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Insights

Cut carbon, cut costs

CFOs in Europe can save money as well as the climate – if they act now!

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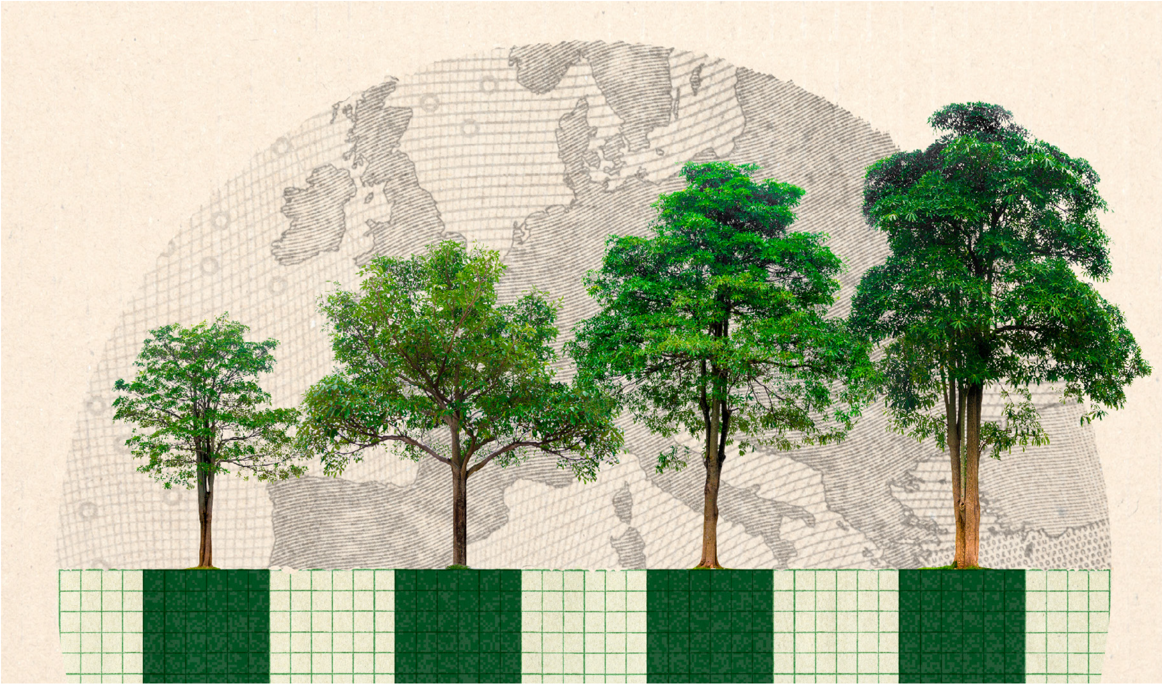


Cut carbon, cut costs

CFOs in Europe can save money as well as the climate – if they act now!

MOST COMPANIES WANT to act on climate change themselves but also face pressure to do so from customers and stakeholders, as well as governments, in the form of increasing regulation. Many of the decisions to reduce carbon emissions and combat climate change in other ways have cost implications, and therefore CFOs are involved in these decisions. Twice a year we ask European CFOs for their views on the current economic and financial situation and a set of topical questions. In the autumn of 2021 these topical questions focused on companies' action on climate change.

Europe is currently in the middle of the transformation to become more climate-friendly as it seeks to take a lead in decarbonisation globally. The plans for transition are supported by public strategies such as the European Green Deal, which was put in action in 2020. Public targets and programmes are important but so, too, is action taken by businesses to attain climate goals. The transformation required to reduce carbon emissions is a challenge at every level and for all stakeholders, but it also offers new opportunities for cost savings and growth.

THE DELOITTE EUROPEAN CFO SURVEY

Since 2015 Deloitte has conducted the European CFO Survey, giving voice twice a year to Chief Financial Officers (CFOs) from across Europe. Besides providing an overview of business sentiment in Europe, each edition focuses on a topical issue. The Autumn 2021 edition focused on the CFOs' views regarding carbon reduction plans of their companies. The data was collected in September 2021. The results in this article are based on the answers of 1,234 CFOs. For further details, please visit **Deloitte.com**.

