KPMG

# FROM TALK TO ACTION

## Board Leadership Centre event

October 2021

With the 26th UN Climate Change Conference of the Parties (COP26) front of mind, a KPMG Board Leadership Centre roundtable dived into the key issues of climate change for board directors to consider – from financial investments to geopolitical competition, as well as the need for Australia to act more aggressively on emissions reductions, now.

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>
> **BARRY STERLAND**
> PARTNER, ENERGY TRANSITION, KPMG AUSTRALIA

With so much at stake, from the health of the planet and life, to the existence of whole nations, or the sustainability of economies and organisations, it is clear why the eyes of board leaders were firmly fixed on COP26 in Glasgow, UK, in early November 2021.

To explore the key COP26 issues and what they mean for board decision making, Alison Kitchen, Chairman, KPMG, hosted a recent KPMG Board Leadership Centre roundtable, with a panel discussion led by Ted Surette, Board Director, Providence Asset Group, and Energy Advisor.

"What is it going to take to get to net zero?" asked Surette, before opening up the panel to explore topics ranging from climate change financing to evolving geopolitical complexities, as well as Australia's new commitment to reach net zero emissions by 2050. Here are some of the key discussion points.

### Financing climate change mitigation

With climate change mitigation shaping up to be an immense cost for nations, Barry Sterland, Partner, Energy Transition, KPMG Australia, said while economy-wide policies are essential, private capital providers will play a big role in building the necessary financial momentum.

"They (commitments) won't be in a universal UN framework, but there will be strong pressure for commitments about financing new coal facilities, the phase-out of industry internal combustion engines, forestry and the like," he said.

He added that another key issue for both governments and industries to address is how emerging economies will obtain the finance they need to adjust to low carbon emissions, as well as to adapt to the "inevitable climate change that's already built into the world system".

Surrette asked Tim Buckley, Director of Energy Finance Studies, Institute of Energy Economics and Financial Studies (IEEFA), what it will take to finance a transition to reduced carbon emissions. Buckley was optimistic that global finance can deliver, pointing to key figures such as Mark Carney (UN Special Envoy for Climate Action and Finance), who announced at New York Climate Week 2021 US$90 trillion of capital had been committed towards net-zero.

"Even in the last month, that number is now in excess of US$100 trillion…That's how fast finance can pivot," he said.

Buckley anticipated that numerous Unicorns will emerge in the space of climate technology for investors to watch and support.

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**TIM BUCKLEY,**
DIRECTOR OF ENERGY FINANCE STUDIES

## A technology race of nations

COP26 must lead to real action after years of talking and planning, with an urgent decade ahead for every nation, explained Buckley.

"We actually are debating; how do we implement the (Paris) treaty?" he said.

A key way forward is technology, Buckley explained, and he is inspired to see that there is a decarbonisation-focused technology race between nations underway.

"Bring on a global race and that will just accelerate the investment, the regulatory frameworks, the investment in capacity building at the national level," he said.

The scope of this technology race is widening, he said, to include the "electrification of everything," battery enhancement, the phase out of internal combustion engines, international grid connectivity, and major heavy industry decarbonisation.

"…the extreme fossil fuel price inflation of the last year also means there's going to be a newfound interest in the electrification of everything. Energy security for the key fossil fuel import nations of the world is absolutely key to their economic prosperity," said Buckley.

Buckley raised that the much-touted technology of carbon capture and storage (CCS) will be in no position in the short term to be relied upon for decarbonisation.

"We need to call out that green hydrogen and zero emissions technologies are the solution. They are the industries of the future, not the fig-leaf of so-called blue hydrogen," he said.

He added that the idea of a 'methane fee' is something that could be swiftly introduced, and "would solve major parts of the problem and would change the trajectory overnight."

Sterland countered Buckley's opinion about CCS slightly, acknowledging that it is a fledgling technology yet to be useable at scale – but said such innovations should continue to be explored as the cost of inaction is too great.

"I don't know whether it'll work in the long run. I don't know whether blue hydrogen can be made to work on a commercial scale. But when I look out that far, I just would like to keep all the horses in the race," he said.

## Geopolitics creating competition

World leaders have a lot to balance when it comes to climate change mitigation strategy – from domestic pressures to expectations from other states to deliver on promises. Surette asked Dr. Merriden Varrall, Director, Australia Geopolitics Hub, KPMG Australia, how geopolitics will help or hinder climate progress.

"This geopolitical context is an environment of competition, of mistrust, one where market logic is being increasingly subsumed by national interests," she replied.

Central to climate geopolitics is the great power rivalry between the US and China, Varrall said, with this rivalry making diplomacy and cooperation more difficult. However, she didn't expect this competition to undermine either party's determination to be strong on climate action, "because climate action is in their national self-interest."

For China, she pointed to the domestic pressure to be seen as a world leader on an issue of global morality.

"In the US the calculations are not entirely different. So, neither of the big players is going to be shifted away from their commitments by the geopolitical context," she said.

Another geopolitical challenge will be the growing north-south divide, Varrall explained.

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AUSTRALIA GEOPOLITICS HUB, KPMG AUSTRALIA

"What we've seen is developed countries not following through on their commitments to support developing countries to adapt and mitigate climate change…so frustrations from the developing world at this failure are adding to tensions," she said.

Corporate influence is another factor to watch in climate geopolitics, according to Varrall. She observed that corporates globally are "pushing and deepening political will to commit to climate action".

"What the private sector says and does around COP26 sends a very clear signal to governments that investing in climate action is a net positive for businesses, jobs and for economies," said Varrall.

### Australian climate policy push

The Australian Government's COP26 commitment to reach whole-of-economy net-zero emissions by 2050 will come under pressure, the panel agreed.

For example, Sterland said this pressure from other nations "will be immense" as "some of our closest allies are not just passengers in this, they're the leaders of this push."

Sterland highlighted that Australia's low-lying Pacific neighbours in particular will be looking to Australia to step up its commitments, as their future existence is directly at stake.

Adding to this will be an impact on trade and trust in Australia, Varrall pointed out.

"Now our key allies all have more ambitious targets… likewise, the people that we sell to have ambitious targets...They want to see Australian action, not just rhetoric. Will they see Australia as a trustworthy, reliable and responsible stakeholder given the targets and the approach that we're taking now? ….will they choose to do business with us if there are other options available?" she said.

The panel was in agreement that while a stronger Australian Government climate change mitigation policy is essential, it's not the only lever. Boards of corporations can make decisions that can contribute in a positive way. Sterland was absolutely clear on why board leadership on the matter is essential. "…the next decade is a really key decade if we're going to avoid catastrophic climate change," he said.

In short – there is no time for government, or boards, to wait.

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