

Corporations to continue efforts to measure, cut emissions, despite inaction in Congress

By Dean Scott, BNA

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While comprehensive climate change legislation in Congress is likely to be shelved for the foreseeable future, many companies say they are unlikely to abandon efforts to measure and cut greenhouse gas emissions given continued consumer and investor pressures for climate action.

Companies such as ITT Corp. and SC Johnson say that even without the regulatory certainty of cap-and-trade legislation, they are likely to continue searching for ways to cut energy use and improve energy efficiency, which can yield cost savings while also reducing emissions. Manufacturers are likely to build on earlier efforts to cut their use of high-impact greenhouse gases wherever possible, including sulfur hexafluoride, an industrial gas used in manufacturing processes, including metal casting, and in electrical components.

Outside pressures that have been acting as drivers for climate action, from consumer demands for more sustainable products to investor demands for company disclosures of how they are addressing climate risks, also are unlikely to wane in the coming years, many companies say.

Carol Singer Neuvelt, executive director of NAEM, an association for environment, health, and safety managers, said that for many large U.S. companies, reporting and reducing greenhouse gas emissions has become too deeply ingrained for them to abandon their efforts now. NAEM represents some 1,600 corporate environment, safety, and health experts.

"We are in a period in which these sustainability issues are emerging as core business drivers for many companies," Neuvelt said.

Those corporate environment and safety representatives form the front line for integrating greenhouse gas emissions reporting and reduction efforts. A decade ago, many of these corporate officials began the initial monitoring, reporting, and verification of their "direct" emissions such as those produced by fossil fuel combustion, known as Scope 1 emissions.

Neuvelt said most of those corporate environment directors are now "in the second wave of greenhouse gas reporting," accounting for the broader category of Scope 2 emissions, which include those related to a site's electricity use or other energy consumption.

Large companies that began measuring and reporting the greenhouse gases they produced in manufacturing are now moving to a broader accounting of emissions, known as Scope 3. These often are not directly tied to a company's operations, but include emissions from transporting products or from producing the energy consumed by the devices a company makes.

For guidance on collecting emissions data and managing those emissions, companies generally rely on the [Greenhouse Gas Protocol](#), a set of voluntary standards developed since 1998 by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), a coalition of about 200 international companies.

Scope 3 Standards Published.

The two groups recently unveiled two new draft reporting standards for companies to track their Scope 3 greenhouse gas emissions (213 DEN A-4, 11/5/10).

The Scope 3 standards, released for comment Nov. 4, will help companies take a comprehensive look at greenhouse gas emissions from outsourced activities, supplier manufacturing, and transportation in vehicles, all activities not owned or controlled by the company. The standards also can be used by companies to measure their carbon footprint from products ranging from magazines to jeans and computers.

In January, 60 companies, including Airbus, Levi Strauss & Co., 3M Co., Alcoa, Kraft Foods, Ford Motor Co., and General Electric began “road testing” the voluntary standards, which are to be finalized over the coming months. But about twice that number sent applications to WRI seeking to participate, according to WRI. “For most of these companies, the train has left the station and they are committed to acting on emissions,” said David Rich, an associate with the Greenhouse Gas Protocol Initiative at WRI. “When I go to conferences I am not hearing anyone saying, ‘This is something we’re not going to do anymore.’ They are on board with the business value, they see the risk and are moving ahead,” he said.

Scope 3 Activities Pose Challenges.

For some industries, particularly energy-intensive ones such as electric utilities, Scope 3 emissions are a relatively small portion of their total greenhouse gas emissions profile, according to Neuvelt of NEAM. But for consumer product makers such as SC Johnson, Neuvelt said, Scope 3 emissions may constitute the majority of their emissions.

SC Johnson was among the first U.S. companies to move into Scope 3 emissions reporting, working with WRI to calculate its 2009 emissions. But other companies say the value of tallying up emissions over which they may have little control remains to be seen.

“The question is, how far do we go with this,” said John Ciba, director of facilities, environmental, and safety engineering for Brady Corp., which manufactures identification and safety materials, including high-performance labels and signs, safety devices, printing systems and software, and precision die-cut materials for products.

“When the emissions are well out in the supply chain, what do we do with that number?” Ciba asked.

“It’s easy to say, ‘Don’t use air delivery, use trucks or ships for those items and cut your [carbon] footprint. Right up until the customer or vendor demands six-hour delivery.’”

Other Pressures Replace Congressional Action.

