Carbon Disclosure Project Briefing

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By Melissa Brown, October 2005

The third annual Carbon Disclosure Project (CDP) information release, made public on September 14th, marks an important step forward for some of Asia's leading companies in disclosing strategies on climate change. It also underscores the extent to which Asian companies still lag their global peers in assessing sustainability variables. The CDP has become a value-added indicator of the willingness and ability of companies to help investors fulfill their fiduciary responsibility to assess long-term operational risks.

This year's broader Asian sample highlights two things: the important role that government plays in the disclosure process and the influence of peer group effects. It also highlights gaps. Although China has recently signed The Asia-Pacific Partnership for Clean Development and Climate [i], Chinese companies are clearly wrestling with basic issues of disclosure, despite high levels of government share ownership. As result, we see a disconnect between emergent government policy and the ability of Chinese corporates to implement the disclosure standards common to their global peers.

Carbon Disclosure Project—the Basics

- The CDP is a global disclosure project backed by 155 signatories who represent US$21 trillion in assets. The signatories include some of the largest global pension funds and investment managers.
- From Asia, there is participation by a number of leading Japanese and Korean financial institutions, spanning the banking, insurance, and asset management sectors.
- The information request, which is sent to constituents of the Financial Times Global 500 (FT500) index, focuses on a company's policies and emissions of greenhouse gases. The questionnaire, which covers nine questions, can be accessed at http://www.cdproject.net/letter.asp
- 16.4% of the sample is based in Asia Pacific, with Japanese companies representing 10.4%, Asia ex-Japan 6%, and Australia 1.6%

The Global CDP Trends

The newest release from the Carbon Disclosure Project confirms that more leading listed companies are disclosing their carbon impacts and management policies. This year's publication, CDP3, demonstrates a number of important trends:

More support from large financial institutions

The number of institutional investors and financial institutions backing the effort has increased to US$21 trillion and 155 institutions since the project was launched in 2001 when 35 investors representing US$4.5 trillion backed the information request. 21 institutions with a base in the Asia Pacific region participated in the CDP3 information request reflecting a growing discussion about carbon issues amongst Asian institutions.

A higher corporate response rate

In 2005, 71% of the companies in the FT500 completed the information request, up from 47% for CDP1 and 59% for CDP2. This is a reflection of both increased investor interest in the materiality of carbon emissions and growing awareness at the corporate level of the need to monitor and manage carbon impacts. In addition to the CDP, there are now several high level investor groups focused on climate change such as the London-based Institutional Investors Group on Climate Change (IIGCC), the UN-hosted Investor Network on Climate Risk (INCR) which collaborates with the US-based group CERES.

More strategic planning on carbon policies

CDP3 demonstrates a marked increase in the awareness of leading global companies about the potential impact of climate change on their business activities. 90% of the respondents identified climate change business risks or opportunities while 51% have implemented programs to cut carbon emissions. For companies operating in the thirty countries which face carbon emissions targets under the Kyoto Protocol, some of these programs reflect tangible measures taken as part of government-backed programs to reduce emissions as well as the implementation of the EU Emissions Trading Scheme. Nonetheless, a smaller percentage of respondents have set explicit carbon emissions targets and 35% are now working on emission trading programs.

CDP3 offers Asian investors an increasingly valuable tool for assessing the climate change policies of leading Asian companies. The 2005 responses highlight the continuing progress at the global sector level of a number of Japanese and Australian companies, many of which operate in high impact sectors such as autos and extractives. Within the narrower Asian sample, it is becoming easier to identify the list of large capitalization Asian companies which now have the systems and the confidence to disclose their policies to investors and the public. At the same time, progress continues to be made by a broader group of Asian companies, many of which are responding for the first time to the CDP information request although often without associated public disclosure.

Company	Country	Answered Questionnaire	Provided Information	No Response	Declined to Participate	Agreed to Download
Australia & New Zealand Banking	Australia	x				x
BHP Billiton	Australia	x				x
BOC Hong Kong	Hong Kong				x	
Cathay Financial Holding	Taiwan	x				
Cheung Kong	Hong Kong		x			
China Mobile (Hong Kong)	China			x		
Chunghwa Telecom	Taiwan				x	
CLP Holdings	Hong Kong	x				x
CNOOC	China	x				
Commonwealth Bank of Australia	Australia				x	
DBS Group	Singapore	x				x
Formosa Petrochemicals	Taiwan			x		
Hang Seng Bank	Hong Kong	x				x
Hon Hai Precision Industries	Taiwan			x		
Hutchinson Whampoa	Hong Kong		x			
Korea Electric Power	South Korea			x		
National Australia Bank	Australia	x				
News Corporation	Australia				x	
Oil & Natural Gas	India			x		
Posco	South Korea	x				
PTT	Thailand		x			
Reliance Industries	India			x		
Rio Tinto	Australia	x				x
Samsung Electronics	South Korea	x				
Singapore Telecom	Singapore	x				x
SK Telecom	South Korea	x				
Sun Hung Kai Properties	Hong Kong			x		
Taiwan Semiconductor Manufacturing	Taiwan	x				
Telstra	Australia	x				x
Westpac Banking	Australia	x				x
Questionnaire		16	3	7	4	9
as percent of total AP sample		53%	10%	23%	13%	30%
as percent to total FT500 sample		4%	9%	10%	10%	3%

