Corporate Action for Putting a Price on Carbon

Summary of Key Findings:

- Companies in a diverse range of sectors see carbon pricing as the most efficient and cost-effective means of tackling the climate challenge.
- Many companies are voicing support for government action to put a price on carbon. Ahead of the UN Climate Leadership Summit in September, 2014, more than 1,000 companies added their names to calls for carbon pricing.
- Many companies also assign a price on carbon internally. CDP reports that over 150 global companies incorporate the cost of carbon into their capital decision-making processes, with "shadow prices" ranging from $6 to $80 per metric ton.
- Corporate disclosure of climate change risk and mitigation strategies are linked to higher performance on three key financial metrics: return on equity, cash flow stability and dividend growth.

Background

Carbon pricing policies use market signals to put a cost on the practice of emitting greenhouse gases, and create an economic incentive to reduce emissions. A growing number of countries, provinces and cities are designing such solutions. In 2014, nearly 40 national and more than 20 sub-national jurisdictions had adopted emissions trading schemes (ETS) or carbon taxes.[1] At the Climate Summit, 74 speak up in support of carbon pricing.

Business is also taking action. Companies in a diverse range of sectors see that carbon pricing is the most efficient and cost-effective means of tackling the emissions challenge, and are voicing support for carbon pricing. Ahead of the UN Climate Leadership Summit in September, 2014, more than 1,000 companies added their names to calls for carbon pricing led by the World Bank Group, United Nations Global Compact, The Prince of Wales' Corporate Leaders Group, and the 2014 Global Investor Statement on Climate Change.[2] In 2011, the Brazilian group Instituto Ethos also issued a statement.[3] These companies and many others acknowledge that climate change is becoming more central to their business models and they want to be prepared for both the possible costs and opportunities.

Engagement Strategies

There is a strong base of experience in voluntary corporate action to manage and reduce carbon risk. Companies have been preparing since the 1990s for regulation and/or carbon prices. The most common

[1] World Bank Partnership for Market Readiness, www.thepmr.org.
[2] See http://www.worldbank.org/en/news/feature/2014/09/22/governments-businesses-support-carbon-pricing.
[3] See www1.ethos.org.br/EthosWeb/arquivo/0-A-7f9Plataforma_ingles.pdf.

strategy is developing a corporate-wide greenhouse-gas inventory to better understand an organization's footprint, identify areas of risk and reward, benchmark against industry standards, and inform future strategies. Many companies have developed corporate emissions reduction targets to reduce their carbon footprint, with thousands of companies and individuals purchasing voluntary offsets - gaining experience with carbon pricing. A 2012 report from Ceres, WWF and Calvert Investments showed that a majority of Fortune 100 companies had set a renewable energy commitment, a GHG emissions reduction commitment or both[4]. The trend is even stronger internationally, as more than two-thirds of Fortune's Global 100 have set the same commitments.[5]

Internal Carbon Pricing

Leading companies that are anticipating future carbon regulation are also taking steps to incorporate the cost of carbon into decision-making processes by using an internal "shadow price". For many, this is part of a long-term risk management strategy, and a means of talking about carbon in the language of business – as a gauge to evaluate return on related investments – and reward parts of the company that can demonstrate cost savings from lowering emissions.

In 2014, 150 companies disclosed to CDP that they use an internal price on carbon in their business planning[6]. These include, among others, utilities (American Electric Power, Xcel Energy, National Grid), energy companies (ExxonMobil, Shell, BP), technology companies (Google, Microsoft), airlines (Delta), financial services firms (Wells Fargo, Westpac Bank), retailers (Walmart) and consumer products (Disney, Mars, BRF S.A.). Given that there is no market benchmark, CDP reports that the prices companies use vary widely, from $6 to more than $80 per metric ton on the companies' carbon pollution.

The Business Case for Action

There is a growing body of evidence that corporate disclosure on climate change makes good business sense. CDP found that the disclosure of climate change risk and mitigation strategies is linked to higher performance on three key financial metrics which reflect overall corporate quality: return on equity, cash flow stability and dividend growth[7]. S&P 500 industry leaders that are actively managing and planning for climate change generate superior profitability 67 percent higher than companies that do not disclose on climate change.[8]

The widespread use of carbon pricing as a planning tool suggests that, despite the absence of global regulation of GHG emissions, mainstream businesses find the use of carbon pricing to be realistic,

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[4] "Power Forward: Why the World's Largest Companies are Investing in Renewable Energy" (2012).

[5] Ibid.

6 Carbon Disclosure Project, "Global Corporate Use of Carbon Pricing" (2014). https://www.cdp.net/CDPResults/global-price-on-carbon-report-2014.pdf

7 Carbon Disclosure Project, "Climate Action and Profitability" (2014). https://www.cdp.net/CDPResults/CDP-SP500-leaders-report-2014.pdf

[8] Ibid.

prudent and useful. Companies cite the use of a carbon price as a planning tool to help identify revenue opportunities, risks, and as an incentive to drive maximum energy efficiencies to reduce costs and guide capital investment decisions.

Many companies also use internal carbon pricing to redirect capital to low-carbon operation efforts. Finally, corporate carbon pricing can be a powerful advocacy tool for companies to influence public policy development, such as a domestic price on carbon through an emissions trading system or other market mechanism. Business and government are interdependent in this space. Governments need the insights and support of businesses to advance effective climate policy. Businesses need clarity and certainty from governments to invest and act on risks and opportunities in current and future markets.