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Abstract
The carbon disclosures project is founded on a simple idea – if corporations are asked to disclose greenhouse gas related information, a number of benefits should ensue. Most importantly, firms will build greenhouse gas related strategies into their planning and it is hope this will have positive environmental outcomes. The project has grown significantly, and in 2007 firms have been asked specifically about their greenhouse gas accounting systems. Although, the results of this new information request haven't been published, this paper considers how this may help enhance the legitimacy of the information corporations are disclosing.

Keywords
carbon disclosures project, environmental accounting, greenhouse gas accounting, corporate social responsibility

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The Carbon Disclosures Project: Accounting Information Beyond 2007

Abstract

The carbon disclosures project is founded on a simple idea – if corporations are asked to disclose greenhouse gas related information, a number of benefits should ensue. Most importantly, firms will build greenhouse gas related strategies into their planning and it is hope this will have positive environmental outcomes. The project has grown significantly, and in 2007 firms have been asked specifically about their greenhouse gas accounting systems. Although, the results of this new information request haven't been published, this paper considers how this may help enhance the legitimacy of the information corporations are disclosing.

Introduction

Although climate change science has produced evidence of the effect carbon emissions have on atmospheric conditions since the 1970's, global strategizing on the issue has been incredibly difficult. In Australia, it has taken until 2006 for the government to prioritize climate change as one of the most significant challenges facing policy makers nationally and internationally. Even so, Australia has continued to resist ratifying the Kyoto Protocol, instead insisting on its own national policies to address a global issue.

This is not to say that the Australian government hasn't been working on climate issues, in 1994, the Commonwealth Government announced the establishment of the National Greenhouse Advisory Panel (NGAP) foreshadowed in the National Greenhouse Response Strategy. During 1997 and 1998, the latter was revised, and the new National Greenhouse Strategy was released in November 1998. The Federal government also operates a Greenhouse Challenge and a Greenhouse Friendly Initiative, both of which are largely voluntary. In 2001 a Mandatory Renewable Energy Target was established, and although this target has been reached it has not been increased in the six years since its inception. State governments have stepped in to some extent, providing State based regulatory arrangements such as the NSW Greenhouse Gas Abatement Scheme.

However, the reluctance to address climate issues as part of a global community (let alone a national one) has been the source of significant frustration, as has the limitations placed on global agreements that have sought a path that balances corporate, national, and global interests (the most current example of such policy making can be evidenced in the Australian Federal Government's policy *A Global Initiative on Forests and Climate)*. Such frustration has contributed to the rise of initiatives and groups not bound by the political limitations of modern democratic processes. Many are developing alternative strategies to address climate issues.

This paper considers one such strategy, the Carbon Disclosures Project (CDP) which was launched in the London in December 2000 and is a special project of the Rockefeller Philanthropy

Advisers. The project has subsequently grown and now collects vast amounts of data, yet there has been little academic research. Basically, the project facilitates institutional investor requests for carbon related information from large companies. The CDP group collates the data, providing it free of charge to the public through their website. The project is founded on the belief that calls for disclosure can influence corporate activity and that the increasing visibility of the information will influence investment decisions (the impact of environmental disclosures on behaviour is explored by Deegan and Rankin, 1996; Cormier and Gordon, 2001; Milne and Patten, 2002). The CDP4 Australia Report (2006, p.7) stated, "climate change can significantly impact investment value". In the longer term it is hoped that firms will become competitive carbon minimises as the importance of this information increases to institutional investors (www.cdproject.net). Such a position may be difficult to ensure without mandatory guidelines on carbon disclosures (Adams, 2004) but it is certainly raising the profile of these issues on the investment agenda.

CDP information is collected on an annual basis, and each year more institutional investors are signing on to the request and more companies are providing the requested information. In the first request (known as CDP 1) which was made in 2002, 35 institutional investors collaborated to request carbon information from the FT500 largest companies and 45% of these companies answered the questionnaire in full (www.cdproject.net). The project has grown substantially and in 2007, the request for carbon disclosure information was signed by 280 institutional investors with assets of more than $41 trillion and was sent to 2,400 companies. It is expected that at least half of these companies will respond to the questionnaire in full (www.cdproject.net).

In 2006, CDP4 provided information pertaining to different regions and a report was released that focused specifically on the carbon activities of firms in Australia and New Zealand. It has been known for some time that Australia has the highest greenhouse gas emissions per capita in the world. Australian firms know they are in the global greenhouse spotlight as they are a significant contributor to global warming and yet they operate without clear regulatory structures (such as the Kyoto Protocol; Wilkinson, 2007). In this context, the response to the CDP is interesting. Although Australian firms are aware of the importance of emissions related corporate information, the CDP reveals they appear unsure about how to strategize to minimize carbon and maximize the benefits that come from good greenhouse gas policies (CDP4, Australia Report, 2006).