How the Asian CDP Participants Compare

Leadership from Japan and Australia landfill

Importantly for Asian investors, CDP3 also provides a useful reference point for the efforts of some of Asia's leading companies. Within Asia broadly, Japanese and Australian companies continue to lead the way in participating in the CDP, reflecting government and peer group issues in Japan's case and the global character of leading Australian financial services companies. Japanese companies have historically been strong environmental reporters thanks to regulatory requirements. This trend has been reinforced by the reputation risks for leading Japanese consumer products exporters. At the same time, Australia's top tier mining and financial companies have moved toward climate reporting as a tool for addressing high potential risks and the disclosure requirements of Australia's SRI community. Within the FT500, six Asia Pacific companies—Honda, Toyota, Westpac, Kansai Electric Power, Telstra, and Mitsui—have been included in the Climate Leadership Index (CLI) which establishes best-in-class response standards at the global sector level.

Asian leaders are building capacity

CDP3's Asian sample has 39 companies in total including nine Australian companies. CDP3 includes ten responses from Asian companies. More important for investors is the fact that four companies made their responses available for public scrutiny via a download on CDP's website—Hong Kong's CLP Holdings and Hang Seng Bank, a principal member of the HSBC Group, DBS, Singapore's largest bank, and Singapore Telecom, Singapore's dominant telecoms provider and the controlling shareholder in Optus, an Australian telecoms company. Included in this group are companies which have established themselves amongst the top tier of Asian companies in terms of conventional financial reporting and, depending upon the company, environmental reporting. That said, not all of the companies regard climate change risks to be material. Indeed, DBS stated in its response that "climate change does not represent commercial risks or opportunities for the company because we are a financial institution." A different view is offered by Hang Seng Bank which states in its response that "as a bank, one of the most direct impacts on climate change is the greenhouse gas emission resulting from our operations."

Within the group, there are inevitably different motivations for reporting on climate change risks. For example, CLP Holdings is unusual in Asia in having a regional footprint, with operations in multiple regulatory regimes, which has helped to attune the company to broader operational risks. The company's exposure to a range of environmental and regulatory risks has resulted in a high standard of environmental, social, and governance reporting in general. (Please see http://www.asria.org/events/hongkong/05sept for a summary of a presentation by CLP on carbon reporting.) While Hang Seng Bank has a narrower Hong Kong-China focus, its reporting policies are a direct reflection of the HSBC Group's commitment to address the impacts of climate change. For DBS and Singapore Telecom, CDP participation may reflect the Singapore government's effort to encourage leading companies to meet higher disclosure standards

Many Asian respondents have a global orientation

The third tier of Asian respondents to CDP3 has both a more diverse and global orientation. Many of the companies in this second tier have yet to establish mature public disclosure patterns on environmental issues. This is reflected in their willingness to provide answers to the CDP questionnaire, but their reluctance to make those disclosures public at the time of the project release. Nonetheless, given the global orientation of CNOOC, POSCO, Samsung, SK Telecom, and TSMC, the 2005 responses may be an indication of greater capacity to address high impact risks in the future. Indeed, Samsung indicated in their communication with the CDP a potential willingness to disclose their responses.

Disclosure of CDP responses would mark an important step forward for Asian's tech sector as TSMC, although a member of the Dow Jones Sustainability Index (DJSI), has taken a similarly cautious stance on disclosure of sustainability performance to investors and the public. POSCO is also a member of the DJSI and has begun to improve the quality of its public reporting on environmental performance. A similar move may be appropriate for CNOOC, China's leading offshore oil producer, due to the company's growing global ambitions which will doubtless raise questions about the company's ability to meet emerging global operational and environmental standards.

Important new reporters

CDP3 also includes first time participation from three influential companies—Hong Kong's Hutchison Whampoa, Cheung Kong, and Thailand's PTT. While these three respondents did not answer the complete questionnaire or provide public disclosure, they did provide information for the first time. Hutchison's business is both global and broad based, spanning the telecoms, port, power, and retail sectors. The company also has exposure to the property development sector through its group company Cheung Kong. Given the high degree of exposure to diverse regulatory and business trends, it will be interesting to see if Hutchison and Cheung Kong move toward a more comprehensive and public disclosure process in the climate change area. A government-controlled Thai energy company, PTT is also making steady progress on efforts to enhance governance and public disclosure standards.

