Funding the Future

Real accounting for climate change is something that ha...

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I have already offered a video explanation of sustainable cost accounting this morning, and earlier this week I offered another video explanation of why the climate accouti9nmg offered by Mark Carney's Task Force on Climate-related Financial Disclosures initiative is inadequate. I am not alone in saying so. Rupert Read and Roc Sandford, both of whom are linked to Extinction Rebellion, had an article in Reuters recently to explain why they felt that the so-called 'scopes' (which I have previously explained, here) that measure the greenhouse gas impacts of companies are inadequate, as I also think to be the case. As they put it:

Greenhouse gas jargon has become a common part of corporate life. Even the most detached executive will have an idea of so-called Scope 1, 2 and 3 emissions in their carbon footprint. But the current way these metrics are compiled is too generous.

They add:

Scopes 1 and 2 are now widely reported. Scope 1 quantifies greenhouse gas (GHG) emissions linked to operations under a firm's ownership and control. Scope 2 refers to emissions embodied in bought-in electricity. Both are useful data points, yet when oil companies publish ambitions to become carbon neutral, these tend to represent the limit of their ambitions. Their offer is effectively that at some time around 2050 — when it will already be too late — their oil will be produced in a carbon-limited fashion. It won't be their affair what is done with it.

Which is precisely why I argue that scope 3 accounting is essential, with which Roc and Rupert agree, saying:

Scope 3 addresses the pointed blanking of this mammoth in the room. It includes the GHG emissions from supply chains and the ultimate consumption and disposal of whatever is produced by drivers and others. There is less corporate appetite to disclose Scope 3 emissions than Scopes 1 and 2, probably fuelled by the fact that Scope 3 emissions are often 90% of the three combined.

Quite, so but they also note:

It's true that there are methodological questions implicit in Scope 3 calculations. The carbon residing outside supply chains and use-cases, such as that embodied in traded assets, is a particular issue. Professor Richard Murphy proposes calling these emissions Scope 4.

Four scopes may sound like more than enough. There are, however, at least two more mammoths in this crowded space.

They then add:

Imagine an oil company which reduces production but continues lobbying unabated — through direct employment of lobbyists; membership of trade bodies; revolving doors and secondment for ministers, special advisers and civil servants; and party funding. Each such practice helps thwart the necessary global policy response to the climate emergency by undermining ambitions to deter emissions, stick to the modest remaining carbon budget for a Paris-compliant outcome and provide a just transition for workers displaced.

As such, the oil company we picture would still have a massive carbon footprint, because it would still be helping to hustle billions to the risk of painful and violent death. This footprint we capture as Scope 5 — enterprise lobbying.

This is a novel concept: that enterprise is responsible for the emissions that it's lobbying enables. But they do not stop there:

But that's not all. Let's say a quality newspaper were to endorse in its coverage and advertising a high-carbon lifestyle. Think of the dozens of pages of adverts for cruises and foreign holidays, all of which imply a huge footprint. This we capture as Scope 6 — the power of brands to create, define, inspire and amplify energy consumerism, the lethal public appetite to consume embodied carbon.

That would give every colour supplement to every newspaper something of a problem, and rightly so. Although, as they note, this is not without its problems:

As with Scopes 1 to 4, there are methodological questions. Like pre-existing versions, Scopes 5 and 6 could be hard to quantify, even though the likes of InfluenceMap and others do glorious work in anatomising the immense harm of the denialist lobbying effort. Our proposed Scope 5 stands on the shoulders of these giants.

We can sum enterprise expenditure on lobbying and apply a non-linear multiplier function to account for the excess societal value destroyed. Regarding Scope 6, we can multiply advertising spend, public relations, corporate sponsorships in sport and culture and so on by a function calculated to account for its effectiveness in exterminating life. After all, were such spending ineffective, few firms would do it.

But then imagine these Scopes were recorded:

Meanwhile, Scopes 5 and 6 could be reversed to create benign incentives. A car company might lobby against the road-building programme envisaged in the recent UK budget after being directed to by enlightened pensioners and savers who constitute their beneficial owners. Initiatives such as "Make My Money Matter" are making these voices heard.

Such a company might then have net-negative Scopes 5 and perhaps 6 to set against their still positive but diminishing Scopes 1 to 4. This might, in the time it takes to transition the enterprise to zero emissions, procure greater access to capital and a continuing social licence to operate. A turnaround in Scopes 5 and 6 could deliver competitive advantage, augment brand value and avert the corporate extinction which awaits so many enterprises in the 1.5 degrees economy.

And finally, a word of caution:

Measuring scopes is valuable, but you must also act. The extra ones we propose incentivise corporations to reject an unnecessary calamity which is a failure not of engineering or economics, but of politics. The latter, as American philosopher John Dewey once remarked, is nothing but the shadow cast on society by big business. Scopes 5 and 6 disrupt that shadow.

This issue is now on the agenda. Roc is addressing an Institute of Chartered Accountants in England and Wales conference today. What might seem like marginal argument now might well be mainstream soon. Real accounting for climate change is something that has to happen.