

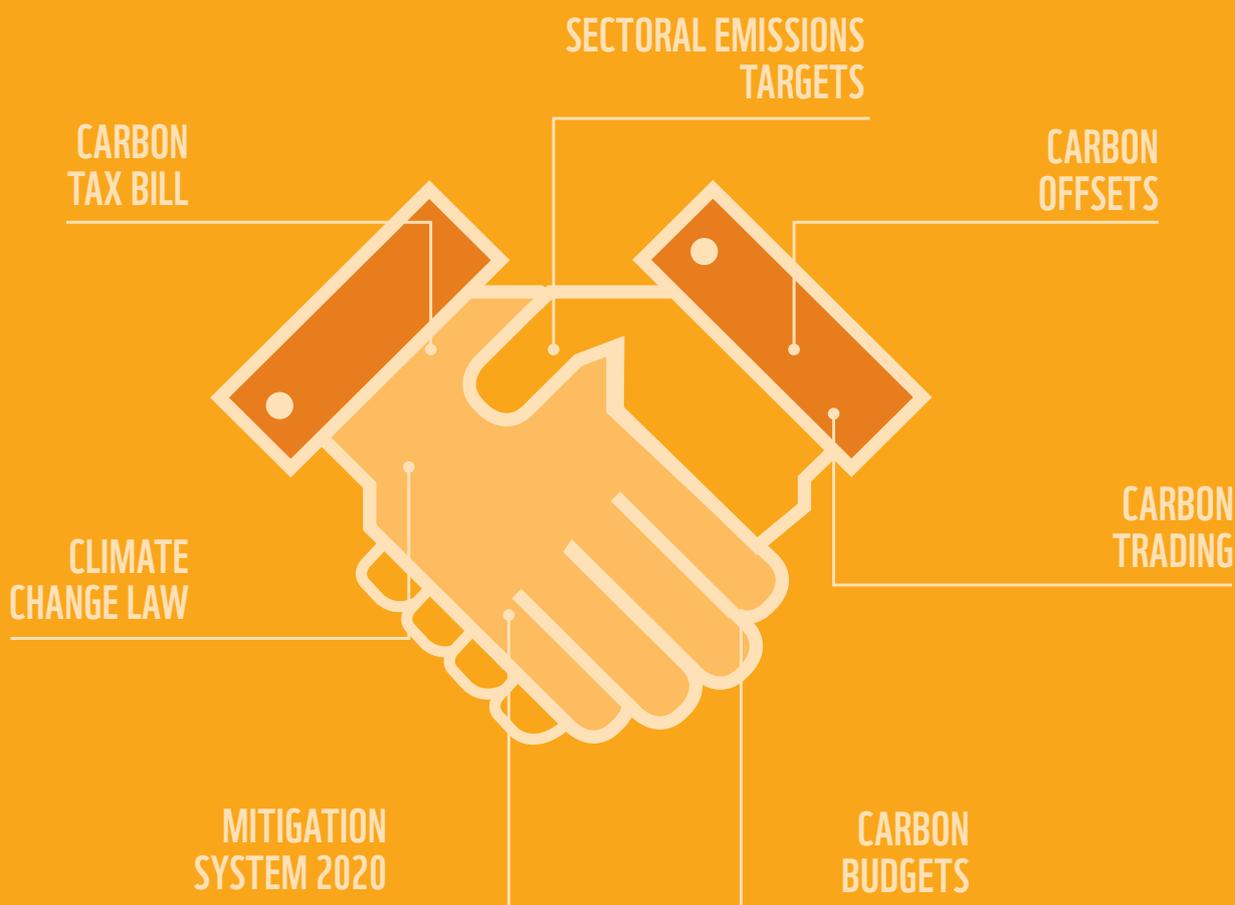


WWF

BRIEF

2018

WHAT UPCOMING CLIMATE CHANGE POLICIES MEAN FOR BUSINESS



It'll be here soon. Early in 2018, government is releasing the latest climate policy.

