FORTUNE CEO INITIATIVE

Climate-centric Strategies

CO-CHAIRS:
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Mark Schneider, CEO, Nestlé

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2020 CEOI WORKING GROUP REPORT

Human-caused climate change is a responsibility none of us can ignore, and corporations have a responsibility to take the lead in addressing it—particularly over the next decade. "As we focus on how we're going to emerge from all of this in a better place and a better place for business, climate-friendly policies have to be part of the answer," said FORTUNE CEO Alan Murray, during the kickoff meeting for the Climate-centric Strategies working group.

That conviction became central to the group's commitments, which include a call for all businesses to set emissions reductions targets, suggestions for tackling plastic waste, and a pledge to advocate for market-based solutions and bipartisan policies that address these problems.

BUSINESS MUST TAKE THE LEAD ON CLIMATE CHANGE

RECOMMENDATION 1: ***The science related to human-caused climate change is too strong, and the problem too imminent, to ignore. The business community has a responsibility to take the lead in devising solutions that address the climate threat while also recognizing the needs and aspirations of people worldwide for affordable, reliable energy. We strongly believe that every business should develop a plan for aligning their business and their supply chain with the goals of the Paris Agreement on Greenhouse Gas Emissions.***

Future generations won't forgive current leaders for inaction, said Jesper Brodin, CEO of Ingka Group. Businesses that address climate change with ambition and transparency will win favor with current and future employees, as well as with consumers—many of whom are more closely scrutinizing the impact of a company's production on the environment and on the communities in which products are made, he said.

Working group members quickly recognized that every company, regardless of the industry it represents, should adopt a strategy to set emissions reduction goals that align its operations and those of its supply chain with the Paris Agreement goals. Several working group members noted the importance of setting short-term and long-term targets, so progress can be reported more frequently to investors and other stakeholders, and so managers can be held accountable for meeting them, perhaps by tying them to compensation plans.

> ***Business leaders can no longer afford to be skeptical nor can they expect clear public policy to set their direction...***
> *—Mark Schneider, CEO Nestlé*

Business leaders can no longer afford to be skeptical, nor can they expect clear public policy to set their direction, observed Nestlé CEO Mark Schneider, one of the working group co-chairs. "Yes, you can wait for all the theories to be vetted and totally done and proven, but frankly, by that time, it's probably going to be too late and then you're dealing with consequences that will cost us many times more to deal with," he said. With public finance priorities tied up during the short term with the COVID-19 response, it's even more important for businesses to step up, said Schneider.

While it's relatively straightforward for companies to account for and report the emissions in their own operations, one challenge they will face is the lack of specific metrics to measure carbon used or carbon avoided in their value chains or to recognize innovations that might contribute to carbon reductions, noted working group co-chair Jim Fitterling, CEO of Dow.

For example, if Dow were to create a facility to produce a construction material or sealant that helped other companies reduce emissions associated with buildings, it would have to report the emissions from that factory, but it wouldn't receive credit for the reductions it helped other organizations achieve.

One issue of debate was how carbon offsets—which allow companies to take credit for the carbon-removal impact of actions such as planting trees or investing in carbon capture technologies—should count toward reductions pledges. "They are the easy way out," observed one CEO. On the other hand, offsets can help kick-start results, others argued. Ultimately, working group members agreed the prudent use of certified, "quality" offsets is justified in the short term but the long-term focus should be on direct, sometimes painful actions to reduce emissions.

Considering the imminent nature of the crisis and the need for action now and over the long term, the group recommends every business should develop a plan for aligning their operations and their supply chain with the goals of the Paris Agreement. Those specific plans should:

- Have targets for 2050, intermediate targets for 2030, and short-term targets, so current management is held accountable for progress, preferably with measures tied to compensation;
- Use offsets prudently in achieving climate goals, primarily in the short or medium term, and with assurance that they are "quality" offsets;

- Align with the "Stakeholder Capitalism Metrics" suggested by the World Economic Forum and the Big Four accounting firms to assure consistency and transparency;
- Be transparent and publicly available.

THE PLASTICS PROBLEM IS CRITICAL, BUT COMPLEX

RECOMMENDATION 2: ***Every company should develop a plan to help build a recycling infrastructure and reuse business models that will increase the "circularity" of the products they make and the products they use, collecting waste and putting that waste back into productive use in a way that recovers the value of plastic materials. Those plans should include efforts to reduce non-recyclable single-use plastics and other non-biodegradable materials where they make sense, developed with a cautious eye toward other environmental effects that may come from switching materials. The plans should include both long-term and short-term targets, in order to hold management accountable. As above, the plans should be transparent and publicly available.***

The tangible effect of plastic waste on the environment and how to address it was an issue that dominated the group's discussion. For example, an estimated 8 million metric tons makes its way into the ocean every year. The group noted that the problem was front-of-mind for consumers before the pandemic and has taken on new urgency this year as health concerns dramatically increased the consumption of single-use plastics, including personal protective equipment. Many U.S. cities and states even temporarily reversed or halted bans on single-use items such as grocery shopping bags.

Co-chair Fitterling suggested while plastic waste is a problem, we need plastics to meet climate goals—to make cars lighter, to help buildings become more energy-efficient, and to keep food fresh longer. He estimated the "carbon costs" of some alternatives, such as metal straws or organic cloth bags, can sometimes be four times greater than what they replace. "If you remove plastics from all the current applications, you would increase municipal solid waste by 25% annually," he said.

