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Green Growth

"We have mined our way to growth. We have burned our way to prosperity. We believed in consumption without concerns about the consequences." — UN Secretary-General Ban Ki-Moon

Warming up to climate change management and disclosure

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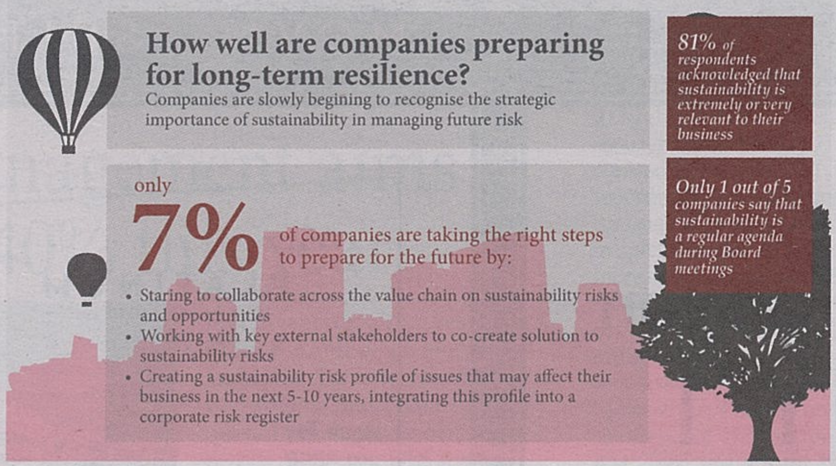

YOU can warm Mars up over time, with greenhouse gases, says Tesla Motors founder Elon Musk. He may be right. Greenhouse gases (GHG) such as carbon dioxide, methane and nitrous oxide, which keep the earth warm enough to support life, are being emitted at an alarming rate globally, driving climate change. This inevitably puts us on a dangerous trajectory as feared by Musk.

Asian economies especially South-East Asia are increasingly vulnerable to the effects of climate change. Disasters often bring with them serious social and economic implications, which can affect the security and stability of the region. Reading about the floods in the east coast states of Malaysia and Typhoon Haiyan in the Philippines clearly left us disheartened. A recent study by the Asian Development Bank shows that disaster losses have outpaced the region's economic growth and will continue to threaten any development gains in the emerging markets. Governments, businesses and even individuals play an equal role in mitigating GHG emissions.

In order to curb rising emissions, Asian governments are implementing new regulations, such as mandatory carbon reporting and emissions trading schemes. Thailand, Vietnam and Indonesia are planning to set up domestic carbon market schemes. These regulatory changes will create an increasingly challenging regulatory landscape for businesses to operate in, placing more pressure on them to reduce the impact their activities have on the environment.

In Malaysia, various efforts have been undertaken to address rising GHG emissions although none as ambitious as those proposed by our neighbours. Prime Minister Datuk Seri Mohd Najib Razak's commitment to reduce Malaysia's carbon emission intensity by 40% in 2020 has led to the implementation of various policies and initiatives focused on reducing dependency on fossil fuels and improving energy efficiency. Several initiatives were also announced in Budget 2014 including the introduction of the National Carbon Reporting Programme (MyCarbon) which was launched by the Ministry of Natural Resources and Environment in December 2013. Starting off as a voluntary pilot programme, MyCarbon aims to support Malaysian companies in measuring and reporting their GHG emissions.

This national reporting platform is a significant move to help Malaysian businesses manage and report their carbon emissions. On a global scale, the Carbon Disclosure Project (CDP), a UK-based non-profit organisation, requests for climate change management information and data from the world's largest companies. In 2013, they were backed by more than 722 investors representing US$87 trillion (RM289.5 trillion) of assets. The disclosed information is analysed and reported annually for the use of financial decision makers in their investment, lending and insurance analysis. In 2012, over 4,100 companies worldwide (81% from Global 500 companies) reported to CDP's climate change and supply chain programme. PwC has served as global advisor to the CDP since 2008 and also wrote its three flagship reports — the Global 500, S&P 500, and FTSE 350 reports — as well as the recent Asia ex-Japan report.

The Asia ex-Japan 400 sample consists of the largest companies by market capitalisation in China, India, Korea, Hong Kong and the South-East Asian region. Disclosure from only four Malaysian companies (out of 15 invited companies) were included in the report, indicating that perhaps Malaysian companies do not clearly understand the benefits of carbon reporting to the business as well as to their investors and stakeholders. In contrast, our analysis of over 400 of the Global 500 companies shows that they are increasingly transparent and sophisticated about their approach to climate change. The companies are reporting their emissions from their supply chain and the use of their products, although they have yet to report emissions from the most relevant parts of their value chains.

As climate change continues to impact the region, Asian businesses can no longer ignore the relevance of managing their GHG emissions. Beside enhancing one's reputation, which is one of the key drivers of change; measuring, managing and reporting emissions help companies understand the impact of their business activities on climate change. This allows companies to identify and future-proof their climate change risks and find opportunities to innovate and generate new revenue streams from sustainable products and services. Increasingly, companies are identifying potential opportunities to build reputation and leverage on growing consumer awareness of environmental issues. For example, the property sector is developing green buildings and townships, financial companies are coming up with green technology financing loans, and the automotive sector is racing to produce more fuel efficient cars.

Interestingly, a PwC survey of over 200 companies in Malaysia, Indonesia, Thailand, Vietnam and the Philippines last year found that more than 50% of the companies surveyed do not measure and monitor their GHG emissions. The survey also found that companies are not reporting because it is not a regulatory requirement. In addition, the companies agreed that energy and carbon related costs will be the number one sustainability driver in the region in the near future (see graphic above). This underscores the need for businesses to manage their emissions wisely.

So what can businesses do to manage GHG emissions?

They should: Measure and monitor their GHG emissions. This can be done by developing a GHG emissions inventory based on guidelines and standards like the GHG Protocol and ISO 14064. The standards evaluate inventory quality based on the following criteria: completeness, relevance, accuracy, transparency and consistency.

Use the emissions data collected to monitor their emissions performance. Once emission's data collection is in place, companies should use this information to monitor their emissions performance.

Use the data as a tool in decision making to identify opportunities and reduce energy costs and climate change risks. Climate change and emissions reporting is most beneficial when it is clear and comparable, with supporting data.

Set reduction targets and keep track of their performance. Companies should then summarise their performance against targets set to gauge progress in climate change initiatives.

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