September 2019

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Ethical CORPORATION MAGAZINE

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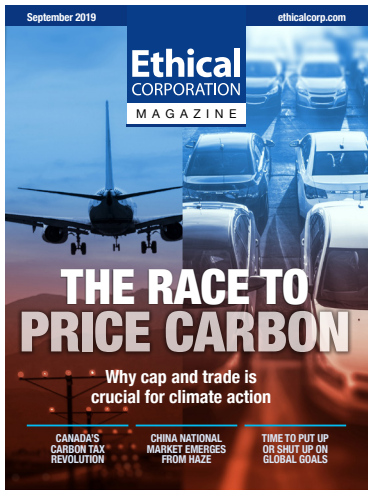

WELCOME TO THE SEPTEMBER 2019 ISSUE

This month we look at the growing momentum around the world to put a price on CO_2 emissions.

Mike Scott reports on how the resurgence of the EU carbon market, and an expected move by China to put a national price on carbon, are boosting hopes for prices that are high enough to drive decisive climate action around the world.

Diana Rojas reports from Washington, DC, where US business is pushing for a price on carbon as an alternative to regulation amid growing public awareness of climate change.

She also looks at how cap and trade is faring in Québec, across the border in Canada, where a knife-edge election in October threatens to derail the country's carbon pricing revolution.

On the west coast of Canada, Kathryn Harrison of the University of British Columbia draws some lessons from BC's widely lauded revenue-neutral carbon tax, and discusses the challenges ahead.

Meanwhile, Asian business expert Jill Baker talks to leading experts in China to provide a progress report on the development of that country's hugely important national carbon market.

I look at how Shell's recent announcement that it will invest $100m in nature-based climate ›

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solutions, together with a launch this month of a new international platform to trade REDD+ forestry credits, could unleash a flood of finance into protecting forests.

And I also talk to Shell about criticisms from environmental groups like Greenpeace and others that offsetting should not be used as a prop to continue with a business that is fundamentally unsustainable.

Our second briefing this month is about how companies are reporting the Sustainable Development Goals. Amid concern that progress on achieving the 17 goals by 2030 is way behind schedule, Mark Hillsdon reports on efforts to hold companies to account for their SDG pledges and turn them into real action.

And he highlights how packaging company Mondi is working with partners in its bid to tackle the SDGs.

It's a big month, with Swedish activist Greta Thunberg leading the first global climate action strike on 20 September, and Climate Week opening in New York.

We hope this month's issue will provide plenty of fresh insights for readers. ■

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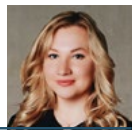

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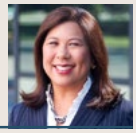

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The rise and rise of

CARBON PRICING

Mike Scott reports on how the resurgence of the EU carbon market and an expected move by China to put a national price on carbon are boosting hopes for prices that are high enough to drive decisive climate action

VIEW ONLINE

BBANDSIRI/SHUTTERSTOCK

> A credible carbon price in Europe is important politically because it demonstrates that carbon markets work

In 2018, the best-performing commodity in the world was not oil or iron ore, the mainstays of the 20th century economy. It was not copper or lithium, which will play a crucial role in the global economy of the 21st century. It was something that had for a decade or more languished in the doldrums: carbon allowances on the European Union's Emissions Trading Scheme (EU ETS).

Prices for emissions of greenhouse gas CO_2 had hovered for many years at around €5-€6 a ton because EU governments had issued high-emitting companies with too many allowances, a move whose impact was exacerbated by the financial crisis, which depressed economic activity and thus emissions. Prices started rising at the beginning of 2018 and have climbed steadily ever since to just under €30 at the moment. The €30 level is a psychological barrier for the market because it is the level at which experts say the carbon price will really start to change behaviour and lead to significant cuts in emissions.

The simple technical reason for the price increase is that the EU has reformed the market. It has introduced a Market Stability Reserve, which removes excess allowances from the market, to the tune of 24% of the excess every year, or 1.5bn tons over five years. The reserve came into force at the start of 2019 and has had a dramatic effect.

Thinktank Carbon Tracker sees prices as high as €55 by 2030, if the EU introduces policies that align the bloc's current emissions targets with the Paris climate agreement.

"It's really important politically that there is a strong carbon price signal in Europe," says Ian Trim, energy director at consultancy Navigant and one of the authors of the World Bank's annual State and Trends of Carbon Pricing report. "A credible carbon price in Europe shows that carbon markets can work. It's also useful from a technical perspective, because it illustrates that technical interventions in the market do work." ›

Carbon markets are now seen as a way to drive efficiencies in the economies of developing countries

There must always be caution when predicting carbon prices, because they are an artificial market, entirely governed by policy, and if supportive policies are withdrawn then prices can collapse – as the first decade of the EU ETS demonstrated. It was not just the EU ETS; efforts to create a global carbon market as part of the Kyoto Protocol came to nothing, and a voluntary market in the US, the Chicago Climate Exchange, fizzled out in 2010 when it became clear that there would be no legislation to tackle emissions in the US.

But sentiment towards carbon markets has strengthened significantly in recent years, for a number of reasons. One is that the evidence of human impact on the climate continues to strengthen, not just scientifically but anecdotally – recent heatwaves in Europe, fires breaking out in the Arctic, a huge increase in ice melt in Greenland, deadly wildfires in California are just a few of the recent examples.

This is backed by a strengthening social movement around the world – spearheaded by Swedish student Greta Thunberg and the global school strikes, along with the Extinction Rebellion campaigners – that is helping to drive policy changes in a range of countries.

A number of countries, including the UK and France, have committed to net-zero targets, while Ursula von der Leyen, newly elected president of the European Commission, promised MEPs she would create a European Green Deal, including a stronger carbon market, a net-zero target and a carbon border tax. In the US, a number of Democrat lawmakers are pushing the idea of a Green New Deal and it has captured the public imagination in a way that has never been seen before.

TWITTER

Greta Thunberg is part of a strengthening social movement demanding policy change.

These factors all add to the growing consensus that something needs to be done. "Action at the societal level seems to have driven greater national ambitions," Trim points out.

And carbon markets are seen as part of that ambition, not just in Europe but around the world. "We have seen fantastic growth in domestic schemes popping up all over the world, from Kazakhstan to South American countries (Chile, Argentina, Colombia) and South East Asian markets, where Indonesia is likely to bring a scheme online soon," says Trim.

"And there is a move away from carbon markets being seen as a way for developing countries to produce project-based allowances to sell to developed countries. Now they are being seen as a way to drive efficiencies in their economies."

Canada launched a national market earlier this year and there are regional schemes in the US, in California and the Regional Greenhouse Gas ›

RACHAEL WARRINER/SHUTTERSTOCK

In the US, the Green New Deal has captured the public imagination.

Initiative in the northeast of the country. There are even tentative moves to create markets in North Africa and sub-Saharan Africa, led by Senegal and Côte d'Ivoire.

But, notwithstanding the revitalisation of the EU carbon market, carbon pricing is catching on around the world only at "a snail's pace", according to a new report from the Organisation for Economic Co-operation and Development, which argues that carbon-pollution prices remain far too low to make a dent in emissions. Secretary-General Ángel Gurría says there needs to be "a big, fat price on carbon".

"It's the single most important pre-condition to win this war," Gurria said. If we don't make emissions expensive enough, we will not change behaviour. Anything below $30 is not even getting to the starting point. We need to climb towards $100 over time."

Swift action is needed, agrees John Roome, senior director at the World Bank's Climate Change Group. "Carbon pricing is the most effective way to reduce emissions and all jurisdictions must go further and faster in using carbon-pricing policies as part of their climate policy packages."

The World Bank calculates that carbon prices need to be in the range of US$40-$80 a ton by 2020, and between $50 and $100 a ton by 2030 to achieve the temperature goals in the Paris Agreement.

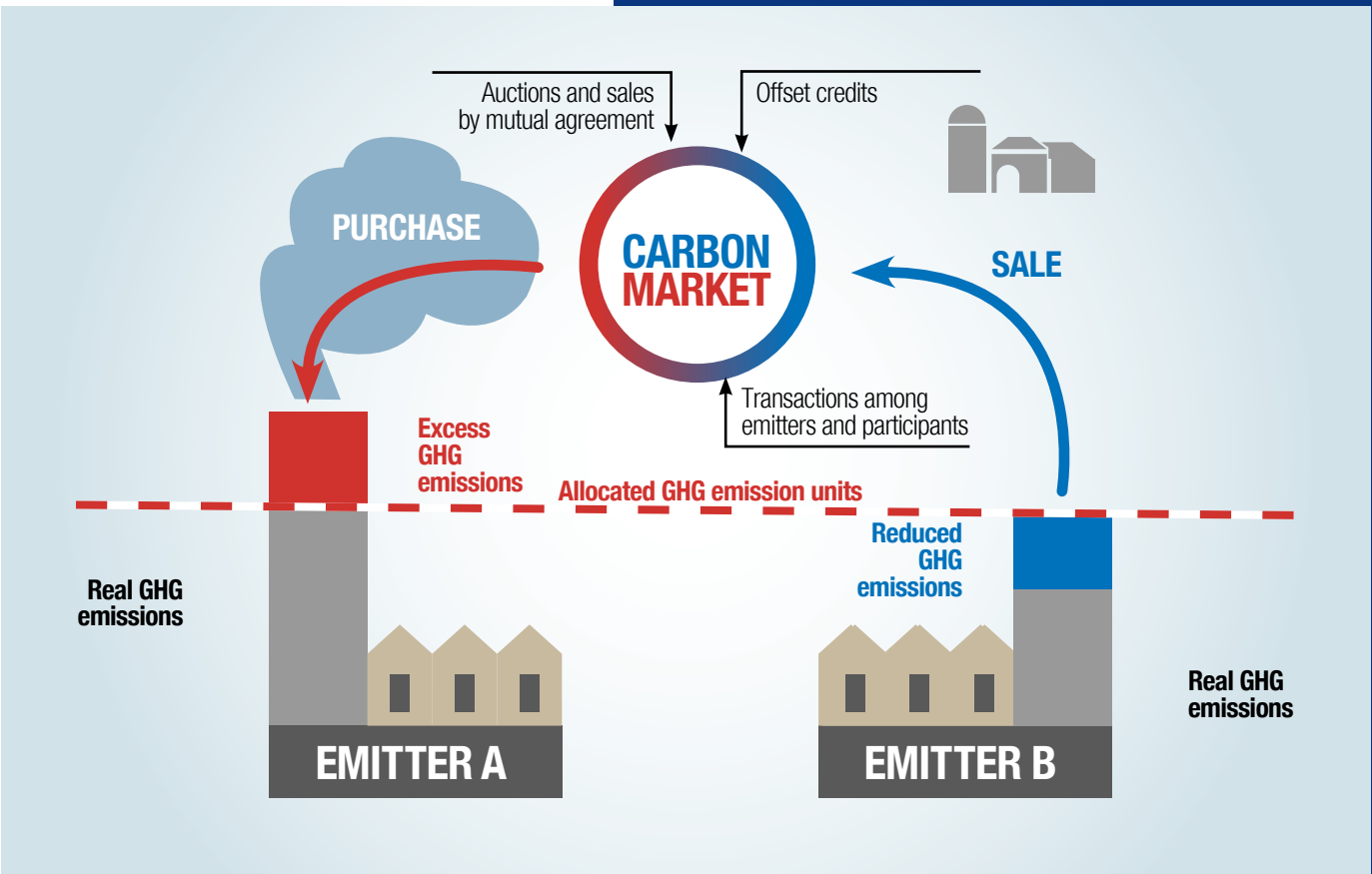
Yet there is a feeling that everyone is waiting on the launch of a national market in China, the world's biggest emitter. Beijing has had a number of pilot schemes running for the past 11 years in provinces and cities including Shanghai and Shenzhen. These were meant to be followed by a national scheme, but few details have yet been forthcoming.

