
The Business of Climate Change

A CONVERSATION WITH PAUL POLMAN,
CEO, UNILEVER

FLETCHER FORUM: *Unilever is widely regarded for a business model that underscores sustainable growth and positive social impact. How have the challenges of climate change and sustainability shaped your thoughts on the role of a responsible executive?*

PAUL POLMAN: The role of the CEO is drastically changing because businesses are starting to see that it becomes increasingly difficult to operate in an environment that isn't functioning. Responsible business also understands the difficulties of the current political climate. In the past, many of the global governance issues were handled by institutions that functioned well because most of the economy was in Europe and the United States; that is, the institutions that were created during Bretton Woods.

Today, the world is truly globalized, and you have 50 percent of your economy now outside of Europe and the United States; soon that will be 60 to 70 percent. And frankly our global governance has not adjusted very well. So you need to really, as a businessman, be more responsible and help de-risk the political process. As an executive, if you want to create the right environment for business to succeed, you really do have to get involved in the intersections between politics, civil society, and business.

Paul Polman *has been CEO of Unilever since January 2009. Under his leadership, Unilever has an ambitious vision to fully decouple its growth from its environmental footprint and increase its positive social impact. He is Chairman of the World Business Council for Sustainable Development, a member of the International Business Council of the World Economic Forum, a member of the B Team. Mr. Polman sits on the board of the UN Global Compact and the Consumer Goods Forum, where he co-chairs the Sustainability Committee.*

FLETCHER FORUM: *As a consumer-facing company, a large part of Unilever's sustainability goals will require consumers to change their behaviors. How have you approached this difficult task? What have you learned from the process?*

POLMAN: In reality, consumers change behaviors faster than we sometimes realize. I just recently gave a talk to the marketing community and one of my messages to them was that marketing is falling behind. It used to be that marketing was leading and shaping consumer habits, but now it is the consumers who are shaping it. Take the United States, where they are right now in the food industry, and you see the fastest growing segments—in fact, 80 percent of the growth—are in products that are organic or from neighborhood farms, and you see these products are coming in with enormous speed.

Change is happening. People are looking for cleaner labels, carbonate markets are going down, and people are eating healthier food. These consumers are changing faster than many companies, and a lot of these companies are struggling with that if you look at their reports. You see that change also because of occurrences, like when you have a drought in Brazil or California or Australia, all within the last two years. You see consumers adapting very quickly and coping with habits. In the United Kingdom, where I live, one of the fastest-growing segments is fair trade.

Now what we need to do, as organizations, is give consumers options more quickly than they are looking for alternatives. Otherwise we are out of business. So our innovation program is very important. For example, we have now in Brazil—where you don't have water because of the drought—

In everything we do, we have to use this lens of sustainability.

..... waterless shampoos and detergents that use less water. We have ice cream with higher freezing temperatures so it uses less energy. We try to bring our innovation program up to the levels that obviously drive these consumer habits.

..... Then we work with consumers themselves through programs of habit change: how to wash your hands with less water but have a better-performing product, how to take fewer showers, and other things. In everything we do, we have to use this lens of sustainability or, specifically to this topic, climate reduction.

FLETCHER FORUM: *How do you put faith in and work with the biggest actors who are contributing to climate change?*

POLMAN: The biggest actors are all of us, ultimately, because it's how we behave that decides how the story will end. So, 70 percent of the CO₂ emissions are by individuals. You know, Americans take twelve minute showers, the Brits take eight minutes, and the Europeans take six minutes: so there's the CO₂ you can save by taking six minute showers. You'll still be clean. We should not delegate our own responsibilities to others, because that would be an easy escape. I always
say that we're all responsible because we
all add up, in numbers.

*We should not delegate our
own responsibilities to others,
because that would be an
easy escape.*

But, obviously the bigger challenge right now is that, in anything in this world, you need China, India, and the U.S. to participate. If they don't participate, it doesn't work. My country, the Netherlands, is not going to swing this one. Although we're in the finals, we're the benchers—we're not going to win the finals if the U.S. or China or India doesn't participate.

So the bigger challenge right now is probably in three or four areas. Brazil, it's a big challenge, and the droughts in Sao Paulo right now have certainly increased the climate awareness of its own population, so that's a silver lining to a difficult situation. India is a big challenge, but also an opportunity when you consider Prime Minister Modi's leadership on solar energy. Oil-producing countries pose another challenge: with the price of oil so low, some may not be the biggest champions of climate change reform. And then the other challenges are the least developed states, especially the African states as a bloc, where I understand there is some concern over the best way to finance the process of change. Tackling this concern will require an acknowledgement that action on climate change is part of a longer-term development agenda.

Of course, countries should honor their commitments on overseas aid, but in reality the investment flows that will come from an accelerated low-carbon, inclusive development agenda will bring benefits far greater than overseas aid could ever do on its own.

