

A New Era of Climate Change Consciousness

By: Andy Hoffman | February 17, 2010



We know that recommendations coming from Copenhagen will likely take years to have practical effect. Meantime, companies are trying to understand how those recommendations--and resulting legislation--will impact their bottom lines.

And smart companies are starting early by making climate change part of their business strategies. I had spoken with David Hone, Shell's climate change advisor, about Shell's approach for a book I wrote in 2008, *Climate Change: What's Your Business Strategy?*

Hone also is a board member and vice chairman of the International Emissions Trading Association (IETA), as well as a collaborator with the World Business Council for Sustainable Development.

I spoke with Hone just before the Copenhagen summit and again more recently to get his read on what climate change legislation might mean for the business world. The interview below is an update to one that originally appeared on a blog at www.GreenBiz.com.

Andy Hoffman: In a recent blog post, you said that if a political agreement emerged from Copenhagen, with a delayed legally binding agreement, that wouldn't be a bad thing. Now that we know that's the reality, what do you think it means for businesses?



David Hone: Domestic legislation remains the primary challenge for business. Whilst the Copenhagen Accord is clearly not a binding agreement, we have seen most major governments commit to the document and table various emissions management targets. Both the USA and Canada have tabled a 17% reduction by 2020 based on 2005 emissions. But domestic legislation is going to be required to deliver this and there we seem to have a problem - it is struggling to be delivered. Legislation is also struggling in Australia. This has nothing to do with Copenhagen; it's a symptom of the reluctance to take such a big step at a national level and begin a change from business as usual. But it is going to have to happen sooner or later. If it doesn't happen federally, then a messy

sub-national approach will probably ensue. We started down that path in the EU a decade ago - it didn't last and the EU Emissions Trading System was established. It had a soft start from 2005-2008, is beginning to bite now, but the real action won't be until 2013. Business will be used to the new paradigm by then. If the histrionics are put to one side, it should be possible to craft a similar path to action in other parts of the world.

Hoffman: Does that mean that smaller businesses and start-ups have an advantage in the new era of climate change consciousness?

Hone: No, the landscape is the same for everybody. It may even be more difficult for start-ups as there could be a case where their proposed business model is dependent on some expected piece of legislation.

Hoffman: How important is the Senate bill on climate change (sponsored by Senators Kerry and Boxer) to ongoing action on climate change? What happens if it does not pass? Do you think the U.S. Senate is critical to global action on climate change?

Hone: Whether it is Kerry-Boxer or Waxman-Markey or a hybrid isn't overly important--what is important is that the Congress delivers a clear and unambiguous piece of legislation designed to drive the economy

along the emissions reduction pathway that President Obama has announced. Ideally this should be a market based cap-and-trade approach as this delivers the outcome at lowest overall cost to the economy and provides business with the clear price signal that it needs to underwrite investment. But with the balance changing in the U.S. Senate, we may have to settle for a more phased approach, perhaps starting with the power sector, then industry and ultimately the whole economy. Given that much of the early action will take place in the power sector anyway, then this is perhaps a workable solution. In answer to the second part, yes, the U.S. is pretty important in the grand scheme of things. Just look at the change in overall momentum on this issue under the new administration, not only inside the USA, but also outside. Without a clear direction from the USA, adding to that already provided by Europe, the world could struggle to address the issue of climate change.

Hoffman: Does Shell have a seat at the table for discussions on climate change policy?

Hone: We make significant effort to inject our views into the policy debate. We hope that people listen. We come from a position of supporting a cap-and-trade approach and that has been consistent for many years now. We have supported the process in the E.U. and that is true as well in the USA today. That doesn't mean we agree with every line of the proposed legislation, but proactive and constructive engagement is where we are.

Hoffman: In March 2009, Shell announced that it was withdrawing further investment in renewable energies such as wind, solar and hydropower as these were deemed uneconomic. And yet, renewables are critical to addressing the climate challenge. What does this move tell us about how serious Shell is with regards to addressing climate change and how optimistic we should be about renewables displacing fossil fuels for a low carbon future?

Hone: That isn't actually correct. What we said is that our major focus would be in the areas of biofuels and carbon capture and storage. The group maintains a presence in both wind and hydrogen.

We certainly recognize the important role that renewables will play in the decades to come, but equally so will fossil fuels and specifically liquid fuels for transport. All will be needed to meet global energy needs.

But we have to manage CO2 emissions as well, which means an increasing use of carbon capture and storage in tandem with fossil use. So I think it is natural that we would focus on this area.

Similarly with biofuels. Some electrification will appear in the transport system and this will almost certainly grow, but liquid fuels with their high energy density will be important for a long time--particularly in areas such as aviation. Biofuels not only add to the supply of fuel but also provide one way of managing CO2 emissions from transport.

Hoffman: What is the toughest choice that an energy company like Shell will have to make in the coming five, 10 or 20 years?

Hone: I don't think there will be any one particular choice--it will be more about keeping on top of the fast pace of change in the sector. That means maintaining a solid research, development and demonstration capability for new technologies, keeping the business cost competitive and being prepared to engage with government and society as the energy landscape changes.

Andrew J. Hoffman is The Holcim (U.S.) Professor of Sustainable Enterprise at the [Erb Institute for Global Sustainable Enterprise](#) at the [University of Michigan](#).

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