The Institute of Certified Management Accountants

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What's On?

July, 2008 Colombo, Sri Lanka
12th CMA Symposium on Strategic Cost Management and Strategic Business Analysis conducted by the Imperial College of Business Studies
www.cmasrilanka.com

July to September 2008, Jakarta, Indonesia
8th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by IPMI Business School.

August to November, 2008, Manila, Philippines
14th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by www.cmaphilippines.com

July- August 2008, Melbourne, Australia
Strategic Cost Management - Monash University

August 2008, Mumbai, India
10th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by www.cmaindia.net

December 6 - 16 2008, Shanghai, China
Proposed CMA Program, China

On Target

Newsletter of the Institute of Certified Management Accountants e/July 08 Volume 11 Issue 6

Inside this issue:

THE ICMA LAUNCHES...

The Institute of Certified Carbon Analysts and Auditors

INSTITUTE OF CERTIFIED CARBON ANALYSTS AND AUDITORS

A new Institute under the patronage of ICMA has just been registered as its response to the vital issue of Global Warming and Climate Change. This follows the extensive research conducted by the ICMA and published in both On Target and its research journal, the *Journal of Applied Management Accounting Research* that the carbon credits market is currently largely unregulated and lacks transparency.

The principal object of the ICCAA is therefore, to advance, promote, measure, regulate and provide assurance certification of carbon credits for the effective implementation of emissions trading systems aimed at encouraging participation in carbon credit markets by its members to improve environmental sustainability and provide solutions to reducing the greenhouse effect and resultant climate change.

The ICCAA hopes to provide leadership in delivering the knowledge needed to achieve an efficient and effective regulatory framework and systems that enable emission technologies to compete on a national and international level. To achieve this objective, the ICCAA will provide an independent forum to a wide spectrum of organisations - from energy and forestry companies to government organisations to environmentalists and carbon brokers - to canvas and consider regulatory proposals, policy and best practices related to carbon credit markets and emissions trading systems.

ICCAA will therefore need to collaborate with and establish and maintain relationships and close communications with corporations, entities, associations, foundations, institutions, organisations and groups including Federal, State and Local Government instrumentalities, authorities and professionals that have related interests to the ICCAA and utilise their resources and facilities to provide and achieve the principal object of the ICCAA.

ICCAA also hopes to aid in the development of facilities, methods and systems to achieve an efficient and competitive energy and environmental sector. Amongst its key objectives is to provide a process to disseminate information relating to carbon credit markets and emissions trading systems.

ICCAA will, therefore, educate, train and certify individuals so that they can professionally advance, promote, measure, regulate and provide assurance certification of carbon credits for the effective implementation of emissions trading systems; advise on technical, administrative and regulatory issues related to carbon credit markets and emissions trading systems; and monitor, facilitate, research and evaluate carbon credit markets and emissions trading systems. As such, ICCAA will provide Members with the necessary resources, technologies and information to enable them to participate in carbon credit markets and emissions trading systems; and conduct public programs including education programs, social and community programs and research programs in fields relevant to carbon credit markets and emissions trading systems.

CMA can only be earned

Snapshot Series!

Snapshot Series 5
(continuing a discussion on a theme)

'Carbalisation'

In the last issue of On Target we discussed the emerging paradigm of 'Carbonomics' in which there is pressure to buy products that have a smaller carbon footprint. Such a parochial stance will, at least in the short run, cause a shift in world trade. For example, in recent years there has been a significant shift from 'localisation' to 'globalisation', especially with the opening up of China, India and the Easter block However, as more people are encouraged to work closer to home, buy produce from the local farmer, and have a 'Green Wedding' by buying wine etc. locally, (TIME, April 9, 2007), then a shift back to localisation is possible. We have termed shift in world trade as, 'Carbalisation'.

'Carbalisation' is based on the concept of product-distance (in miles or kilo meters), i.e. the distance a product travels to get to its place of final purchase for consumption. Separate studies by the oil giant BP and the German Institute for Physics and Atmosphere released earlier this year revealed the world's shipping could have a serious impact on global warming. Annual emissions from shipping made up 5 per cent of the global total, while the aviation industry, which is subject to far greater scrutiny, contributes only 2 per cent. CO2 emissions from ships do not come under the Kyoto agreement, and few studies have been undertaken. Although CO2 emissions on a per-kilogram basis were significantly lower for shipping when compared with air freight, it is distance that has been targeted as most imports of fast moving consumer goods (FMCGs) are mostly imported via shipping lines.

