

Climate Change in the Time of Global Recession

How businesses and government can work together to cut greenhouse gas emissions, reduce carbon footprints and stimulate a green economy.

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Foreword

by Paul Dickinson, CEO, CDP

The current economic crisis has raised concerns that climate change will slip off the agenda of the corporate world and that emissions reductions plans will fall victim to budget cuts, but this report high-lights how leading businesses are committed to their strategies on climate change and want further incentives to act.

Business is calling on government to act too – and the voices are getting louder as business representatives across the world call for government to deliver a strong, consistent, coherent global deal in Copenhagen later this year.

The new framework must create markets that can link together and recognize the global nature of business. Business operations don't stop at national boundaries and internationally coordinated policy drivers are essential. Business is calling for these policies now, irrespective of the current economic challenges we are facing.

The role of the consumer in driving change will also be vital. Consumers of the world realise that their powerful votes are not cast every five years in the ballot box, but rather at the tills when they spend their money, every single day. Companies are calling on government to help educate the consumer so he or she can change their behaviour and buying habits to support low carbon technologies.

Already some 2000 companies report their climate change strategies through the Carbon Disclosure Project every year and through this report, conducted with AEA, we have collected more detailed information from leading global companies on how they conceive the transition to the low carbon economy.

And their message comes loud and clear – we need consistent government intervention, through an internationally applicable framework, to reduce global emissions safely and create the green economy, the only economy we can truly afford to have.



Objectives of the research

This study gauges the views of some of the world's largest companies including Baxter, Centrica, Nissan and Novartis to understand how current economic conditions will impact the essential business transformation to a low carbon economy. It also focuses on one of the biggest challenges facing the world today - how businesses and government can work together to cut greenhouse gas emissions, reduce carbon footprints and stimulate a green economy.

The research was designed to find out what is possible and what might be achievable. In the current global economic crisis, where almost every business sector in every country is facing a downturn in profits, will the issue of climate change be the loser? Will action on reducing greenhouse gas emissions fall victim to business survival – or will the search for an environmentally sustainable way of doing business provide even greater business opportunities than anyone might have imagined?



Nearly 60 global companies were questioned on their attitudes to delivering a low carbon economy. They were challenged on what actions they were prepared to take to mitigate the effects of climate change – and were asked what might governments do to assist beleaguered businesses concerned by debt and diminishing order books?

The results of the survey provide some clear and consistent messages to governments on how to frame policies to approach a low carbon future. More importantly, the analysis represents a clear call to action to all stakeholders – companies, governments and individual consumers - on taking measures now to tackle climate change and help to safeguard the planet's future.

“The realisation of the low carbon economy is impossible without proactive participation of every stakeholder such as companies, the government and consumers”

(Nissan, Japan)

Climate change and the global economic downturn

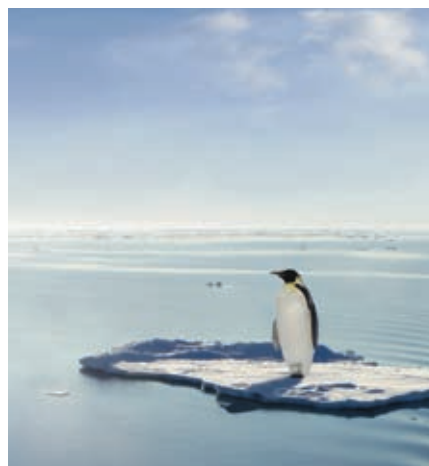
Most of the companies questioned reject the notion that the issue of climate change might be sidelined within their businesses during the current global economic crisis. In the short term the message is essentially business as usual, most companies felt the issue was too high a priority to be pushed to one side. Mitigation of climate change is seen as long term, whereas the economic crisis is largely considered to be short term.

Where climate change is already integrated into company policy, many companies feel that there will be little impact during the current recession. They expect that organisations will carry on with established activities, focusing on low carbon measures that will reduce costs and resources. However, some companies predict that major capital climate change investment is likely to be held back or postponed in the short term until there is an economic turnaround.

