



RENEWABLE ENERGY AND LOW CARBON OPTIONS

BRITISH AMERICAN TOBACCO STAKEHOLDER DIALOGUE REPORT



Illustration: Cured tobacco in Indonesia and cigarettes in production at our factory in South Africa.

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In October 2011, British American Tobacco hosted an independently facilitated stakeholder dialogue – the third and final session in a series relating to climate change (the first of which focused on water availability and management and the second on carbon pricing and carbon regulation) – that sought to identify the opportunities presented by renewable energy and low-carbon options.

Recent years have witnessed a dramatic increase in the range and capacity of renewable and low-carbon sources of energy. The increasing interest in the contribution that these technologies can make to meeting the needs of domestic and commercial users – and reducing reliance on fossil fuels – shows little sign of abating. British American Tobacco is keen to understand the role that renewable and low-carbon energy options can play in helping achieve its targets in relation to its carbon dioxide emissions. This session was intended to inform that process of inquiry and to provide insights into how the business can safeguard its energy needs over the longer term. The desired outputs were:

- To develop an understanding of the next generation of alternative energy options;
- To develop an understanding of the economic opportunities and business case for strategic investment; and
- To help define the practical application of these options and technologies.

The participants included experts from NGOs, universities, specialist consultancies and other global businesses. They were joined by a representative from one of the Group's main suppliers and senior personnel from British American Tobacco with responsibility for environmental management, supply chain sustainability and manufacturing.

The session – facilitated by Acona Partners LLP, a specialist consultancy that advises clients on sustainability issues – included presentations from external experts (Professor AbuBakr Bahaj of the University of Southampton and Dr Jim Fitzgerald of Ernst & Young's Energy and Environmental Infrastructure Advisory Group) and two of the UK's largest companies, which are currently developing their strategy and specific responses to the opportunities that renewable energy sources have to offer.

In the course of the discussion, three major themes emerged, which are covered in detail on the following pages:

- **Renewable energy is no longer a sideshow:** Our current and future energy needs will draw on a wide portfolio of energy sources with renewables and low-carbon options making an important contribution.
- **Explain why and quantify the benefits:** As with any major capital investment, there has to be a convincing rationale for the investment underpinned by a robust assessment of costs and benefits.
- **Match solutions to needs:** The adoption of a particular renewable or low-carbon option has to satisfy the specific needs of the business. This requires a balanced assessment of energy needs, appetite for risk and other factors.

British American Tobacco is currently considering how to incorporate the insights provided during the day into its energy and wider business strategies. After analysis of the various options, the Group hopes to develop a series of proposals that will utilise appropriate renewable energy and low-carbon options to help achieve its objectives for energy efficiency and reducing its greenhouse gas emissions.



Having already begun to look at potentially suitable manufacturing locations and technologies for renewable energy, this dialogue has been invaluable in helping to inform our work in this area. Developing a clear business case and strategy is now the next step for us.

Andrew Hopkins, Group Head of Manufacturing, British American Tobacco

i British American Tobacco: energy and carbon dioxide facts

British American Tobacco is committed to reducing its carbon dioxide equivalent (CO₂e) emissions by 50 per cent (by 2030) and 80 per cent (by 2050) against its 2000 baseline of 1.38 tonnes per million cigarettes equivalent. To achieve these targets we focus on our energy use (reducing consumption and switching to less carbon intensive energy sources), waste to landfill and business travel. In 2010, despite dramatic weather patterns witnessed in the year, there was a decrease in our absolute energy consumption by 1.5 per cent driven primarily by various energy reduction programmes and site rationalisation. This also resulted in a decrease in CO₂e. However, our overall energy use per million cigarettes equivalent increased due to a reduction in production volume.

Renewable energy is no longer a sideshow

Participants highlighted the increasing importance that renewables have in satisfying the growing global demand for energy. They also referred to the targets different governments have set for the contribution renewables should make to meeting the needs of business and private consumers (for example, within the European Union the target is for 20 per cent of energy to be sourced from renewables by 2020) as a major driver for the growth of the sector. Even allowing for the recent economic downturn, the sector continues to attract significant investment globally, especially in the Middle East and China. Participants agreed that renewables and low-carbon options have a vital role to play in the energy mix both now and in the future.