> **If we don't make emissions expensive enough we will not change behaviour. Anything below $30 is not even getting to the starting point**

One leading expert, however, expects the Chinese government to make an announcement soon. Paula DiPerna, special adviser to CDP and former president of the Chicago Climate Exchange, who helped to create the first Chinese pilot scheme in Tianjin, told Ethical Corporation: "There would have been a national scheme already if the US hadn't cancelled the Clean Power Plan. That scheme was set up by President Obama as part of the deal for China to set up its carbon market. However, it's given [China] more time to design the national scheme."

She added: "The Chinese have all the design steps in place and in the decade since setting up their first market, they have educated an entire generation on ›

EXPLAINER



environmental finance. If they go national, it will create the largest commodity market in the history of the world." (See All eyes on China)

Chris Peterson, a Canada-based consultant at Anthesis, points out a move by China would also have wider ramifications. "Once it is in place, while I would be hesitant about placing a bet on a regulatory solution in the US, it will give an impetus to industry-led solutions there. Companies will say 'this is good business, it's something we need to do and we have to incorporate it into our decision-making'."

His US-based colleague Don Reed points out that it also has the potential to change the debate in the rest of Asia.

Trim at Navigant agrees that China coming on stream would be "a hugely important signal to the rest of the world. When fully established, it will be bigger than the EU ETS and alongside that scheme, a really significant proportion of global emissions would be covered by a carbon price."

Already, some 1,300 companies around the world have declared that they use an internal carbon price to drive their decision-making and investment ›

WHAT ARE CARBON MARKETS AND HOW DO THEY WORK?

Carbon pricing is a political instrument to achieve emission reductions in the most flexible and cost-effective manner for our economy, explains Trine Braathen, market analyst at Kinect Energy Group.

"The carbon pricing captures the external costs of carbon emissions and provides a signal to emitters to lower their emissions by stimulating new cleaner technology, market innovation and new types of fuels," she says.

According to the World Economic Forum, when a carbon market is created, participants are given or sold carbon allowances. The number of permits in the market is capped, with the total amount corresponding to a reduction target.

At the beginning of a trading phase, emission permits are either allocated to businesses for free or must be bought at auction. The number of available permits decreases over time, putting pressure on the participating companies to invest in cleaner production options and reduce their CO_2 outputs. In the long run, this fuels innovation and drives down the price of new technologies.

decisions, Trim says. "It's often put in place in advance of legislation, but it's also a useful tool for managing risk."

Internal carbon pricing is critical, agrees DiPerna. "Within the company, it does change behaviour when people are given a budget and have to manage to it. … It also removes obstacles to compliance" and shows companies where their hidden costs are.

Climate change impacts on companies from the extreme weather events that are causing havoc around the world are starting to become increasingly obvious, DiPerna adds.

Peterson points out that the bankruptcy of PG&E as a result of liabilities arising from last year's Californian wildfires highlights just how big and material the risks are. "As those consequences become more and more tangible and this narrative builds, it will lead to broader acceptance of the idea of carbon pricing, especially in the US and Canada," he added.

Reed, however, warns that despite the momentum that is building in favour of carbon markets, widespread adoption is far from assured. The gilet jaune protests in France are testament to how a poorly designed or administered carbon tax can backfire.

And some of the pushback against Canada's nationwide scheme has been "really surprising", states Peterson. "Four provinces refused to 'play nice' and the government imposed the scheme on them, a move that has become a campaign issue for the country's upcoming national election." (See Knife-edge election puts Canada's carbon revolution in doubt)

This resistance highlights one of the biggest stumbling blocks to carbon pricing: the shift in mindset necessary to take the first step. "Getting on to the treadmill is a real challenge," Peterson says. "It's a change in direction and the initial impact on the individual or company is higher prices for fuel and other inputs. Many people's mental frameworks are really shaken by climate change. It signifies such significant changes to the world that they don't want to talk about it or acknowledge it."

It is also why prices are too low in many schemes at the moment. "The first thing is to get the coverage," says Trim. "Then when people are used to how it works, you can tighten the caps to drive reductions."

However, as more and more companies take that first step, and as the number of national schemes grows, carbon markets should start to do their job of encouraging the shift to a lower-carbon economy.

OLGRES8/SHUTTERSTOCK

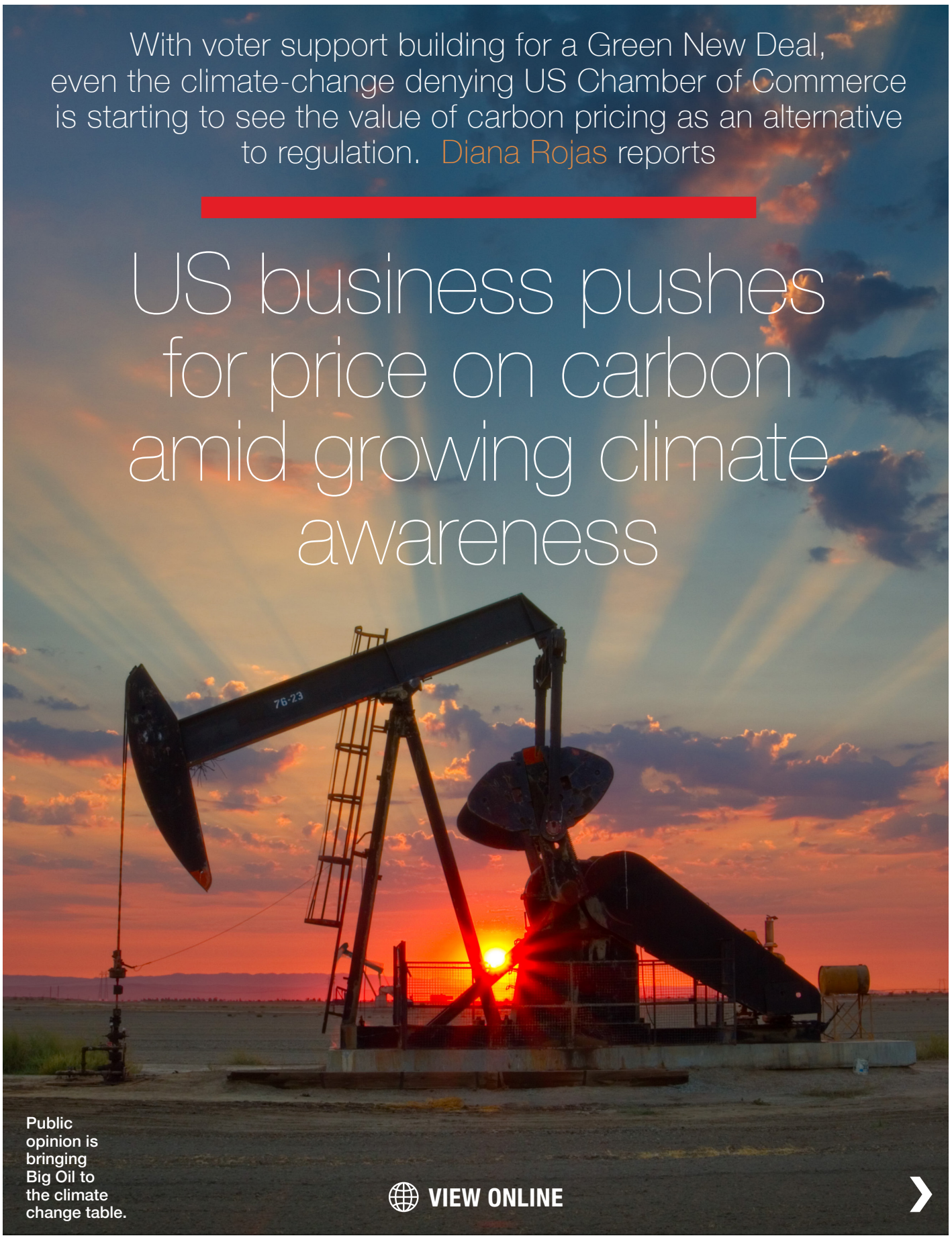
The gilet jaune protests in France revealed how a poorly administered carbon tax can backfire

But even their proponents say that carbon prices should not be seen as a silver bullet that can deal with all the issues. "Carbon pricing is part of a suite of policy tools that should drive progress towards a national target," Trim says. "But you also need command and control measures to mandate measures that may be too expensive for carbon pricing to affect, such as carbon capture and storage." ■

Mike Scott is a former Financial Times journalist who is now a freelance writer specialising in business and sustainability. He has written for The Guardian, the Daily Telegraph, The Times, Forbes, Fortune and Bloomberg

With voter support building for a Green New Deal, even the climate-change denying US Chamber of Commerce is starting to see the value of carbon pricing as an alternative to regulation. Diana Rojas reports

US business pushes for price on carbon amid growing climate awareness



MARK GEISTWEITE/SHUTTERSTOCK

Public opinion is bringing Big Oil to the climate change table.

VIEW ONLINE

SUNDRY PHOTOGRAPHY/SHUTTERSTOCK

Polling shows that 75% of US voters want the government to limit carbon emissions.

The Trump administration has tried to wreck US environmental rules and responsibilities, but with climate change now an important issue among voters, American business has responded by taking front and centre in calls for federal action on finally setting the price of carbon.

"We see a price on carbon globally as an inevitability," said Hugh Welsh president and general counsel of DSM North America, who in May was among 75 business leaders lobbying Congress on this issue. Getting in front of legislation is "absolutely" a way to get a say in how carbon pricing materialises in the US, he said, noting that he views lowering emissions as a way of future-proofing companies.

Recent polling found that more voters – and customers – care about climate change and want to see action. A Washington Post-ABC News poll found that 81% of Democrats said climate change was "very important", with 56% of Independents and 26% of Republicans concurring. In another survey, by the Republican polling group Luntz Global, 75% of voters want the government to limit carbon emissions, including 55% of Republicans. By a margin of eight to one, more Americans are worried about climate change now than one year ago, the survey found.

When the US pulled out of the Paris Agreement in 2016, corporate America rallied in support of ›

the pact, often making in-house renewable energy commitments. That support for emissions controls has evolved to lobbying Congress is not in small part to global investors' demands to curtail climate risk. In recent examples, four automakers revealed that secret negotiations with California had led to a compromise to produce more fuel-efficient cars than the Trump administration is calling for.

