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Evan O'Neil Interviews Michael Rea and Scott Kaufman of Carbon Trust

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March 27, 2009



Carbon Trust Logo

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EVAN O'NEIL: Good afternoon. I'm Evan O'Neil, Managing Editor of the Carnegie Council's online magazine, [policyinnovations.org](#).

I'm speaking today with Michael Rea, Chief Operating Officer of the [Carbon Trust](#), and his associate, Scott Kaufman, who is their U.S. Project Manager. Welcome to both to the Carnegie Council.

We are hoping to discuss a little bit this afternoon the activities of the Carbon Trust, what its mission is, how it came to be.

Michael?

MICHAEL REA: Let me explain a bit of the

background of the Carbon Trust.

The Carbon Trust was originally set up in the United Kingdom about eight years ago. Our mission is to accelerate progress towards a low-carbon economy.

When we were set up, one of the first things we did was look at how it was possible to make the transition to a low-carbon economy. At that particular time in the United Kingdom, we were talking about reducing emissions by 60 percent by 2050 versus 1990.

When we analyzed that problem, we came to the conclusion that we would need to do things: we needed to deploy energy-efficiency technology at mass scale; and the second thing we needed to do was to develop new and emerging low-carbon technologies.

And, roughly, we'd get half-way with energy efficiency, but to get to the full 60 percent at the time we needed to develop new technologies as well.

That's why the Carbon Trust ended up with this, if you like, dual set of activities. So we have one set of activities where we work with companies and public sector organizations to help them reduce their emissions—and I'll say a little more about that in a second, if you like—and the second part is we are very active in very-early-stage pre-commercial, pre-venture capital (VC) technology development.

EVAN O'NEIL: What have been some of the promising technological innovations in that realm? Has anything sprung out that has really been a leader in that industry so far?

MICHAEL REA: I think our thinking has evolved over time. When we started, it was very much, as I say, around energy efficiency. Lots of companies are still implementing pretty basic energy-efficiency measures, like best practices in lighting.

But then, over the past two or three years, we have started to work with larger companies. For example, we work with 75 percent of the [FTSE 100](#) in

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the United Kingdom. For a number of those companies, we are starting to look at more strategic issues about how their business model might evolve over time.

And then on the other side, the technology development side, as you referred to, a lot of our work really is about getting very-early-stage technologies out of universities. You asked for a couple of examples.

We have a £10 million initiative, £5 million with a team in [Cambridge University](#) and £5 million with a team in [Imperial College in London](#), looking at the next generation of [photovoltaics](#), so photovoltaics can deliver power at a tenth of the cost of today's technology. Now, these are highly speculative investments, and if they pay off, obviously they are going to be very successful. But they are also extremely high risk.

That is the kind of space we are playing in. Helping the corporates, we are trying with smaller companies to push the boundaries of what is possible, and the same on technology development, where we are also trying to do the same thing.

EVAN O'NEIL: The original idea and the funding for the Carbon Trust came from the U.K. government, correct?

MICHAEL REA: That's right, yes. Our funding today is about £100 million, and that's primarily from the U.K. government. But as time has gone on we have also developed some other funding mechanisms. So we have a commercial VC business, and that complements our publicly funded early-stage technology-development business. So as these technologies start to emerge to the point where they look like they may be commercial, we have a VC arm that can come in and accelerate their progress towards the market. And then we take the profits that we get from that particular arm and reinvest them back into the core mission of the company, because basically we are a public company and everything we do is about serving the mission of the company to accelerate progress towards a low-carbon economy.

EVAN O'NEIL: Being in a close relationship and partnership with the U.K. government like that, are there any social justice components that you have to incorporate into your work, or is it primarily a very business-oriented endeavor? Or do you see those two things as blending?

MICHAEL REA: It is probably a blend of a broader social good but with a very businesslike approach. So, in effect, we sit between business and government.

As well as doing lots of work with companies on the ground, helping them to do broadly the right thing on mission reduction, we also work with them and with policymakers thinking about how the policy framework can evolve in a way that accelerates progress towards a low-carbon economy, so the public good element.

But it does that in a way that accelerates business development.

In terms of ethos, we are very much a private sector company, so we do everything in a very businesslike, professional way.

EVAN O'NEIL: Scott, one of your main interests at Carbon Trust is the [carbon labeling schemes](#), engaging consumers in purchasing goods which are produced in more sustainable fashions, and communicating it to the customer through labels on products.

