PMR Case Studies on Corporate Preparation For Carbon Pricing

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About Center for Climate and Energy Solutions

• Independent, nonpartisan, nonprofit organization
• Working to advance strong policy and action to address the twin challenges of energy and climate change
• Founded in 1998 as the Pew Center on Global Climate Change
• Transitioned to C2ES in 2011
• A leading think tank, but one that has worked since its inception with the progressive business community
Business Environmental Leadership Council (BELC)
Case Studies: Corporate Preparation for Carbon Pricing

- C2ES and the PMR are developing cases of 3 leading companies: Shell, Rio Tinto, and Pacific Gas & Electric (a large utility in Northern California)

- C2ES has worked for 16 years with corporations to develop climate strategies for both the voluntary and compliance markets

- PMR case studies developed by selecting companies in differing sectors with broadly applicable insights. Interviews conducted with multiple staff and senior management involved in carbon markets.

- Insights presented today are drawn from PMR case studies and prior C2ES experience
PMR Case Study Overview

• **Case Study Outline**
  - **Company Overview & Covered Carbon Market**
  - **Institutional Response to Climate Change**
    - Monitoring, Reporting and Verification (MRV)
    - Identifying Risks and Opportunities
    - Internal Capacity Building & Mitigation
    - Trading and Offsets
    - Stakeholder Engagement

• **Status:** Case Studies are not yet final and results are preliminary
  - Final should be available next month (subject to corporate review)
Most important Messages: Prepare For and Start Early

- Carbon markets can be complicated and understanding how to thrive in one can take time and specialized knowledge.

- It’s never too early to start preparing. Getting up to speed internally before regulations come into effect greatly eases the transition to compliance markets.

- Early measurement and preparation can enable better internal strategy and external engagement.

- Action can yield credibility and more influence with policy design.

- It may take several years to fully form a strategy and the strategy may evolve will change over time.
Integrate the measurement and monitoring of direct and indirect emissions across the company — “you can’t manage what you don’t measure.”

Look to use existing methodologies and reporting tools – don’t reinvent the wheel.

Inventories and reporting can take a number of years to get right; the data will improve over time.

Voluntary reporting of the emissions inventory can help a company prepare for later mandatory reporting requirements (and may help shape these).
Monitoring, Reporting and Verification (2)

- Transparency of reporting can help with credibility to outside stakeholders.
- Third party auditing of data will improve the quality of the data.
- Accurate and historical data can help with strategy, policy negotiation, and allowance allocations.
- Accurate emissions forecasting is important for an effective trading operation.
Identifying Risks and Opportunities

– Consider the varying impacts of market-based regulations for different business units and commodities that the company supplies.

– Might consider a SWOT or scenario analysis.

– Develop an abatement cost curve in order to assess the relative costs of different strategies for reducing emissions.

– Evaluate if there are implications for your supply chain

– Assess if there are opportunities from carbon regulations (e.g., does demand for a specific product go up with carbon regulations?)
Internal Capacity Building and Mitigation (1)

– It is critical to have a very senior champion – e.g. CEO or board member

– Establish governance that engages the company’s commercial, technical, and policy expertise to fully integrate greenhouse gas emissions and emissions trading into corporate practices.

– Consider setting internal GHG goal and/or targets

– Program management may need location specific experts
Consider establishing an internal carbon price, with which to guide longer-term investment decisions.

Learn from other companies experiences, but don’t be afraid to experiment, and know you won’t get it right the first time.

Feedback, monitoring and experience may change the strategy over time.

Experience yields confidence and an ability to be more competitive.
Trading and Offsets (1)

- Allowances and offsets are commodities and may need to be managed more like a commodity than a compliance instrument.

- Establish a professional commercial team, separate from the health, safety and environment function, to manage emissions trading and origination of offsets.

- Each compliance program has different regulations and rules, which may change over time, and local expertise is helpful when trading in multiple markets.
Trading and Offsets (2)

- Sourcing offsets directly can provide helpful insight but...

- It may be easier to buy offsets from the market than to develop projects internally.

- Trading allowances and offsets could involve new types of products for which the company may have to develop new tools and procedures.
Stakeholder Engagement

– Having a seat at the policymaking table is critical; building a broad coalition on policy positions helps ensure desired outcomes.

– Having a history of voluntary action and transparency can make a company more credible with policy makers and other stakeholders.

– Discuss with governments potential assistance for energy-intensive, trade-exposed industries to offset higher compliance costs and prevent production shifts to countries without greenhouse gas regulations.

– It is important to share technical expertise with regulators, but also communicate the implications of the cap-and-trade program to the company’s customers.
Preparation of a pricing carbon strategy

Acting early, assessing strengths, weaknesses, opportunities and threats, creating a strategy and modifying it over time, are recurring insights.

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<th>Stage I</th>
<th>Stage II</th>
<th>Stage III</th>
<th>Stage IV</th>
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<tbody>
<tr>
<td>Develop Initial Strategy</td>
<td>Focus Inward</td>
<td>Focus Outward</td>
<td>Leverage Experience</td>
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- **Assess Emissions Inventory**
- **Gauge Risks and Opportunities**
- **Analyze Options**
- **Set Goals and Targets**
- **Develop Financial Mechanisms**
- **Engage Business Units**
- **Formulate Policy Strategy**
- **Manage External Relationships**
- **Shape policy and increase competitiveness**

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<th>Step 4</th>
<th>Step 5</th>
<th>Step 6</th>
<th>Step 7</th>
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Feedback and monitoring to refine business case, strategy elements, and tactics.

Source: Modification of Pew, 2006 with insights from PMR Case Studies, 2014
- Get prepared

- Start early; early preparation is very beneficial

- CEO or board level support and ongoing senior management involvement is critical, as is cross-functional participation

- Need to fully assess carbon footprint and understand supply chain climate sensitivities

- Understand how your market will transform, where our weaknesses are and where your strengths are in order to strategically position for the future

- Look to shift from risk management to business opportunity

- Early experience can help and influence policy development
Thank You

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