At risk of falling short

ONE OF THE FIRST STEPS for companies to take on the climate is to set a carbon reduction target. To do this firms need to consider how much they can realistically reduce their carbon emissions, in which areas and within which time frame.

More than half the companies we questioned have a precise plan for how much they intend to reduce carbon emissions (see figure 1). Although this figure is higher than in Autumn 2019 – when a similar question was asked in the survey and about one-third of companies reported that they had an emission reduction target[1] – still many businesses have not yet managed to accomplish this important step. Forty per cent of the CFOs surveyed report that their company does not yet have a detailed plan to reduce carbon emissions at all.

In some industries, plans are further advanced than in others, as the industry-level results show. The proportion of firms with a plan is especially high in forestry, paper and packaging as well as in energy, utilities and mining industries. This is in line with the findings of the Deloitte US CFO Survey of energy and manufacturing services,[2] which revealed that about 70% of participants said their company has a decarbonisation strategy.

In some industries, plans are further advanced than in others, as the industry-level results show. The proportion of firms with a plan is especially high in forestry, paper and packaging as well as in energy, utilities and mining industries.

At the other extreme, tourism and travel and construction businesses are the least explicit about reducing their carbon emissions, probably because they are more dependent on technical innovations and solutions from other industries, making it more challenging to formulate their plans.