And, giving into member demands, the historically climate-change denying US Chamber of Commerce now decries inaction on the issue and unveiled a new environmental campaign that commits to lowering emissions.

No less than three pieces of legislation setting a carbon tax and dividend scheme were introduced this summer. And the Climate Leadership Council's Baker-Shultz Carbon Dividend Plan, named after two former Republican Secretaries of State and backed by both corporates and NGOs, is still making the rounds since its introduction in 2017 and enjoying support among the fossil fuel industry.

Although experts point to a desire for certainty across states as a motivating factor for corporate-backed calls for a federal carbon price, they say investor activism and nervousness is more of a driver. The popularity among liberals of ideas like the Green New Deal – a proposed stimulus plan that, among other things, vows to switch the US to 100% renewable energy in 10 years – has spooked business. And all of the major Democratic candidates for president have proposed mandatory CO_2 and climate risk disclosure rules for American businesses, echoing current demands by investors, banks and insurance companies. (Last spring, through an executive order, the Trump administration ordered the Labor Department to determine whether climate actions and demands by shareholders run afoul of laws to promote economic growth).

CORPORATE DARWINISM

Welsh of DSM says those threats have been a driving force for corporate activism on the issue.

> **There are folks on the left who will use climate change as a proxy war on capitalism. If you don't future-proof, you're not going to exist**

RACHAEL WARRINER/SHUTTERSTOCK

Prominent Democrats like Senator Bernie Sanders have called for mandatory climate risk disclosure rules.

As a member of the US Chamber of Commerce's Global Energy Institute, he helped draft the American Energy: Cleaner Stronger proposal this year to counter the Green New Deal. The plan favours innovation and private-sector investment over regulation, and was derided by many as pandering to the fossil fuel industry, a huge component of its membership.

Welsh admitted that the plan may be "baby steps" to the outside world, but "tectonic" within the organisation. He believes that working from within to convince the chamber and other business leaders that a carbon price is pro-business will stave off what he calls a proxy war on capitalism, which he says is the biggest existential threat against American business. The message is starting to take, he said.

"You can think that climate change is a great Chinese hoax or that it's nothing because it snows in winter … but you can see it already with things like the Green New Deal: there are folks on the left who will use climate change as a proxy war on capitalism," he said. "It's corporate Darwinism: if you don't future-proof, you're not going to exist."

Welsh has been with DSM for the past 15 years. Ironically standing for Dutch State Mines ("Maybe it's our original sin that makes us so evangelical now," said Welsh) DSM is a business-to-business multinational that sells health, nutrition and other materials, including a lower-methane emitting powder that can be added to cow feed.

The company set its own carbon price in-house, pegged at €50 per ton, and tied executive bonuses to sustainability targets several years ago, and aims ›

BART SADOWSKI/SHUTTERSTOCK

to derive half its power worldwide from renewables by 2025.

As in Europe, he said, more US banks and insurance companies are now viewing greenhouse gas emissions rates as indicators of long-term financial risk. (Indeed, over the summer Chubb became the first US insurance company to limit coal-related underwriting and investing. Coal is predicted to be only 11% of the US power supply by 2030, according to a Moody's report).

"If it [a carbon price] doesn't come by legislation, it's going to come by operations," he said, including in the form of more disclosure demands from banks, insurers and investors.

Cameron Prell is a founding partner of the Coefficient Group, a Washington DC-based consulting firm. He notes that the current political discussions are helping to build C-suite muscle, which lack expertise on the issues. For example: the automaker negotiations in California were a belated realisation that they could get an economic advantage via innovation, not bigger SUVs. Energy companies are next in line for a similar "aha" moment, he believes.

Both the Green New Deal and the Republican discussions about "innovation" are equally vague constructs that are going to have to meet somewhere in the middle with a solution that engineers the transition economy by ratifying and enabling it rather than proscribing it, said Prell.

Convincing US business that a carbon price is pro-business will drive innovation and engage C-suites.

"Climate is as much a cultural and economic issue as a qualitative environmental issue," said Prell, who believes that the market is going to be more ambitious than politicians and voters. "Market-driven means you can be carbon intensive if you want to, but the market is just going to short you."

Although you still have companies that view climate issues as separate from their business, Prell said the national discussion over the past 20 years has had to evolve to the point where the issue is viewed as not only an environmental issue, but also as a ubiquitous economic issue.

BUILDING ON STATE EFFORTS

In 2009, the American Clean Energy and Security Act (informally known as the Waxman-Markey bill) sought to establish a national cap-and-trade system. It squeaked by in the House, but ultimately died before reaching the Senate floor. Since then, California has established its own cap-and-trade ›

system, and the Regional Greenhouse Gas Initiative (RGGI), a co-operative cap-and-trade programme of 10 north-east states, has been in continuous operation since 2009. Two regional cap-and-trade legislative proposals, in Washington and Oregon, failed earlier this year.

Ivan Frishberg, vice-president and director of impact policy at New York-based Amalgamated Bank, said that while a desire to replace patchwork, state-level efforts with a national price on carbon could make business dealings easier, he cautions against a "one size fits all" solution, because Congress will set the bar too low.

"It's hard to characterise the current situation as anything but failure. We are failing on climate change. Massively," said Frishberg. "Given the natural anxiety of what we're facing, it's very appealing to feel that a policy idea that has some bi-partisan support and some corporate kind words behind it could be a salvation. But that takes a pretty big leap of faith."

Amalgamated Bank this spring became the first US bank to endorse the United Nation's Principles for Responsible Banking, which includes aligning business strategy to the Paris Climate Agreement. The bank ended its financing of fossil fuel projects (although it never had a huge portfolio of those, said Frishberg) and has been leading a group of banks to create a carbon accounting model that tracks climate impacts of lending.

"There's a whole set of places where the corporate sector is doing really meaningful work in the absence of legislation. But the biggest thing that shapes the private sector is the rules that govern it," he said. Nevertheless, he said the political situation can change quickly and that backing for renewable energy by corporates and city and state governments can change the conversation in Congress about energy policy.

"We're in a lot of trouble and people should be clear about that," he said. "Everyone should stop fooling themselves that we're going to hit all the right targets we set … but that doesn't mean you should stop doing what you're doing."

Justin Guay, strategy advisor for ClimateWorks Foundation in San Francisco, doubts that the recent carbon tax bills will actually pass but believes they mark an attempt by both moderate Democrats and Republicans to stake out the climate ground. He says they also open up "a new period of time in which climate legislation of some sort is now possible", most likely after the 2020 election.

It may not be the "man on the moon approach" that climate needs, he said, but it can be built on by local and state efforts.

WELCOMIA/SHUTTERSTOCK

State-backing for renewable energy, such as in California, can change the conversation in Congress.

As public opinion shifts in favour of climate change mitigation, big business, and in particular fossil fuel companies, want to be seen as proactive, he said. And importantly, he noted, "they are scared to death about climate lawsuit liability and want to exchange full immunity for a very weak carbon price."

Indeed, the Big Oil-backed carbon dividend plan by the Climate Leadership Council would indemnify businesses, something that the bills in Congress do not. Guay warns against trading this legal liability away in a desperation to get something – anything – done, calling the CLC plan "a Faustian bargain".

"There is a reason the oil companies are coming to the table," he said. "We need to keep all arrows in our quivers to force their hands."

Unlike coal, which is in final decline, oil consumption is not affected, even at high prices. ›

WELCOMIA/SHUTTERSTOCK

US automakers bypassed the Trump administration to negotiate with California to produce more efficient cars

What that means is that rushing to pass bills that indemnify oil would delay action on getting rid of oil, he said, noting that the automakers that negotiated with California behind the Trump administration's back are the same companies that asked the administration to back down on efficiency standards, only to face uncertainty once it did.

Indemnification, he said, "could mean decades of delay. And one thing we don't have is time."

But Prell of the Coefficient Group calls the political focus on indemnification counterproductive to decarbonisation because it takes focus away from the positive aspects of the green transition. Indemnification, he said, is just the tip of the iceberg.

"If you just reveal another 40% of that iceberg and let the market expose that risk, the carbon-intensive industries will respond because it will affect their bottom line," said Prell, noting that there is a business recognition that carbon-intensive products are not going to have the same market share in the future as today. "The issue now is to formulate climate policy such that it doesn't harm their flip of the switch but that it pays their flip of the switch…. It's not an 'us vs them', it's an 'us vs us'." ■

Diana Rojas is a freelance writer based in Washington, DC and a regular contributor to the Ethical Corporation, focusing on environmental policy and sustainability issues. Diana is fluent in Spanish and Portuguese

If opposition Conservatives win a majority in the 21 October election, Canada's carbon-pricing programmes could be at risk.

BONDARENCO VLADIMIR/SHUTTERSTOCK

Knife-edge election puts Canada's carbon pricing revolution in doubt

With Ontario abandoning cap and trade, and Québec's market not on track to meet its goals, Diana Rojas looks at Canada's mixed experience of carbon markets ahead of crucial elections

VIEW ONLINE

While proponents for a nation-wide carbon pricing system in the US are engaged in a David and Goliath battle against the climate change-denying Trump administration, across the border in Canada the picture could not look more different.

There, Prime Minister Justin Trudeau will next ›

Justin Trudeau's government is potentially facing obliteration due in part to opposition to his carbon tax plan

ART BABYCH/SHUTTERSTOCK

month fight an election defending his four-year-old government's controversial bid to impose carbon pricing across the country, known as the Pan-Canadian Framework on Clean Growth and Climate Change (PFC).

With the Trudeau government potentially facing obliteration for a series of mishaps, including a damaging ethics scandal, and opposition from some of the country's most powerful provinces to its carbon-tax plan, its progressive agenda hangs in the balance.

Under the PFC, which seeks to lower Canada's carbon emissions 30% from its 2005 levels by 2030, provinces were given until 2018 to develop their own carbon tax or emissions trading system, at a minimum price of C$10 per ton in 2018, rising to $50 per ton by 2022.

The western provinces of British Columbia (BC) and Alberta had already brought in a carbon tax system – with BC's revenue-neutral scheme held up globally as an example of a successful tax (see Lesson's from BC's carbon tax). The eastern provinces of Prince Edward Island, Newfoundland and Labrador are in the process of introducing a carbon tax, but Saskatchewan, Ontario, Manitoba and New Brunswick refused to comply and a newly elected government in Alberta this year has moved to revoke the tax. This led the federal government to levy a carbon tax on recalcitrant provinces in April and July this year – a move the provinces are challenging in the courts.

The experience of cap and trade has also been mixed, with Canada's biggest economy, Ontario, abruptly pulling out of the Western

PIERRE LECLERK/SHUTTERSTOCK

Under the Trudeau government's PFC, provinces were given until 2018 to develop their own carbon tax or emissions trading system.

Climate Initiative trading market with Québec and California in 2018, after the election of arch-conservative premier Doug Ford.

And although Québec has been held up as a poster child for cap and trade, which has been in effect since 2013, officials in the province have been overhauling its $1.3 billion Green Fund amid criticism that it had not met any of its goals.

