

Private Corporations, Sustainability & Climate Change

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Note: The views expressed in this lecture are those of the lecturer. They do not necessarily represent or reflect the views of her employer.

Introduction



Overview

- What Is Sustainability & Climate Change?
- Commitments from Governments
- Commitments from Private Sector
- Private Corporations – Framework for Analysis
- The Volkswagen Example
- The Sembcorp Example
- Q&A
- Role of Corporate Counsel

What Is Sustainability?



I have no idea what I'm doing



but I'm gonna figure it out!

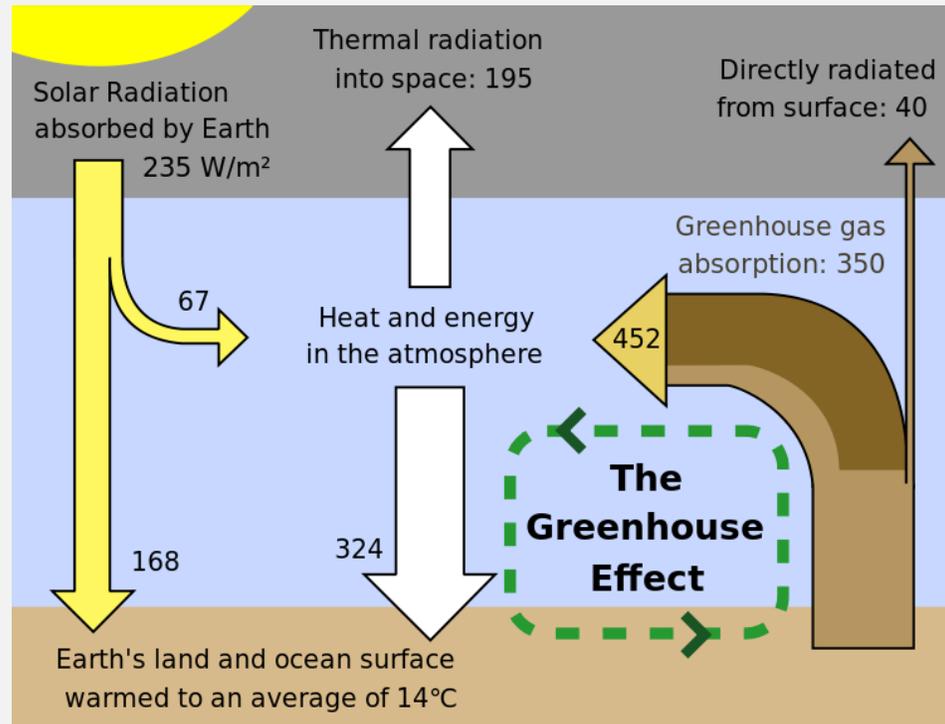


What Is Sustainability?



What Is Climate Change?

Greenhouse gases absorb heat that is supposed to go back the space



Not all gases have the same impact; the worst gases have already been banned

GREENHOUSE GAS	Estimated Lifetime years	Global Warming Potential		
		20 years	100 years	500 years
Carbon Dioxide (CO ₂)	variable	1	1	1
Methane (CH ₄)	12	62	23	7
Nitrous Oxide (N ₂ O)	114	275	296	156
CFCl ₃ (CFC11)	variable	6300	4600	1600
CF ₂ Cl ₂ (CFC12)	variable	10200	10600	5200

