

Executive Summary

Aligning public goals and corporate practices to achieve a low-carbon economy

The successful transition to a low-carbon economy is an overarching challenge that concerns society as a whole. As illustrated by the Copenhagen Accord pledges to reduce greenhouse gas (GHG) emissions, many governments recognise the need to act and to put their economies on a low-carbon path. Business, an important user of energy and a large source of emissions, but also a key vector of innovation and solutions, is a central actor in achieving these goals.

Pressure on companies to address climate change is growing. Society's expectations that business conduct contribute to sustainable development – reducing GHG emissions is part of this – are communicated through a multitude of channels, including national policies and regulation, demands from investors, consumers and other companies, as well as through international declarations and instruments, such as the *OECD Guidelines for Multinational Enterprises*. Companies are expected to comply with both the letter and the spirit of laws and regulations, and not to operate by lower standards in foreign jurisdictions where relevant laws and regulations do not exist or are weakly enforced. Companies have responsibility to exercise due diligence to identify and mitigate the negative impacts that their activities may generate for society and for the environment.

This report surveys responsible business practices in addressing climate change and shifting to a low-carbon economy. It summarises policy frameworks, regulations and other drivers of corporate action to reduce GHG emissions and documents how companies are responding to, and anticipating growing requirements and expectations in this area. The report does not analyse in depth the design and impacts of policy mixes aimed at corporate reduction of GHG emissions. Rather, it reviews corporate practices in the existing, yet evolving, context shaped by public policies and goals on climate change, building on principles of responsible business conduct as identified in the *Guidelines for Multinational Enterprises*. This review shows that while a number of leading companies have taken action to address climate change, many others are lagging behind. Based on this review, the report identifies the areas where governments can take further measures to put GHG reduction into the mainstream of business operations and help further align corporate practices with public goals.

Addressing climate change is becoming part of business practice

Leading companies have started taking action to address climate change as early as the 1990s. Since 2005, corporate efforts to reduce emissions have become more widespread, triggered in large part by the start of the European Union Emissions Trading Scheme. In

addition to complying with current regulation and anticipating future policy developments, companies are managing their GHG emissions as part of plans to cut energy costs, reduce their dependence on fossil fuels, seize new business opportunities and preserve their reputation. Companies are also increasingly attentive to expectations from investors and consumers, and aware of the importance of contributing to shaping the policy debate on climate change at international and national levels.

As a first step in managing emissions, companies **measure and disclose GHG emissions**. This helps them assess their impacts on climate and the associated risks and costs of mitigation, and design cost-effective emissions reduction plans. Requesting companies to measure and disclose emission-related information is also an important tool for policy makers. Increased transparency can incentivise companies to reduce emissions, and helps policy makers design and fine-tune climate change policies and monitor their progress. For commercial partners, financial institutions, investors in general, and the public at large, information on corporate emissions is necessary to understand the company's emission performance, evaluate the related risks and the company's capacity to manage them. As of today, most of the largest companies (4 out of 5 of the Global 500) measure and disclose their GHG emissions.

The second area of corporate action is to **reduce emissions**. For many companies, it starts with reducing energy consumption, which has both environmental and economic benefits. A 2010 OECD survey shows that 61 out of 63 responding companies have adopted energy conservation measures to reduce GHG emissions. Other emission reduction measures include reducing waste generation, adopting low-carbon technologies, optimising logistics and shifting to renewable energies. Depending on the size, sector and location of the company, these measures may be costlier and have a longer return on investment. Companies are thus taking very different approaches in implementing them. Increasingly, leading companies ensure that climate change considerations are embedded in corporate strategies: in 2009, 3 in 5 of 800 global companies had Board level or senior management level responsibility for their climate change performance.

The new frontier of corporate action is extending low-carbon strategies **beyond the company's borders**. The bulk of GHG emissions is often produced outside companies' boundaries, throughout the supply chain and the use and disposal of intermediary or final products. Leading companies have therefore started involving their suppliers and engaging with consumers to lower their overall carbon footprint. Governments are also increasingly seeking to leverage companies' knowledge of their supply chain to spread good emission management practices. Managing emissions in the supply chain and throughout the life-cycle of products is, however, a recent area of corporate action, where methodologies and practices are just emerging. This is illustrated by the 2010 OECD survey, which shows that only a limited number of companies have taken significant action to address "beyond the border" emissions.

Much more could be done to mainstream GHG reduction into business action

While the increase in business action to address climate change is encouraging, much more needs to be done to fully mobilise business contributions toward a low-carbon economy. In OECD countries, regulation and price incentives to report on and reduce emissions, where they exist, mainly concern large companies in the most polluting sectors. These measures also vary widely in scope and stringency and, in most cases, display levels

of ambition that are not commensurate with long-term goals. Many companies remain unregulated and act on a voluntary basis. Outside the OECD area, incentives for companies to act are scarcer and GHG emissions are largely unregulated or regulated indirectly, through measures that target energy savings and investment in clean energy.

