

Sustainability and Climate Change

Creating long-term value*



*connectedthinking

PRICEWATERHOUSECOOPERS 

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Climate change policy and strategy development

What are the business risks your company faces due to climate change?

Are you confident that you are effectively managing climate change risks and opportunities that affect your business?

How does your organisation measure up against its peers in terms of climate change management response?

Why this issue is important:

- Climate change is a global challenge that is affecting the way that organisations do business.
- Developing a climate change policy and strategy allows a company to effectively manage climate change risks and pursue opportunities.
- There is a lack of climate change awareness/preparedness among the local business community where, increasingly, a premium is being placed on a sound, demonstrable climate change strategy.

Our approach

PricewaterhouseCoopers (PwC) provides a client-specific climate change strategy, highlighting regulatory risks, legal

risks, opportunities, physical risks, reputational risks and the best path forward for the client. This includes relevant business examples and benchmarking of similarly placed industries.

Real world example

Major international electronics company

Issue: An international electronics company with significant and diverse operations began to recognise the regulatory, market and reputational risks it was facing due to climate change. PwC was requested to assist in developing a sustainable carbon management strategy.

What we did: PwC assisted the company to identify the risks and opportunities that it faced and developed a position paper for the organisation. The position paper outlined the company's stance toward aspects of climate change and set out a road map to chart the way forward with respect to strategically addressing climate change.

Carbon Footprint

Have you integrated climate change risk management throughout your organisation?

Have you quantified your company's carbon footprint?

Are there carbon emission reduction opportunities within your company?

Do you have an action plan that optimises business value by managing your carbon assets and liabilities?

Why this issue is important:

- Financial and marketing benefits of voluntary carbon disclosure in current and future markets (eg: emissions disclosure to the Carbon Disclosure Project (CDP) for Top 100 JSE-listed companies).
- Financial benefits resulting from insight into emissions and identification of reductions/energy savings opportunities, identification of Clean Development Mechanism (CDM) and Carbon Credit generation potential.
- Results of the carbon footprint form the basis for the formulation of a climate change strategy.
- Carbon has a cost in those jurisdictions that have emissions trading schemes or carbon taxes and many jurisdictions (including South Africa) are either in the process of introducing these or are considering them.

Our approach

- Quantification of the carbon footprint of a business using accepted international methodologies and South African/ industry-specific emissions data.
- Identification of possible emissions reduction opportunities across the organisation.

Real world example

Major financial services group

Issue: The organisation wanted to position itself as an 'early mover' within the financial services sector and participate in the CDP. It had not, however, quantified its carbon footprint.

What we did: Using principles from the ISO 14064 and Greenhouse gas (GHG) Protocol, other international methodologies, and some South Africa specific emissions data where applicable, PwC calculated the group's carbon footprint. This information was used for the CDP. PwC was also able to identify carbon emission and energy reduction opportunities.

Life cycle assessments (LCAs)

Do you understand the overall environmental impact of your products, processes, services and supply chain?

Do you understand the costs and possible carbon savings in your supply chain?

Do you realise that some companies are controlling supply chain reputational risks to help mitigate potential negative perceptions among consumers, shareholders and boards of director?

Are you confident that there are robust processes integrated into your business risk assessment and mitigation processes to identify and manage those risks?

Why this issue is important:

LCA is a major driver for new product and technology innovation. In addition, it is used to mitigate problems related to the acceptance of raw materials and products in various global markets. Financial benefits are derived from insight into emissions and identification of reductions/energy saving opportunities/identification of CDM and carbon credit generation potential.

Our approach

Two deliverable options are offered:

- Streamlined environmental profile: Calculation of the full environmental impact of a product or service using the techniques of LCA and considering all environmental impacts, not just greenhouse gases (a 'cradle-to-gate' study).
- Detailed environmental profile: Calculation of the full upstream and downstream impacts of a product using the techniques of LCA.

Real world example

Major international oil and gas company

Issue: Due to the company's international operations and future expansion activities, regulatory and investor pressures necessitated the consideration of the full upstream and downstream impacts of its operations, products and supply chain.

