Decarbonisation and the evolving role of corporate boards

Corporate Boards need to step up to meet the challenges of the carbon constrained world

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From Regina Mayor

As climate change concerns take root, there is all round confusion on how corporates should react. Without question the future points to clean energy. However, the pathways for the energy providers and users remain unclear. Despite accelerated investments for a better part of the past decade, renewable energy contributes to only about ~17 percent of the overall energy basket. To keep the global economic juggernaut moving, investments will be required even in the fossil fuel sector to ensure an orderly transition while staying on course to meet climate goals. Absent that, there is a great risk of the economy spinning out of equilibrium.

That risk of disequilibrium seems to be playing out, at least in the short run. In response to climate action pressures as well as perceived financial risks to new investments, global oil and gas majors are sharply cutting back capital outlays. National oil companies may step up investments, but keeping pace with the post--pandemic demand would be challenging. A similar situation is playing out in coal markets where traded coal prices have trebled over the past year, but that may not correspondingly spur new investments. Indeed, the declarations at CoP 26 point to the end of unabated coal emissions.

The economic engines are no longer operating in their usual ways. All this points to the need for energy suppliers and users to focus more on accelerating their respective transformations. The resultant changes will cut deep and will require continuous balancing of short term and long term priorities. This is why Corporate Boards actively need to steer this difficult journey, complementing the role of the executive more than ever before.

Regina Mayor

Global Head – Energy
KPMG in the U.S.

From Anish De

ENRich 2021 is taking place well within a month of COP26. The Glasgow Climate Pact has kept alive the goal of keeping global warming within 1.5 degrees, but only just. The updated Nationally Determined Contributions (NDCs) have marked only modest step-ups against the needs and will keep the world well above the failure limit of 2 degrees.

However, COP26 has ended with a sliver of hope. The parties have agreed to retain the 1.5 degrees target and reconvene in Egypt next year to update the goals. The Glasgow Pact also pointed to the end of unabated coal emissions. US and China have agreed to work together to cut down methane emissions sharply. The Glasgow Financial Alliance for Net Zero, a consortium of 450 financial firms committed to achieving Net Zero emissions, now represent USD 130 trillion in total assets.

For corporates across the world, there are some key takeaways from these developments. Foremost among them is that climate goals will keep ratcheting up, and hence present goals and regulations cannot serve as a guide. Instead, corporate plans have to be much more ambitious on decarbonisation goals. Secondly, funding will be available for viable businesses that work on a high decarbonisation bar. Conversely, financing will be a challenge for high carbon initiatives, even if financially viable.

A big takeaway from developments over the year that have culminated at the COP26 is that the mitigation actions will largely devolve to corporates (there is marked reluctance to direct change to individual lifestyles including food or travel habits). However, the future will not be just about climate mitigation. With accelerated heating being a real prospect, focus of corporates has to shift to adaptation. Climate events have already become more frequent and are intensely disrupting operations and supply chains. Black swan events of earlier are now the order of the day, being used as the planning reference.

This new and changing normal on climate mitigation and adaptation for corporates, and the evolving role of the boards is our focus here.

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Climate response: falling well short of needs

We are heading towards an unsustainable and uncertain world.

Below 1.5°C
The Paris Agreement Target[1]

1.19°C
Where we are now (2020)[2]

1.8 °C-2.4°C
Where we are headed (2100)[3]

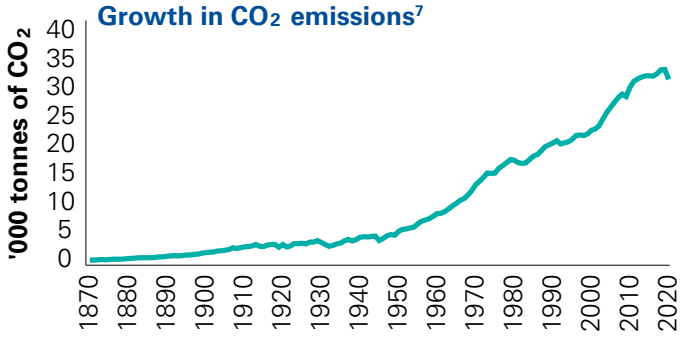
The consequences of our (in) actions are causing more harm than ever.

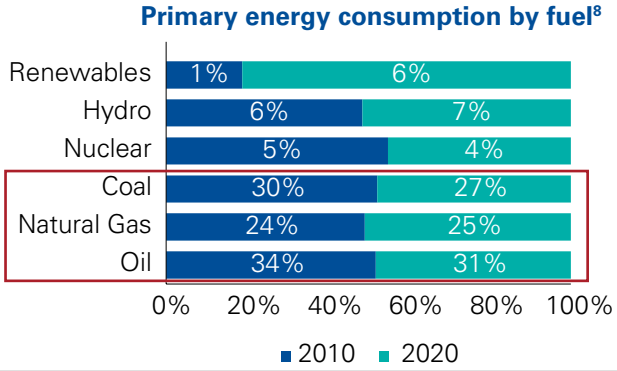
980
No. of catastrophic events in 2020[4]

USD 210 billion
Total losses in 2020[5]

61%
Non - Insured losses[6]

The pace of energy transition has been sluggish, despite commitments from national governments across the globe.





The scale of problem demands complete transformation of energy systems which requires strong action from almost all quarters, especially corporates

The shift towards renewables, although inevitable has been slow thus far.

Globally, investment dynamics in energy sector are changing, and companies need to be better prepared to balance their investments across technology portfolios.