

Sir Nick Stern
Stern Review
2nd Floor, Room 35/36
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

9th December 2005

Dear Sir,

The CarbonNeutral Company (TCNC) is a business provider of climate change solutions. It offers a framework within which companies and other organisations can acquire “carbon neutral” status and it operates in the market of carbon offsets. The Company accepts that offsets do not provide the whole solution but believes that the certification processes it provides through its CarbonNeutral protocol and branded CarbonNeutral® standard ensure that its clients consider all the possible steps towards managing their carbon emissions.

The experience of TCNC has acquired in the area of beyond compliance action by companies has suggested that this is a powerful lever for Government in its strategy against carbon emissions.

The paper attached to this one gives the Company’s view of the importance of beyond-compliance action by companies and argues for Government support for this area of work.

The key steps for Government are outlined in the paper attached. They are

- Recognition of the value of this contribution
- A framework of incentives, including fiscal measures
- A commitment to working with the solutions industry to find and support best practice.

This note summarises TCNC position and we would be very happy to give further and detailed evidence at a further stage in your enquiry.

Yours sincerely,

Jonathan Shopley
CEO

Attachment:
Submission from The CarbonNeutral Company to the Stern Commission.

Beyond-compliance: Delivering business benefits and 60% emissions reductions

1. POLITICAL MOMENTUM ON CLIMATE CHANGE IS BUILDING

2005 has been a critical year for climate change. It has seen awareness of the issue reach an all time high, political polemic turned into leadership through Britain's G8 and EU presidencies, negotiations turned to legislation with the Kyoto protocol entering into force and the launch of the EU ETS and business taking a lead in voluntary action to tackle emissions. This December sees the first Meeting of the Parties of the Kyoto Protocol (MOP 1), which aims to take regulated frameworks to new areas and explore what will need to be done, following Kyoto, post 2012.

2. THE AIM OF REDUCING EMISSIONS BY 60% REMAINS A SEVERE CHALLENGE

This political momentum, however, is yet to be translated into firm action, proportion to the scale of the problem. It has proved difficult even to reach agreement on the relatively modest Kyoto targets. This is a drop in the ocean. An international scientific consensus has emerged that to avert dangerous climate change, the loss of the Greenland ice sheet, for example, or the weakening of the Gulf Stream, global emissions of carbon dioxide, the main greenhouse gas, must be reduced by at least 60% by 2050. At present, however, global emissions are still increasing and at their fastest rate ever, despite our best efforts. With global growth continuing apace, we are a long way from the aim of decoupling economic growth from carbon emissions.

3. ACTION BEYOND REGULATION IS ESSENTIAL

These regulatory efforts, Kyoto and the different national plans to implement the targets, have taken 13 years to become a reality from the inception and the signing of United Nations Framework Convention on Climate Change (UNFCCC) in 1992. In this time there have been numerous calls from businesses, international organisations and NGOs for a mechanism to allow initiatives for immediate and effective action to grow whilst the formal regulations are being developed. From this demand for immediate action the "beyond-compliance" carbon sector has emerged.

4. BEYOND-COMPLIANCE SECTOR IS A GROWING FORCE

As early as 1996, whilst regulations and a global accord were being negotiated The CarbonNeutral Company (then Future Forests) was driving and shaping this voluntary sector by offering services to help businesses, individuals and public sector organisations understand their climate change impacts, take action to avoid,

reduce and offset these and to realise the commercial benefits of this early action. As this market has been recognised so the number of companies taking action has risen. Forward thinking companies and organisations including GM, Toyota, Avis Europe and HSBC have all been at the forefront of voluntary action on climate change.

5. DRIVING FORCES

Since the emergence of the beyond compliance market, the business case for early action on carbon emissions has grown stronger and more compelling. By taking early and effective action on greenhouse gas emissions, companies can show their determination to put into practice their commitments to corporate responsibility. By ensuring that climate change is an integral part of their risk management strategies, companies not only future-proof against eventualities such as the inevitable expansion of the regulated carbon market but also maintain a competitive edge over rivals. By acting early companies can reduce the cost of tackling carbon emissions and ensure that they are best placed to take advantage of subsequent commercial opportunities from these markets.

Adopting a leadership position on climate change can also have a direct impact on a company's bottom line. The Radio Taxis Group, the UK's second largest black taxi company, became the first CarbonNeutral® taxi company in 2005. This leadership position created clear point of differentiation in a crowded market and was pivotal to the Group winning £1.2 million on new business within six months of launching the initiative.

As well as impacting on a company's bottom line, action, or lack of it, on carbon liability is of increasing interest to investors when they value companies. The Carbon Disclosure Project (CDP) this year worked with \$23 trillion worth of investor funds to get companies to disclose carbon liabilities. The result is that many investors especially Socially Responsible Investment (SRI) funds, are now considering discounting stocks that are not acting to limit exposure from climate change.