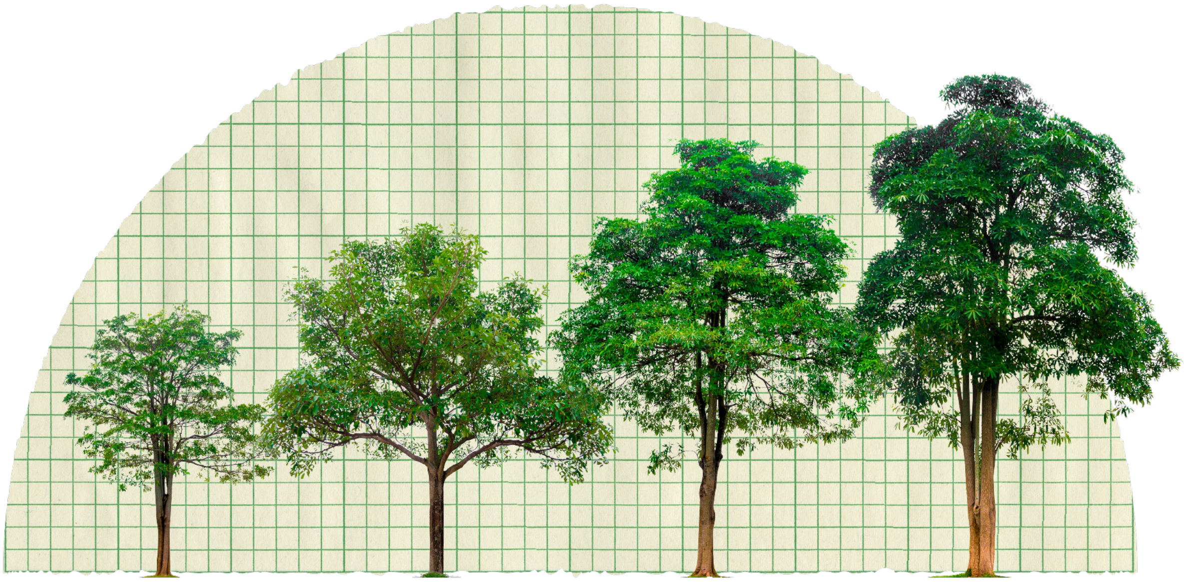
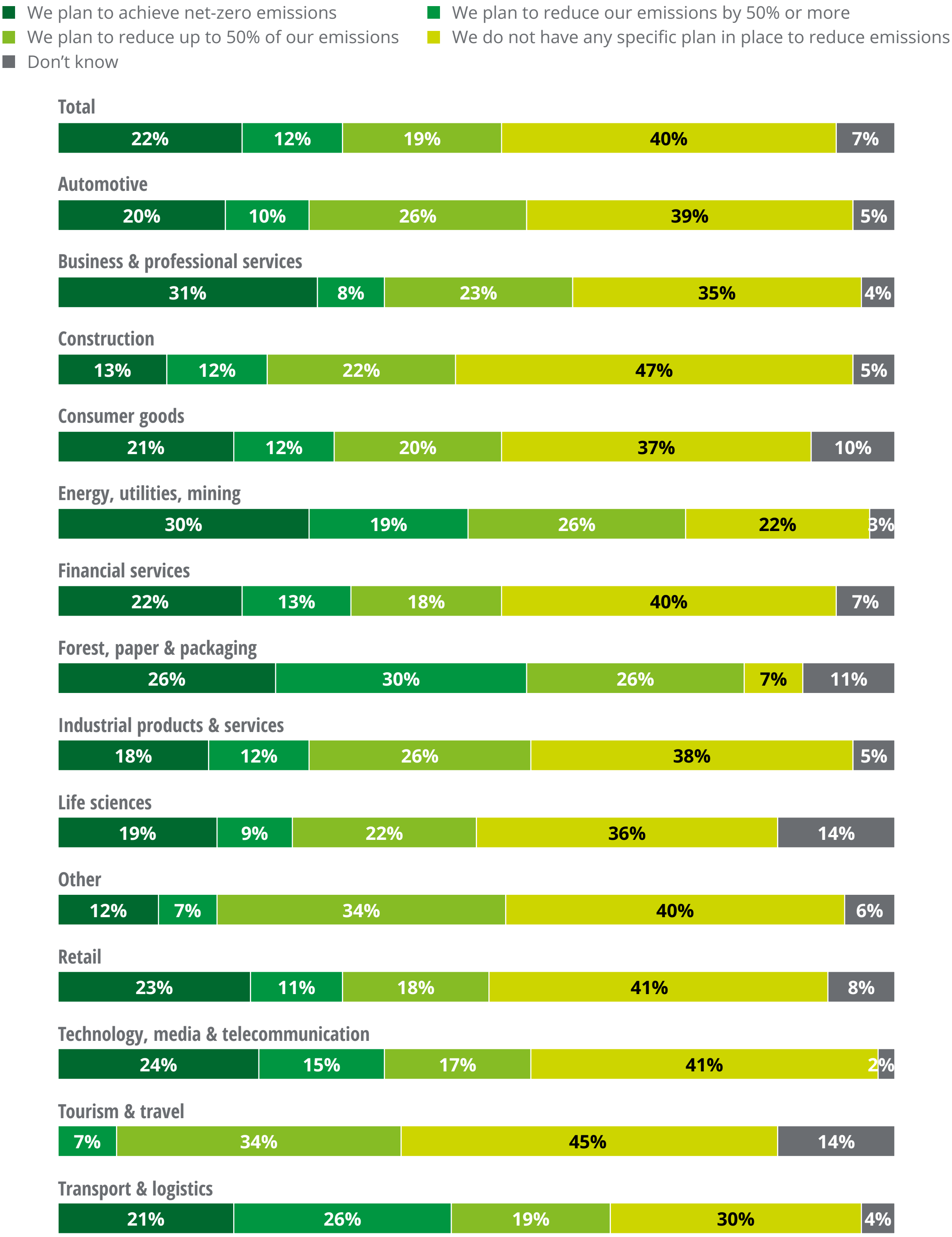


FIGURE 1

One-fifth of CFOs aim to achieve net-zero emissions, but many firms still do not have a specific reduction plan

Question asked: Does your company have any plans in place to reduce its carbon emissions?



Note: Due to rounding, percentages do not sum up to 100.

Source: Deloitte European CFO Survey, Autumn 2021.

