

**Business Leadership Criteria**

# **CARBON PRICING**

Caring for Climate



**THE °CLIMATE GROUP**



“Let us make sustainability the most powerful lobby... **Become advocates** for an effective, well-functioning carbon market... We must **place a true value on the cost of carbon** to our economies and our future. I urge you to work with Governments on this issue.”

— Ban Ki-Moon  
*United Nations Secretary-General*



Global momentum is building for putting a price on carbon emissions as a necessary and effective measure to tackle the climate change challenge. The stage has been set and the **time to act is now**.

Approximately 40 countries and more than 20 cities, states and provinces use carbon pricing mechanisms or are preparing to implement them. Nearly 400 Caring for Climate companies from 60 countries have made clear that they want Governments to make markets work for the climate. Through the UN-supported Principles for Responsible Investment, a group of investors – representing USD 45 trillion in assets under management and often covering more than 45 percent of shareholdings in listed companies – have pledged to incorporate sustainability criteria into their investment and ownership practices and are increasingly demanding that companies strengthen responses to the risks posed by climate change.

Support for carbon pricing is shared by both the private and public sectors. From emissions trading systems to carbon taxes to legislative and fiscal frameworks to create a stable price for carbon, the mechanisms are diverse and can make a significant impact in driving down global greenhouse gas emissions. Despite progress to date, business will

have to reach a new level of performance to help effectively address the climate challenge. The opportunity for companies – large and small – to lead this movement is enormous. That is why the UN Global Compact, together with UNEP, the UNFCCC secretariat, and with the support of Caring for Climate strategic partners – CDP, The Climate Group, UN Foundation and the Principles for Responsible Investment – developed the **Business Leadership Criteria on Carbon Pricing**.

Whether a company meets them today or commits to align over time, embracing the core elements of the criteria demonstrates good business practice and leadership in climate action. Long-term valuation of the cost of carbon emissions – coupled with responsible public policy engagement and transparency – must become a priority in corporate strategy and operations.

In the lead-up to the Caring for Climate Business Forum at the 21st session of the Conference of the Parties to the UNFCCC in December 2015 in Paris, there will be numerous opportunities for early supporters of a price on carbon to demonstrate their leadership, inspire other businesses and influence policy making.

**We hope you will join the movement.**

# Business Leadership Criteria on Carbon Pricing

The Business Leadership Criteria on Carbon Pricing comprise three distinct but overlapping dimensions: integrating carbon pricing into long-term strategies and investment decisions, responsible policy advocacy, and communication on progress. All three dimensions of the criteria are aligned with limiting the increase in global mean temperature to 2° C above pre-industrial levels.

**Consistent with the 2° C global target, companies are invited to indicate alignment with the following criteria:**



Set an **internal carbon price** high enough to materially affect investment decisions to drive down greenhouse gas emissions;



**Publicly advocate the importance of carbon pricing** through policy mechanisms that take into account country specific economies and policy contexts; and



**Communicate on progress** over time on the two criteria above in public corporate reports.

## WHY ALIGN WITH THE LEADERSHIP CRITERIA?



### PRICE IT

- Risk management and preparedness
- Resource efficiency and cost savings
- Innovation to limit temperature increase below 2°C



### SUPPORT IT

- Policies that reward climate performance
- Leveling the playing field and policy clarity
- Respecting and supporting UN goals



### REPORT IT

- Continuously improving performance
- Measuring efforts and best practices
- Creating investor and societal trust and confidence

## Leadership Criteria: Questions & Answers

### **Q What is an internal carbon price?**

**A** A carbon price set internally starts with the business assumption that addressing climate change will be both a business cost and an opportunity, regardless of the regulatory environment. Large and small companies from a variety of sectors are already incorporating the cost of CO<sub>2</sub> emissions into decision-making processes by using an internal carbon price. This practice is becoming more mainstream in business planning and serves as a useful model for redirecting and scaling up investments towards low-carbon technologies, driving operational efficiencies, especially in markets with a carbon price or in regions that expect a carbon market mechanism. Globally, 150 companies that report to CDP are using a price on carbon as a tool to drive investments in greenhouse gas emissions reductions.<sup>1</sup>

