cutting through complexity

COP21/PARIS 2015 UN CLIMATE CHANGE CONFERENCE:

What does it mean for business?

About this briefing

Over 190 countries will meet in Paris at the end of 2015 as the UN attempts to broker a universal agreement on combatting climate change. This will be the 21st annual UN climate meeting and expectations of a successful outcome are higher than ever.

At KPMG, we know that climate change and sustainability matter to clients. Many of our member firms' largest global clients support calls for governments to take action on climate change. KPMG International has added its own voice to many of these initiatives.

The international process of reaching a global agreement is complex and will of course be challenging. The issues and details of these negotiations can be opaque for those who don't deal with them on a day-to-day basis. That's why we have produced this briefing.

Our goal was to set out in simple terms what COP21 is about, why it matters, what the potential outcomes could be, and what the implications of those outcomes are for business. We hope you find this summary useful.

John Veihmeyer,
Global Chairman, KPMG International

What is COP21/Paris 2015?

COP21 will be the largest diplomatic event ever hosted by France. It is expected to attract close to 50,000 participants, including 5,000 government negotiators and a further 20,000 official government and civil society delegates.

The key objective is to reach an agreement that will limit increases in global average temperature to 2°C or less above pre-industrial levels. The 2°C target was agreed at previous UN climate talks and is widely acknowledged as necessary to prevent potentially catastrophic effects of climate change.

Before COP21, **all countries must publish details of what they will do to contribute to the 2°C goal** (known as "Intended Nationally Determined Contributions" or INDCs).

Another objective of the meeting is to **mobilize a flow of US$100 billion per year** from developed to developing countries to help them reduce emissions and adapt to the effects of climate change. The funds will come from both public and private sources from 2020 onwards.

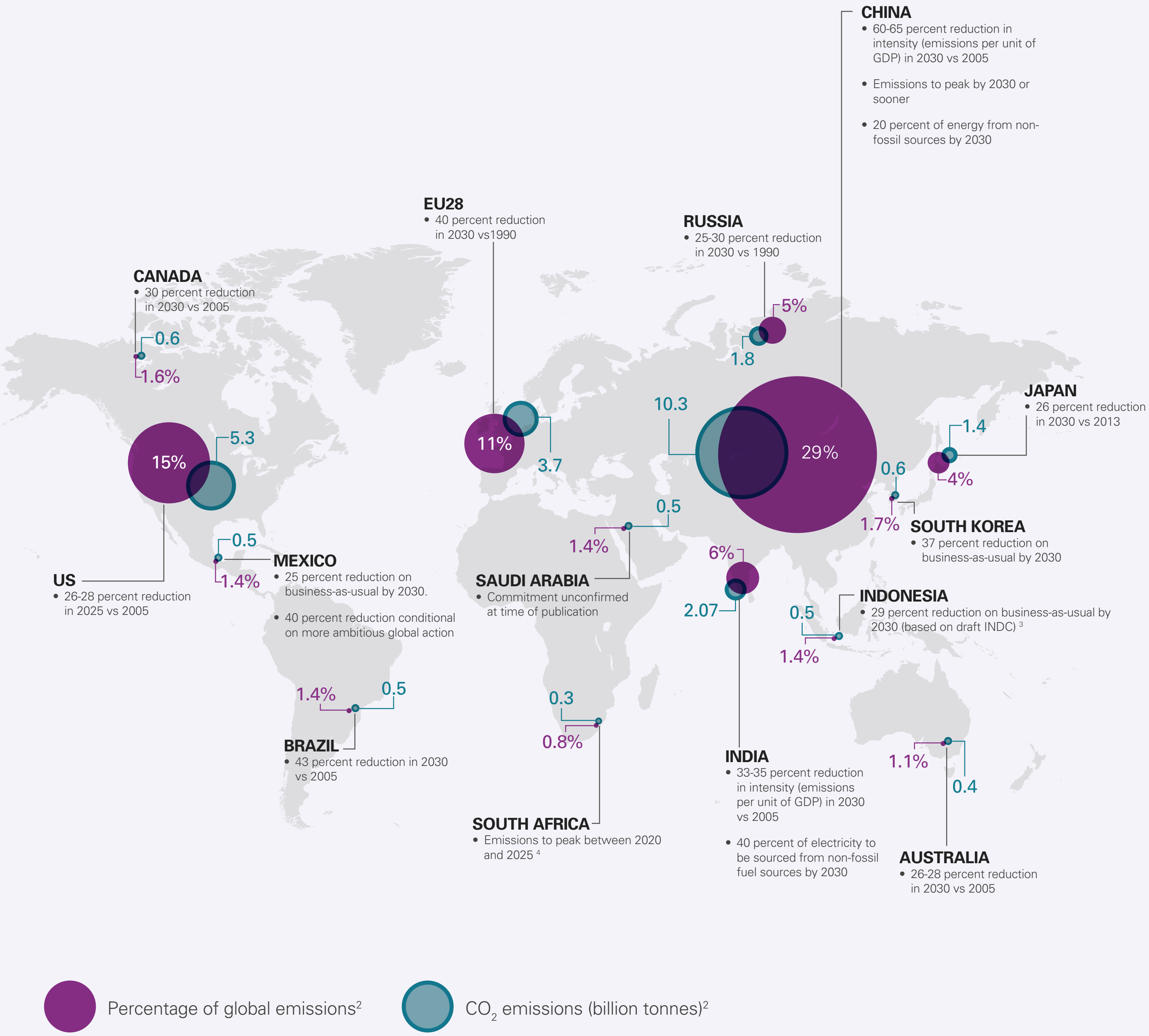
France will play a leading role in facilitating the COP21 negotiations and ensuring they are transparent and inclusive. President Hollande is closely involved and the French Foreign Minister, Laurent Fabius, is President of COP21. France will also invite heads of state to attend the conference.

