

## Down in Front

**Business is already acting on the climate threat -- and waiting for Washington to catch up**

*By Andrew J. Hoffman*

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You don't need to look for [receding glaciers](#) or pore over the [latest IPCC report](#) to know that climate change is already happening. Just talk to Diavik Diamond Mines Inc.



**Captains of industry want to know what's up ahead.**

*Photo: iStockphoto*

cost -- and those costs are forecast to keep on rising. Sectors such as agriculture, fisheries, forestry, health care, insurance, real estate, and tourism are particularly vulnerable. In a twist of irony, so is offshore energy infrastructure, such as oil rigs and pipelines -- the very systems that bring us the oil that's feeding the climate crisis.

While some companies are adapting out of near-term operational necessity, others are acting to mitigate long-term strategic vulnerabilities, and the most forward-thinking are seizing on new business opportunities created by climate change and devising ways to make money from clean energy and efficient technology.

[According to Ceres](#), the number of American companies addressing climate change has risen notably just since 2003. To date, more than 60 corporations with net revenues of roughly \$1.5 trillion have voluntarily set reduction targets for their greenhouse-gas emissions, and that number is growing. While there is certainly some public-relations value in professing concern for the environment, voluntary reductions are based on the need to protect and create shareholder

The company relies on ice bridges to move equipment and materials through the northern regions of Canada. Last winter, however, the ice never thickened enough to allow transport of its heaviest trucks, so [Diavik had to pay](#) the additional cost of shipping materials by helicopter.

While a dwindling number of business associations and lobbyists still dispute the science of climate change, an increasing number of businesses themselves are focusing on the undeniable economics of the problem. Diavik is just one of many companies already being forced to adapt to climate change, often at considerable

value.

Shell finds its operations, and more importantly its products, squarely in the middle of the climate debate. In 2005, Shell's own operations emitted 105 million metric tons of carbon dioxide equivalent, while downstream combustion of the fossil fuels it produces generated another 763 million metric tons. Together these emissions account for some 3.6 percent of global CO<sub>2</sub> emissions from fossil-fuel combustion. To help curb its emissions, the company is now moving away from flaring methane gas in its exploration and refining operations to capturing the gas and either pumping it back underground to enhance well production or feeding it to nearby facilities for power production. When the economics are right, the methane can be converted into liquid natural gas, a major potential growth area for the company. Shell is also expanding into alternative energy, particularly hydrogen.

Duke Energy is concerned about the impact that future climate-change regulation could have on the value of its existing and future energy-producing assets -- particularly because new generating facilities have an expected lifespan of 40 or 50 years.

Alcoa sees future climate policies as creating market opportunities for aluminum recycling. Considering that aluminum produced from recycled materials requires only 5 percent of the energy needed to make primary aluminum, and that energy prices will likely continue to rise, the company has pledged that 50 percent of its products, other than raw ingot sold to others, will come from recycled aluminum by 2020. Additionally, as automakers face pressure to improve gas mileage, Alcoa expects a boost in demand for aluminum as a material in lighter-weight vehicles. According to the company, a 10 percent reduction in vehicle weight typically yields a 7 percent reduction in greenhouse-gas emissions.

Similarly, Whirlpool expects to sell more energy-efficient appliances as consumer demand is pushed up by mounting awareness of climate issues and rising energy costs.

DuPont is going so far as to adapt its core business model in response to climate change. It has identified its most promising growth markets in new bio-based materials that employ renewable resources instead of traditional petrochemical feedstocks. In 2006, the company announced a partnership with BP to develop, produce, and market a next generation of bio-fuels. In the next few decades, DuPont hopes that over 60 percent of its business will stem from the use of biology to reduce fossil fuels.

The most ambitious climate strategies involve efforts to develop clean, green technologies. Global investment in wind and solar power reached \$11.8 billion and \$11.2 billion, respectively, in 2005, up 47 percent and 55 percent from 2004. Announcing a set-aside of \$100 million for investments in cleaner energy, transportation, air, and water technologies, venture capitalist [John Doerr](#) of Kleiner Perkins Caulfield & Byers said, "This field of greentech could be the largest economic opportunity of the 21st century." Wall Street stalwarts such as Goldman Sachs, Bank of America, JP Morgan, Chase, and Citigroup are seeing the opportunity as well, adopting guidelines for lending and asset management aimed at promoting clean-energy technologies.

Looming on the horizon is an issue that will bring the strategic aspects of climate change into sharp relief: regulation. In a recent survey of 31 major companies for a [report on corporate climate strategies](#), 90 percent said they believe that government regulation is imminent, and 67 percent believe it will come between 2010 and 2015.

It is not a stretch to see this inevitability. More than 375 mayors representing over 56 million Americans have signed the [U.S. Mayors Climate Protection Agreement](#), which urges "the U.S. Congress to pass the bipartisan greenhouse-gas reduction legislation, which would establish a national emissions trading system." A growing "patchwork quilt" of state and regional regulation -- from California's ambitious [Global Warming Solutions Act](#) to the Northeast's [Regional Greenhouse Gas Initiative](#) -- is motivating some corporations to support a national policy. The recent call for federal climate regulation by 10 corporations involved in the [U.S. Climate Action Partnership](#) is only the beginning. More companies will follow, catalyzing action that is already taking place on Capitol Hill. At least [four major bills](#) calling for mandatory caps on greenhouse-gas emissions have already been proposed in the U.S. Senate this year, and House Speaker Nancy Pelosi has declared that climate change will be a priority on her agenda.

Corporate lobbyists and avowedly pro-business politicians love to talk about the invisible hand of the market, but the fact is that companies know they need rational regulation in order to develop and execute an effective mix of strategies. Prolonged uncertainty of a regulatory void hinders the market.

The debate about whether or not climate change is occurring is over. In a sense, the market shift proves the climate shift. The bean counters are now moving faster than the tree huggers. They're just waiting for the federal government to catch up and help them write the new rules.

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