



# ESG: A Key to Sustainable Business

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# With you today



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Derek joined KPMG China in 2000 and provides assurance and ESG advisory services to a wide range of clients. Derek is a core member of the KPMG China Steering Committee on Sustainability. He has been advising clients on ESG strategy from formulation to execution and assisting clients to drive business transformation to achieve sustainable growth.

# Agenda

 <p>01</p>	 <p>02</p>	 <p>03</p>	 <p>04</p>	 <p>05</p>
<p>What is ESG?</p>	<p>Key drivers for ESG?</p>	<p>Why carbon matters?</p>	<p>How ESG transform the business?</p>	<p>How to get started?</p>

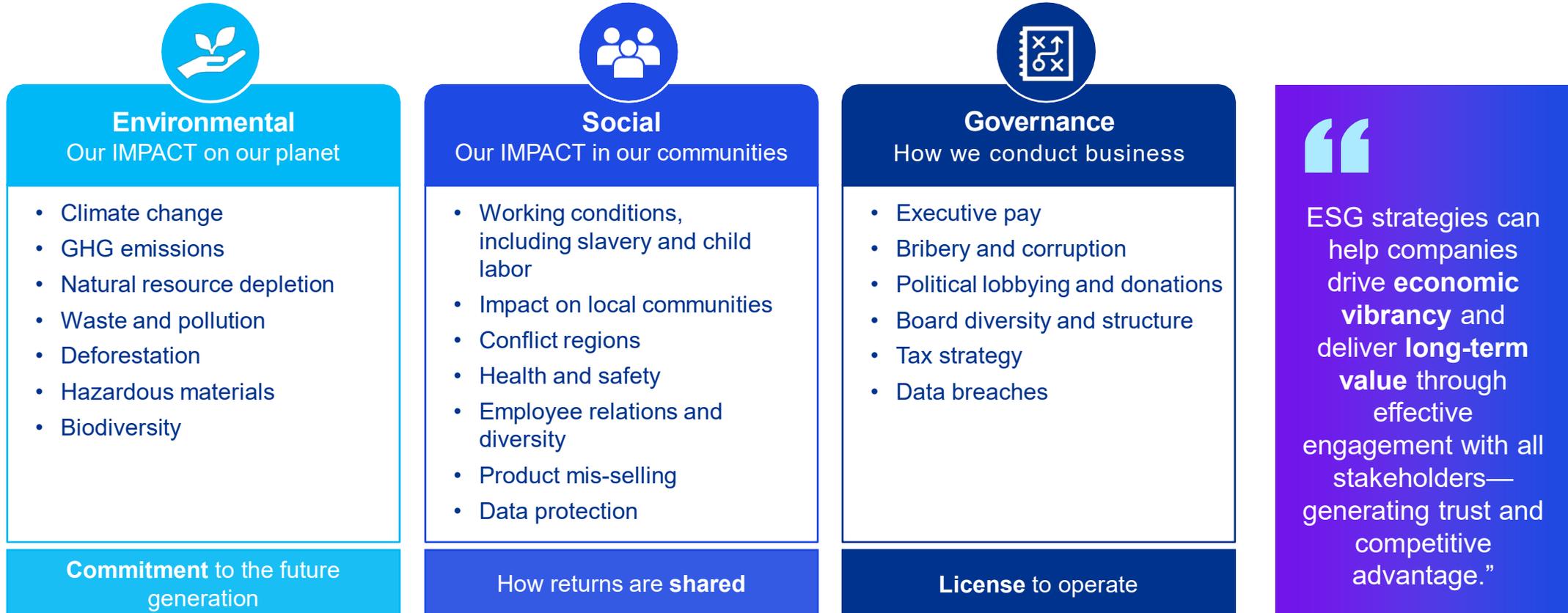


01

# What is ESG?

# ESG is everything we do and how we do it

**ESG** is a framework to integrate environmental, social, and governance risks and opportunities into an organization's strategy to build long-term financial sustainability and value creation.



An aerial photograph of a river with clear, light blue water, surrounded by a dense, lush green forest. The river flows from the top right towards the bottom left of the frame. A large, semi-transparent blue and purple gradient box is overlaid on the left side of the image, containing the text.