Recently, Premier François Legault, whose conservative Coalition Avenir Québec party was also elected in 2018, warned that the province will likely not reach its promised target of reducing emissions 20% below 1990 levels by 2020. The last year for which statistics are available, 2016, showed a 9.1% reduction on 1990 levels. Québec's goal for 2030 is more ambitious than the pan-Canadian plan, at 37.5%. ›

PIERRE LECLERK/SHUTTERSTOCK

A December report noted that the fund was running a surplus of more than $900m, with only 17 of the 185 projects that had been funded actually aimed at reducing emissions (for example, some transportation projects were using the funds to pay drivers) and high administrative costs estimated at around 5% of the fund.

Meanwhile, only 678,000 tons of offset credits to date have been created from emissions reducing projects in the province. Its cap-and-trade partner, California, has generated 150 million offset credits during the same time, though admittedly California's economy is much bigger, with a gross domestic product (GDP) of $3trn in 2018, compared with about $400bn in Québec.

In June, the fund was renamed the Electrification and Climate Change Fund (ECCP), and decision making was transferred from an in-house management committee (the Conseil de gestion du Fonds vert) to the Ministry for Environment and the Fight Against Climate Change (Ministère de l'Environnement et de la Lutte contre les changements climatiques)

A ministry press release in June noted "the creation of five task forces consisting of experts, young people, and civil society representatives" that will advise the plan's development, with a big reveal slated for 2020.

With Québec already possessing abundant hydroelectricity, green groups want to make sure more funds aren't going into electrification

Caroline Brouillette, senior researcher at the Québec environmental NGO Equiterre, said green groups had concerns about ECCP being put under the auspices of a government ministry, instead of an independent body. "It has definitely been politicised," she said, "but it might be important to say that we can't say at this point that we'll meet our emissions target in 2020 because of the nature of the carbon market."

Québec publishes its greenhouse gas (GHG) data every two years, with the next report coming out in 2020. Brouillette said the full picture will only be seen in 2022, and will have to take into account emissions reductions in California. ›

There was never a mandate for the Green Fund to invest in offset credits, said Katie Sullivan, managing director of the International Emissions Trading Association (IETA). The offset programme "has been slow to launch for a variety of bureaucratic and political reasons," she said, because "there's never been a clear appetite by the government to expedite the process of developing more offset protocols that will result in significant volumes."

To date, there have been only five protocols: landfills, manure storage, coal mine fugitive emissions, drainage systems around active coal mines, and ozone-depleting substances. Sullivan said the new government plans to add forestry as a protocol this year or next, which would likely increase offset volume.

Brouillette said that while some criticisms of the Green Fund were valid, others may have belied a lack of understanding of both how the carbon market works, and how emission reductions are accomplished.

"We have to nuance that not everything can be measured," she said. For example, some climate change awareness campaigns were funded, "and you can't measure how much GHG reductions were happening with those," she said.

Also Québec, with abundant carbon-free hydroelectricity, has a high proportion of emissions (43%) coming from transit, a sector that is difficult to tackle in the short term.

"There is a huge potential to provoke some long-term changes," said Brouillette, who said her group would be watching to make sure the funds don't go only towards electrification projects.

Under the Québec cap-and-trade system, electrical and fuel distributers have to buy 100% of their allowances through auction. Other industries that are emissions-intensive, or have more trade exposure, by comparison, (including steel, aluminium, cement and paper) get a free allocation to prevent Québec industry fleeing to provinces with a lower carbon price.

MARC BRUXELLE/SHUTTERSTOCK

A high proportion of Québec's emissions come from transport.

Brouillete said that those free allocations should allow the province to reach its current GHG reduction goals. But they'll need to be revised in future "as they do not reflect the emergency needed to completely decarbonise our economy before 2050," she said.

Sullivan of IETA says a lot is riding on the outcome of the 21 October federal election, including the Québec carbon market.

If the opposition Conservatives win, but not by a majority, she suggests, they won't be able to carry through with their pledge to dismantle major pieces of federal legislation, including the new Greenhouse Gas Pollution Pricing Act.

Supreme Court decisions on provincial carbon pricing reference cases in Alberta and Manitoba will also be critical, she said.

"If Conservatives win a majority and Supreme Court deems the federal government as having ultimate authority to regulate and price GHGs under POGG [peace, order and good government] of the Constitution, there could be risks and uncertainty for all existing provincially administered programmes, including Québec's." ■

Diana Rojas

A lot is riding on the outcome of the federal election, including the Québec carbon market

LEONWANG/SHUTTERSTOCK

LESSONS FROM BRITISH COLUMBIA'S CARBON TAX

BC's pioneering revenue-neutral tax is lauded internationally for its buy-in from citizens and industry and success in cutting emissions. But it has not been an easy ride and challenges lie ahead, says Kathryn Harrison of the University of British Columbia

VIEW ONLINE

British Columbia's carbon tax, adopted in 2008, was celebrated internationally as a textbook model of carbon taxation. The province's even-handed coverage of fossil-fuel consumption by both households and industrial sources was a departure from carbon taxes in other countries that exempted politically influential industries.

The schedule of tax increases from C$10 per metric tonne of CO_2 in 2008 to $30/tonne in 2012 was gradual and predictable, as recommended by policy experts. All revenues from the tax were to be returned two ways: through low-income dividends – to avoid regressivity – and reductions in individual and corporate income tax rates, to deliver spill-over economic benefits.

Implementation of BC's landmark carbon tax reflected a confluence of factors. Polls in 2007 indicated that the environment and climate change were at the top of Canadian voters' agenda, prompting diverse policy proposals from provincial and national governments. The business community thus anticipated that increased costs would be forthcoming, not least ›

KEVIN BRINE/SHUTTERSTOCK

given growing interest in cap and trade in both the US and Canada.

When consulted by a trusted right-of-centre BC government in late 2007, business representatives indicated that they could live with a carbon tax if the burden of reductions was shared with households and the tax was revenue-neutral.

A final critical factor was leadership by Gordon Campbell, premier at the time, who developed a strong personal interest in climate change and was willing to embrace advice that a carbon tax was the most straightforward and cost-effective policy option. Campbell's government announced in its February 2008 budget that a new carbon tax would take effect that July. Survival was by no means guaranteed.

When unrelated increases in gasoline prices in the spring of 2008 created growing public unease, the opposition NDP mounted an opportunistic "axe the tax" campaign. Public support fell for the BC Liberals and increased for the NDP, bringing the parties neck and neck by the fall. However, despite nervousness in the Liberal caucus, Campbell stayed the course.

Gasoline prices have been used by politicians opposed to the carbon tax to sway populist opinion.

Thereafter, the carbon tax was saved by a decline in the price of gasoline and the onset of the global recession, which redirected voters' attention from gasoline prices to the economy, an issue on which voters favoured the Liberals over the NDP by a 30-point margin in polling at the time.

In the 2009 election, the Liberals campaigned on sound management of the economy, barely mentioning the carbon tax until Campbell proudly highlighted it in his election-night victory speech. The next survival challenge was loss of the policy's champion. Campbell was succeeded as Liberal leader and premier by Christy Clark in 2011. Public support for the carbon tax had rebounded above 50% in 2011, eventually reaching 64% in 2012.

However, opposition had grown in the business community, as other national and provincial carbon pricing proposals were shelved, leaving BC isolated with its $30/tonne tax. The Clark government announced a review of the carbon tax in 2012, but ultimately opted only to freeze the rate at $30/tonne until other jurisdictions caught up. ›

> **In 2007 businesses said they could live with a carbon tax if the burden was shared with households and the tax was revenue-neutral**

BC's experience offers cautionary lessons. Public misunderstanding of how carbon taxes work, and the greater visibility of costs over benefits, renders them ripe for populist attacks

As one of four provinces that laid the foundation for the Trudeau government's decentralised approach to carbon pricing, BC would be able not only to maintain its preferred strategy of carbon taxation, but also to benefit from the levelling of the playing field. It thus seemed surprising when Christy Clark was one of the last holdouts in negotiation of the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) in 2016.

Clark's reservations reflect the fundamental challenge of reconciling price- and emissions-based approaches, in particular that the resulting carbon price, and thus costs to provincial economies, might be lower in provinces that opt for cap-and-trade plans compared with those that commit to meet the federal benchmark price of $50/tonne via carbon taxes. Clark signed on only after securing agreement to an interim review of the pan-Canadian framework in 2020, the year in which BC would have to increase its tax, according to the benchmark schedule.

In the 2017 BC election, the Liberals maintained that they would not increase the carbon tax, contrary to their own Climate Leadership Team's recommendation. In contrast, both the NDP, which abandoned its opposition to the carbon tax in 2011, and the Green Party proposed increases. The election yielded an NDP minority government supported by three Green Members of the Legislative Assembly (MLAs). The two parties agreed to increase the carbon tax by $5/tonne starting in 2018, reaching the $50/tonne federal benchmark one year earlier than the pan-Canadian framework deadline.

MAX LINDENTHALER/SHUTTERSTOCK

British Columbia's even-handed carbon tax covering both households and powerful industrial polluters is seen as a textbook model.

Revenues from increases above $30/tonne are earmarked for more generous low-income tax credits and subsidies to support business transition from fossil fuels.

The BC carbon tax offers a number of lessons, both positive and negative. A growing body of research has found that the BC carbon tax reduced consumption of gasoline and residential natural gas as well as overall emissions. It also prompted greater uptake of fuel-efficient vehicles, all without loss of jobs or harm to low-income households.

However, while BC's emissions are lower than they would have been without the carbon tax, the fact they have only levelled off underscores that either a higher carbon price or more aggressive complementary measures are needed to achieve absolute reductions in emissions.

The BC experience also offers cautionary lessons about the politics of carbon taxes. Public misunderstanding of how environmental taxation works, combined with the visibility of costs and lower visibility of benefits, renders carbon taxes ripe for populist attacks. The BC NDP's opportunistic axe-the-tax campaign relied on rhetoric that has since been echoed in other provinces, nationally ›

RUSS HEINI/SHUTTERSTOCK

and internationally: highlighting the most salient price increase, which is on gasoline in the Canadian context; questioning or ignoring corresponding revenue returns via tax cuts or dividends; and falsely asserting that carbon taxes are unfair to "working families" while "big polluters" are being let off the hook.

More recently, Conservative opponents have also insisted that carbon taxes don't work and kill jobs, despite strong evidence to the contrary from BC. Although BC stayed the course and will increase its tax to $50/tonne in line with the PCF, it is striking that the province's ambitious 2018 climate plan does not rely on further increases to the carbon tax. Although the BC carbon tax's even-handed application to all sources and its revenue neutrality via income tax cuts were celebrated in 2008, its evolution over time illustrates the temptation to use revenues for political gain.

After the first three years of income tax cuts, revenues from $20 to $30/tonne were recycled via narrower tax credits, including for video game production and children's sports fees. Fuels used by farmers were exempted. More significantly, both the Liberal and NDP governments made generous carbon tax concessions in attempts to secure investment in liquified natural gas.

