Business and a low carbon economy... 10 things you need to know

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An ANZ brief to assist our clients in addressing the implications of the public policy responses to climate change.

"The shift to a low carbon economy is already underway and business must get ready for it."

Mike Smith, CEO, ANZ

The Australian and New Zealand Governments have ratified the Kyoto Protocol and are committed to reducing each country's greenhouse gas emissions, in an effort to transition to a low carbon economy. A number of initiatives to reduce emissions are being implemented including cap and trade regulatory mechanisms and incentives for businesses to rely less on fossil based fuels and more on low carbon energy sources.

These initiatives are already beginning to transform the business landscape – with both positive and negative repercussions. The transition to a low carbon economy is introducing new risks and opportunities for business. We have identified ten key considerations for business in the current economic climate.

1. Take the time to understand

Companies that take the time to understand the impacts on their business of moving to a low carbon economy will be able to make more informed decisions and will be better placed to survive, adapt, innovate and grow.

2. Focus on what is known, not what is uncertain

Legislation for many initiatives is still in development and speculation on outcomes is rife. However, much is already decided, and businesses that initiate action on the basis of this information and invest in preparedness will also be best equipped to seize the opportunities.

3. Regulation and physical impacts are the biggest risks

Businesses report consistently that regulatory change and physical risk are the highest risks of climate change. Reputation risks and litigation risks, while present, are considered less pressing. Regulators (e.g. ACCC in Australia) are increasingly focusing on unsubstantiated "green" claims.

4. New governance obligations for directors and CEOs

Compliance and reporting around environmental, social and governance issues is increasing (e.g. Greenhouse and Energy Reporting from July 2008). Boards of Directors and CEOs will need to pay close attention to changing obligations and market expectations.

5. Impact on valuing assets and liabilities

Assets may be revalued or impaired based on their carbon contribution or emissions intensity. Potential liabilities may arise associated with future carbon obligations. Debt and other financial covenants may be impacted. Companies need to consider the potential impact on their balance sheet.

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6. Plan for increased operating costs and potential for contracting margins

Production, supply and distribution costs may rise. In particular, energy prices and volatility are likely to increase. Energy efficiency should be a key priority to reduce costs. The sensitivity of short term cash flows to changed customer behaviour should be also evaluated.

8. Monitor your stakeholders expectations

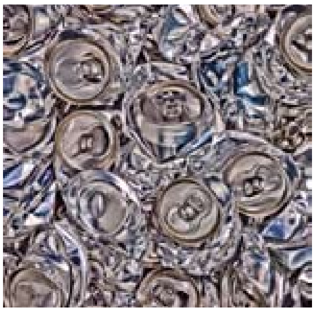
Increasingly, businesses must not only manage climate change risks and opportunities, they must also respond to an increased level of stakeholder interest and scrutiny. Employees are increasingly engaged on climate change issues and want their employers to act. External stakeholders are increasingly demanding certification of products and processes, and investors are looking for proactive companies.

9. Test scenarios for your business strategies

Customer and market behaviour will change as economic parameters evolve, creating shifts in value propositions and new business opportunities.

"There will be a large creation and re-distribution of shareholder value in the transition to a low carbon economy – there will be winners and losers at a sector level, and within sectors at a company level. The winners are more likely to be those businesses that take time to understand and address this complex area."

Tom Delay, Chief Executive, The Carbon Trust



7. Use knowledge to drive your strategy

Understand what your competitors' market differentiation is – a diversified company may be able to offset carbon costs internally and manage them more effectively. Understand the impacts of different carbon price scenarios. Offshore competitors may not be subject to the same imposts at this point in time.

Value chain management and product differentiation could become key to maintaining market access and returns on investment.

10. Position yourself to be a winner

The move to a low carbon economy represents a transformational shift for business. The opportunities for innovators and leaders are expected to be unprecedented in all sectors of the economy. Position yourself to take advantage of these market opportunities.

ANZ can provide advice and products to help manage the risks and capitalise on opportunities.

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