CLIMATE CHANGE AND SUSTAINABILITY

Business Perspective on Sustainable Growth

Preparing for Rio+20 – Summit Recap

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On 14–16 February 2012 in New York City, KPMG International hosted over 600 executives from 40 countries around the world at a Summit that addressed one of the fundamental challenges of our time: driving sustainable business growth in a resource-constrained world.

The event – Business Perspective on Sustainable Growth: Preparing for Rio+20 – was organized in cooperation with the United Nations Environment Programme, United Nations Global Compact and the World Business Council for Sustainable Development. It provided an important forum to identify the sustainability risks and opportunities facing business leaders and policymakers and to explore collaborative strategies for action.

We are pleased to present this summary which gives a flavor of the various discussions that took place. It also includes a set of 15 recommendations, endorsed by Summit attendees, which will be presented to the upcoming UN Rio+20 Conference in June 2012, where world leaders will gather to address the global sustainability challenge.

Our Summit also saw the launch of a major KPMG study that presents the 10 sustainability megaforces set to impact each and every business over the next 20 years, and analyzes potential responses. You may download a copy of the study, Expect the Unexpected: Building business value in a changing world, by visiting our website: www.kpmg.com/sustainability.
The panelists in this discussion recognized that global sustainability trends, including population growth, climate change, resource and water scarcity and food security, are interconnected and have significant impacts on business, the environment and society. Foreseeing the unforeseeable is becoming a business imperative requiring a change in the business approach, they said.
“The unprecedented pace of technological change gives opportunities to business to create wealth and well-being,” said Jorma Ollila of Shell.

Paul Polman of Unilever issued a call for business leaders to be more courageous in setting long-term strategies focused on satisfying consumer needs rather than short-term financial performance. He said that CEOs should seek shareholders whose values are aligned with those of the business.

Both Michel Liès of Swiss Reinsurance and Anthony Kuczinski of Munich Reinsurance highlighted the role of the insurance industry as an enabler for sustainable business. Understanding sustainability risks and ensuring that the pricing of those risks is clear and visible can help to foster innovation.

Panelists agreed that the business case for sustainable development is strong and many companies are already moving ahead. It was noted that building sustainability aspects into the business model is imperative for competitiveness in the long-run.

Speaking from their personal experience of running large global businesses, the panelists noted that CEOs have the power to act ahead of the regulators and do things differently, taking responsibility for running the business more sustainably and driving innovation. Many examples were discussed of leading companies embracing the concepts of linked prosperity and shared value.

The panelists stressed however that business needs long-term transparency, continuity and stable policy frameworks that create incentives for investment, such as a global price on carbon.

Global stability is critically important to business, they said, and businesses and governments need to take a partnership approach. Since different regions are at various phases of development and have different risks and opportunities to face, global companies need to engage with governments around the world.

To view a replay of the videocast of this plenary session, please visit www.kpmg.com/sustainability.
Plenary Session

Policy Imperatives: Driving green growth

Long-term stable policy and global cooperation were key themes of this discussion panel, with panelists issuing a clear call for long-term targets to enable business to invest. There was general agreement that fossil fuel subsidies should be withdrawn but a recognition that this would need to happen gradually, and that any significant change to the energy sector would inevitably be opposed by those whose interests were threatened. Taxation was highlighted as a key tool to provide the necessary incentives to business.

When asked about the key outcomes they would like to see from Rio+20, panelists cited an international understanding that business-as-usual cannot continue and that existing patterns of operation need to change.

It was recognized that most countries cannot effect global change through individual actions but also that if a country wants to hold a position of leadership in the world then it also needs to demonstrate leadership on the issue of sustainability. Sectoral action by industry was also seen as a key opportunity for change.

Finally, panelists agreed that environmental regulations should not be seen as costs but as investments for the future and as business opportunities.

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Break-out Session 1
Ensuring an Energy Secure Future

The key theme emerging from this session was that achieving an energy secure future is a difficult balancing act, where the varying needs of people, the environment, governments, shareholders and others must be taken into account and addressed.

“We are standing at a triple crossroads,” said Arturo Gonzalo of Repsol, “where we must limit CO₂ while also satisfying rapidly growing demands for energy and providing access to energy for the 1.3 billion people who currently lack it.”

Access to energy must be considered a universal right, the panel agreed. The challenge now is to deliver that right while minimizing environmental impacts and leapfrogging carbon intensive technologies.

Getting our cities right will be core to this ambition, especially in the context of rapid urbanization around the world. New strategies for developing cities are needed, utilizing technology such as smart grids and electric vehicles, much of which already exists today.

