Asia Business Council

Asia Business Council Climate Action Survey 2022

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Businesses in Asia are integrating climate action into their corporate strategy. Policy clarity is required to accelerate their net-zero transition.

By Berenice Voets

Climate change will have material impacts for corporations, particularly in Asia where physical and transition risks are significant. Accordingly, Asian companies have acknowledged the importance of sustainability and are now making commitments to reach net-zero carbon emissions within set timeframes.

But how are these commitments affecting their business strategies and changing their operations? And which policies could support an acceleration of their climate action?

To answer these questions, the Asia Business Council surveyed its members ahead of the COP27 conference. For the first time in 2022, a separate section was added to the Council's Annual Survey with climate-related questions.

The survey results highlight the main drivers of Council members' climate action and the strategies they prioritize for reaching net zero carbon emissions. It also reveals the key challenges they see for decarbonization and, crucially, the government policies that would help accelerate their climate action.

Survey overview and key findings

- The climate survey was conducted in Q3 2022 and had a response rate of 62% (41 out of 66 members). Of the 41 respondents, 32% came from the financial sector, 12% from the service sector, 46% from the energy or manufacturing sector, and 10% from real estate.

Asia Business Council members are committed to reaching net zero

- Survey results show that Council members are predominantly integrating climate issues into their business strategies. Of the respondents, 83% have net-zero targets and a timeline to achieve them. 58% plan to reach net zero earlier than the timelines set by the governments in the economies where they operate.

- Moreover, members are committed to reaching net zero through actual emissions reductions. Only 5% of the companies surveyed declared that buying carbon credits or offsets is a high-priority action. One-quarter view credits as a supplementary action to mitigate emissions.

- The benchmark for Asia Business Council members is becoming carbon neutral on a scope 2 to 3 basis by 2050. However, 18% of the companies with set targets aim to become carbon neutral by 2030, and another 24% by 2040 or earlier.

- It should be noted that the different scopes of carbon emissions were not always mentioned by respondents.

Priorities for climate action include reducing the carbon intensity of operations, investing in technology, and changing business models

- Asia Business Council members acknowledge that climate action brings opportunities. While they are prioritizing carbon intensity reductions, they are also investing or planning to invest in green technologies, and reassessing their business models to start new business ventures.

- In terms of mitigation, 56% of respondents are also planning to make investments in carbon capture and sequestration projects or in the creation of carbon sinks. 24% view these investments as a high priority.

The key drivers for climate action are competitiveness and compliance

- The ambition to stay or become more competitive is driving the climate action of 83% of respondents. Other important drivers include existing or upcoming regulatory and disclosure requirements (a key driver for 66%), and the need to respond to external pressures (44%).

- Attracting or retaining talent is a relatively less important driver of climate action. More research on the values and priorities of workers and job seekers in Asia may be required to highlight the internal benefits of taking climate action.

- Carbon pricing schemes play a relatively limited role in driving the climate action of Council members. This is unsurprising as climate taxation is still nascent in Asia, and the cost of carbon remains low where carbon is priced.

- While only 41% of respondents saw cost reductions as a key driver of climate action, it was seen as a top driver among the 46% of respondents from the industrial sector. This aligns with the Asia Business Council's Annual Survey results that showed that members are very concerned about rising energy costs.

Policy clarity and harmonization of standards will be top enablers of climate action going forward

- The top three policy enablers of climate action include policy clarity (a very clear number one), the harmonization of standards for measuring and disclosing carbon emissions, and tax incentives for green goods and services (either in the form of value-added tax or tariff deductions and exemptions, or in the form of direct subsidies).