A sobering statistic raised by several working group participants: fewer than 10% of plastic today is recycled, despite the value it could bring to the economy. And while many consumer products companies have pledged to make their packaging recyclable, they aren't using it at very high rates. Multiple group members observed that driving a higher recycling rate requires collaboration across the value chain to create a market-based system in which companies are incented to use more post-consumer recycled materials in products and packaging.

Addressing plastic waste leakage will also require investment in new infrastructure for recycling and reusing materials in collaboration with local, state, and federal governments, according to the working group. “You have to create a business model where you don’t cut the municipality out,” noted Fitterling.

There was also a call for more transparent labeling and disclosure about recycled content in products and packaging, in clear terms that are easy for consumers to understands. “The more we can dovetail language, the consumability of some of these big outcomes to people’s day-to-day lives, I think the more momentum we’ll all have,” said one CEO.

MARKET-BASED SOLUTIONS ARE IMPERATIVE

RECOMMENDATION 3: ***While business alone can make substantial progress on both the climate and plastic waste challenges, collaborations with government to develop market-based solutions that place a price on carbon and encourage recycling and other waste-reduction efforts will ultimately be necessary to solve both these critical problems. We commit to working with government and other stakeholders, including NGOs, to develop the most effective ways to achieve these goals by creating appropriate incentives for the private sector. Where possible, incentivizing capital markets to invest in these solutions should be encouraged.***

Over the past two years, the call by investors for deeper voluntary corporate disclosure about climate-related business risks has grown louder—and many companies, including leading oil and gas concerns, have responded with more information. In the absence of a cohesive U.S. policy for issues such as the development of solar and wind energy or managing plastic waste, corporations have stepped up their action through industry initiatives such as the Renewable Energy Buyers Alliance or the Alliance to End Plastic Waste.

But there’s only so much the business world can do on its own, noted the working group participants. “Companies can’t make up for infrastructure,” said Schneider. Right now, an array of state-level and municipal policies govern how companies can procure renewable energy or manage their solid waste. The case is growing for more federal-level policies, such as a market-driven price on carbon, the working group agreed.

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> *—Jim Fitterling, CEO Dow*

“Carbon pricing [models], specifically an emissions trading system with an enhanced producer responsibility scheme, can be very effective policies to reduce emissions,” said Fitterling. “An effective pricing system should direct revenue to support innovation and technologies that will allow us to get to a carbon-neutral society by 2050." Right now, for example, there is a disparate array of systems trading carbon emissions globally, including two U.S. regional markets, the Western Climate Initiative, and the Regional Greenhouse Gas Initiative.

Collaboration might also come in the form of precompetitive public-private research and development to help de-risk emerging technologies related to carbon removal or fuel alternatives for gasoline and diesel transportation methods, several participants noted.

BIPARTISAN ADVOCACY IS ESSENTIAL

RECOMMENDATION 4: ***In the U.S., we call on the federal government, regardless of the election outcome, to take a bipartisan approach to addressing these problems. Business needs a stable policy framework to make consistent progress between now and 2050, and solutions that are bipartisan will be sustained.***

Working group members said the need for predictable, sensible, and sustainable long-term policies has never been clearer. That need requires businesses to be more vocal about climate-related regulations than they have been in the past and about making specific suggestions—engaging both sides of the aisle. "It's not bad will, it's just a lack of understanding about all the dynamics of what it would take. So, it has to be this working partnership," noted one member.

It's important to focus on centrist policies that are likely to survive administration changes, working group members argued, so businesses aren't whipsawed between zigzagging extremes. New rules created by executive order should be discouraged as a result. When it comes to advocacy, the group committed to backing these specific actions:

- Work with governments to create appropriate incentives for the private sector;
- Where possible, incentivize capital markets to encourage investment into solutions; should be encouraged.
- Take a bipartisan approach to address these problems.

> ***The best scenario is to have great companies doing great things in a great regulatory political setting," said Schneider. "If one of these [elements] goes missing, it's pretty hard, then, for the others to take over for that.*** *—Mark Schneider, CEO Nestlé*

Climate-centric Strategies Commitment Examples

IKEA

Become "carbon positive" by 2030, while still growing revenue, by removing more GHG than its value chain emits.

DOW

Enable 1 million metric tons of plastics to be collected, reused or recycled by 2030; "close the loop" by ensuring 100 percent of its packaging will be reusable or recyclable by 2035.

ADDITIONAL RESOURCES

2020 Progress Report (Alliance to End Plastic Waste)

Breaking the Plastic Wave: A Comprehensive Assessment of Pathways Towards Stopping Ocean Plastic Pollution (Pew and Systemiq)

New Plastics Economy initiative (Ellen MacArthur Foundation)

Stakeholder Capitalism Metrics (World Economic Forum)

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FORTUNE CEO INITIATIVE

Collaboration to Change the World
Tech for Good
Workforce Redesign
Equity & Opportunity
Climate-centric Strategies

The Fortune CEO Initiative, launched after an extraordinary 2016 meeting at the Vatican, was created to convene, engage, and reflect the purpose-driven missions of corporate leaders who are committed to addressing societal challenges as part of their core businesses. Our CEO members believe in a simple proposition: that companies can and should do well by doing good in the world.

And today, Fortune CEOI members challenge all corporate leaders to adopt the following actions in four key areas: making technology a force for good, addressing the urgency of climate change and human impact on the environment, ensuring a more equitable society, and preparing our global workforces for the challenges of the future. Core to all of these efforts is collaboration—across the spectrum of business, with governments and nonprofit groups, and even with industry competitors. And so, as part of this year's CEOI goals, we are committed to providing a guide and resource for helping companies collaborate at scale.