

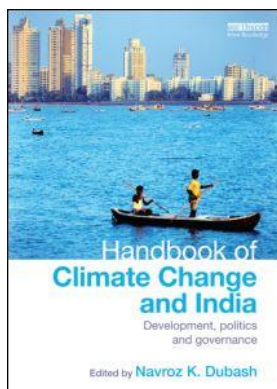
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18 Climate change and the private sector

Tarun Das

Background

In order to understand the present role of industry in India's climate debate, it is necessary to understand the changing relationship between business and government in India in the recent past. In general terms, 1947–1991 was a period of micromanagement of the economy and industry by the government. Production, manufacturing, export, import, prices, and distribution were controlled for many products. Essentially, it was a period of mistrust by government of industry; government held the view that industry had to be regulated and controlled.

Sectors of industry too preferred this policy approach in the short-term because of their ability to pre-empt capacities, markets and profits. Gradually, it dawned on both government and industry that this regime was not fulfilling the real national purpose of growth and development. In consultation with industry, government began the process of minor deregulation in the early '80s, and carried this forward in the mid- and late-'80s.

The by-product of this system of controls was inefficiency, complacency, the production of sub-standard goods, inadequate attention to the consumer and an uncompetitive industry incapable of generating exports. In fact, there was a general perception within and outside India that the nation suffered from weak entrepreneurship, and was unable to compete and survive. In this context, the question of addressing environmental issues did not seem relevant or important.

The economic crisis of the late 1980s and early 1990s led to a new paradigm of industrial development in India. June 1991 was the beginning of the deregulation of trade and investment controls, bringing with it a taste (which was initially sour for many) of competition, freedom of investment and a new challenge for entrepreneurs.

The period from 1991 to 2010 is a second phase of the development of industry in India. Competition has increased, growth rates are higher, profitability has been enhanced and entrepreneurs have started coming into their own, enjoying the space and freer environment for business. Some still complain that survival would be impossible, but this group is in the minority. The situation has steadily evolved with corporates now defending their borders and establishing footholds abroad through overseas investments and acquisition of companies. Globalisation has come full circle.

This changed context for industry has coincided with greater Indian and global business engagement with the environment. In 1991, the Business Council for Sustainable Development was established with a Swiss CEO as the chair, and with one representative from India, Ratan Tata, Chairperson of the Tata Group of companies. He

was supported in this work by the Confederation of Indian Industries (CII), through a new Environment Committee, led by the late Avininder Singh.

The 1992 Rio Conference was attended not only by the Indian government but also by Ratan Tata, Avininder Singh and a team from CII. On their return, they strongly encouraged CII to follow through on this start. With the funding support of the Tata Group, CII set up an Environment Management Division to promote the adoption of environment-friendly technologies and practices by Indian industry. The Division recruited technical experts and CII began a journey that would change industry practices and policies to build a cleaner environment.

The business response to climate change

Indian industry's initial reaction to climate change was dismissive. They perceived it as a product of the imagination of scientists or at best a scientific phenomenon that would not affect India any time in the near future. It was also thought to be another excuse for the West to impose non-tariff restrictions on Indian exports as a way of restricting India's growth. Much as the Indian economy was closed to the rest of the world, so was Indian industry closed to the idea of climate change.

But this reaction to climate change started to change once the Indian economy had opened and more businesses interacted with global markets. Nonetheless, progress was slow. Over time, measures that would reduce carbon emission intensity became popular with most businesses, not for environmental reasons, but because these measures made economic sense. For example, promoting energy efficiency was an obvious solution; one that would result in cost competitiveness for Indian industry.

Indian industry's lack of attention to climate change can also be attributed to the Government's defensive negotiation strategy, and the consequent signal to Indian industry that they would be insulated from climate measures. Until COP-13 at Bali, the Government of India (GoI) held the view that India was not required to take aggressive carbon emissions reduction actions but that the burden should rest exclusively on developed countries. Global emissions reduction was an obligation of the industrialised nations and India had its domestic development agenda as a priority. Low-carbon growth was decoupled from national development. That meant little action on domestic mitigation efforts and consequently no incentives for business to adopt low-carbon measures.

