

A proposed alternate metric for “Financed Emissions” ‘GHG Performance’ (GHGp)

This proposes a simple way to base “financed emissions” on direct business responsibility for decisions causing business CO2 production and economic demand, using simple material indicators of each, to base business, investor and financial institution decisions on.

At the June 24-25 WRI meeting the difficult we found for applying “Financed Emissions” appeared to arise from Scope 3 accounting. While Scope 3 seems useful for policy questions, it’s relevance for business, investor and financial institution choices is unclear, lacking direct “economic relevance” and “materiality” for business operations. That also makes it not well suited for attributing responsibility for GHG emissions to business, investor and financial institution choices.

A simple way to correct that problem changes the present set of “nominal indicators” into a unified set of “performance indicators” associating the business’s CO2 intensity with the average CO2 intensities of its sector and the World as a basis of comparison with other businesses. The “common denominator” for those intensities would be the economic product (GDP) for the business, its sector, or the world. Used for scientific uniformity of measures and to exploit the remarkable

constancy of the E/GDP ratio as the competitive standard for energy use around the world (1).

This switch to performance metrics offers a highly simplified version of the advanced performance indicator work Stan and I have been exploring the use of, simple enough to be presented as a simplified variation on Scope 3, Scope 3a, expressly designed for road testing as a financial guidance tool, and allow the great majority of the conceptual work done so far to be retained.

So, I would keep Financed Emissions (FE) defined as it is, and track the three measures, Scope1, 2 & 3a, their growth rates, and related business intensities, for comparing to other businesses and the world economy. The interpretation approach is to first simply define the inclusive boundaries and metrics, and second to then learn by experience what they mean in application.

The main advantage of 3a is to:

1. draw attention to the business’s implied share of the economy’s total emissions
2. and its business GHG intensity in relation to the world’s average, and trends

GHG metrics for Initial Road Test of Financed Emissions Accounting

	CO2 Supply Scope 1		CO2 Supply Scope 2		CO2 Demand Scope 3a	
	Material Operations		Material Supply Chain		Whole Value Tree	
• Boundary	S1.1	LCA CO2	S2.1	LCA CO2	S3a.1	Revenue*CO2/\$GDP
• Metric	S1.1	LCA CO2	S2.1	LCA CO2	S3a.1	Revenue*CO2/\$GDP
• Growth	S1.2	5 yr rate	S2.2	5 yr rate	S3a.2	5 yr rate
• Revenue Intensity	S1.3	CO2/Total Revenue	S2.3	CO2/Total Revenue	S3a.3	Demand / Revenue
• Relative Intensity	S1.4	To Business Sector Average	S2.4	To Business Sector Average	S3a.4	To World intensity
• Adaptability	S1.5	Analyst’s index	S2.5	Analyst’s index	S3a.5	Analyst’s index

The materiality of these metrics for financial decision making for a business comes from:

1. Comparing the CO2 intensity of the
 - a. business operation and material supply chains,
 - b. with those of other businesses of its their type
2. Estimating the total CO2 demand as

- a. The product of World average CO2/\$GDP economic intensity,
- b. Initially without corrections that would make the actual business depart from the average
3. Comparing the high value indicators of intensity rates of change and business adaptability as indicators of investing value.