



MAKING GREENHOUSE GAS EMISSIONS PAY

BRITISH AMERICAN TOBACCO STAKEHOLDER DIALOGUE REPORT



Illustration: Cured tobacco in Indonesia and cigarettes in production at our factory in South Africa.

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In April 2011, British American Tobacco hosted an independently facilitated stakeholder dialogue session – the second of a series of three relating to climate change: the first focused on water availability and management and the third will focus on renewable energy. This session sought to identify the opportunities that arise from current and future carbon pricing mechanisms and carbon regulation, and how they relate to British American Tobacco’s global supply chain.

The arguments as to why business should address the unique challenges posed by climate change are typically couched in terms of downside risk: in other words, if a company does not do X, then it will incur ‘penalties’ – be they financial, environmental or reputational. Conversely, knowledge and understanding of the potential benefits that can be realised from the ‘low carbon economy’ play a much smaller part in the debate. The purpose of this session was to redress that imbalance and meet the following objectives:

- A shared understanding of how changes in carbon regulation and carbon pricing might affect business;
- Identification of the potential opportunities that these changes present and how the benefits – for society at large as well as business – might be realised; and
- Examples of good practice in this area selected by the participants based on their personal knowledge and experience.

The participants included experts from NGOs, universities, national governmental organisations and other large companies seeking to realise the opportunities provided by climate change. They were joined by key suppliers and senior personnel from British American Tobacco whose areas of responsibility extend across the supply chain.

The session was facilitated by Acona LLP, a specialist consultancy that advises clients on sustainability issues, and Dr Cameron Hepburn, of Oxford University/LSE and Vivid Economics. It included presentations from external experts (Dr Hepburn; Dr David Kennedy, Chief Executive of the UK Committee on Climate Change; and Dimitri Zenghelis of Cisco Systems) and short, personal perspectives from three of the participants on how the shift to a ‘low carbon economy’, changes to carbon taxation, carbon regulation and growing awareness of the potential opportunities within large, global businesses are likely to shape the climate change agenda in the future.

In the course of the discussion, four major themes emerged which are covered in detail on the following pages:

- **Carbon regulation is a permanent and increasing presence:** Existing carbon regulatory frameworks are likely to be extended in the future.
- **Lots of talk; some action:** The preparedness of countries and business to realise the potential benefits presented by decarbonisation of the global economy varies significantly and, often, the rhetoric is not matched by action.
- **Business benefits are real and significant:** Business has a vital role to play in driving the low carbon agenda and investing in new products, processes and services.
- **Securing sponsorship at senior level:** Board/executive level support for these investments will require a robust business case; however, economic rationality may, in some cases, combine with the power of example and societal pressure to gain traction at senior level.

British American Tobacco is currently considering how to incorporate the insights provided during the day into its sustainability and wider business strategies. Part of this process will include assessing the feasibility of the ideas and opportunities identified at the session.

i British American Tobacco: Energy and carbon dioxide facts

British American Tobacco is committed to reducing its carbon dioxide equivalent (CO₂e) emissions by 50 per cent (by 2030) and 80 per cent (by 2050) against its 2000 baseline of 1.38 tonnes per million cigarettes equivalent. To achieve these targets we focus on our energy use (reducing consumption and switching to less carbon intensive energy sources), waste to landfill and business travel. In 2010, despite dramatic weather patterns witnessed in the year, there was a decrease in our absolute energy consumption by 1.5 per cent driven primarily by various energy reduction programmes and site rationalisation. This also resulted in a decrease in CO₂e. However, our overall energy use per million cigarettes equivalent increased due to a reduction in production volume.



This dialogue has provided invaluable insights into the opportunities available to us in this area and will be key in helping to inform our approach going forward.

Barbara Klammer, Group Head of Environment, Health and Safety, British American Tobacco ”

Carbon regulation: a permanent and increasing presence

There was unanimity that existing carbon regulatory frameworks are likely to be extended in the future, not only in the developed countries but increasingly in Brazil, India and China. However, it was recognised that regulation in this area is likely to continue to reflect the circumstances of different jurisdictions and there is little likelihood that a global emissions trading scheme will develop in the foreseeable future. Companies will need to understand how these rules and regulations will impact their business in the short, medium and longer term. Participants believed that companies at the forefront of the 'green revolution' will be proactive in lobbying for carbon regulation that reinforces their leadership position; conversely, those with most to lose will likely be vociferous in their opposition.

Companies will have to provide more detailed information on their carbon emissions to ensure that they are paying the correct level of carbon tax; also, information on the level of emissions will feature in national and global rankings – these will provide a readily available resource for critics of particular companies or of capitalism in general.