But there were 'green' mavericks all along, probably because India was among the first countries to create a ministry for non-conventional energy (early '90s). For example, Tata BP Solar's efforts at developing solar power generation (1989), Suzlon's leadership in wind energy (1995), and Reva's early leadership of electric cars (1994) were all examples. But none of these companies grew within India as much as in the industrialised world (Shah, 2010). There was not sufficient policy architecture to induce demand of an attractive size as India was still not seen as a market for climate or green technologies.

Other than these notable examples, only a handful of additional companies explored the problem of climate change in a manner that had business implications. By the mid-2000s companies such as ITC, some Tata Group companies, and public sector enterprises such as ONGC and NTPC, went public with their ideas, strategies or plans with respect to climate change (see, for instance, ONGC, 2010a; Jog, 2009).

Since then, many companies have matured with their comprehension and action to adapt to and mitigate climate change. To illustrate, ITC has been a carbon positive

company since 2005–06, by sequestering more CO₂ than its operations emit (see ITC, 2006). It has been able to do so by leveraging business interests in agriculture and farm forestry.

ONGC is undertaking a carbon capture and storage project in Gujarat. Under this project, CO₂ from its Hazira gas processing plant is ‘captured and transported to the nearby Ankleshwar oil fields and injected at the depleted reservoir as a part of [the] enhancing oil recovery (EOR) scheme’. With this project ONGC aims to reduce CO₂ emissions by 0.6 million cubic metres (ONGC, 2010b, 51). Several other projects for carbon capture and reuse are also on the anvil.

Similarly, the Tatas have also taken a lead in establishing a comprehensive climate change programme. Eventually, all the companies under the group are going to work under the stewardship of a climate change Steering Committee that will facilitate innovation and action on mitigation. With the help of Ernst & Young and McKinsey & Company the group is establishing baselines and benchmarks, cost-abatement curves, and training executives for undertaking enhanced action on low-carbon initiatives for five of its major companies (Dasgupta, 2008).

Indian industry’s attention to climate change was heightened by two drivers – one external and one internal. First, from 2005 onward there was a global rise in geo-political attention to climate change which also had echoes in India. The then British Premier Tony Blair put climate change on the global political agenda at the Gleneagles G8 Summit in 2005. The Stern report on the Economics of Climate Change in 2006 provided a high profile basis for climate economics. The IPCC Fourth Assessment Report followed in 2007. All these reports contributed to articulating climate change as a socio-political-economic issue and induced all governments, civil society and particularly business to act.

In this debate India was simultaneously positioned as a country that would be at the receiving end of the climate damage induced by the industrialised world, but also as a rapidly growing economy that is increasingly contributing to greenhouse gas emissions – a ‘major emitter’. In the global public debate, the focus had moved from compensation for historic emissions to curtailing future emissions. India suddenly had to rethink its climate policy to exhibit global power responsibility.

Second, there was a string of natural disasters that killed hundreds and affected millions. Among the most notable ones were a cyclone in Orissa (1999), floods in Mumbai (2005), floods in Bihar (2008), and a cloud burst in Ladakh (2010). Though each of these events may not be attributed to climate change, they reinforced the message that climate-induced disasters will increase and undo much of the development the country has achieved, push people back into poverty, and damage property and infrastructure. The Mumbai floods hit business the most, because businessmen were victims. With many of their number trapped on the flooded streets of Mumbai on 26 July 2005, Indian business began collectively identifying climate change as a risk.

Transparency and ambition

The Carbon Disclosure Project (CDP), an independent not-for-profit initiative to compile corporate climate change information across the world, including India, provides some insights into how Indian business is approaching climate change (CDP, 2010).

Since CDP is based on voluntary reporting, one indicator of interest and awareness is simply the extent of participation in CDP. Indian companies’ participation in this

transparency initiative has been steadily rising since the first CDP Report (2008). As compared to 33 per cent in CDP 2008, an overwhelming 85 per cent of responding companies shared their GHG emissions data for CDP 2010. This may have been a result of a combination of factors such as increased understanding of carbon disclosure and capacity building of companies done by CII-ITC, CESD and WWF India, and better data available with companies to disclose.

The CDP 2010 data shows that Indian companies compare favourably not just with their developing country counterparts on many indicators conveying their burgeoning ambition on mitigation, but also with developed countries. Seventy-one per cent of Indian companies are proactively seeking and implementing low-carbon solutions, compared to 87 per cent for both Europe, and the USA. Eighty-five per cent of India 200 have involved senior management in carving out a low-carbon business pathway indicating their seriousness on this issue. As the report states, these companies are 'helping to shape the future of Indian business' (CDP, 2010: 11).