There are, however, positive lessons as well. Public support for the carbon tax bounced back after three years and remains strong, though that doesn't necessarily indicate support for significantly higher tax rates. The resilience of the BC tax is also noteworthy. Whether or not it is revenue-neutral, repealing a carbon tax leaves a hole in a government's budget that typically will need to be filled by increasing another tax, potentially rekindling anger among voters just as they have gotten used to the carbon tax.

Businesses in BC could receive subsidies from increases in the carbon tax to support business transition from fossil fuels.

Going forward, BC has earmarked its carbon tax revenues above $30/tonne rather than maintaining revenue neutrality. It will be interesting to see whether British Columbians embrace that strategy, of which industry is the immediate beneficiary, or come to resent that they are not receiving the tax credits enjoyed by Canadians in provinces subject to the federal tax. ■

Kathryn Harrison is a professor of political science at the University of British Columbia. She has published widely on Canadian and US environmental and climate policy. This article was originally published in Policy Options as part of a series of articles on carbon pricing in Canada.

All eyes on China as national carbon market plan EMERGES FROM HAZE

As Beijing ramps up preparations to create the world's largest carbon market, the burning question is whether it will eventually be part of a global market, reports Jill Baker

VIEW ONLINE

TESTING/SHUTTERSTOCK

TONYV3112/SHUTTERSTOCK

China's severe air pollution contributes to one million deaths a year.

The world waits anxiously for news of China's carbon market rollout.

Experts say such a move by the world's second largest economy would underscore the legitimacy of ETS for pricing carbon worldwide, be a win-win for China on the world stage and help clear the air in China's smog-choked cities as well.

China is the largest emitter of greenhouse gases (at an estimated 27% of the global total), a large portion of which are produced by burning coal.

Although CO_2 is a colourless, odourless gas, burning coal is also responsible for severe air pollution, which causes more than 1 million premature deaths per year in China and in 2010 cost 3.5% of its GDP, according to a study by the Paulson Institute, which quoted figures from China's Ministry of Environmental Protection.

The Chinese people's level of concern with this issue was clear when, in 2015, Under the Dome, a riveting TED-talk style documentary by former CCTV reporter Chai Jing on the health effects of air pollution in China, received more than 300 million views before the Chinese government took it down.

China's environmental policy has for many years encompassed ambitious plans to improve air quality and lower dependence on coal, and it has been the world's largest investor in renewable energy for several years running, according to Bloomberg New Energy Finance.

In July of this year, in a press conference reported by Xinhua, China's official news agency, Premier Li Keqiang re-affirmed China's Paris climate accord commitment that its emissions of carbon dioxide ›

> **A nationwide carbon market in China would underscore the legitimacy of ETS for pricing carbon worldwide**

YOU TUBE

would "peak and carbon intensity fall sharply by about 2030."

Furthermore, the powerful member of the Politburo Standing Committee added that he viewed carbon markets as a key means to this end, and called for the acceleration of China's carbon market rollout, which had initially been expected to kick off in July 2017.

Xiaolu Zhao is senior programme manager at Environmental Defense Fund (EDF), an NGO that has a long track record of working closely with the Beijing government. Reached in Beijing by email, she said she believes China's ETS rollout is on track according to its internal schedule.

"Maybe 'delay' is not such an appropriate description here for we are now in the middle of the second phase of the rollout of the national market and we are preparing for the upcoming test test run," she said

Zhao said the responsibility for addressing climate change has shifted from the National Development and Reform Commission to a newly created Ministry of Ecology and the Environment (MEE), which will also take up the former duties of the Ministry of Environmental Protection. "The MEE and the power sector stakeholders have been making a great effort and are showing good progress on data collection and various capacity-building activities." She said this is taking time but will "lay a much more solid foundation for the national ETS".

A powerful member of the Politburo said he views carbon markets as a key means to achieving China's climate goals

Chai Jing's talk Under the Dome on the health effects of air pollution was viewed 300m times.

She emphasised that China will transition to a national ETS market from the seven regional pilot markets, which were launched between 2013 and 2014. Zhao confirmed that a timeline in an EDF report from 2017 is still more or less accurate: 2018 was when the infrastructure of the market was to be developed, while simulation ETS trading was to begin in 2019. In 2020, described as a "deepening and perfecting period", spot trading of allowances is slated to begin in earnest.

Professor Maosheng Duan, of Tsinghua University in Beijing has been intensively involved in the development of both the regional pilots and the national ETS programme. In an email he said in designing the national system, Beijing has taken lessons from the performance of regional pilots, including the necessity of a strong legal basis, a reliable monitoring reporting and verification system, capacity-building, and a tight emissions cap. ›

But Professor Duan said complexity was an issue. "Development of the ETS in China is much more complicated than in many other jurisdictions as there are many other policies (energy efficiency and conservation, renewable energy, addressing over-capacity, etc.) interacting with ETS in China. This means great co-ordination is needed and makes the development of an effective ETS very complex."

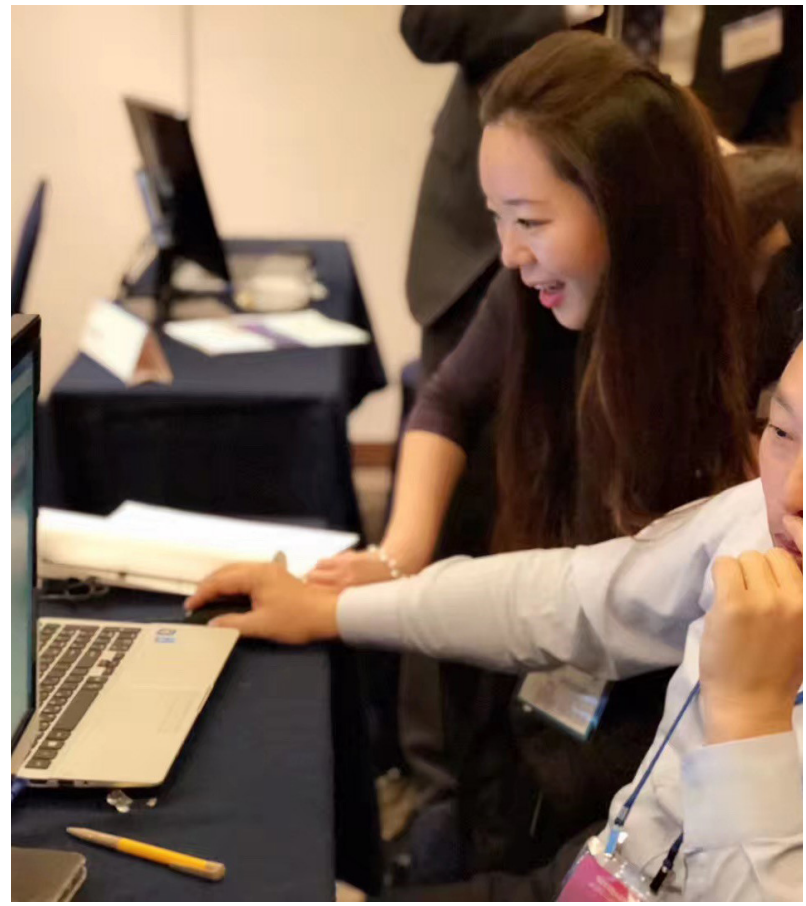
EDF's Zhao said there is still uncertainty on the role of the regional pilots once the national system is up and running, something that "can lead to lack of stable market expectations for participants." She also sees "lack of a legislative foundation, and the need for concrete accounting as well as an information disclosure standard" for the national market yet to come.

But she confirmed that the national market's cap, at present, will only include the power-generation sector, and it will only be a spot market, though several regional pilots, including Shanghai, Hubei, and Guangdong, have been trialling selected hedging instruments, including swaps and forwards, to accumulate expertise.

The size of China's national (power generation only) ETS market will be 3,500 metric tons of CO_2 equivalent (MtCO2e) – 3 billion tons – which is almost twice as large as the 1,839 $MtCO_2$ of carbon emissions covered by the EU ETS.

It will cover nearly 40% of China's greenhouse gas emissions.

Zhao said companies covered by the cap are gearing up too. "All major power groups have established carbon asset management companies or teams to facilitate the decision-making of carbon trading." In addition to trading their carbon portfolio in a way that maximises value, companies are responsible for accounting and reporting their emissions accurately, with third-party verification.



EDF

Xiaolu Zhao, of the China climate initiative for EDF, at a government-led ETS briefing in Beijing.

For those in the C-suite in China and elsewhere who may need to brush up on their skills or deepen their understanding, EDF has developed CarbonSim, an AI-enhanced, multi-language ETS market simulation tool that helps users construct and manage a carbon portfolio through role play. Each user is given a marginal abatement cost curve. They then must weigh investing in internal reductions against buying (or selling) emissions allowances or offsets in a dynamic market where price is fluctuating based on other players actions, in order to meet their reductions target.

Paula DiPerna is a special adviser to CDP who helped create the first Chinese pilot scheme in Tianjin. Asked the implications of China's next steps for world emissions reduction, she said China should not let the perfect be the enemy of the good. It would not be problematic for prices to start out low or vary region to region, as long as China sets up a market that's credible. "Because at some point they'll have to link with the rest of the world, and those who are short in the rest of the world can buy these less expensive Chinese ›

There is still uncertainty on the role of the regional pilots once the national system is up and running

HUMPHERY/SHUTTERSTOCK

allowances and that will potentially drive the price up."

She added: "What remains to be seen is the extent to which the Chinese ETS will become a global marketplace that other countries are able to link into. That is the open question, not whether they go forward or not."

Asked about China's ambitions for linking to other markets, Professor Duan wrote: "It is clear in the construction/development plan that in the long run, China wishes to develop a national system with great international influence and hopes to link its system with others."

Given China's track record of meeting its promises, the country could potentially be a global leader in the crucial area of pricing carbon – a win-win for China, and the world. ■

Jill Baker is an adjunct fellow at the Hong Kong-based Asia Business Council, and is research adviser at Terra Alpha Investments. She was the principal researcher for *The Greening of Asia: The Business Case for Solving Asia's Environmental Emergency (Columbia University Press, 2015).*

How Shell's offsetting move could unlock flood of finance for forests

With the launch later this month of a new platform to trade REDD+ forestry credits, there are hopes the oil major's $300m investment will kickstart demand for nature-based solutions to climate change. Terry Slavin reports

VIEW ONLINE

The recent IPCC report on land use was only the latest high-level paper to highlight the importance of forests in protecting the world from climate change.

A peer-reviewed report earlier this year by The Nature Conservancy estimates that natural climate solutions such as protecting forests, grasslands and wetlands could cut 11bn gigatons of CO_2 equivalent a year, or up to 37% of the solutions needed by 2030 to meet the Paris Agreement.

But with only 3% of climate finance going into nature-based solutions, there's an urgent need to step up funding.