Based on Intergovernmental Panel on Climate Change Third Assessment Report, 2001

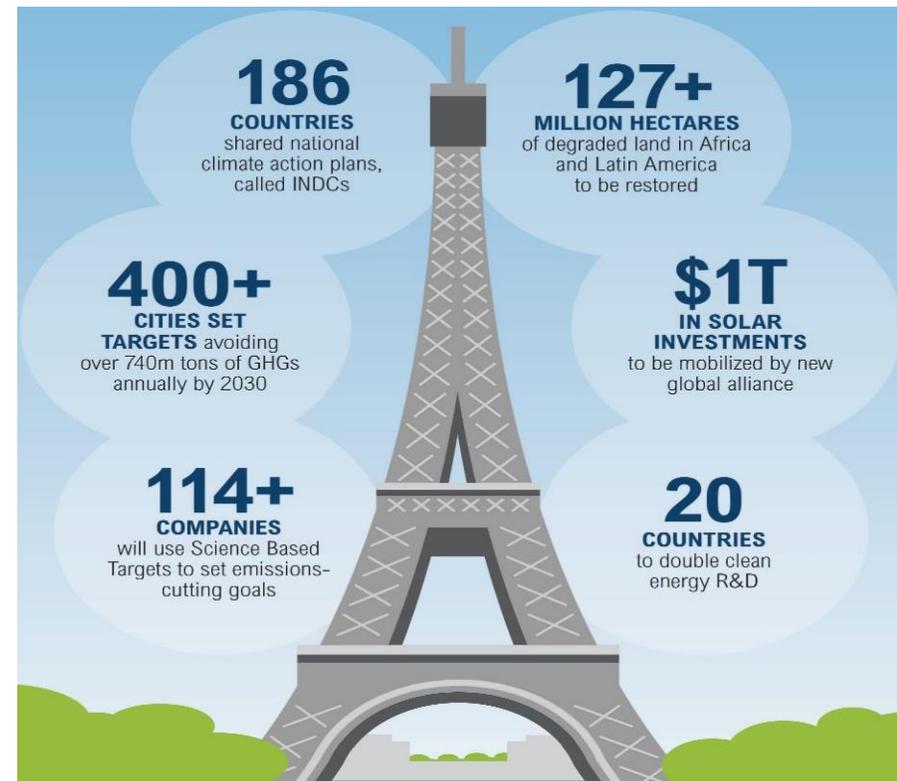
Commitments from Governments

UNFCCC

From Kyoto Protocol in 1997
(first comprehensive agreement for the
reduction in global greenhouse gases) to...



PARIS 2015



Commitments from Governments

- Intended Nationally Determined Contributions requiring parties to outline national efforts towards low emissions and climate resilient development and identify specific policies and practices that will enable the country to reach its intended targets.
- Bottom up Approach is a preferred alternative to the top-down approach.



Commitments from Private Sector

- The Private Sector is an integral part of Climate Action Post-Paris
- Private sector wants predictable long term regulatory regimes – easier to calculate projections – e.g. carbon pricing (see Singapore budget 2018), incentives for de-carbonization
- Climate finance – US\$243 billion – pumped into climate related investments (technology to combat climate change)
- Scaling of green bonds – COP21 re-confirmed the need to raise at least US\$100 billion per year from private and public sources to help developing countries mitigate and adapt to climate change by 2020

Discussion on Private Sector

- Whose responsibility should climate change and sustainability be?
- Can the private sector save the world from climate change?
- **Critical analysis** into the commitments of private corporations to sustainability and climate change:
 - Regulatory pressures – tracking sustainability as a key element of corporate governance
 - Consumer pressures
 - Climate change as a risk factor in doing business
 - Are these commitments realistic or just lip service? A look into companies which have failed to meet their climate change and sustainability provisions – for example, Volkswagen.

Corporations – Framework for Analysis

PUSH FACTORS	PULL FACTORS
<ul style="list-style-type: none">➤ Economic factors: Increase of environmental disaster risk & insurance costs➤ Disruption risk: Innovation hold gives a chance to smaller companies to disrupt the market and compete➤ International and domestic environmental laws: From upstream greenhouse gas producers to downstream emission requesters➤ Brand image: Negative media attention, exposes by NGOs➤ Investor-driven sustainability disclosures requirements: More investors requiring environmental, social and governance (ESG) disclosures (see handouts for disclosures in Stock Exchanges)➤ Liabilities – Corporations, Directors, Employees	<ul style="list-style-type: none">➤ Economical factors: Comfort of established cash-cow business➤ Competition: Unfair competition for companies using cheaper technologies
INITIATE	MITIGATE

Volkswagen Case



Volkswagen Case

Key Facts

- Caught by the Environmental Protection Agency
- Approximately 11 million diesel cars worldwide were outfitted with unethical software that resulted in them cheating on emissions tests
- Cars were emitting pollutants up to 40 times the legal limit during the actual use, resulting in a total additional emissions of up to 948,691 tons of NOx each year

Volkswagen Case

Analysis framework

Factors	Let's Analyze
Financials	Financial exposure to the company?
Legal	Which laws did Volkswagen, a multinational company, breach? Impact?
Brand Image	Impact on Sales?
Impact on Investors	Impact on Volkswagen's share prices
Liability	Company? Employees? Directors ? CEO ?