Indian business responses also indicate a clear shift in perception, from seeing climate change as imposing barriers on business, to a potential opportunity for growth and diversification. Ninety per cent of India 200 foresee regulatory opportunities arising for business. Indian businesses are also taking steps to ensure they communicate with policymakers and work collaboratively to develop climate-friendly technologies for both mitigation and adaptation. Sixty-nine per cent of responding Indian businesses are undertaking this exercise, as compared to 66 per cent in Brazil and 57 per cent in China. Table 18.1 provides a quick snapshot of India 200's responses to basic indicators of transparency and low-carbon engagement, and how they compare with countries from the BASIC group, EU and US.

However, there remains substantial scope for improvement. Sixty-three per cent of India 200 have yet to identify and take on energy efficiency and emissions reduction targets (though 24 per cent are in the process of doing so). While 44 per cent continue to perceive regulatory risks from environmental regulation, which can only be allayed through greater interaction between business and policy makers at the national and global level.

Policy framework

India's climate policy too has moved up the evolutionary curve. From little domestic action under the shadows of its naysayer position in international negotiations, domestic climate policy has progressed to give some direction toward a low-carbon India. The country can achieve low-carbon growth with business participation within an appropriately enabling policy framework. However, arriving at this policy framework is a challenge since there are widely divergent views within government and business on the extent of and appropriate means for low-carbonisation in India.

Just as in the case of economic liberalisation in the early 1990s, CII held the view that Indian companies had to look for low-carbon strategies, that climate change could potentially risk business competitiveness, but also offered opportunities ranging from low-hanging fruits to long-term and strategic opportunities. CII sought government leadership on climate change, as it had on economic liberalisation.

One important area of industry policy advocacy was the design and implementation of the Clean Development Mechanism (CDM) in India. CII developed a detailed response on CDM and asked the government to create a policy that allowed industry

Table 18.1 Responses for Carbon Disclosure Project (CDP), 2010

Sample: geography/number of countries	% of sample answering CDP 2010	% of responders with Board or other executive level responsibility for climate incentive	% of responders with emissions reduction targets	% of responders taking actions to reduce emissions	% of responders indicating that their products and services help third parties to avoid GHG emissions	% of responders seeing regulatory risks opportunities	% of responders engaging policymakers on climate issues to encourage mitigation or adaptation	% of responders reporting the company's response to climate change in mainstream annual filings/CSR reports	% of responders independently verifying any portion of Scope 1	% of responders independently verifying any portion of Scope 2
India 200	25	85	37	71	47	90	69	86	27	20
China 100	11	57	57	57	43	71	57	86	43	29
Brazil 80	72	68	23	57	55	78	66	74	28	28
South Africa 100	74	95	42	82	42	85	80	92	39	41
Europe 300	84	94	79	87	71	87	77	97	68	60
US Bond 180	82	62	70	87	55	71	88	91	54	46

Source: CDP, 2010

to participate in CDM and trade in carbon emissions. In order to attract investment to India, CII argued that the CDM should be developed as an efficient mechanism that uses market principles. Otherwise, Indian industry will not be able to compete with reductions from developed and transitional countries where market-based approaches are already being pursued to enable buyers and sellers of emission reductions to work together. Industry views CDM investments as a competitive endeavour, where industry in different developing and developed countries will compete to attract resources aimed to reduce global GHG emissions. With India's heavy reliance on coal, and significant potential for the use of renewable sources of energy, it is clear that CDM presents a huge opportunity to attract 'additional' investment to India.

CII further recommended that Indian industry should be eligible to certify emission reductions from CDM projects. The Ministry of Industry should be kept apprised as to how Indian industries can be 'designated' by the Conference of Parties or Meeting of Parties to engage in this new field of business.

Indian industry view has been that there is no need to define 'supplementarity'. Any ceiling on the use of CDM or other Kyoto mechanisms by developed countries will reduce potential flows of resources to India for emissions reductions. CDM investments will improve the efficiency and competitiveness of Indian industry.

