

Social and environmental accounting and paris agreement



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Introduction

Social and environmental accounting (SEA) is an important concept as it connects a company's business activities with its social and environmental responsibilities. The Paris Accord is a major effort of international collaboration to combat carbon emission and climate change. This essay discusses how SEA could be used to assist governments and companies to achieve the goals that are listed in the Paris Agreement.

US quitting the Paris Agreement

Though the Paris Agreement has received global recognition and approval in the past decade, the recent changes in the global political and economic environment have caused some unexpected events. In June 2017, the Trump administration of the US announced the termination of participation in the 2015 Paris Agreement, which could be considered a major setback for the combined efforts to combat climate change (Milman, 2018).

The logic behind this move by the US government is straightforward, because the Paris Agreement would require each country to achieve the goal of carbon emission reduction by a certain amount. However, it is almost impossible to avoid producing any greenhouse gas by the industrial productions under the current technologies. As a result, the main force behind the decision to quit the Paris Agreement mainly comes from economic considerations.

On one hand, the goal of cutting carbon emission would significantly hurt the traditional fossil fuel industries, which would be gradually replaced with

renewable sources of energy. Currently, the US is on the way of becoming one of the top producers of coal and oil, so strong resistance would arise from these sectors against the US participation in the Paris Agreement (Zhang, et al., 2017). Since the US has been rising on its output of oil productions, it won't be easy for the country to give up on the important strategic resource. Besides, the jobs of the energy industries in the US are also at stake, which may be harmed if carbon emissions are cut significantly under the Paris Agreement (Mulligan, 2017).

In addition, as the US economic focus gradually turns towards protecting its own interests with the "America First" policy, the government has started to evaluate its international activities and participations more based on their internal impacts, rather than with a global perspective as in the past (Zhang, et al., 2017). Based on an empirical study on this issue using the GTAP-E model, quitting the Paris Agreement would increase the real GDP for the US by 1.13%, and the real private consumption by 0.78%. Moreover, the positive influence on the US energy sector by the withdrawal from the agreement is even stronger, which is a strong incentive. And the prices of fossil fuel energy are expected to be lower, especially for coal and oil, which is a result of the expansion of the related industries and increase in the productions (Nong & Siriwardana, 2018).

Besides, the potential costs after withdrawal from the agreement are not substantial for the US, when compared with the possible benefits. Böhringer & Rutherford (2017) found that even faced with potential carbon tariff threat from the EU and China, which are two main trading partners with the US, the costs are not substantial for the US.

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So, after balancing the economic benefits and costs of withdrawing from the Paris Agreement, it is easier to understand the latest decision of the US government. Thus, the incident reflects a very strong controversy between economic growth and environmental governance, as focusing on one aspect would usually more sacrificing the other. However, the two concepts shouldn't be considered to be on total opposite sides, as there are usually ways to integrate the two aspects in one to promote socially and individually increases in welfare.

Accounting for the environment

Environmental governance has already become a vital consideration for economic activities, and it is important to achieve sustainable growth in the long-term. Ueta & Mori (2007) discussed the problem using the rapid industrialization of East Asian countries for the past several decades, and the researchers proposed that "green growth" and many other concepts had been invented to balance the conflicts between economic development and protection of the environment. The environmental Kuznets curves theory shows that the movements may display a burden for economic growth in the near term but may eventually prove to be more beneficial in the long-term (Ueta & Mori, 2007).

This presents a similar problem as that occurs with today's Paris Agreement, where the private costs to a participating country would exceed the potential benefits of cutting the carbon emissions in the short-term. Though the long-term social benefits would be positive for every country, the economic

disadvantage would still discourage countries that are most affected by the agreement from joining in (Mulligan, 2017).

Thus, to solve this conflict, and promote environmental protection given the consideration of economic costs, it is important to adopt the rules of SEA when making policies on the government level. Traditionally, one would be more likely to evaluate the outcomes of a public policy based on the financial accounting method that centres around a single entity, rather than covering the other stakeholders. If the social and environmental accounting approach is taken, the long-term costs from pollution and climate change may exceed the short-term benefits that could be harvested from the fossil fuel industries (Sylvia, et al., 2018). However, it would be much harder to apply the rules of the SEA in real life settings to analyse the costs and benefits of an environmental policy.

Still, it should be noted that the conflict between economic incentives and environmental governance can be solved. And the SEA could be helpful in this process to help establish a new set of standards for evaluating the balance of costs and benefits of environmental governance efforts.

