

## **STATEMENT OF G8 CLIMATE CHANGE ROUNDTABLE**

**CONVENED BY THE WORLD ECONOMIC FORUM  
IN COLLABORATION WITH HER MAJESTY'S GOVERNMENT, UNITED KINGDOM**

### Introduction

As leaders of major global companies representing a broad range of industries, we share the belief that climate change poses one of the most significant challenges of the 21<sup>st</sup> century. With linkages to other important issues, such as the need to ensure economic growth, alleviate poverty, and provide access to adequate supplies of energy, climate change is an issue that demands the attention of governments, business, and civil society throughout the world. We fully support the efforts of the Prime Minister to elevate attention to the issue in the G8 process and welcome this opportunity to contribute.

We recognize we have a responsibility to act on climate change. Many of us are significant users of energy or produce products whose use results in substantial emissions of greenhouse gases; some of us have assets or investments that will be adversely affected by changes in climate; all of us face the prospect of increased regulation in one form or another. We also know that small costs today can become material costs in the future, with significant impact on bottom line performance, shareholder value, and brand reputation.

Our companies have begun to act in a variety of ways, ranging from inventory and disclosure of greenhouse gas emissions to development of new product lines that release less carbon to the atmosphere. Many of us are participating in voluntary emission reduction programs or mandatory emissions trading markets. Some are launching new financial instruments that consider risks and new profit opportunities relevant to climate change. Others have committed to significant purchases of renewable energy or are actively exploring new investments in other low carbon technologies such as nuclear power. We acknowledge, however, that there is a need for further, substantial efforts to reduce greenhouse gas emissions.

We also note that business and government cannot solve the climate change problem alone. Consumers, too, have a vital role to play, in so far as they will determine whether actions undertaken by business to introduce low carbon practices or offer new "climate friendly products" will be met with a viable market. Indeed, that is the premise underlying Article 6 of the UN Framework Convention on Climate Change (ratified by 189 states), which obligates governments to educate and inform consumers. Market-based solutions to climate change will work best when there is an informed base of consumers who understand the implications of their consumption and buying choices – and when they are given the right price signals.

### Key Principles

From a business perspective, we believe there are a few key principles that should guide future strategy for climate change mitigation:

- Policies and action should be based firmly on good science and rational economics.
- Policy frameworks that use market-based mechanisms to set clear, transparent and consistent price signals over the long term offer the best hope for unleashing needed innovation and competition.
- Solutions must be global -- participation of all major emitters is essential.
- Climate change mitigation must not be viewed in isolation from other highly important challenges, such as ensuring access to energy, expanding availability of clean water, alleviating poverty, and achieving economic growth in emerging markets.
- Undertaking a system-wide, integrated approach to the problem and its solutions is critically important – to identify where greatest leverage exists for mitigation from the beginning of the production cycle through to end-users and consumers.

### Science

The science of climate change has been strengthened through three cycles of five-year assessments by the Intergovernmental Panel on Climate Change (IPCC), as well as many national and regional studies. For many of our companies, the IPCC has become the primary source of information on the science of climate change. These companies feel that maintaining IPCC's credibility and independence is essential, and that the IPCC deserves full and sustained support from the G8 governments.

It is our understanding that IPCC sees increasing confidence in models and historical data that show global warming is both already underway and attributable, in significant part, to human activity. We agree that the science is sufficiently compelling to warrant action by both the private and public sector, and we acknowledge that, because of the cumulative nature and long residence time of greenhouse gases in the atmosphere, action must be initiated now.

The above said, it is difficult for companies to determine the scale of needed investment without a clear definition of the problem's dimensions, including the thresholds (e.g. greenhouse gas concentrations) that must not be crossed in order to minimize adverse consequences. In our view – because the problem is a broad societal and long-term issue -- governments must take responsibility for defining these boundaries, considering as well the technical, financial, and political feasibility of various solutions. Toward that end we urge the G8 governments to:

- **Focus more resources and attention on assessing the potential scale and magnitude of adverse effects on human health, natural ecosystems, and regional and global economies. Identifying needs for near-term adaptation measures is particularly important.**
- **Strengthen the global observation systems that are essential to improve our understanding of the changes that are now underway or may evolve in the future (e.g. sea level rise, sea/ice cover).**
- **Move expeditiously to adopt climate stabilization targets that will define the scope and scale of mitigation needed in the years ahead.**

### Policy Framework

To establish clear, transparent, and consistent pricing signals, the policy framework for addressing climate change must meet a number of objectives. We summarize these below, together with some specific ideas (highlighted in bold) for the G8 governments to consider.

#### *1. Create long term value:*

The current “patchwork” scheme of regulatory, financial, and technology incentives that has evolved in various parts of the world is not conducive to a cost-effective and efficient approach to the problem of climate change. The difficulty is exacerbated by the short term nature of the Kyoto Protocol and related policy mechanisms – whose targets and timetables do not extend beyond 2012. For an investor seeking to gain a fair return on low carbon capital projects whose life cycle may often be in the 25-50 year range (e.g. power plants), the level of risk can become a significant disincentive. The same kind of uncertainty clouds the future value of tradable emissions credits and the value of investment in low carbon infrastructure in emerging markets.