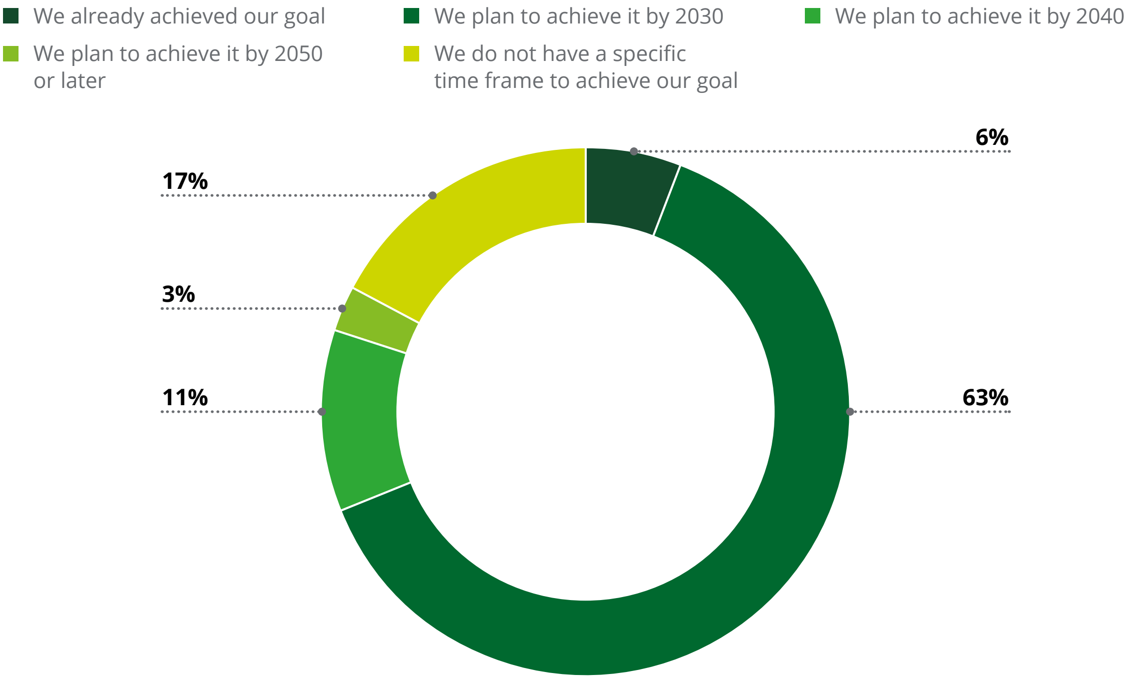
Sixty-three per cent of the companies which do have a carbon emissions reduction plan aim to achieve their goal by 2030 (figure 2). A small minority of companies (6%) have achieved their target already. About 11% are giving themselves almost two decades, till 2040, to meet their target, and a few (3%) have set a time frame of 2050 or later. Seventeen per cent of firms have not yet set a specific time frame for their carbon reduction efforts.

Across industries, the time plans are quite similar. But companies in transport and logistics are aiming to achieve their goal later than average (45% by 2030, 29% by 2040), reflecting the fact that the technological innovations needed to reduce carbon emissions will probably take longer in this industry than in others. In financial services there seems to be greater heterogeneity, as 9% have achieved their goal already, but 43% aim to fulfil their plan by 2030 and almost one in three (29%) do not have a specific time frame for their carbon reduction goals. Again, in tourism and travel (29%) as well as in construction (30%) the proportion of firms without an explicit schedule is higher than in other industries, indicating that they face challenges establishing a realistic time frame for their climate plans.

FIGURE 2

Most firms with a carbon reduction plan aim to achieve their goal by 2030

Question asked: What is the time frame to achieve this goal?



Source: Deloitte European CFO Survey, Autumn 2021.

Sixty-three per cent of the companies which do have a carbon emissions reduction plan aim to achieve their goal by 2030.

Reputation matters, and so do costs

COMPANIES TEND TO RETHINK their behaviour to meet the expectations of stakeholders. This seems to be the case also with climate action. But opportunities linked to more climate-friendly behaviour also play a role. Businesses are motivated by four main factors to act on climate change. About half the CFOs surveyed say that improving the reputation of their company and gaining trust from their customers and clients motivates them (see figure 3). But many (38%) also have a quite different motivation: the opportunity to save costs by taking action on climate change. Cutting energy use and business travel can reduce costs as well as carbon emissions. The need to comply with current and/or upcoming regulation is the third motivating factor, encouraging 35% of businesses to act on the climate, showing awareness of the increasing regulation. Finally, the fourth major motivation, mentioned by 33% of CFOs, is to be able to adapt to the requests of their clients and customers, who have become increasingly aware of sustainability issues and are therefore demanding more climate-friendly products and services, for example electric vehicles.