Communication is crucial, especially communication by policymakers to help create the incentives and policy frameworks needed to develop and deploy new technology at the scale and speed it is required.

Kersten-Karl Barth, Director, Siemens, AG
Steve Comeli, Senior Vice President, Sustainability, Policy & Strategy, NRG Energy, Inc.
Arturo Gonzalo, Director of Institutional Relations and Corporate Reputation, Repsol
Jeanne Ng, Director – Group Environmental Affairs, CLP Holdings Ltd
Samuel Tumiwa, Deputy Regional Director, Asian Development Bank
Harry Verhaar, Head of Global Public & Government Affairs at Philips Lighting
John Gimigliano, Principal, KPMG in the US (Moderator)
This session saw broad consensus on key issues despite the different backgrounds of the panelists.

Much of the discussion focused on what business needs to communicate to policymakers in order to make mobility more sustainable. A common view was that patchwork regulations across borders can be challenging for companies. Since business is global, there is an increasing need for unified policies and reporting standards that enable global comparison.

David Tulauskas of General Motors said that regulation can struggle to keep pace with technology development and that this is an opportunity for business and policymakers to work collaboratively. Easing regulatory requirements in some cases could help to foster innovation and cut the cost of technological development, suggested Jigar Shah of the Carbon War Room.

When the panelists were asked what would define success at Rio+20, two messages came across loud and clear:

- The importance of genuine partnerships between businesses and policymakers. Trust, honesty, transparency, commitment and deep engagement were all words mentioned in this context.
- The need for a clear roadmap and targets, with metrics-based commitments that businesses can work towards with confidence.

Suzana Kahn Ribiero
Green Economy Sub Secretary, Rio de Janeiro State Secretariat of Environment

Chris Schroeder
Head of Corporate Social Responsibility, Environment & Fuel Projects at Qatar Airways Group

Jigar Shah
CEO, Carbon War Room

David Tulauskas
Director – Sustainability, General Motors Company

Scott Wicker
Chief Sustainability Officer, UPS

F. Blair Wimbush
Vice President Real Estate and Corporate Sustainability Officer, Norfolk Southern Corporation

Vincent Neate
Partner, KPMG in the UK (Moderator)
Break-out Session 3

Financial Services:
How does the financial services sector need to change to drive sustainable growth?

The panel acknowledged that assessing sustainability performance is a challenge for analysts because different companies present the picture in different ways. Analysts want 10 years of history, full sector coverage and maximum disclosure, said Curtis Ravenel of Bloomberg LP. The sustainability data that is available is often not easy to use and therefore the tension continues. Despite this, there was a view on the panel that investors are increasingly taking sustainability issues into account when making investment decisions. “Investors are at the stage of getting it,” said Michael Baldinger of SAM.

Discussion continued on the theme of how finance can move markets and shift the focus towards sustainability without over-regulation by governments. The panel also noted that many corporations are ahead of the investment community – there are examples where companies did not need regulation and policy to forge ahead.

Inequality and lack of financial inclusion for much of the world’s population were raised as issues that the financial services sector needs to address. Finance for rural communities in developing countries was seen as an important area where the need for financial structures is strong.

The panel also discussed the negative effects of taking a short-term financial view, although it was noted that the management of pension funds is a long-term undertaking. It was acknowledged that more work needs to be done on developing sophisticated sustainable pension plans.

In the final question of the session, panelists were asked what was more important for getting business to operate more sustainably: vision and leadership, or regulation? The panelists agreed that both are essential although Michel Liès of Swiss Reinsurance Company noted that, “You need to check that the vision of leadership is the right one.”

Kenneth Mehlman of KKR gave the example of acid rain that was a big problem 20 years ago but was eliminated through a combination of leadership, a clear regulatory framework, targets and data.

“You need a top-down approach to create the right culture. Data integration is the key,” said Michael Baldinger.
Panelists agreed that the effects of global sustainability megaforces are developing quickly and companies need to change to keep pace. Risks from energy volatility and water and resource scarcity are high and one of the main challenges for the sector is to decouple energy use and environmental footprints from business growth. Regulation and policy are changing at warp speed, increasing complexity for businesses. Hyper-efficiency and energy innovation are becoming central to responding to these megaforces.

Simply reacting is not enough. “Leadership means proactively managing these challenges,” said Thomas Jostmann of Evonik Industries.

But the megaforces also bring substantial opportunities, panel members argued. These include enhancing brand and reputation, improving innovation and learning (for example, technological innovation and employee training) and delivering cost savings.

It was noted that sustainability must be aligned to the business model through corporate policy, strategy, governance, innovation and a focus on reporting.