The dim outlook for a federal climate bill over the next two years stands in sharp contrast to just two years ago, when President Obama and Democrats in the House and Senate committed to passing such legislation were swept into office. But the next Congress’s Republican-controlled House and the loss of six Democratic seats in the Senate in the recent midterm election have even some of the strongest supporters of cap and trade, including Obama, conceding that a broad legislative climate change measure is off the table.

“It’s doubtful that you could get the votes to pass that through the House this year or next year or the year after” given the Republican takeover of that chamber, Obama said at a press conference the day after the Nov. 2 elections.

Yet even without congressional action on the horizon, many companies will still be subject to regulation by the Environmental Protection Agency, which is slated to begin limiting greenhouse gas emissions for large stationary sources such as coal-fired power plants, refineries, iron and steel mills, and cement kilns on Jan. 2. While EPA’s authority is expected to be attacked in the next Congress, companies still face other drivers to curb their emissions, including a patchwork of state regulations.

In addition, some financial analysts argue that the Sarbanes-Oxley law, which requires disclosure of financially material risks, may require industries to disclose how climate change and carbon regulation might affect future earnings. In January, the Securities and Exchange Commission approved guidance to help publicly traded companies determine the kinds of climate information that may have to be disclosed under existing law (17 DEN A-1, 1/28/10).

“It is neither surprising nor especially remarkable for us to conclude that of course a company must consider whether potential legislation--whether that legislation concerns climate change or new licensing requirements--is likely to occur,” SEC Chairman Mary Schapiro told fellow commissioners Jan. 27 in announcing the release of the guidance. “If so, then under our traditional framework the company must then evaluate” the impact such legislation could have “on the company’s liquidity, capital resources, or results of operations, and disclose to shareholders when that potential impact will be material,” she said.

A company must also “disclose the significant risks that it faces, whether those risks are due to increased competition or severe weather. These principles of materiality form the bedrock” of SEC’s financial disclosure framework, Schapiro said.

According to the nonprofit Carbon Disclosure Project, nearly half of the top global companies surveyed over the past decade on their carbon disclosure policies now integrate climate change and greenhouse gas emissions reduction into their business strategies. About 85 percent have company officials at the board level or executive level who are specifically responsible for managing climate risk and other carbon strategies, according to the Carbon Disclosure Project’s 2010 [Global 500 Report](#), published Sept. 20 (181 DEN A-5, 9/21/10).

Consumer Demands Likely to Continue.

Consumer demands for more sustainable products that consume less energy, including cars and appliances but also snacks, coffee, and bottled water, are not expected to crest anytime soon, according to Tim Juliani, director of corporate engagement for the Pew Center on Global Climate Change and director of Pew’s Business Environmental Leadership Council.

Consumers may feel overwhelmed by the complexities of addressing global climate change--and some may even question the science linking a warming planet to man-made greenhouse gases--but many continue to demand products with a low-carbon footprint, Juliani said.

Company actions that reduce emissions get particularly strong support when those changes also pay other dividends, such as decreasing air pollution, water use, and waste, Juliani said.

“There’s a cartoon [by Joel Pett that appeared in USA Today Dec. 7, 2009] that I use in my presentations where people are at a climate summit and there’s a guy doing a presentation that has all these benefits listed like energy independence, preserve rain forests, sustainability, green jobs, renewables, clean water, and healthy children,” Juliani said.

“And a guy stands up in the audience and asks, ‘What if it’s a big hoax and we create a better world for nothing?’ In other words, what’s the down side?” Juliani said. “That’s usually my jumping off point to say there are a lot of co-benefits to these actions that can benefit a company’s bottom line.”

Cost-Effective Efficiency Improvements Sought.

For most companies, reducing energy use and improving energy efficiency are usually the most cost-effective changes that cut emissions and also boost company profits. Almost 90 percent of the companies responding to a Pew global climate change center 2006 survey named energy efficiency as the top climate action contributing to the bottom line, followed by process changes, greenhouse gas reductions, and product changes, according to the report, [Getting Ahead of the Curve: Corporate Strategies That Address Climate Change](#).

According to Neuvelt, protocols used by companies for gathering and measuring greenhouse gas emissions data--including “Scope 3” activities such as emissions from vendors and other operations outside a facility’s control--are providing those companies with far more opportunities for finding potential reductions.

Many companies have integrated details of their efforts to address climate risks and reduce their carbon footprint in annual corporate reports on sustainability.

