

Filling the climate governance gap: Do corporate decarbonization initiatives matter as much as state and local government policy?



By Benjamin Leffel, Thomas Lyon, and Joshua Newell

RESEARCH SUMMARY

Corporate America needs to decarbonize due to its massive contribution to climate change, but how? Companies are increasingly attempting to cut their emissions of greenhouse gases (GHGs) with specific targets in mind, which is needed to fill the “emissions gap” left by nations failing to meet their own targets, and without which, the Paris agreement and other climate-related commitments cannot be fulfilled. [This paper](#), now published in Energy Research & Social Science, seeks to understand the most effective way of closing the emissions gap by exploring if corporations can be left alone to govern themselves or if subnational (city and state) government policies should contribute to this fight.

The methodology used to tackle this question is thorough: The article uses data from CDP (formerly Carbon Disclosure Project) and analyzes the GHG emissions of over 1,300 facilities—from offices to manufacturing plants—belonging to 184 of the largest corporations in the United States between

2010 and 2019.

The single strongest factor driving corporate decarbonization is state government financial incentives for commercial energy efficiency—such as grants, rebates, loans and tax credits—surpassing the impact of initiatives taken by corporations themselves. However, the paper also concludes that internal corporate initiatives and state climate policies reinforce one another, meaning that the collective impact of public and private efforts yield the greatest GHG reductions, and thus that the best pathway for closing the emissions gap is to harness all of the above at once.

Figure 1 illustrates how these actions translate into GHG reductions. It shows predicted reductions in tons of GHGs for facilities adopting different combinations of actions, from a “No action” scenario where facilities keep the status quo, to the “All actions” scenario where all corporate initiatives and subnational climate actions are in place.

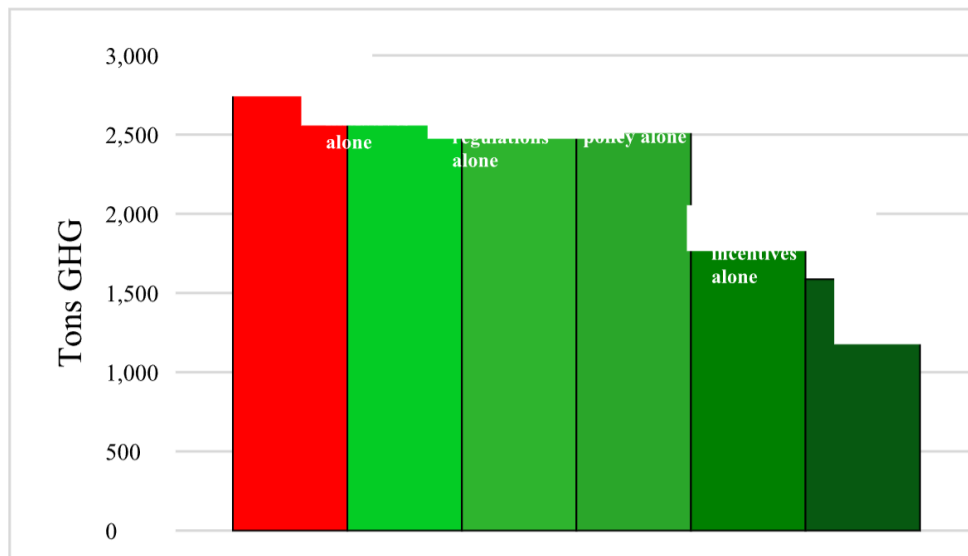


Figure 1: Predictive margins for impacts of corporate and subnational climate policy on facility GHG emissions

KEY RECOMMENDATIONS

Pressing recommendations for both businesses and for governments are provided by the study. The study recommends that businesses more rigorously utilize state and local government financial incentives for commercial decarbonization, particularly when the business is already actively implementing GHG reduction efforts. Large firms already spend millions annually on projects to reduce GHGs and achieve their carbon targets, and local government incentives for commercial decarbonization can both significantly defray those costs and allow the businesses to expand the scale of their decarbonization projects. Incentives can also help firms decide to implement decarbonization measures that they otherwise might be unable to afford, often for the first time. What incentives are available varies significantly by state, so climate-active firms must become familiar with local incentive programs. Critically, the peak window of opportunity to achieve these sustainability gains is now, since the 2022 Inflation Reduction Act significantly expands the same type of pre-2022 incentives observed in the study to be effective for business decarbonization.