The speakers noted that leading practices for companies investing in sustainability entail: setting goals and making them public; analyzing data frequently; applying resources (both internal and external) and financing. “Driving change internally starts with the CEO and works down into the organization from there,” said Kevin Anton from Alcoa.

Clay Nesler of Johnson Controls raised the issue of human rights in the supply chain and noted that processes are maturing around this issue.

A growing interest in innovation partnerships with the venture capital community was highlighted. “Another growing area for public-private partnerships is the treatment of waste water and hazardous materials,” said David Tulauskas of General Motors.

Looking towards Rio+20, the speakers noted the importance of producing a policy toolkit that will drive investment, developing a common framework of sustainability standards and pricing in externalities.
Plenary Session

Climate Action:
Developing the business case

Discussion began on the topic of whether the world is moving closer to a binding international agreement on climate change action. The panelists agreed that while there was encouraging progress at the Durban climate conference in 2011, business is moving forward independently of politicians and must continue to do so.

On the subject of the energy supply mix, all panelists supported the case for a diverse portfolio of energy sources, acknowledging that no single source can serve any country’s entire energy needs. They agreed that universal access to energy is an important leading principle. Providing electricity to the 1.3 billion people who currently lack it will provide business with a huge opportunity not only to make money but also to learn and develop new technologies.

“It means thinking differently from the established system,” said James Rogers of Duke Energy.

“Success depends on the two key parameters of policy and technology,” said Tulsi Tanti of Suzlon. “These two factors can solve all the issues,” he said.

The need for long-term thinking in energy planning was discussed, as was the importance of a level playing field for energy sources without distorting subsidies.

Panelists also said that they expect environmental regulations to get tougher in the future. Lars Thunell of IFC pointed to the example of China moving ahead on innovation to tackle problems associated with dust, smog and public health.

Stable, clear and consistent policy frameworks were seen as crucial to progress in both developed nations and emerging economies.

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Plenary Session

Driving Sustainable Value Creation: Grasping the opportunities

This session opened with discussion of how global sustainability megaforces impact business. Panelists said that population growth and the rise of the global middle class create immense opportunities for business but that new models, technology and infrastructure are needed. Water scarcity and climate change, as well as the relationship between food and water, were also noted as important. "Water scarcity could be an even bigger problem than carbon emissions," said Peter Bakker of WBCSD.

Panelists saw sustainable value creation as being about making more with less, and driving innovation by collaborating with stakeholders. They also highlighted a role for small and medium-sized enterprises. Gregory Sebasky of Philips noted that smaller companies often look at things differently and are prepared to take more risks.

Customer preference was identified as a key driver: many business-to-business consumers, especially larger firms, are demanding more sustainable products. But, said Steen Riisgaard, consumers won't pay a premium or accept inferior quality for green options. The challenge is to deliver sustainable products at the same price and quality level as conventional products, and businesses need to provide information that enables consumers to make the choice. Labelling of products was seen as essential and panelists predicted that carbon and water footprints will soon be included in product labels.

Business can do a lot ahead of the regulators to improve efficiency, innovate and educate consumers, but certainty, longevity and predictability in regulation are needed. To that end, business must collaborate with policy, using a differentiated approach to engage each country and government.

"It is important that governments support the right initiatives, such as certified timber, that will drive change more quickly," said Dennis Jönsson of Tetra Pak.

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Break-out Session 5

Sustainable Issues and Strategies for Consumer Companies

Discussion opened with panelists exploring the 10 sustainability megaforces highlighted in KPMG’s report *Expect the Unexpected*, and identifying those with the greatest impact on their own businesses. Water scarcity, material resource scarcity and deforestation – among others – were acknowledged as major challenges and it was recognized that these are being driven by other megaforces including population growth and wealth.

A recurring theme throughout this session was the role of government in driving sustainability; it was widely accepted by the panel that governments cannot do the job alone. The sourcing of sustainable palm oil was noted as an initiative on which governments, businesses and NGOs must work together.

“But, government is not the answer to everything,” said Patrick Firmenich. “You do not need government to intervene everywhere.” As an example, he pointed to the success of NGO certification schemes for food and timber products in driving new business models.

“Companies are much faster than governments,” added Stephanus Kranendijk of Desso. “If you are the fastest, you will succeed.”

Other panelists suggested that collaboration between businesses is often the quickest and most effective approach to improve sustainability within consumer markets sectors. Sustainable refrigeration was highlighted as an area in which coordinated industry action can have dramatic positive impacts.