Since companies in different industries are facing varying expectations of different stakeholders, the main motivations also vary noticeably between industries. In business and professional services, for example, improving the company's reputation (62%) drives climate action more than in other industries while companies in tourism and travel are motivated most by the cost-saving possibilities (66%). For transport and logistics firms the need to comply with regulation is the main reason (58%) for becoming more sustainable.

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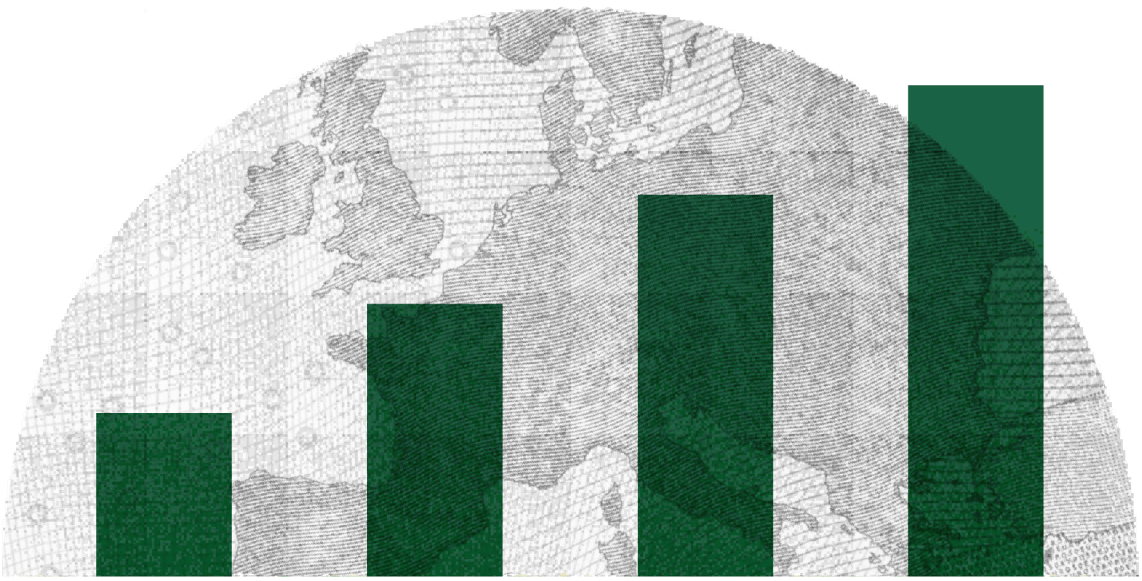
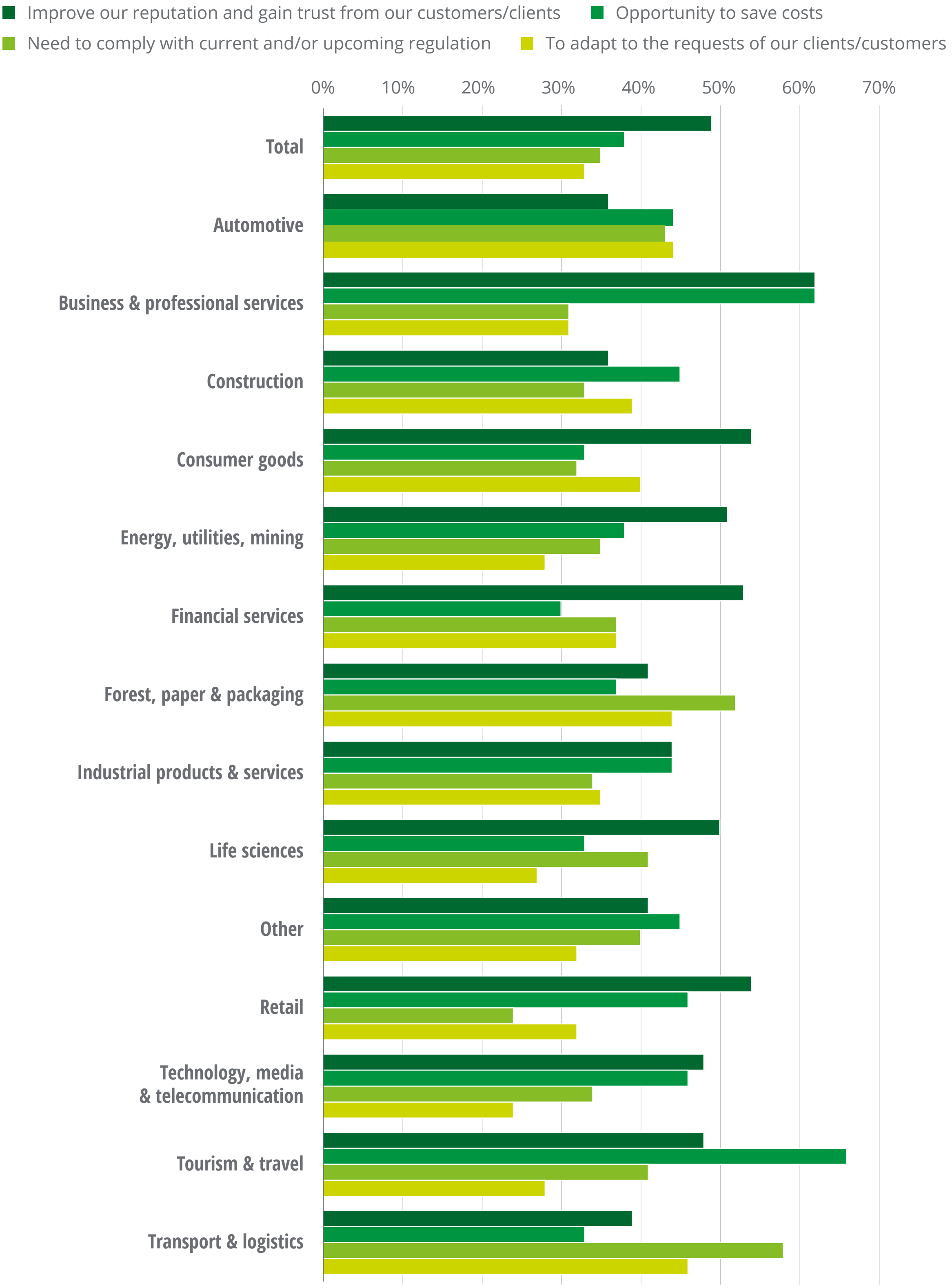