An oil and gas major such as Shell seems an likely champion for forests, but at Ethical Corporation's Responsible Business Summit Europe in June Mark Gainsborough, the head of Shell's New Energies business, said the company can play a big role in increasing global demand for forest offsets, buying enough to remove an estimate 60m tonnes of CO_2 in the next three years alone. It's annual investment of $100m will double the $100m currently going into nature-based climate projects around the world, according to Environmental Defense Fund.

Shell earned cautious praise from ESG investors earlier this year when it launched its Net Carbon Footprint ambition to cut its energy intensity in ›

INGA LINDER/SHUTTERSTOCK

SHELL

half by 2050, and became the first oil and gas company to claim to include in its targets the CO_2 emitted by its customers, known in the carbon accountancy world as scope 3, which account for 80-85% of its entire footprint.

However, the move also generated accusations of greenwash by environmental groups like Greenpeace.

Shell, which said it would be setting aside $100m a year to invest in natural ecosystem projects by 2021, says this is in addition to the money it will invest in forestry offsets through a new scheme offering customers in the Netherlands the opportunity to "drive neutral".

This is be done at no extra cost for those filling up their cars with premium V-Power petrol or diesel, while those who fill up with regular Shell petrol or diesel can opt to pay an extra 1 cent a litre.

Shell is not the only oil and gas company to offer carbon offsets to its customers. BP has been running Target Neutral, a platform for anyone to buy carbon credits, for some years, and claims to have offset some 3 million metric tons of carbon dioxide.

But Gainsborough said the Dutch scheme is the largest of its type and has enjoyed an unprecedented take-up rate of 10-20% since its launch in April. He said this is particularly impressive in comparison with offsetting schemes run by airlines, which typically only attract 1% of customers.

> **This is a massive take-up rate compared to any other carbon offsetting scheme in the history of the planet**

Shell says it is setting aside $100m a year to invest in natural ecosystem projects by 2021.

"This is a massive take-up rate compared to any other carbon offsetting scheme in the history of the planet," says Gainsborough, who Ethical Corporation interviewed ahead of his keynote address to Responsible Business Summit Europe in June.

The scheme will be rolled out in the UK later this year, and then to other markets if it proves successful, he said.

Shell is no newcomer to the market for forest carbon credits. In 2010, the Dutch-Anglo major was accused of running roughshod over the rights of indigenous people through its involvement in Rimba Raya, a project to buy 100,000 ha of tropical rainforest in Indonesia. A Shell spokesperson said Shell is no longer involved in Rimba Raya.

Asked how he can be sure the new projects wouldn't get mired in similar controversy, Gainsborough said: "The challenge with some projects in the past is that they didn't have proper ›

EQROY/SHUTTERSTOCK

Drivers in the Netherlands can opt to buy nature-based carbon credits when they fill up at Shell stations.

community support, which is absolutely essential for us."

Gainsborough said Shell is being advised by internationally recognised NGOs such as The Nature Conservancy, and projects will be subject to vigorous third-party verification by organisations such as The Verified Carbon Standard. "The ability to track the benefits [of projects] is much higher than it was 10-20 years ago," he said. "There's a lot of technology to monitor what's happening in terms of land use change and habitat change such as satellite monitoring, tree drones – things that weren't possible then."

"If you do the projects in the right way, not only are they taking CO_2 out of the atmosphere but they are creating sustainable livelihoods for communities and improving biodiversity. That's a real sweet spot from a sustainable development perspective."

Projects include the Katingan Mentaya project in Indonesia, which is protecting 157,000 ha of peatland, home to critically endangered species including Bornean orangutans. Other projects involve planting millions of trees in the Netherlands and north-west Spain, and the regeneration of 800 ha of endangered forest in Australia.

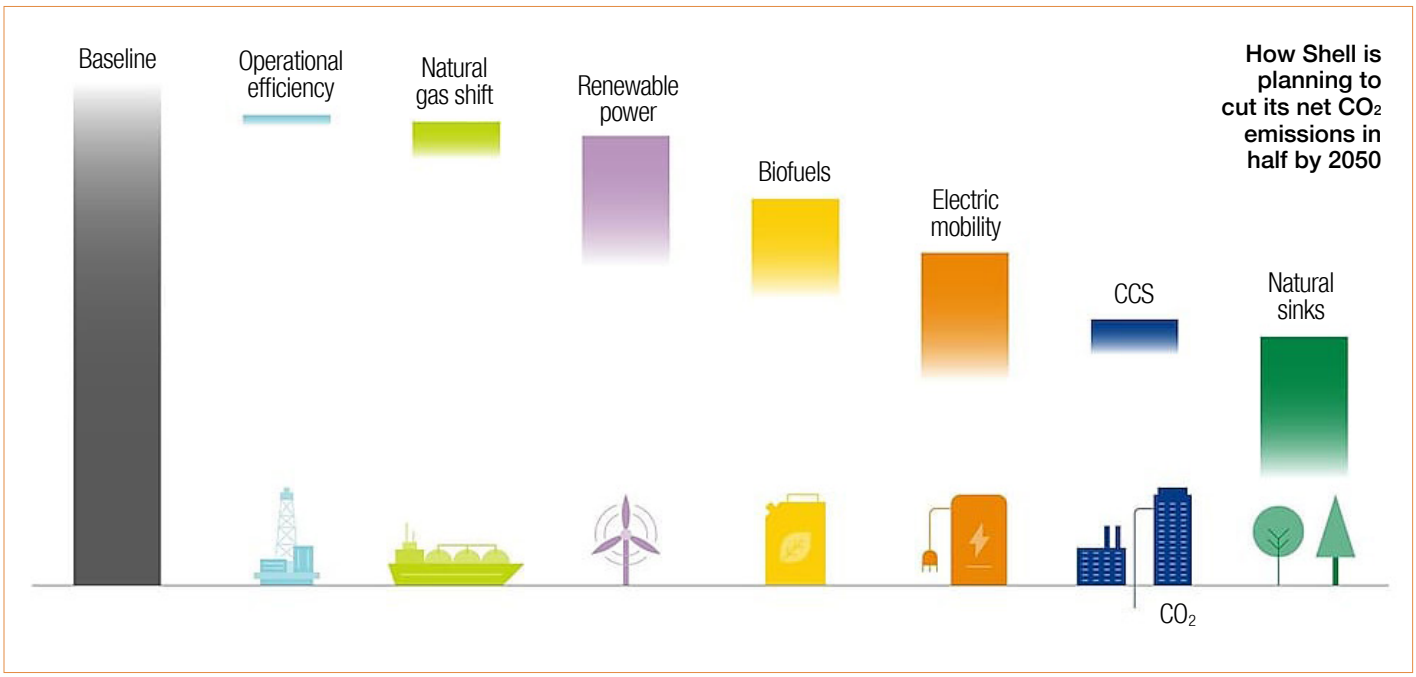
He said that at costs as low as $5 per tonne of CO_2 mitigated, nature-based solutions are highly cost-effective, compared with the price of CO_2 on the EU Emissions Trading Scheme, now just under €30.

A JURISDICTIONAL APPROACH

Ethical Corporation put the question of Shell's role in creating demand for forest-based carbon offsets to Frances Seymour, distinguished senior fellow at the World Resources Institute and chair of the new Architecture for REDD+ Transactions (ART), a multi-stakeholder platform that will be formally launched at this month's climate summit in New York.

ART is developing The REDD+ Environmental Excellency Standard, known as TREES, which will specify requirements for quantifying, monitoring, reporting and verifying greenhouse gas emission reductions from REDD+ activities at a jurisdictional and national scale.

"The world desperately, desperately needs demand for emissions reductions projects from the land sector. That's unquestionable," Seymour said, adding that the recent UN FCC land use report ›



had underlined the climate mitigation potential of decreasing tropical deforestation and restoring peatlands and mangroves. The issue of fossil fuel companies using offsets to cover their CO_2 emissions is contentious, however.

The Science Based Targets Initiative, for example, does not permit offsets to count towards companies' CO_2 mitigation efforts.

Seymour noted that she does not speak for WRI, which does not have a position on offsets.

In her opinion the best option would be for governments to impose aggressive carbon taxes to protect tropical forests through REDD+ payments.

"But for those of us who don't see that on the near horizon," she said, "having a market in forest carbon offset is far preferable to what we have at the moment, which is no incentives for tropical forest countries to conserve their forests."

But she drew a distinction between project-based REDD+ and jurisdictional REDD+, which involves state and federal governments.

Even highly regarded projects like Katingan Mentaya in Indonesia, which she described as "meeting the gold standard" for verified carbon sequestration and local community buy-in, are problematic because they aren't able to control for "leakage", as deforestation activity can be simply displaced elsewhere rather than reduced.

Seymour points out that project-level REDD+ projects aren't compliant with the Paris Agreement, which endorsed only the transfer of mitigation outcomes incorporated into countries' national-level climate programmes (or sub-national programmes as an interim measure), to prevent double-counting.

SHELL

Shell is spending $1-$2bn a year on investing in solar.

And nor will they be accepted for compliance in California's cap-and-trade scheme, with the California Air Resources Board's proposed Tropical Forest Standard including only credits from jurisdictional REDD+ schemes.

Seymour said she hopes when the International Civil Aviation Organisation hones its rules for airlines offsetting their international travel emissions through the CORSIA scheme, it will follow California's lead and only accept jurisdictional REDD+ offsets. "It's not that project-scale interventions aren't needed," she said. "It's just that they have to be 'nested' within jurisdictional-scale accounting." ›

SHELL

Shell is one of the investors in Katingan Mentaya project in Indonesia, which is protecting 157,000 ha of peatland.

As Ethical Corporation has reported previously, a growing number of jurisdictions around the world, led by the states of Acre and Mato Grosso in Brazil, are taking a landscape-level approach to addressing deforestation, integrating land planning, sustainable forest management and commodity production.

According to the Earth Innovation Institute, 28% of the world's tropical forests are located in 39 subnational jurisdictions that have taken this holistic approach, and half have seen deforestation drop below projected levels, adding up to 6.8 gigatonnes of avoided CO_2.

But as was clear from speakers at a workshop at last year's Oslo Tropical Forest Forum, companies are wary of partnering with government officials in developing countries, where this is often a culture of pay-offs and corruption.

Seymour acknowledged that companies prefer projects that are free of political entanglements. "But governments are the ones that issue permits, enforce the law, and defend land rights … You have to have them as part of the solution, or the solution isn't going to stick."

And the key thing about jurisdictional REDD+ is that payments are only made once results are demonstrated, she said, giving the example of Indonesia, which in February was informed it would receive its first REDD+ payment from the government of Norway after showing a 60% drop in primary forest loss in 2017.

> **The key thing about jurisdictional REDD+ is that payments are only made once results are demonstrated**

"If we are concerned about corruption you need to be concerned about ex-ante payments from traditional development aid, where you pay the money and wait and hope to see results, or business-as-usual deforestation, where the local administrator gets a pay-off for approving an oil palm plantation in a protected forest."

