

# Benchmarking Internal Carbon Pricing

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Created for:



***COLGATE-PALMOLIVE***

# Intro and Agenda

## Who we are



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## Agenda

- An introduction into carbon pricing
- Overview of project deliverables
- Background on ICP selection and strategies
- The deliverables
- Our recommended strategies
- Next steps

# What Is Carbon Pricing?

**Carbon pricing is a tool being considered and used by both governments and businesses to capture the external cost of CO<sub>2</sub> emissions and shift the burden for those damages back on those who are responsible for it (World Bank, 2019).**



# 3 Types of Internal Carbon Pricing (ICP)



## Internal Carbon Tax

Money collected for each ton of carbon emitted by your business activities to fund emissions reduction efforts.



## Shadow Price

No real money is transferred, rather a theoretical or assumed cost is placed on each ton of carbon.



## Implicit Price

How much your organization is spending to cut carbon emission on projects like renewable energy or to comply with certain regulations. Used to identify costs to minimize and better understand your emissions.

# A deep dive into Colgate-Palmolive

Colgate has established its **Net Zero strategy** and has been considering utilizing an internal carbon pricing scheme as the next step in their journey, but isn't sure where to start. In order for us to explore the best strategy route for Colgate, we have to first:

**1** Deep dive on Colgate Sustainability Strategy

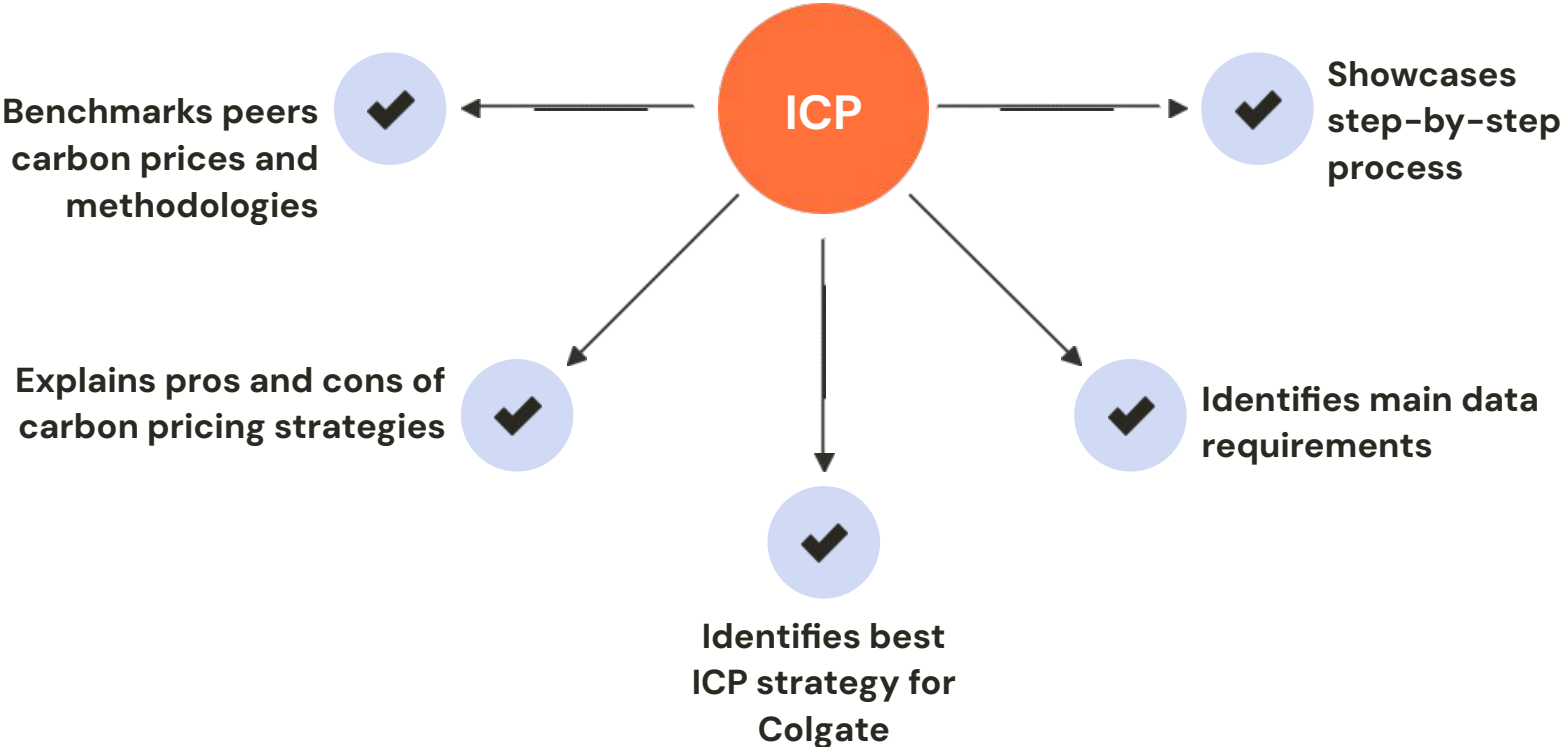
**2** Learning the fundamentals of ICP

**3** Benchmark how current ICP prices are being evaluated



# Anticipated Deliverables for Colgate

Develop an internal carbon pricing strategy that:



# The WHY behind ICP

## Risk Mitigation

Prepare for future mandatory carbon taxes. Resilience to climate risks.