We must adjust our thinking about actions to reduce emissions of greenhouse gases – to see them as adding real, long term value, not simply imposing costs. This is a primary benefit of market-based approaches and should be reflected in an enduring policy framework supporting all low carbon technologies. Creating lasting shareholder value is particularly important.

For these reasons, we urge the G8 governments to:

- **Establish a long term, market-based policy framework extending to 2030 that will give investors in climate change mitigation confidence in the long term value of their investments. Establishing indicative signals extending to 2050 would also be beneficial.**
- **Ensure that the policy framework is global in scope – utilizing a coordinated and consistent set of national or regional regimes, with maximum fungibility between regimes, and opportunity for future consolidation into a single regime.**
- **Define greenhouse gas emissions rights through a cap-and-trade system or other market-based mechanisms that can be adjusted over time to reflect evolving scientific, technological and/or economic developments and that will help shape consumer choices.**
- **Address climate change as part of an overall sustainable development agenda, putting in place mechanisms which address the challenges of poverty, energy, and economic growth in emerging markets while mitigating greenhouse gas emissions.**

#### *2. Unleash technological innovation through performance-based incentive programs:*

Properly designed emissions trading programs can and will induce companies to reduce their emissions of greenhouse gases. However, the primary effect of such mechanisms is to promote efficiencies in energy use or manufacturing processes; they are less likely to stimulate major technological change or breakthroughs. Therefore, a continuing emphasis on other public and private sector programs to stimulate the development and commercialization of new low carbon technologies is required.

Technology-specific government support is essential for basic research that offers long-term prospect of success but remains too risky to attract private sector investment. This is especially relevant in areas where technological breakthroughs have not yet been achieved.

For more near-term applications, however, where the goal is rapid commercialization and deployment of technologies that are nearly “ready to go”, governments should avoid picking winners and losers. Here, regulatory or incentive programs designed to support the power of

innovation will function much more productively if they are technology-neutral and performance-based – i.e. establishing the goals, but giving business maximum flexibility to achieve them.

It is also important for such programs to consider a life-cycle approach – to encourage business to identify the stages of design, production, distribution, use, and disposal/reuse where technology innovation can provide greatest reduction in greenhouse gas emissions at least cost, and then optimize that across the full cycle. Additionally, performance-based standards must be balanced with other societal goals (e.g. safety, employment growth) and be consistent and stable, both over time and across geographical areas that are defined by similar market characteristics or common business operations.

- **We urge the G8 governments to emphasize performance-based standards in new initiatives aimed at rapid commercialization of low carbon technology.**
- **Ensuring compatibility with other societal objectives is equally important, together with the ability to optimize greenhouse gas reductions across product life cycles.**

*3. Facilitate greater investment in low carbon economic growth in emerging markets:*

Emerging markets offer substantial opportunities for private investment to support low carbon economic growth, in concert with other sustainable development goals. Ways must be found, however, to reduce the risks that pose significant barriers to private investment – especially at a time where significant quantities of private investment capital appear to be available.

Good governance is key, together with the same kind of market-based policy instruments and technology incentive programs discussed in the preceding sections. A partnering approach involving business, governments, and relevant international financial institutions and focused, initially, on a small group of specific countries across a range of continents could create important precedents that would have application worldwide.

- **The G8 governments should step up collaborative efforts with emerging market nations to streamline and encourage low carbon investment, with particular focus on technologies that can be replicated across different regions.**
- **The G8 nations should engage in a major new partnership with China, India, Brazil, South Africa and Mexico to establish appropriate frameworks to facilitate private investment in low carbon infrastructure, consistent with local and regional objectives for expanding access to affordable energy, providing greater mobility, assuring availability of clean water, and meeting other sustainable development goals. Such a partnership could aim for implementation of specific projects within each of these countries or it could focus on rapid introduction of specific technologies (e.g. renewable energy or carbon capture and storage) across several or all of them. Strengthening local research and innovation capacity should also be a key objective.**

One financing tool that already exists -- the Clean Development Mechanism (CDM) established by the Kyoto Protocol for promoting low carbon investment in developing countries -- offers significant promise. However, in the view of many of our companies, the CDM process has become overly complex, time consuming, and expensive. A governance approach matched to the scale of the task, together with the resources needed to implement it, is lacking. There is uncertainty about the long term value of CDM credits beyond 2012. Very few projects have been approved, and we are concerned that business interest may decline considerably. To realize the full potential of this mechanism, major reforms are needed.