In the main, American companies are more optimistic in their outlook than those elsewhere, with two-thirds saying that they do not believe climate change will be sidelined. This compares with a 50/50 split in the UK and Japan between those that feel there would be no impact during the economic downturn and those who think that there will be a short term impact.



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Management in the insurance and financial services, metals and mining, and pharmaceuticals all feel there will be little or no impact; while the those in construction and food and beverage industries are predominantly expecting short-term impacts, such as more stringent criteria for investment and delays in non business critical expenditure.

Delivering carbon reduction targets

Spend on climate change and carbon reduction measures is not generally seen as discretionary. Most companies recognise that reducing spend on climate change activities would have a detrimental effect on their ability to achieve carbon reduction targets to which many have already committed and therefore most see little, if any, decrease in spend in these areas. Around 10 percent of the companies questioned go further on this – stating categorically that cutting such spending was not an option. Only one company – from the construction sector – feels that all its discretionary spend will be reduced or delayed and another gives an estimated reduction of 20 percent.



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Of those who note a reduction in spending on climate change, most say this is more of a shift in emphasis towards focusing on activities that provided the most immediate financial benefits and a better rate of return on the investment. Where climate change programmes are seen as economically driven they will continue as long as they save money. In particular, where energy efficiency is linked to a reduction in costs, management feels that projects would move ahead as originally planned.

A number of companies are of the view that expenditure may be affected or deferred in the short term, particularly in larger scale capital projects. However, national and international commitments such as those under the Kyoto Protocol and any associated corporate voluntary targets are seen by most as medium and long-term targets and therefore unlikely to be seriously affected by the recession. Nevertheless, the joint pressures of energy prices and lack of capital need to be considered as contributory factors holding back investment.

“Those companies fully committed to tackling climate change will continue their work (although there may be some scaling back in line with current economic difficulties). In fact, the current recession may ‘weed out’ those companies not fully committed and who have used the ‘green tag’ as a marketing ploy”.

(Go Ahead, public transport, UK)

Securing a **business advantage**

A large number of companies believe that the requirement to reduce carbon emissions will actually provide them with significant new business opportunities and that by continuing to invest in climate change measures they will be better positioned once the economy begins to stabilise. The biggest factor in reaping benefits from a low carbon economy is seen as being well positioned before the change and therefore having a competitive

advantage when a low carbon economy begins to be fully realised.

Overall, the view is that most companies will not reduce their spending in this area on the grounds that they have no choice but to try to hit carbon emission reduction targets, whether mandatory or voluntary. By continuing to invest in climate change measures, most believe that they will be better positioned for growth once the economy begins

to stabilise. Moreover, companies taking action now feel they would benefit from the advantages of being the “first movers” in developing new technologies. If government were to help encourage customer demand for energy efficient products and services, then these would be developed to meet that demand. In turn, companies feel this would make them more efficient and robust in withstanding high energy prices and dealing with issues of energy security.