" Science has spoken…There is no ambiguity in their message. Leaders must act. Time is not on our side. "

Ban Ki-moon
UN Secretary General[1]

1. http://time.com/3553269/un-climate-change-report/#3553269/un-climate-change-report/ Retrieved 10 September 2015

What carbon reduction commitments have countries made?[1]



1. Intended Nationally Determined Contributions (INDCS) sourced from the United Nations Framework Convention on Climate Change (UNFCCC) http://unfccc.int/focus/indc_portal/items/8766.php Retrieved 7 October 2015
2. 2013 data. Emissions from fossil fuel use and cement. Source: PBL Netherlands Environmental Assessment Agency (2014) Trends in Global CO2 Emissions 2014 Report.
3. http://carbon-pulse.com/indonesia-indc-proposes-29-cut-by-2030-draft Retrieved 7 October 2015
4. http://www.wri.org/blog/2015/10/south-africa-pledges-peak-its-greenhouse-gas-emissions-2025 Retrieved 7 October 2015

Why are expectations high for a global agreement?

There is a deadline in place: Governments are under pressure because, at previous UN climate talks, they committed to agree an outcome "with legal force" by the end of 2015 which would take effect from 2020.

The politics is changing: China and the US, the world's two biggest emitters of carbon, made ambitious pledges to cut their carbon emissions in an historic joint announcement in 2014. China will also implement a national carbon trading system by 2017.

This marks a significant policy shift in both countries and President Obama is widely perceived to be making the fight against climate change a cornerstone of his second term in office.

What's more, the G7 has agreed to cut carbon emissions by up to 70 percent by 2050 and to phase out fossil fuels entirely by 2100.

Top down to bottom up: the basis of negotiations has changed from previous years. Rather than attempting to apply a "top down" requirement on all nations, negotiations are taking a "bottom up" approach, allowing individual nations to determine the carbon cuts they are able and prepared to make.

The voice of business is growing louder: More and more businesses see carbon pricing as ultimately inevitable and are therefore pushing for clear and consistent policy. An example is the June 2015 call by 6 oil majors – including BP, Shell and Total – for governments to introduce carbon pricing and a global framework to connect national pricing systems.

Prominent business leaders calling for action include Unilever's CEO Paul Polman, Apple CEO Tim Cook, Virgin Group Founder Richard Branson, media mogul Arianna Huffington and Tata's Chairman Ratan Tata.

Pressure from society is increasing: It is not only politicians and business leaders who are calling for action. Religious leaders including Pope Francis, Islamic leaders, the Archbishop of Canterbury, The Dalai Lama and South Africa's Archbishop Desmond Tutu are also doing so.

The energy and finance landscapes are changing: The costs of renewable energy technologies have fallen dramatically and new financing mechanisms for low-carbon investment – such as green bonds – are increasingly common.

> "A lot of responsible business leaders are speaking out. They know that by 2050 this world has to be carbon neutral."

Richard Branson,
Founder, Virgin Group [1]

1. http://www.wemeanbusinesscoalition.org/leaders Retrieved 15 October 2015

What is the likely outcome of COP21?

By the end of 2015 almost every nation on earth will have made a commitment to reduce its carbon emissions. That has never happened before and is an achievement in itself.