What we did: Using PwC's proprietary LCA software, TEAM, we were able to produce a detailed environmental profile for the company, including modelling various scenarios with different feedstock/raw material and process designs.

Greenhouse gas assurance

Would reporting your greenhouse gas (GHG) emissions publically in your sustainability report or forum like the Carbon Disclosure Project (CDP) raise your company's profile as an early mover in the carbon space and as a responsible corporate citizen?

Is your board confident in the processes for reporting on key sustainability issues, such as greenhouse gas emissions?

Should you be using independent third-party assurance to demonstrate the reliability of your greenhouse gas information?

Why this issue is important:

- Greenhouse gas assurance is increasingly being recognised as best practice. The CDP encourages respondents to not only disclose their GHG emissions but also to obtain third-party verification of emissions.
- Directors may feel they need a higher level of comfort for the sustainability information in their companies report, especially greenhouse gas information as it becomes more closely linked to financial reporting through the provisions of the King Report on Governance for South Africa 2009 (King III).
- Greenhouse gas assurance provides internal comfort that carbon footprint calculations or reporting of greenhouse gas information is accurate.

Our approach

- Assess carbon footprint calculation against agreed assurance criteria through:
 - Reviewing systems and documentation;
 - Performing systems testing and analytical procedures where necessary;
- Report to management on the reliability of carbon footprint; and
- Express an opinion to be published.

Real world example

Global manufacturer of industrial products

Issue: The client experienced repeated environmental data 'turnbacks', leading to management concern about internally and externally reported data. The client was considering its readiness for third-party assurance but was unsure of how prepared the company really was.

What we did: PwC conducted a limited assessment of greenhouse gas emissions and waste data. The work was conducted in two phases:

1. An assessment of corporate and operating unit data collection and reporting processes; and
2. Identification of key themes and high-level observations and recommendations.

Environmental tax incentives

Are you taking advantage of the available environmental tax allowances, incentives, and opportunities for strategies your company is considering or may have already invested in?

Is your tax department involved in your company's overall 'green' strategy?

Are you aware of the current and pending modifications to climate change and energy tax legislation that may provide financial benefits to your organisation?

Why this issue is important:

The available tax incentives are designed to encourage and enhance the financial viability of projects that result in environment-friendly outcomes and are applicable to any potential projects identified as a result of carbon footprint or LCA projects. These incentives take the form of accelerated or additional tax allowances and the ability to turn carbon credits into tax-exempt income.

Our approach

- We can help your company manage your energy investment decisions and reduce costs by providing

insight into the availability of tax incentives and the relative value of various tax incentive options; and

- We provide insight into upcoming energy and tax policy proposals to keep you ahead of the curve.

Real world example

Major construction and engineering company

Issue: The client was considering investing in a renewable energy project for the production of electricity from biomass.

What we did: PwC advised on the availability of accelerated allowances for the power plant and on the tax implications arising from the sale of certified emission reductions.

CDM advisory

Has your company identified carbon reduction opportunities that could be monetised through a Clean Development Mechanism (CDM) project?

Has your company undertaken a pre-CDM project screening and selection process to identify the potential and likelihood of success of prospective project types under CDM methodologies?

Why this issue is important:

Designated Operational Entities (DOEs) are not permitted to provide detailed comment or advisory services regarding project design documents (PDDs) that they reject, creating a gap in the market for such advisory services. Based on PwC's previous experience as a registered DOE, we are ideally positioned to provide these services. Our range of CDM advisory services include feasibility studies, market analyses and risk assessments.

Our approach

- Evaluation of eligibility for registration and approval of potential CDM projects.
- Review of project design documents (PDDs) for CDM verification purposes.
- Development of recommendations and/or a risk profile for selected CDM project type.

Real world examples

Major international power company

Issue: A power company wanted to develop a CDM project in which carbon credits would be generated based on the avoided emissions through the use of natural gas-fired power generation.

What we did: PwC provided the advisory capacity, which included the development of a new UNFCCC methodology.

Carbon project financing

Has your company identified opportunities for carbon credit generation but require structured financing for the project(s) to be viable?