02

# Key drivers for ESG?

# Evolving towards ESG

## Key Drivers



### Increased Awareness of Climate & Social Risks

*More companies are all setting decarbonization targets*



### Changing consumer & employee expectations

*Millennials consider a firm's ESG commitments before deciding to work there*



### Growth of Sustainable Finance

*A total of USD 109 billion green bonds were issued in China in 2021, representing a 149% increase compared to 2020<sup>1</sup>*



### Pressure on and from Governments & Regulators

*Hong Kong will introduce mandatory TCFD aligned climate disclosures by 2025 or earlier*

## Increasing standards for Social License to Operate (SLO)

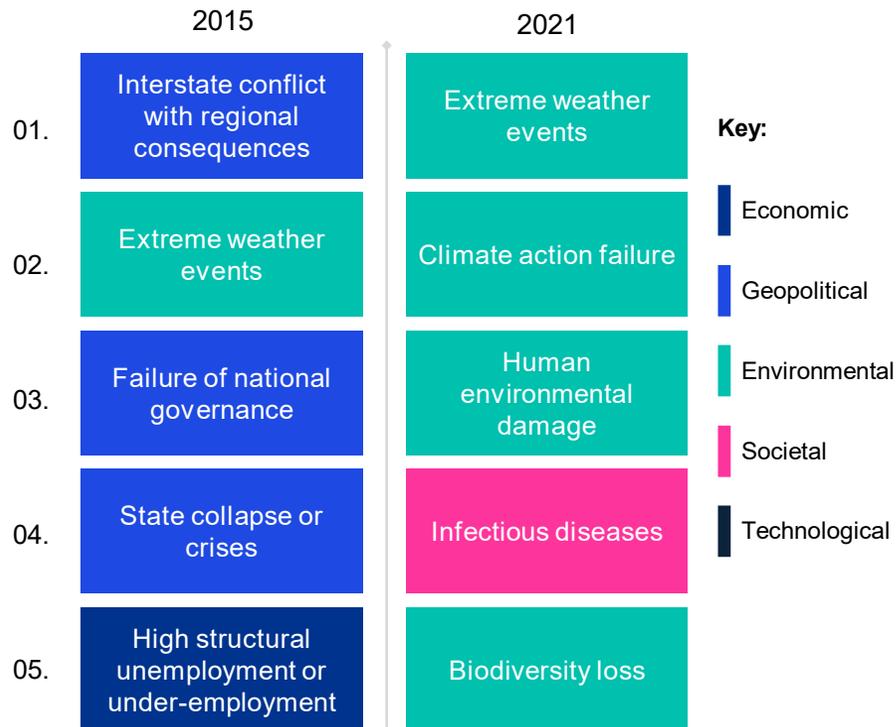
Source: (1) Climate Bonds Initiative

# Climate-related risk is emerging as one of the biggest risks corporates face

**Top 5 global risks are now environmental and social risks:**

A marked change from only a few years ago

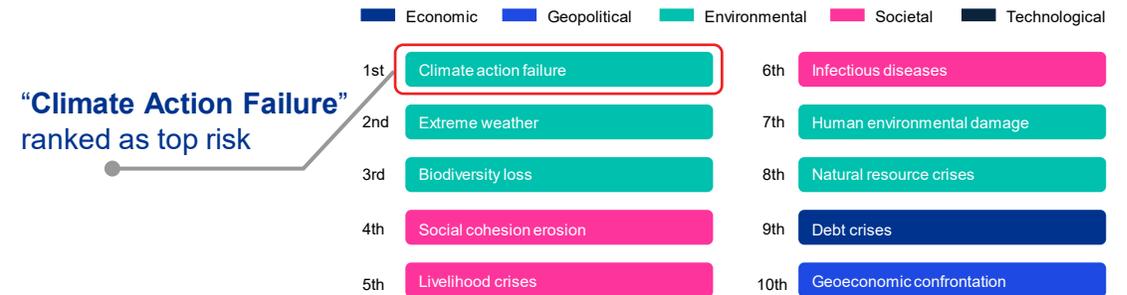
## Top five global risks in terms likelihood



