



Keeping ahead of the green curve

Under a regulated carbon system, many organizations will have significant new costs.

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» **Published: June 5, 2009**

The world is moving to a low-carbon economy. And it is doing so in a hurry. Consider what came out of the G20 meeting in London earlier this year. In their efforts to revive the faltering global economy, leaders also helped to reinvent it.

About US\$400-billion — 15% of the entire stimulus package — will be used to cut global greenhouse gas emissions. Some countries are allocating up to 80% of their stimulus spend on green economic initiatives. Remarkably, China is the biggest spender on a per-capita basis, investing US\$200-billion.

Their timing was fortuitous. An international meeting to replace the Kyoto Protocol, the current treaty on greenhouse gas emissions, is only months away and early signs point to a more ambitious plan — one that will likely include for the first time the United States and such emerging powers as China.

In the United States, President Barack Obama wants to establish a cap-and-trade system — one that would likely have a material impact on many Canadian businesses that export to the U. S. market. And, at the state level, California and others have introduced strict regulation that promises substantial cuts to greenhouse gas emissions in the coming years.

The environment is an economic issue and the economy is an environmental issue. Leaders of private sector organizations must think through the strategic ramifications of this reality.

Some argue that legislative measures to combat global warming may lead to major industry restructuring and significant job losses. Manufacturers may also be impacted as new costs are slapped on carbon-intensive activities and as their customers' preferences change. And, given the aggressive stance of President Obama, trade tariffs between the United States and other countries — including Canada — may also escalate, as his administration penalizes imports from nations that aren't seen to be doing enough to reduce their own emissions.

What's more, under a regulated carbon system, many organizations will have significant new costs in their business model, with near-term estimates ranging up to US\$50 per ton of carbon emissions (equivalent to an additional US12¢ per litre of gasoline). But even this price signal would fall short of achieving the emissions target set out by the Canadian government for 2050, according to the National Round Table on the Environment and Economy. In one of their reports, NRTEE propose a price four times higher by 2025, combined with a number of other policies. Ask yourself: what happens to your business if it has to pay for each ton of carbon it

emits at either rate? Needless to say, all of this may impact consumer prices, which will only provide greater incentive for changing consumer behaviours.

Not all is doom and gloom, though. Significant opportunities may arise as well. Pure commercial or revenue opportunities come first to mind. The G20 stimulus package is only one example. For instance, the annual global spend on environmental technology is estimated to be US\$1.3-trillion, and growing.

Another opportunity relates to an organization's employee brand. A recent study shows 75% of current graduates want to work for a company that's behaving responsibly on issues like the environment. Being considered an engaged corporate citizen can pay big dividends in attracting and retaining the best and brightest talent.

So how can we prepare organizations for this new operating environment?

First, we should ensure our own houses are in order. That's the only way to get ahead of what will inevitably be new rules and regulations that will impact an organization's operations. It's also the only way to raise an organization's collective "environment IQ."

Second, it's critical for executives to understand the strategic and business implications of the environment on each of their businesses. This includes, especially in the short term, creating greener products and services for customers.

And finally, organizations need reach out and establish productive relationships with environmentalists and legislators at the federal, provincial and municipal levels.

The green-powered train has left the station. We are living in a new world in which the environment and the economy are inextricably linked. We face a growing demand from customers to demonstrate environmental leadership, and we will soon be exposed to additional regulation. Our business models need to reflect these shifts. Those who best understand the risks and best exploit the opportunities will stand to benefit greatly.

Source: [Financial Post](#)