

Navigating the business landscape - COP26 and beyond

An ESG committee perspective

Board Leadership Center



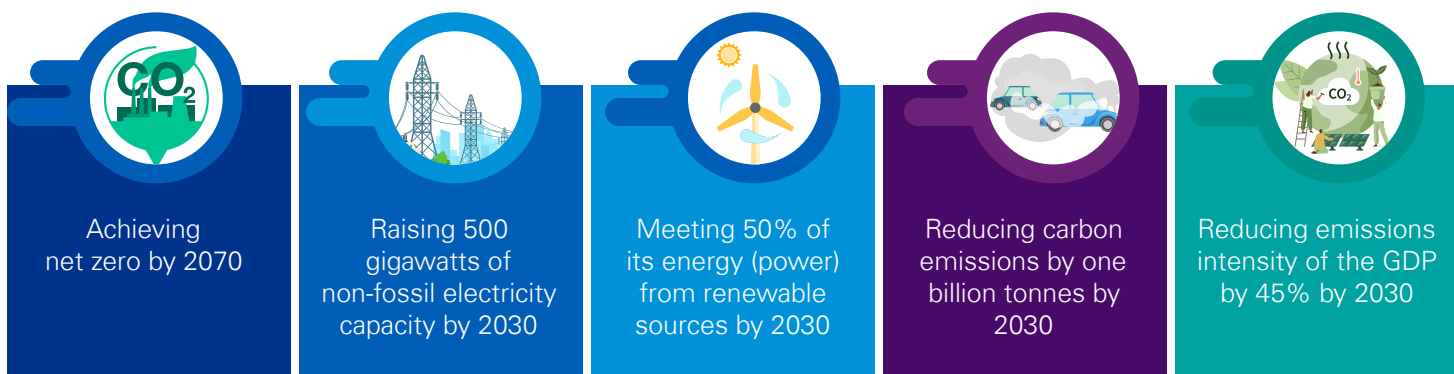
The world has evolved since the Rio Earth summit in 1992, from identifying climate change as a fringe issue to a global priority. The 26th annual Conference of the Parties (COP26), held in November 2021, was a pivotal moment in many aspects. Several important decisions were taken in operationalising the Paris Agreement, and revising the targets to secure and protect habitats, keep 1.5 degrees within reach, and mobilise finance, collaborations and partnerships for technology transfers. With new commitments made by India, and several other countries, at least 90 percent of the world's economy has defined net-zero targets, a figure that was less than 30 percent one year ago¹.

The Glasgow summit also witnessed the launch and emergence of innovative sectoral partnerships, global collaborations and new opportunities, with a focus on solutions aimed at decarbonising key sectors and building resilience. COP26 lent momentum to many initiatives², such as nearly 100 countries committing to

the reduction of methane emissions, acceleration of the use of decarbonised hydrogen, and the establishment of the International Sustainability Standards Board (ISSB). After six years of negotiations, COP26 produced a strong Paris Agreement rulebook for international cooperation through carbon markets. The rules outlined therein will allow countries to focus their efforts on ambitious implementation of their emission reduction targets, bring greater transparency on how carbon markets work and prevent the double counting of carbon reductions. These actions have created a wide gamut of opportunities and levied responsibility on businesses and policymakers.

Over the past decade, India has taken several key steps like announcing a nationally determined contribution under the Paris Agreement to address climate change and has strengthened its position to emerge as a climate leader. At COP26, the Prime Minister of India announced a five-fold climate action strategy, 'Panchamrit'³, which built on India's previous commitments.

India's Commitments



With the release of the Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report⁴ on climate change in 2021, it was evident that limiting the temperature rise to 1.5 degrees is no longer an option, but the need of the hour. This is especially true for India, which has been identified as one of the regions most susceptible

to the impact of climate change. As a result, organisations will face immense pressure from different stakeholder groups to integrate climate-related impacts in their business strategies, develop climate-conscious products, set targets on climate-related aspects and disclose performance against them.

1. PM: Glasgow Climate Pact keeps critical 1.5C global warming goal alive, Gov.uk, Prime Minister's Office, 10 Downing Street and The Rt Hon Boris Johnson MP, November 13, 2021.
2. COP26 reflections: Implications for businesses, KPMG, Anvesha Thakker, Mike Hayes, and Simon Virley.

