

Business change for climate change

An Insight event from The CarbonNeutral Company
in partnership with UBS

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Introduction

Jonathan Shopley, Managing Director of The CarbonNeutral Company, opened our joint Insight event with UBS this week by asking the panel whether businesses should be expected to “just get on with it” and tackle climate change, keeping faith that the public sector would de-risk the deployment of capital with cohesive policy.

Jonathan was seeking a response to head of the UNFCCC Christiana Figueres’ recent [call to the Carbon Market Investor’s Association](#) (covered on our blog):

“Let’s not get trapped in a Catch 22 – business waiting for government, government waiting for business. Business has plenty to go on – the megatrend is clear. We must decarbonise our economy. Business has to create 5x more wealth for every tonne of carbon. Surely that is enough certainty..?”

Four speakers representing four very different points of view – Jonathon Porritt, Forum for the Future; Dame Helen Alexander, CBI; Paul Donovan, UBS economist; Peter Boyd, The Carbon War Room. As might be expected from a panel representing sustainable development, mainstream business, a global economist and an NGO supporting innovation and entrepreneurial activity, consensus was not reached on the role of business versus government.

But they did concur on several points: there is business value in innovative technology; we need to put a price on carbon; and business is ‘getting on with it’ – though that alone is not enough.

Jonathon Porritt

Co-founder of Forum for the Future, Co-Director of the Prince of Wales's Business & Sustainability Programme, former chair of the UK Sustainable Development Commission

Jonathon called for a carbon price to “even the playing field”, saying a medium term transition to renewables was “inconceivable without getting to the highest price of carbon as fast as possible”. Without it, incumbent high-carbon business don't internalise a price, and innovation is curtailed.

A noted champion of renewable energy, Jonathan declared himself a “heretic” when questioned about UK shale gas, saying it could be an intelligent bridging gap between coal and renewable.

Jonathon saw “government losing faith in government, leaving businesses to worry about the gritty business of getting the government to step up to the plate”.

He saw three beacons of hope to aid that pursuit:

- Strong leadership in the corporate world leading to exciting collaborations at the global level, driving change in the supply chain and amongst consumers.
- Technology leading a revolution, faster than we think. A photovoltaic grid is considered cost prohibitive, but Jonathon believes ‘grid parity’ is just two or three years away – so those investing in hydrocarbons “could be left looking like charlies”.
- An uplift in carbon literacy. Business now recognises the “critical strategic importance of good carbon management” which, for Jonathon, includes well considered carbon offsetting.

“ Unless governments frame the carbon markets and a low carbon future more intelligently even the most heroic efforts of business won't prosper. ”

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Dame Helen Alexander

President of the CBI until June 2011, Chairman of the Port of London Authority and Incisive Media

Experienced business leader Dame Helen Alexander – who has led fossil fuel intensive businesses such as Rolls Royce and Centrica – sees slow government response to issues such as electricity market reform as a barrier for business action. Businesses need to be confident there will be no U-turn on policy decisions.

“ Business wants certainty and clarity in order to be able to plan and for investment to come through. To push the button on investment, companies need policy, planning frameworks, and comprehensible carbon pricing. ”

Taking issue with Jonathon Porrit's assertion that businesses eroded shareholder value by not taking steps towards energy efficiency sooner, she said that price signal was key: until energy efficiency became an issue on the P&L, it was not a pressing concern for many CEOs. In the current economic climate “companies are worried about keeping jobs in the work force” so they need a price mechanism in order to drive a focus on climate change mitigation.

For Dame Helen Alexander, the solution is three fold:

- Investment in low carbon technologies beyond the five year horizon of a single CEO – and within a secure policy framework.
- Innovation in products and services, and getting them swiftly to market. Dame Helen cites Centrica as an example of how fossil fuel heavy companies are contributing important technologies: their new boiler will cut emissions by 50%, and costs by 25%, by using a CD sized fuel cell.
- Interest. Engaged consumers are important for government and business. Dame Helen Alexander fears “climate change fatigue is setting in. We need to ensure that consumers know these theoretical problems have practical solutions that they can engage with.”

