

Executive summary

The past twelve months have been a turning point for climate change experts, companies covered by emissions trading schemes and new stakeholders involved in carbon finance. The Nobel Prize awarded jointly to the IPCC (Intergovernmental Panel on Climate Change) and to Al Gore, as well as the “Grenelle de l’Environnement” in France constituted a strong signal.



A broad consensus has now developed in the scientific world as regards the rise of anthropogenic greenhouse gas (GHG) concentration in the atmosphere and, consequently, of the warming of the planet despite a few remaining discordant voices. Among other studies, IPCC Working Group I concluded in its 4th assessment report that “most of the observed increases in the average globally temperature since the mid-20th century are likely due to the observed increases in anthropogenic greenhouse gas concentrations”, with a certainty level of more than 90%.

Although the exact consequences of climate disruption on the biosphere are still hard to establish, the economic impacts of global warming have been evaluated. Sir Nicholas Stern’s report reached the conclusion that failing to act against climate change could cost between 5% and 20% of global GDP (Gross Domestic Product), and that mitigating climate change could cost 1% of global GDP. The correlation between a complex physical phenomenon (climate disruption) and the evolution of a key world economic indicator (GDP) makes it necessary for countries to share a global vision on climate issues. Only this global vision will allow the conciliation of GHG emissions control and sustainable economic development.

The need for a shared vision on global warming also reinforces the need for increased awareness on natural resources scarcity, especially non-renewable energies, in line with the Club of Rome’s 1970 announcements. Climate change, its impacts and related costs, directly apply to companies and to those who expect a return on investment, namely shareholders and institutional investors. In this context, the Carbon Disclosure Project (CDP) publishes its 6th global annual report covering the 500 largest companies in terms of market capitalisation listed on the stock market, called in this report G500, and the 3rd CDP France report drafted by Deloitte. The CDP initiative is supported by shareholders and institutional investors. It aims at collecting data on companies’ climate change strategies, identifying their perceived risks and opportunities, analysing their emissions management, and encouraging greater disclosure on the subject.

2008, a transition year for policies and climate negotiations

The period has seen a significant evolution in the regulatory and political context, at both international and French levels. At the international level, several meetings of the signatory countries of the United Nations Framework Convention on Climate Change (UNFCCC) occurred in 2007 and others are scheduled for 2008. Their aim is to reach a new international agreement on CO₂ emissions reduction before 2009. This new agreement will replace the Kyoto Protocol, which entered into force in 2005 and comes to an end in 2012.

These last months also provided a first feedback on the European Union Emissions Trading Scheme (EU ETS), the first phase of which was implemented in Europe during 2005-2007. A global over-allocation of emissions allowances was noticed, with significant disparities between countries and sectors: the electricity production sector suffered from a deficit of quotas whilst all other sectors had a surplus of allowances. This first phase was not only a pilot phase, but allowed the reinforcement of the emissions allocation principles for the 2008-2012 period (second phase) and the development of carbon finance, with CO₂ quotas and credits. The experience gained during the first phase of the EU ETS will be useful for the second phase, which has started and will be more stringent. Indeed, the total quantity of allowances has decreased by 9% compared to the 2005-2007 period, on a constant perimeter basis. The allowance reduction volume is consistent with the commitment of the EU to be exemplary in its fight against global warming. This European objective translated into the « triple 20 » target for 2020: -20% of GHG emissions compared to 1990 level; 20% rise of energy efficiency; 20% of global energy consumption sourced from renewable sources. These targets were formalised in the EU Climate action and renewable energy package, in January 2008.

In France, the “Grenelle de l’Environnement” resulted in a legal proposal which puts forward several climate change objectives, namely the 75% reduction of France’s GHG

emissions by 2050 compared to 1990, with the aim of making France the most carbon-efficient country in the European Union before 2020. Parliamentary discussion on this proposal will start in October 2008 and last until the end of the year.

A large number of French companies disclose their climate strategies

In this changing context, a large proportion of SBF120 companies took part in the CDP6 (2008). They consider CDP is a key communication and disclosure tool, which allows them to disclose their climate change strategy and perception of associated risks and opportunities. In 2008, 63% of the SBF120 companies chose to answer the questionnaire, improving the response rates from CDP5 (2007) and CDP4 (2006) respectively by 7 and 18 points.

New risks are being identified by responding companies

A large number of companies perceive an increased regulatory pressure on GHG emissions, and identify energy consumption as a new risk for their activity. This is a growing concern for companies, especially because of the uncertainties surrounding the post-Kyoto period and the gaps in the commitments taken by different countries or groups of countries. As a consequence European companies fear a distortion of competition, due to the ambitious objectives taken by the European Union compared to other regions.

The recent rise of the energy price, and particularly of the oil barrel, also represents a new source of concern. Thus, the companies in energy intensive sectors focus their responses on their will to optimise their energy consumption. This target is also shared by companies whose sector is traditionally considered as less energy intensive. Clients pay more and more attention to environmental issues in their consumer choices. Reputation and image risks, linked to the sale of products considered by consumers as not environmentally-friendly also stand out as a concern for companies. Physical risks associated with climate change are also

identified as a source of concern, especially the increased frequency of extreme weather events. It is noteworthy that 97% of the respondents identified at least one type of climate change-related risk.