FLETCHER FORUM: *In your talk tonight, you mentioned that climate change can create business opportunities. Can you give an example of how climate change has driven or will drive opportunity for Unilever's business?*

POLMAN: For example, if I may talk about food again, climate change gives you enormous volatilities in food prices, but also in crop availability. If you are dependent on tomatoes in California and all of a sudden there's a drought and you don't have tomatoes, then you don't sell your crop. So we have moved much more quickly into sustainable sourcing, and are leading that for the world. We have about 60 percent of our agriculturally-based materials sustainably sourced now. We have more partnerships with governments to set up alternative sourcing. We work with NGOs to help train the smallholder farmers in sustainable agriculture.

We're creating a much stronger ecosystem that takes our risk away, but also creates enormous opportunities to broaden our products. Working in partnerships, often with governments or with civil society, creates other opportunities to grow your business. We look at products that we other-

.....
*From wherever you look—
 from your value chain with
 your suppliers, from your cost
 structure, from your motivation
 with your employees, from your
 innovation program—there
 is an angle of positive growth
 that is connected to climate
 change.*

wise would not be able to sell—for example, waterless shampoos—and that get us into different types of businesses we probably otherwise wouldn't get into. We look at technologies in our own value chain: many of our factories are supplied by or generate their own renewable energy, and some our offices now are even contributing back to the grid. It's not only that they are green, but also that these offices need to make a positive contribution—and all of a sudden we find that it is actually more economical to run them, that

our employees are more motivated. That ultimately again gets translated into a healthier business result. The same thing happens with our retailers. Consumers are demanding it, so retailers want to work more with companies that are responsible.

So from wherever you look—from your value chain with your suppliers, from your cost structure, from your motivation with your employees, from your innovation program—there is an angle of positive growth that is connected to climate change.

FLETCHER FORUM: *Walk us through some of the conversations you have had on climate change with other executives. How have investors and businesses reacted to your call for the community to take a greater role on climate change? What are the most common challenges cited?*

POLMAN: I have never met a CEO who wants more unemployment, more climate change, more poverty. So, in essence, people all want to achieve the same objective. The question often is what forces we're under. There are many factors that get in the way: sometimes the pressures that people have on their business models, especially when the economy is not doing well, the short-term pressures from the financial markets, the short-term tenures of CEOs. The issue of climate change is even more difficult because you often deal with experts or pressure from the outside that you are not an expert on or have the knowledge to deal with, and it's more difficult to get people engaged. But that has never held me back.

What we try to do is create coalitions of like-minded people that are able to create a tipping point. You take palm oil: you only need a few companies like Cargill or Wilmar in Indonesia, a few users of the palm oil, a few countries that produce the palm oil, some financial institutions like the World Bank to sit together, to create this tipping point. This is not more than thirty people. And once you create a tipping point, other companies will join.

That's also why it's important to get governments involved and set up some policy frameworks so that we avoid the free riders. But there is enough critical mass. If you look at the World Economic Forum, where we have a section with consumer goods companies, about 100 of these are very progressive. We have the World Business Council for Sustainable Development, with about 200 companies that are very progressive or forward-thinking. The UN Global Compact has a special group of more advanced companies, and there are over 8,000 members of the UN Global Compact, so there is enough critical mass.

Do you get all companies involved, do you get them all at the same speed, do you get them to share information with other CEOs? The answer is no, but it's not needed. Many will sign up if you come with the right programs. When we were in New York last September with the World Bank calling for a price on carbon, we had over 1,000 companies sign up. That's a good thing, because your first commitment needs to be being committed yourself. Then sign up other companies, and then drive these transformations into your company.

And it's starting to work. Seventy percent of the major companies

have CSR programs and report CSR. About 200 out of the top 500 companies have carbon reduction plans in their companies that are above the 6 percent reductions per year needed. Fifty of the top 200 have internal prices for carbon. There are even some companies committing to zero net emissions by 2050. So there are enough companies showing that it can be done, and as we create more awareness around these companies and get more data, I think we will also create the critical mass to drive the change.

FLETCHER FORUM: *What does success and failure look like at the upcoming Paris Climate Conference?*

POLMAN: I don't start from a premise of failure in Paris; it's going to be a success. There will be an agreement in the COP21 in December; the question is how ambitious that agreement will be. And we need to spend all of our time to make that agreement as ambitious as possible.

I don't start from a premise of failure in Paris; it's going to be a success. There will be an agreement in the COP21 in December; the question is how ambitious that agreement will be.

What does that mean? It means that there is a clearly defined long-term goal that we need to all align behind: we've said zero net emissions by 2050, others say the end of the century. What's most important is the clarity of the trajectory. Secondly, it means a commitment that we will look at pricing of carbon, because if we start to put a price on carbon, we will galvanize

faster change. That change will not come out of Paris immediately, but we can at least make the commitment. Third, it means a financing mechanism, because the developed markets have to help emerging markets make these transitions, and we also need a financing mechanism for the private sector. And then the fourth element is enough public-private partnerships to scale some of these initiatives quickly. And that's the success of Paris.

Ultimately, it boils down to individual countries and individual people who have to be held accountable, and it depends on clear transparency and measurements to move this forward. Although we talk a lot about the agreement in Paris, that's only the first step on a longer road of tackling this issue. *f*