Source: WEF World Risks Report

**Environmental and social risks continues to predominant as top global risks in WEF 2022 World Risks Report**

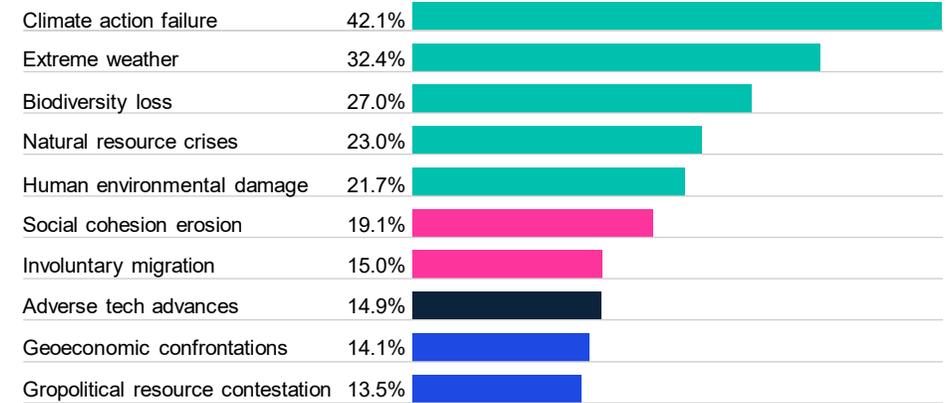
## “Identify the most severe risks on a global scaled over the next 10 years”



## Global Risks Horizon

When will risks become a critical threat to the world?

### 5-10 years



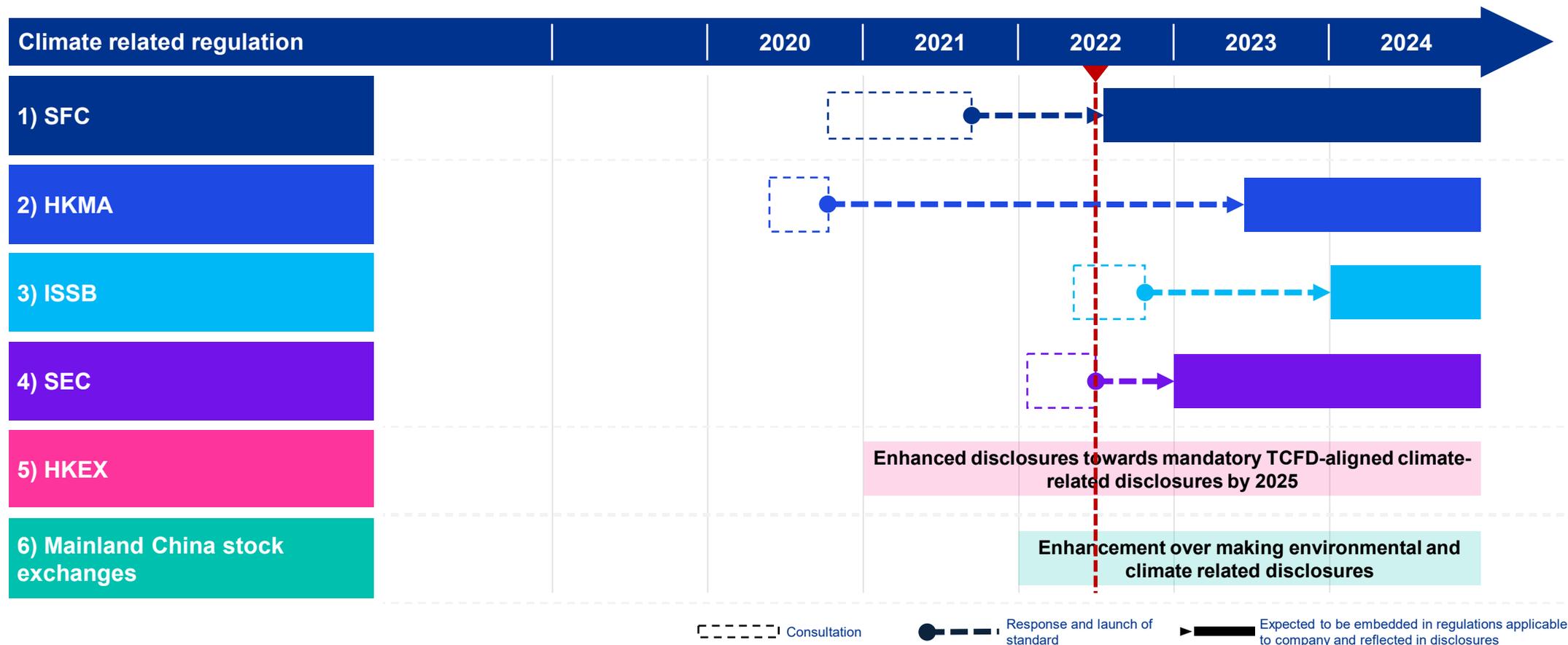
# The pressure over climate risk management and disclosure

Regulators (and investors, lenders, creditors) are increasingly requiring companies to incorporate **climate considerations** into their business processes and related disclosures. Companies need to understand the interaction of the different driving forces to effectively define their response to the rising demand in this area.