When we think about climate change, we think hurricanes, rising sea levels, and polar bears. But it is often difficult to know how and why it affects your business. Reporting on the topic is mostly inaccessible, numbers are thrown at you, and it's hard to follow government policy developments. Degrees centigrade, parts per million, doom and gloom are all part of the noise. And all you really want is for someone to give you the key points, and what they mean for your bottom line.

That's exactly what this brief aims to achieve.

In short, here is what you need to know:



Climate change risk is real. Climate proof your business now to be resilient to the impacts, as well as the changing regulatory and economic frameworks.



Add your voice to how South Africa responds to climate change. Find out if the voices that are currently in the policy room represent your best interests.



Good comes with bad. Get on top of the predictions and policy, and take advantage of the emerging opportunities in the fast-unfolding low-carbon economy.

WHAT'S HAPPENING IN THE LOCAL CLIMATE POLICY SPACE

South Africa has undergone a long climate policy development process to deliver its share of global Greenhouse Gas (GHG)¹ reductions. Under the global climate agreement - the Paris Agreement - South Africa committed to stabilise its carbon emissions between 2025 and 2035, and decrease them thereafter.

Businesses in various sectors will be required to reduce their emissions so that South Africa (SA) can meet its national and global commitments. A suite of policies and regulations at various stages of completion have been proposed: mainly sectoral emissions allocations, business-level carbon budgets, a carbon tax, an emissions trading system and national climate law (see Policy suites and regulations on page 11). These present risks and opportunities for your business.

CLIMATE RISK TO YOUR BUSINESS:

Climate change poses two levels of risk to business. The first is the direct impact of climate change, with global average temperatures having risen by roughly 1°C and increasing. The second is the policy and market responses to climate change.

Besides immediate extreme weather impacts, broader impacts on supply chains and society result in increased poverty and resultant shrinking markets. Climate change impact risk can be reduced through investing in smart adaptation strategies (diversifying your business, investing in upstream supplier resilience, or looking for suppliers that have contingency plans).

Logistics optimisation, energy saving, and improved operational efficiency actions typically save money and reduce carbon emissions. Businesses are also at the forefront of innovation in developing new low-carbon products. But many actions can only be taken in an enabling policy environment that guarantees collective action and access to key resources like clean energy. This is why business also needs to support and lobby for effective climate policy in its own long-term interest.

For example, SA has the world's dirtiest energy sector. Without national action to reduce this carbon intensity, we face difficulty exporting many products to other nations that are cleaning up their electricity supply (see International regulatory risks on page 4).

¹ The most common **greenhouse gas** released by human activity is carbon dioxide. Another major greenhouse gas is methane from livestock, rubbish landfills and rotting things. Different greenhouse gases have different global warming and hence climate change impacts. To be able to compare the emissions of these gases, they are converted to a common basis called carbon dioxide equivalent (written **CO₂e**). Shorthand we talk of "**carbon emissions**".

Several policy instruments and laws will have a significant impact on how well businesses can meet emissions reduction targets, and how competitively they can operate in the global economic market.

It's critical that businesses take the lead in supporting proactive policy to signal to customers and investors that they understand the risk, and to ensure a long-term viable economy.

THREE STRATEGIC RESPONSES TO NATIONAL CLIMATE POLICY DEVELOPMENT:



It is critical that the silent majority of businesses send a clear message that climate action is vital to meet SA's GHG commitments and its development goals, as well as to ensure social and economic wellbeing and future economic competitiveness.

STRATEGIC APPROACH:	WHO IS CURRENTLY USING IT	WHAT IS THE LIKELY RESULT if the dominant voices followed that strategy
OPPOSE ANY ACTION	Heavy emitters impacted directly by policy that reduces GHG emissions generally strongly lobby against ambitious climate policy. They are the strongest voices in the room.	Climate policy remains unambitious. SA and the economy are not climate resilient.
BE A PRICE TAKER: IGNORE POLICY	Strategy taken by most businesses that think they are not directly affected.	Their voices aren't heard, and they pay the price by remaining stranded in a carbon-intensive economy.
PROACTIVELY SUPPORT POLICY to reduce carbon emissions and create a climate resilient economy	Only a handful of businesses currently do this, because they either benefit strongly (renewable energy companies/suppliers) or have strong CSI viewpoints.	For most businesses, this is the best strategy. A strong climate policy is the best way to ensure collective action, and a policy environment that is conducive to low-carbon business that will keep the SA economy competitive.