Can you tell me a little bit about how that certification system has been developing in the United Kingdom and what your plans are for moving it abroad?

SCOTT KAUFMAN: Sure.

We developed primarily in the United Kingdom, but it was meant to be an international standard, called the [PAS 2050](#), which is a guide for companies that want to do the lifecycle product carbon footprint for the products that they make and sell on the consumer market. We did that so that any company doing a carbon footprint for any given product would be using the same methodology. So we are trying to encourage a standard approach to this kind

of activity across all sectors.

The idea is for a company to follow this methodology, measure their carbon footprint according to it, and to commit within two years after completing that and getting certified by the Carbon Trust to reduce the footprint of the product that they use the standard to measure.

MICHAEL REA: There were broadly two reasons we developed the standards.

The first reason was we wanted companies to take a more holistic view of their carbon footprints. We have been working for many years looking at the direct emissions of an individual company, and we saw lots of cost-effective opportunities to reduce emissions. But we wanted to take a very different lens, which was the end-to-end supply chain lens, because our hypothesis was that there were lots of carbon-saving and cost-saving opportunities, which indeed we found as we worked with these companies.

But the other reason we did it was the feedback we got from companies around [greenwash](#). There was a concern that consumers didn't believe companies when they made claims about being green. So the feedback we were reacting to was: Can you develop something that gives our stakeholders and our consumers and our workers confidence that we are really doing the right thing about reducing emissions?

We created this standard approach, which broadly has three elements:

The first element is about measuring a [footprint](#) of a product in a completely consistent way. We have, as Scott was saying, some very good practical guidance about doing that.

The second element, which in some ways is the most important element from the Carbon Trust's perspective, which is about reduction, because ultimately if we are going to move to a low-carbon economy, we have to not talk about reducing emissions, but actually reduce emissions. So a core part of what we do is about companies making a commitment to reduce the footprint of their productive service over a two-year period, as Scott was saying.

EVAN O'NEIL: So there is both a business case for doing this and also a very environmental case. Are you finding that with the product analysis there is a lot of room for improvement?

MICHAEL REA: In both cases we have found that there is a pretty strong correlation between the lifecycle carbon emissions of a product and the money savings that are possible when measuring and then reducing them. There is definitely a relationship between those two things. That encourages the business case for doing this kind of good environmental work, which is very encouraging.

EVAN O'NEIL: Are businesses sensitive to their brand in this way? Are they worried that, aside from being accused of greenwashing, that by putting a label on something that perhaps people are saying, "It's not quite as green as it could be?" Are there concerns in that direction, or is there mostly a positive brand dividend that you guys are finding from your partners?

MICHAEL REA: What we're finding in terms of consumer feedback and consumer research is that consumers are very positive about the whole initiative and the labeling activity. So they value the fact that there is an independent verification of the footprint of the product or service, and we provide that. They value the fact that the company in question has made a commitment to reduce the footprint of that product. They value the fact that there is a number. For some of our partners we do put a number on the label on the pack.

But I would also say that consumers generally don't understand what that number means. So as well as working with companies to develop the approach, one of the things we also have to do over time is to educate consumers as to what is a carbon footprint, why is it important, and ultimately what does it mean. That is very much work in progress.

While I think we have nailed the measurement bit and we have pretty much

nailed the reduction bit, the communication bit and how we do this in a way that really helps consumers to understand these numbers is still very much a work in progress. We are taking different approaches with different partners to really try and experiment and understand what really works, as well as to over time educate consumers more broadly, as I was saying earlier.

EVAN O'NEIL: How far can the reductions go, since the reductions are such an important part of the three-part process? Are you aiming for carbon neutrality, or is there a wall that a company will hit with a particular product where it can't really squeeze any more efficiency out of its process? Do you then turn to carbon credits or offsets? What's the solution when a company has gone just about as far as it can?

MICHAEL REA: We are probably quite a long way from the wall just yet. It's quite interesting. I think our collective intuition would be at some stage we are going to come up to a stopgap where we can't go any further. We haven't found that yet, actually.

That depends on how broad you set the framework. We found that companies can reduce their carbon footprint by 20-30 percent by looking at energy-efficiency measures. And then if we look at complementing that with emerging energy supply measures, you can get up to 50 or 60 percent.