Viewpoint: Adrian King
Global Head, KPMG Sustainability Services

However, I see it as a starting point rather than the conclusion of the global process. Science tells us that the carbon-reduction commitments to be formalized at COP21 will, almost certainly, not be enough to limit global temperature rise to 2°C or less. At best, we will be on track for a rise of around 3°C.

It is therefore highly likely that national commitments to reduce carbon – and the international legal framework underlying those commitments – will be strengthened in the future as the impacts of climate change become more severe.

There are still many challenges. For example, we don't yet know which aspects of the agreement will be legally binding. We also don't know whether the US Congress will allow legislation to pass there.

Yet, despite these hurdles, it is likely that history will see COP21 as a critical step on the road to a low-carbon, and ultimately zero-carbon, global economy.

So what risks and opportunities should businesses expect in coming years as the result of national commitments to cut carbon?

Risks

- Tighter regulations on business to limit emissions of carbon and other greenhouse gases and to improve energy efficiency, and higher penalties for non-compliance
- Higher costs worldwide as carbon pricing is implemented in more countries, either in the form of carbon taxes or trading systems. Over time, national carbon pricing systems are likely to be connected to form international systems
- Stronger requirements to report on and manage carbon emissions right across the value chain
- Companies are also likely to face more pressure to be transparent both about the risks they face from tightening carbon regulation and about the contribution they themselves are making to the goal of keeping global temperature rise within the 2°C limit. Shareholder scrutiny and threats to brand and reputation are likely to increase

Opportunities

- More incentives to develop and use low-carbon products and services such as renewable energy, carbon capture-and-storage, battery technology and low-carbon transport
- New opportunities to build low-carbon infrastructure supported by increasing climate funding, for example the Green Climate Fund
- Demand for low-carbon suppliers is likely to increase as organizations look to reduce carbon emissions in their supply chains

"The conversation is shifting to opportunities … more and more business people understand that the solutions are available today at a relatively low cost."

Paul Polman,
CEO, *Unilever* [1]

1. http://www.wemeanbusinesscoalition.org/leaders Retrieved 15 October 2015

What action should companies take?

Take a proactive, not a reactive, approach to carbon and climate change at Board level

Operations

Ensure that the business fully understands and is prepared for the potential impacts of climate change on the supply chain. Consider the effects of extreme weather such as storms and flooding on critical suppliers, possible disruption to the supply of key commodities and raw materials, and increasing water scarcity in many regions

Ensure that the right systems and processes are in place to deal with stringent carbon reporting requirements

Protect brand and reputation by developing and communicating a clear and consistent position on the issues of carbon and climate change, and showing what your business is doing to reduce emissions

Understand how the carbon reduction commitments made by the countries in which you operate are likely to affect your organization

Strategy

Implement scenario planning to understand how COP21 national carbon reduction commitments are likely to trickle down to business in the form of regulation, penalties and incentives

Where no regulatory carbon price yet exists, anticipate the impact by building an internal carbon price into business planning and risk management. Over 400 companies worldwide that report to the Carbon Disclosure Project (CDP) are already using carbon pricing internally to drive investments in emission reduction[1]

Understand how climate change impacts may affect future profits and shareholder value. Reassure stakeholders that your business is well prepared to flourish in a "2°C world"[2] – consider producing a 2°C report

Collaborate with sector peers, suppliers and customers to reduce climate change risks and develop growth opportunities, such as innovative low-carbon products and services

Investigate opportunities to issue green bonds to raise capital for investment in carbon reduction and low-carbon innovation

1. https://www.cdp.net/CDPResults/carbon-pricing-in-the-corporate-world.pdf Retrieved 7 October 2015
2. i.e. a world in which sufficient carbon reduction regulation is in place to meet the global goal of limiting temperature increase to 2°C or less above pre-industrial levels

KPMG, carbon and climate change

Lord Dr. Michael Hastings
Global Head of Corporate Citizenship, KPMG International

At KPMG, we believe that the science is not in doubt – climate change is happening and we need to limit global temperature rises to 2°C or less above pre-industrial levels to avoid potentially catastrophic and irreversible impacts. Together, government, business and civil society can, and must, find the solutions. We must set the world on a path to zero net emissions and we must do so as a matter of urgency.

The leaders of some of the biggest businesses in the world are calling for a price on carbon as an efficient and cost effective means of reducing emissions. History shows that sending the right market signals delivers change. Above all, businesses want clear consistent long term policies that address climate change and which enable them to plan their businesses activities in an efficient and predictable manner.

KPMG is taking action

KPMG member firms are at the forefront of the battle against climate change. Our sustainability consultants spend around one million hours each year working hands-on with our clients to help them reduce their carbon emissions and improve their environmental and social performance in other ways.