1. Established in May 2020, the Steering Group is co-chaired by the HKMA and the SFC. Members include the Environment Bureau, Financial Services and the Treasury Bureau, HKEX, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

# Regulatory requirements overview (climate-related risks)



\* On top of SHSE and SSE, Ministry of Ecology and Environment of the People's Republic of China (MEE) is also requesting disclosures over environmental aspects made by highly polluted industries. Ministry of Finance is currently working on providing comments on ISSB Exposure Drafts and developing Chinese reporting standards.

# How the climate-related risks affect the business

## Physical Risks

Impacts of a changing and more variable climate

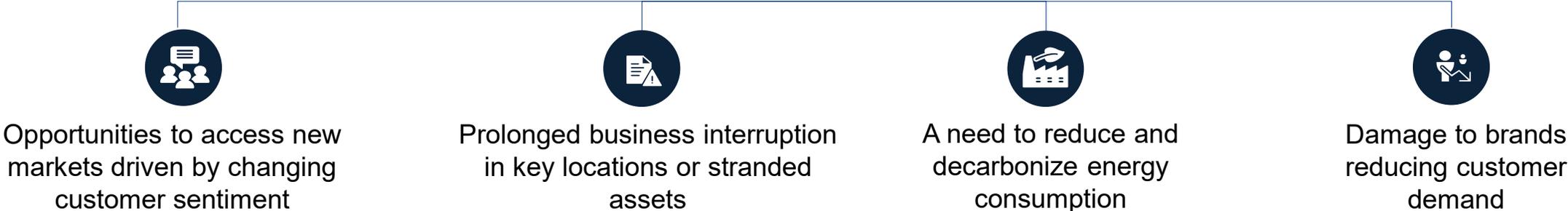
- Water stress
- Wildfires
- Droughts or floods
- Rising sea levels

## Transitional Risks

Regulator and market response to curbing physical risks

- Meeting consumer expectations
- Changes in consumer preferences and spending trends
- Talent retention
- Policy change (eg. energy efficiency standards, access to capital)

Which could lead to consequential risks and opportunities to businesses, such as:



03

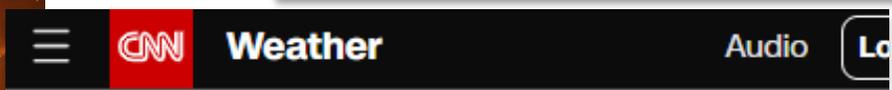
# Why carbon matters?



**UK heatwave: Amber warning in place as UK has hottest day of the year**

**UK Heat Wave to 'Make a Dent' in Economy as It Hits Productivity**

- British homes and small offices aren't suited for hot weather
- Unusually high temperatures expected to last until next week



**Londoners urged not to travel as heat wave engulfs Europe**

**Europe heatwave: Outdoor events banned in parts of France**

17 June  
Europe heatwaves

**Death toll from brutal heat wave tops 1,000 in Spain and Portugal**

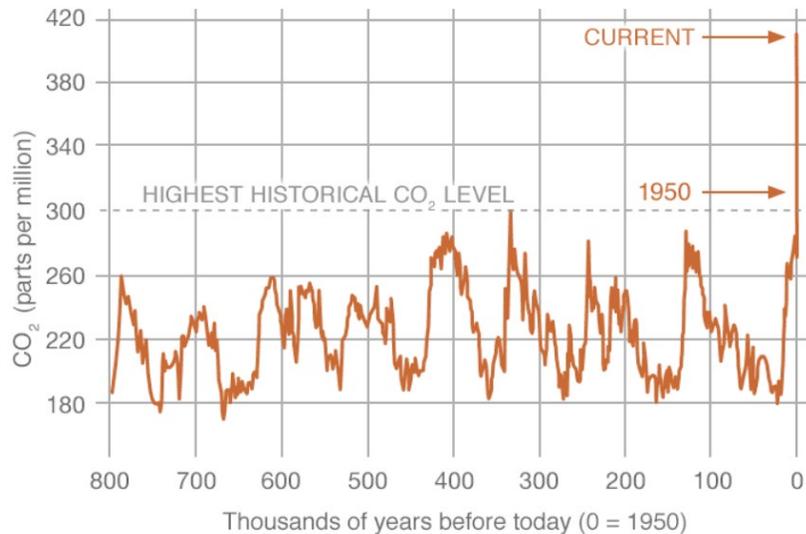
**Spain melts under the earliest heat wave in over 40 years**  
By Marco Trujillo