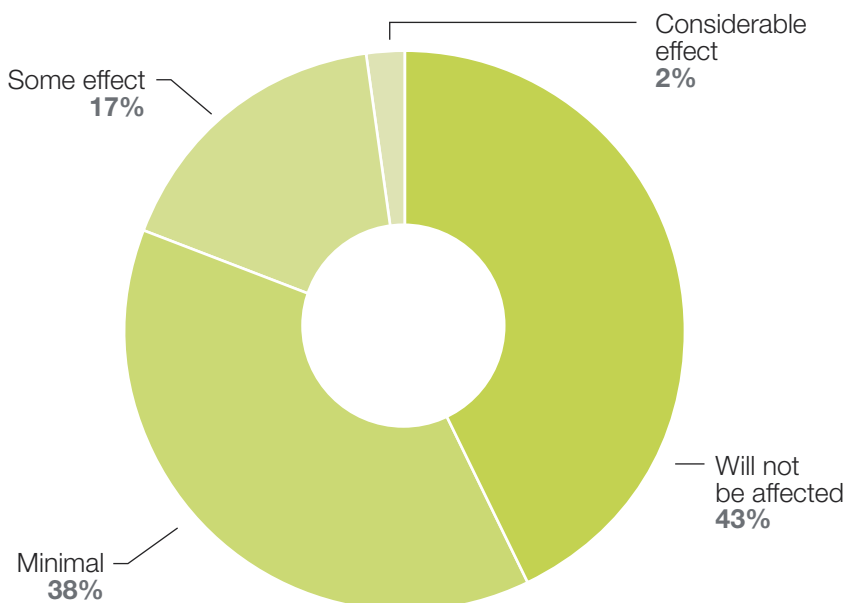


Figure 1 To what extent is spending on climate change measures a discretionary cost that your organisation will reduce or stop during the current economic crisis?



Driving carbon efficiency

Almost 100 percent of the companies in the survey agreed that governments could, and should, provide more support to accelerate the development of clean energies and technologies. It is felt that governments currently rely on the private sector for investment but that private companies cannot do this alone. Several businesses argue for the need for an agreed standard to be developed against which carbon intensity can be measured.

By far the most popular incentives to improving carbon efficiency are grants and tax breaks for the deployment of low carbon technologies such as increased capital allowances for energy efficient products and schemes to accelerate renewable energy generation. There are also calls for governments to provide both direct spending and financial incentives aimed at supporting research projects in universities, both to develop new technologies and, importantly, to demonstrate their commercial viability.

Some companies argued for a sustained government campaign of support for longer-term programmes that would encourage a switch to low-carbon fuels. Multi-party agreements between industry and governments were suggested to determine how to share the initial risks, costs and benefits of deploying green technologies on a much wider scale, perhaps internationally. There is also some support for an agreed carbon floor price.

“Businesses are finding it increasingly difficult to raise capital, banks are calling in debt and cash flow is likely to be an issue – real government help without too much red tape would encourage investment in these technologies”

(Dairy Crest, UK)

“the legislative bodies have within their power and control the ability to create tax incentives (both tax credits and tax rate reductions) that tip the playing field in the direction of lower-carbon solutions that would otherwise be financially unattractive”

(Sara Lee, US)

Creating the right incentives

Companies suggest that government subsidies to the fossil fuel industry should be reduced or completely eliminated – some argued that by keeping them, government is seen as sending out mixed messages. Most companies also want much tougher action taken against businesses that fail to take steps themselves to reduce their carbon emissions. This could include applying market disincentives (i.e. taxes) on high-carbon solutions and placing national regions in competition with each other.

The study shows there is a general consensus that robust policies are needed to better incentivise those companies wanting to develop or deploy low/zero carbon solutions, and a belief that a stimulus package of carbon efficiency incentives would have a positive knock-on effect for the whole global economy.



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Businesses also understand that a collective approach will have the greatest impact, and many see changes in consumer behaviour as the key to making a real difference. Many companies therefore see

government as playing a major role in promoting changes in consumer behaviour in favour of climate-friendly products and services, with an urgent need for public information and education.

Government is vital to encouraging a low carbon economy

Most survey respondents take the view that governments should be pushing for a low carbon economy at international level (this might reflect the fact that several of the companies questioned operate internationally). They believe that mandatory, economy-wide climate legislation is needed, coupled with a continued commitment to competitive electricity markets to spur investment and innovation in new low-carbon solutions. Overwhelmingly, companies said they wanted government to stand up and take the lead in encouraging and promoting a green economy, with robust policies put in place to tackle climate change and an economically responsible approach to renewable energy.

“Governments can lead by example by requiring its buildings to become more energy efficient and requiring its vehicle fleets to use renewable fuels and hybrid technologies”

(Eaton, diversified industrial, USA)

Other suggestions for encouraging a low carbon economy include direct investment in the private sector to develop and deploy new technologies, providing financial aid to the private sector and eliminating obstacles to investment. Some companies believe that rewards should be introduced for companies that are the first to adopt new technologies that will help to reduce greenhouse emissions.

