KPMG

Business consequences of tax driving net zero ambitions

Contents

Foreword

Tackling climate change is a key issue that has become more pressing than ever, with the fuel price increases and growing uncertainty caused by the Russian invasion of Ukraine. This publication looks at some of the measures that governments might introduce — in particular tax related ones — and the potential impact on businesses.

There are many questions to address:

- How fast will changes be made?
- To what extent will tax be used as a stick or a carrot?
- What impact will taxes or regulation have on businesses? How will these interact with each other?

If we turn the clock back to when policymakers, business leaders and other stakeholders gathered in Glasgow in late 2021 for the COP26 UN Climate Change Conference, expectations were high that participants would come together to agree on a global plan to address climate change.

While some believe the results from the event fell short of what could have been achieved, this round of talks resulted in progress in some areas, such as:

- Parties committed to holding global warming at "well below 2C°" over pre-industrial levels, and a 1.5C° warming ceiling was confirmed as the goal to aspire to, in line with targets advised by the International Panel on Climate Change and leading scientists.
- Agreements began to develop over the need to support climate change adaptation in the developing world.
- New commitments from India, Russia, Brazil, Saudi Arabia, Australia and others meant that at least 90 percent of the world's economy had pledged to meet net zero targets.
- As ever more organizations work toward those targets, a newly agreed upon rule book on carbon accounting, the Enhanced Transparency Framework, will bring more certainty, predictability and consistency to how carbon reductions are measured and reported.

Perhaps the most reassuring development was the urgency displayed. COP26 attracted a much more diverse set of stakeholders than previous events, with many of them calling for more aggressive action to tackle global warming and mitigate its impacts. Amid rising awareness that climate change is too big of a problem for national governments to tackle on their own, COP26 marked a shift toward bottom-up action by companies, investors, organizations and citizens who are taking charge of setting their strategies to confront harmful emissions. Has the Russian invasion of Ukraine changed all this? As we set out below, we believe not. Though the timing and pace of certain decisions may well need to change.

Setting the Scene

The context for your business

Combatting climate change was always going to be costly. The measures that national governments will have to take to achieve their climate change mitigation goals will have a financial impact on almost every citizen and business. Current increases in energy prices and general uncertainty about supply only make the decision matrix more complex and difficult for businesses to navigate.

Developing countries are being encouraged to consider climate change while they are developing. This may prevent them from accessing some of the cheaper, but more polluting alternatives that developed countries were able to benefit from.

With such challenging and urgent agendas, countries are examining available options for influencing positive action and businesses will need to be ready to respond to changes.

Businesses should be aware that these options include inducements, such as direct subsidies and industrial strategies that reward investments and activities aimed at mitigating climate change, developing green technologies, and promoting sustainability. Businesses should also be mindful that they may also include deterrents, such as sanctions and regulatory bans, which increase the cost for businesses and individuals or otherwise punish activities and behaviors that create environmental harm.

Tax systems may be used by governments to drive action on climate change. Raising taxes or imposing new ones, for example, on fossil fuels or emissions, might be used to nudge businesses and customers away from activities by increasing costs, while tax breaks can be designed to encourage more environmentally friendly decisions. And here, the current energy market and geopolitical considerations create more questions for businesses.

With energy prices rising, governments may reduce energy taxes to support citizens. On the other hand they may seek higher tax to invest more in a green transition. Businesses will need to consider the insecurity of supply as some countries move faster to develop green energy. Some may look to increase their domestic production of fossil fuels in the short term, thereby increasing world supply.

Different countries may well adopt differing strategies depending on their current energy mix, reliance on imports and availability of alternative energy sources.

What is clear is that the invasion of Ukraine has heightened even more the need for clarity over energy policy and long-term objectives. Governments are likely to consider that the urgent need to decarbonize remains, but businesses should be aware that there are now even greater concerns about energy security and a potentially difficult period of transition.

David Linke
Global Head of Tax & Legal Services
KPMG International

Taking stock of recent events

What should businesses know?

Message for businesses — energy disruption

Businesses on the supply side must consider immediate costs, such as volatile purchase prices and windfall taxes like the UK has proposed. They may also have to accelerate any planned business model changes to reduce reliance on fossil fuels as governments implement policies to transition to a low carbon economy.

Other businesses may, in the short term, have to manage increasing costs and supply chain disruption, however, many will use this as a catalyst to reconfigure their businesses to be more sustainable. KPMG has the expertise to help businesses navigate this environment in a strategic way.