An example is given of imported bottled water from Europe using approximately 80 kg of CO2 emissions per metric tonne of bottles to be shipped to Australia, whilst from Egypt it is 70 kg and from nearby Fiji only 20 kg. The urging is similar to the TIME magazine recommendations, i.e. buy from sources as close as possible to point of purchase.

Further, as consumers become 'carbon sensitive' by checking labels before buying, any labour cost advantages of products from countries such as China may disappear. Countries may impose a 'countervailing tax' on such items if they are seen to be 'dumping' high carbon emission products in a country. Another concern expressed by some economists is that if the developed world takes the cost impact of CO2 emissions cuts, this will reduce the purchasing power and the standards of living of their people. Thus although (developing world) countries like China and India are allowed to catch-up by not having stringent CO2 emitting standards, the economic growth of these countries will anyway be stunted by the loss of purchasing power in the developed world, in addition to behavioural adjustments of their population to buy locally due to carbalisation.

Mandatory or voluntary carbon costs are eventually going to flow on to prices and competitiveness of industries and countries. Manufacturers in countries subject to more controls will feel penalised if these controls allows offshore manufacturers from developing countries (who are possibly less environmentally efficient) to get a competitive advantage. Such as imbalance will not only cause concern from an economic perspective, but may do little to prevent global warming from an environmental perspective as eventually from where the CO2 is emitted is of no consequence to the warming of the globe.

Recently China (the second biggest polluter behind the USA) has stated that economic considerations come first and thus will only consider reducing carbon emissions only as a secondary issue. Thus, Chinese products will continue to 'cheaper', not only due to cheap labor, but also due to the non-incorporation of carbon costs. Countries that import such products will not only adversely affect the economic viability of their own country's businesses, but also they will be the target of the Chinese 'dumping' carbon emissions on them. The only way (other than forcing China to accept their responsibilities by negotiation) is to place a countervailing tax on such imports (similar to that placed when companies 'dump' products via transfer pricing).

It is clear therefore that Carbonomics and carbalisation will produce winners and losers in both the product and allowances markets, and in organisations and countries. In the products and services market the winners will be 'low carbon intensity' firms and those that can pass on their carbon costs. Some of these firms could earn windfall profits. The losers will be 'high carbon intensity' firms and those that are unable to pass on their carbon costs. As the loser's profits reduce, there will be a loss of market share to the winners.

In the allowances market, the winners would be countries 'on-track' for meeting Kyoto standards. These countries (and companies within them) will have a higher proportion of required allowances allocated free, and could earn windfall profits from the sale of these allowances. The losers will be countries a long way from Kyoto compliance, that will need to purchase a higher proportion of allowances from the market.

In the next issue of On Target: Carbon Cost Accounting

Bookshelf

For those running up to the end of financial year it may or may not be a good time of year to mention an article about performance evaluation. However, Ian Herbert in "Management Accounting: Performance Evaluation" (Financial Management, May 2008) argues "What differentiates good managers from bad ones is the ability to distinguish what is relevant to the scenario at hand. ... Perhaps you should even treat the users of your accounting information as internal customers."

Of course, it's not just the information needed by users but also the tools that are used by management accountants such as ABC or the Balanced Scorecard. Harold P. Roth in "Using Cost Management for Sustainability Efforts" (Journal of Corporate Accounting & Finance, March/April, 2008) reminds us that when it comes to measurement (in this case sustainability measures) each organisation needs to decide which tools are most appropriate based on the organisation's strategy and capabilities.

Another variable that needs to be considered in the design of management accounting systems is the organisational structure. With the move towards customer-orientation and process efficiency, many organizations are adopting a horizontal structure. In his essay in Accounting, Organizations and Society (May/June 2008) "Accounting for the Horizontal Organization: A review essay", Robert Chenhall reviews approaches published in three books over the last decade which distil the key elements of the horizontal organization.

Bill Richardson

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