January 07

the inside track #10

Highlighting CSR Issues of the moment

Climate change – just what can you do?

The Stern Review energised the debate about climate change last autumn, but some may think it had gone quiet.

However, the European Commission has called for "a new industrial revolution" in energy to boost competition among suppliers, protect the climate and encourage self-reliance. Energy Policy - including climate change and energy efficiency - will be on every European Summit in 2007 and every bilateral meeting with trade partners in 2007 – it really is that important to our future.

The Commission has also set out European global warming consequences. The north will enjoy milder climates and increased crop yields, whilst the south will experience the reverse – effectively meaning the existing north-south economic divide will be exacerbated.

How should companies respond? They will have to face up to increased stakeholder pressures as the climate change debate becomes more extensive and more focused on individual or corporate action.

A good illustration is the discussion about the aviation industry, with the criticism from a Government minister about Ryanair: "When it comes to climate change, they are the irresponsible face of capitalism". In contrast, Easyjet (which has probably the most modern fleet of aircraft in the industry) stated it "stands full-square with the government" to include aviation within the carbon trading scheme.

Yet, for many companies, their response towards climate change may not be plain sailing. One of the areas that the EU focused upon, with its "new industrial revolution" was the need for 10% of fuel used by vehicles to come from biofuels by 2020. Yet, a recent discussion with a motor manufacturer revealed some of the challenges that exist when considering joined up and meaningful strategies. Biofuels have been associated with biodiesel in the recent past. Yet, bioethanol is increasingly being considered as an alternative fuel source for cars and light vans.

Derived from cereals such as wheat and barley, as well as sugar (beet and cane), countries like Brazil, Spain and Sweden have been leading the way in developing bioethanol for use in motor vehicles, with a very significant penetration of bioethanol fuelled vehicles (around 80% of the new cars in Brazil).

In Spain and Brazil, studies show bioethanol reduces CO2 emissions by between 80-90%. However, these reductions relate to the total carbon footprint – the energy required to produce, transport and market the product.

But therein lies the challenge for UK companies. Despite Government Ministers advocating stronger action to address climate change, the measure by which the Government assesses the different levels of company car tax relates to exhaust emissions, rather than the total carbon footprint. Bioethanol shows only a 4% reduction in exhaust emissions.

The far higher reductions are achieved because the plants from which bioethanol is sourced, draw down CO2 whilst growing. CO2 emerging in the exhaust is therefore only that originally present in the atmosphere, rather than adding to it, as with petrol and diesel.

For companies trying to respond to the Stern report, one of the biggest challenges is to establish exactly what they can do to make a meaningful difference!

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Given the EU is the world's second-largest energy consumer, the EU's initiative will be supplemented by a range of governmental activities. High profile companies may adopt leadership position initiatives - to which others in their industries will need to respond.

Such initiatives will not be limited to the EU. In 2006, Wells Fargo became the largest US purchaser of renewable energy credits, purchasing 550million kilowatt hours of renewable wind energy. Google claimed the largest solar installation in the US, with more than 9,000 solar panels on its Californian campus roof.

Companies need strategies flexible enough to respond to likely government initiatives to climate change. In addition, they need to consider responses they will receive from customers, suppliers, and their own employees. They need also to understand likely changes in energy and transportation costs, and how the attractiveness of different fuels may move over time.

A first step is to consider how to better use current energy sources. A good example is Virgin Atlantic's decision to tow aircraft to take off areas, saving energy (and reducing emissions by 120,000 tonnes). Energy efficiency, and better communication about its importance, not least within the company, but also to employees' families, will be vital to achieve emission reduction targets.

A second step may be to consider energy offsets - such as planting trees or financing energy efficient power generation in the developing world. However, many of these projects are flawed because the CO2 offset may only be temporary, and not have the desired long term effect. The EU Emissions Trading Scheme helps overcome this by effectively incentivising better performance. In a similar manner, BP introduced its own internal emissions trading scheme and is reported to have saved £340m over three years.

But **the third (and some may say, the most important) step** is to consider how a company can change its way of doing its business. This may be through either operational changes or product developments that help customers think about how they can be more energy efficient and enable them to be so.

Achieving improvements in climate change impacts is not just about additional costs. There are opportunities for commercial developments from which companies can take advantage.

To maximise such business opportunities, companies need to understand how their products, customer relationships and behaviours they encourage impact climate change. These are often far more important than managing their own company's use of energy, which is now effectively a "no-brainer", even though many smaller companies (such as small hotels) have yet to take action. Rising energy taxes and costs will force them to focus - sooner or later.

Companies need to focus on "indirect" climate change impacts and need consider how they can use their influence with both customers and suppliers to affect attitudinal changes. Publicity generated by the likes of Tesco (it plans to run three quarters of its delivery fleet on biodiesel), and by the big DIY stores offering wind turbines, does more than create a page of press cuttings. It brings these issues to the front of customers' and suppliers' minds and raises them higher on their agenda. As the Stern Review demonstrates, the question of climate change is both an environmental and an economic issue that should be addressed by corporate, governments and individuals. The challenge for companies is greater than just focusing on their own internal activities – they also need to actively consider their indirect impacts.

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