While the panel acknowledged brand enhancement as a key sustainability driver for consumer markets companies, several panel members noted that sustainability challenges are also opportunities for growth. Companies, they said, are no longer viewing sustainability purely as a means to enhance or protect reputation, but are finding opportunities to reduce costs, engage the supply chain and develop innovative growth strategies. Recycled products and low-water products were noted as particular opportunities, as were ethically-sourced products.

“It starts and ends with leadership,” said Kees Kruythoff of Unilever as he called for companies to make sustainability their business growth model rather than developing stand-alone sustainability strategies.

Looking towards Rio+20, the panelists called for participants at Rio to take full advantage of the opportunity the event provides for creating new partnerships.

“We need a new way of working together, with businesses taking action and governments providing the frameworks and incentives,” said Sabine Ritter of The Consumer Goods Forum.

Tony van Kralingen of SABMiller concluded, “We should go to Rio with a spirit of optimism and challenge, to liberate innovations and great ideas. We need actions, not hesitant words.”

Patrick Firmenich
CEO, Firmenich SA

Stephanus Kranendijk
CEO, Desso

Kees Kruythoff
Unilever CEO, Brazil

Sabine Ritter

Tony van Kralingen
Director Supply Chain and HR, SABMiller plc

Willy Kruh
Global Chairman, Consumer Markets, KPMG in Canada (Moderator)
Carbon emissions, access to water and energy, regulation, price impositions and access to natural resources are all challenges facing the mining sector at the moment. Regulatory forces are changing the competitive landscape and demand for products is increasing. At the same time, there are challenges around where to mine which, in some cases, require companies to operate in difficult and unstable areas. Increasing pressure from governments and communities makes it harder to operate.

Discussing the implications of these challenges, the panelists concluded that partnerships with local communities and governments are vital for the success of mining companies. Without communication, trust, agreements with and participation in local communities, mining development and operations cannot take place.

Felicidad Cristobal of the ArcelorMittal Foundation noted that governments in developing countries are concerned about companies taking their natural resources and want to ensure that companies create value for communities in return. In this context mining companies should look to schools and hospitals, and infrastructure for local communities. Madhu Vuppuluri of Essar Steel Minnesota emphasized that different countries have very different challenges and therefore each approach to working with communities needs to be individual. Stiaan Wandrag of Sasol also argued that companies need to be careful to understand local culture, as social requirements are as important as environmental requirements for achieving sustainable growth.

At the same time there is a need to improve the sustainability of operations in the mining sector by drawing on technological developments. Stiaan Wandrag noted that sustainability targets must be set, and reliable data gathered, analyzed and reported in order to improve processes and efficiencies. Reporting must be used as a management tool to drive efficiencies. There is also a need to build an incentive scheme around indicators of performance, including bonus system evaluation, ensuring that targets are set, measured and rewarded.

Looking towards Rio+20, the panelists noted the need for progress in addressing resource scarcity, financing of greenfield projects, responding to community needs and dealing with resource constraints. Liu Daojing of China Minmetals Corporation noted the need to participate in international dialogue to achieve agreements between corporations, the financial industry, communities and governments.
Discussing challenges that cities face in light of global sustainability megatrends, the panel agreed that conventional approaches to infrastructure planning can no longer be relied upon in our changing world. In this context Dr. Anne Kerr of Mott MacDonald Hong Kong Limited called for the complete revision of approaches to city planning and water, food and energy strategies and for increased integration of these strategies.

Rachel Kyte of the World Bank noted that solutions are needed to make infrastructure resilient to climate change, to increase access to energy, to address the transport needs of a growing population and to deal with water stress. However, Marcelo Moacyr of Foz do Brasil noted that there is no magic blueprint solution and each case is unique.

One of the key challenges outlined by the panel was revenue generation and financing. Since water and electricity prices are generally state-driven, the challenge is to generate sufficient revenue to finance sustainable choices. However, Rachel Kyte observed that cities are increasingly finding creative ways to use finance, including funds coming from municipalities, national governments and blended finance.

The speakers agreed that decentralized decision processes and partnerships with governments are vital for successful infrastructure development. Andreas Klugescheid of BMW emphasized that industries have to work with cities to find solutions to city problems. Rachel Kyte noted new opportunities to use data and technology. The panel noted that municipalities may be more effective than national governments in making changes and seeing successful infrastructure development through to fruition. Governments must also collaborate with each other for success through initiatives such as the C40 Cities Climate Leadership Group.

Dr. Anne Kerr
Director, Mott MacDonald Hong Kong Limited

Andreas Klugescheid
Governmental Affairs, BMW

Rachel Kyte
Sustainable Development, World Bank

Marcelo Moacyr
Director, Foz do Brasil S.A.