Volkswagen Case Analysis (1)

Factors	Analysis
Financials	Recall of cars (US\$15.3 billion)
Legal	<p>A few examples of legal :-</p> <ul style="list-style-type: none">• Sept 2016, the EU finds that Volkswagen broke laws in 20 countries. Consumer Sales and Guarantees Directive that prohibits companies from touting exaggerated environmental claims in their sales pitches• Consumer watchdog in Australia commenced action• In the US, the company violated Section 203(a)(3)(b) of the Clean Air Act which prohibits the manufacture, selling or installation of any device that intentionally circumvents the EPA emission standards by bypassing, defeating or rendering inoperative a required element of the vehicle's emissions control system

Volkswagen Case

Analysis (2)

Push Factors	Analysis
Brand Image	Fall in Volkswagen brand profit – in 2016, reported drop of 12 percent in quarterly profit at its main passenger car division. Pledge by the company to invest in electric cars
Impact on Investors	<p>Steep drop in share prices. US\$7.3 billion LOSSES, 30% plummet in the stock prices and worldwide condemnation</p> <p>Investors in the US have launched a class action suit accusing Volkswagen of deception involving its cheating on diesel emissions tests. They contend that the deception led to steep investment losses. Lawsuits also filed in Germany</p>
Liability - Company	US\$2.8 billion of criminal penalties in the US for cheating on emissions tests. Spurred countries in Europe including the UK to look into strengthening criminal sanctions against similarly errant companies

Volkswagen Case

Analysis (3)

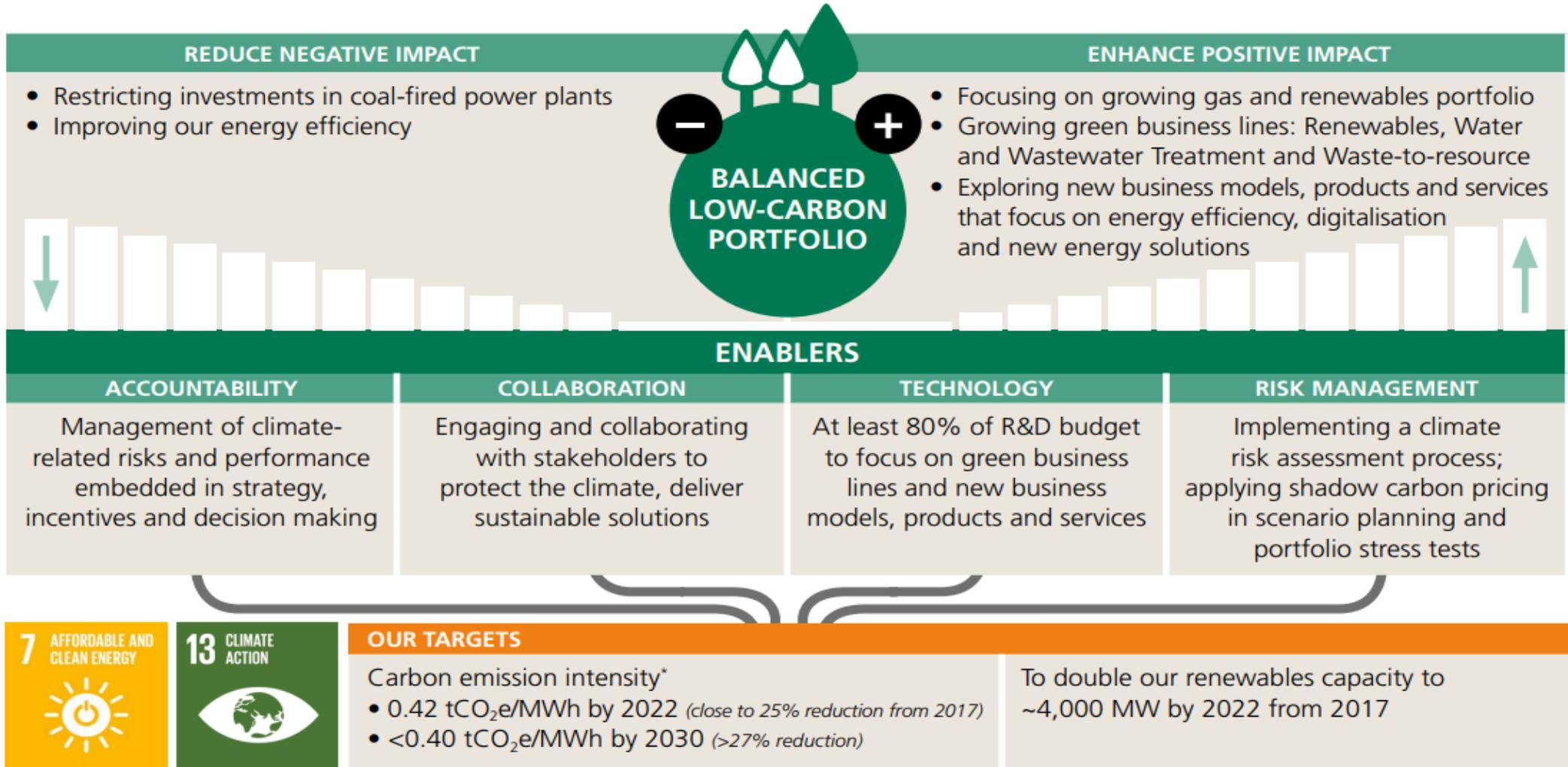
Push Factors	Analysis
Liability – Employees and Directors	<ul style="list-style-type: none"><li data-bbox="647 475 2430 801">➤ CEO and employees charged. Heinz-Jakob Neusser (oversaw development of the company's brand) Jens Hadler (who oversaw engine development); Richard Dorenkamp (supervisor of engine development; Bernd Gottweis(helped oversee quality management); and Jürgen Peter (was a liaison between regulatory agencies and the carmaker). They were charged with conspiracy to defraud the United States, defraud customers and violate the Clean Air Act<li data-bbox="647 818 2430 1143">➤ Sarah Barker in Report by the Commonwealth Climate and Law Initiative:- <i>“Australian company directors need to ensure that they view climate change through a corporations and securities law lens, rather than an environmental” lens. If this is news to any business or board, they would be well advised to accelerate their understanding of the issue before enforcement proceedings begin to flow”</i><li data-bbox="647 1160 2430 1258">➤ Directors and officers have statutory duties to act in the best interest of their company and with reasonable care and due diligence