Carbon: a driving force for innovation and opportunities

Although companies can see environmental regulations as a brake on their activity and as a source of additional costs, the recent regulatory evolutions in the automotive and real estate sectors can be seen as new market opportunities, through the evolution of consumers and companies’ needs. The European carbon market represents another opportunity, thanks to carbon finance and to the Kyoto Protocol mechanisms. Thus, some French companies have already benefited from the implementation of the 2005 EU ETS.

Finally, it appears that the energy issue is perceived as a driving force for innovation, leading a large number of companies to develop energy efficient and carbon efficient products or services. The respondents seem to find particular interest in:

- energy savings, particularly in buildings;
- optimising computer networks (“Green IT”) and transportation;
- renewable energies, or carbon efficient sources of energy (“Green energy”).

Overall, 95% of the responding companies identified at least one climate change related opportunity.

Monitoring and management of carbon performance

In 2008, 68% of companies disclosed their direct emissions, whereas respectively 63% and 41% had disclosed this information in 2007 and 2006. This shows the improvement of the performance monitoring systems implemented by companies, the first step of which is to calculate their emissions, established mainly according to the GHG Protocol methodology. The companies which used the Bilan Carbone™ methodology mostly belong to the non GHG intensive sectors. The high level of companies

(38 out of 76) which have their emissions verified by a third party expert, indicate companies desire to improve the accuracy of disclosed facts and figures. In 2008, this verification is mandatory for EU ETS sites only, and covers 28 companies out of the 76 respondents.

From these GHG emissions calculations, most of the companies established emissions reduction plans and implemented actions to reduce their emissions. However, big differences are found between GHG intensive and non-intensive sectors. Indeed, more than half of the GHG intensive respondent companies defined targets in absolute value, against only 20% of non GHG intensive companies. In most cases, the targets set are short-term targets. Only eight companies (four carbon intensive and four non carbon intensive) state that their emissions reduction plans go beyond 2012. A reason for these short-term strategies may be that many uncertainties remain, for example on the targets that will apply after the Kyoto Protocol expires. These future targets are currently being defined through international climate negotiations. The carbon market's immaturity can also explain why respondent companies choose to implement short-term reduction strategies.

For more than 57% of respondents, governance matters linked to climate change reduction plans and strategies are dealt by one or several members of the Executive Committee or of the Board of Directors. This indicates that directors are committed to take climate change considerations into account in their decision-making process. The analysis of the responses also shows that the greater the senior management's implication, the more commercial opportunities are

identified and the more dialogue is engaged with policymakers. There appears to be no link with the company's volume of direct GHG emissions.

Five companies from carbon intensive sectors and fifteen companies from non carbon intensive sectors stand out for the quality and level of disclosure of their responses

The Carbon Disclosure Leadership Index France (CDLI) gathers the 20 companies which disclosed the best responses, according to a rating methodology validated by the CDP and common with the one used for the CDP G500 report. For this 2008 CDP France report, the ratings of the 76 respondents spread from 2 to 88 out of 100, with an average of 51 out of 100. The 20 CDLI companies allowed for their response to be published on the CDP website, and all obtained a rate above 62 out of 100. Six other companies provided relevant responses and scored above 62 out of 100, but did not permit the disclosure of their response and were therefore not integrated in the CDLI. Taking into account all sectors whether the companies are part of the CDLI or not, the four companies which scored above 80 out of 100 were: LVMH, Carrefour, AXA and Crédit Agricole

The four sectors which got the best average score were non carbon intensive sectors: Banks and financial services, Consumer goods, Hotel and leisure, and Food and beverage. The quality of companies' responses appears not connected to their carbon constraint. The Transport and Aerospace & defense sectors, considered to be carbon intensive, obtained an average score below 40 out of 100.

A varying degree of exposure depending on the carbon constraint

Sector sensitivity to carbon constraint is measured by comparing net revenues to direct GHG emissions, according to the following ratio: « direct GHG emissions in metric tonnes CO₂-e / net income k€ Group share ». This year, the global sensitivity ratio for all sectors reaches 4.74 metric tonnes CO₂-e per net income k€. Of note, for the same net income, companies in the Construction materials, Chemistry, Utilities, Transport, and Oil and gas sectors are the most carbon intensive.

Future prospects

The 2008 CDP France report shows increased company awareness with stronger resources to tackle GHG emissions and climate change challenges. This evolution occurs in a context of increased constraints: there is no doubt that the rising cost of energy and the reduction of emissions quotas in sectors covered by the EU ETS represent a double challenge. In the future, companies should continue to innovate in carbon efficient solutions and in products and services that improve their clients' carbon performance. The challenge is that clients will keep asking for products and services with limited carbon impact. Companies will have to work at defining solutions to find more environmentally friendly products, such as "carbon neutrality". "Carbon neutrality" could tomorrow become as important to clients as value for money or technical innovation.