Mike Hayes
KPMG ESG Global Head of Climate Change and Decarbonization and Global Head of Renewables KPMG International

"The EU Commission has released a significant policy statement in the wake of Russia's invasion of Ukraine, setting out a proposed "REPower EU" action plan. These measures intend to deal with rising and volatile prices and security of supply concerns, given the decision to end dependence on the importation of Russian gas by the end of the decade. While various short-term measures around increased fossil fuel production are required, the REPowerEU proposals clarify the need for a rapid transition to a cleaner and more independent energy supply and the role the EU will play in making this happen.

This statement of intent from the EU around the need for low carbon policy measures will likely accelerate the transition to a low carbon economy not just in the EU but globally. The effect of these proposals is that there is now a broad alignment between the low carbon agenda and the security of the supply agenda.

Businesses should be aware that the end result is likely to be a much greater deployment of renewable energy, a greater focus on energy efficiency and an acceleration of policy measures designed to encourage investment in technologies such as green hydrogen.

It is possible that the EU will look to various forms of tax incentives to help drive this accelerated transition across the Union, and more detailed announcements are expected in the coming months."

Will your business face tax carrots and sticks or increased regulation?

Governments have many levers at their disposal to influence how businesses and citizens respond to climate change. Each lever brings its own implications and knock-on effects for businesses, the economy and society more broadly.

Regulation is the most direct measure to which businesses must adhere. Governments can restrict certain business behavior by banning or imposing fines on high-polluting processes and activities or by enforcing targets for performance standards on emission reductions. They can also encourage behavior by directly funding businesses' research into specific new technologies or clean energy innovation in general, or they can establish special funds for green investment.

With the scale of innovation and effort needed to tackle climate change in the coming years, it's widely recognized that governments will rely on both tax and non-tax measures, and a mix of carrots and sticks, for driving green outcomes within their countries.

Tax systems can penalize polluting behavior by imposing additional taxes on things like road usage and single-use plastics or by raising the tax rate on more polluting fuels. Governments can use environmental taxes both to raise revenue and discourage environmentally damaging behavior. If the tax is designed with the intention of curbing environmentally damaging behaviors, revenue from the tax is likely to fall as consumers switch to cheaper, cleaner alternatives.

Tax incentives are also powerful tools used by governments.

Tax holidays can relieve taxes for certain environmentally friendly businesses for a set period, for example, during their start-up phase. Tax credits can increase the return

from environmentally friendly projects. R&D investment tax credits can return a portion of eligible costs of research and development. Faster tax write-offs can be permitted for capital expenditures on clean equipment or technologies.

Withholding tax relief can be provided for green projects domestically or to ease investment flows to developing markets.

Taxes and regulation each have their benefits and drawbacks.

When governments choose to give direct subsidies, they are effectively placing their bets on that solution. This approach can be useful when businesses have performed R&D and the solution's efficacy is known but too expensive to adopt widely. By contrast, when there are a variety of carbon abatement solutions available, businesses should be aware that governments may have decided to implement carbon pricing or tax incentives so that there is more flexibility for companies to choose what is the most efficient approach to abatement and invest accordingly.

> "With direct subsidies, governments may be quite specific about what they incentivize, like installing solar panels or hydrogen boilers, but there's also a lot of heavy lifting involved in terms of administration.
>
> Governments may adopt measures to provide for a behavioral shift as individuals and companies work out cheaper alternatives."
>
> — **Tim Sarson**, Partner, KPMG in the UK

Governments may use a selection of complementary measures — tax and non-tax — to create the right conditions to meet climate-related goals. In the US, Texas has made substantial headway toward increasing the energy it produces from wind power because of a combination of businesses being able to utilize state renewable energy targets, easier access to land and to the grid, as well as federal tax credits.

Message for businesses — influencing behavior

Whether through regulation or tax, carrots or sticks, governments will be trying to influence the behavior of businesses.

Businesses that can act quickly, can benefit from such measures. Businesses should proactively seek to understand what grants, subsidies and tax incentives are being offered by governments, both in the short-term to reduce costs now and in the long-term, to 'green' the operations of the business for the future. Businesses that do not, or cannot, take advantage of government assistance, may find themselves in a position where they are being penalized for engaging in polluting activities. KPMG tax and regulatory specialists can help businesses access government support to decarbonize now and strategize for long-term decarbonization plans.

Putting a price on carbon

Impacts for businesses?

