

# **Want to increase profit and decrease risk? Address your business' greenhouse gas emissions.**

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## **Introduction**

Australian business has traditionally viewed the requirement to reduce greenhouse gas (GHG) emissions as an unwelcome imposition placed on them by government, under pressure from green groups and other climate 'alarmists'. However many international companies are taking a different view. At the 2015 COP21 assembly of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris, a number of leading international industry associations and organizations, representing thousands of companies from around the globe presented a series of so-called 'Carbon Markets Statements' in order to emphasize the importance of including Carbon Market provisions in the Paris Agreement (Johannsdottir & Mcinerney 2016). In the absence of the global carbon price they were calling for, many have now taken a leadership position and are willingly addressing the problem – and excitingly they are reporting numerous business benefits and risk reductions.

Business' attitude to climate change is morphing rapidly from a compliance burden to a business opportunity. It is critical that Australian businesses move immediately to reduce emissions if they are to remain competitive in a carbon-constrained future.

## **The business landscape**

Last December the Paris Agreement on climate change was adopted, which included:

- A commitment to keeping the rise in global temperatures to well below 2°C
- A drive to limit the temperature increase even further to 1.5°C
- A goal of achieving net-zero carbon emissions between 2050 and 2100.

To achieve this, global emissions will have to decline by at least 60% by 2050 (Hassol 2011). As emissions are currently not reducing at the rate required to meet the Paris goals, this will require significant regulation to increase the cost of carbon-intensive energy and the activities that drive climate change (CDP 2016).

Australia's target of a 26 to 28 percent reduction in greenhouse gas emissions below 2005 levels by 2030 remains unchanged, however the Paris agreement includes mechanisms to review reduction targets every five years starting from 2020. Each stocktake will have to result in a more ambitious target (Climate Council 2015). With business owning the lion's share of the problem (for instance, only 90 companies caused two-thirds of man-made global warming emissions (Heede 2014)), it is not a question of "if" but "when" more stringent regulations will be introduced to govern how businesses operate; meanwhile companies will

have to demonstrate significantly more climate action in order to support their social license to operate (CDP 2016).

Since the signing of the Paris agreement the business landscape has changed at a rapid pace. From the mainstream issuance of Climate Bonds to fund emissions reductions projects (Climate Bonds Initiative 2016) to the introduction of an internal carbon price at companies such as Microsoft (Microsoft 2016), new and innovative initiatives to reduce emissions, save money and increase productivity and staff engagement are becoming increasingly popular. Organisations are forming coalitions – even with competitors – to work together to reduce emissions. The speed of this transition is well illustrated by an initiative whereby companies commit to setting a science-based target - an emissions reduction target that represents an organisation's share of the global carbon budget (i.e. the absolute amount of carbon which can collectively be emitted to remain on track to keep temperature increase below 2°C compared to pre-industrial levels). The number of companies committing to such a target increased by 30% in just 8 days after the signing of the Paris Agreement on the April 22, 2016, with a further 30% increase in the 4 months since (Science Based Targets 2016).

### **The benefits**

Evidence from the USA and Europe suggests that those taking early action will reap significant benefits (with the earliest action reaping the greatest benefits) – however those companies delaying action will face significant costs (Kemp & Jotzo 2015).

As a result of the agreed US national climate plans, the estimated value of the market in efficiency and low-carbon technologies for the energy sector is at least \$13.5 trillion over the next 14 years (CDP 2016). Companies that have already acted to reduce emissions are accruing an internal rate of return (IRR) well above average (almost 27 percent) while companies who have failed to act are incurring costs. Some areas significantly outperform this metric. For example, the IRR for process energy efficiency measures is 46% in South Africa and 81% in the US (CDP 2014).

More than half of Fortune 100 companies are saving in aggregate around \$1.1 billion per year from emission reduction initiatives (Hardcastle 2015). Companies here could improve their profits by 2-10% each year just by saving energy (ClimateWorks 2016), and investors are being actively encouraged to pressure boards to take such steps. While the majority of financial benefits are as a result of cost savings due to energy usage reductions, there are other benefits accruing. For instance, Unilever reported that not only had eco-efficiency measures in their factories saved more than \$438 million over 7 years, but also that their most sustainable brands grew twice as fast as the rest of the business (Hardcastle 2015). As well as helping their bottom line, Google reported seeing benefits in the diversification of fuel supplies, as well as supporting innovation and economic growth in all the regions where it operates (Hardcastle 2016).