3. National Statement by Prime Minister Shri Narendra Modi at COP26 Summit in Glasgow, PIB Delhi, Shri Narendra Modi, November 01, 2021
4. AR6 Climate Change 2021: The Physical Science Basis, IPCC, August 6, 2021

While raising the bar on commitments, the Prime Minister has also indicated the need for climate finance and technology transfer from developed countries to support India towards a low-carbon transition. Availability of finance and technology as anticipated will support Indian businesses in restructuring, diversifying and aligning business models to become climate conscious.

As India races to meet its climate-linked commitments, the call for action with respect to energy transition, propelling the growth of renewable energy, electric mobility and carbon sink creation is growing louder. This is culminating in corporates and businesses developing innovative and resilient business models.

Six key elements have been identified by the ESG Board council to navigate the evolving landscape for the Board of Directors across corporates.

Potential regulatory landscape



Since the introduction of National Action Plan for Climate Change (NAPCC) in 2008, the Government of India has renewed focus on climate change mitigation and adaptation mechanisms like renewables, clean mobility, green hydrogen, increase in forest cover and bringing environmental concerns at the heart of corporate governance. These actions help ensure that India is heading in the right direction. To achieve the nation's net zero goal, the economy requires a clear roadmap accompanied by a suitable policy framework. The development of this roadmap must be done through collaboration between the government, corporations, investors and regulators for maximum effectiveness. Businesses should expect governments to continue to develop ambitious climate-related regulations, in addition to any regulations at the international level.

This trend is clearly visible in recent developments like the introduction of Business Responsibility and Sustainability Reporting, which focusses on disclosures relating to greenhouse gas emissions. Adding to this, the Reserve Bank of India has also emphasised the introduction of climate-related risks in businesses' risk management framework at the Green and Sustainable Finance conference. These anticipated changes will make it integral for Indian businesses to account and disclose their GHG inventories, determine the scope and boundary to avoid double accounting, set up emission targets and report on progress.

Building climate-resilient businesses



According to KPMG International's 2020 publication 'Towards Net Zero', 46 percent of all G250⁵ companies state their ambition to achieve net-zero emissions in or before 2050 in their report. However, only 17 percent of G250 companies clearly describe their company's strategy to achieve decarbonisation targets. It is, therefore, evident that businesses will need to revamp their strategies, and present comprehensive decarbonisation plans that encompass the entire value chain. Decarbonisation involves a major shift and companies should identify how their plan impacts their strategy in terms of business models, investments, and upstream and downstream value chain, including products, business lines, R&D and operations. Organisations should also consider undertaking climate-related scenario analysis to manage exposure to climate-related risks.

As we move ahead, it is important to consider past trends and current issues, while creating a strategic roadmap for the future. India's economy is largely dependent on

traditional industries, especially coal. Leaders of these industries feel that the government should enable transition with in-depth planning and sector-aligned reskilling initiatives, to ensure inclusivity. The Government should institute social support programs, devise strategies and manage the impact on lower income households.



5. The G250 refers to the world's 250 largest companies by revenue based on the Fortune 500 ranking.

Innovation for climate action



Innovation is undoubtedly one of the key areas to be addressed to develop low-carbon technologies. The latest report from the IPCC underlines the urgency to accelerate and implement innovation for climate action at all scales, in an integrated and holistic manner. There is also a push from the Government of India to enable the transition to a low-carbon economy through investments in infrastructure, which is evident from the Union budget's emphasis on urban planning, clean technology and public transport.

India also needs green infrastructure investment trusts to facilitate deeper green bond markets and drive innovation in green finance. Fiscal measures such as a supportive taxation policy for green finance would help bring down transaction costs and promote better lending.

Organisations can design and invest in potential products and solutions to reduce emissions, which are likely to gain popularity and result in the expected inflow of green capital. Based on recent statistics, 61,186 patents⁶ related to green technologies have been granted in India between

2016-17 and 2021-22. Of these, most were related to waste management, transportation technologies and alternative energy production. At present, there is a gap in the current state of India's energy sector and the target of generating 500 gigawatts (GW) of electricity from non-fossil fuel sources. Efforts to bridge this gap, and source 50 percent of energy from renewable sources, will open the floodgates for large, medium and small enterprises to invest in clean energy.

