Triggering an Early Strike on CO2

Companies looking for smoking gun should skip the science, look to the economics of environmental policy

BY ANDREW HOFFMAN

HERE'S A CAUTIONARY tale for companies faced with climate change vulnerabilities. We still cannot state with scientific certainty that smoking causes lung cancer. The definitive U.S. Surgeon General report states that "statistical methods cannot establish proof of a causal relationship in an association [between cigarette smoking and lung cancer]. The causal significance of an association is a matter of judgment which goes beyond any statement of statistical probability." The scientific "proof" of a causal connection between second hand smoke and lung cancer is even more difficult to make. Yet, the scientific community recognizes that the preponderance of epidemiological and mechanistic data tell us that a link exists and the general public shares that belief. Thus, we have regulations that limit tobacco sales and public smoking.

Similarly, there will be no scientific smoking gun on climate change. The global climate, like the human body, is too complex a system to model with complete accuracy (irrespective of the fact that a proper scientific study requires a "control"—another planet to compare this experiment to) and the standards for scientific certainty for showing causality are just too high. This leads the Intergovernmental Panel on Climate Change (IPCC) to the same kind of conditioned conclusion as the Surgeon General: "The balance of evidence suggests a discernible human influence on global climate." But don't confuse this conditioning with uncertainty.

Your markets don't see uncertainty and are shifting. In fact, you can remain completely agnostic about the science of climate change and still see it as a financially relevant issue for your firm. And boardrooms around the country are waking up to the urgency of the issue. Even some stalwarts of climate skepticism—such as the American Enterprise Institute and ExxonMobil—are softening their opposition to curbs on greenhouse gas (GHG) emissions. In the words of Ford CEO Alan Mulally, "I firmly believe we are at an inflection point in the world's history as it relates to climate change and energy security. The time for debating whether climate change is real has past. It is time for a conversation about what we, as a society, intend to do to address it." This is not a newfound sense of social responsibility. It is hard-nosed business sense. The business case for GHG reductions is here and it takes several forms.

First, federal regulation that will create a price for carbon is coming within the next two to five years, and companies want a seat at the table to influence what form those regulations will take. The way Jim Rogers, CEO of Duke Energy puts it, you must avoid "stroke of the pen risk, the risk that a regulator or Congressman signing a law can change the value of our assets overnight. If there is a high probability that there will be regulation, you try to position yourself to influence the outcome."

Second, with the price of oil reaching heights of $105 a barrel and a price for carbon threatening to raise it from $5 to $25 higher, energy management becomes a genuine financial opportunity. As Andreas Schlaepfer, Head of Internal Environmental Management at Swiss Re, discovered, substantial reductions in emissions from building energy conservation are quite easy: "If you've never focused on energy efficiency before, achieving 30 percent reduction is simple."

Third, customers are beginning to look for products and services that are environmentally friendly and energy efficient. No longer is green confined to niche firms like Seventh Generation and Tom's of Maine; it is becoming mainstream. According to Casey Tubman, Brand Manager of Fabric Care Products at Whirlpool, "In the 1980s, energy efficiency was number 10, 11 or 12 in consumer priorities. In the last four or five years, it has come up to number three behind cost and performance, and we believe these concerns will continue to grow." With some of the most energy efficient appliances on the market, climate regulations translate into increased sales for Whirlpool.

Fourth, employees increasingly want to be associated with a company that has a strong environmental stance. According to a recent survey , 80 percent of young professionals are interested in securing a job that has a positive impact on the environment, and among MBA students, 75 percent from top schools were willing to accept a salary lower by between 10 percent and 20 percent to work for a "responsible" company. The CEO of Patagonia credits his company's strong social mission with an ability to cherry-pick and retain the best talent – for each opening, the company has upwards of 5,000 applicants.

Last but not least, financial markets want to see action on climate change. In a recent survey, 50 percent of shareholders believed a company's mindfulness about the environment and society would make them more likely to buy stock. Large banks like Goldman Sachs, Bank of American and Citigroup have all directed billions of dollars towards financing green buildings and energy-efficient technologies. And in 2006, the total U.S. venture capital investment devoted to clean-energy companies reached $2.4 billion, over 9 percent of all VC spending.

So, as you consider your strategy with regards to climate change, think of these market drivers and recall a story of President Franklin D. Roosevelt. After meeting with a group of reformers he concluded, "Okay you've convinced me. I want to do it. Now go out there and organize and create a constituency to make me do it." Well, whether you are convinced or not, the constituency on climate change mitigation is forming and will make you do it. CRO

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The Gray Area of Going Green

Finding the responsible shade while setting realistic environmental goals

BY CHRIS PARK

JUST A FEW years ago, it seems, companies that made public commitments to social and environmental responsibility faced a great deal of skepticism from critics who questioned the value or sincerity of sustainable approaches to business.

Now, the tide has started to turn. More and more people are getting on the green bandwagon for any number of reasons. In business as well as social circles, I am seeing that it's more acceptable and even admirable to be concerned about the environment. Investors and analysts are seeing the market favor green leaders and punish laggards, even in light of current economic challenges. Some of the world's best-known companies – such as Apple, Toyota, United Technologies, Nucor Steel and many others – are openly admired for their forward-thinking environmental and social practices.

You'd think this shift would help make a CRO's job easier. In some ways it does, if only because there appears to be less open skepticism and hostility when trying to persuade people that environmental responsibility is worth money and effort. But at the same time, the public's increasing awareness, the growing and sometimes contradictory body of science about environmental issues, regulatory pressures and other factors are putting new pressure on CROs and other executives