“The physical, regulatory and reputational risks associated with climate change present risk to our operations,” Con Agra Foods said in its 2010 Corporate Responsibility Report. “Some risks carry financial impacts, such as changing weather patterns affecting crop yields and regulatory costs related to carbon usage/emission[s].”

Sustainability reports also provide Con Agra a platform for touting its voluntary climate efforts. The company’s goal is to cut its greenhouse gas emissions 20 percent “per pound of product” by 2015.

Going Beyond Low-Hanging Fruit.

Alan Leibowitz, ITT Corp.’s director of environment, safety, health, and security, said the company already has addressed much of the “low-hanging fruit” to reduce emissions and save energy, including replacing generators and pumps with more efficient models and switching to higher efficiency lighting. According to the company’s annual sustainability report, those and other efforts helped ITT cut its worldwide carbon dioxide emissions 6 percent and its water use 27 percent in 2009, compared with the year before.

ITT also has gradually reduced its use of the potent greenhouse gas sulfur hexafluoride, which it uses to prevent electronic components from shorting out, by 90 percent, Leibowitz said. “We had been using an overabundance of caution, using a lot more of the gas than was needed,” he said. “We made a significant reduction in our carbon footprint--but it also saved us a lot of money.”

The prospect of significant cost savings is driving ITT to build a geothermal project at its 80-acre foundry site in Emmaboda, Sweden, that will recapture nearly 10 gigawatts of waste heat thrown off by factory

machines in the summer. The project will essentially pipe that heat underground and store it until winter, when it will be used to heat the buildings, Leibowitz said.

While emissions reduction pledges for many U.S. companies are not enforceable, corporate environment and safety officials say the practice helps to focus a company's attention on methods that waste energy and can be changed or eliminated.

Microsoft Corp., which pledged to cut carbon dioxide emissions per unit of revenue 30 percent over five years beginning in 2007, found it was able to cut carbon emissions tied to company travel 35 percent, according to the company's [2010 Citizenship Report](#).

EPA Reporting Rules Coming.

Partly in anticipation of federal action on climate change, Congress in 2007 directed EPA to require large companies to begin measuring and reporting their greenhouse gas emissions. Companies covered by the reporting rules had to begin measuring emissions Jan. 1, 2010, and must file their first reports by March 31, 2011.

The EPA rules cover large facilities such as auto plants, refineries, and other industrial operations that emit at least 25,000 metric tons of carbon dioxide-equivalent per year. About 10,000 U.S. facilities are likely to be covered at that threshold, according to EPA, accounting for about 85 percent of total U.S. greenhouse gas emissions.

Rich of WRI told BNA that many companies have been measuring and reporting corporatewide emissions for years and thus are well-positioned to comply with the EPA rules. EPA is requiring what Rich called "facility-based reporting"--total greenhouse gas emissions for large-emitting sites--which many companies have already been collecting as part of their companywide emissions accounting.

Regulatory Driver Still Needed.

Companies also face external pressure from investors and regulators to disclose how climate change issues may affect their operations, the steps companies are taking to manage those risks, as well as greenhouse gas emissions data.

Large institutional investors increasingly demand assurances that companies can manage climate-related risks, and private and public entities have launched web-based platforms that now provide corporate climate data, including Google Finance and the International Finance Corp., an arm of the World Bank. For example the Google Finance site began providing scores that rate a company's understanding and management of climate issues that affect the company, based on ratings provided by the Carbon Disclosure Project.

The scores are located under the "key stats and ratios" section for each company. Microsoft Corp., for example, rates a 70 out of 100 score for its carbon disclosure and its competitor, Apple Inc., rates a score of 73.

But many companies say those efforts are no substitute for congressional action, particularly as a driver for company investment in programs that may have a longer-term payoff than simple energy efficiency improvements.

Emily Barton, corporate environmental manager for Motorola, said it is often challenging for environment and safety departments to advocate low-carbon actions when there are not mandatory requirements on the horizon. "In some ways the easiest way to get things done in a company is to be regulated," Barton said. In the absence of congressional action and given the current economy, companies are increasingly demanding that any action on climate benefit the bottom line, she said.

Motorola's analysis of its carbon footprint, which included a recent life-cycle analysis of its cell phone manufacturing, revealed some surprising results that hint at the challenges companies face when trying to reduce their emissions. Barton said many assume that the biggest portion of a cell phone's carbon footprint would come from consumer use with their constant recharging of the device. But Motorola's life-cycle analysis of nearly a dozen company products concluded that nearly 80 percent of their carbon footprint is tied to manufacturing of the devices rather than the energy used to power the phones, she said.