Alongside the financial risks, early action on carbon liability can limit risk to corporate reputation. Where previously NGO attacks on corporates have been disparate with little damage to profits, NGO alliances such as Stop Climate Chaos (which includes Greenpeace, Friends of the Earth, RSPB, and Oxfam) plan to increase the strength, reach and credibility of criticisms and consumer action, including product boycotts. However, positive reputational benefits can be realised. Berkeley Homes launched its CarbonNeutral West 3 London Apartments initiative earlier this year, reducing and offsetting the emissions for the construction of the development of 518 new homes. The initiative received across-the-board support including from Elliot Morley, Minister of State (Climate Change and Environment) at DEFRA. It was hailed as a flagship project and an example for other developers to follow.

6. WHAT NEEDS TO HAPPEN TO ACCELERATE PROGRESS IN BEYOND-COMPLIANCE ACTION ON CLIMATE CHANGE

The voluntary corporate action on carbon emissions via the beyond-compliance market has grown steadily and continues to do so.

However, there is considerable scope to make it an even more effective part of the battle against climate change. The processes that drive it can still be strengthened to give organisations ever better reasons to act. The fact that progress on the regulated front, though steady, has proved so difficult to win makes it all the more imperative that the voluntary efforts of organisations have the best possible environment in which to prosper.

The potential is considerable. In a recent study we commissioned an assessment of the global scale of the market for voluntary action. The study identified the emissions from those Global 5000 companies participating in the 2005 Carbon Disclosure Project that were most likely to consider taking action either for reasons of reputation and for maintaining brand integrity, or because they wished to act as a means of holding off regulation. The annual emissions from these companies were assessed at about 1 billion tonnes of CO₂ equivalent.

Companies, however, need encouragement to go further. Where currently many stop simply at disclosing carbon liabilities, encouragement needs to be given to turn disclosure of emissions into positive action to manage them. Also where a heavy focus has been placed so far on getting the top businesses to act, SMEs also need to be given guidance on impacts and actions that can be taken. To bolster these necessary actions the NGOs have a crucial role to play in raising public awareness and allowing Government the political headroom to push forward innovative policies to deliver wide scale emissions reductions.

More specifically, though, for the sector to grow, Government incentives are needed for beyond-compliance initiatives going, beyond endorsement, although this is welcome, to encourage them directly.

There are the obvious financial incentives such as accelerated depreciation or VAT exemption for low / no carbon investments in those companies and organisation going above and beyond the regulatory minimum. We think that other instruments should be considered, specifically when considering the important role of carbon offset in the short and medium term. For example:

- Help develop and endorse standards for beyond-compliance action to build business and consumer confidence in offsetting as a complement to reductions
- Make provision for 'domestic CDM instruments' to promote beyond-compliance initiatives through offset projects located within the UK.
- At local authority level, linking planning gain to local carbon offsetting opportunities such as energy efficiency investment in social residential housing, or recreation of long-term natural woodland and forests.

- At individual development level, impose requirements for carbon assessments of new developments, and the adoption of targets which can be met through a combination of energy efficiency and carbon offsetting
- Set up a match funding scheme. Companies would be able to apply to the fund to match the amount of money they are putting into beyond compliance activity. The money would be used for communications – to extend impact and inspire others to follow suit. This is a similar model to founding of Association for Business Sponsorship of the Arts

Critically, we feel that domestic offset opportunities need to be opened up to allow companies to compensate locally for shortfalls in progress towards targets.

In summary, Government needs to:

- Say clearly and publicly that the beyond-compliance effort of companies and organisations is helpful and will be encouraged through public policy.
- Consider a framework of incentives for beyond compliance action, including some early signals through the taxation system.
- Work with industry to review the conditions which will favour action beyond compliance and to remove perverse incentives where they may exist.

7. WHAT COULD HAPPEN IF WE GOT IT RIGHT

The beyond-compliance carbon market has huge potential to close the gap between the Government's 60% 2050 targets and the actual reductions that the regulated market will deliver. For example, the greenhouse gas emissions generated by a large investment firm currently working with The CarbonNeutral Company are made up by 70% from energy, 23% from travel and the remaining 7% from a combination of other small sources. A 60% emissions reduction by 2050 could be delivered by switching from fossil fuel derived electricity to a renewable energy provider or, alternatively, through a structured 3% year on year reduction provided by a combination of energy efficiency and reduction measures and carbon offsets over the next 30 years.

Reductions of this scale are replicable across all companies and organisations, so that with a combination of financial incentives from Government and domestic offset projects, the UK could get back on track to meets its aim of a 60% reduction and maintain its position as a world leader in positive action on climate change.

The key factor is to give businesses and other organisations the framework of incentives that will encourage them to move beyond the regulatory system and take initiatives of their own. We have suggested in this paper some of the immediate steps that Government can take.