

## **Carbon Philanthropy: Supporting a New Approach to Carbon Management and Reduction.**

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### **Overview**

The arrival of carbon emissions on the personal and corporate landscape has seen a sudden rise in the number of providers offering offset products to enable emitters to address their emissions. The voluntary offset market mirrors the essential elements of the cap and trade process for carbon emissions agreed under the Kyoto Protocol and two years ago was seen as a sensible and logical approach to excess carbon emissions. So much so, that major companies rushed to buy offsets and then make claims of “carbon neutrality”, individuals felt less guilty about air travel and car use, and service providers used offsets to enhance the “green” credentials of their services. This rise of offsets has been accompanied by greater carbon literacy amongst companies and consumers, with hard questions being asked, not just of the offset providers, but also of the relevance of offsets in the wider carbon emissions solution/climate change challenge. At a simple level the idea of buying a solution to a major global challenge, without any reduction in emissions creation, seemed too good to be true.

There is no doubt that the deployment of voluntary offsets has helped to raise awareness of emissions values and the need to address excess carbon emissions and their effects, but for most corporate and individual consumers there is still a low level of understanding of the products available and ability to evaluate relative merits and value. This is a problem in a voluntary market, where the purchase of an offset is a voluntary donation is effectively a charitable donation.

If the motive for offset purchase is to voluntarily transfer money into mitigation of the causes and effects of climate change, there is a clear argument for making donations, some of which may be to offset projects, but abandoning the notion of matching gram for gram emissions to offset products in the voluntary sector, where methodology of both calculation and projects is not always clear, nor the administrative charge of the provider.

## **The Real Cost of Carbon**

By using the two main international and domestic methodologies for carbon measurement, the GHG Protocol and DEFRA respectively values could be created for carbon emissions that could be converted into monetary value at the prevailing social/economic cost of carbon. DEFRA currently use the Shadow Price of Carbon and value this at £26 per ton, greater than the market price of EUAs or most voluntary offsets. This is higher than the social and economic costs of carbon used by Stern in his assessment of the economic impact of climate change. This higher value would reflect the wider cost of carbon and not just the delivery price of an offset to the purchaser, which can vary considerably. It would further provide assurance that purchasers were taking full responsibility for their emissions.

The use of a monetary value conversion for carbon would provide companies especially, with a fixed value for budgeting and assessing potential carbon cost risks to their business, but would also provide a notional financial value that could inform their corporate philanthropy programmes. Environmental charitable giving comprises less than 8% of charitable giving in the UK and yet the charities that are working to prevent climate change will be increasingly pressured as the consequences of increased emissions are felt. Increased drought, flooding, disease that may result from climate change will also put greater pressure on those charities who specialise in disaster relief and who are, all too frequently, the front line of international aid efforts, whilst money/aid pledged from governments and agencies abroad takes time to arrive.

Companies using this mechanic would be able to amend their corporate philanthropy programmes to support climate change mitigation, using recognised charities whose operations and reporting requirements are supported by legislation. The secondary value of this approach, no less important from a corporate perspective is the embedding of carbon as a cost of operation, using a fixed conversion. The reporting required to support carbon based philanthropy will enable corporate decision making based upon the cost of services in relation to their carbon cost. Currently, carbon emissions reduction and carbon efficient purchasing are not widely enabled by corporate reporting or MIS.

This carbon philanthropy approach will not immunise companies from criticism with regard to their environmental impact, but coupled with clear emissions reporting and monetary conversion will give their investors, stakeholders, employees and customers a greater understanding of the level of responsibility taken by them. For companies who are actively engaged in carbon reduction programmes, the fixed conversion value will provide a mechanic for carbon budgeting and clear long term financial comparison of performance year on year. This carbon budgeting will, in simple terms, mirror national allocation allowances and provide a pre regulatory framework for carbon management. It will further have the merit of preparing companies for the increased regulatory environment for carbon emissions that is the likely consequence of the continued failure of voluntary activity to stem the increase in carbon emissions.

## **The Full Cost of Carbon Reduction**

Within carbon budgeting there will be a greater understanding of the real cost of purchasing. Currently a company purchasing air travel will receive reports from suppliers on the cost of the services purchased and from a carbon perspective will see short haul travel emissions reduction as a switch from air to rail. Whilst the per passenger emissions values per kilometre support this view, the difference in cost between peak domestic rail fares and low cost carrier flight can result in the company paying a high cost for its emissions reduction on the journey. To provide a full analysis for decision-making the cost of each journey option needs to be assessed to ensure a full understanding of the cost of carbon and its reduction to a company.

This will enable companies to demonstrate the costs that they have incurred in choosing lower emitting options for power and travel, a more accurate reflection of the costs of carbon reduction to a company than the simple use of the annual emissions values as a financial cost based upon offset purchase. Investors and consumers will be able to differentiate between the cost and ROI of carbon reduction measures and to establish the difference between “business as usual” emissions supported by offset payments and the value of reduction and investment in reduction by companies. The latter is the sustainable long term approach that will deliver environmental and corporate benefits.

## **Charity Begins at Home**

For some companies, the carbon philanthropy approach will provide an opportunity for them to create their own internal funding systems based upon the SPC, to create internal corporate funds that can be used for the reduction of carbon emissions. Examples already exist of government agencies and private companies where employees vote for and bid for money from such internal funds to support projects to reduce the overall emissions of their company. This internalised approach is a voluntary and thus primarily philanthropic approach, but one which enables employee mobilisation and engagement with corporate carbon reduction. The funds generated for such programmes fall into philanthropy and not operating cost, even though they may have a significant effect on both operating costs and environmental impact, which will benefit the company.

The internal model for the voluntary distribution of funding could exist hand in hand with donations to external agencies that reflect the core values of a company, its geographical scope of operations or location.

## **Summary**

Carbon emissions reduction and mitigation is a voluntary activity for the vast majority of companies and the current use of offset as a primary strategy is likely to create significant problems for companies who have elected to aim for short term “carbon neutral” goals. In 2006 and much of 2007 most consumers and investors were not sufficiently carbon literate to question these aims, although there was an uneasiness about the process of buying environmental absolution. 2008 has seen an increase in companies withdrawing from offset purchase and greater questions being raised around the business as usual emissions of “carbon neutral” companies.

Reduction of emissions will be the hallmark of carbon responsible companies and the use of a transparent carbon philanthropy mechanic, supported by clear cost metrics, to reflect the voluntary financial commitments of companies, either through support for charities and/or internal emissions reduction programmes, will deliver tangible benefits that investors, employees and consumers can identify. The use of a financial mechanic for reporting carbon will be helpful preparation for a regulatory environment, support the important link between carbon efficiency and cost efficiency, thereby bringing carbon into business operations as an environmental and cost metric.