Climate Change

KPMG’s integrated carbon management service

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The business issue

Actions to mitigate and adapt to climate change are redefining the twenty-first century business model. Greater regulation of Greenhouse Gas (GHG) emissions is a clear and present indicator of the transition to a low-carbon economy.

Corporations are increasingly being seen as a key agent of this change and are presented with significant business opportunities within this new wave of innovation.

In the current challenging economic environment, these new imperatives are ever more relevant and require a proactive, strategic response from businesses.

KPMG’s key insights

A risk and cost driver

Governments are using a variety of economic instruments to put a price on GHG emissions, representing potentially significant risk and cost drivers for corporations. Where prices currently exist, these will likely be increased and be expanded to have greater coverage. Where there are no charges today, new pricing systems will be developed. The progressive application of carbon taxes in South Africa, most notably in the electricity and motor vehicle sectors, demonstrates the reality of these outcomes.

A complex external landscape

Internationally coordinated action to mitigate climate change remains a critical factor influencing private sector engagement. However, a greater range of national and sub-national mitigation actions are likely to develop alongside international agreements such as the Kyoto Protocol. These will present unprecedented, localised economic drivers for carbon management, presenting new risks and opportunities. Corporations need to cut through this complexity posed by multi-layered regulation and understand the implications of these factors for their businesses. The nascent, yet definitive development of carbon market mechanisms on a bilateral basis is a relevant case in point.

A key performance indicator

Carbon management is increasingly being seen as core to any business model and a key indicator of organisational performance. Over the past decade, a number of initiatives have been developed to evaluate and report the performance of companies on climate change-related indicators. A key initiative in this regard is the Carbon Disclosure Project (CDP) which reports on business risks and opportunities posed by climate change on behalf of 534 institutional investors holding $64 trillion in assets. KPMG is a lead sponsor of the CDP in South Africa, which covers the top 100 JSE listed companies.

An integrated view

Strategy, risk, performance and carbon management have become inseparable, and need to be treated as such. Accordingly, reporting in a manner that integrates economic, social and environmental performance is critical for organisations to be seen as credible, reliable and solid. In South Africa, the guidelines and requirements of the King III Code of Corporate Governance released in 2009 reflect the integrated nature of economic, environmental, social and governance issues in core business management and reporting.
KPMG’s integrated carbon management service

KPMG offers practical business focused advice on carbon management, approaching the issue as a key element of effective business strategy and operation.

Our multi-disciplinary Carbon Advisory Group brings together skills in climate change & sustainability, enterprise risk management, quantitative impact assessments, accounting, tax, corporate finance, information technology, supply chain forensics to deliver a cutting-edge service tailored to specific industries.

Our professionals combine specialist expertise in climate-change related issues with deep-rooted industry knowledge, ensuring that the solutions we provide add real value to your business.

Certain countries notably China and Korea used the economic crisis as an opportunity to change the direction of growth and put sustainability at the heart of their future. That shows sustainability has left the periphery and is now centre stage. It has become a hard-nosed business case you cannot afford to ignore, and if you waste energy or squander raw materials, the marketplace will punish you in cold, hard financial terms.

Yvo de Boer
Special Advisor to KPMG’s Climate Change & Sustainability practice
Former Executive Secretary of the United Nations Framework Convention on Climate Change
KPMG’s approach

For companies looking to provide a structured response to climate change KPMG has developed ‘Six Steps to Carbon Management’ approach, outlined below.

Steps 1 & 2: Identifying Risks and Opportunities

The foundations of a robust carbon management process are grounded in understanding the key drivers of the climate change agenda and the impact of climate change on your organisation.

KPMG provides executive training and facilitation of strategic risk assessments on climate change, including, international frameworks and trends, global carbon market mechanisms, tax and accounting impacts of emerging local legislation and initiatives.

KPMG’s strengths lie in quantifying the potential impact of relevant factors on a company’s operating model and profitability. We are uniquely placed to model the monetary impacts of different regulatory and carbon pricing outcomes for a business, as well as evaluate the level of exposure of an asset or portfolio to climate change risk.

KPMG’s Carbon Advisory Group is well position to provide informed perspectives and clear solutions to help navigate this complex landscape.
Step 3: Developing an integrated climate change strategy

An effective carbon management response must be coordinated through a strategy that integrates climate change related factors within the business model.

KPMG is well positioned to facilitate the development of an integrated carbon strategy through our multi-disciplinary carbon advisory offering. We can provide specialist advice on mitigation, adaptation, supply chain, product development, investment appraisal, carbon trading and valuation, carbon tax planning, green IT solutions and change management.

Through our global presence we understand how climate change policy is evolving around the world, enabling us to provide relevant advice to you wherever your business is located.

Step 4: Measuring your carbon footprint

A practical first step towards carbon management lies in calculating baseline GHG emissions, and integrating the emissions inventory into management and reporting systems.