Paul Donovan

Global Economist, UBS Investment Bank, Co-author of 'From Red to Green? How the Financial Credit Crunch could Bankrupt the Environment'

Paul Donovan explained to the audience that we are in the grips of two simultaneous credit crunches. Not just financial, but environmental too.

Credit is the ability to use tomorrow's standard of living to raise standards of living today. A credit crunch is the point where we can't borrow any more, and we've reached that with environmental resources: oil remaining at over \$100 a barrel after the worst recession in 70 years is a manifestation of this.

“Economics is all about balancing finite resources and infinite demand. This principle is critical to the climate change context too.”

Paul sees three crucial ways the financial credit crunch will have a profound impact on the environmental credit crunch:

- Patterns of consumer behaviour will change as the ways and ability to spend changes. There's an upside for the environment, as price sensitivity is prompting consumer behaviour change to more sustainable practices. Supermarkets are reporting changing shopping patterns, as people visit local stores on a regular basis rather than carrying out a weekly shop as they look to reduce food waste. Paul believes that price sensitivity will drive a return to the 19th Century value of durability – and this can be replicated on a large scale.
- “Governments will operate the car using the rear view mirror only”. He cites Obama's 'Cash for Clunkers' campaign – it may appear green, but in reality is a government preserving jobs in a dying industry to preserve votes, rather than looking to the future. This is a major issue for introducing new technologies.
- Future cost of capital will increase. An increase in risk and risk aversion leads to increased regulation, which adds legal costs to doing business, which manifests in the cost of capital. Emerging markets, usually capital poor will be hit hard: Paul predicts a “global war for credit”.

Peter Boyd

COO of the 'entrepreneurial not-for-profit' [Carbon War Room](#), which promotes Gigatonne-scale solutions to climate change

Peter introduced the concept of the 'entrepreneurial frame': it currently takes 768g of CO2 to generate \$1 of GDP. That needs to be reduced to 6g of CO2 per \$1 of GDP to prevent destabilising climate change (figures from sustainability expert [Tim Jackson](#)). Governments and large companies' emissions reduction targets are not going to get the world there: entrepreneurs get the seismic shift that is needed and the business opportunities involved in it.

“ Capitalism solves at speed and scale when three elements are there. Policy (which is not enough on its own), technology (which is not a bottleneck), and capital. The question is: how to get capital flowing? ”

Business leaders frequently use the [McKinsey Cost Curve](#) to assess business initiatives. Peter posed the idea that this is just as relevant for emissions reduction activities, as entrepreneurial businesses will see activities with a negative 'cost of abatement' as an opportunity to make profit. To take advantage of it, they need to choose the right leadership, explore unusual collaborations, and focus on the long term money.

Government's role is to use legislation to create a level playing field. The introduction of a global price for carbon, he believes, would mean even more initiatives moving to a negative cost of abatement.

Peter challenged the audience to see climate change as a marketing challenge.

“We need a better lifestyle message that markets the benefits. We need to get away from hair shirt and sacrifice. Martin Luther King didn't get a following by saying 'I have a nightmare!'”

In conclusion

Although at the most basic level all the speakers agreed that, yes, business is getting on with it. The extent to which this is desirable, sustainable and effective was where the debate lay.

For Jonathon Porritt, the corporate world is acting but requires more visionary and ambitious leadership to realise the potential offered by new technologies. Conversely, Dame Helen Alexander argued that business leaders, already beleaguered by economic conditions, needed certainty from government before they should be expected to commit investment.

Paul Donovan offered the economist's view that market forces would shape the future, with Peter Boyd pointing to the importance of entrepreneurs, unfettered by a heritage in the fossil fuel economy, in harnessing those forces. For him, government's role is to smooth a path that entrepreneurs were already clearing.

The business leaders in the audience represented companies already taking action on climate change. Perhaps they and our panellists, as well as Christina Figueres' audience, have the same message for government: "We are acting on climate change. And the easier you can make it, the more we will do."