



The Deloitte Academy 5-minute read

Bringing climate change on to the board agenda, 13 September 2019

This was the first in a series of four climate crisis discussions run by The Deloitte Academy, in collaboration with Chapter Zero, the UK Chapter of the World Economic Forum (WEF) Climate Governance Initiative. The speakers were Simon Thompson, Chair of Rio Tinto PLC and 3i Group PLC, Emily Farnworth, Head of Climate Change at WEF, Emma Howard Boyd, Chair of the Environment Agency, and Susan Hooper, non-executive director of Rank Group, Uber UK, Affinity Water and Wizz Air. The discussion was focused on bringing climate change on to the board agenda and the practical steps a board and executive team could take.

About Chapter Zero



Julie Baddeley, Chair of the Chapter Zero Steering Committee, welcomed attendees and highlighted Chapter Zero's role in helping non-executive directors become better informed about climate change through events and toolkits and peer-to-peer discussions.

The board agenda

Simon Thompson used his experience in the extraction and mining space to share his perspectives on bringing climate change on to the board agenda.

- Environment and social issues form part of almost every board discussion. Climate change is a particular challenge – it is long-term, complex and impacts on a broad range of business aspects.
- A company's response (or lack of response) to climate change can impact its reputation and may limit access to capital and talent as investors and younger recruits avoid companies perceived to have poor environmental, social and governance (ESG) management processes.
- Climate change should be managed within the normal governance board framework. Its complexity demands a cross-functional and cross-disciplinary approach. It is a long-dated risk which requires a strategic response that may exceed a company's normal planning horizons.
- Investors are demanding companies produce long-term scenarios that pull together threats and opportunities. The two biggest unknowns are technology and government policy.
- The best way to incentivise new carbon technology is to adopt carbon pricing. The costs are immediate, but the benefits will only be felt in the long term.

Case study

Rio Tinto

Rio Tinto is an Anglo-Australian mining company. It is a capital-intensive business with an installed asset base of US\$56 billion. Each year it consumes 420 petajoules of energy, more than many countries.

- Climate change has been on its board agenda for over two decades.
- It recognises the need to be part of a solution to climate change, not the problem.
- In 2007 it acquired Canadian company Alcan. It recognised aluminium would be an increasingly important metal in a carbon-constrained world and it owned very significant water rights. Because of this acquisition, 70% of its power consumption now comes from renewable sources.
- Recently, it sold coal assets, recognising that exiting this would become increasingly problematic.
- This differentiated Rio Tinto. It's now the only major diversified mining company in the world that doesn't have any fossil fuel production. This has encouraged shareholders to invest.
- It also recognises the need to decarbonise its whole supply chain from mine to end product.
- It moved climate change responsibility to the Head of Corporate Planning and Strategy to place it at the centre of decision-making. It also established four pillars of a climate change strategy:
 - To supply materials essential for the transition to a low-carbon economy.
 - To reduce carbon footprint.
 - To identify and mitigate physical risks to assets and people.
 - To partner on, and advocate for, policies that advance climate goals.

Working with businesses

Emily Farnworth has been helping public and private sector companies think about sustainable business models for the past 20 years. Emily outlined how business can make a real difference:

- WEF liaises with businesses globally and is now working towards delivering on the Paris Agreement.
- Eighty-three CEOs are now part of the Alliance of CEO Climate Leaders group demonstrating that climate action is at the heart of the boardroom.
- WEF wants to help non-executive director communities to bring information to boards. It has developed [principles to set up effective climate governance on corporate boards](#), launched this year.

- There are now chapters in Malaysia, Italy and the UK with plans for one in France currently taking shape.
- There is a need to engage with government and policy makers to support businesses take action in the 'harder to abate' sectors, but as policies take a long time, perhaps governments can use their purchasing power to signal demand, for example, for clean cement and steel.

The urgency of the task ahead

Environment Agency Chair **Emma Howard Boyd** is also the UK's representative on the Global Commission on Adaptation. Emma discussed:

- The urgency of the challenge ahead and the need for us to act now, with far greater pace.
- [The Global Commission on Adaptation report](#) highlighting that the number of people who could lack sufficient water at least one month a year will soar from 3.6 billion to more than 5 billion by 2050.
- In the UK in the last two years we are already hitting some of these boundaries with the country experiencing extreme weather events including floods, heatwaves and prolonged dry weather.
- The need to move from a system that focuses on protecting individual structures from flooding, to a system that looks at resilience of communities, supply chains and infrastructure. If we are not thinking about adapting to the physical risks of climate change at the same time as heading to net zero, we risk turning our infrastructure assets into stranded assets.
- We need to listen to young people as they are holding a mirror up to us.
- The Environment Agency is analysing companies in its pension fund to see if they are transitioning in line with the Paris agreement. This is showing that pace of action is behind where it needs to be.

Changing the way we do business

Susan Hooper talked about bringing the climate crisis on to the board agenda as a non-executive director:

- There is more mobilisation around the issue of climate change from 15 to 20-year-olds than any other age group. We must learn from them and their confidence in being able to bring about change.
- For decades we have learnt and experienced how to run businesses and changing these habits is not going to be simple. But we are all senior leaders and in positions of authority and influence; we need to take a stance and make a difference in the areas we can.

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- We must 'fish in our own pond' and not try and solve world hunger, but focus on the roles of influence, skills and expertise we have to make a difference. We are not alone in exerting this influence which is now coming from all directions including investors and customers.
- What was the exception is now the norm – we need a radical change of all of our habits to bring the required changes.
- Business investment is driven by growth, the need for growth, and competitive advantage. In the water industry we are regulated to reduce per capita consumption. What about carbon-producing industries? How are we going to manage that and reward those companies as we still need them?
- Competitive advantage has no place in the climate change discussion. The changes required are fundamental, radical and need to happen across the board - the need to collaborate within industries is critical.

"We need to adopt a new multi-lateral approach where business and government seek to work in a non partisan way to try and identify a common approach."

Simon Thompson

"Companies are increasingly more open and proactive at recognising the opportunities of a low-carbon world. These shifts in business strategy don't happen unless the board is having the right questions raised in their meetings."

Emily Farnworth

"What's the point of building green, energy-efficient buildings if they wash away in a flood or melt in a heat wave?"

Emma Howard Boyd

"With climate change we have to take meaningful action now. We cannot deal with climate change as we have approached diversity, which has been discussed and debated for decades, and expect to bring about the necessary changes in the window of opportunity of the next decade."

Susan Hooper

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