

# Are you carbon ready?

Contrary to what most pundits predicted as the credit crunch hit in 2008, governments and corporations have not lessened their commitment to reduce carbon emissions. In fact, governments have reconfirmed their previous targets and are committing to even more aggressive targets in order to enable growth and innovation, secure energy supplies for the long term, and create a step-change reduction in carbon emissions. This will significantly impact the already strong demand for top leadership talent in the industry.

# Carbon reduction is a global priority

The United Nations negotiations in Copenhagen in December 2009 will result in even deeper emission reduction targets for 2013 and beyond with the G8 nations already working towards a goal of 50% emissions reduction by 2050. The United States is driving much of this momentum by allocating nearly US\$200 billion in stimulus support for sustainable energy initiatives.

The tremendous strength and future potential of the low carbon economy is further evidenced by the financial commitment of the world economy amid unprecedented market turmoil. According to New Energy Finance, a total of US\$155 billion was invested in renewable energy during 2008, a more than four-fold increase since 2004<sup>1</sup>. Moreover, 2008 was the first year that new power generation investment in renewable energy exceeded investment in fossil-fueled technologies.

According to a recent McKinsey study<sup>2</sup>, “as cap-and-trade schemes and other regulations proliferate and more companies and industries come within their ambit, the need for financing and trading will grow enormously. Banks, investors and exchanges have critical roles to play in shaping the transition to the low carbon economy”.

# The “size of the prize” is enormous

The global market for carbon credits and offsets is nearly US\$100 billion but projected to reach at least US\$1 trillion and perhaps double that by 2020. At that size, it would be among the top three in terms of commodity trading volume, just behind oil and natural gas and on par with gold, soybeans and corn.

By contrast, heavy carbon polluters will face a significant earnings before interest, tax, depreciation and amortization (EBITDA) challenge as they will be forced to purchase carbon credits and offsets in a more heavily regulated market. In fact, some industries such as Utilities, Oil & Gas and even Food & Beverage could have their entire profit base wiped out.

Market leaders and innovators will work nimbly to create income streams for themselves while also creating goodwill among investors and customers and becoming the envy of their less responsive competitors. For example, the National Grid, one of the largest investor-owned energy companies in the world and a major electricity and gas provider in the United States and Great Britain, not only met but then exceeded government set targets for their carbon emissions in a few short years. They translated

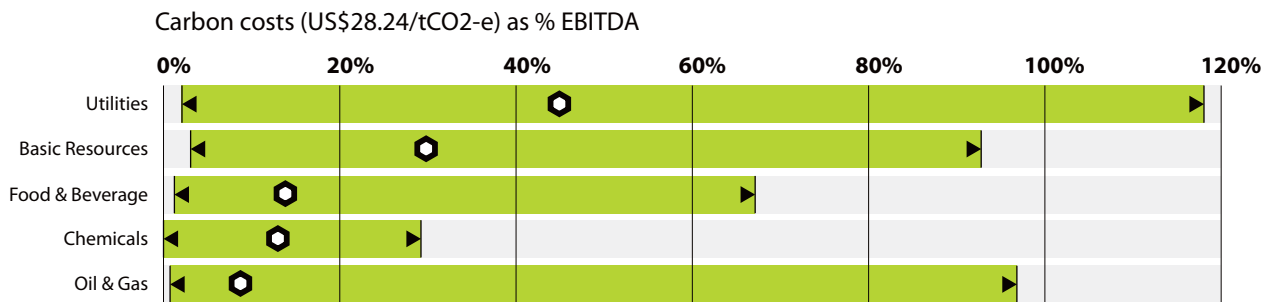
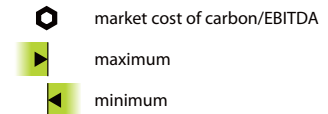


figure 1

## Percentage of EBITDA at risk from carbon costs by sector

At a carbon price of 28.24/ tCO<sub>2</sub>-e, average carbon costs would amount to between 1% and 12% of revenue in the Utilities, Basic Resources, Food & Beverage, Chemicals and Oil & Gas sectors of the S&P 500.

source: *Carbon Risks And Opportunities In The S&P 500*, Trucost and IRR Institute, June 2009



<sup>1</sup> *Global Trends in Sustainable Energy Investment 2009*, New Energy Finance, January 2009, [www.unep.org/publications/search/pub\\_details\\_s.asp?ID=4028](http://www.unep.org/publications/search/pub_details_s.asp?ID=4028)  
<sup>2</sup> *Unlocking Energy Efficiency in the US Economy*, McKinsey & Company, July 2009

the excess credits into a US\$100 million revenue stream and have made an even firmer commitment to carbon reduction by incorporating five-year targets into executive compensation metrics. Their goal of 80% carbon reduction by 2050 is very likely to be achieved and will far exceed any federal standards.

## The leadership challenge: are you ready?

We are rapidly moving to a new carbon regime, with the G8 economies already on board and with the G20 working hard to find a global solution.

We believe that taking full advantage of the opportunities in the low carbon economy while also adeptly navigating the potential pitfalls requires leaders who possess competencies and skills that go beyond those of a more “traditional” leader. More specifically, they must be able to manage the “triple bottom line”:

- the natural environment
- the social and political systems
- the global economy

## What are the key questions you should be asking?

Do you have a board of directors and other advisors who can provide the depth of insight and perspective your organization will require in order to assess the strategic options presented by the low carbon economy?

Do you want to be a market leader or a market maker in the field? Does your leadership team understand the complex landscape of carbon offsets, carbon trading, and carbon management both now and in the future, including what will emerge in the next 5-10 years?

Do you have relationships or mutually beneficial working partnerships with policy makers, regulators, NGOs, originators and traders of carbon credits?

Does your human capital organization have the proper assessment tools, development programs and succession scenarios to ensure that your talent is able to adapt and thrive amid a rapidly changing carbon landscape?

If you aim to participate as an investor in the carbon financial markets, how will you capitalize on the myriad

of opportunities? Will you set up trading operations; and, if so, where (e.g. US, Europe, Asia)? Will you re-train your current talent or recruit from the limited pool of experienced carbon traders?

## Bringing the world's best leaders to the low carbon economy<sup>SM</sup>

One of the biggest issues facing leaders today is the lack of talent at the top – an issue that becomes particularly pressing in an environment facing rapid change and regulation.

We will work with you to develop leadership and talent strategies and programs to maximize the human capital potential in your organization, and find outstanding leaders to help you grow to scale.

Our world-leading Alternative & Renewable Energy practice includes more than thirty consultants from around the globe, each with specialized knowledge of and expertise in specific segments of this dynamic industry including Wind, Solar, Energy Efficiency and Biofuels, to name a few.

Our Carbon Markets team – the world's only dedicated carbon markets leadership advisory team – focuses on bringing the world's best leaders to the low carbon economy. Members span the industrial and financial services practices globally and include:

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