Forecast 2016—Corporate responses to climate change

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Andrew Hoffman, the Holcim (US) Professor of Sustainable Enterprise at the University of Michigan's Ross School of Business and School of Natural Resources and Environment, talks about how the world's largest corporations will be expected to tackle their roles on climate change in 2016 with commentary on the outcomes of the Paris climate conference. Contact: 734-763-9455 or ajhoff@umich.edu.

Q: How will corporations factor carbon emissions into their financial, operational and infrastructure decisions in 2016?

Hoffman: Right now they're watching for the next big signal. The negotiators from Paris have delivered an impressive aspiration for addressing climate change. Now, they must come back and develop policies that will compel the industry to shift. This does not come as a total surprise to business. Since the Kyoto Treaty in 1997, companies knew the day would come when there would be market constraints on carbon emissions. They're now watching to see how those policies will materialize at the federal, state and local levels regarding both mitigation and adaptation. But they have not been sitting idle since Kyoto. They know that if they waited for specific policies assessing and addressing emissions, they'd have waited too long. They've been planning for this shift for years.

So, once specific policies are in place, or close to it, I'll be watching for the big shifts in how companies figure greenhouse emissions into their product development strategies, facility operational parameters, investment strategies, corporate disclosure practices and lobbying efforts. Ultimately, I'll be watching for ways in which greenhouse gas emissions alter a company's market value.

But for now, the important thing is they're sitting up and paying attention. I did a survey of companies in 2006 that found that companies thought climate change regulation was inevitable, but not an immediate issue. President Obama put it on the back burner in his first term and part of the second, but that has changed. Paris is the beginning of the shift they knew was coming and they're taking it seriously. The CEOs of Cargill and General Mills have said we could have food shortages in the short-to-medium term if we don't do something about climate change. The governor of the Bank of England said he thinks global warming could become one of the biggest risks of economic stability in the future. These are only a few examples of the important market shift that is before us.

Q: What are some of the things you see companies doing in 2016 to comply with the signed deal?

Hoffman: The first thing you'll see is that companies who haven't already done so will start initial preparation for new regulations in earnest. They'll measure their greenhouse gas emissions and where they are coming from. They'll consider the mitigation options and estimate the costs of reducing them and they'll plan for various types of regulation. I don't think we're going to see a price on carbon, but there are other policies like the Clean Power Plan and CAFE that set serious targets. So you are going to see automotive companies, for example, look even harder at lightweight materials. We'll see utilities and renewable energy investors look even harder at new forms of energy generation and storage. We'll see similar shifts in other sectors such as buildings, transportation, agriculture and others.

Q: How do you see the market shifting in 2016 to anticipate the coming greenhouse gas controls? Who will be some of the less obvious winners and losers?

Hoffman: Continuing with the automotive example, if you're a steel company, you'd better be looking at the threat from aluminum, which is lighter, in that sector. If you're aluminum, don't rest too comfortably on your laurels. There's carbon fiber and, while it's still expensive, it's even lighter. Boeing has replaced aluminum with carbon fiber on one of its new jets. Longer term, there will be big shifts in the energy sector. The model of massive, centralized power plants is dying. They just don't know it yet. You're going to see more emphasis on distributed generation, smart grids, and demand side management. And you will see more debate over policy activity in renewable energy portfolios, more stable production tax credits and net metering—where homes that take in more electricity than they use and sell it back to the utility.

We're not going to get rid of fossil fuels right away. That's just not realistic given the scale and importance of the sector. Even though the divestment movement seeks to hasten their demise, the truth is that the combined stock value of the world's coal, oil and gas companies hovers around $5 trillion, while the related stocks of the renewable energy sector are valued at about $300 billion. The primacy of these stocks within most investment portfolios, the number of people employed and the value of the fossil fuel assets in the ground mean that this will take time to realize and cannot be expected to turn around quickly. The more important question is, how do you get from point A to point B? How do we phase out of carbon intensive industries toward clean energy, clean production and clean mobility? Everyone's thinking strategically on the end goal, but you have to think tactically about how to get there over the next 50-odd years. How do we wean ourselves off fossil fuels in a way that's phased and responsible? That's the important question.

Provided by University of Michigan

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