The report notes the marked increase in interest in carbon information in the region, with 16 institutional investment groups, managing approximately $195 billion in funds joining the call for increased disclosure. The Australian and New Zealand Investor Group on Climate Change (IGCC) combined with the CDP to request climate change related information from Australia's top 100 companies and New Zealand's top 50. The results are interesting, with 94% of the respondents recognizing the potential for climate change related issues to

impact on future earnings, liabilities or the company's risk profile (CDP4, Australian Report, 2006, p.8), yet only 9% of respondents have a formal greenhouse gas emission reduction target with articulated timelines and only 9% could provide quantified energy cost information. These results suggest that although Australian and New Zealand firms acknowledge the possibility of climate related impacts on their firm, they are a long way from implementing internal strategies and information systems that target these issues (CDP4, Australia Report, 2006, p.8).

CDP4 also produced a report on Asia (without Japan) indicating similar trends, whereby corporate leaders recognize the importance of climate change, they are struggling to integrate this into their business strategies and information systems. The report suggests that the regulatory context is even more exacerbated in this region because there is a lack of investor request for greenhouse related information and a lack of government regulation in regard to climate change. Within this region, Singapore is the only country to impose reduction targets.

Without a doubt, businesses must adopt carbon minimization strategies if our climate change responses are to be successful and although governments place some regulatory restrictions on firms, the CDP approach offers an additional market based disciplinary mechanism. In her support for the CDP, German Chancellor, Angela Merkel, argued that "(g)lobal climate-protection policy will only be successful, however, when it is supported by business and industry. Here, the capital market is of great importance, and it is extremely important for investors to take account of climate change in their decision-making. This contributes to enhanced public perception of both the risks and the chances of climate protection." (2006).

Although the project has garnered increasing international support, both in terms of the number of firms requesting information and the number of firms responding to this request, there are some significant problems that need to be addressed in order for the project to be as effective as possible. Most notably all information is based on "self-reported, non-verifiable responses" and the information, although substantial, is "not necessarily an accurate account of the company's actual carbon performance" (CDP, 2006, http://www.cdproject.net/climateleaders2006.asp). This is evidenced in the introduction to the questionnaire, where firms are requested to offer 'best guesses' if they are unable to provide exact figures. For instance, the CDP 5 questionnaire asks the respondents to "answer the questions as comprehensively as possible or state the reasons why you are unable to supply the information requested. If at this stage you can only provide indicative information we still welcome this, as a 'best guess' is more valuable to us than no response." (CDP5 Questionnaire, 2007, http://www.cdproject.net/questionnaire.asp). There is sufficient evidence to suggest that without an independent verification of the information, corporations are unlikely to report information with the level of accuracy the project desires (Deegan and Rankin, 1996; Milne and Patten, 2002). It will be

interesting to see if this emerges in the future.

This being said, the Carbon Disclosure Project has undergone substantial changes in the way it collects and collates data. From 2007 onwards (CDP5) firms will be asked specifically about their greenhouse gas accounting systems for the six main greenhouse gases, carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF6). This is a significant step beyond the requirements of previous questionnaires and reflects the increasing professionalism of the project. CDP5 asks detailed questions about how the firm is producing the information and guiding the respondents to a universal approach to the calculation of their emissions (via the greenhouse gas protocol produced by the World Business Council; see Sundin and Ranganathan, 2002).

As a result, greenhouse gas accounting systems are providing one way to standardize the information, making it more reliable and comparable from year to year, sector to sector and within sectors. CDP5's new questions ask for specific information as to the methodology adopted by each firm in the emission measurement systems, requiring the firm to specify the accounting period, the measurement systems used, whether the information is verified externally and they are asked to explain any significant variations in their emissions from period to period. They are then asked to disclose their CO2 emissions and electricity consumption using the standardized greenhouse gas protocol developed by the World Business Council for Sustainable Development. Finally, firms are asked about their indirect emissions, such as company travel and supply chain choice. This improved rigour should help to overcome some of the legitimacy issues that the project was facing and it will be interesting to see how this impacts on the results for 2007.

This also presents an enormous opportunity for environmental accounting researchers to gain an insight into the types of information firms are generating, the quality of their costing data and not only their greenhouse gas estimates, but also the measurement systems they have adopted to create these estimates. As stated earlier the carbon disclosure index has come under little academic scrutiny, and from 2007 onwards it will be of significant interest to environmental accounting researchers.

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