KPMG

Boardroom Questions

The Paris Agreement: A global deal on climate change

KPMG International

What does the Paris Agreement mean for businesses?

In December 2015, the world's nations agreed a landmark deal to reduce carbon emissions and combat climate change. The deal, struck at the 21st UN Climate Talks (COP21) held in Paris, is known as The Paris Agreement.

> **The result is an unequivocal signal to the business and financial communities, one that will drive real change in the real economy."**
> *Paul Polman, CEO, Unilever*

> **Governments must now put words into actions. My key message is to price carbon right and to do it now."**
> *Christine Lagarde, Managing Director, International Monetary Fund*

Why is the Paris Agreement needed?

- Global temperatures are currently on course to rise by up to 4°C above pre-industrial levels by 2100
- Scientists predict potentially catastrophic impacts once temperatures rise by 2°C
- 2015 was the hottest year since records began. 14 of the hottest 15 years on record have been since the year 2000
- The World Economic Forum cites the failure to mitigate or adapt to climate change as the global risk with the greatest potential impact (*)

What did countries agree?

- The world will limit global temperature rise to 2°C and make "best efforts" to limit it to 1.5°C
- The world will become carbon neutral at some time between 2050 and 2100
- All countries will set national targets to reduce carbon emissions and update them every 5 years
- Countries will report transparently on their progress towards reducing carbon emissions
- By 2020, richer countries will provide US$100 bn per year to help poorer countries address climate change

What corporations might expect

- **Tighter regulations** to limit carbon emissions and improve energy efficiency
- **Higher costs**, e.g. carbon taxes and trading systems
- **Stronger requirements** to report on emissions
- **Pressure to disclose the financial risks** the business faces from climate change
- **Greater opportunity** in the low-carbon economy
- **Improved incentives** for low-carbon products/services
- **Stronger demand** for low-carbon suppliers
- **Pressure to manage emissions** across the value chain

Possible impact for business in getting it wrong

- **Increasing costs** for high-carbon companies
- **Penalties for non-compliance** with new regulation
- **Competitive disadvantage** as customers seek lower-carbon suppliers
- Threats to **shareholder value**
- Brand and **reputational damage**

Potential opportunities for growth

- Low-carbon economy offers opportunity for **innovation and new markets**
- **Shareholders reassured** that risks are addressed
- **Customers demonstrate brand loyalty** and select suppliers that reduce emissions

* WEF Global Risks Report 2016

Boardroom Questions

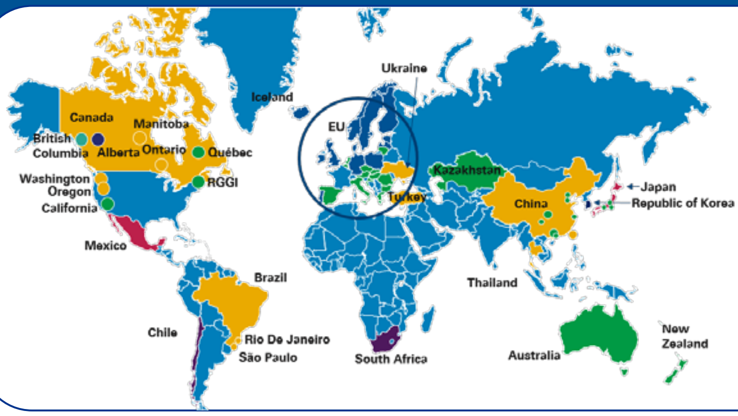
Strategy

1. Is our business **ready to prosper** in a low-carbon economy?
2. Are we **investing in the innovation** of greener products and services?
3. Are we ready to **respond to tougher customer demands** to be low-carbon and climate friendly?
4. How can our **business grow and simultaneously reduce** its carbon emissions?
5. How can we **reduce exposure to future regulation, taxes and pricing** of carbon emissions?

Operations

6. Is our organization **ready to comply** with more stringent carbon reporting requirements? Do we have the right systems and processes in place?
7. Is our organization prepared to **identify, quantify and disclose the financial risks** it faces from climate change?
8. Is our organization's **reputation at risk**, for example for not sourcing enough clean, green energy?
7. How exposed is our **business and its supply chain** to the likely impacts of climate change such as **extreme weather, water scarcity and social unrest**?
8. How will the **carbon reduction commitments** made by the **countries in which we operate** affect our organization?

Summary map of existing, emerging and potential regional, national and subnational carbon pricing initiatives (ETS and tax)



- ETS implemented or scheduled for implementation
- Carbon tax implemented or schedule for implementation
- ETS or carbon tax under consideration
- ETS or carbon tax implemented or scheduled
- ETS implemented or scheduled, tax under consideration
- Carbon tax implemented or scheduled, ETS under consideration

Source: World Bank Group & Ecofys, Carbon Pricing Watch 2016

What actions could the Board consider?

- **Assess legal, commercial and reputational risks**, as well as the risk of exposure to the physical and social impacts of climate change
- **Review and improve systems** to measure, manage, report and reduce our organization's emissions
- **Initiate systems and processes to identify and disclose the financial risks** posed by climate change
- **Protect and enhance our organization's reputation** as pressure grows on business to reduce emissions
- **Review corporate strategy** to position our organization to **grow and prosper** in a low-carbon economy
- Ensure we have **resource and capability** to implement the actions above

"KPMG's Sustainability Services professionals spend over one million hours every year helping clients improve their environmental and social performance." *Adrian King*

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