## Demonstrate Climate Leadership

Contribute their fair share and encourage others to do the same.



## Capitalize on Low-Carbon Future

Strengthen brand value and gain a competitive edge in the market.



# The Intent

What companies hope to achieve with their ICP

- 1. Accelerate reduction of GHG emissions and transition to clean energy.**
- 2. Future-proof assets and investment.**
- 3. Change behavior and encourage suppliers and end users to do the same.**
- 4. Generate the funds needed to offset their carbon footprint and finance climate initiatives.**
- 5. Incentivize decarbonization and market capture.**



# Our Deliverables



## Industry ICP Benchmark

| Company       | Price           | Goal                      | Type                    |
|---------------|-----------------|---------------------------|-------------------------|
| Unilever      | <u>\$70</u>     | <u>Innovation</u>         | <u>Shadow &amp; Tax</u> |
| Ben & Jerry's | <u>\$10</u>     | <u>Climate Leadership</u> | <u>Tax</u>              |
| Mars          | <u>\$10-40</u>  | <u>Risk Mgmt</u>          | <u>Shadow</u>           |
| Microsoft     | <u>\$15-100</u> | <u>Climate Leadership</u> | <u>Tax</u>              |
| Reckitt       | <u>\$20-80</u>  | <u>Risk Mgmt</u>          | <u>Shadow</u>           |
| Pepsico       | <u>\$50</u>     | <u>Risk Mgmt</u>          | <u>Shadow</u>           |
| P&G           | <u>\$8-200</u>  | <u>Innovation</u>         | <u>Shadow</u>           |

Revealed strategies for implementing an ICP based on intent

# INTERNAL CARBON PRICING

OUR MAIN GOAL IS

**DEMONSTRATE CARBON LEADERSHIP**

**MITIGATE CLIMATE-RELATED RISKS**

**INCENTIVIZE DECARBONIZATION AND MARKET CAPTURE**

OUR INTENT IS TO

Change behaviors and encouraging our suppliers and end users to do the same

Accelerate the reduction of our GHG emissions and transition to clean energy

Future proof our assets and investments

Generate the funds needed to offset our carbon footprint and finance climate initiatives

Innovate our products and services while finding new markets and opportunities

POTENTIAL STRATEGIES

Shadow price on procurement decisions

Shadow price on OPEX decisions

Shadow price on CAPEX decisions

Internal carbon tax on selected business units

Internal carbon tax for carbon across entire value chain

Shadow price on R&D decisions

Internal tax as a supplier fund for change

# WHAT INFORMATION IS NEEDED FOR AN EFFECTIVE ICP?

## GHG EMISSIONS

A baseline needs to be established to be able to set trackable metrics.

What emissions should the ICP strategy cover?

## BUSINESS ALIGNMENT

Where can the ICP strategy fit inside the company?

What are the potential barriers to implementation?

## STAKEHOLDERS

Who is responsible for GHG emissions in value chain?

Who has influence?

Is buy-in or support needed?

## MONITORING

How are business units or divisions currently measuring KPIs?

Who is responsible for tracking?

How often should ICP strategy be reviewed?

# Our Recommended Starting Strategies

1. Implement a shadow price on CAPEX decisions.
2. Implement a shadow price, specifically on the procurement department, for OPEX decisions.

## Reasons behind our recommendations:

1. By integrating the price of carbon in capital investment decisions, **the rate of return is adjusted to encourage low-carbon and energy-efficient projects**, accelerating the reduction of an organization's GHG emissions and their transition to clean energy while also future proofing their assets and investments.
2. A shadow price on the procurement division will **influence behaviors** within the companies sourcing while also **engaging key suppliers** to promote the decarbonization of Colgate's supply chain.



# How to Get Started

## Identify Key Players

The identification of the players will let the Colgate sustainability team know what emissions data will need to be gathered as well as how they will need to craft their business case message to get key player buy-in.

## Set Clear and Transparent Goals

Tailor the ICP approach to determining the objectives each division is trying to reach as well as the price point that will be needed to influence behaviors.

## Build the Message

The Colgate team will need to develop a message covering why the organization is using carbon pricing, why the specific price was developed and how the ICP is to be used.

## Monitor and Evaluate

Set up the KPIs each division will use for their objectives as well as determine who will be responsible for the tracking and evaluating of the ICP implementation.

# Recap

- **Overview of internal carbon pricing**
- **The context of ICP utilization**
- **Benchmark of Colgate's peers**
- **The deliverables**
- **Our recommendations**

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