

Managing greenhouse gas emissions across the value chain

May 2009



Background

The management of greenhouse gas (GHG) emissions has become one of the core corporate responsibility issues, although the focus has mainly been on direct and indirect (i.e. electricity) emissions, rather than on emissions across the value chain (including emissions from the transportation of purchased materials, finished goods and products, and waste; leased assets; franchises and outsourced activities; the use of products and services; and the disposal of products at the end of their lives).

For some companies, the value chain can be a much more significant source of emissions than direct and indirect sources. Apart from environmental impacts, these emissions may also present risks (e.g. increased costs, regulatory exposures) and opportunities (e.g. improved brand and reputation) to the business. This has led many companies to quantify these emissions, and take action to minimise the downside

risks and maximise the opportunities associated with them.

We strongly support the premise that companies should take action to reduce emissions from their value chains, as we see that such action should enable more effective and targeted emission reduction efforts and the identification of a wider range of cost-saving opportunities. However, we are concerned that the progress to date in quantifying and, more importantly, minimising these emissions has been somewhat piecemeal and that many companies do not seem to fully recognise the risks and opportunities presented by proactive approaches to emissions in their value chains. We also worry that current discussions around how companies manage their GHG emissions – in particular, the emphasis on reporting and product labelling – may push companies in directions that could run counter to their best interests and, perversely, have the effect of delaying action or of focusing management attention on the wrong areas.

In April 2009, Insight together with Acona Limited, the specialist corporate responsibility consultancy, published a report entitled '[Managing Greenhouse Gas Emissions Across The Value Chain: The New Agenda](#)' which sets out our views, as a large institutional investor, on the current debate around value chain-related GHG emissions. The aim of this paper was to set out our views on current practice on GHG emissions in the value chain and to catalyse discussion on how corporate practice may evolve over the next two to three years. The report focused particular attention on two questions:

- Should companies report on their value chain emissions?
- Should companies produce 'carbon labels' for their products.

Should companies report on their value chain GHG emissions?

There is a growing expectation that companies will report on the GHG

emissions from their value chain. There are strong arguments in support of such reporting – including allowing the company to demonstrate to stakeholders that climate change-related risks have been identified and are being effectively managed; creating an impetus for action; providing a framework for management activity; allowing the company to demonstrate its commitment to action on GHG emissions; and offering a means for the company and its stakeholders to benchmark its performance against others.

However, companies seeking to report on their GHG emissions face a number of challenges. First, much of the data may be highly qualified or of limited value. There are various reasons for this, including inconsistencies in the definition of the scope and boundaries of reporting, limitations in the available data (e.g. not all buildings are metered and not all waste, travel or energy providers are able to provide accurate figures) and the reality that as one moves further down the supply chain, the difficulties and costs of gathering data tend to multiply.

Second, many aspects of value chain GHG emissions performance cannot be reduced to hard numbers, and the impact of many of the actions/decisions taken – for example, initiatives focused on customer education and labelling – may be difficult to demonstrate.

Third, in an attempt to avoid criticism of incomplete reporting, companies may shift their attention to those aspects where numbers – even if extremely uncertain – can be gathered and performance tracked, rather than focusing on those areas where they have the greatest influence on emissions.

In our view, reporting should not drive corporate action; rather companies need to start thinking about their corporate objectives (financial, strategic, responsibility, and value chain-specific) and then identify and implement the actions they need to take as a result. If companies do report this type of information, they should put the reported data into context by providing a clear account of the uncertainties in the reported data, clearly describing the scope and boundaries of the reported data and documenting the key assumptions that have been made.

Product labelling: informative or useless?

In response to the growing consumer interest in the environmental credentials of the products and services that they use, companies have started to provide an increasing amount of information on the GHG emissions associated with their products. This is a welcome development, and we support companies providing clear and credible information on the GHG emissions of their products and services, especially where this enables consumers to reduce their own GHG emissions footprint. The success of the EU Energy Label – covering electrical goods and cars – has provided an excellent model for other, similar schemes.

We recognise that we are presently in the experimentation phase with carbon labels and that it is premature to draw firm conclusions on how these labels influence (or will influence) consumer behaviour, or whether consumers will preferentially purchase or use products or services with lower greenhouse gas emissions. However, we have a number of concerns about the manner in which practice is evolving. Specifically:

- There are fine lines between labelling, green branding and “greenwash” and companies need to be mindful of where these boundaries lie. The increasing desire of companies to proclaim their environmental credentials and, in particular, their carbon neutrality has been accompanied by a dramatic increase in the number of complaints made to the UK’s ASA (Advertising Standards Authority) questioning the validity of these types of claims. There are legitimate concerns that, if such claims are brought into disrepute, consumer confidence in carbon labelling may be undermined.
- Carbon labels may not actually be a useful information tool for consumers. Carbon labels have gone beyond fast moving consumer goods such as toiletries, light bulbs, batteries and paper products, and now include, among others, bank accounts and clothing. Whilst the consumer can readily understand how energy efficiency ratings for electrical goods can help to reduce his/her carbon footprint and thereby make a contribution – no matter how small – to combating climate change, one must question whether the proliferation of labels and claims for other products and services may be counter-productive. Furthermore, labelling schemes may not align well with the choices that consumers really make or have available to them. For example, when buying milk, consumers are usually more interested in the fat content than the relative environmental performance of different products. Similarly, when consumers are making decisions across heterogeneous products (e.g. a packet of crisps versus a bottle of beer) it is not clear how such labels influence these decisions.

- Company-specific labelling schemes may not enable customers to differentiate meaningfully between companies (beyond who those who do and do not report on GHG emissions), a core rationale for providing consumer choice in these areas.
- Carbon labels (or the use of GHG emissions as a measure of performance) may not be the best tool for communicating with consumers and, for example, total life-cycle costs may be a more meaningful and useful measure.
- Companies' value chains are dynamic. A product's emissions profile will change every time there is a change in the value chain, which can make accurate reporting difficult.

Concluding comments

The management of value chain-related GHG emissions is in its infancy. We support the efforts being made by companies to assess and manage these emissions more effectively and to develop tools for quantifying and reporting on performance.

These efforts should, over time, provide the framework for a credible, standardised and rigorous approach to evaluating and reporting these emissions. We are also convinced that the business case for action – cost savings, reputation benefits, meeting consumer demand – is increasingly compelling and that a proactive approach to managing these emissions will be an integral part of creating successful and sustainable business models.

We are concerned, however, that the present focus on measuring or gathering definitive emissions data for the purposes of reporting or labelling may, paradoxically, have the effect of moving us away from the core objectives of reducing emissions in a practical cost-effective manner. While it is important that companies have a clear understanding of where within the value chain their most significant GHG emissions can be found, there is little merit in measuring these emissions to the last gram – particularly if the costs are prohibitive. More fundamentally, such an exercise delays attempts to minimise and manage the associated risks. Good emissions data is not an end in itself; it is the actions that are taken – reducing business risks, maximising opportunities, reducing total greenhouse gas emissions – that really count.

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