Use of SEA in achieving the targets in Paris Agreement

SEA is a very useful tool, which can help governments and agencies around the world to cooperate and achieve the goal of reduce carbon emissions and combat climate change under the Paris Agreement. There are many different practices under the framework of SEA, and this essay mainly focuses on corporate social responsibility (CSR), as well as its role in achieving the goals set in the Paris Agreement.

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CSR refers to an approach adopted by private businesses in the world, aimed at achieving a higher level of social responsibilities. CSR requires the private businesses to set up internal guidelines for their own activities and ethics to regulate their own behaviours. Though CSR started out as a form of corporate self-regulation, it has gradually evolved into a mandatory practice globally (Sheehy, 2012). Most of the largest and public companies in the world would voluntarily choose to report their efforts in conforming with the CSR guidelines, and whether their business operations and activities are following the rules too.

The goal of CSR is to establish a business system and environment that encourages the private companies to voluntarily promote the overall welfare of the society, rather than just focusing on private benefits. Corporate finance theories suggest that an individual company should act to its own maximum benefits, while the externalities produced in the process of its business are usually not considered by the company when making strategic plans and benefits. Thus, it would require the intervention from the government in this scenario. However, it would be hard to fully account for the negative externalities produced by a certain company, so it is important for the company to voluntarily promote the benefits of the public, such as protecting the environment and reducing pollution (Sharp & Zaidman, 2010). In this regard, CSR could also help governments around the world push the private businesses to follow and achieve the goals in the Paris Agreement.

Application of CSR and Paris Agreement

There have been many successful applications of the CSR approach in the private business sector for protecting the environment and reducing carbon emissions. Royal Dutch Shell, which is an international oil and gas company, has also been actively engaged in CSR activities in the past decades, as the company gradually puts more emphasis on the sustainability of its business and the environment. The company has been slowly replacing coal with renewable energy, such as wind power, which generates over 1, 000 megawatts of capacity. In addition, the company is also investing in the lowest-carbon biofuel, which is done via a joint venture with Cosan (Shell, 2018). The current CSR efforts by Royal Dutch Shell is exactly consistent with the goal of the Paris Agreement. Though the company has its main businesses in the coal and oil sector, which is a main source of carbon emissions that may lead to climate change, it is also embracing a more environmental friendly business model.

Another important case of CSR comes from global leader in the automobile manufacturing industry, BMW Group. Traditionally, cars run on fossil fuel, which would produce greenhouse gases that may lead to climate change. The company is also actively seeking long-term sustainability and carbon reduction as well. Under the guidance of the CSR efforts, BMW's Corporate Average Fuel Consumption (CAFC) in 2016 was 6. 69 litres of petrol per 100 kilometres, which is top in many major automobile markets in the world. The company has also been seeking upgrading its production lines around the world, in order to meet the requirements of high-end manufacturing (BMW, 2017). The measures taken by the company could also reflect its dedication

in following its CSR targets, which is also consistent with the goals in the Paris Agreement.

From the two cases of CSR applications in real business environments, it could be observed that they are in line with the targets set in the Paris Agreement, which include cutting carbon emissions and reducing the potential harms from climate change. And in both cases, the companies involved in the CSR activities are from the industries that are heavily relying on fossil energy currently, while both are actively transforming their business practices through CSR activities.

There are multiple reasons why companies would want to disclose their CSR information and participating in CSR activities. It is generally agreed that CSR activities would be beneficial for a company's reputations, as CSR activities are meant to improve a company's public image when the consumers attribute sincere motives. However, if the motives behind the CSR activities are not sincere, it is likely that the CSR activities may not be effective for a company's reputation (Yoon, et al., 2008). So, there are also benefits that are beyond financial revenues for a company when it chooses to publicly present its CSR efforts, which would be very valuable in the long-term for a company's strategic plans.

On the other hand, the CSR engagement could also push the companies to transform their business practices, which may also benefit the survival of the company in the long-term as well. In the examples of the CSR activities taken by the traditional fossil energy companies, as they turn more to the renewable energy, the CSR activities would also give them a chance to

diversify their business lines, instead of focusing on just their original business. Since the traditional fossil fuels may eventually run out, it is wise for these companies to plan ahead and gradually shift away.

Overall, it could be summarized from the discussions that CSR is a helpful tool for achieving the goals in the Paris Agreement. It offers a strong incentive for private businesses to voluntarily shift business practices to align better with environmental protection efforts. Though CSR is not the final solution to achieving the goals of the Paris Agreement, it can definitely play a vital role in the process.

When making strategic plans and decisions, it is important to combine the human race with the environment that we live in, as the externalities we produce will eventually get internalized. So, the concept of social and environmental accounting doesn't just apply to the private businesses, it should also be used on a higher level to guide our behaviours and lives.

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