By taking such action business would help to ensure that:

- Climate change policy levels the playing fields for businesses, reducing the costs of climate action for those looking to act responsibly
- Climate risks to businesses are reduced through collective action that mitigates and adapts to the effects of climate change
- Lack of ambitious policy does not leave SA companies in a less competitive position

HOW THE GLOBAL POLICY STANDS TO IMPACT SA COMPANIES

Our economy is small and very exposed to international market trends and changes. International responses to climate change require decision makers to reflect on domestic climate change impacts and policies, and also how international policies will affect key markets and competitors.

INTERNATIONAL REGULATORY RISKS

The Paris Agreement sends several critical signals on how the international policy landscape will unfold:



Limiting average global warming to 2 °C above pre-industrial levels with an aspirational goal of limiting it to below 1.5 °C.



Peaking global carbon emissions as soon as possible.



Redirecting global financial flows to be consistent with low-carbon emissions.



Reviewing collective and national efforts every five years against the latest climate science to drive increased action, if necessary.



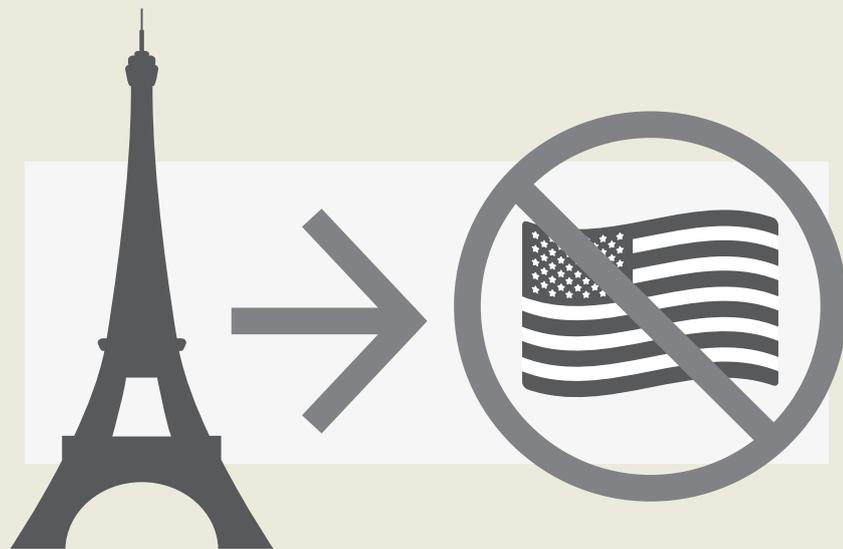
Ensuring that the global economy will be carbon neutral with no more carbon emissions entering the atmosphere than are removed.

National governments are already moving to deliver on the objectives under the Paris Agreement. 192 countries have tabled action plans called Nationally Determined Contributions. Once implemented, these plans will keep total average global warming between 2.6 and 3.2 °C above pre-industrial warming by 2100. Though these efforts bend the curve, much more clearly needs to be done and climate change policy is sure to only become more stringent.



THE UPSHOT?

Corporate and state clients in most countries will need to ensure that their value chain is secured against increasingly stringent GHG emissions regulations. These customers will be looking to source their goods and services from suppliers that have the lowest carbon intensity. This means that emission reduction strategies in SA businesses are essentially risk management plans that not only help to protect existing market share, but also open up opportunities for new business.



WHAT ABOUT THE UNITED STATES WITHDRAWAL FROM THE PARIS AGREEMENT?