FIGURE 3

Climate action is needed to ensure reputation and trust but can also cut costs (top 4 drivers shown)

Question asked: What are the major factors driving climate action in your organisation?



Source: Deloitte European CFO Survey, Autumn 2021.

Climate action starts in-house

AS WITH GOVERNMENTS and public institutions, there are numerous actions which businesses can take to reduce carbon emissions. There is no “one-size-fits-all” strategy; companies in different industries face different challenges.

Three broad areas of action on climate change that have been taken or are already planned stand out in the results (see figure 4). The majority of CFOs are reducing or planning to reduce in-house emissions through incremental change. This probably offers the most cost-saving opportunities, explaining its popularity. In addition, more than 40% of participants in the survey aim to develop new climate-friendly products and services to meet their carbon reduction goals and hence capitalise on growth opportunities due to the high demand for these products. This implies that the supply of climate-friendly products and services is likely to increase considerably in the future, offering consumers more scope to demonstrate their desire to act on climate change. Finally, 38% of companies are working on reducing carbon emissions in their supply chain, or are planning to do so.

At the industry level, reducing in-house emissions is the first choice across the board, but with varying degrees of emphasis (see figure 4). In the automotive industry 72% of CFOs mention this as a priority, whereas only 48% of companies in tourism and travel report that they are reducing in-house emissions. Development of new climate-friendly products and services is the most relevant action for companies in forestry, paper and packaging (59%) as well as industrial products and services (55%). Reducing carbon emissions in the supply chain is mentioned most by forestry, paper and packaging companies as well as by those in the energy industry. On the other hand, in financial services and tourism and travel, reducing emissions in the supply chain is seen as less relevant as their supply chains tend to be less extensive than in goods-producing industries.