One of the key discussions of COP26 is climate adaptation, which is needed to manage the continually increasing level of physical risk, irrespective of decarbonisation measures. Key climate adaptation measures include actions to protect assets, install grey infrastructure, build resilience, and diversify supply chains.



Carbon pricing: A key metric for climate resilience



India does not have an explicit carbon price or an emission-based trading instrument. It does, however, have an array of schemes and mechanisms that put an implicit price on carbon like the Perform Achieve Trade (PAT) scheme, coal cess, Renewable Energy Certificates (RECs) and Renewable Purchase Obligations (RPOs). Additionally The Task Force on Climate-related Financial Disclosures (TCFD) has listed internal carbon pricing as a key metric to assess climate-related risks and opportunities, positioning it as an important measure for businesses that want to align themselves with the TCFD's recommendations.

With these advancements, internal carbon pricing mechanisms will gain momentum in the private sector for taking strategic investment decisions.

The ESG Council recommends that businesses should anticipate the future impact of carbon pricing by introducing an internal carbon price, which will provide an incentive to shift investments to low-carbon alternatives. This has the advantages of helping a company make progress on its greenhouse gas reduction targets, gain a competitive edge, showcase leadership, and build resilient supply chains.



6. Every second patent granted since 2016 linked to green tech. The Times of India, Chethan Kumar, February 8, 2022.

Supply chain emissions: A gamechanger for climate action



As businesses move towards greening their operations, the value chain plays an important role in making a company's operations sustainable. Global retail, FMCG and e-commerce companies hold the largest piece of the pie when it comes to supply chain-related emissions. For such companies, limiting their Scope 1 and 2 emissions heavily depends on the performance of their upstream and downstream supply chain partners. However, reducing emissions along the supply chain is not an easy task. Restricted supply, shortage of critical materials and components, and lack of transparency are prime challenges in supply chain decarbonisation.

To address these, businesses should encourage agile transformation, enhance diversification, and support circularity. Governments and regulators should also lend support through the development of symbiotic industrial corridors which, in turn, support a circular economy. A large multinational e-commerce company has pledged to become carbon neutral and committed to provide sustainable business to its customers. As part of this effort, it has taken appropriate initiatives to use zero-carbon fuel

sources for its ocean vessels. This is expected to have a cascading impact on its suppliers.

The Council has identified this as an important element, as it fosters an ecosystem that encourages the use of renewable energy, clean technology and carbon offsets. This argument is further reinforced by **CDP's Global Supply Chain Report 2020**, which indicated that scope 3 emissions, or those from an organisation's value chain, are 11.4 times greater than those caused by its own operations. By addressing supply chain-related emissions in coordination with suppliers, enterprises can help drive progress toward COP26 goals.



Leveraging 'Make in India' for climate action



The Make in India initiative had already put the country on track to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure required by pre-defined focus sectors. There is a need to consider the targets and commitments set by both India and other economies at COP26 to address the challenges and tap into the opportunities arising from climate change.

The COP26 succeeded in making significant progress on Article 6, bringing greater transparency to how carbon markets work, closing several loopholes and reducing the scope for double counting of carbon reductions. As a result, economies around the world are on the path to develop regulations like the EU Carbon Border Adjustment Mechanism (CBAM) to prevent carbon leakage, which will pose significant challenges to exports for countries like India. The carbon border adjustment tax will have serious implications on organisations and sectors with a large greenhouse gas footprint.

The Make in India initiative can also help its focus sectors move towards cleaner technology and carbon reduction, which will help Indian businesses keep pace with their international peers. It will also help them capitalise on opportunities in clean energy markets.

Developed countries have also promised to provide the required funds to support developing countries in transitioning to a low-carbon economy. Make in India can utilise this new pool of capital for a smooth transition towards a low-carbon economy, without compromising overall economic development or impacting those dependent on traditional industries.

Organisations are facing an era of unprecedented business disruption and transformation as a result of climate change. It will be imperative for businesses to embrace the race to net zero and step up to create a strategy for climate resilience.



We would like to thank our ESG Council members for their valuable time, insights and perspectives that have contributed to building this PoV document.

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