The first element of the Business Leadership Criteria is designed to inspire and challenge companies to set an effective internal carbon pricing scheme – integrating long-term strategy, operational and value chain implications – that can help significantly drive down greenhouse gas emissions and to increase investments towards low-carbon technologies. Setting an internal carbon price high enough to materially affect investment decisions to drive down greenhouse gas emissions entails taking the following steps: (1) measure CO<sub>2</sub> emissions of existing operations and project CO<sub>2</sub> emissions in investment decisions; (2) put a price on these emissions, so they have a financial value; and (3) ensure that the internal carbon price

is set high enough to motivate the company to reduce emissions and increase share of low-carbon investments.

By setting appropriate internal carbon prices and publically disclosing the details of them – including other climate risk mitigation efforts – companies help provide confidence to investors that risks posed by climate over the long term are recognized and are being addressed. In addition, many investors are increasingly beginning to measure the carbon footprint of their portfolios and may look to reduce the embedded carbon within their portfolios.

### **Q Why should my company advocate the importance of carbon pricing?**

**A** Business leaders are in a unique position to inform and encourage policy-makers to drive more ambitious and effective climate policy. Clear frameworks and strong signals from Governments are essential to prompt investments today and avoid higher costs in the future. For example, strong policy signals for the energy sector would avoid more than USD 3 trillion of additional investment that would be needed if policies were delayed until 2020.<sup>2</sup>

Unless the cost of emissions is properly valued and passed on to those responsible for emissions, CO<sub>2</sub> reductions will not decrease to the level required to prevent dangerous climate change. A call by business leaders to put a true value on the cost of carbon can provide powerful momentum in urging Governments to enact policies that support effective, well-functioning carbon mar-

<sup>1</sup> CDP. 2014. Global Corporate Use of Carbon Pricing: Disclosures to Investors.

<sup>2</sup> International Energy Agency. 2013. Redrawing the Energy Map.

kets locally and globally. A company's alignment with the Leadership Criteria sends a clear signal to policymakers to move rapidly in this direction. Leading businesses that align with the criteria can act as examples among their peers and competitors and actively encourage their industry or value chains to do the same. With business input and support for ambitious policies, countries and markets can scale the learning curve faster to realizing a price on carbon. In addition to market mechanisms such as a carbon price, there are other important policy elements to consider and promote, such as energy efficiency and renewable energy standards or other performance standards to drive down greenhouse gas emissions. All companies are encouraged to adopt the **Guide for Responsible Corporate Engagement in Climate Policy** as a foundation for advocating responsibly for a price on the market as well as other relevant policies.

**Q How can my company communicate on progress on the leadership criteria?**

**A** Consistent with the UN Global Compact Communication on Progress (COP), companies should integrate a description of practical policies and activities implemented – or planned to be undertaken – and measurement of outcomes to realise the leadership criteria. Companies are invited to report on progress through an annual Caring for Climate – COP or by responding to CDP's annual request to corporations to disclose climate change information. COPs at the GC Advanced Level must disclose information on environmental management policies and procedures. In addition, the accuracy and the completeness of the information must be assessed by a credible third-party.