- **G8 governments that have ratified the Kyoto Protocol should launch immediately a consultative process with the UNFCCC to engage experienced global businesses in an assessment of the CDM, with the goal of implementing measures to streamline the process substantially by the end of 2005.**

Additionally, we pledge our full support for the Joint Implementation (JI) mechanism established by the Kyoto Protocol. JI offers significant opportunity to advance cooperative solutions to the climate change problem and a model that could be applied well beyond its original focus on Annex 1 countries (developed countries, as defined in the Kyoto Protocol).

*4. Establish common metrics:*

Many companies have taken the lead in establishing benchmarks for reporting and/or measuring corporate performance in reducing greenhouse gas emissions. Some common baselines have been developed, most prominently the protocol developed by the World Resources Institute and the World Business Council for Sustainable Development, the Global GHG Register hosted by the World Economic Forum, and the soon-to-be completed ISO standard 14064. However, there is an emerging risk that national, regional, and/or sectoral protocols will diverge substantially, complicating the task of comparing corporate performance both within and across various industry sectors. The problem may become particularly acute in some G8 nations where multiple agencies have promulgated different standards.

Transparency, comparability, and simplicity of reporting metrics is crucial to the ability of investors and other stakeholders to assess value derived from actions to mitigate climate change. Greater harmonization can reduce transaction costs substantially. These issues will become even more important as the complexity and volume of corporate action increases. Therefore, we urge the G8 governments to:

- **Work toward convergence of existing greenhouse gas reporting processes and systems.**

This could take the form of an assessment of greenhouse gas reporting requirements promulgated by national and sub national agencies, with the goal of identifying and implementing appropriate reforms. Consideration could also be given to the development of a forum or board to establish a common approach for greenhouse gas reporting, similar to the International Accounting Standards Board currently in place to measure financial performance. In either case, it should be emphasized that the objective is to build upon the considerable amount of good work already done in this area.

We also note a need for common metrics in two other areas. One is energy efficiency. Benchmarking energy efficiency across national borders would greatly facilitate identification of new climate change mitigation opportunities. The other concerns trans national measurement of the overall health and recovery of the planet. As we move forward to implement solutions, it will be important to monitor and track their impact on a global basis.

*5. Utilize the power of procurement and supply chain drivers:*

Government and industry jointly represent massive buying power in the global economy. Their requirements for energy efficiency, for example, can have a major impact on greenhouse gas reductions, while at the same time stimulating the economies of scale that will create products and services whose application will yield benefits extending far beyond procurement/supply chain pathways. Integrating climate change mitigation more widely in government procurement – and doing it in ways that would create large market value by harmonizing standards across national boundaries – would provide industry with much greater motivation to invest in innovation. Such a

commitment, matched by a private sector commitment of similar scale focused on supply chain purchasing, would create cascading effects throughout the global economy.

- **Business and the G8 governments should work together to establish a practical toolkit for integrating climate change into their global supply chain requirements.**
- **Business and government should commit to use such a common framework and encourage its use in stages of supply chains where optimal effect on greenhouse gas emissions can be achieved.**

#### Conclusion

Business and governments can – and must – work together on climate change mitigation. Working together, we can identify and implement policy measures that will create meaningful and effective solutions, while at the same time ensuring long term value for shareholders. With properly designed programs and incentives, we can unleash the power of the market to accelerate the deployment of low carbon technologies, engaging both producers and consumers alike. And with the right kind of focus on both the needs and aspirations of emerging markets, we can ensure that a truly global solution to the problem is achieved.

We are firmly committed to do our part on climate change. A coordinated and vigorous response from the G8 governments along the lines suggested above will allow us to do even more.

**G8 Climate Change Roundtable  
Participating Companies**

ABB, Fred Kindle, CEO  
Alcan, Travis Engen, President and CEO  
BP, John Browne, Group Chief Executive  
British Airways, Martin Broughton, Chairman  
BT, Ben Verwaayen, CEO  
Cinergy, James E. Rogers, Chairman, President & CEO  
Cisco, Robert Lloyd, President, Operations, Europe, Middle East, Africa  
Deloitte, John Connolly, CEO, UK and Global Managing Director, Deloitte, Touche Tohmatsu  
Deutsche Bank, Tessen von Heydebreck, Member of the Board of Managing Directors  
E.ON, Burckhard Bergmann, Chairman of the Executive Board and Member of the Board  
EADS, François Auque, Head of Space Division  
EdF, Pierre Gadonneix, Chairman and CEO  
Eskom, Reuel J. Khoza, Non-Executive Chairman  
Ford, William Clay Ford, Chairman and CEO  
HP, Mark Hurd, President and CEO  
HSBC, Sir John Bond, Group Chairman  
RAO UESR, Anatoly B. Chubais, CEO  
Rio Tinto, Paul Skinner, Chairman  
Siemens, Klaus Kleinfeld, President and CEO  
Swiss Re, Jacques Aigrain, Deputy CEO  
Toyota, Katsuhiro Nakagawa, Vice Chairman  
Vattenfall, Lars G. Josefsson, President and CEO  
Volkswagen, Bernd Pischetsrieder, Chairman of the Board of Management