We have been doing quite a lot of work with [Tesco](#) in the United Kingdom looking at the carbon footprint of their stores. They have managed to reduce the footprint of their stores over the past few years. Their newest store versus the average of a store five or six years ago has gone down by 50 or 60 percent.

Similarly, we have been working with [Walkers Crisps](#) in the United Kingdom. They originally committed to reduce the footprint of their product by 3 percent, which is interesting, because they already had made significant reductions over previous years. I think they and we are very pleased that they have just been reaccredited.

They have managed to reduce their footprint by 7 percent.

EVAN O'NEIL: For energy specifically?

MICHAEL REA: The total carbon footprint of, in this case, a packet of crisps.

EVAN O'NEIL: The life cycle carbon footprint.

MICHAEL REA: Right, the life cycle carbon footprint. So that covers the fertilizer, the transport, the processing of potatoes, the packaging, et cetera. And they have made a follow-on commitment to reduce that even further.

So we are not pushing the boundaries yet. But to go back to your question, I think our guidance to companies is to take a tiered approach. Firstly, if you are starting off on a low-carbon journey, look at your direct carbon footprint and basically do as well as you possibly can on it.

And then broaden out and look up and down the supply chain at carbon-cost-reduction opportunities. And then, beyond that, look at renewable generation.

And yes, offsets can have a role. But I think we are very conscious when looking at offsets to ensure that they are additional. I think we look very hard when companies are thinking about offsetting, convincing ourselves and them that they are really going for additional carbon reductions.

EVAN O'NEIL: Scott, speaking of the supply chain issues, when you guys are doing the certification and looking at the PAS 2050 standard, how does the global element factor into it? Do you have some significant challenges when measuring the ecological footprint over a global scale?

SCOTT KAUFMAN: There are, obviously, very significant challenges. Pretty much all products are global at this point. Most companies don't own their entire supply chains, not even close. So in some cases it's possible to go to the suppliers and find out what the emissions are for the components that the company is getting from their suppliers. But in other cases we have to use

what's called secondary databases, where there are these general collections of data that represent given processes or materials. We plug those into the footprint to give the overall results.

As this activity becomes more mainstream over time, those sources of information are improving. There's more and more of it. People are looking for it more and more. So there are more resources going into the development of these data sources.

Not only that, as influential companies look to suppliers for this information more and more, there is a demand for better providing of these data over time, just direct emission sources along the supply chain.

So it's a challenge now, but I think as we go forward it's getting easier and easier, fortunately.

EVAN O'NEIL: While the Carbon Trust is based in the United Kingdom and you are working globally, what has been the experience in the American market using these standards here? Have companies been willing to adopt them? I know in some ways we seem to be a little bit behind the times as far as the European momentum toward green technologies goes.

I know [Pepsico](#) and their [Tropicana Orange Juice](#) were just recently profiled, and I think you guys had a hand in helping them figure that out. Can you tell me about that experience?

SCOTT KAUFMAN: We starting working with Pepsico on U.K. operations, but the international component became very attractive to them as well. They wanted to look at their core base of operations in the United States.

So we consulted with Tropicana and guided them through the process of creating a very comprehensive carbon footprint. We then certified that footprint. A few weeks ago the [results](#) were released.

At this point in the United States there is a little bit more of a reluctance to go directly on-pack with the communication of the number of the results, but Pepsi has been very forthcoming with publicizing the results. There was an [article](#) in the *New York Times*, as you mentioned, and they are planning right now to have the results and an explanation of what goes on behind this process on their Web site.

We are continuing to explore ways going forward, as we look at other products, how the United States is best positioned to present these results to the public, whether it's on-pack or other forms of advertising that we have explored in other areas.

EVAN O'NEIL: Michael, turning to the policy realm both internationally and regionally where you guys are located in Europe, what are some of the barriers to making carbon accounting a more common practice? Do you favor global [cap-and-trade](#); is that helpful to your industry? What would you hope to see come out of the [Copenhagen negotiations](#) later this year?

MICHAEL REA: I think we would like to see some type of comprehensive agreement that creates a level playing field for countries and for companies to really accelerate progress towards a low-carbon economy. I think there is a lot of great experience that we can draw on in Europe, but there is also a lot of great experience we can draw on from the United States.

As you know, there is a huge amount that has been going on at the state level and at the corporate level. As I travel around the United States, I get a real sense of optimism around what could happen post-Copenhagen and a real sense from businesses that coming out of recession there will be a real opportunity to reposition business models to low-carbon business models.