That is forcing the company to look more closely at its manufacturing process than it might have before doing the analysis, she said.

EPA Phaseout of Assistance Decried.

Since the early years of the Bush administration, EPA has provided expertise to companies to help them to measure and to cut their greenhouse gas emissions through a voluntary initiative known as Climate Leaders, which was launched in 2002. But EPA announced in September that it is phasing out the program, which is popular with participating companies because it also provides public recognition for their efforts.

EPA said the phaseout of the voluntary program is appropriate as the agency transitions into a more regulatory stance in January and begins regulating stationary source emissions.

Gina McCarthy, assistant administrator in EPA's Office of Air and Radiation, sent a letter to participating companies Sept. 15, saying that ending Climate Leaders will allow the agency to focus on best practices and examples of innovative technologies "across a wide range of industries" well beyond those now participating in the program (178 DEN A-17, 9/16/10).

The agency's decision drew "universal disappointment" from company representatives at an Oct. 5-6 Climate Leaders meeting in New Orleans, in part because companies fear losing valuable consulting help and other expertise they now get through the program, according to Juliani of Pew's global climate change center.

EPA's argument, Juliani said, is that it will catch more than 80 percent of greenhouse gas emissions with its mandatory reporting rule versus roughly 18 percent of U.S. emissions covered under the voluntary Climate Leaders program. "But many of these companies may have hundreds of facilities reporting to the Climate Leaders effort compared to a handful that would be covered by the EPA rule," he said.

Bruce Klafter, director of environment, health, and safety for Applied Materials, a manufacturer of advanced semiconductors and solar photovoltaic products, took aim at EPA's decision in a letter to McCarthy that was published Sept. 16 on the National Association for Environmental Management's Green Tie Blog. EPA "is making a mistake in closing down such an important and successful leadership program," Klafter wrote, with Climate Leaders offering a "very valuable source of accounting expertise" and a "community" where best practices can be shared.

EPA said it will encourage Climate Leader companies to look to similar climate programs operated by states and nongovernmental organizations. But the agency also has signaled in recent weeks that it may be rethinking how the phaseout of the program could impact participating companies. EPA has asked participants for feedback “on what tools and resources would be beneficial to the continuation of their work” in establishing and maintaining an inventory of their greenhouse gas emissions and for making reductions, the agency said in an Oct. 28 e-mail to BNA.

The agency plans to “target its resources to better assist companies in learning from the emissions data collected through the [EPA mandatory] GHG Reporting Program to facilitate the exchange and application of best practices and innovative technologies across a wide range of industries,” EPA said.

Certainty Needed for Investment in Utilities.

But for some industries, such as electric utilities, the collapse of the cap-and-trade bill and uncertainty about the future of the EPA regulations could have a more profound impact on their plans for reducing greenhouse gas emissions in the coming years.

Bruce Braine, vice president of strategic policy analysis for American Electric Power, said public service commissions exert considerable pressure on utilities to show that investments need to be made in response to new regulatory pressure. AEP operates 80 mostly coal-fueled generating sites in the United States.

Power companies generally recoup those costs when the state commissions approve hikes in utility rates, but it will be harder to make the case for such investments in the absence of a broad climate policy, Braine said.

“Without the notion that there is legislation around the corner, or legislation likely, it does certainly decrease the level of investment in decarbonization,” Braine said. “Having said that, you’re still looking at the potential that states will move forward with a number of requirements from energy efficiency and renewables and then we can go to our commissions and say we need to do this.”

Aimee Christensen, who heads the Christensen Global Strategies group, told BNA that the companies that were going to be laggards in this area will use this vacuum of congressional action as an excuse not to move, but those that already are moving will continue to do so. “But today there is almost a zeitgeist going on around sustainability--it’s where we are now and it’s too ingrained for many companies to go back,” Christensen said.

More information on the Greenhouse Gas Protocol Initiative is available at <http://www.ghgprotocol.org/>.

The 2006 Pew Center on Global Climate Change Report, [Getting Ahead of the Curve: Corporate Strategies That Address Climate Change](http://www.pewclimate.org/docUploads/PEW_CorpStrategies.pdf), is available at http://www.pewclimate.org/docUploads/PEW_CorpStrategies.pdf.

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