Lots of talk; some action

Participants believed that, currently, there is wide variation in how governments and businesses are addressing the challenges of climate change. China, South Korea and Norway, for example, are investing substantially in the 'low carbon economy' and have identified the strategic benefits that will accrue. Conversely, there are many other governments which, despite recognising the need for action, are – for a variety of reasons (principally economic and/or political) – yet to commit the necessary resources to translate ideas into reality. Participants noted that a further complication is that some countries are – by virtue of their existing specialisms and competitive advantages – better suited to focus on certain areas of the 'low carbon economy' than others: for example, China is potentially well-placed to secure a market-leading position in the manufacture of wind turbines and solar panels whereas the UK could have the opportunity to market these finished products and provide added value by way of advice and ongoing technical support.

Many see the picture for business as being similar: some companies have begun to realign their business models to capitalise on the opportunities of carbon pricing, but the vast majority remain uncertain as to how best to proceed. This reluctance to act may be due to a number of factors, including a lack of clarity about how the climate change regulatory framework will develop and the challenge of presenting a compelling business case to senior management that identifies specific and credible benefits.

Business benefits are real and significant

Participants strongly supported the view that business has a vital – perhaps even decisive – role to play in forging the 'low carbon economy'. While governments will provide the climate change regulatory framework and may invest directly in carbon reduction projects and initiatives, many of the resources needed to harness the opportunities arising from climate change will be provided by commercial interests that seek to take advantage of new markets/business opportunities and/or mitigate the increasing costs of fossil fuels. In particular, business will be a prime driver of innovation in carbon reduction – whether in terms of processes, products or services. For some sectors (such as aviation, shipping and agriculture), especially in the more developed economies, the imperative to decarbonise their businesses will be unavoidable given the constraints and targets likely to be imposed by governmental action.

Consequently, this shows there is strong evidence to suggest that we are on the cusp of a 'green industrial revolution' in which attempts to decarbonise value chains will proceed in step with developments in Information and Communications Technology (ICT). These developments are likely to occur over several decades and the greatest benefits could accrue to those companies that move quickly (over the next one to five years) to realign their business models. Decarbonisation may lead companies to redesign core business processes which will, in turn, eliminate inefficiencies.

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Participant: There are different levels of ambition across the world – so we're not going to see a linked emissions trading scheme anytime soon. ”

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Dr Cameron Hepburn: The Chinese government has allocated nearly \$750 billion for incentives to support clean energy in its 12th Five Year Plan covering 2011–2015. ”

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Participant: Climate Change regulation is coming anyway – the choice is doing it now or doing it later in a panic with unproven technology and at high cost. So, businesses should innovate now, lobby for change and be ahead of the pack. ”

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Participant: There is a huge amount of value to be had from emerging economies, from product development or through supply chain acquisitions. ”

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Participant: Companies are 'benevolent dictatorships', with significant resources and the ability to innovate rapidly, especially when confronted by fundamental risks to their business models. ”

Participants took the view that while some companies have already made substantial profits from the various carbon emissions trading systems currently in use around the world, these windfall profits were unsustainable and owed more to good fortune than to a considered strategy. In the longer term, it is unlikely that companies will be able to derive significant revenue from 'Cap and Trade' credits.

With so many different levels of ambition across the world, it is unlikely that we will see a linked carbon trading scheme anytime soon.

Securing sponsorship at senior level

For many companies, realising the potential benefits presented by changing carbon regulation will, depending on sector and current business models, entail significant investment. Such investment will require the support of the CEO/executive/board. Participants agreed that it is possible that some CEOs and boards may embrace the need for decarbonising the business because of strong personal beliefs or an instinct that this is the 'right' thing to do. However, it was felt that a much more likely scenario would require presenting rational arguments that showed how investment would enhance shareholder value. Such arguments are likely to focus on opening up new revenue streams, risk mitigation and benchmarking performance against peers and others, although the power of example (especially where it relates to an admired/successful business) should not be overlooked.

A number of participants highlighted how, in some companies, the impetus for capitalising on the opportunities presented by these developments originated from procurement, finance and other corporate functions rather than from the sustainability team. Participants believed that companies leading the 'green industrial revolution' will be characterised by ever closer cooperation and information sharing between business units and functions.

For more information



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Participant: The Climate Change Act [2008] is a symbol of the [UK] government's desire to decarbonise the economy.



Participant: The principal obstacle to action is the inability to make a clear business case and explain what the opportunities are and whether or not they're scalable.



Participant: Find the 'sweet spot' between procurement, sustainability and tax leveraging.

Assurance

As part of our process for providing assurance on British American Tobacco's Sustainability Report, we have carried out a 'reasonable level' of assurance engagement on the information presented in the Report on the London based stakeholder dialogues, of which this was one.

To view our conclusions and observations, or for more details, see our online Assurance statement in the British American Tobacco Sustainability Report 2010 at www.bat.com/sustainability.

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