Over the last 4 years, U.S. Fortune 500 companies have made a 17% increase in investments in green R&D or product development (GreenBiz Group 2016), highlighting that US

manufacturers' thinking around sustainability is changing from a corporate social responsibility obligation to seizing a business opportunity. Figure 1 shows the mirroring of growth in Green markets and increase in the number of companies that have established targets for reducing GHG emissions (GreenBiz Group 2016).

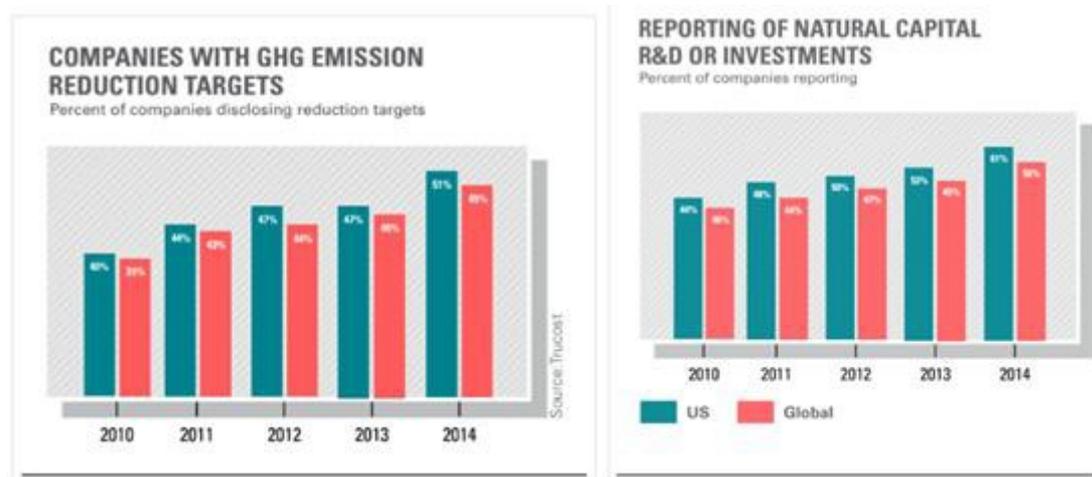


Figure 1: GHG emissions targets mirror investments in green R&D/investment (GreenBiz Group 2016)

### The risks

As well as increased regulatory risks stemming from Australia's international obligations, business will face growing physical risks from climate change that will play a critical role in business success in the future (CDP 2016). For example, the cumulative global cost of climate change impacts on the environment, health, and food security is estimated to reach between US\$2 trillion and US\$4 trillion by 2030 (Mercer 2011). Energy sources will have to change, as it is estimated that most of the world's fossil fuels must remain in the ground (McGlade & Ekins 2015), while there may be billions of dollars in regulatory penalties and a likelihood of significant market shifts in industry (Magness 2015).

### The opposing view

Business representatives that speak out against emissions reductions cite the loss of jobs and general negative impact to the economy as the reason for inaction. For instance, The Australian Coal Association produced "independent" modelling in 2011 to show that the proposed carbon tax would cost nearly 3000 jobs in regional NSW and more than 1100 jobs in Queensland in its first three years (Maher 2011).

However they fail to account for the positive economic impacts of new technologies. In 2014, more than 7.7 million people worked in the renewables sector, excluding large hydropower plants, with a third in the photovoltaic sector, and one million in wind power –

technologies which barely existed two decades ago (IRENA 2015). In the US, the solar sector employs 77% more workers than the coal mining industry (Fehrenbacher 2016). Doubling the share of renewables in the energy mix by 2030 has been estimated to triple the number of jobs in the sector and increase global GDP by 1.1% or US \$1.3 trillion (IRENA 2016).

It's interesting to note that former Chair of the Australian Coal Association, Ian Dunlop, is now calling for a government of national unity to be formed in order to tackle what he terms the current "climate emergency". Whether he is able to convince government to deal with climate change on a war-footing or not, his former colleagues and other business leaders need to do so; if not for our planet's future then at least for that of their business. By ignoring this opportunity they are exposing their organisations to unacceptable levels of risk, and failing to capitalise on the benefits that are on offer, allowing international competitors to outperform them and capture Australia's share of burgeoning new markets.

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