# Carbon emissions and climate change



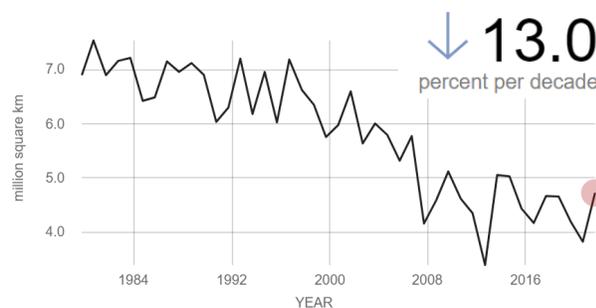
Carbon dioxide (CO<sub>2</sub>) is an important heat-trapping (greenhouse) gas, which is released through human activities such as burning fossil fuels, deforestation, as well as natural processes such as respiration and volcanic eruptions.

Latest measurement: June 2022  
CO<sub>2</sub> concentration: **419 ppm**

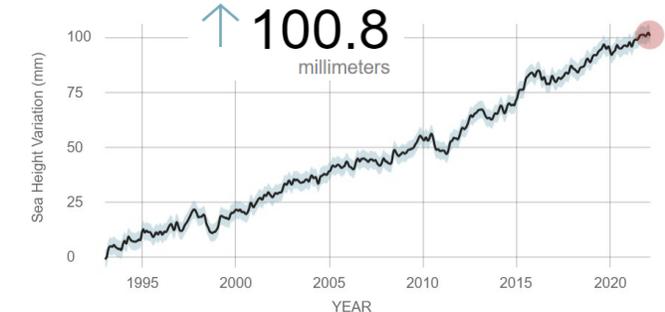


- Global surface temperature has increased faster since 1970 than in any other 50-year period over at least the last 2000 years.
- GHG concentrations, already at their highest levels in 2 million years, have continued to rise.

Arctic Sea Ice Extent



Sea Level



**Warning: Are we at a Tipping Point?**

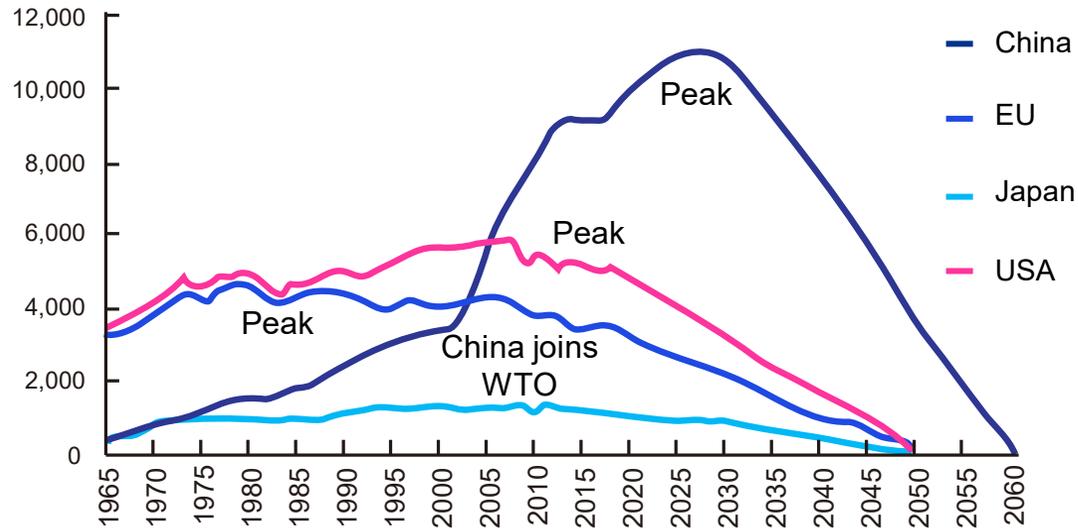
Sources: NASA, WMO, UNEP



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# China "30·60" carbon target