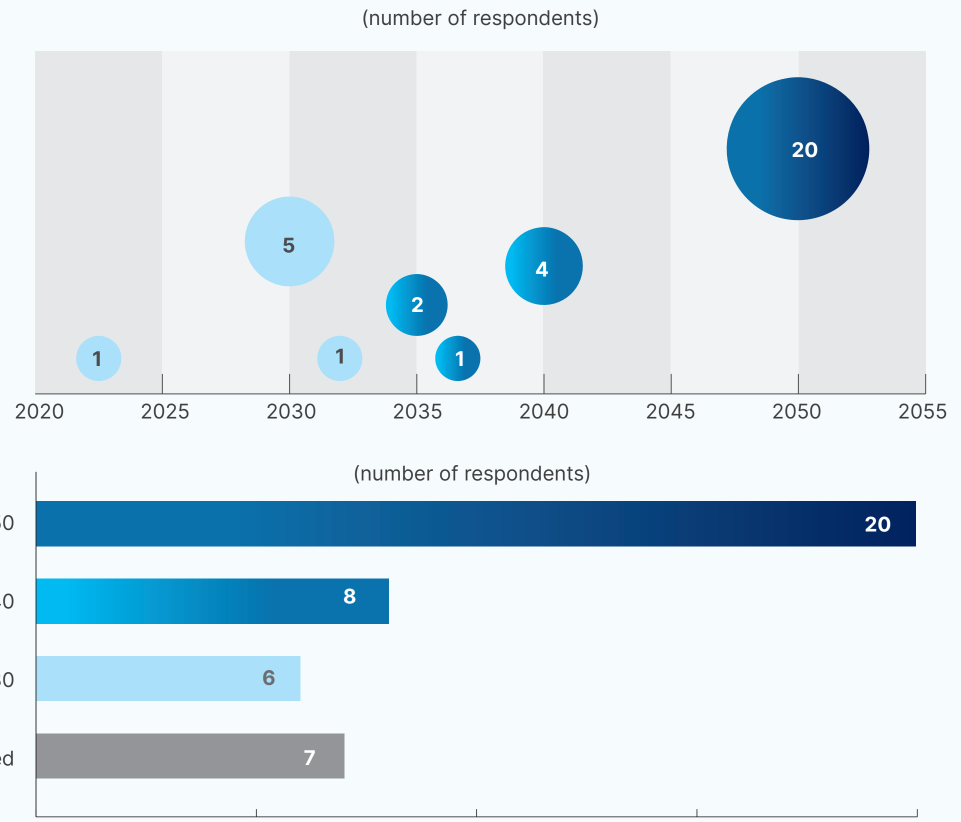
- Other important policy enablers include government action to increases access to talent, and know-how on decarbonization; and to accelerate the expansion of green energy and transport infrastructure.

Detailed results

Council members are increasingly integrating climate issues into their corporate strategies

FIGURES 1 AND 2

By what year is your company aiming to reach net zero?



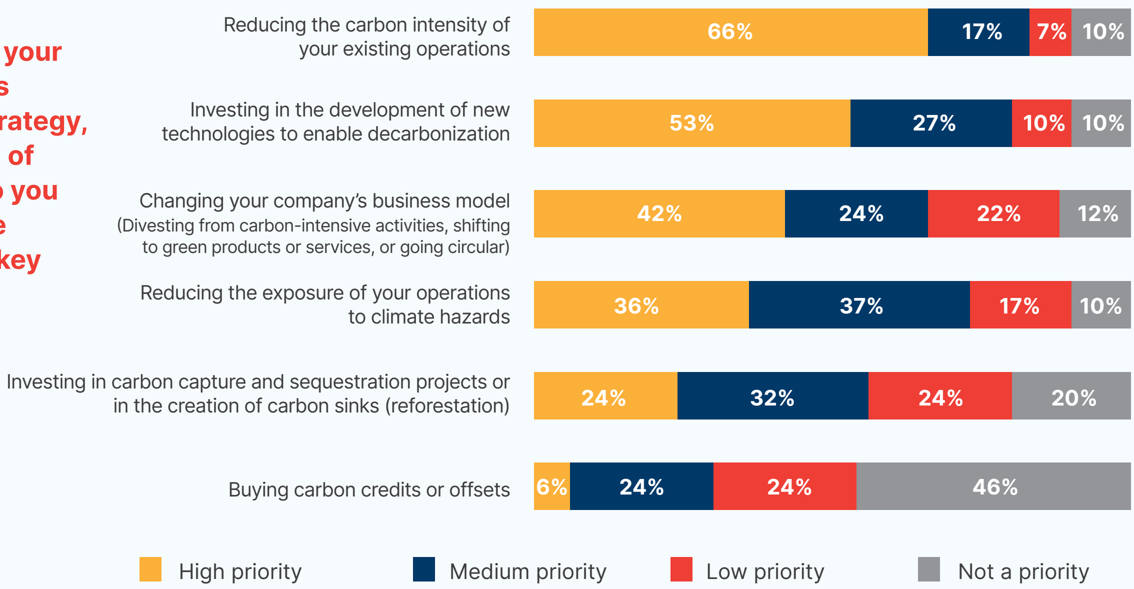
A majority (83%) of survey respondents declared that they have a target to reach net zero by 2050. Of those, 17% aim to reach net zero by 2030 and another 24% by 2040 or earlier. The seven companies that did not communicate a target indicated that net-zero targets were either under development or could not yet be disclosed.

