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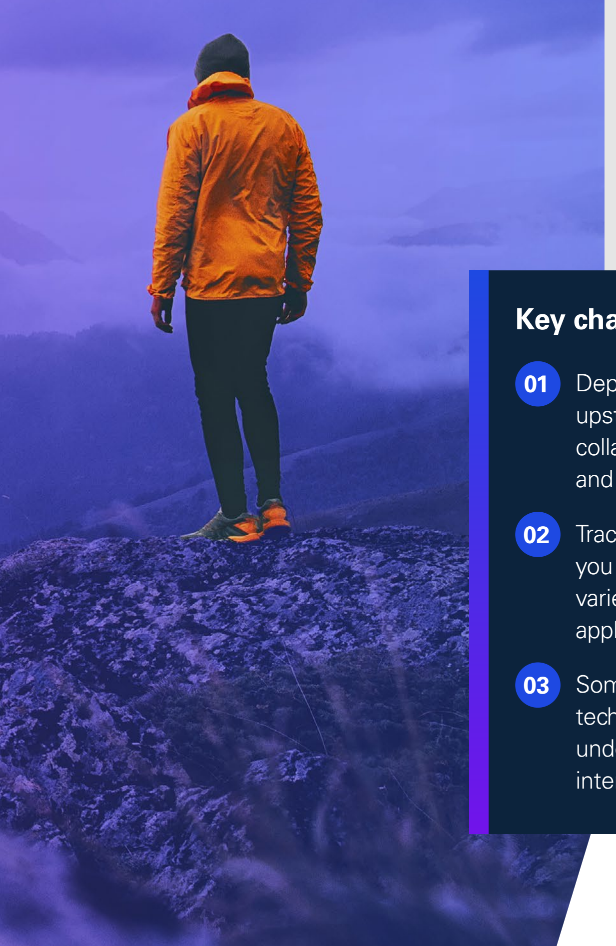
Transition Plans: Industrial manufacturing

Additional sector-specific considerations for transition planning



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Emissions from industrial manufacturing, particularly those with higher emissions or energy intensity, are coming into focus as government plan on how to deliver on their Paris Agreement goals.

Carbon pricing schemes are broadening across the UK, EU, and globally, and there are emerging subsidies and reliefs on new emerging technologies which could transform the way we manufacture key products such as steel and cement. Given how capital-intensive the replacement of equipment or implementation of these emerging technologies are, access to capital is a key requirement to increase your resilience and prepare for the economic transition to Net Zero. A robust and credible transition plan outlining your targets and strategy can help attract greater support from stakeholders and investors and capitalise on the move to greener supply chains and customer demands.

Key challenges to consider

01 Depending on where your business sits in the value chain, you may have both upstream and downstream pressure to disclose your transition plan. Industry collaboration and partnerships are critical to use this pressure to your advantage and share the cost and risk of new technologies or investments.

02 Tracking your emissions baseline particularly for Scope 3 may be challenging, as you may have complex supply chains and your products may be used in a wide variety of applications. This will require careful consideration of how to properly apply guidance from the GHG Protocol.

03 Some industrial manufacturing processes rely heavily on carbon-intensive technologies, where alternatives aren't yet commercially viable. You will need to understand how to best leverage government support, technology partnerships, internal R&D, and linking into the repair lifecycle of your existing assets.

Further considerations for your transition planning steps

Step 1 Diagnose

- When developing a baseline for your Scope 3 emissions, consider how you can engage both up and down your value chain to collect the requisite data, and potentially update procurement policies and standards to help move from spend-based emissions accounting to supplier-specific information.
- When conducting scenario analysis, ensure you consider physical risk of disruption to local or global supply chains and consider the impact of carbon pricing on the cost of input goods and services – which may or may not be able to pass-through to consumers depending on the elasticity of your demand.
- Consider how your product is defined under the GHG Protocol, as the downstream emissions for intermediate products and final products are treated differently in terms of what emissions are in and out of scope for your business.

Step 2 Strategise

- When looking into access to funding capital-intensive new assets, processes, and fuels, consider avenues such as tax relief or incentives which can bring down upfront costs, as well as new funding opportunities through green taxonomy classification in the EU and UK.
- Understand if you have residual emissions which have no known substitute or decarbonisation opportunities, and develop a robust carbon credit strategy in response which uses frameworks such as VCMI to ensure ongoing credibility and integrity.
- Consider how participating or locating in industrial clusters could provide opportunities to leverage brownfield assets, capitalise on local employment and supply chains, expedite planning permissions, and collaborate closer with your industry peers.

Step 3 Transform

- In order to effectively embed your transition plan, educating asset owners on carbon and ESG can help them to identify process improvements and opportunities which can deliver real savings from a bottom-up perspective.
- Implementing lean manufacturing principles in the business can also help to drive greater process efficiencies and find areas to reduce overall energy consumption or wastage which may be contributing towards your overall emissions baseline.
- Innovative business models such as product-as-a-service (PaaS) can help encourage greater circularity in your value chain and drive greater thinking on reducing your lifecycle emissions while delivering ongoing product revenue.

Step 4 Report

- Asset-level data on your industrial processes and facilities can help to drive more effective decision-making from management and identify quick wins on energy efficiency and management opportunities.
- Consider whether you may be captured under emerging or evolving carbon pricing schemes which target industrial emissions, and the reporting obligations which may be tied to those schemes.
- Scenario-based asset valuation of your industrial facilities and consideration of climate scenarios in your financial statements and accounts (under Note 4) will be increasingly scrutinised, requiring your financial accounts team to be linked into your strategy and sustainability teams within the company.

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Integration with the Transition Plan Taskforce

KPMG's four-step approach to transition planning, outlined in full in our talkbook *Transition Plans: Moving Beyond Disclosure*, is based off leading guidance from the Transition Plan Taskforce (TPT) and is designed to feed directly into developing a TPT-compliant strategy. This includes the Final Disclosure Framework which was released by the TPT in October 2023.

Our approach is designed to provide key insights and lay out actions which companies can take when preparing to disclose in line with the TPT framework, as well as line up with the TPT Transition Planning Cycle. Our sector-specific insights and challenges are also intended to fit alongside the TPT's Sector Guidance launched in November 2023, providing companies in those sectors with KPMG's views on particular focus areas as you prepare your transition plan in line with the new guidance.

For more information, get in contact with the team at KPMG and learn more about how we can help you develop a transition plan and prepare your business for success in a changing climate.

TPT transition planning cycle

- **01** Re-assess
- **02** Set your ambition
- **03** Plan your actions
- **04** Implement your plan

KPMG's approach

Step 1 – Diagnose

We work with you to baseline your current climate and sustainability position, risks and opportunities to understand the size of the challenge

Step 2 – Strategise

We help define and set your decarbonisation ambition and develop a strategy and set of levers and scenarios to achieve it

Step 3 – Transform

We design and implement the right operating models, governance processes, and valuation frameworks to execute and track your transition

Step 4 – Report

We support you in working across your organisation to get the right data to feed into your reporting strategy and public transition plan as well as getting your message out to the market

TPT disclosure framework

Ambition

1. Foundations

Action

2. Implementation strategy
3. Engagement strategy

Accountability

4. Metrics and targets
5. Governance

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