CII further argued it would be important for the GoI to define and publicise India's priorities for sustainable development that are to be met through the CDM. These priorities should be transparent (obvious) and form part of India's domestic criteria for CDM projects, so that industry would be aware of any priorities and preferences before they begin to develop potential CDM projects. The result of this policy advocacy was that, at least for a period, India became the largest beneficiary of CDM projects in the world (see Pulver, this volume).

Following the election of the first United Progressive Alliance (UPA) government to power, CII also played an active role in fleshing out the national missions under the NAPCC. For example, CII's Godrej Green Business Centre (GBC) has been a pioneer of green buildings in India. Since its beginning in 2001, GBC has helped develop over 606 million square feet of green buildings in India. Its energy efficiency improvement projects with industry have accrued annual recurring savings of Rs 2100 million (CII, 2011). This leadership of CII was instrumental in providing a direction for the Sustainable Habitat and Energy Efficiency Missions in the Indian NAPCC.

The global connection

While these developments were taking place at the domestic front, India's climate negotiation policy was about to be given a makeover. In recognition of its emerging role in the global climate regime, India could not afford to be viewed as a naysayer in climate negotiations. India was already blamed by the US and the EU for stalling WTO's Doha round (Blakley, 2008) and it was at risk of receiving a similar reputation in climate negotiations. The brief given to Jairam Ramesh, India's Environment Minister, by the Prime Minister, was that India should become a proactive player in climate negotiations.

India began to engage with various countries, mainly the key emitters, on a renewed global climate regime. China had closed in on the US to emerge as a serious emitter. International pressure was building on India and China. Other countries such as South Africa and Mexico appeared to be more proactive on emissions reductions. Smaller

countries, mainly those at risk of losing out to the consequences of climate change, increasingly asked India and China to take up legally binding cuts (PTI, 2009).

Appreciative of its global image and emerging role, and realising the benefits but also risks to domestic growth and development, India has decided to take on certain responsibilities. China had announced its voluntary targets just before COP-15 at Copenhagen. Jairam Ramesh was quick to announce in the Indian Parliament, India's voluntary emission intensity reduction target of 20–25 per cent by 2020 (see excerpts from Parliamentary Debates, this volume).

This announcement, unsurprisingly, shook many, including the industry. CII got down to number crunching to estimate the impact of such a target on industry and overall growth. In the meanwhile, another national-level industry association criticised the Minister for giving into global pressure and putting Indian industry's competitive advantage at risk (Das and Das, 2009).

However, CII displayed maturity. After making its calculations and conducting meetings with members and other experts, it issued support for India's intensity reduction target. According to CII, 20–25 per cent emission intensity reduction was easily achievable (CII, 2009). It also met with the Industry Ministry to explain the benefit. Clearly, the benefit was in having a long-term vision of sustainable growth.

Conclusion

Indian industry, as a collective union, has travelled some distance on its response to climate change. Of course, some sectors have travelled further than others, but, on average, there has been considerable movement. Having said this, low-carbon growth is a mammoth task. Indian industry still has a long way to go, just as industry in any other part of the world. Barring a handful of companies already mentioned, most companies are engaged in risk-mitigation. They need now to shift focus on embracing low-carbon growth as a business opportunity, without really waiting for anyone else (the government or China) to show them the way.

Indian industry is most likely to continue its support for a climate change-induced upgrade of regulation. Much of this support will be demonstrated in areas where a business angle is evident. In other areas, CII will continue to educate its membership and also work with governments to develop attractive incentives for industry participation. CII has been leading the way within the context of other industry-led organisations in India.

Now the countries have agreed to keep the rise in global average surface temperature below 2°C versus the long-term pre-industrial average (UNFCCC, 2011). This point alone will have massive repercussions for business and society at large. In order to achieve this, the global energy system will be zero carbon by 2050.

It probably means no fossil fuel combustion without carbon capture and storage. This can only be achieved with no fossil fuel use in mobile applications, since our world is unlikely to be able to economically capture and store tailpipe CO₂ emissions any time soon. This will require a total transformation of the ways in which energy is produced and consumed. Consider the impact when six out of seven top corporations in the world currently generate shareholder value by extracting, processing, distributing, and retailing liquid transport fuels.

CEOs cannot afford to hit a blind spot. They have to lead the transformative shift to low-carbonisation in business and economies.

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