Nationally Determined Contributions (NDCs) do not seem to be significantly influencing the targets of Council members. One third have aligned their net zero targets with the timelines set in the NDCs of the economies where they are headquartered, while 59% have set more ambitious timelines.

Members are focused on reducing the carbon intensity of their operations, investing in innovation, and changing their business models

FIGURE 3

As part of your company's climate strategy, what level of priority do you give to the following key actions?



83% of respondents declared that they were focused on reducing the carbon intensity of their operations. This is unsurprising because it tends to also drive a reduction in energy costs, and the Asia Business Council's Annual Survey showed that members are very concerned about inflation and the rise in energy costs.

Reducing costs is not the only important driver of climate action. Respondents also acknowledged that climate action could bring opportunities. 81% are focusing on investing in green technologies, while 65% are evolving their business models away from carbon-intensive activities. A discussion with Council members showed that many are currently redefining themselves both by divesting from carbon-intensive activities and by creating new business ventures to seize climate opportunities.

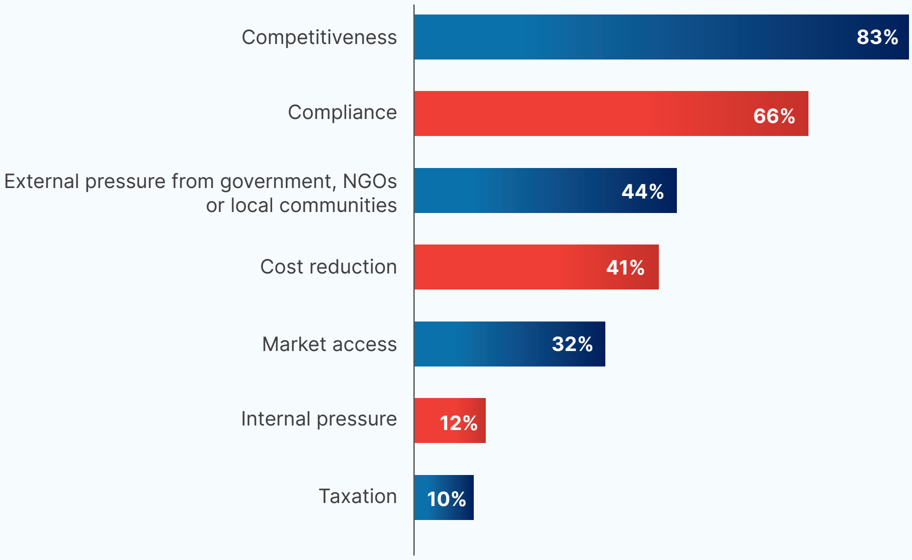
74% of companies are highly to moderately concerned by physical climate risks and also pursuing climate adaptation activities.

Finally, 56% of respondents said they are looking at options to capture and store carbon. This option is preferred to buying carbon credits or offsets, which is a priority strategy for only 5% of companies.

Competitiveness, compliance, and reputational concerns are the primary drivers of climate action

FIGURE 4

What are the top three drivers of your climate action?



For Asia Business Council members, competitiveness, which was defined in the survey as "responding to the requirements of your commercial partners and customers or enhancing your competitiveness through the launch of green products or services," is the biggest driver of climate action.

With carbon disclosure regulations upcoming in several Asian economies, 66% of respondents are also focused on "complying with existing or upcoming regulations and disclosure requirements."

44% of respondents also expressed concerns that external pressures from government, NGOs, or local communities could negatively impact their reputation or lead to adverse regulations. Internal pressures are seen as much less of a concern.