The following messages build on this review to help governments in both OECD and non-OECD countries step up companies' action to transition to a low-carbon economy:

Greater harmonisation of GHG reporting methodologies is needed. At present, there are no internationally-agreed standards for GHG emission reporting at company level. This leads to variations in methodologies, scope and boundaries of reported information, which in turn limits the comparability of corporate information and may generate doubts on the quality and reliability of the information. Ultimately, it also increases the cost of GHG reporting for companies, especially those operating in different jurisdictions, and may deter smaller, resource-constrained companies from undertaking emission inventories. There is therefore a need to ensure that GHG accounting methodologies and standards are consistent with emerging good practices and build upon recognised protocols in this area. So far the most widely used standards are the Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute, and its translation into ISO 24064-1. National and international harmonisation efforts should draw upon experience in using these standards.

The scope and boundaries of corporate emissions should be defined to reflect the objectives of reporting and incentivise reduction of emissions. Current regulatory schemes focus on direct emissions generated at facility level to incentivise emissions reductions of the most polluting installations in a specific country. A number of governments are seeking ways to go further, notably to limit emissions delocalisation or "leakage" across national boundaries. Important lessons can be drawn from these experiences. The boundaries of emissions accounting should be set at a level that is commensurate to the objectives of the reporting scheme and to the capacity of governments to use and monitor the information. The definition of scope and boundaries also needs to take into account the internal management capacity of companies in order to trigger business action to reduce emissions. In this context, aligning boundaries used for emissions accounting with those used in financial reporting would provide a well-tested consolidation method at company level. It would also have the additional benefits of simplifying reporting procedures and facilitating the assessment of financial risks related to the company's GHG emissions.

The quality and reliability of corporate information on GHG emissions should be strengthened. To draw the full potential of reporting requirements, GHG emission information has to be timely, reliable and relevant. Just as financial audits conducted by independent auditors provide objective assurance on financial statements, independent verification of corporate GHG emission information can help enhance the quality and reliability of emissions disclosure. Governments have taken different approaches to verification of climate change information: some make it mandatory, others keep it voluntary, and others take a mixed approach. Companies' approaches to verification also vary widely in terms of level of assurance, scope, criteria and materiality. Strengthening verification requirements and promoting a consistent approach to the level and type of verification needed for corporate GHG information could help make this information more accurate and comparable, to the benefit of companies, investors and governments. An important step towards this would

be to facilitate the development of international verification protocols and standards for corporate emissions accounting and promote their use in GHG accounting programmes.

Stronger incentives and price signals are needed to unlock the potential for emissions reductions of companies. Going beyond the “win-win” measures (such as reducing energy consumption) that fulfil both financial and environmental objectives may involve important investments for which companies may not yet be prepared in light of current carbon prices. Frontrunners may see the benefits of acting now to avoid larger costs in the future and to brand themselves as good performers. However, for the vast majority of firms, shifting towards renewable energies, reorganising operations to minimise emissions or using less carbon-intensive inputs are steps which require stronger government incentives and signals – such as global emissions trading markets, carbon taxes, regulations and standards. Frontrunners also risk losing steam if they cannot capitalise on early investments. Governments therefore need to continue their efforts in establishing and improving policy frameworks that incentivise corporate reduction of GHG emissions.

More guidance is needed for setting corporate GHG emission reduction targets. Target setting is an important element of corporate plans to reduce emissions. However, in the absence of clear policy incentives and of common approaches for setting emission reduction targets, the level of ambition of corporate emission reduction targets is likely to remain low and the resulting reductions will not be comparable. While targets need to be set at company level to account for sector and location specificities, governments need to clarify their expectations in terms of levels of corporate emissions reductions and provide additional guidance on target setting. This will help companies achieve clear, measurable and comparable emission reductions and will improve transparency on corporate action in this area.

More support to companies’ engagement with their suppliers and stronger international cooperation would help capture a broader range of emissions. A number of governments see value in leveraging companies’ knowledge of, and influence on their supply chain to incentivise reduction of indirect, unregulated emissions. One trend is the promotion of voluntary reporting of corporate carbon footprints. In the long-run, however, this cannot substitute for regulating a broader range of emissions sources. Meanwhile, measures such as promotion of good practices and public-private partnerships for training and capacity building could support companies’ efforts to engage their suppliers. International cooperation is also needed to develop a balanced approach to emissions regulation and to ensure compliance with trade rules.

Governments can help mobilise consumers and increase trust in companies. Consumers are a key pillar of a low-carbon economy. While governments have a leading role to play in raising consumer awareness and setting signals to shape consumer demand (e.g., by taxing carbon intensive goods and services and reducing the availability of energy inefficient devices), companies are well placed to support efforts to educate consumers on climate change and respond to demand for low-carbon goods and services. However, mobilising consumers to change consumption habits will work only if consumers trust companies. Credibility of information on corporate emissions is crucial and depends strongly on the quality of reporting systems (i.e. their capacity to generate timely, reliable and relevant information). Government-backed certification and labelling schemes, and guidance on how to clearly and honestly communicate the low-carbon attributes of goods and services can also increase consumer trust and serve as models for others.