At the moment, she said, there are few if any incentives for local government officials to ›

By allowing project-scale REDD+ even in the transition stage you are making it less likely to get to jurisdictional

A KATZ/SHUTTERSTOCK

protect forests. And combined with the emerging practice of companies, like Unilever and Mars, to preferentially source commodities such as palm oil and soy in jurisdictions that are making progress towards protecting forests, she said there was an opportunity "to build a value proposition" for forests to be left standing.

But there needs to be a rapid acceleration in the number of jurisdictions to receive payment for their performance from the "handful" that have received them today, Seymour says.

She worries that a boom in project-based REDD+ due to demand from aviation and oil and gas companies could actually apply a brake to the needed shift to jurisdictional REDD+.

"One of the reasons it's been difficult to establish jurisdictional scale exclusivity for access to REDD+ markets is because of vested interest of the holders of project-scale credits," who may lose them if the credits aren't transferable, Seymour says. "By allowing [project-scale REDD+] even in the transition stage, you are making it less likely in the long run that we will get to jurisdictional."

However, the NGO Environmental Defense Fund (EDF) hopes a new transactional platform it will launch at Climate Week New York this month could overcome the hurdles to companies investing in jurisdictional REDD+ programmes, and unlock a huge market for nature-based credits in compliance with the Paris Agreement.

Ruben Lubowski, chief natural resource economist at the US-based NGO, said the platform will be an aggregator of buyers and sellers of REDD+ credits. It will guarantee a floor price, which will be underwritten by public and philanthropic sources of funding.

"Right now there's a lot of market uncertainty, particularly for the countries [as sellers of credits]. It's hard to really commit to something ambitious when there's no certainty of finance. We are trying to build a supply and make it easy for companies to access these jurisdictional scale credits."

He said companies will be able to buy a portfolio of credits from a variety of programmes, meaning they will not have to negotiate directly with governments, and be exposed to significantly less ›

Top Left: The WRI's Frances Seymour.

Above: UN officials plant a cherry tree to commemorate the signing of the Paris Agreement, which endorsed only jurisdictional REDD+ projects.

PETER GUDELLA

risk than investing in individual projects.

He said a new non-profit was being set up to administer the platform, whose name will be revealed at the launch later this month.

The projects would meet the new TREES standard, which is still out for consultation, and aims to apply the highest technical, environmental and social standards, including the principle of no double counting, so they are aligned with the Paris Agreement, which takes effect from 2020.

Lubowski said he expected that credits could be issued as early as next year, in time for 2021, when carbon offsetting will be mandatory for airlines.

He said EDF has been working with numerous companies in developing the new platform, with "strong interest" from oil companies, airlines and other companies that have made commitments to get to achieve net zero CO_2 emissions.

Although he would not name any companies, Eldar Sætre, chief executive to Norway's Equinor (formerly Statoil), informed UN climate chief Patricia Espinosa last year that the company wanted to help develop a robust international carbon market based on jurisdictional REDD+. Asked whether Shell would also invest in jurisdictional REDD+ projects, a spokesman said: "What's important is that investment in nature-based solutions actually happens. We think both jurisdictional and project-level REDD+ are necessary and aren't mutually exclusive"

Lubowski said until now the market for nature-based solutions has amounted to $100m or $200m a year, with another $5bn promised by governments that has yet to be disbursed.

But with demand due to expand as the Paris Agreement comes into effect, EDF believes the market could potentially amount to tens of billions of dollars per year.

"We could take [nature-based solutions] to a whole other level and make a dent in the climate problem. That's why we are so focused on this," he said. ■

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'WE WANT TO BE AT THE LEADING EDGE, NOT THE BLEEDING EDGE'

Amid accusations the oil major is trying to extend an unsustainable business model, Terry Slavin interviews Shell New Energies' Mark Gainsborough about its Net Zero Carbon Footprint plan

VIEW ONLINE

Shell's investment in nature-based solutions is controversial for environmental groups, who were not falling over themselves to congratulate the oil major.

As Doug Parr, Greenpeace UK's chief scientist tweeted after the oil major's announcement: "Natural climate solutions are great, but best for the last few percent of CO_2 emissions, which are really hard to deal with. They should not be used as a prop to continue with business that is fundamentally unsustainable."

In an interview with Ethical Corporation Mark Gainsborough, the head of Shell's New Energies business, said carbon offsetting is in addition to measures Shell is taking to cut its own emissions. He added that the company was investing $1bn-$2bn a year in fossil-fuel-free transport solutions such as electric vehicle charging, battery storage and hydrogen infrastructure as well as carbon capture and storage. ›

Mark Gainsborough is head of Shell's New Energies business.

SEMMICK PHOTO/SHUTTERSTOCK

He also spoke about a pilot project Shell is doing shipping liquid hydrogen into Japan, a solution that would use Shell's existing value chain for liquified natural gas and allow renewable energy generated in one location to be converted into hydrogen for storage and shipping to other parts of the world. He said this potentially transformative solution could become financially viable at scale within 10 years.

"We want to sell our customers lower carbon solutions, but it's not something that we can do overnight," Gainsborough said.

And with the cost of electric vehicles still prohibitively high for most consumers "we are giving people a choice that will get them on the journey to a lower-carbon solution."

But if Shell is serious about making a dent in its scope 3 emissions, which account for 85% of its footprint, should it not internalise the one euro cent cost of offsetting the emissions of all its customers, as it does for its premium customers in the Netherlands?

Gainsborough said: "When you multiply one cent across billions of litres of fuel it adds up to a lot of money. For us to supply all our customers on a carbon-neutral basis would be a very significant portion of our retail margin on fuel."

A Shell spokesperson clarified that the company's Net Carbon Footprint plan did not depend on customers offsetting their own emissions. If there is not enough take-up of offsets by retail customers, Shell will compensate by using other levers.

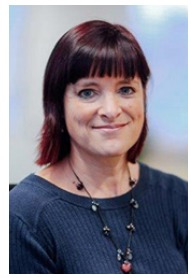
But then there is the more fundamental criticism that Shell's Net Carbon Footprint ambition, to cut its energy intensity in half by 2050, is far from net zero CO_2 by 2050 which the UNFCCC has said is needed to achieve the Paris Agreement. Shell's own Sky scenario calls for net zero by 2070.

And while Shell's shift from oil to gas contributes to the company's calculation of its Net Carbon Footprint, the plan excludes the environmental impact of non-energy businesses, such as Shell's growing business using gas for polyethylene production for plastics, which is also under fire from green groups.

Gainsborough defended the 2070 deadline for net zero and made it clear that the company is only prepared to go so far on climate leadership.

"We think it's very hard to get to net zero by 2050 but let's see: if the world can move faster, Shell is prepared to move faster as well …. If we can find ways to move faster commercially we can do it, but it's hard to move too far ahead of the curve. Our goal to finding good solutions for our customers is we want to be at the leading edge, not the bleeding edge." ■

Critics say Shell's business is unsustainable and natural solutions should not be used as a 'prop'.



Terry Slavin
is editor of Ethical Corporation

REPORTING THE SDGS BRIEFING

With 2030 now only a decade away, we look at how companies can make real progress on tackling the 17 Global Goals

Making the rubber hit the road enroute to 2030

Mark Hillsdon reports on efforts to hold companies to account for their SDG pledges to help address the world's biggest sustainability challenges

VIEW ONLINE

DAVID KRASENSKY/SHUTTERSTOCK

ADDKM/SHUTTERSTOCK

Highly ambitious and highly visible, the 17 Sustainable Development Goals (SDGs) were launched in 2015 by the United Nations amid great fanfare. The big brother to the Millennium Development Goals, they cover everything from ending poverty and zero hunger, to gender equality via sustainable cities and, of course, climate change. Addressing them, and finding solutions, so the thinking went, should form a blueprint for the future of the planet.

But as the 2030 deadline to achieve them draws ever nearer, the UN's recent annual report on progress towards the goals concluded that a "much deeper, faster and more ambitious response is needed" to unleash the economic and social transformation necessary to achieve the SDGs.

On human wellbeing, it predicts that 6% of the world's population will still live in poverty by 2020 (SDG 1), while global hunger (SDG 2) continues to increase and half the world's population still lacks essential health services (SDG 3). And of course, every day sees some reminder of the effect the climate crisis is having on the planet.

Global hunger (SDG2) is increasing while 6% of the world lives in poverty (SDG1).

The lack of progress comes despite the fact that businesses are embracing the goals. PwC conducts an annual survey into the SDGs, examining the corporate and sustainability reporting of over 700 listed companies. Last year, 72% of these organisations mentioned the SDGs in their annual corporate or sustainability reports – a year-on-year increase of 10% on last year. Turning these pledges into real action, however, is proving far more difficult.

"Success with the SDGs depends on making them a central part of business strategy," says Alan McGill, global sustainability reporting and assurance leader at PwC. "The increase in companies indicating the SDGs challenge in their reporting is a positive sign of engagement that will increasingly need to be backed by strategies that look beyond business as usual."

Jukka Ahonen, head of communications at the Nordic Investment Bank (NIB), sums it up neatly. ›

"We are trying to define what kind of world we would like to live in. And that is a very complicated question." Solving it will involve considerable investment.

According to the UN, achieving the goals in developing countries calls for up to $5 trillion of investment a year, yet currently just $1.4trn is being allocated. When the SDGs were conceived, they were about how governments or countries could meet this figure, but that's now changed. "It is clear that private finance needs to be mobilised to achieve the SDGs, public sources are not enough," adds Ahonen.

The flip side of this is that achieving the SDGs could open up an estimated $12trn in market opportunities and create 380 million new jobs, according to the Business & Sustainable Development Commission.

"There is a huge amount of capital required," explains Freddie Woolfe, head of responsible investment and stewardship at Merian Global Investors. "The funding gap is obvious and that will open opportunities for new types of funding and financing."

Specialist green bonds are already proving popular. HSBC, for instance, has issued a £1bn SDG bond that aligns to several goals, explains the bank's sustainable finance reporting manager Jon Wright. The bank is also looking at introducing loans that are linked to specific SDGs.

Impact investors buy into those bonds, continues Wright, with HSBC then lending the money to businesses for projects eligible under the bond's green framework. The bank also provides annual reports to investors demonstrating the impact of their investments.

To be backed by finance from a green bond, businesses must show their alignment to SDGs, and reporting their impacts is an important way of encouraging investment, says Wright. "It can help articulate the story and generate demand from investors."

KAKOLI DEY/SHUTTERSTOCK

Half of the global population lacks essential health services.

Woolfe agrees: "If companies are able to show themselves as attractive investments through a particular framework such as the SDGs, then they are more likely to attract larger amounts of capital."

But there needs to be evidence to back up the claims in order to avoid so-called "impact-washing", adds Ahonen. "It is not only the positive impact but also the negative impact that you should report; otherwise it is very biased."

Richard Hardyment is research director at the World Benchmarking Alliance (WBA), which was set up by the UN Foundation to accelerate corporate progress on the SDGs. "There has really been an explosion in the last 10 years of both companies and investors interested in this topic of impact, but there isn't yet a clear consensus on how everyone should measure it," he says.

The WBA is a collaboration of more than 100 different organisations, including businesses, investors and civil society, and over the next four years it will benchmark the progress on the SDGs of 2000 influential global companies.

