

# Case study

## Royal DSM



Internal price on carbon:  
**€50/metric ton**  
Emissions reductions



### GICS SECTOR Materials

**ANNUAL REVENUE** US \$8,571,490,000<sup>1</sup>

Emissions reduction target <sup>2</sup>	GHG efficiency target—by 2025, 45% reduction of Scope 1 and 2 emissions from 2008 baseline.	
Reported emissions (2015)	Scope 1	608,762 metric tons CO <sub>2</sub> e
	Scope 2	458,643 metric tons CO <sub>2</sub> e
Baseline emissions (2008)	Scope 1	3,218,000 metric tons CO <sub>2</sub> e
	Scope 2	1,076,000 metric tons CO <sub>2</sub> e

### Royal DSM, a Dutch multinational

company active in health, nutrition and materials, reports that it has “recognized climate change as a societal megatrend for over a decade.” Reflecting this, it highlights that it has embedded in the core of its business strategy the objectives of reducing its own carbon footprint and creating an enabling environment for its low-carbon products. In 2016, Royal DSM reported a new target to improve its GHG efficiency by 45% by 2025 from 2008 levels.

Royal DSM uses an internal price of carbon with a value of €50/metric ton, exceeding the price in the EU ETS, which it trades in. The company reported that it set this price for use in the valuation of large investment projects so the financial impact of GHG emissions could be accounted for:

“In order to encourage investments in low-carbon or carbon free technologies, the Executive Committee decided to include the financial impact of GHG emissions (scopes 1 and 2) through internal carbon pricing in the valuations of large investment projects from 2016 onwards. This also serves to prepare Royal DSM for the financial impact of an external carbon price, which is one of the elements of the comprehensive climate deal that was struck in Paris in December 2015 during COP21. For each large investment proposal, two business cases have to be presented. One without and one with an internal carbon price of 50 €/t CO<sub>2</sub>e.”



The main benefit is to embed the consideration of a price on carbon into the general conversation in a very systematic way within the company; that it becomes a part of our language in the same way we would talk about any other embedded costs within our projects.

**Geraldine Matchett,**  
Chief Financial Officer



The company notes that in the early phase of using the price, it was added to projects already underway to reveal how decisions could have been impacted by an internal price. Since the full implementation of this corporate directive in 2016, Royal DSM has observed the advantage of being able to embed sustainability considerations more effectively at an early point in the design stage of projects, when fundamental decisions that positively contribute to the company’s climate change objectives can be readily made. The company’s preliminary observation is that the internal carbon price is being used during conceptual engineering to evaluate and select different engineering options. In coming years, Royal DSM discloses that it will undertake an evaluation of the impact of its internal price on carbon on the company’s low-carbon investment decisions, and its climate change and business objectives. ▼

<sup>1</sup> All annual revenue in USD, 2016 disclosure year. Retrieved September 15, 2016 from Bloomberg terminal.

<sup>2</sup> Companies may have other emissions reduction targets in addition to those listed in these studies.