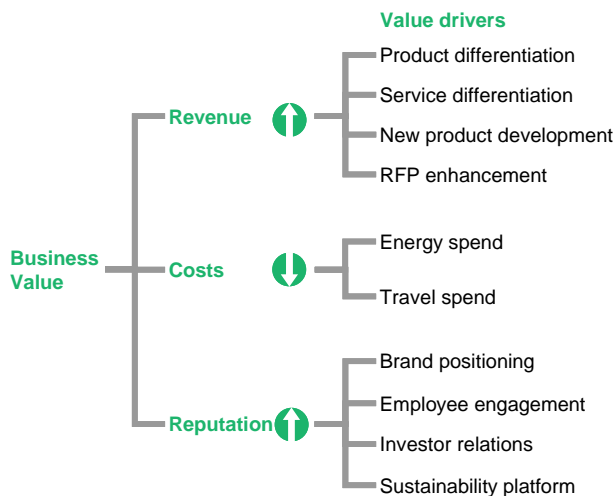
The business drivers for taking action on climate change will only strengthen. If your company is not able to respond effectively or credibly, increasingly it will be disadvantaged relative to peers who successfully execute carbon management strategies. As Figure 1 illustrates, effective and credible strategies are those that seek to drive revenue growth, minimize costs and enhance reputation.

Many companies are realising the environmental and commercial value of implementing offset inclusive carbon management programmes as they represent:

- The most efficient way to reduce emissions beyond a certain point
- For many the only way to reach scientifically significant emission reduction targets
- A cost benchmark against which to measure the efficiency of all internal reduction opportunities
- A driver of operational behavioural change to adopt energy efficient working practices
- A cost-effective way to present a climate change credential to customers that will drive revenue and to stakeholders that will enhance corporate reputation

Figure 1 – Offset Inclusive Carbon Management Value Drivers

Offset inclusive carbon management delivers business value from revenue growth, cost minimisation and reputation enhancement

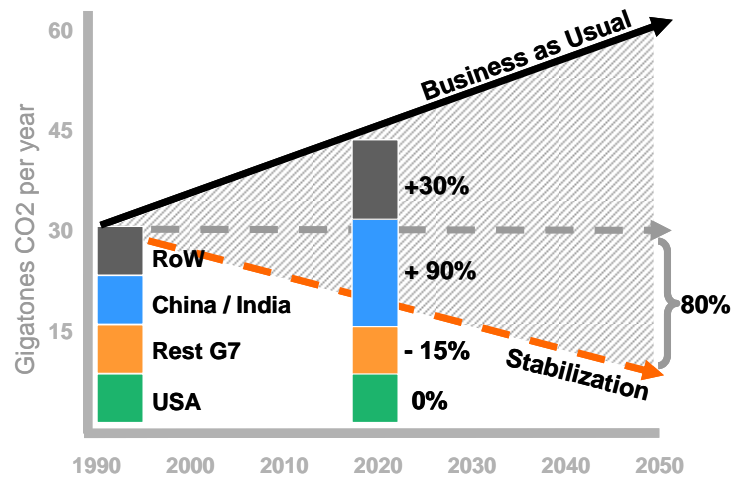


## Drivers for Managing Carbon within Businesses

The prevailing scientific and economic consensus is that an absolute reduction of 80% in global greenhouse gas emissions is required by mid-century to prevent material damage to the world's economy. This is at a time when global emissions are growing at their fastest rate ever. Figure 2 illustrates the massive gap between the 'business as usual' global emissions growth path and the 'stabilisation' trajectory.

Figure 2 – Global Emission Trajectories

Global emissions are increasing at their fastest rate ever despite the need for an 80% reduction in global emissions by 2050.



Each business faces a similar challenge: how to grow profitably while reducing emissions. To meet the stabilisation trajectory, firms will need to average a ~4% absolute reduction year on year to 2050. The phrase scientifically significant is used to describe emission reductions that meet this stabilisation requirement. A report by the Carbon Disclosure Project<sup>i</sup> found the world's largest companies are on track for an annual reduction of just 1.9%, reaching the scientifically recommended level of greenhouse gas cuts by 2089, 39 years too late.

The global economy is transitioning to a future constrained by carbon. The UK's Department for Energy and Climate Change (DECC) define a carbon price rising from £25 per tonne of CO<sub>2</sub> in 2009 to £100 in 2050<sup>ii</sup>. The journal Carbon Finance reports Wall Street financiers are effectively imposing a \$50/tonne price of carbon on their investment decisions regarding new power generation in the US<sup>iii</sup>.

