02 / 2011

Policy Position

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Ensuring Corporate Transparency to Mitigate Climate Change

Mitigation to reduce global emissions of greenhouse gases will require substantial shifts in energy policy, consumer habits and technology development. As a major contributor of greenhouse gases (GHGs) and a driver of technological change, corporations will be crucial in shaping the solutions to many of these challenges.

The scope of change necessary will create opportunities for some businesses, while requiring others to adjust long-held business models. As businesses respond to climate change, it is important that they do so in a way which enables their stakeholders — citizens, consumers and investors — to understand whether new practices and commitments are transparent, support sustainable development and contribute to a low-carbon future.

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Lobbying and Climate Change

In 2009, oil and gas interests alone spent US$ 175 million on climate change lobbying, dwarfing the US$ 22.4 million paid out by environmental groups that year on similar activities (an all-time record for the latter).

Though there is no mandatory lobbying registry in Europe that allows similar tracking of lobbying expenditure, business in the region is also understood to have a strong voice in climate policy debates.

In other countries, such as India, businesses are using their resources to shape climate-related policy. For example, representatives of Indian businesses have lobbied intensely at both the international and national level to ensure that mitigation projects benefit their interests.

1. Engaging transparently in shaping climate policy

In many countries, the business community harnesses considerable resources to engage in the policy debate on climate change. In recent years, there has been a significant expansion and diversification of businesses' involvement in the climate change lobby. In the US, one of the few countries to maintain a mandatory lobbying registry, over 2,000 lobbyists were registered to work on climate change in 2009. While lobbying can be a valid form of expression, there is also concern that when the influence of certain groups becomes disproportionate, policy choices may be inappropriately shaped by undue influence (see side bar).

The negative impacts of lobbying can be climate policies that favour certain industries or set the bar low on ambition when it comes to mitigation actions. For example, while the European Commission initially supported a full auction of permits to emit greenhouse gases under the EU's Emission Trading System, energy-intensive industries secured an exemption from having to purchase the permits. In the US and Australia, some observers assert that the collapse of climate change bills in 2009 may have been a result of corporate influence.

With so much as stake, it is crucial that businesses disclose to the public the nature and extent of their engagement in public policy and how internal decisions addressing climate change are taken. Such openness can help governments, citizens and investors understand where business interests stand on the issues. This knowledge can also be used by governments to better work with the private sector to transition to a low-carbon economy, potentially turning some opponents of progressive climate change policies into partners.

Local, regional and national governments have already introduced a number of policies that promote positive business engagement on climate change issues. Tax policies in Denmark and Israel have helped pave the way for the introduction of infrastructure necessary for electric cars. In the US, the state of California has used rate decoupling to provide a financial incentive for utility companies to implement measures that increase energy efficiency. Such initiatives send clear policy-signals and may make it easier for businesses to transition to a green economy rather than to lobby against progress.

2. Being honest about being green

In addition to reporting on public policy engagement on climate change, it is similarly important that companies are transparent about the carbon footprint of the goods and services they provide. When such information is open and credible, companies strengthen their corporate reputation, build consumer trust, and support the environment's well-being.

As customers have become more climate-savvy, they are demanding more information from companies on their carbon footprint. Increasing consumer attention to climate issues has resulted in growing accusations of corporate 'greenwashing' — the practice of claiming that products or services are more environmentally friendly than they actually are. This can happen, for example, when companies use misleading statistics or tout the benefits of a single green product to improve the reputation of an entire company or industry (see side bar on page 3).

While businesses do some degree of self-policing to discourage greenwashing, government-sponsored standards have also been developed to help consumers identify climate-friendly products. A strong initiative in theory, many such standards could be made more stringent. The EU's energy efficiency standard runs on a scale of G to A++, potentially leading consumers to believe a grade 'A' product represents the highest level of efficiency. In the US, a 2010 study from the Government Accountability Office found that the country's energy efficiency endorsement was vulnerable to fraud and abuse, and that products submitted for the label were not always rigorously assessed. Honest representation of goods and services ultimately lies with business, but discouraging greenwashing can be supported by more discerning labelling standards that require full disclosure and increased consumer and citizen engagement to signal violations.

3. Exercising due diligence in the carbon offset market

Businesses that rely on offset credits (see side bar) need to fully understand how they are generated to ensure they yield the benefits they claim. Companies, including some airlines, which encourage clients to pay a small fee to offset their carbon footprint, may invite considerable scrutiny unless they are confident that the projects they are funding produce verifiable, sustainable and positive impacts.

