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## Risk Management & Internal Control

# The CO<sub>2</sub> Reduction Approach by Companies Is Inadequate

by Erik Kolthof, Senior Advisor, Royal NBA and Lucas Geusebroek, Project Lead Circular Economy, Royal NBA | June 4, 2018 | 

**A new survey shows that few companies are proactively trying to reduce their greenhouse gases. Many companies have no specific targets in this area, and records of CO<sub>2</sub> emissions are mostly lacking even though measuring and reporting methodologies are available.**

By ratifying the Paris Agreement, the Netherlands has committed itself to rapidly reducing CO<sub>2</sub> and other greenhouse gas emissions. However, a survey of finance professionals conducted by the Royal Netherlands Institute of Chartered Accountants (NBA) and the University of Groningen shows that, although half of respondents indicate CO<sub>2</sub> reduction is part of their organization's mission and strategy, only 28% of these organizations (51 out of 187 respondents such as CFOs, financial managers, and controllers) actually measure emissions. Although CO<sub>2</sub> policy is being discussed in the boardroom, the measurement and management of emissions is not widely embedded into day-to-day business operations.

Other key findings of the survey include:

1. CO<sub>2</sub> reporting is not standardized. Only 7 respondents indicate that their organization uses a standard measurement methodology such as the global Greenhouse Gas Protocol.
2. Only 8% of respondents are involved in their organization's CO<sub>2</sub> policy, and 44% are not involved at all. 82% think that they should be involved as finance professionals.
3. Both setting specific CO<sub>2</sub> targets at the organizational level and legislative measures are seen as important to promote greenhouse gas reduction within organizations.
4. Reported emissions are verified by an external party in only 13 respondent organizations.
5. The finance professional's knowledge of CO<sub>2</sub> policy is limited.

The majority of organizations that measure CO<sub>2</sub> emissions are larger organizations. Medium-sized and small organizations appear to be considerably less active. Only half of the organizations that measure their emissions use targets to drive subsequent actions to reduce emissions, and an internal ("shadow") CO<sub>2</sub> price is used in only two respondent organizations. Distinguishing between direct and indirect CO<sub>2</sub> emissions is reported by only 10 respondents, and only 7 respondents indicate that the international standards of the GHG protocol are applied.

In response to the survey results, here are three clear recommendations.

### **Greenhouse gas policy**

- Organizations large and small must develop a detailed greenhouse gas policy and translate this policy into concrete measurements and specific targets. Finance professionals are ideally positioned within their organizations to set this up, preferably in accordance with existing international standards such as the Greenhouse Gas Protocol.

## Training

- Knowledge of measurement methods and greenhouse gas instruments must be improved through education and training, both in initial education and in lifelong learning. Later this year, the NBA will enhance its education courses in this respect.

## Standards and regulation

- Identifying greenhouse gas emissions per organization can be much simpler and cheaper if organizations participate in keeping records of CO<sub>2</sub> on a large scale and report externally. The introduction of administrative indicators in the supply chain is relatively easy to achieve by stating CO<sub>2</sub> emissions on invoices, for instance. Energy companies already share this information with their customers.
- Another option is to take a further step by embedding CO<sub>2</sub> reporting in purchasing conditions. This allows for the identification of CO<sub>2</sub> emissions from the entire value chain, enabling performance within the chain to be compared. Finally, regulators may choose to make CO<sub>2</sub> reporting compulsory as part of financial statement reporting.

Illuminating the approach taken by Dutch organisations to reducing CO<sub>2</sub> emissions, this survey will contribute to the public debate on the role of the private sector in reducing greenhouse gases. It also highlights that much needs to be done to enhance the role of finance professionals in the measurement of non-financial environmental information.

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