Money matters with climate change

Putting a focus on finance is driving the private sector to clean up its act when it comes to carbon emissions, says **Robert Charnock**

The world's governments are failing to deliver climate change agreements in the timeframe needed to keep global temperature increase below 2ºC. So civil society organizations (CSOs), from campaigning non-governmental organizations (NGOs) to accounting standard setters, are ramping up the pressure on companies to force them to be more mindful about the business risks climate change will bring.

CSOs have become increasingly frustrated that international binding agreements for limiting warming to 2ºC will only come into force by 2020 – woefully late to stem potentially catastrophic climate change. To stimulate action, two like-minded CSOs, the Carbon Tracker Initiative and Ceres (Coalition for Environmentally Responsible Economies), recently teamed up and persuaded 75 major institutional investors to demand more details of the financial risks facing fossil fuel companies due to climate change.

Board members of fossil fuel companies are being bombarded with letters from their shareholders demanding that they take this matter seriously. As a result of this so-called Carbon Asset Risk initiative, Shell and ExxonMobil have been cajoled into publishing reports that analyse the financial risks that climate change poses to their long-term business.

This has led to a profound knock-on effect in financial circles. Financial institutions are becoming increasingly aware of the operational, regulatory and reputational risks posed by climate change.

For example, high-cost deep water and Arctic oil exploration activities could be seen as financially risky if governments agree to stick to a carbon budget. This could significantly reduce the value of future oil, gas and coal reserves. Financial institutions are now looking for new ways to measure and manage the climate risk in their investment portfolios.

Organizations are also under scrutiny from other CSOs. Well-known bodies such as Rainforest Action Network and World Wildlife Fund are putting pressure on a host of financial institutions to measure and disclose the carbon emissions produced as a result of their investment and lending activities. Such campaigns are also encouraging the financial sector to redirect investment flows onto a low carbon and lower risk pathway. As a consequence, carbon intensive industries could find it trickier to attract funding.

Armed with new carbon accounting practices, NGO groups such as BankTrack are putting organizations that bankroll climate change under a magnifying glass. BankTrack has attacked organizations with such activities, branding them 'climate killer banks'.

'By naming and shaming these banks, we hope to set the stage for a race to the top, where banks compete with each other to clean up their portfolios and stop financing investments which are pushing our climate over the brink. We want banks to act and we want them to act now' (Schücking et al. 2011).

A wide variety of CSOs are demanding such 'voluntary' disclosures of carbon emissions and climate risks. As the quasi-regulatory work of civil society becomes increasingly sophisticated, the distinction between voluntary and mandatory disclosure is blurred, if retaining any definition at all.

My research is revealing how standard setters like the Greenhouse Gas Protocol and the Climate Disclosure Standards Board are building on this momentum and developing new measurement and reporting practices for the financial sector. If financial institutions adopt these new practices, their investments will gain the kind of transparency CSOs are looking for. This CSO-driven systemic change could permeate the global financial system.

CSOs will harness this new transparency to further increase pressure on investors to revisit the risks associated with their investments. The carbon intensive sectors will face increasing pressures from financiers who become aware of such risks.

Systemic changes such as this are normally imposed by authority of the state. In this case CSOs have overtaken the process and effectively become quasi-regulators. Studying this process has the potential to reveal the new kinds of symbiotic relationships between state and civil society. Regulation no longer lies solely within the state's domain.

Governments are sitting up and watching how businesses are reacting. The UK's Department for Environment, Food and Rural Affairs (DEFRA) has already incorporated the Greenhouse Gas Protocol's standards into its mandatory reporting requirements that came into force in 2013. With this set of standards being the dominant accounting framework, why would any resource-strapped government department want to change such a widely accepted and adopted system?

Now Standard & Poor's, the rating agency, is getting in on the act and is working with CSOs to assess which fossil fuel companies face downgrades if tougher climate rules are implemented.

As part of my research I am observing the Financed Emissions Initiative – a standard-setting project developing ways to measure the emissions that are financed by investment and lending activities. Coordinating the project is the United Nations Environment Programme Finance Initiative (UNEP FI) and the Greenhouse Gas Protocol, the dominant standard setter for greenhouse gas accounting.

So where is all this heading?

Next year there is likely to be a legally binding agreement aimed at limiting

the increase in average global temperature to 2ºC. This will be forged in Paris in late 2015 at the Conference of the Parties to the United Nations Framework Convention on Climate Change. This will add more pressure on organisations to factor climate risks into their business strategies. The carbon intensive industries will be put into the spotlight and could face a barrage of questions. By adjusting their operations today, industry will avoid major upheaval when this binding agreement comes into force in 2020.

It's what Lord Stern always said. If we delay it will cost business more in the long term.

Reference

Schücking, H., Kroll, L., Louvel, Y. and Richter, R. (2011) *Bankrolling Climate Change*, Nijmegen: urgewald, groundWork,Earthlife Africa Johannesburg and BankTrack.

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