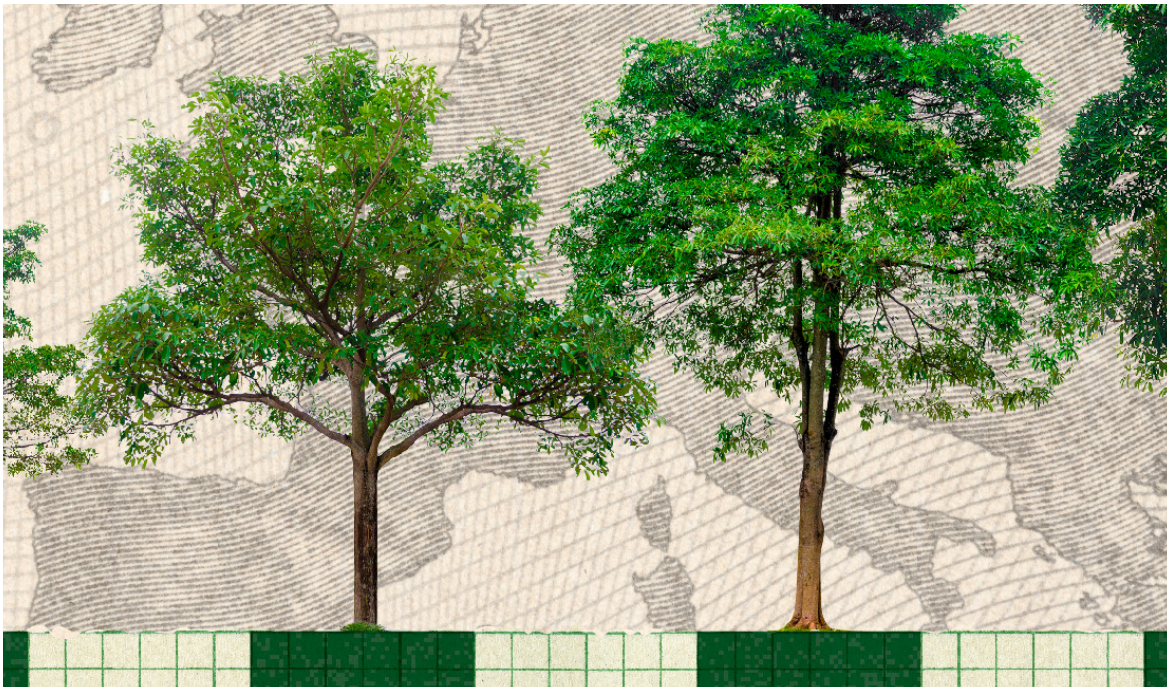
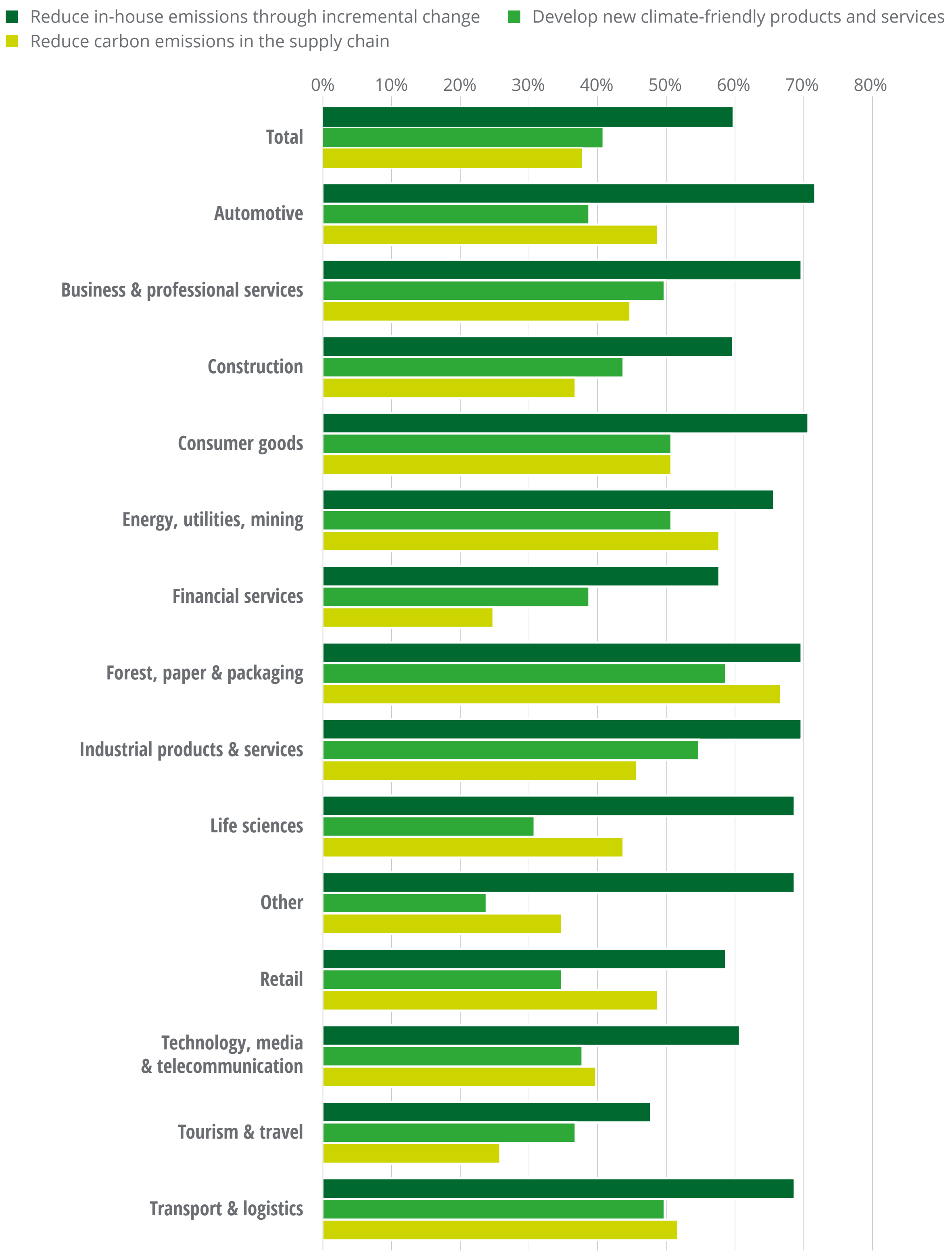


