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COUNTING CARBON

How accurate emissions reporting can help businesses help the planet.

THE PLANET IS IN TROUBLE. WHETHER YOU CALL THE PROBLEM GLOBAL WARM-ing or climate change, we're facing an environmental crisis that's already reshaping life on Earth. Everything from polar bears to insurance companies will be affected. Smart investors—whether they care about the fate of the Earth or not—should take notice and become part of the solution.

As companies create fuel-efficient cars, lower-cost solar cells and energy-saving light bulbs, investors provide the capital needed for research and development and to bring these products to a broader market. In search of profit as well as a better world, venture capitalists help get startup companies off the ground, and concerned investors in publicly traded stocks help push bigger companies to devote more resources to sustainable solutions.

Responsible investors help in a more subtle but perhaps more important way: by demanding the numbers that enable us to know which projects are effective and which aren't, which companies are engaged in greenwashing and which are helping to save the planet—and perhaps themselves. Some companies are well positioned to prosper in a carbon-constrained environment, while others will bear substantial costs to adapt and some will simply go out of business. Without data, investors are unable to] distinguish winners from losers reliably.

The urgency of the crisis has spurred a number of creative solutions: some large and complex, some small and specific. What all of them have in common is they rely for their effectiveness on accurate reporting.

In the U.S., the Obama administration has proposed a cap and trade system for regulating carbon emissions. Companies with emissions under the limit can sell emissions "credits" to other companies that would otherwise find it hard to comply. The European Union Emission Trading System has already become the largest such scheme in the world.

Many companies are doing their parts. Kyocera and Sharp, from Japan, have made a major commitment to solar power, and Vestas Wind Systems in Denmark dominates the field of wind power. Philips has spent a large portion of its R&D budget on LEDs and other energy-efficient lighting products. Herman Miller, a U.S. company, uses a cogeneration plant to burn its waste, which provides heat and air conditioning for its central plant along with some of its electricity.

CEOs of some companies are even saying "Regulate me." In May, more than 500 business leaders at the World Business Summit on Climate Change asked governments to make a strong commitment to cutting greenhouse gas emissions. Certainty on emissions targets would help them make long-term decisions, they said, and a level playing field would prevent industries located in countries with tough emissions rules from losing out to those where regulations are more lax.

In Japan and the European Union, companies are already required to report carbon emissions. The U.S. is lagging, but a new and more environmentally conscious administration may change that. In the meantime, social investment funds have pushed companies for greater transparency in carbon reporting. Because healthy forests play a crucial role in the fight against climate change, my firm has made sustainable forestry a focus of our shareholder activism. We've also encouraged energy companies in our portfolios to report their carbon emissions, and as a member of the Carbon Disclosure Project we've urged companies worldwide to do the same.

When accurate mandatory carbon emissions reporting becomes the norm worldwide, we'll be better positioned to assess what can be done by industries, companies and governments to reduce emissions, increase operating efficiency and most important, protect our planet and ourselves.

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