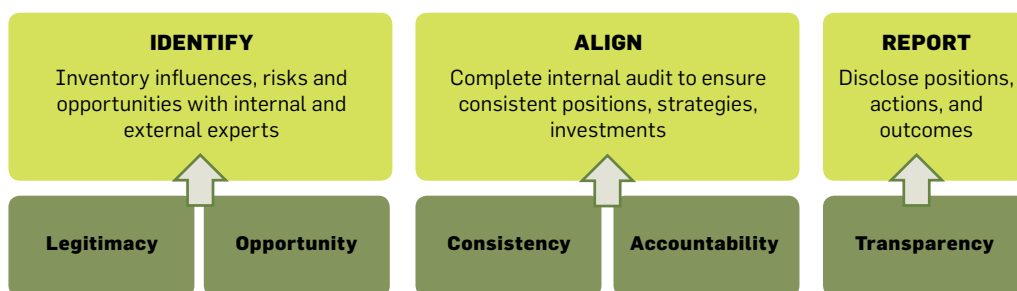


**Global momentum is building to putting a price on carbon...**

- Nearly **400 Caring for Climate companies** from **60 countries** call for an urgent creation of "comprehensive, long-term and effective legislative and fiscal frameworks" designed to make markets work for the climate in particular, a stable price for carbon.
- Approximately **50 Governments** and **300 companies** support the *Putting a Price on Carbon* statement led by the World Bank Group pledging to work towards developing and strengthening carbon pricing policies.
- More than **300 investors** with collective assets of over USD 22 trillion have signed the *2014 Global Investor Statement on Climate Change*, which includes a call for stable, reliable and economically meaningful carbon pricing.
- Over **150 companies** signed the Prince of Wales' *Carbon Price Communiqué* making the case for setting a price on CO2 emissions as one of the main building blocks of an effective climate change framework.
- About **60 leading economists** in Australia published an open letter in 2014 with WWF in support of a price and limit on carbon pollution.

## WHAT ARE THE TOP THREE ACTIONS COMPANIES CAN TAKE TO PUT RESPONSIBLE POLICY ENGAGEMENT INTO PRACTICE?

### THREE ACTIONS COMPANIES CAN TAKE TODAY



### Five Core Elements of Responsible Corporate Engagement on Climate Change Policy

Source: Guide for Responsible Corporate Engagement in Climate Policy, 2013.

## Caring for Climate



Caring for Climate is the world's largest global coalition on climate led by the UN Global Compact, UNEP and UNFCCC Secretariat. Launched by the UN Secretary-General Ban Ki-moon in 2007, Caring for Climate provides a framework for business leaders to advance practical climate solutions and help shape public policy. Chief executive officers who support the Caring for Climate Statement are prepared to set goals, develop and expand strategies and practices, and to publicly disclose emissions. The Caring for Climate Business Forum is held every year at the UN ClimateChange Conference (COP/CMP), providing a platform for dialogue and action among business, investors, civil society, the UN and Government officials. Since 2007 Caring for Climate has grown to nearly 400 companies from 60 countries. CDP, The Climate Group, Principles for Responsible Investment (PRI), World Business Council for Sustainable Development (WBCSD), and the UN Foundation are strategic partners of the Caring for Climate initiative.

To learn more, visit [www.caringforclimate.org](http://www.caringforclimate.org) or email [caring4climate@un.org](mailto:caring4climate@un.org).

**Caring for Climate wishes to recognise the following companies that have aligned with the Business Leadership Criteria on Carbon Pricing\*:**

Abengoa	Lafarge
Acciona	NEAS Energy
Atmoterra	Nestlé
Braskem	Nouveau Energy Management
BT Group	Novozymes
Cáldida	Sindicatum
Danfoss	Sinopec
Ecotierra	SkyPower
EDF	State Grid Corporation of China
Enel	Statkraft
Eskom	Statoil
Fortum	Suez Environnement
GDF Suez	Unilever
Hindustan Construction Company	Visão Sustentável
IdeaCarbon	Zenith Bank
Koninklijke Philips Electronics	

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*For more information and to see the full list of companies, please visit  
<http://caringforclimate.org/workstreams/carbon-pricing>.*

*\* As of 22 September 2014.*

# The Ten Principles of the United Nations Global Compact

## HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

## LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

## ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

## ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.



**United Nations** Global Compact

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