“Globally, we support proposals to provide a framework post-2012 for linking carbon trading mechanisms around the world. This will improve the liquidity of carbon trading and allow climate change to be tackled globally in the most efficient way”

(National Grid, UK)

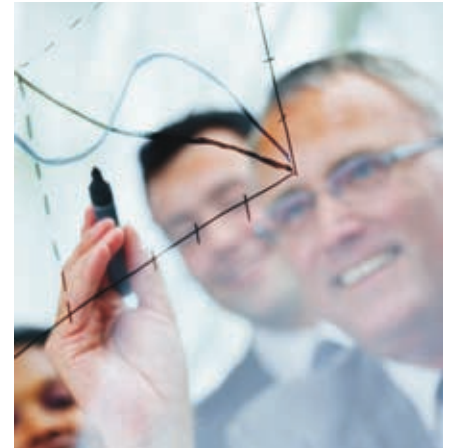
“The most important first step is to provide clear climate policy that balances environmental, economic and energy security and takes a long-term approach that focuses on technology development and deployment.”

(Suncor Energy, Canada)

In relation to Carbon Capture and Storage (CCS), many businesses believe there remains a funding gap between the market price of carbon and the cost of implementing CCS. The view is that this gap must be filled by government if this technology is to be rolled out on a larger scale. Some companies also put forward the view that developing countries need to be given access to the full range of technologies being introduced in the industrialised world, in order to help them reduce their carbon emissions.

Companies are demanding active and co-ordinated government intervention in a range of areas, including:

- Developing, negotiating and adopting an international agreement on greenhouse gas emissions reduction
- Simplifying regulation, carbon-related legislation and trading schemes
- Minimising potentially conflicting regulatory incentives and burdens and making regulation frameworks more consistent
- Creating markets that can all work within the same globally recognised framework
- Establishing short, mid and long-term caps on carbon emissions through cap and trade schemes that provide a sufficient carbon price to motivate action to reduce emissions
- Creating a consistent set of standards on fuel economy and greenhouse gas emissions from motor vehicles
- Supporting the development, demonstration and deployment of new low carbon technologies, including incentives for renewable energy generation
- Using public procurement to drive the uptake of low carbon technologies
- Enhancing public awareness of the benefits of a low carbon economy.



Business benefits of moving to a green economy

Alongside the desire for Government intervention and support is the recognition that businesses can reap huge benefits from a low carbon economy. The key is seen as being well positioned before the change. Companies that have invested in, developed or deployed low/zero carbon technologies feel they are likely to emerge as market leaders and experience growth. With increased competitiveness and an improved corporate image, they believe they will be better placed to adapt and to focus on innovation. Adopting low/zero carbon solutions, such as electric vehicles, renewables and improved energy efficiency, would also reduce the current extreme volatility in energy costs tied to the price of oil and would increase energy security.

The current economic climate is also seen as a reason to focus on the energy efficiencies that businesses had already planned in order to reduce costs and strengthen energy management. For some businesses, the slow down in production will also provide the opportunity to review and look for efficiencies in manufacturing processes that will reduce operational expenditure in the long term.

All businesses feel they will be forced to examine their use of resources and how to improve efficiency. By reducing costs they will automatically increase energy-efficiency and thereby reduce greenhouse gas emissions. The economic climate will also make them look at more efficient ways of working to reduce business travel, such as video conferencing and the use of home-working programmes. At least two companies noted that the current economic downturn would help to make innovation and investment more attractive to their customers if they could demonstrate a reduction in end-user costs, for example through lower energy bills.