Business and consumers are increasingly interested in low carbon brands, products and services. The environmental agenda is a key area where businesses can differentiate their offerings - a company that has its own active carbon management programme will stand apart from those that only pay lip service to the issue. It is estimated that tackling climate change could create opportunities for a company to increase its value by up to 80% if it is well positioned and

proactive. Conversely, it could threaten up to 65% of value if the company is poorly positioned or a laggard.<sup>iv</sup>

### Offset Inclusive Carbon Management

As pressure grows for businesses to demonstrate how they are accounting for their impact on the climate, several early adopters have implemented offset inclusive carbon management strategies as a way of demonstrating this to the market within the constraints imposed by their current infrastructure (e.g. leased offices, mature manufacturing facilities) and business models (e.g. a dependence on air travel to visit clients).

Companies executing offset inclusive carbon management strategies: (1) measure baseline emissions (2) set scientifically significant reduction targets, (3) meet the targets most cost effectively and (4) communicate their activity to stakeholders. Practically speaking, this means evaluating all carbon reduction projects in terms of the cost of reducing a tonne of carbon, and then implementing those projects with a lower cost of carbon than the cost of an offset. The remainder of the target is met through the next most cost effective source of emission reductions: carbon offsets. In simple terms, businesses pay to outsource emissions reductions when it is more cost-efficient or technologically feasible than doing so in-house, in the same way as if they were making the decision to outsource a business process like accounts payable or payroll. Every business makes strategic decisions to make or buy, to in-source or outsource, and delivering emissions reductions is no different.

### Global View

The role of carbon offsets as a cost containment measure in corporate carbon management is recognised by legislators on both sides of the Atlantic. Offsets are an integral part of the European Emissions Trading Scheme (EU ETS), and are set to play a similar role in the US under the proposed cap-and-trade system. Economic analysis prepared by the U.S. Environmental Protection Agency (EPA) points to the effectiveness of offsets in containing costs within a cap-and-trade system. This has influenced U.S. policy makers to allow for 2 billion tonnes per year of offsets under the Waxman-Markey bill, which has passed the US House of Representatives and is now being considered by Congress. The EPA estimates that without international offsets, allowance prices would rise by 96 percent<sup>v</sup>.

Furthermore, it is important to recognise that investments in quality offsets are funding real and permanent reductions within the global economy. As far as the climate is concerned, where reductions take place is of no consequence. Yvo de Boer, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC) estimated that if developed economies commit to reduce emissions 60-80% by 2050, and if half of the emission reductions were met through investment abroad, it could generate up to \$100 billion per year in green investment flows to developing countries<sup>vi</sup>.

Offset inclusive carbon management allows your business to participate in this investment flow, becoming part of a climate solution that greens economic growth and facilitates the transfer of clean technologies to the developing world.

### Delivering Value from Offset Inclusive Carbon Management

Delivering scientifically significant reductions is only one element of corporate carbon management. Business value comes from carbon management strategies that seek to minimise costs, drive revenue growth and enhance reputation.

#### *Engaging stakeholders to drive down costs*

An offset commitment as part of a carbon management framework helps you drive out cost faster and deeper by capturing the benefits of bottom-up initiatives that engage employees, suppliers and customers to bring about significant reductions in emissions by changing their working practices, commuting habits and product choices. An offset programme can act as a 'good news' project to provide a positive focus for employees during a period of cost cutting.

#### *Winning business through a strong carbon position*

Carbon offsets are the most cost-effective way to present a credible climate credential to existing and prospective customers who are increasingly interested in low carbon brands, products and services. Implementing an offset inclusive carbon management programme is a simple and immediate way to demonstrate leadership in your market and differentiate you from less environmentally responsible brands.

#### *Strengthening corporate reputation*

The emergence of the Carbon Disclosure Project confirms that the extent to which a company mitigates its climate impact is now a key measure of business performance. A lack of action/preparedness around climate change puts your brand reputation at risk financially and commercially. An offset inclusive carbon management programme is a high impact, cost-efficient means of reinforcing your environmental credentials and corporate reputation by demonstrating an understanding of the climate change problem and the critical role of offsets in moving to a low carbon economy.

### Conclusion

In a future constrained by carbon, carbon management presents both a challenge and an opportunity. Organisations unable to respond quickly and credibly will find themselves increasingly disadvantaged relative to competitors who successfully execute offset inclusive carbon management strategies.

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<sup>i</sup> The Carbon Chasm, August 2009, Carbon Disclosure Project

<sup>ii</sup> Carbon Appraisal In UK Policy Appraisal: A revised Approach, July 2009, DECC

<sup>iii</sup> US pricing in 'de facto \$50 carbon price', February 2008, Carbon Finance

<sup>iv</sup> Carbon Trust : Climate Change, A Business Revolution, September 2008

<sup>v</sup> EPA Analysis of the Waxman-Markey Discussion Draft: The American Clean Energy and Security Act of 2009, April 2009, EPA

<sup>vi</sup> Statement at the high-level segment by Yvo de Boer, Executive Secretary, November 2006, UNFCCC