Is your company taking advantage of available governmental funding, incentives, and opportunities for the development of low-carbon strategies or technologies?

Why this issue is important:

The cost of mitigating climate change is estimated at \$1.3 trillion by 2050. Funding will have to come from public and private sector financing. Our services enable clients to turn a project concept into an operational asset. Raising carbon project funding for CDM and voluntary carbon markets can potentially be done more cost effectively than traditional funding, thus increasing project viability and investor returns.

Our approach

- PwC provides advice on how to raise funding for CDM projects. This includes reviewing and advising on various sources of potential funding, the cost of such funding and likely associated terms and conditions; and

- PwC is able to assist clients in raising carbon project funding, including liaising with funders, negotiations, commercial input into final legal agreements and overall project management.

Real world example

Major international investment company

Issue: An investment manager was interested in exploring carbon capture and storage as well as other CDM projects and wanted advice on structuring the funding of these projects.

What we did: PwC advised the investment manager on developing a private equity style fund investing in carbon capture projects based in Asia. This involved the structuring of the fund, the financing and the various investments in CDM projects.

Engaging employees on climate change and the sustainability challenge

How is your climate change or sustainability programme going to succeed if your people don't play their part?

Why this issue is important:

- Companies with existing climate change/sustainability agendas recognise that cultural change is needed to make that agenda effective.

Our approach

- Raising climate change/sustainability awareness among employees and improving employee engagement in the issues;
- Ensuring that employees are equipped to take forward the company's climate change agenda and to drive change;
- Mobilising leadership;
- Engaging and communicating with employees;
- Embedding the climate change/sustainability agenda in business as usual; and
- Incentivising, rewarding and recognising employees who espouse the principles of climate change/sustainability agenda.

Real world examples

Leading development bank

Issue: The client wanted to develop individuals to take up leadership positions in sustainable growth and development.

What we did: We developed and delivered a training programme on sustainability and climate change for 300 emerging leaders from the bank's staff. This involved designing and delivering workshops, e-learning modules and practical components, such as site visits.

Transaction support, due diligence and accounting advisory

Have you taken steps to ensure that the sustainability and climate change risks associated with your transaction have been evaluated?

Do you have sufficient information to manage the risks in your transaction, and to negotiate effectively on price?

Have you considered how to address sustainability and climate change risk in the management of a new business entity once the transaction has been completed?

Why this issue is important:

- The value of transactions can be significantly influenced by environmental factors and accounting issues, and broader issues relating to corporate responsibility;
- Buyers and sellers need to understand the environmental, social, ethical and economic risks related to their transactions that can impact operating costs, compliance and financial reporting; and
- Carbon credit financial accounting and reporting issues are increasingly becoming a part of deals.

Our approach

- We undertake a systematic review of the risks and liabilities arising from a transaction, and assess their

financial reporting impacts. This includes risks related to operational environmental performance, legal compliance, reputation and stakeholder pressures;

- We also provide ongoing transaction support in transaction negotiations and in the development of systems to manage significant risks and liabilities; and
- We advise companies on sustainability and climate change-related financial accounting and reporting issues.

Real world Example

Issue: The client was entering into carbon credit transactions and was unsure of the impact of these on its financial results and position as reported under International Financial Reporting Standards (IFRS).

What we did: We worked with the client to determine the correct accounting treatment under IFRS and then advised on the most appropriate reporting methods for budgeting; management and impact on KPIs.

Contact details

Alison Ramsden

Sustainable Business Solutions

Tel (w): (011) 797 4658

Email: alison.ramsden@za.pwc.com

Mike Krzychylkiewicz

Corporate Finance

Tel (w): (011) 797 4405

Email: mikekrzychylkiewicz@za.pwc.com

Kyle Mandy

Tax

Tel (w): (011) 797 4977

Email: kyle.mandy@za.pwc.com

Nia Davis

HRS

Tel (w): (011) 797 4195

Email: Nia.davis@za.pwc.com

Helen Wise

Accounting

Tel (w): (011) 797 5293

Email: helenwise@za.pwc.com

pwc.com

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