We think global cap-and-trade is probably a key element of a global agreement and having a consistent carbon price is very important. We have a lot of experience in Europe with the [EU emissions trading scheme](#). As you know, there are lots of concerns about the competitiveness implications of that if there aren't similar schemes or a linked set of schemes globally.

We have done a lot of work on the whole competitiveness issue. Our broad

conclusion is that for most sectors competitiveness really shouldn't be an issue, but there are certain commodity sectors, such as steel and cement, where there are issues in the absence of a global deal. So one thing we would like to see is real progress on a global carbon price.

The second thing we'd like to see is real progress on the barriers to energy efficiency and technology transfer so that we can apply the best available technology in all countries and in all organizations around the world.

The third element that we think is very important is technology innovation. So again, accelerating and going at a much faster rate around key emerging technologies that will make a difference to 2030 and beyond.

EVAN O'NEIL: If I can push you on the [technology transfer](#) aspect for a minute, for us here at the Carnegie Council we're obviously interested in ethics in international affairs. What's the best mechanism for technology transfer, to getting these green technologies to developing countries, at least in a similar timeframe, if not the same time, as they are deployed in the West?

MICHAEL REA: We have gone through a process of learning on that. I think the [Clean Development Mechanism \(CDM\)](#), for all its faults, has been very successful around helping to deploy power-generation technologies and large-scale-efficiency technologies. I think we need to build on that experience and ensure that the kind of projects that are being funded are additional and that the money flowing in through CDM is really working as hard as possible.

But we also need to look at the innovation side, about how developed and developing countries can collaborate on emerging technologies. So if we look at China, United States, India coal, carbon capture and storage is a key topic area, and it seems like an obvious area where collaboration around demonstrating the technology and demonstrating whether it works or not, and whether it works at some kind of economic scale, would be a major contribution to pushing this whole low-carbon agenda forward.

So we need to think about certain technologies that are of a scale where no one individual country can take them forward at the pace they need to be taken forward.

And then there are other technologies, arguably, where individual countries can make a real difference. For example, in the United Kingdom we are having a major push on offshore wind and deploying offshore wind at scale and getting the cost of that technology down. That makes sense from a U.K. perspective because we have the best offshore wind resource in Western Europe, and we also have a lot of engineering capability and experience through our North Sea oil production that we can leverage.

So that is an example of where the United Kingdom can make a difference in moving forward a technology that perhaps others could benefit from. Whereas carbon capture and storage is, I think, of a scale where a number of countries need to come together to really move it forward.

EVAN O'NEIL: So the economic crisis that is pretty much monopolizing everybody's minds these days, how has the reaction been in the green technology sector?

Is this viewed as a crisis? Does the price of oil and its fall hinder what you guys have been able to roll out, or is this really just an open field and you're planting lots of seeds and new ideas?

MICHAEL REA: Again, if you look at the two sides of our activity, what we have found with smaller companies, because a lot of what we do helps companies to save money as well as doing the right thing for the environment, we have seen increased interest in terms of what we do. For larger corporates, I think for some that are finding it pretty tough, they are finding it difficult to keep their eye on the long-term view.

On the other side, we work with lots of corporates who are looking at the opportunity around coming out of recession and repositioning their business model. They have the kind of balance sheets that allow them to do that.

On the tech development side, it has slowed down. Venture capital funding is a lot more difficult to find. Project financing is difficult to find. So it is quite frustrating in a way that there are lots of technologies that are now starting to emerge but, at least in the very short term, the funding isn't there at the scale required. But I think that's only a short-term issue. I do expect funding to start to flow again for those technologies that are genuinely seen as commercializable. We are very active in that space, and other investors are interested. This is an opportunity.

EVAN O'NEIL: Just one final question. Keeping your own house clean, do you guys go for carbon neutrality at the Carbon Trust?

MICHAEL REA: We are, I suppose, slightly unusual in that. If you look at our activities in the United Kingdom, we help companies to reduce their emissions by five million tons per annum. Our own carbon footprint is about 250 tons. So we don't offset that directly, but we say 250 tons to do five million we're probably doing okay.

EVAN O'NEIL: Good. Thank you.

Michael Rea, Scott Kaufman, thank you for joining us here at the Carnegie Council.

You can find more information on our Web site, carnegiecouncil.org.

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