Due diligence can help to ensure that the use of offset credits does not lead to reputational risks for businesses, harm to the climate, or the potential enabling of corruption. Yet guaranteeing integrity in credits is not always an easy task. Though standards in the voluntary market for carbon credits are consolidating and becoming more robust, credits do not always represent the highest standards of sustainable development.

This is a problem for the many private sector buyers who purchase offset credits as part of corporate social responsibility programmes. Emissions reduction projects may, for example, take place in areas where land rights are not clearly defined, potentially endangering the livelihoods or well-being of local people. In India, a wind energy project resulted in violent clashes between local farmers and the police in 2010 after project developers cut down some 12,000 trees to construct windmills.

If projects are not adequately reviewed, they may generate fewer emissions reductions than they earn credits for, undermining the integrity of the system. In rare, egregious cases, carbon credits may be completely fictional. A Hungarian company presented carbon credits to the Vatican, promising to plant trees and make the Vatican the first carbon-neutral territory. The company then offered offsets for sale despite never having planted any trees, according to news sources.

4. Recommendations

The ability of citizens, consumers and investors to understand how businesses respond to climate change and to hold companies accountable will ultimately shape the success of mitigation efforts. TI calls on each stakeholder to take the following actions:

Companies

Businesses must be transparent about their involvement in climate change policy by:

- Explaining how decisions on internal climate policy are taken, including how issues are identified, how reviews are conducted and how dialogue with stakeholders is pursued.
- Aligning a company's strategy internally and externally: a corporation's public stance on climate change should be consistent with its lobbying.
- Ensuring independent verification of reporting on climate change.

Greenwashing: Marketing Campaigns Without Full Disclosure

A number of energy companies have arguably over-emphasised their commitment to the environment.

Shell and BP spend millions of euro a year to publicly promote their investments in renewable energies, despite these investments generally making-up a small percentage of their budgets.

The Danish company Dong has advertised its commitment to providing wind energy in Denmark, while building coal-fired power stations abroad.

German company RWE presents itself as green through use of wind and water power, despite these sources making up less than three per cent of its power generation.

What is an Offset?

A carbon offset is a reduction in emissions of carbon dioxide (CO_2) or CO_2 equivalent that compensates for the same amount of emissions released elsewhere (known as an emissions reduction credit).

Governments or businesses that must reduce their emissions under a cap-and-trade system will often finance offset projects in areas not regulated by a cap to earn emissions reduction credits which allow them to maintain or increase their emissions levels.

This Policy Position was produced by Krina Despota of the TI Secretariat's Research and Knowledge Department.

The findings and recommendations are based on the *Global Corruption Report: Climate Change*, published by TI. All facts and figures, unless otherwise stated, are cited from the report.

The GCR on climate change brings together more than 50 leading experts and practitioners to explore major climate-related corruption risks. To learn more, see: www.transparency.org/publications/gcr.

Businesses promoting climate-related benefits of goods and services must do so honestly by:

- Recognising the reputational risk that greenwashing causes by improving their track-record in self-policing.
- Working in collaboration with government bodies to improve standards and labelling for climate-friendly products.

Businesses that use carbon offset credits must exercise due diligence by:

- Being aware of where credits come from and only buying credits that meet the requirements of leading standard organisations.
- Verifying carbon credits through third parties and ensuring they are serialised in registries, contribute to sustainable development and environmental integrity, and provide real climate-benefits.

Governments

Governments must bring greater integrity to lobbying by:

- Creating mandatory lobbying registries, which bring greater clarity to the public about who is lobbying law-makers and on what subjects.
- Organising consultative decision-making processes and open hearings on legislation to balance business interventions with inputs from civil society.

Local, regional and national governments can incentivise private-sector progress on climate change by:

- Using clear policy signals that indicate a long-term commitment to climate change and provide a predictable and reliable policy direction.
- Leading by example. Even in the absence of national-level initiatives, regional and local governments can make low-carbon commitments.
- Offering appropriate incentives that help companies transition towards transformation.

Citizens

Citizens and consumers should identify areas for improvement in corporate disclosure by:

- Using social media tools, including online indexes and blogs, to highlight companies that exaggerate their climate credentials.
- Continuing to push for comprehensive disclosure on corporate engagement in climate change policies and climate change commitments as a basic element of corporate reporting.
- Enhancing collaboration among civil society groups to increase the impact and reputational cost to companies that misrepresent their positions on climate change or the 'greenness' of their products and services.

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ISSN 1998-6432