At the same time, participants expressed concerns about whether government subsidies for renewables – often a key factor when considering the feasibility of any investment – would remain at current levels.

The pressure to restrict increases in energy costs was a powerful one, especially given the current state of the global economy. However, participants felt that the desire of governments and wider society to reduce the dependence on fossil fuels and minimise greenhouse gas emissions will continue to exert a major influence over energy policy. Participants also drew attention to the widespread and growing interest of both individual consumers and businesses of all sizes in generating energy from their own renewable sources.

Explain why and quantify the benefits

Participants – especially those who have been personally involved in the implementation of renewable and low-carbon options within commercial organisations – stressed the importance of having a convincing rationale for any investment and aligning these projects with other corporate goals. Stakeholders internally and externally will quickly identify any inconsistency between how the organisation is addressing the challenges and opportunities of renewable energy and its core activities. For the strategy to be successful it requires objectives and time-specific targets that allow progress to be assessed.

However, having a strategy for renewable energy is only one side of the equation. In the view of participants, an effective renewables strategy has to command Board-level support. This has to be tangible – in other words, go beyond the occasional reference in an annual report or internal communication; be reiterated on a regular basis; and address behaviours and mindsets that may be opposed to it.

A central element in securing this support is the development of a robust business case that carefully identifies both costs and benefits. However, participants acknowledged that traditional models used to evaluate capital investments were often not suited to assessing the merits of renewable energy. There were two reasons for this: first, the payback period – typically 7–10 years – exceeds the parameters that are usual in business. Consequently, there was strong support among participants for traditional business models to be finessed – with the explicit support of senior management – to reflect these longer time frames.

The second is that, in many cases, the benefits of renewables – for example, in terms of enhancing corporate reputation, minimising environmental impact and/or providing a degree of security over access to and the cost of energy – are difficult to quantify accurately. Participants, especially those with first-hand experience of these issues, were keen to stress that, regardless of the challenges associated with the calculation of indirect benefits, it was essential that this should be done in a systematic way that stands up to scrutiny.

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Professor Bahaj: The continued movement of China’s rural population to urban centres creates a city equivalent to the size of Shanghai every year. The demand for energy grows apace with this migration. ”

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Dr Fitzgerald: In 2010, over 40% of new installed energy generation capacity in Europe was provided by renewables. The UN Environment Programme estimates that renewable energy is a \$140 billion per annum industry. ”

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Participant: Keep asking why we want to do this and where we want to be. ”

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Participant: You need to triangulate a ‘sweet spot’ for investment decisions – a place where the benefits of improved reputation, lower environmental impact and cost/value intersect. ”

Match solutions to needs

Participants agreed that there was a risk that, in their desire to demonstrate their commitment to renewable energy (and to broader concepts of sustainable development), businesses might adopt approaches and invest in initiatives that were not appropriate to their particular circumstances or which could be seen as an attempt at 'greenwash'. Simply because another company had gone down one route did not necessarily mean that others should follow the same way.

A central consideration – and an important insight from the session – was whether, having decided to commit to renewable and low-carbon options, an organisation should invest directly in developing its own projects or should 'buy-in' energy generated from these sources. When considering which of these courses to pursue, participants emphasised that the choice was often finely balanced and dependent on a range of factors – chief among them being the nature and scale of the organisation's energy needs, its appetite for risk, and specific geographic and socio-economic factors. For example, while an investment in generating energy from biomass might make sense in one location – where there were ample supplies of fuel in close proximity – in other places this might not be a cost-effective solution.

Given the technical and technological challenges associated with renewable energy investment, several participants highlighted the value of accessing expert advice. Such advice was helpful both in building the business case and in implementing the eventual solution. Likewise, participants drew attention to the importance of engaging and collaborating with stakeholders when developing renewable energy projects to ensure that a balanced assessment was made of the actual and potential environmental, social and economic impacts of any scheme



Participant: There's no magic bullet – it's about understanding what works best in a particular location. ”

For more information



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Assurance

As part of our process for providing assurance on British American Tobacco's Sustainability Report, we have carried out a 'reasonable level' of assurance engagement on the information presented in the Report on the London based stakeholder dialogues, of which this was one.

To view our conclusions and observations, or for more details, see our online Assurance statement in the British American Tobacco Sustainability Report at www.bat.com/sustainability.

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