Dr. Tim Stone
Global Special Advisor, KPMG in the UK (Moderator)
The panel acknowledged that most of the global sustainability megaforces identified by KPMG directly impact pharmaceutical and health sectors. The sectors are responding to a wide range of sustainability drivers, they said, including population growth, urbanization, demographic change, climate change, increasing energy costs and pressure for resource optimization.

Sir Neil McKay of the NHS noted that these global drivers create strong incentives to run and use the healthcare system more sustainably. In the UK, the main driver for sustainability in healthcare is productivity gain.

Several speakers stressed the potential for technology to drive efficiency, service improvements, diagnostics and cost reduction. They emphasized that these technological opportunities can be mobilized in conjunction with sustainability ambitions.

The pharmaceutical industry has shown a readiness to work with healthcare organizations to create sustainable growth opportunities and this opportunity should be leveraged. Susanne Stormer of Novo Nordisk noted particular opportunities in waste reduction, energy efficiency and renewable energy.

However, speakers noted that incentives are required for the whole value chain, not just parts of it. Pat Tiernan of TPG highlighted supply chain programs as a route to affect change.

Future priorities for the sectors were seen to be: illness prevention strategies, better demand management, less institutionalized care for people with long-term conditions, fewer centers providing complex care in order to enhance safety, and greater use of technology (such as tele-health).

Panelists also noted the need for policies that create incentives for sustainable healthcare and highlighted public-private partnership as a key vehicle for driving change.
On the final day of the Summit, attendees voted on a set of 15 recommendations to be in the run-up to Rio+20. The majority of the recommendations received more than 90 percent support from the audience:

1) Global sustainability megaforces are having serious impacts on all businesses, and addressing them is essential for future business success.

2) Strong and renewed leadership is urgently required from businesses and policymakers to achieve sustainable and equitable growth.

3) There is a clear economic case for doing business more sustainably.

**Business leaders should:**

4) Reduce their focus on short-term performance in favor of longer-term sustainable growth.

5) Use their power to act quickly and decisively to drive change where policymakers can’t.

6) Adopt sustainable business models to ensure long-term competitiveness.

7) Work with customers, consumers and suppliers to drive change.

8) Proactively engage with governments to define solutions for sustainable growth.

9) Adopt stretching sustainability targets (for example to reduce water, energy and material use) in order to drive innovation.

**Governments need to:**

10) Provide long-term, stable and transparent policy frameworks and incentives to scale-up investment in sustainable development.

11) Provide strong price signals on resource scarcity and environmental impacts in order to drive investment in sustainable growth.

12) Deliver new platforms for public-private collaboration at the international and national levels.

**Businesses and governments should collaborate to:**

13) Adopt ambitious and measurable global sustainable development goals for poverty eradication, food security, water management and universal access to energy.


15) Develop a global framework requiring all listed and large private companies to report on sustainability performance.

In concluding the Summit, Yvo de Boer, KPMG’s Special Advisor, Climate Change & Sustainability Services, noted, “Today’s leaders are struggling with complexity. Until now, we found global trends on energy, water security and food scarcity complex enough. The convergence of other forces such as population growth, deforestation and a surging middle class is impacting business and the world around us. Leaders are overwhelmed by the sheer scale of these problems and struggling to act. There are ways to solve these problems, and that includes harnessing the capacity of business.”

“I am encouraged by the exchange of ideas at this Summit from business leaders who are not going to wait. In fact, they are already moving ahead with sustainable solutions. That said, even active leaders with sustainable business practices will run into problems if the policy framework does not create the right investment conditions,” concluded Yvo de Boer.
As sustainability and climate change issues move to the top of corporate agendas, KPMG member firms advise organizations to better understand the complex and evolving environment, helping them optimize their sustainability strategies.

KPMG’s Climate Change and Sustainability Services (CC&S) professionals provide sustainability and climate change Assurance, Tax and Advisory services to organizations to help them apply sustainability as a strategic lens to their business operations. We have more than 25 years of experience working with leading businesses and public sector organizations, which has enabled us to develop extensive relationships with the world’s leading companies and to contribute to shaping the sustainability agenda.

The expanding CC&S network, across more than 50 countries, enables us to apply a consistent, global approach to service delivery and respond to multinational organizations’ complex business challenges with services that span industry sectors and national boundaries. Our experienced teams assist organizations in the following areas:

- Sustainability risk and opportunity analysis
- Corporate responsibility strategy assistance
- Corporate Social Responsibility/Sustainability/GHG information systems design and implementation
- Regulatory framework assessment and optimization, including tax and carbon emission regimes
- Tax incentives and credits
- Sustainable supply chain enhancements
- Corporate responsibility reporting and assurance, including pre-audit assessments and emissions verification.

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