In 2017, President Trump announced that the USA would be withdrawing from the Paris Agreement, causing a lot of uncertainty about the future of global climate action. But the reaction to this only demonstrates how unstoppable the low-carbon economy transition is. Leaders the world over (including the Vatican) condemned the decision, and expressed commitment to fighting climate change. More than 2,500 American mayors, state governors, and CEOs also signed the “We Are Still In” declaration to express their commitment to reduce US emissions. Furthermore, a formal withdrawal from the Paris Agreement can only take place on 4 November 2020, one day after the next presidential election. So Trump’s announcement may yet turn out to be a temporary blip in the curve of history towards a low-carbon future.

CLIMATE CHANGE RISKS AND OPPORTUNITIES IN GLOBAL MARKETS



BY 2020,
it will be normal for
all of the world's
well-run companies
to have a science-
based target
[to reduce GHG
emissions]" Nigel
Topping, CEO of We
Mean Business

GLOBAL VALUE CHAINS AND CLIMATE CHANGE ACTION

International policy signals, value chain vulnerability to climate change impacts, and more traditional economic drivers such as cost reductions and attracting investors are already driving many large multinational corporations to manage climate change risks to their supply chain.

More than 40 large international companies, including multinationals with a footprint in South Africa such as Danone, Walmart, and Unilever have already set science-based targets (see Companies setting science-based targets on page 8) to reduce GHG emissions in their supply chains. As these companies start implementing their targets, South African producers have two options—either become low-carbon suppliers of choice or undesirable carbon-intensive burdens.

Another concrete example of how climate change policies and business strategies are aligning is in carbon pricing regimes. 67 jurisdictions globally have implemented or scheduled carbon pricing regimes, and more than 1,300 companies (including more than 100 Fortune Global 500 companies) are currently using an internal carbon price or are planning to do so within the next two years .



CARBON PRICING REGIMES:

Carbon pricing is a cost that is applied to carbon emissions that internalises the external cost of pollution. This is typically either a carbon tax or a cap-and-trade regime e.g. the EU Emissions Trading System.

² https://openknowledge.worldbank.org/bitstream/handle/10986/28510/wb_report_171027.pdf?sequence=5&isAllowed=y

³ <http://bit.ly/2g2u38P>

INTERNATIONAL SHAREHOLDERS LOOK FOR RESPONSIBLE INVESTMENT OPPORTUNITIES

Investors are increasingly taking climate change policy into consideration. G20 Finance Ministers and Central Bank Governors instructed the Financial Stability Board to establish a Task Force to conduct a review on climate-related risk disclosures in the financial sector. The Task Force found that organisations not investing in activities which align with the low-carbon economy transition may be less resilient, and will likely offer lower returns. It found that present valuations don't adequately factor in climate-related risks, and so developed guidelines for voluntary climate-related financial disclosures to help investors, lenders, and insurance underwriters understand climate change risks when they make investment decisions.

These interventions are already affecting some of the largest investment decisions in the world. Norway's Government Pension Fund has withdrawn investments from coal companies. While private banks still have a way to go, there is a clear trend towards increasing investment in low-carbon technologies and reducing exposure to carbon-intensive operations. HSBC has pledged to provide \$100 billion in sustainable financing investment by 2025 to combat climate change. JP Morgan Chase has committed to facilitate the investment of \$200 billion in sustainability and clean energy projects. More than 800 investors, controlling assets worth US\$100 trillion, are requesting emissions disclosure through CDP in 2017.

HSBC
= \$100 BILLION

HSBC to provide \$100 billion in sustainable financing investment by 2025.

JP MORGAN CHASE
= \$200 BILLION

JP Morgan Chase to facilitate investment of \$200 billion in sustainability and clean energy.

+800 INVESTORS
= \$100 TRILLION

More than 800 investors, controlling assets worth US\$100 trillion, request emissions disclosure.