The ability of tax costs to drive behavior is one reason why carbon pricing has been used as a key way to promote businesses' transition to green energy alternatives. By putting an economic cost on the carbon emissions embedded in a product or service, businesses and consumers are incentivized to shift from fossil fuels (where historically, the total cost of environmental externalities has not been borne) toward low-carbon alternatives.

The cost of carbon emissions can be priced in two basic ways:

- **Carbon taxes** impose a fixed charge on carbon emissions. This is usually done indirectly by taxing the embedded carbon content of fossil fuels. However, it is sometimes done directly by requiring emissions to be measured at the facility producing them and placing a charge on them. With a carbon tax, the government sets the cost of carbon but does not directly regulate the amount that can be emitted.
- **Emissions trading systems (ETS)** use carbon pricing to create market-based incentives for reducing emissions. In most trading systems, the government sells or gives emissions allowances to large emitters covered by the system. Companies can then trade allowances as their emissions rise and fall, with the carbon price driven by the trading market. In an ETS, the government sets the overall cap on emissions by covered facilities by limiting the number of allowances available and the market sets the price.

Some jurisdictions use hybrids that combine elements of both approaches, with ETS for the largest emitters and carbon taxes for emissions not covered by the system (e.g., for those produced by smaller industries, vehicles and office buildings).

> "Businesses should prepare for a multifaceted approach. It may look different across jurisdictions, as governments pull multiple levers. We expect that many will consider carbon pricing the most effective, whether through ETS programs, carbon taxes or both in combination; still, other jurisdictions are going to favor an incentive model for driving the change needed."
>
> — **Grant Wardell-Johnson**, Head of Global Tax Policy Group, KPMG International

Putting a price on carbon

The current landscape

Already many countries and regions have adopted, scheduled to adopt or are considering carbon taxes and/or emissions trading schemes, creating an increasingly complex regulatory landscape for businesses to navigate.

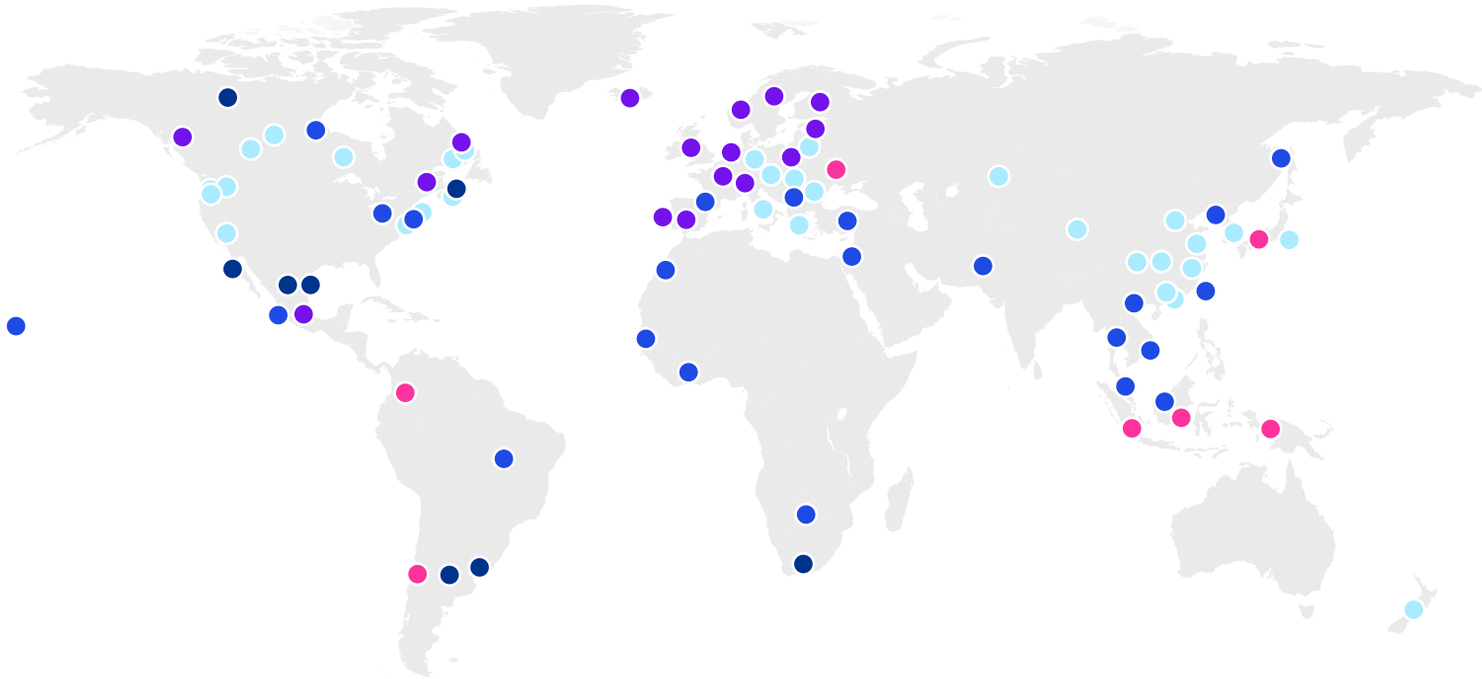
Message for businesses — navigating a changing landscape

