

Business is producing the emissions that are killing th...

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I scanned the news this morning and it seems that a story about Prince Andrew is as significant in some media as the report on climate change from the IPCC. I believe that people should be held to account for their actions, but in the grand scheme of things the impending, and now all too apparently rapidly developing climate crisis is the bigger of these two issues. But as yet, the media do not believe it. Without the fires now raging in Greece and Italy I suspect the reaction right now would still be something like “tell me about it when it happens”.

The reality is that climate change is happening. As someone who has been worried about climate change since the 1970s, I have long been aware of this. One of the first ever economics books I ever read, when I was still in the sixth form in about 1975, was E J Mishan’s ‘The cost of economic growth’. My copy of ‘Small is beautiful’ by E F Schumacher was bought at around the same time. So too, although I can’t find my copy now, was the Club of Rome report, ‘The Limits to Growth’. The temptation to say that the catastrophe we now face was predicted long ago is high.

Saying so, however, also entirely relevant. The suggestion made in reports from that era onwards was that global warming could create irreversible changes to the world’s atmosphere that might impact the way human’s could live in earth in ways that, ultimately, are a threat to our existence, and that of many other species. The science was always real. Its ability to predict the crisis we are now in was horribly uncomfortable.

And now, because the warnings have been ignored we are facing a tipping point. Even Alok Sharma says so, whilst also, incomprehensible, wanting new oil and coalfields.

But why say this now? Simply because this is not tomorrow’s news. It is today’s, because action is required now.

We must reduce methane, now. That requires massive change in our fuel consumption, with significant impact on our way of life, now. It requires change in agriculture, now. It requires transformation of business, now. It requires the most massive education

programmes to provide explanation for this, now. And it requires training for the new world we must live in, now.

The repetition of now is deliberate. The moment for prevarication has gone. The opportunity for delay has ceased to exist. To make it very personal, I thought that at 63 that this was an issue I pursued mainly for my children. Now I know there is a good chance I too will see the catastrophe unfold. We no longer need to say that this is about saving the planet for generations to come; most of those here now have already pushed it to its limits and will see the consequences.

What will sober the world enough to persuade it to address this? Given that we live in a market economy, which most believe the most effective communication mechanism for societal preferences that we have, I persist in the view that putting climate change on the balance sheet of companies the best thing that we can do. I describe this as sustainable cost accounting.

All it does is three things. It demands that a company recognise that we have a crisis, now. It says that in response to that crisis the company must estimate the cost of eliminating harmful emissions from its supply chain, own processes and from the customer chain that it supplies. That does require some estimation of the scale of the emissions, of course, but the focus is on the cost of elimination of the emission, not the cost of the emission itself.

The two are quite different, partly because the cost of the emission is incalculable in a real sense: it is the end of life as we know it. In that case the cost of eliminating the emission is the only viable measure to estimate. And, second, costing the impact of the emission continues to assume that we can buy our way out of this crisis. We cannot. We have to stop it instead. It's the price of stopping the crisis that I want estimated.

Once that price of stopping emissions is known then a company has to, in my suggestion, provide for that cost on its balance sheet, now. That should be a mandatory requirement. And when I say 'provide' I mean the entire cost should get accounted for now.

There is good accounting reason for this. Accounting requires that when a decision with an unavoidable cost e.g. to close a production line, is incurred, then the company provide for that cost when the decision is taken. Companies have to decided to close their emission production activities now. If they don't this planet cannot continue to function as we want. It is simple as that, so the provision for the cost of stopping emissions has to be made, now.

Then, and only then, will we know whether and which companies might survive this transition, and how they think that might happen. That is because the balance sheet worth of every large company on earth would be reduced in value by this provision. Let's not pretend otherwise. Very clearly that is true. It is ridiculous to pretend that

commerce will continue as if climate change is not happening. So we need to know the impact.

In some cases that impact will be manageable out of normal ongoing resources.

In others it will, for example, require that dividends be cut to retain the funds required to pay for the changes.

Other companies are going to need to raise new capital and borrowing, and the scale needs to be known.

And, of course, there will be companies who just cannot make it through this, especially given that the timelines are now really quite short as a consequence of all previous warnings being ignored. They are 'carbon insolvent' and are going to be amongst the victims of this. We need to face the fact and plan for their demise.

The reality is that this information on business is what we need to know now, because it is business that produces the products that are killing the planet.

It is business then that must stop producing those products.

And it is business that must account for climate change in that case. Not by pretending it is off balance sheet, or that by disclosing emissions it had done enough. Business has to account now for how it is going to stop its emissions. It has to do so or we have no identifiable future. But this is not on the COP26 agenda.

My question is a simple one. Why not?