WHY SA COMPANIES ARE SETTING SCIENCE- BASED TARGETS

Science Based Targets adopted by companies to reduce GHG emissions are considered “science-based”, if they are in line with the level of decarbonisation required to meet the Paris Agreement.

The **Science Based Targets** initiative champions science-based target setting as a powerful way of boosting companies’ competitive advantage in the transition to the low-carbon economy. It’s a collaboration between the CDP, World Resources Institute, WWF, and the United Nations Global Compact. It is one of the We Mean Business Coalition commitments.

“Moving our targets to the more formal science-based approach was a natural evolution in the process and further evidence of our leadership in the field. Our carbon footprint is primarily generated by the electrical and water performance of our assets around the country. The better the assets perform, the better our Tenant’s experience in our properties. This leads to higher tenant retention rates and happier tenants – which just makes good business sense!”

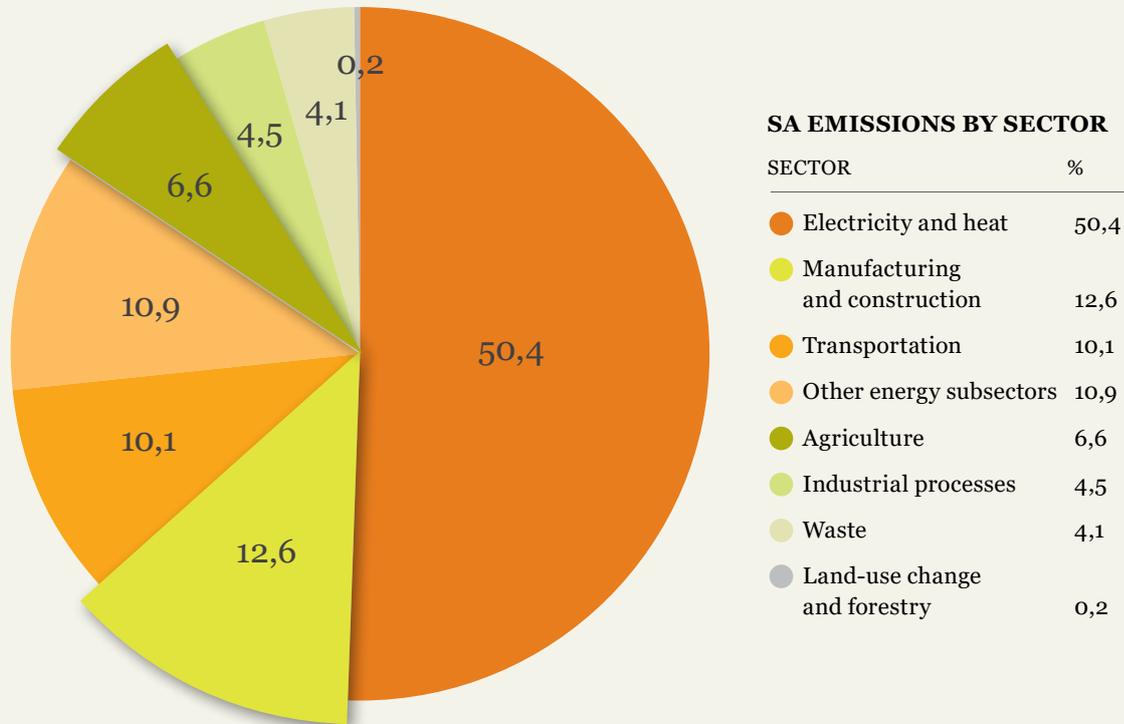
– Justin Bowen, Development Manager, Emira Property Fund Ltd

“Setting a science-based target makes business sense, we already see direct benefits from emissions reduction efforts through cost savings and energy supply security...it is part of our business culture to take responsibility for health beyond the walls of our hospitals”

– Francois Bester, Environmental Systems Manager, Mediclinic Southern Africa

“A science-based reduction target means that we align ourselves with the global pathway in order to make a well-thought contribution towards the overall global goal. The rigorous scientific scrutiny that goes into setting a science-based target means that we can confidently justify our energy reduction targets...we are moving into a world that is driven by transparency and accountability and for us, being a part of this builds credibility for the work that we do.”