The study also recommends that businesses expand decarbonization initiatives regardless of the presence of government incentives because they yield results. This is particularly true for initiatives focused on energy efficiency—such as green upgrades to building and production process energy efficiency—as the study shows that these projects tend to yield the greatest carbon reductions while also reducing energy costs over time. It is equally important for businesses to track and disclose information on these efforts to platforms like CDP, as this allows for both internal environmental performance measurement and for accountability to external stakeholders for corporate climate promises.

For governments, the study recommends that state and local governments use IRA provisions to both create more incentives and to mobilize them to businesses. When designing state climate policy for decarbonizing the private sector, policymakers should recognize that the carrot (incentives) works better than the stick (regulations), and that

incentives are also more likely to receive bipartisan support. However, the greater impact of incentives does not at all deemphasize the importance of hard regulations and standards. On the contrary, regulations provide the policy foundation upon which financial incentives can be most effective. For instance, when strict climate regulations require businesses to achieve certain levels of energy savings and renewable energy usage—i.e., energy efficiency standards for buildings, appliances and equipment, as well as Renewable Portfolio Standards—businesses are more encouraged to use climate incentives provided by the government in order to achieve compliance with said regulations.

Last, for both businesses and governments, the study recommends local coordination on sustainability efforts. Intentional collaboration between local governments and corporations on climate action can lead not only to mobilizing critical financial incentives needed to decarbonize the private sector, but also to the alignment or corporate and municipal carbon targets, as well as co-financing of local decarbonization projects across sectors. These collaborations can reduce the costs and increase the ambition of decarbonization goals shared by businesses and governments.

BUSINESS AND POLICY IMPLICATIONS

These findings have implications for climate finance and multi-level governance. Climate change governance is ultimately implemented at the local-level, where the physical sources of GHG emissions reside, from facilities owned and operated by local governments and the businesses embedded within them. While corporate decarbonization initiatives are valuable, they are significantly enhanced when complemented by local government actions. In the post-IRA era, successful multi-level climate governance will increasingly be defined by state and municipal governments utilizing newly available climate finance to decarbonize their own (publicly-owned) operations and mobilizing these funds to local businesses pursuing the same goal. Businesses most likely to use these funds are large, property-owning, high-energy-consuming firms that are already voluntarily engaged in decarbonization efforts.

The landscape of such companies is expanding exponentially, particularly those corporations that disclose detailed climate metrics, from GHG emissions to specific sustainability initiatives, disclosure of which is increasingly becoming mandatory. This study's findings will continue to be relevant for this growing pool of climate-dedicated companies globally.

The study also suggests that business sustainability is evolving to become more local. The paradigm shift at hand is to recognize that where a company is located matters both for its own sustainability goals and that of its community. As corporate climate action joins forces with local climate governance, businesses are combining their efforts with state and municipal efforts for greater mutual and collective impact. Cities and states engaging corporate counterparts on sustainability in this way will serve as incubation chambers of climate innovation defining new public-private pathways to filling the GHG emissions gap left by nations.

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ADDITIONAL RESOURCES

1. <https://www.sciencedirect.com/science/article/pii/S221462962300436X?dgcid=author>
2. <https://www.unep.org/resources/emissions-gap-report-2022>
3. <https://www.cdp.net/en>
4. <https://www.dsireusa.org/>
5. <https://www.epa.gov/ghgemissions/overview-greenhouse-gases#:~:text=Total%20U.S.%20Emissions%20in%202021,of%20these%20greenhouse%20gas%20emissions>