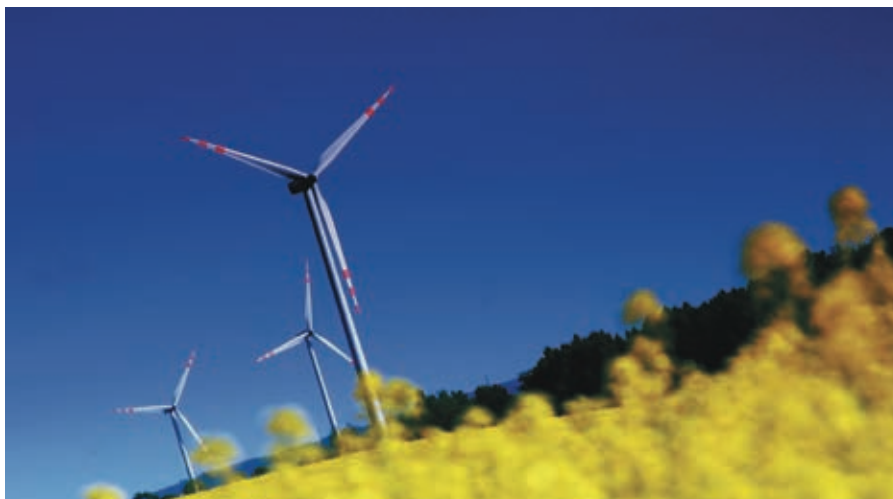
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The way forward

The survey has produced a number of firm suggestions on how national governments can guide industry towards a low-carbon economy – and what companies themselves can do to reduce carbon emissions and help push forward the low carbon agenda.

It is clear that businesses want government to take a firm and active lead in tackling climate change now – both by setting policy and by taking practical measures to help companies invest in a low carbon future. They want minimum standards to be introduced for both energy efficiency and conservation and better regulation. They want subsidies removed from fossil fuels and improvements in incentives for generating renewable fuels. They want international agreement on climate change to provide consistency of carbon reduction schemes. They want tax breaks, grants and other financial incentives in return for investing their own money in developing low or zero carbon technologies and they want incentives and rewards for ‘early adopters’ of the new technologies.



Government investment is seen as the key to developing new energy efficient technologies that will make the step change towards a low carbon economy – whether directly funding research in universities, providing grants for private sector demonstration projects or protecting intellectual property rights. In return, companies are willing to continue their own investment on climate change activities, despite the severe economic downturn, and to see businesses penalised if they ignore emission reduction targets or are too slow to reduce their carbon footprint.

Overwhelmingly, businesses believe there is an urgent need for international agreement on climate change and the creation of markets that can operate in the same globally recognised framework, underlining the importance of the forthcoming climate negotiations in Copenhagen in December. It is only with international co-operation on issues such as low carbon technology development, standard setting for carbon reductions mandatory product standards and carbon pricing that there will be a real move towards cutting carbon emissions consistently and effectively across the planet.

Companies which participated in CDP / AEA Research, May 2009:

Alcoa USA
Allergan USA
AMD (Advanced Micro Devices) USA
Baxter International Inc. USA
Bayer AG Germany
Brixton plc UK
Brown-Forman Corporation USA
Centrica plc UK
Chevron Corporation USA
Credit Suisse Switzerland
Dairy Crest UK
Dell Inc. USA
Deutsche Post World Net Germany
Diageo UK
Duke Energy USA
DuPont USA
Eaton Cooperation USA
EMC Corporation USA
Entergy USA
Exelon Corporation USA
Ford Motor Company USA
Fortum Finland
FPL Group USA
Fujifilm Holdings Corporation Japan
General Motors USA
GlaxoSmithKline UK
H.J.Heinz Company USA
Hartford Financial Services Group USA
Johnson & Johnson USA
Johnson Controls, Inc. USA
Kimberly-Clark USA
Logica UK
Marshalls plc UK
Molson Coors Brewing Co USA
National Grid plc UK
Newmont Mining USA
Nissan Motor Co., Ltd. Japan
Novartis Switzerland
Panasonic Corporation Japan
Plum Creek Timber Co., Inc. USA
PPG Industries USA
Praxair, Inc USA
ProLogis USA
Public Service Enterprise Group, Inc. USA
RBC Canada
Reed Elsevier UK
Rio Tinto UK
Sara Lee Corporation USA
Schering-Plough USA
SEGRO Plc UK
Simon Property Group USA
Sony Corporation Japan
Suncor Energy Inc Canada
Taiwan Semiconductor Manufacturing Company Taiwan
The Go-Ahead Group plc UK
Tokio Marine Holdings, Inc. Japan
Toray Industries, Inc. Japan
Westpac Banking Corporation Australia

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