– Makhegu Mabunda, Sustainability, Woolworths Holdings



These SA companies are committing to Science Based Targets because they are exposed to risk of direct impacts of climate change, pressure to reduce emissions from procurement companies, and climate policy to reduce emissions in their sectors.

SOUTH AFRICAN COMPANIES COMMITTED TO THE SCIENCE BASED TARGETS INITIATIVE:

- Emira Property Fund Ltd
- Exxaro Resources Ltd
- Growth Point Properties
- Mediclinic Southern Africa
- Netcare Ltd
- Pick n Pay Stores Ltd
- Tiger Brands
- Tongaat Hulett Ltd
- Woolworths Holdings Ltd

These companies will demand compliance from SA suppliers to reduce their emissions to reach their targets.

INTERNATIONAL COMPANIES COMMITTED TO THE SCIENCE BASED TARGETS INITIATIVE WITH A FOOTPRINT IN SA:

- Unilever plc
- Walmart Stores, Inc.
- TETRA PAK
- Danone

SOURCE: WORLD RESOURCES INSTITUTE CLIMATE ANALYSIS INDICATOR TOOL (WRI CAIT) 2.0, 2015: SOUTH AFRICA. [HTTP://CAIT.WRI.ORG/PROFILE/SOUTH%20AFRICA.](http://cait.wri.org/profile/south%20africa)

GLOBAL CORPORATIONS DRIVING VALUE CHAIN ACTION

The following companies with a local footprint are driving emissions reductions through Science Based Target setting:

UNILEVER PLC

Unilever's science-based target will drive procurement decisions in all the countries it operates in, as it strives to reduce GHG emissions 100% by 2030 from a 2015 base year and to reduce GHG emissions from the lifecycle of their products 50% by 2030 from a 2010 base-year. These targets will have a fundamental impact on the supply chain for more than 400 brands that the company delivers to customers.

WALMART STORES, INC.

Walmart's Project Gigaton aims to cut one gigaton of indirect GHG emissions by 2030. The world's biggest retailer will work with thousands of companies throughout its global supply chain. Project Gigaton will drive Walmart's local procurement of suppliers in SA as the retail giant shifts to lower carbon options.

TETRA PAK

TETRA PAK was first in the food packaging industry to set a science-based target. By doing so, a precedent of what leading packaging companies are doing internationally was set, and provided innovative packaging solution examples for SA packaging companies. These targets also demonstrate that SA packaging companies need to improve their carbon efficiency to ensure competitiveness with international competitors.

DANONE

Multi-national food company Danone commits to reduce GHG emissions by 30% by 2030 from a 2015 base year. The number one company in the southern Africa fresh dairy market has a large potential to drive emission reductions of local agricultural suppliers.

POLICY SUITES AND REGULATIONS YOU NEED TO KNOW ABOUT

Many domestic climate change policies and laws will be finalised or revised in 2018. The mitigation system comprises of a number of instruments which SA plans to implement to limit domestic GHG emissions and, therefore, structure companies' responses to climate change.

MITIGATION SYSTEM: THE WAY SA WILL REDUCE ITS GHG EMISSIONS

The proposed post-2020 mitigation system employs a combination of Sectoral Emissions Targets (SETs), entity-level carbon budgets, carbon tax, and carbon trading, to limit domestic GHG emissions to meet international commitments. SA's international mitigation commitment was established as a trajectory over time. The peak, plateau, and decline trajectory means that emissions should peak between 2020 and 2025, stabilise for around 10 years, and decrease thereafter.



GRANDFATHERING
is a method of allocating carbon emission permits/ rights according to the historical emissions of a particular sector or business.

