

QUICK BRIEF 2019



26 June 2019

What the transition to a low-carbon global economy means for South African business

Why this matters:

1. The transition to a low-carbon world will over time have a profound impact on South African business.
2. It will mean that companies will be pushed to reassess the relevance and resilience of their business models and long-term strategy.
3. Business and government will have to work together to mitigate the social, environmental and financial implications of climate change.

What is the TCFD?

The TCFD is an industry-led initiative driving the quantification and disclosure in mainstream financial reporting of financial risk arising from climate change at a company level.

South African companies that have not begun to understand the impacts of the transition to a low-carbon world on their business models and long-term strategies may be cutting it fine. At a country level, South Africa is at significant risk from climate change and if we do not act timeously, we risk lagging behind global developments and suffering the consequences of that.

These were some of the key takeaways from the NBI's roundtables on the **Task Force on Climate-Related Financial Disclosures (TCFD) and Transition Risk** recently held in Cape Town and then Johannesburg, as part of the NBI's popular Thought Leadership Series.

The Intergovernmental Panel on Climate Change's 2018 **Global Warming of 1.5 °C Report** concluded that limiting warming to 1.5°C implies reaching net zero CO₂ emissions globally by around 2050.

The Paris Agreement provides a strong signal that Governments are committed to moving towards a low-carbon and resilient global economy. The national determined contributions (NDCs) that aim to meet the Paris goals sum to an expected warming of approximately 2.7°C. The expectation of the Paris Agreement is therefore a progressive ratcheting up of national climate ambitions, if a global temperature increase above 1.5°C is to be avoided.

South Africa's main trading partners are all moving towards low carbon economies, even the USA, is investing in carbon legislation and infrastructure. There is a high chance that as climate impacts become more severe, these may be reinforced over time through trade related measures that penalise carbon intensity.

Several of South Africa's main exports – particularly coal, platinum and motor vehicles and parts – are likely to be fundamentally affected by the shift to a low-carbon economy. Given the status of these industries as important forex earners and important employers and taxpayers, this could have serious implications for the medium-term future financial and social stability of the country.

The scenarios offered in the TCFD's technical supplement predict:

- A shift away from higher carbon products and commodities;
- Reputational risks arising from growing expectation for responsible conduct from investors, lenders and consumers; and
- Increased regulatory pressure to reduce high carbon activities leading to rising operating costs, difficulties in securing licences to operate and increased liabilities.

In this context, the financial sector is ramping up its assessment of risk in relation to climate change which will significantly affect capital allocation. Key players signalling their intention around climate risk include:

- Major companies. 751 companies totalling \$16.9 trillion in market capitalisation have committed to bold climate action through We Mean Business's coalition partners initiative.
- Investors. Assets under management of \$100 trillion have signed up to CDP, requesting data on climate change management from over 6 000 companies.
- Insurance underwriters. For example, Lloyd's of London underwriters are now required to consider climate change explicitly in their business plans and underwriting models.
- Credit ratings agencies. In 2017 the Moody's flagship Climate Week Briefing looked at the impact of climate change on sovereign risk. In 2018 they focused on credit risks that corporate sectors face as a result of the carbon transition, the impact of physical climate risks on public finance issuers and how municipalities are incorporating green infrastructure and sustainability projects into critical programmes.

How the NBI can help

- **The NBI has a long track record of bringing business and Government leaders together to address socio-economic and environmental issues.**
- **The NBI is the implementation partner of We Mean Business (WMB) and CDP in South Africa.**
- **Our work on mapping the objectives of South Africa's National Development Plan (NDP) and the United Nations Sustainable Development Goals (SDGs) provides a roadmap for business to drive effective socio-economic development.**
- **The NBI Climate mApp is a free mobile app that provides a graphic demonstration of possible climate change scenarios in South Africa and their consequences for biodiversity, agriculture and human wellbeing.**
- **The NBI, WWF and C40 aim to ratchet up ambition on climate change and, working with the Global Alliance for Climate Action, plan to issue an ambition statement that commits supporting net carbon neutrality globally by 2050.**

The TCFD Knowledge Hub can be accessed [here](#). For more information please contact: [Steve Nicholls](#).

Business Action for Sustainable Growth

www.nbi.org.za




National Business Initiative

5th Floor, 61 Katherine Street, Sandton

The National Business Initiative (NBI) respects your right to privacy, if you do not wish to receive any further Quick Briefs from the NBI, please click [UNSUBSCRIBE](#) and your name will be removed from the mailing list.