The 3rd OECD World Forum on “Statistics, Knowledge and Policy”
Charting Progress, Building Visions, Improving Life
Busan, Korea - 27-30 October 2009

THE IMPORTANCE OF HIGH QUALITY INFORMATION

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1. High quality information

Climate Change is the most challenging crisis ever faced by humanity, and threatens the existence of the world as we know it. Reaching a solution requires a co-ordinated approach between all countries, yet the range of issues to be negotiated is daunting and progress is hampered by a lack of trust between different parties.

Trust is not built easily or quickly, however it can be assisted by the availability of measurable, reportable and verifiable information about climate change, its impacts, its causes and the actions that are being taken. In fact, without such information it is difficult to take the first steps towards international agreement.

High-quality information is vital, too, for action by other types of stakeholder including the private sector organisations that have direct control over most of the world’s greenhouse gas emissions. If market signals from investors or customers lead those organisations to change their behaviour and strategies then the world can move to a low-carbon economy; these market signals need to be based on information which is both accurate and material.

A good example of a market signal that is meaningful to a company might be a significant shift in consumer demand towards low-carbon products, or a decision by an institutional investor to state a preference for a competitor company with a better climate change strategy. In both cases, the consumer and the investor need to have an accurate and comparable basis for judging a company’s products and performance, based on high-quality information.

2. What gets measured gets managed

The idea that “What gets measured gets managed” is often attributed to Dr Peter Drucker, winner of the Presidential Medal of Freedom, and has become well know thanks to the motto used by the McKinsey global consulting firm that “Everything can be measured and what gets measured gets managed.”
Interestingly, Dr Drucker also wrote that “The fact is that in modern society there is no other leadership group but managers. If the managers of our major institutions, and especially of business, do not take responsibility for the common good, no one else can or will.”

The idea of measuring in order to manage becomes particularly crucial when we are faced with an economic externality – a cost that affects everybody but which nobody has the individual power to control. Greenhouse gas emissions are perhaps the most damaging externality that the world has ever known, so in order to solve the problem of their production we must first understand how much is being emitted, by whom, and to what end.

Governments have worked together laboriously over a number of years to build a national emissions reporting system under the United Nations Framework Convention on Climate Change. The Bali “Road Map” that emerged from the thirteenth session of the Conference of the Parties decided that, in order to support a post 2012 agreement, all developed countries must take nationally appropriate mitigation commitments or actions that are “measurable, reportable and verifiable, including quantified emission limitation and reduction objectives...”. The achievements of the UNFCC must not be understated. However, in order to achieve the GHG emissions reductions to which Governments have committed, actions delivered by companies must align to those taken by Governments.

3. The work of the Carbon Disclosure Project

The Carbon Disclosure Project (CDP) has worked to address the climate change externality since its foundation in 2000 by feeding high-quality information into the market place in order to influence business decisions.

CDP has gone about this by leveraging the power of shareholder authority to persuade corporations to disclose information about their greenhouse gas emissions and climate change strategies. In 2009 CDP’s disclosure request to companies from shareholders was signed by 475 institutional investors who collectively managed assets of US $55 trillion. Companies are asked to provide information on their emissions and energy use, risks and opportunities, governance on climate change, and performance.

By sharing corporate climate change information with the marketplace CDP enables low-carbon investment decisions, and helps to create a climate where action to address climate change is expected as part of good corporate governance. The signs are that this is working; in 2009 82% of the Global 500 corporations disclosed information to CDP. A global research project conducted by CDP showed that 77% of institutional investors factor climate change information into their investment decisions and asset allocations. Yet there is still a long way to go before this information is fully incorporated into financial markets. Challenges remain in demonstrating materiality and comparability.

Since 2007 CDP has additionally used the leverage of large purchasers to extend climate change information disclosure through the world’s supply chains. Fifty organisations including vast

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1 Drucker, Peter F., Management: Tasks, Responsibilities, Practices, p. 325, (1973)
2 https://www.cdproject.net/CDPResults/CDP%202009%20Global%20500%20with%20Industry%20Snapshots.pdf
multinational corporations and government departments are using the CDP process to request information from their suppliers and to engage with them on their climate change strategies. This powerful engagement tool is yielding important results and creating effective dialogue.

4. Corporate reporting and regulation

As governments around the world attempt to grapple with the problem of climate change, different jurisdictions are increasingly requiring companies to report their emissions, often as a component of emissions trading schemes. This is a positive development and helps to normalise the concept of climate change reporting. However there is an associated risk that multinational corporations may end up reporting in different ways to different regulators, while not reporting at all in some jurisdictions, resulting in a large amount of data that falls short of providing complete and comparable information about a company’s activities.

The political goal of linking cap and trade schemes in order to achieve a global carbon price is attractive, and may ultimately be achievable; however it is fair to say that it is some way off. In the meantime there is a huge opportunity for governments to harmonise and standardise their reporting requirements so that markets can look at datasets across different jurisdictions and make decisions based on high-quality comparable information. Areas where government requirements may differ can include activity boundaries, emissions factors, reporting frequency and the time period being reported on.

5. Moving towards global high-quality information on climate change

Today the world is at a transitional stage on corporate climate change reporting, where information is fragmented and non-comparable. We do not have time to spare and cannot stay here for long; we need to make climate change reporting commonplace and allow governments and markets to act on the information that it provides.

Firstly the world will need to link the information contained in different reporting registries and make it visible to all stakeholders. CDP, as the world’s only global corporate climate change reporting system, will have a role to play here along with many others. Governments, purchasers and customers, investors and civil society all need to understand how business activity is taking climate change into account, in order to make informed financial decisions.

Secondly, standardisation is needed, not only in technical aspects of reporting but also in agreeing a common framework for how information should be reported. An important development in this area is the work of the Climate Disclosure Standards Board (CDSB) in developing a framework for incorporating climate change information into mainstream financial reports. CDSB is working with the world’s leading accountancy firms and institutions, together with the leading experts on climate change reporting. Its goal is to bring the two disciplines together and help companies to provide the high quality climate change information that their stakeholders require. CDSB’s work was commended to G20 Leaders in the recommendations made to them this September by the World Economic Forum’s Low Carbon Economic Prosperity Task Force in which the OECD also participated.
In order to move towards a low-carbon economy and to change the way that we allocated resources as a society, we first need to know where we are starting from and where we are going. What gets measured gets managed, and in order to fight climate change there is no more important tool than high quality information.