The emissions trajectory is then divided into SETs that cover all GHG emissions within SA's economy, and limit the total emissions that can be emitted. SETs will be determined for three rolling five-year periods, beginning in 2020, and apply to emissions categories in the National GHG Inventory. A grandfathering approach will be used to work out the historical percentage contribution each sector is allocated for the first five-year period. This historical allocation is then adjusted by 5%, 0% or -5% depending on whether sector emissions are projected to increase, remain the same, or reduce.⁴

COMPANY CARBON BUDGETS: THE AMOUNT OF CARBON EMISSIONS COMPANIES CAN RELEASE

Carbon budgets limit the maximum level of emissions that companies engaged in particular activities are allowed to emit. Carbon budgets are allocated to individual public and private sector companies. Companies that exceed thresholds (as set out in the National Greenhouse Gas Emission Reporting Regulations) are obligated to report their emissions. Carbon budgets cover scope 1 (direct emissions)⁵ and scope 2 (emissions associated with purchased electricity) emissions for companies that don't produce electricity as their main activity. For companies that do produce electricity as their main activity, carbon budgets only cover scope 1 emissions.⁶

⁴ DNA Economics, The Green House, & The Cirrus Group. (2017). Final Draft Report: Development South Africa's Post-2020 Climate Change Mitigation System.

⁵ National Greenhouse Gas Emission Reporting Regulations (GN 275 in GG 40762 of 3 April 2017).

⁶ DNA Economics, The Green House, & The Cirrus Group. (2017). Final Draft Report: Development South Africa's Post-2020 Climate Change Mitigation System.

FLEXIBILITY MECHANISMS: INSTRUMENTS TO HELP YOU STICK TO YOUR CARBON BUDGET

To minimise the cost of mitigation, therefore making it easier for companies to remain in their allocated carbon budgets, as well as to minimise the unacceptable distributional impacts, carbon offsets and carbon trading are included in the proposed mitigation system as flexibility mechanisms.

All companies are restricted to a maximum of 10% of their carbon budget allocations as carbon offsets. Companies that produce electricity as their main activity can only use carbon offsets that have been generated through the reduction of direct emissions. Non-electricity-generating companies may use carbon offsets generated through the reduction of either direct or indirect emissions.

Carbon trading only applies to companies that do not produce electricity as their main activity. The domestic emissions trading scheme is designed to operate as an absolute baseline and credit scheme with a ceiling price equal to the carbon tax rate. A baseline and credit scheme uses a benchmark emissions level i.e. carbon budgets. Companies can acquire Carbon Budget Credits (CBCs) by reducing their GHG emissions to below their specified carbon budget. The CBCs can then be traded with companies that exceed their allocated carbon budget. A ceiling price is introduced at a level equal to the proposed tax rate.

CARBON TAX: A COMPLIANCE MECHANISM TO ENFORCE YOUR CARBON BUDGET

The proposed Mitigation System outlines two possible carbon budget-carbon tax design options which involve using carbon tax as a compliance mechanism to enforce carbon budgets.

Option A: imposes a carbon tax on emissions that exceed a company's carbon budget at its full headline tax rate and excludes any tax-free allowances.

Option B: similarly imposes no tax unless the carbon budget is exceeded; in which case a carbon tax (including tax-free allowances) will be imposed at a lower rate on all emissions.

Cabinet recently approved the carbon tax bill for adoption. Government will shortly decide on either Option A or Option B, or whether they plan to go ahead with the carbon tax as originally mooted – a full headline tax with tax-free allowances on all emissions. This is a potential window for business to engage with policy.

A recent statement from Finance Minister Gigaba indicates that it is likely that the carbon tax will be in place by early 2018, with all liable entities scheduled to pay R120 per tonne of CO₂-equivalent⁷ over their tax-free limits (which currently ranges from 60% to 90%).

⁷ Greenhouse gases (GHGs) are listed priority pollutants under the National Environmental Management: Air Quality Act, and must be reported. Different GHGs warm the planet to different extents, and this warming potential is measured as the equivalent amount of CO₂ that would be required to provide the same heating effect. This value is used to calculate a business carbon tax liability.