Businesses will need to keep up to date with newly implemented and upcoming regulations.

Understanding what changes may be implemented can start with understanding the characteristics of different carbon pricing measures and what could make them favored by governments operating in different social, environmental and economic conditions.

KPMG experts can help businesses navigate this environment using our in-country carbon pricing experts and growing technology solutions.

Summary map of regional, national and subnational carbon pricing initiatives



Source: Carbon pricing dashboard, World Bank, Accessed 05/07/2022, https://carbonpricingdashboard.worldbank.org/map_data

An advantage of a carbon tax is that companies can rely on more stable pricing for future emissions, while governments can better project and quantify revenues. Carbon taxes are more likely to work in sync with other regulatory measures. However, fixed carbon taxes are inflexible to economic fluctuations and some governments may not pursue this avenue even though many businesses find this easier to manage.

Concerns are also often expressed around carbon pricing being regressive, taking a proportionally greater amount from smaller businesses and those on lower incomes.

This is particularly an issue for developing countries, and governments may try to design carbon pricing regimes to minimize concerns about regressive impacts and affordability.

To design price-based tax measures that are both progressive and affordable, some governments might redistribute some or all of the revenue raised through the tax (such as through carbon tax credits) to lower- income earners or others who may be disproportionately affected.

In the current volatile energy price environment, businesses should consider that governments will find increasing, or introducing, a carbon tax could be a very difficult decision. If the base cost of fuel is high, is there any need to further increase it via tax?

If a government reduces or forgoes introducing a tax, it may also be giving up revenue that it could be using to reinvest in green technology or redistribution. However, businesses should be aware that simply because a government has chosen not to introduce a carbon tax, does not mean that there is no need to decarbonize as other factors may be at play.

In the past, ETS have been successful in local or regional contexts, for example, in reducing noxious emissions that created acid rain. Some argue that they may also be more efficient than carbon taxes, since they encourage companies to focus abatement efforts on those areas with the most significant impact. The use of market pricing allows the system to self-adjust to reflect economic growth. Businesses can not just continue to absorb additional costs under an ETS as governments can influence severe upward price movements and drive more ambitious action by limiting annual allowance amounts.

However, the price volatility of ETS markets can make planning difficult for businesses and governments, which requires hedging to achieve cost certainty, and they are just as likely as carbon taxes to have regressive effects.

Containing carbon leakage

On a global basis, carbon pricing schemes may create the potential for carbon leakage if consumers switch to products produced outside a regulated carbon market, or businesses relocated to other jurisdictions with looser environmental standards to avoid carbon prices otherwise imposed on their emissions. In turn, this could diminish the impact of carbon pricing measures in the regulated market, with declining competitiveness and job losses to follow.

Carbon border adjustment mechanisms (CBAMs) are being suggested to address the potential leakage from business relocations by adjusting the price of imports to mirror the carbon costs applied to goods produced domestically. In future, businesses could face multiple CBAMs which operate as different kinds of taxes including:

- a special tax on imports based on prevailing carbon prices in the market.
- a shadow ETS for importers, with allowances available based on the domestic ETS' prevailing carbon price.
- a new tax on both imports and domestic goods based on the goods' average carbon footprint.

Historically, carbon prices have generally been too low to spur significant carbon abatement. For example, the carbon permit price[1] for the European Union's (EU) ETS dipped below €10 in 2011 and stayed there until the beginning of 2018.

This could change as more aggressive emission reduction targets spur higher carbon prices. From 2018 to 2021, EU carbon prices rose from about €9 to over €30, and then rose further to about €88 at the start of May 2022. With these prices likely to climb until at least 2030, the EU is expected to implement a form of CBAM by 2023, to level the playing field for certain goods produced by companies covered by the EU's ETS.