Sembcorp Case

*by Gwendolyn Loh
Sembcorp Industries' Sustainability
and Climate Change Committee*

<http://www.sembcorp.com/en/media/multimedia-centre/multimedia-Details-video?mediaId=15598>

Sembcorp's Climate Change Strategy



* Refers to GHG emissions intensity of our Utilities business' assets that produce GHG from the combustion of fossil fuels

Risks & Opportunities

New Growth Trends Arising from the Global Energy Transition

Decarbonisation

The world is transitioning to a low-carbon economy. The global energy mix is seeing significant shifts towards cleaner sources of energy. Decreasing cost of renewables is driving greater investment and deployment.

SEMBCORP'S RESPONSE

Growing our renewables portfolio

Target: Doubling our renewable capacity to ~4,000 MW by 2022

Decentralisation

The shift to distributed energy systems is opening up opportunities for merchant and retail power, flexible generation and technology-enabled business models.

SEMBCORP'S RESPONSE

Establishing Gas & Power, Renewables & Environment and Merchant & Retail business lines to capture opportunities

Digitalisation

From generation to customer relationship management, the digital revolution is transforming every facet of the industry's value chain.

SEMBCORP'S RESPONSE

A Digital and Technology unit to drive digitalisation via innovation, research and development (R&D), as well as technology investment and deployment

Demand Disruptions

From energy efficiency, distributed generation to the electrification of vehicles, the energy sector is seeing demand disruption.

SEMBCORP'S RESPONSE

Focusing on energy efficiency, digitalisation and new energy solutions

Target: At least 80% of R&D budget to focus on green business lines and new business models, products and services

Figure 6

Core Elements of Recommended Climate-Related Financial Disclosures



Figure 7

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>b) Describe the organization's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>

SGX Sustainability Reporting Guidelines

SGX-ST Listing Rules

Practice Note 7.6

Sustainability Reporting Guide

<u>Details</u>	<u>Cross References</u>
<u>Issue date: 20 June 2016</u>	<u>Listing Rule 711A</u>
<u>Effective date: 20 July 2016</u>	<u>Listing Rule 711B</u>

1. Introduction

1.1 Listing Rule 711A requires every listed issuer to prepare an annual sustainability report, which must describe the issuer's sustainability practices with reference to the primary components set out in Listing Rule 711B on a 'comply or explain' basis. This Practice Note contains the Sustainability Reporting Guide (the "Guide"), which provides guidance on the expected structure and contents and the preparation of the sustainability report.

1.2 Sustainability reporting disclosure does not detract from the issuer's obligation to

Multitude of Reporting Frameworks and Requirements



FTSE4Good

MSCI

ESG Research



SGX

SGX Sustainability Indices



Q&A

Role of Corporate Counsel

- Ensuring that the associated legal risks is minimized or avoided – what are the decisions that either will be affected by climate change or will affect climate change?
- Taking into account the legislation in many jurisdictions that the company operates in.
- Applying pressure to regulate corporate governance by requiring a more detailed and honest reporting on corporate sustainability.