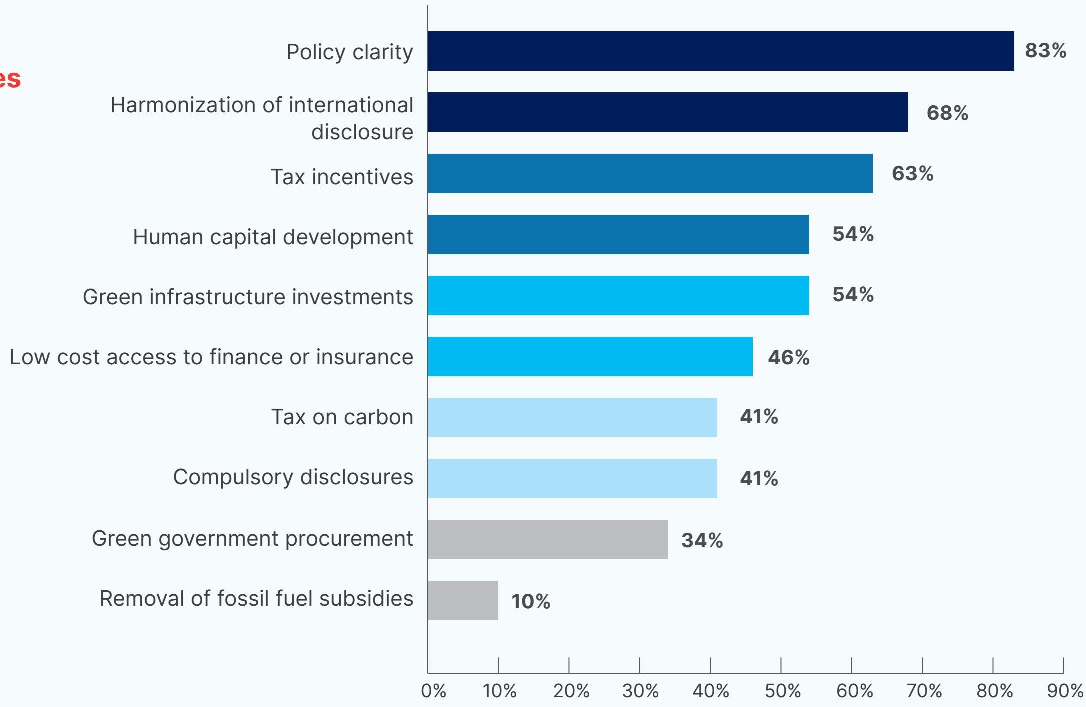
41% of respondents said that they strived to "reduce existing or future input, operational, or insurance costs." While reducing costs is not one of the top three drivers of climate action for members as a whole, for companies operating in sectors that are directly exposed to the effects of rising material and energy costs, this is a significant consideration. This finding tracks with the results of the Asia Business Council's Annual Survey that showed that 67% of respondents expect inflation to be the biggest challenge for business over the next year, and that rising energy costs top the list of member concerns.

Only 10% of respondents are highly concerned by existing or upcoming taxes (predominantly carbon taxes and border adjustment taxes). As carbon pricing is still nascent in Asia, this result is unsurprising, though most of the economies in which Council members operate are looking into the possibility of implementing carbon taxes or emissions trading schemes.

Respondents indicated that policy clarity would be the single biggest enabler of faster corporate action on climate

FIGURE 5

Identify five policy measures that would most help your company decarbonize its operations or those of its portfolio companies.



Policy clarity, or the "government clarifying its emissions reduction strategy and specifying its intentions and timeline for regulatory and policy action, to enable companies to make more informed investment decisions," is seen as the single biggest enabler of climate action.

68% of respondents also indicated that "harmonizing or streamlining international standards for measuring and disclosing GHG emissions, with mutual recognition of standards and disclosures from one country to another" would greatly facilitate their climate action. This is unsurprising given the growing number of inconsistent ESG disclosure regimes and standards.

Moreover, respondents declared that they would welcome government support, in the form of "tax incentives for green goods, services, or operations" (63%) and "state-driven initiatives to increase access to talent, specialists, and know-how on decarbonization, such as via changes in education or migration policies" (54%).

54% indicated that governments should accelerate the expansion of green energy and transport infrastructure to facilitate their climate action.

Most Council members who responded did not view the removal of fuel subsidies as a risk, though it would have a significant impact on their operational costs. This is likely because respondents do not view this as a possibility in a context of already high inflation.

Conclusion

This survey was conducted to understand the drivers of corporate climate action within Asia ahead of the COP27 meeting. Given the qualitative nature of the survey, the results are not intended to be reflective of the climate considerations of all Asian companies. Nonetheless, they reflect the collective sentiment among business leaders in the region. Moreover, the issues faced by Asian companies with regional or global businesses are likely to be even more significant for companies with less of a capacity to overcome climate obstacles.

The results show that significant efforts are still required to clarify national and regional decarbonization pathways, to create fiscal incentives that encourage the development of green products and services, and to train talent and develop know-how to support Asia's decarbonization.

Finally, Asian companies need better access to green energy and transport solutions to fast track decarbonization.