> "Many businesses are concerned that CBAMs would be unduly complicated due to the complex tracing and verification that would be needed.
>
> There are also questions over if such schemes could be designed to comply with World Trade Organization rules.[2] For example, a carbon-based border charge would need to avoid falling under its anti-discrimination measures, which prohibit rules that favor domestically produced goods over imported ones. At the end of the day, a successful CBAM will likely need to place pragmatism, global equity and geopolitics above technical purity."
>
> — **Chris Morgan**, Head of Global Responsible Tax Project, KPMG International, who has led numerous stakeholder roundtables[3] on the topic

[1] EU Carbon Permits, Trading economics, accessed 10 May 2022, https://tradingeconomics.com/commodity/carbon
[2] Making Carbon Border Adjustment proposals WTO-compliant — briefing paper, KPMG Responsible Tax Project, 25.03.2021. Making Carbon Border Adjustment proposals WTO-compliant — KPMG Responsible Tax
[3] Considerations for a Carbon Border Adjustment Mechanism — roundtable discussion, KPMG Responsible Tax Project, 25 March 2021, Considerations for a Carbon Border Adjustment Mechanism — KPMG Responsible Tax; The impact of carbon pricing and potential effects of a CBAM — roundtable discussion, KPMG Responsible Tax Project, 22 April 2021, The impact of carbon pricing and potential effects of a CBAM — KPMG Responsible Tax; Towards an Effective Carbon Border Adjustment Mechanism — webinar, KPMG Responsible Tax Project, 26 April 2021, Towards an Effective Carbon Border Adjustment Mechanism — KPMG Responsible Tax

Further, CBAM policies are only relevant to businesses that operate in jurisdictions that price carbon (primarily the EU). Businesses in some less developed jurisdictions have expressed concerns that a CBAM would be akin to tariffs and create significant barriers to external trade, damaging their ability to raise foreign revenue and mobilize resources for domestic abatement activities. CBAMs could also be seen as violating the Paris Agreement's principles of equity and common but differentiated responsibilities by forcing some developing countries to bear a disproportionate amount of these costs of decarbonization. This impact could worsen over time for developing jurisdictions that lack the funding, technology, and infrastructure to reduce emissions as quickly and aggressively as more developed ones.

Cooperation through a carbon club

Some believe that an effective global minimum carbon price could be achieved more effectively and equitably through international cooperation than unilateral import charges. Support has been rising for a form of carbon club or carbon customs union and in 2022, Germany has included in its policy priorities for its presidency of the Group of Seven (G7), the establishment for "an open and cooperative international climate club".[4]

If this approach was adopted by the largest emitting jurisdictions and they agreed to a common approach to emissions reduction, businesses may find themselves operating in an environment with agreed pricing, a shared commitment to reducing emissions by a given amount through chosen strategies, be it pricing, incentives, regulation or a combination of these. As a large proportion of the countries' overall emissions reductions will be made up by the emissions reductions of businesses operating there, businesses can expect at least some, if not most, of the carbon club measures to be directed at them. If the goal would be to foster agreement on speeding up decarbonization and encouraging other countries to join, then businesses, particularly multi-nationals, could benefit from being proactive and taking steps to decarbonize before any mandatory agreements are made.

Any international cooperation could also be in line with the Paris Agreement's principle of common but differentiated responsibilities by enabling developing countries to take steps to decarbonize using the most appropriate and effective mechanism while protecting domestic industry and growing their economies.

However, the proposals do raise World Trade Organization (WTO) issues such as whether sanctions could be used against countries that do not join the club, and so businesses would also need to monitor these developments carefully.

Whatever approaches are decided, businesses in both developed and developing jurisdictions need uniform ways to track and communicate their progress in reducing emissions. The Enhanced Transparency Framework agreed on at COP26 will go a long way towards achieving this common reporting. The framework includes standard tables and formats for accounting and reporting climate-related targets and emissions. These materials are designed to suit businesses based in various jurisdictions with different capabilities and financial realities while encouraging all of them to stretch their emission-related goals.

Once in place, the framework can help all parties understand how well they are doing in the quest to reach net zero, both individually and collectively.