KPMG’s unique value addition lies in an integrated carbon footprint solution that is tailor-made to specific requirements. Our expertise includes placing the carbon footprint within the broader context of the business and helping organisations create the enabling conditions for sustained data quality and verifiability.

We have extensive experience in this area, having developed and provided independent assurance over carbon footprints for large organisations in the mining, oil and gas, construction, financial services and higher education sectors.

Step 5: Reduction and mitigation of emissions

Actions to mitigate emissions and adapt to climate change need to be deeply embedded within the business model.

The increasing regulation and pricing of carbon makes the prioritisation of emission mitigation options a vital component of an effective carbon management strategy. In the African context, adaptation to the impacts of climate change is an equal imperative that can significantly impact the operating model.

KPMG’s integrated carbon management approach ensures that mitigation and adaptation solutions are in sync with existing business practices and tailor-made to fit unique circumstances. Our ability to work seamlessly across functions allows us to address new and emergent carbon management issues such as insurance risk from climate change induced asset losses, bespoke carbon offsetting solutions and sustainability-based performance management.

Step 6: Communicate progress to stakeholders

Maximising long-term value from an active carbon management strategy depends on effective communication and steadfast compliance.

In addition to regulatory standards for disclosure, voluntary reporting initiatives from investors and consumers are driving an agenda for clear, credible communication.

KPMG provides informed advice on reporting frameworks such as the carbon disclosure project and sustainability reporting. We have an extensive track record of providing assurance over external corporate disclosures on carbon management and key performance information.
Case studies

Executive Training carbon markets
KPMG has provided tax, audit, accounting and modelling services to a wide range of carbon market players, from established major financial institutions, carbon funds and project developers. KPMG South Africa climate change & sustainability, financial risk management and tax advisory services conducted a workshop on carbon markets and trading for a South African Bank to develop an awareness and understanding of the intricacies of carbon trading. This enabled the client in developing new products relating to carbon markets.

Emissions trading
The global KPMG Carbon Advisory Group has worked extensively with the Australian Federal Government (Department of Climate Change) as a panel consultant for the design and implementation of the Emissions Trading Scheme. To date our work with the Department of Climate Change (DCC) on the Carbon Pollution Reduction Scheme (CPRS) in Australia has included a 3 month secondment with the DCC of KPMG Director from the Indirect Tax group to assist with the policy development of the White Paper, assistance with the design and implementation plans for the Greenhouse and Energy Data Office, assistance with the design and implementation of the CPRS Independent Regulator responsible for the administration and regulation of the CPRS, assistance with the understanding and outlining the transitional issues of other state-based emissions trading and regulatory schemes such as New South Wales’ Greenhouse Gas Abatement Scheme (GGAS), assistance with the identification of design requirements of the national registry to support the collection of emissions data.

Clean Development Mechanism and Voluntary carbon credits
KPMG has a global track record in validation of Clean Development Mechanism projects in sectoral scopes 1 (energy industries renewable - / non-renewable sources), 2 (energy distribution) and 13 (waste handling and disposal). In South Africa we are active in the emerging voluntary carbon credits market. We have provided verification services for a community energy efficiency project against the requirements of the World Business Council for Sustainable Development (WBCSD) Project Protocol and assessment against the Voluntary Carbon Standard.

Event greening
KPMG acted as advisor to the Johannesburg World Summit Company in 2002 during the World Summit on Sustainable Development. Work included the monitoring and evaluation of GHG emissions for the Johannesburg Climate Legacy, a carbon neutral project. This required the development and testing of methodologies for accounting GHG and mitigation strategies. We provided advice to the Department of Energy on greening the 2010 Worldcup in South Africa and are currently engaged by the Local Organising Committee in the UK to provide assurance on the carbon neutral status of the 2012 Olympics.
Our commitment to carbon management

KPMG’s commitment to carbon management is evidenced by our own ambitious internal Global Green Initiative. We aim to reduce the combined member firms’ carbon footprint by 25 percent by the year 2010 from a 2007 baseline.

KPMG participates in international bodies that shape the climate change agenda. We are a member of the World Business Council for Sustainable Development and a founding member of the International Emissions Trading Association. KPMG South Africa is the lead sponsor of the South African Chapter of the Carbon Disclosure Project since 2008.

Carbon assurance
Specific engagements where KPMG has provided independent non-financial assurance relating to climate change includes Anglo American, BHP Billiton, BP, Chevron, Diageo, Eskom, First Rand Bank, Lonmin, Standard Bank, Sasol, Shell, Vodafone Group. This relates to publicly reported greenhouse gas emissions against international best practice guidelines. The KPMG team has experience in greenhouse gas monitoring, reporting and KPMG was involved in the development of the WBCSD’s corporate greenhouse gas reporting protocol.

Our thought leadership
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