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Boardroom Questions

The Paris Agreement: a global deal on climate change

KPMG International

What does the Paris Agreement mean for businesses?

In December 2015, the world's nations agreed a landmark deal to reduce carbon emissions and combat climate change. The deal, struck at the 21st UN Climate Talks (COP*21) held in Paris, is known as The Paris Agreement.

> **The Paris Agreement marks a tipping point. Going forward the world has a shared vision that will lead inexorably to investors moving away from fossil fuels and towards a future powered by low carbon energy"**
> *Philippe Defosses, Director of French Pension Fund ERAFP*

> **Governments must now put words into actions. My key message is to price carbon right and to do it now"**
> *Christine Lagarde, Managing Director, International Monetary Fund*

Why is the Paris Agreement needed?

- Global temperatures are currently on course to rise by up to 4°C above pre-industrial levels by 2100
- Scientists predict potentially catastrophic impacts once temperatures rise by 2°C
- 2015 was the hottest year since records began. 14 of the hottest 15 years on record have been since the year 2000
- The World Economic Forum cites the failure to mitigate or adapt to climate change as the global risk with the greatest potential impact[1]

What did countries agree?

- The world will limit global temperature rise to 2°C and make "best efforts" to limit it to 1.5°C
- The world will become carbon neutral at some time between 2050 and 2100
- All countries will set national targets to reduce carbon emissions and update them every 5 years
- Countries will report transparently on their progress towards reducing carbon emissions
- By 2020, richer countries will provide US$100 bn per year to help poorer countries address climate change

What corporations might expect

- **Tighter regulations** to limit carbon emissions and improve energy efficiency
- **Higher costs**, e.g. carbon taxes and trading systems
- **Stronger requirements** to report on emissions
- **Pressure to disclose the financial risks** the business faces from climate change
- **Greater opportunity** in the low-carbon economy
- **Improved incentives** for low-carbon products/ services
- **Stronger demand** for low-carbon suppliers
- **Pressure to manage emissions** across the value chain

Possible impact for business in getting it wrong

- **Increasing costs** for high-carbon companies
- **Penalties for non-compliance** with new regulation
- **Competitive disadvantage** as customers seek lower-carbon suppliers
- Threats to **shareholder value**
- Brand and **reputational damage**

Potential opportunities for growth

- Low-carbon economy offers opportunity for **innovation and new markets**
- **Shareholders reassured** that risks are addressed
- **Customers demonstrate brand loyalty** and select suppliers that reduce emissions

[1] WEF Global Risks Report 2016

*Conference of Parties

Boardroom Questions

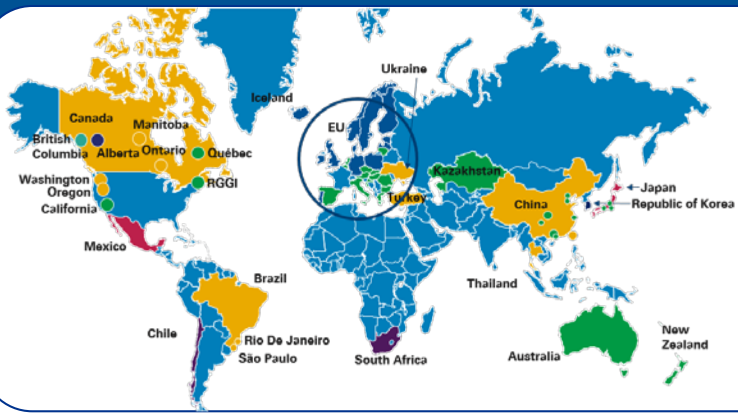
Strategy

1. Is our business **ready to prosper** in a low-carbon economy?
2. Are we **investing in the innovation** of greener products and services?
3. Are we ready to **respond to tougher customer demands** to be low-carbon and climate friendly?
4. How can our **business grow and simultaneously reduce** its carbon emissions?
5. How can we **reduce exposure to future regulation, taxes and pricing** of carbon emissions?

Operations

6. Is our organization **ready to comply** with more stringent carbon reporting requirements? Do we have the right systems and processes in place?
7. Is our organization prepared to **identify, quantify and disclose the financial risks** it faces from climate change?
8. Is our organization's **reputation at risk**, for example for not sourcing enough clean, green energy?
9. How exposed is our **business and its supply chain** to the likely impacts of climate change such as **extreme weather, water scarcity and social unrest**?
10. How will the **carbon reduction commitments** made by the **countries in which we operate** affect our organization?

Summary map of existing, emerging and potential regional, national and subnational carbon pricing initiatives (ETS and tax)



- ETS implemented or scheduled for implementation
- Carbon tax implemented or schedule for implementation
- ETS or carbon tax under consideration
- ETS or carbon tax implemented or scheduled
- ETS implemented or scheduled, tax under consideration
- Carbon tax implemented or scheduled, ETS under consideration

Source: World Bank Group & Ecofys, Carbon Pricing Watch 2016

What actions could the Board consider?

Assess legal, commercial and reputational risks, as well as the risk of exposure to the physical and social impacts of climate change

Review and improve systems to measure, manage, report and reduce our organization's emissions

Initiate systems and processes to identify and disclose the financial risks posed by climate change

Protect and enhance our organization's reputation as pressure grows on business to reduce emissions

Review corporate strategy to position our organization to **grow and prosper** in a low-carbon economy

Ensure we have **resource and capability** to implement the actions above

> KPMG's Sustainability Services professionals spend over one million hours every year helping clients improve their environmental and social performance." *Adrian King*

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