Message for businesses — global cooperation

Each business contributes to carbon emissions of the country in which it operates. As more countries make net zero pledges but fail to meet their emissions reductions targets, businesses will likely face an increasing plethora of government interventions, both on a unilateral, (e.g. CBAMS), and multilateral scale (e.g. carbon clubs).

Having to navigate an increasingly administratively burdensome environment would likely decrease business efficiency. Businesses that can reduce emissions quickly, could at most, play a critical role in reducing the need for an ever expanding emissions regulatory environment and, at least, have taken sufficient steps to mitigate emissions and associated charges.

[4] G7 buys into Scholz's Climate Club idea, Politico, 28/06/2022, https://www.politico.eu/article/g7-buys-into-scholzs-climate-club-idea/

The use of tax incentives

Reducing the world's carbon and other harmful emissions will require huge investments. Brand new sources of renewable energy are needed to replace fossil fuels, and significant innovation is necessary to, among other things, improve carbon capture, clean up existing degradation and reconfigure power utilities and transmission networks. In fact, according to John Kerry, the US Special Presidential Envoy for Climate, 50 percent of the carbon reductions needed to get to net zero have not been invented yet.[5]

While carbon pricing may push people and businesses to shrink their carbon footprints, businesses will also need incentives to pull effort and investment toward green innovation. Businesses in the EU have traditionally faced carbon tax and carbon pricing, while those in the US have been more likely to have access to tax credits. Both are useful and businesses may even find them to be even more beneficial when used together.

Historically, businesses have struggled to provide governments with the information necessary to determine whether tax preferences, such as tax credits for innovation, or accelerated tax depreciation, have promoted new investment or have rewarded companies or people for doing things they would have done anyway.

Businesses should expect to have to share information with governments as they will likely monitor whether tax measures have effectively spurred new investment in a location or technology, particularly where it is unclear whether that investment would be less likely to occur in the absence of the incentive. In the current environment, with very high fossil fuel prices, it might be that companies need fewer financial incentives to invest in green technology as the return on investment can be expected to be higher. Nevertheless, now might also be the time for businesses to be able to utilize incentives most effectively, increasing the speed of investment and reduce fossil fuel reliance.

[5] Half of emissions cuts will come from future tech, The Guardian, May 2021, https://www.theguardian.com/environment/2021/may/16/half-of-emissions-cuts-will-come-from-future-tech-says-john-kerry