Non-responders—a work in progress?

Just as interesting from an investment standpoint is the list of Asian companies in the FT500 which did not respond to the information request. Included in this group is Hong Kong-listed China Mobile, China's largest mobile telecom services provider, Formosa Petrochemical, the petrochemical arm of Taiwan's Formosa Group, Hon Hai, Taiwan's leading electronics manufacturer, KEPCO, Korea's government-controlled power company, Reliance Industries, the flagship company of India's leading business group with petrochemicals, energy, and telecom assets, Oil and Natural Gas Corporation, India's government controlled oil and gas exploration and production company, and Sun Hung Kai, the Hong Kong property developer.

While all of these companies enjoy prominent status in their respective markets, four of the companies are tightly held family-run entities while three are government-controlled companies. Due to the less significant role of minority shareholders in shaping their corporate cultures, public disclosure and transparent approaches to corporate governance are still emergent issues. As these types of companies move out of their home markets or diversify into new sectors, however, they often feel the need to develop a more transparent approach to environmental management.

The two who said no

Two Asian companies formally declined to participate in the information request: Bank of China Hong Kong (BOCHK) which is controlled by China's government-backed Bank of China and Chunghwa Telecom, Taiwan's government controlled telecom operator. It is, of course, difficult to assess whether the decision not to participate reflects formal corporate policies toward disclosure or simply a preliminary judgment by management that climate change issues do not pose material risks for the company. BOCHK would seem to hold the later view, stating that "as a financial institution, we do not have any holdings or activities for which we would measure emissions."

Taken together, the Asian companies tend to lag their global counterparts in analyzing and disclosing their carbon emissions, especially if they operate domestically. The Asian sample does reinforce the general trend of stronger reporting from companies in high impact sectors which have global or regional operations. A second set of companies which have emerged with a strong predisposition toward reporting on climate change are those companies with diverse customers and global brand equity.

Moving forward, the pressure on Asian companies to improve their disclosure of carbon risks seems destined to rise. We see growing incentives for fast-growing carbon emitters such as China and India to play a role in future dialogue about climate change policies. In July 2005, China, India, Australia, and the United States as well as Japan and South Korea formed the Asia-Pacific Partnership for Clean Development. According to a U.S. statement issued at the time, "this partnership will focus on voluntary practical measures taken by these six countries in the Asia-Pacific region to create new investment opportunities, build local capacity, and remove barriers to the introduction of clean, more efficient technologies." While there are questions to be asked about the effectiveness of policy groups which lack a focus on emissions controls, this grouping and subsequent dialogue will doubtless provide a forum for Asian governments to begin providing more tangible indications of their policies on carbon emissions.

A second driver for greater disclosure on climate change by Asian companies will inevitably be their growing orientation toward global markets. Within both the global and Asian sample, it is apparent that for companies with diverse operations and customers, the lack of a domestic regulatory framework does not insulate a company from risk. As a result, we see local and global peer competition as an important driver for companies which are trying to gain entrance to new markets, whether for production or sales.

A final catalyst for greater Asian participation in the CDP information request will come from greater investor interest in comparing the carbon emissions strategies of Asian companies. In 2006, ASrIA will be working with CDP to expand the coverage of Asian companies. Across the region, there is already demonstrated leadership on governance and environmental reporting. The FT500 sample provides indications of the many strategies that different companies are using in approaching this complex area. It would be our hope that by broadening the universe of Asian companies covered by the CDP that crucial peer group relationships, which correspond to common sector comparisons, can be used to assess different company strategies.

[i] For more information on The Asia-Pacific Partnership for Clean Development and Climate, please look at the official announcement from the US government (http://www.state.gov/s/d/rem/50326.htm), the announcement fact sheet (http://www.whitehouse.gov/news/releases/2005/07/20050727-11.html) and an analysis which appeared in *The New Scientist* magazine (http://www.newscientist.com/channel/mech-tech/mg18725151.400)

The Association for Sustainable & Responsible Investment in Asia
www.asria.org

ASrIA is a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region. As an association, ASrIA acts for and on behalf of its members. ASrIA's members include investment institutions managing over US$4 trillion in assets, however membership is open to any organisations which have an interest in promoting sustainable investment practice.

ASrIA has taken a leadership role in promoting sustainable investment in Asia since our founding in 2001. In order to raise awareness about SRI, ASrIA has run conferences, seminars and workshops, and published wide-ranging research on SRI issues. ASrIA has also created a very wide network of people and organizations committed to developing SRI in Asia. ASrIA's website, www.asria.org, is the primary resource for SRI in Asia, attracting over 2,500 page views per day and over 5,000 subscribers to our regular e-bulletin.