FIGURE 4

Companies are mitigating rather than adapting to climate change (top 3 activities for total shown)

Question asked: Is your company taking or about to take any of the following activities to mitigate or adapt to climate change?



Source: Deloitte European CFO Survey, Autumn 2021.

High time for a wider view of the greener future

EUROPEAN BUSINESSES ARE feeling pressure from many sides to become more climate-friendly, and this pressure is likely to continue to increase. But at present their report card is mixed. Although 56% of businesses have a clear plan to cut their climate emissions, 37% do not. In addition, 14% of companies with a plan are aiming to reduce their emissions very slowly, not achieving their goal until 2040 or later.

It is apparent that many companies need to formulate a carbon reduction plan that makes measurement of how much they are achieving easier[3] and motivates them towards further action. An incentive for them should be that acting on climate change often offers direct cost saving possibilities and is thus valuable also from a financial point of view. This is especially the case given that the price of carbon emissions, in emissions trading systems or through carbon taxes, might increase considerably in the future; acting sooner is very probably the cheaper alternative. Moreover, climate action can prevent possible reputational damage, which might turn out to be expensive. As the regulations concerning climate issues proliferate and become more stringent, it is crucial for companies to both keep up to date and foresee what is coming. They would be wise to act sooner and more broadly, rather than too late.

European businesses are feeling pressure from many sides to become more climate-friendly, and this pressure is likely to continue to increase. But at present their report card is mixed.

Endnotes

1. Michela Coppola, Thomas Krick and Julian Blohmke, "Feeling the heat? Companies are under pressure on climate change and need to do more", Deloitte Insights, 12 December 2019.
2. Deloitte, *Decarbonization in energy and manufacturing: Emphasizing the role of financial executives*, 2021.
3. See also Deloitte's *The Audit Committee Frontier – addressing climate change*, November 2021.

Acknowledgements

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Industry leadership

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