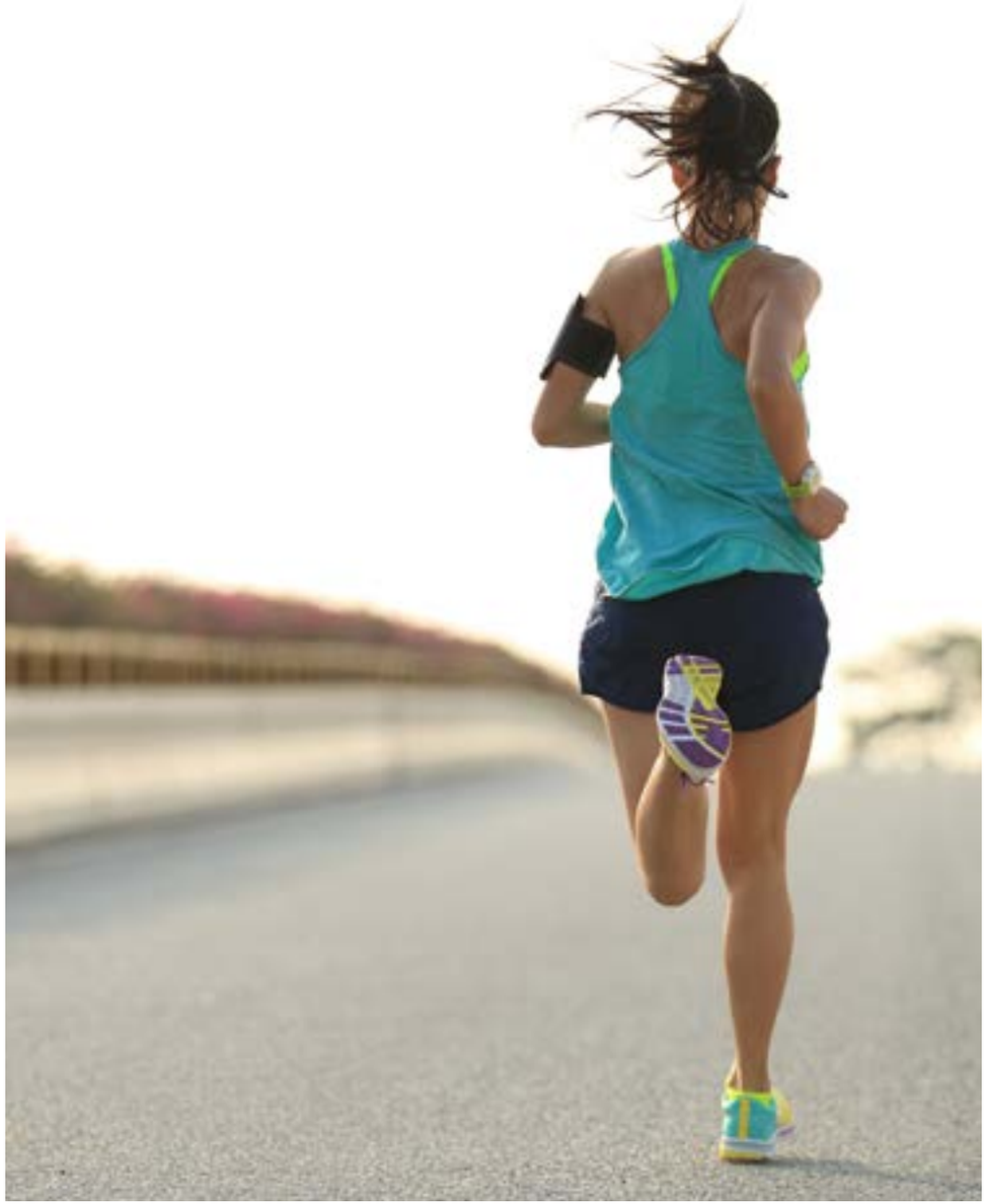
Measuring and monitoring the impacts

Once in place, businesses can expect that an incentive will be monitored to ensure it is meeting its aims. It's therefore important that businesses can measure and report the incentive's effects through uniform reporting standards.

Certainty for businesses is also key for an effective investment tax incentive. Businesses need clarity on who or what qualifies for a particular incentive and how long the incentive will be available. That way, businesses and investors can pursue plans with reasonable assurance that they will see the expected tax benefits.

Measuring and monitoring can be expected as governments seek to ensure tax relief does not drive unintended behaviors, intentional or unintentional. In the past, for example, favorable benefits under free trade arrangements have led some companies to ship goods from Hong Kong or mainland China to Europe and back again for the sole reason of accessing the benefit, despite the unnecessary environmental harm.

As early as 1986, a study of a Chilean program found that tree plantations, which were encouraged by forest subsidies given by government, often replaced more carbon-rich or biodiverse land covers. As a result, it was found that using plantations to expand forests had inadvertently subverted goals of increasing carbon capture and biodiversity; instead, further shrinking natural forests and hindering biodiversity.[6]



Some investors find that taxes on foreign investment is one barrier which makes them less likely to invest in developing jurisdictions. Massive flows of funds are required to help less developed countries green their economies. Businesses should remain aware that governments could consider facilitating these flows by easing withholding tax and other barriers to cross-border investment.[7] However, any changes to existing rules would be judged on a case-by-case basis if the benefits from the expected increased investment by business outweighed any tax forgone.

Message for businesses — tax incentives

In some countries organizations can access various incentives for developing sustainable businesses and should do so when the incentive aligns with their own sustainability strategy.

However, other businesses suffer adverse tax effects from their legacy activities, but in some jurisdictions, there is little support for the costs of divestment activities, such as decommissioning oil wells or reconfiguring refineries. This often leaves companies with substantial tax losses that cannot be deducted.

[6] Robert Heilmayr, Cristian Echeverría and Eric F. Lambin, "Impacts of Chilean forest subsidies on forest cover, carbon and biodiversity," *nature sustainability*, 22 June 2020

[7] Tax and facilitating investment into carbon abatement projects: Discussion paper in the light of COP26, KPMG Responsible Tax Project, 26 October 2021 Tax and facilitating investment into carbon abatement projects: Discussion paper in the light of COP26 — KPMG Responsible Tax

Towards a circular economy

COP26 saw more than 20 jurisdictions and institutions commit to ending direct international public finance for unabated coal, oil and gas by the end of 2022, while several banks and financial institutions also made commitments to end the funding of unabated coal.[8] The UN estimates that this could shift "US$17.8 billion a year in public support out of fossil fuels and into the clean energy transition".[9] It remains to be seen if there will be any changes to such pledges by countries if they decide they now have to take short-term measures to increase their fossil fuel production to compensate for international embargoes or concerns about the security of supply.