EARLY ACTION: LOSERS OR WINNERS

Many socially responsible businesses would like to work to reduce their climate footprint, but can't justify it as an additional cost, or lack sufficient margin to do so. While many things can be done that will improve the bottom line as well, many real changes come at a cost that a company will need to cover.

Counterintuitively, the soon-to-be-finalised carbon tax works to benefit such action. As the carbon tax will gradually increase over time, a company can significantly reduce the tax load over time by reducing emissions. If it does so faster than competitors, this can provide it with a competitive advantage, as its competitors pass the tax price through to their customers.

Similarly, a business that conducts activities significantly under its carbon budget will be able to earn money from its efficiency by trading the extra space to less efficient competitors who will need to increase prices to cover the cost.

CLIMATE CHANGE LAW

The final piece of climate policy that is currently in process is the Climate Change Law. While only early and partial drafts have been seen, the concept of the law is that it will enable the streamlining of many of the policy requirements mentioned above and others across different sectors. The process of passing this law is likely to take some time. It will likely be revised after public consultations. However, the impact of the law is not likely to significantly change the impacts on businesses, but rather it will support the implementation of many of the climate goals.

WHAT YOU CAN DO



1. SUPPORT THE DECARBONISATION OF THE ELECTRICITY SECTOR

A business' consumption of electricity will be counted against its carbon budget, and the carbon tax's effect on the price of electricity cannot be addressed directly by a company. While improving efficiency or investing in renewable energy will reduce the impacts on a company, ultimately, it is necessary for Eskom to invest in low-carbon energy options. This will reduce business' carbon footprint, and for many businesses this is their primary source of energy. Since households consume only 20% of the national electricity supply, it is clear that businesses have a potentially strong voice in this area. A strong lobby for decarbonising the electricity sector from business will carry great weight in the national policy arena. Multiple technical analyses have shown that national electricity demand can be supplied reliably by renewables at a lower overall cost, therefore, making this a rational decision.



2. MAKE SURE YOUR VOICE IS HEARD

Get in the room. If your industry sector is not represented, then the interests of your business aren't either. Find out policy comment submission dates, when policy public participation sessions (contacts below) are, develop your position, and be there. WWF is happy to help with information.

Department contacts for policy info:

Department of Environmental Affairs for climate policy

Treasury for Carbon Tax policy developments



3. GET AHEAD OF THE CURVE: SET A SCIENCE-BASED EMISSION REDUCTION TARGET

One of the most proactive efforts a company can make to take ownership of its future in the transition to a low-carbon economy is to set a science-based emission reduction target. The Science Based Targets initiative (www.sciencebasedtargets.org) provides a set of methodologies and criteria to help companies set emission reduction targets in line with the latest climate science. These tools are invaluable for strategic planning exercises and, if a company sets a target that is independently validated by the initiative, it sends a powerful message to investors, customers, and policy makers that the company has a strategy in place to unlock the opportunities and manage the risks of a transition to a low-carbon future.

WWF can assist in getting you up and running. Contact Rebekah Hughes on rhughes@wwf.org.za.

KEY POLICIES COMING UP:

Policy and regulations	When	What you can do
Carbon Tax policy finalisation	Early 2018	Comment on policy
Climate Change Law	In early development	Comment in public participation processes, submit comments

For more information contact:

Louise Naudé, Low Carbon Frameworks Manager – lnaude@wwf.org.za

Rebekah Hughes, Science-Based Targets Project Officer – rhughes@wwf.org.za

Stephen Wetmore, Business Development Manager – swetmore@wwf.org.za

100%
RECYCLED



BELOW
2 °C

192

The amount of countries who have tabled plans called Nationally Determined Contributions

The mean average global temperature we need to achieve in order to avoid run-away climate change



9

South African companies committed to the Science Based Targets Initiative

800

The number of investors controlling \$100 trillion of assets requesting emissions disclosure

1300 +

Companies (including 100 Fortune Global 500 companies) using or planning to use an internal carbon price



Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

wwf.org.za