Carbon peak and carbon neutrality timeline



Energy consumption and CO2 emissions per unit of GDP must decrease by 13.5% and 18% respectively during this period.  
- China's 14th 5-Year Plan



## Key to achieve carbon neutrality



Energy efficiency



Low carbon economy/production



Technology



Energy transition plan

**ETS** introduced in July 2021 covering 4.5 billion tones of carbon emission over 2,000 power generation entity.

# Putting a price on carbon emission

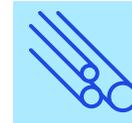


# Carbon Border Adjustment Mechanism (CBAM)

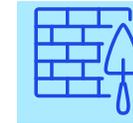
On 22 June 2022, the European Parliament adopted the position to introduce Carbon Border Adjustment Mechanism (CBAM) likely starting from 1 Jan 2023.\*

## In-scope sectors\*

Exports of the in-scope products from China to the EU in 2021 hit RMB 250 billion.



Iron and steel



Cement



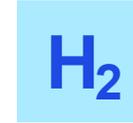
Aluminium



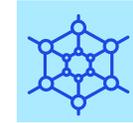
Fertiliser



Electricity



Hydrogen



Polymers



Organic chemicals

\* Subject to further negotiation with European Council

## Direct cost



Assuming a GHG emissions intensity at 3 tCO<sub>2</sub>e per tonne\*\*



Cash price of aluminum USD 2,357 per tonne (LME on 6 July 2022)



EUR 83 per tCO<sub>2</sub>e (EU Carbon Permits price on 6 July 2022)



**Additional carbon “tax” cost at EUR 249 per tonne (11% increase!!)**

\*\* This assumption is for illustrative purpose only. GHG emissions data for CBAM purpose should follow specific rules.

# Carbon Market Opportunities in Hong Kong



## Green and Sustainable Finance Cross-Agency Steering Group

### Carbon Market Opportunities for Hong Kong - Preliminary Feasibility Assessment (March 2022)



Develop Hong Kong into a global, high quality voluntary carbon markets (VCMs)



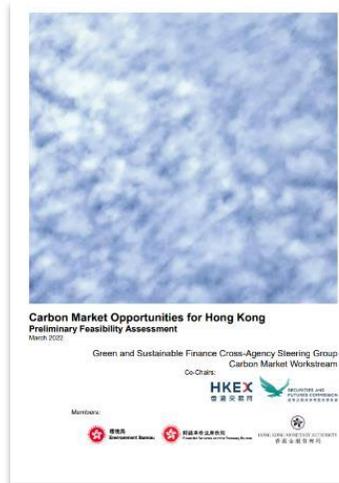
Work towards establishing the GBA Unified Carbon Market



Link up international investors with the GBA Unified Carbon Market and potentially the national Emissions Trading System (ETS)



Strengthen cooperation with the Guangzhou Futures Exchange



## Hong Kong International Carbon Market Council

- **HKEX** launched the Hong Kong International Carbon Market Council (the Council) in **Jul 2022**, together with a number of **leading corporates and financial institutions** as inaugural Council members to explore carbon opportunities in the region.
- The Council will gather insights from members on the **development of an efficient and effective Hong Kong-based international carbon market** with best-in-class market infrastructure, products and services.
- List of inaugural council members

- ANZ
  - BOC(HK)
  - BNP Paribas
  - Cathay Pacific
  - Standard Chartered Bank
  - Tencent
  - HSBC
  - ICBC (Asia)
- And few others...

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# How ESG transform your business?