Internally, we implement operational practices that reduce our own environmental impacts and realize the benefits associated with these changes. For example, our Global Green Initiative reduces KPMG's own environmental impacts through optimizing air travel, reducing energy consumption, installing solar power and promoting energy efficiency. In fact, for several years running, KPMG has been recognized as 'Sustainable Firm of the Year' by the International Accounting Bulletin.

We are also active in advocating business support for climate change action through initiatives such as the Carbon Price Communiqué[1], the Climate Disclosure Standards Board[2], and the World Business Council for Sustainable Development[3]. And we also share our insights and perspectives on the role of business in tackling climate change in a variety of KPMG publications.

I'm very proud of what we do.

1. http://www.climatecommuniques.com/Carbon-Price.aspx Retrieved 7 September 2015
2. http://www.cdsb.net/ Retrieved 7 September 2015
3. http://www.wbcsd.org/home.aspx Retrieved 7 September 2015

How we can help

KPMG member firms offer climate change and sustainability services in around 60 countries. Our experts help hundreds of organizations to manage the risks and opportunities of climate change and related legislation.

Ways in which we can support you include:

Strategy

- Help you to understand and profit from disruptive change in the low-carbon economy
- Identify and reduce climate-related risk in your supply chain
- Help you to minimize the costs of carbon taxes or carbon pricing systems worldwide

Compliance

- Help you understand and comply with carbon-reduction and carbon reporting legislation worldwide

Reporting

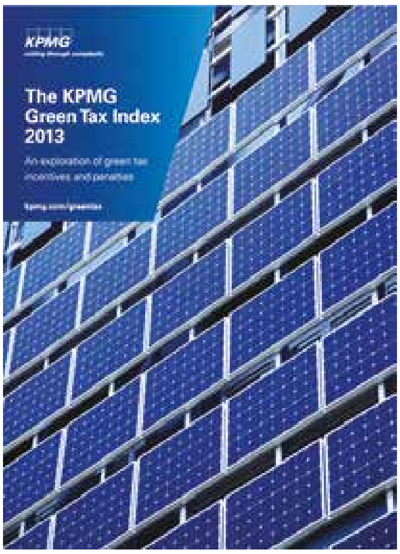
- Implement effective processes and IT solutions to gather, analyze and report carbon data across your organization
- Advise you on best practice for carbon reporting
- Provide independent third party assurance of your carbon data

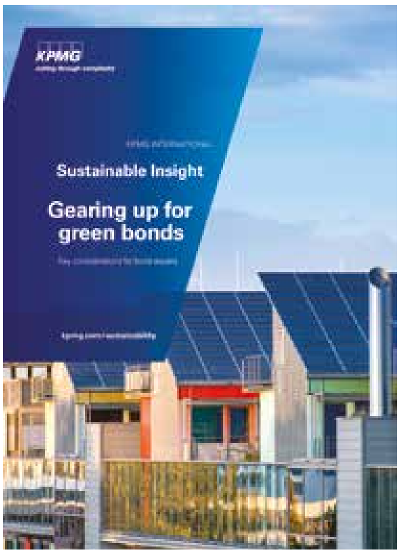
Finance

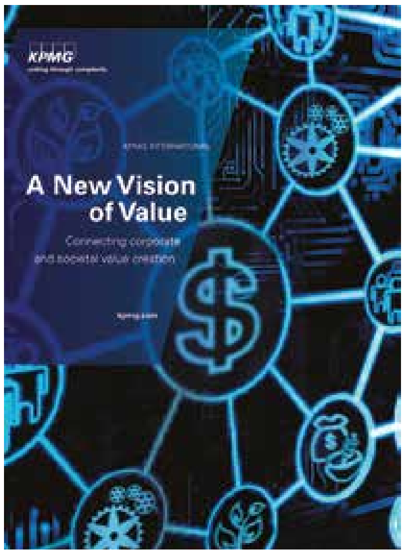
- Advise you on issuing green bonds to raise capital for investments and innovations that reduce carbon emissions and/or increase energy efficiency
- Provide independent third party assurance for green bonds, e.g. use of proceeds
- Help you to identify and access tax incentives for carbon reduction and energy efficiency

KPMG thought leadership

- Gearing up for Green Bonds
  Provides practical advice on issuing a green bond
  kpmg.com/greenbonds
- A New Vision of Value
  Explores how organizations can quantify and communicate the value they create for society
  kpmg.com/truevalue
- KPMG Green Tax Index
  Analyzes the green tax policies of 21 countries worldwide
  kpmg.com/greentax







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