"Keystone companies have the potential to unlock the SDGs and create a more sustainable world," continues Hardyment. "We're putting more information into the public domain on how companies are performing to really drive this race to the top and accelerate progress."

As well as asking the businesses to voluntarily supply material, the WBA is using freely available information and publishing data to help investors, companies and governments understand how companies are performing.

"What we are looking for is evidence that companies are not just disclosing in line with the SDGs, but they are taking action," says Hardyment.

The SDGs are a great framework, he continues, ›

> **We're putting more information into the public domain on how companies are performing to really drive a race to the top**

HSBC

Get your own house in order. You'll then have a licence to talk about the bigger issues and opportunities

and provide a common language for companies to take action and report. But he believes it's important that businesses don't attempt to address them all with a scatter-gun approach. "As a business, you need to understand where your impact is greatest," he says. "Address the basics first; understand where the big risk areas are and map them out – get your own house in order.

"You'll then have a licence to talk about the bigger issues and the opportunities ... That's the exciting area companies want to go into, but you do need to address the basics first."

AUDIT FATIGUE

Investors use benchmarking in a number of ways, explains Hardyment. It can help them to engage with companies on areas such as human rights, formulate questions to ask and challenge companies to improve. They can also use performance data to create their own assessments of companies, a type of screening to highlight the top SDG performers.

Global seafood producer Thai Union, which owns brands such as John West, has been a leading driver for change in the seafood industry, particularly in the areas of overfishing and labour rights. "Our sustainable development strategy, SeaChange, has also achieved greater focus by targeting the three SDGs that we have identified we can have a real impact on," says Dr Darian McBain, the global head of corporate affairs and sustainability.

But she concedes: "Benchmarking and audit fatigue are always a risk. It takes time to complete each benchmarking process, which could be time spent effecting real and lasting change on the ground or water.

HSBC has issued a £1bn SDG bond and is also looking at introduce SDG-linked loans.

"Each one has value but it's really important to be clear on what each benchmark or audit is trying to achieve and to make sure they contribute in a meaningful way to sustainable development."

Ahonen agrees. "At the moment there are so many different frameworks and initiatives that it is a bit of a jungle."

Hardyment advocates a collaborative approach that builds on existing systems, cutting duplication of effort and making it easier for organisations to respond. However, a major obstacle to greater SDG-aligned investment is that auditing of corporate commitments to sustainability is neither uniform nor mandatory.

To address this, the WBA is one of several organisations working on the UN's SDG Impact, a new initiative to identify, authenticate, and measure the impact of investments that advance the SDGs in a more standardised way.

"Achieving the SDGs will require investment on an unprecedented scale," says Achim Steiner, chair of the SDG Impact steering group. "That means unlocking private capital by helping enterprises and investors identify and report on SDG-aligned business opportunities."

By establishing consistent, globally accepted SDG standards for assets managers, enterprises, and bond issuers, SDG Impact aims to introduce capital into agriculture, cities, energy and health, catalysing ›

KEIKI/SHUTTERSTOCK

Thai Union's SeaChange strategy targeted the three SDGs it could have the most impact on.

Investors need to look behind the mask of colourful SDG logos to assess to what extent a company is acting intentionally when it comes to meeting the goals

up to $1trn annually in private investment to achieve the goals.

There will also be greater market intelligence and data in the form of SDG investor maps to help developing countries attract private investment that tangibly advances the SDGs. These will translate national priorities into investment opportunities, providing data that highlights the business case and development impact of such investments.

While reporting on the SDGs is a way of demonstrating a company's impact, from an investor's point of view it's far from fool-proof, says Woolfe. "There is a lot of talk about SDGs within the investment community and I think we need to be very careful about that," he says. Investors need to look behind the mask of colourful SDG logos to assess to what extent a company is acting intentionally when it comes to meeting the goals, he advises.

"If you are a renewable energy business you are much more likely to be contributing to the clean energy SDG in a meaningful, concerted, deliberate manner, than if you are a coal business that has a small renewables project on the side," he says.

At the moment there is nothing to stop a company that produces 95% of its energy from coal saying it is contributing to SDG7 (affordable and clean energy), he continues, which is little more than greenwash.

"The reason why I get cynical about this is because I see companies slapping SDG logos all over their annual reports," he explains. "You see a ›

PALIDACHAN/SHUTTERSTOCK

whole load of these disclosures that are describing activities that are not at all meaningful for a company in the context of its overall business.

"A mining company could easily put an education SDG logo on an annual report, because it built a school in a local community, but the reason it built it is because it had to shift communities to get workforces closer to mines. What is genuine and what is a corollary activity?"

Woolfe talks about the concept of corporate purpose as a lens for really examining what a company stands for. "If companies want to be able to persuade people that they are genuinely contributing to the SDGs, it needs to be part of their strategy, part of the business model. That is how you unlock it."

He also insists that it's important to look at a company's performance over a long period, not just one point in time, to assess direction of travel, and whether the company is improving. "It's about understanding how companies have achieved certain things and how they've got there – that's the fundamental point," he says. ■

A renewable energy business will be meaningfully contributing to the clean energy SDG.

Mark Hillsdon is a Manchester-based freelance writer who writes on business and sustainability for Ethical Corporation, The Guardian, and a range of nature-based titles including CountryFile and BBC Wildlife.

Mondi has been focussing on safety at work in line with SDG 8.

IN IT TOGETHER: HOW MONDI IS WORKING WITH PARTNERS TO TACKLE ISSUES LIKE CLEAN WATER

Mondi is one of the world's leading paper and packaging companies, with well-publicised commitments to reporting on its SDG impacts. In the last 12 months the company has bolstered this commitment with the launch of a new SDG Index designed to improve reporting practices, while also signing up to a new forest sector roadmap that links directly to the SDGs.

The SDG Index is an online document that maps the SDGs and their respective targets against the company's latest sustainable development report. "Integrating the SDGs into our reporting brings better focus and perspective to our sustainability thinking and messaging, strengthening our social relevance as a business," explains Gladys Naylor, the group's head of sustainable development.

"The index communicates our efforts to our stakeholders and is a way to engage employees on sustainability issues. It also provides a valuable learning tool for sharing good practice across the business and beyond."

Mondi works with a number of local and global NGOs, including WWF and the Ellen MacArthur Foundation, says Naylor. "SDGs have provided a great platform for us to demonstrate the value of these partnerships, and the progress we have made on the ground."

This sense of multi-stakeholder collaboration is shown in Mondi's involvement with the new ›

NATIONAL BUSINESS INITIATIVE

Mondi partnered on a project in South Africa protecting water in the uMhlathuze catchment area, helping deliver SDG 6.

forestry sector roadmap, developed by the World Business Council for Sustainable Development. Covering six specific SDGs, including responsible consumption and production (12) and climate action (13), it shows how the forestry sector can use the SDGs as a lens to respond to societal and environmental trends.

The roadmap also flags up the work Mondi has carried out in South Africa through the WWF-Mondi Water Stewardship Partnership, which since 2014 has been promoting a landscape approach to protecting the water in the uMhlathuze catchment area. The collaborative nature of the project has brought in other forestry growers, as well as the wider agricultural sector, and is helping to deliver a trio of SDGs, including clean water and sanitation (6).

Another key goal for the business revolves round SDG 8: Decent work and economic growth. With around 26,000 employees across 33 countries, promoting good working conditions and high standards of employment and human rights are essential for our business, explains Naylor. "Increasingly, we are working on behavioural and social aspects of safety at work, to influence greater and more lasting change."

In 2018, Mondi launched its "think twice" safety campaign, using employee stories of life-altering injuries to bring home the importance of safety. The videos and posters demonstrated the impact of workplace decisions and the severe consequences of unsafe behaviour. "We are determined to go beyond ticking boxes to build a safe culture for our workforce," says Naylor.

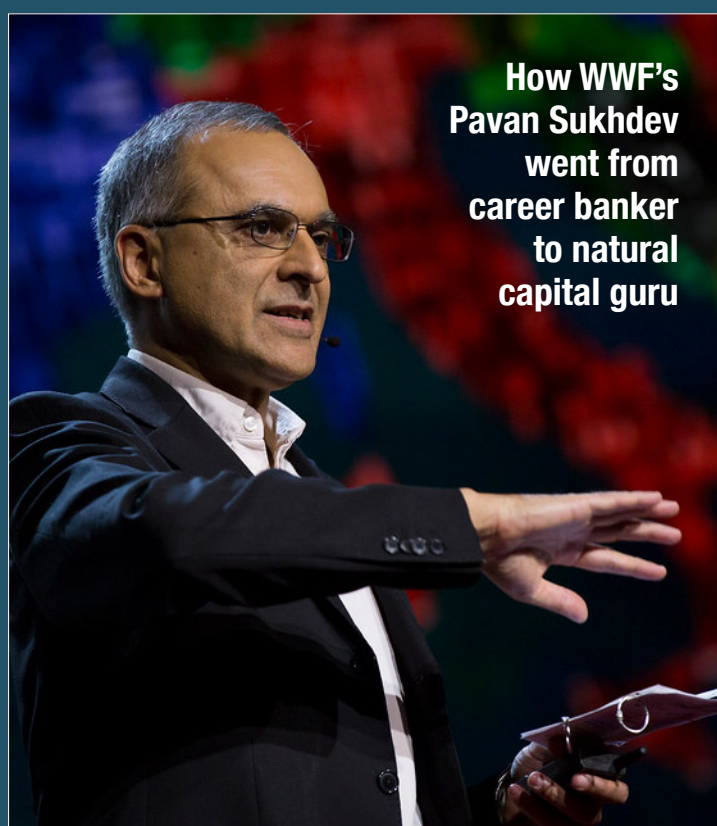
Mondi also works with One Young World, the global forum for young leaders supporting youth-led innovation that can contribute to the SDGs. Specifically, the company sponsors the SDG 12 challenge, part of its Lead2030 programme, supporting projects working towards a global waste future. Last year's winner was Hope Wakio Mwanake, who developed Eco Tiles – roof tiles made from recycled plastics, which are now being widely used by local builders in Kenya – on the back of $50,000 of new investment and business coaching from Mondi.

"We believe that collaboration is key in achieving the SDGs, and Lead2030 is a great example of how large, global corporations can support youth-led startups in order to positively impact the SDGs," adds Naylor. ■

Mark Hillsdon

WHAT'S ON THE WEB

THE DISRUPTORS



Oliver Balch meets the man who pioneered the concept of including social and environmental costs into economic valuations, and reports on his latest initiatives to help companies minimise the harm they do.

GO TO ARTICLE

Amazon and Gap power up on clean energy

The IPCC special report on land use: Seven things to know about forests and climate change

Podcast with Dow's Lorraine Francourt: 'Plastic isn't single use if we collect it, recycle it and use it again'

PLUS

For impact investors to kickstart a low-carbon future, they have to up their game

GO TO ARTICLE

Building the business case for investing in WASH

GO TO ARTICLE

'The IPCC land use report is a wake-up call for Big Food'

GO TO ARTICLE