# How does ESG help businesses grow?

## Grow Revenue

- Attract capital from investors
- Launch sustainable portfolio of products, services and solutions
- Shift from selling products to selling services



## Enhance Brand

- Brand & reputation
- Attract & retain talent
- Enhance license to operate
- Engage communities & stakeholder

## Reduce Cost

- Save energy (& cut costs)
- Source sustainable raw materials
- Leverage digital technologies to reduce resource usage



## Reduce Risk

- Stay ahead of future regulations
- Anticipate resource scarcity & price volatility
- Account for externalities
- Avoid supply chain disruptions



# Embedding ESG into business

Industry	ESG considerations
 <b>Property development</b>	<ul style="list-style-type: none"><li>• Green building standards</li><li>• Use of low embodied carbon construction material</li></ul>
 <b>Fashion</b>	<ul style="list-style-type: none"><li>• Circular economy</li><li>• Sustainable supply chain</li></ul>
 <b>Food &amp; Beverage</b>	<ul style="list-style-type: none"><li>• Reduce packaging and wastage</li><li>• Sustainable food source</li></ul>
 <b>Transportation &amp; Logistics</b>	<ul style="list-style-type: none"><li>• Use of low carbon fuel</li><li>• Electrification</li></ul>
 <b>Agriculture</b>	<ul style="list-style-type: none"><li>• Ethical farming / animal welfare</li><li>• Local produce</li></ul>
 <b>Metals</b>	<ul style="list-style-type: none"><li>• Ethical / responsible sourcing</li><li>• Low carbon technology</li></ul>



05

# How to get started?

# How to integrate ESG into your business



# Common challenge we see from corporate



ESG seen as separate not core

1

Unclear ownership across functions

2

Lack of awareness, skills & knowledge

3

Quality and integrity of data

4

Confusing landscape of disclosure frameworks

5

# How to integrate ESG into your business

“

ESG isn't something you do.

ESG is everything you do, and how you do it.”

# To recap



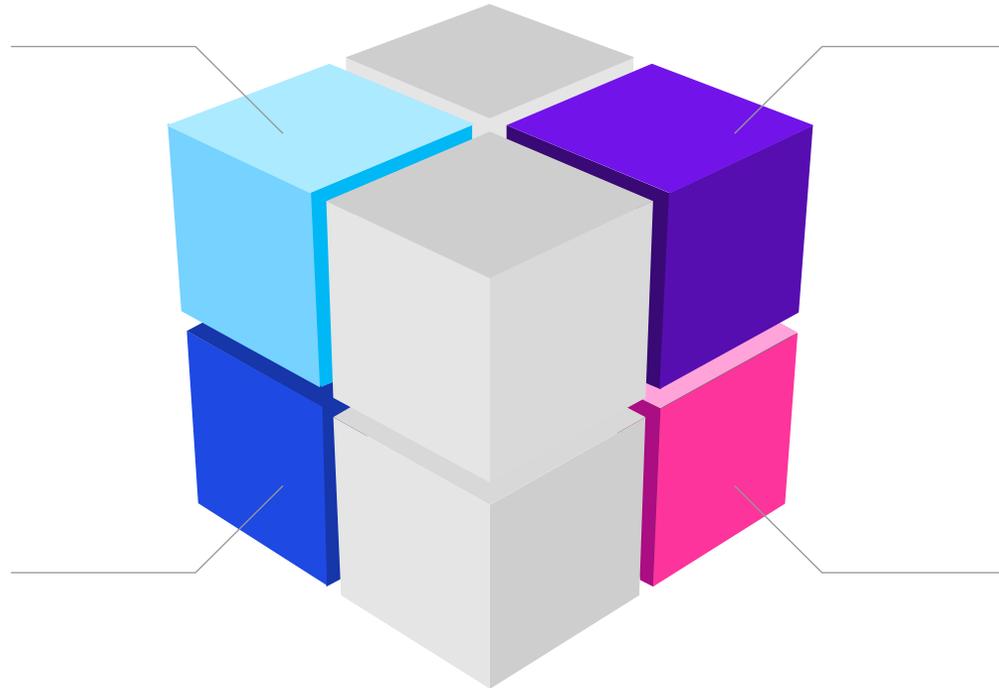
## Every sustainability journey is unique

How every company implement their strategy should also be unique and be center around the core business to suit their needs and characteristics.



## Carbon emission will be priced

Every company, irrespective of the size and industry will be affected. Company need to keep track of the development to stay competitive in the market.



## Climate change is one of the major challenges of our time

With regulator imposing more rules and regulations, corporate are required to assess, quantity and disclose its climate-related risks



## Get buy-in from the top and project owners is crucial for effective ESG management

# Thank you



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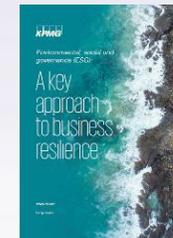
### Climate Change Reporting



### Net Zero Readiness Index 2021



### ESG: A key approach to business resilience





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