The clean energy transition is critical, but some jurisdictions might also take measures to support the move to a circular economy more broadly. In these jurisdictions, businesses may have to develop more circular business models based on repair, resale and retaining value, which are emerging in the automobile, retail and other sectors. Businesses should be aware that there is a growing sentiment that shifting the tax base away from labor and onto the environment could help this transition, as circular processes are knowledge-intensive, and they take time, energy and innovative thinking to develop.

Currently, OECD member countries collect around US$16 trillion[10] in taxes annually. Of this, more than 50 percent is derived from taxes on labor, such as income taxes, payroll taxes and social contributions. Some have estimated that only 5 percent of revenues come from carbon taxes, fuel levies and environmental taxes of all kinds.[11] Further, since the Paris Agreement was signed, the G20 has provided more than $3.3 trillion in subsidies for fossil fuels.[12] As a result, businesses may find that current tax systems may give them an incentive to minimize labor inputs even if it leads to consuming more energy and resources since these are relatively tax-free or even subsidized.

Message for business — circular economy

The world has finite resources, so a transition to a circular economy is a matter of when, not if. Businesses should continually evaluate their whole value chain, including labor and environmental taxes, when determining whether to develop new processes for repairing and reusing products, redesigning supply chains and fostering research and development. When the most inclusive and sustainable options become the most profitable ones, those activities are the ones that businesses are most likely to embrace and build on, and that alignment may come sooner rather than later. KPMG circular economy experts can help businesses build circular economy principles and practices into their operating models sooner rather than later.

> "In addition to introducing incentives, industry is, first and foremost, looking for a removal of barriers to facilitate the move from linear to circular business models."
>
> — **Loek Helderman**, Head of KPMG ESG Tax and Legal, KPMG International

[8] End of coal in sight at COP26, United Nations, November 2021, https://ukcop26.org/end-of-coal-in-sight-at-cop26/
[9] End of coal in sight at COP26, United Nations, November 2021, https://ukcop26.org/end-of-coal-in-sight-at-cop26/
[10] Revenue Statistics — OECD countries: Comparative tables, OECD. Stat, 2019, https://stats.oecd.org/index.aspx?DataSetCode=REV#
[11] Tax as a force for good, Rebalancing our tax systems to support a global economy fit for the future, Femke Groothuis, ACCA, https://www.accaglobal.com/gb/en/professional-insights/global-profession/environmental-tax.html
[12] 'Bloomberg NEF and Bloomberg Philanthropies Report: The Climate Policy Factbook;' July 2021: https://assets.bbhub.io/professional/sites/24/BNEF-Climate-Policy-Factbook_FINAL.pdf

What next?

Different jurisdictions favor differing decarbonization measures — or none at all — and it is likely businesses will find themselves in a position where they will have to navigate different approaches and policies. Countries are likely to ask businesses to respond to the current energy crisis in different ways, depending on their reliance on imports, their current energy mix and their ability to switch to greener production on a faster timescale. It is widely recognized that the Russian invasion of Ukraine is focusing global attention on decarbonization and supply chain stability. In some countries or regions the impact may be that there will be a delay in reducing domestic production of fossil fuel energy, including postponing retiring coal fired electricity. But, in the medium term we are likely to see a shift to greater domestic or regional sustainable energy production, so businesses may have to navigate price fluctuations and make fast decisions about energy use and supply.

If there is agreement on emission reduction targets and credible, measurable transparent plans to get there — whether through regulation, incentives or tax — this level of certainty could help businesses move forward with their own net zero plans. Businesses need a way to recognize when one measure is equivalent to another, which will become part of the jurisdiction's emissions profile and can be considered against their level of development.

KPMG will continue to use its expertise as advisors to help shine a light on the climate agenda and its potential impact on businesses.

In our next phases of work, we will consider some key themes:

1. What are the differing practical impacts on businesses from different measures (i.e., carbon pricing, tax incentives, regulation)?
2. Are businesses in various jurisdictions typically subject to different levers of change? What cultural, political and practical reasons exist and what does this mean?
3. If a carbon club were proposed, how might this impact different businesses in different jurisdictions?

Existing research will be key in answering these questions, and discussions at our upcoming roundtables with participants from the Americas, Europe, Africa, and the Asia Pacific region, will deepen our insights further.

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