BUSINESS ENVIRONMENT COUNCIL 商界環保協會

ENVIROSERIES

BEC EnviroSeries Conference

8 July 2020

Business Sustainability in the midst of Disruption, Turbulence and Recovery

Conference Report

September 2020

I. Introduction

Reflecting on the unprecedented disruption the world is facing in recent months, the main objective of the conference was to challenge the conventional wisdom and find an innovative, low carbon approach to recover from the lows of the COVID-19 outbreak. The Business Environment Council (BEC) wanted to highlight the tough challenges, extended risks but also new-found opportunities faced by businesses in such difficult time, and to showcase how corporate leaders are building resilience and adaptability into their business planning and operations for long-term sustainability.

The conference was organised into 4 main sessions to facilitate discussion:
Session 1: Decarbonisation amid economic downturn and plummeting fuel price
Session 2: Investing in a resilient built environment
Session 3: Developing a future-ready workforce
Session 4: How the boardroom and investors can lead the way in low carbon recovery

Programme Rundown

Time	Topic
9:30-9:40	**Welcome Remarks** Mr Adam Koo, Chief Executive Officer, Business Environment Council
9:40-10:00	**Keynote Speaker** Dr María Mendiluce, CEO, We Mean Business coalition
10:00-11:15	**Plenary 1: Decarbonisation amid Economic Downturn and Plummeting Fuel Price** Moderator: Mr Simon Ng, Director – Policy & Research, Business Environment Council
	Decarbonisation in Hong Kong & Greater Bay Area Post COVID-19 Prof Christine Loh, SBS, JP, OBE, Chief Development Strategist, Institute for the Environment, Hong Kong University of Science and Technology
	Panel Discussion 1 Prof Christine Loh, Chief Development Strategist, Institute for the Environment, Hong Kong University of Science and Technology Mr Mike Kilburn, Assistant General Manager, Sustainability, Airport Authority Hong Kong Dr Christian Hübner, Director Regional Project Energy Security and Climate Change Asia-Pacific, Konrad-Adenauer-Stiftung Mr Victor Kwong, General Manager – Corporate Sustainability, The Hong Kong and China Gas Company Limited Mr Justin Wu, Head of APAC, Bloomberg New Energy Finance
11:15-11:45	**Morning Networking Break**
11:45-13:00	**Plenary 2: Investing in a Resilient Built Environment** Moderator: Ir CF Leung, Director – Operations, Business Environment Council
	Envisioning and Building a Future-Proof City: A Hong Kong Perspective Mr Donald Choi, CEO, Chinachem Group
	Panel Discussion 2 Mr Donald Choi, CEO, Chinachem Group

	Dr Calvin Kwan, General Manager – Corporate Development & Strategy, Link Asset Management Limited Dr Raymond Yau, General Manager, Technical Services & Sustainable Development, Swire Properties Limited Mr Keith Cheng, Head of Digital Hub, Siemens Advanta Solutions, Siemens Limited
13:00-14:00	**Networking Luncheon**
14:00-15:00	**Plenary 3: Developing a Future-Ready Workforce** Moderator: Mr CW Cheung, Director – Development, Business Environment Council
	Panel Discussion 3 Ms Vicki Fan, CEO, Mercer (Hong Kong) Limited Ms Ellie Tang, Head of Sustainability, New World Development Company Limited Ms Pamela Mar, Executive Vice President – Knowledge and Application, Fung Academy Dr Jeanne Ng, Chair, the Hong Kong Institute of Qualified Environmental Professionals
15:00-15:30	**Afternoon Networking Break**
15:30-16:45	**Plenary 4: How the Boardroom and Investors can Lead the Way in Low Carbon Recovery** Moderator: Dr Nadira Lamrad, Assistant Director – Sustainability & ESG Advisory, Business Environment Council
	Keynote Interview with Mr Richard Lancaster, CEO, CLP Holdings Limited Dr María Mendiluce, CEO, We Mean Business coalition
	Panel Discussion 4 Mr Richard Lancaster, CEO, CLP Holdings Limited Mr Ashley Alder, CEO, The Securities and Futures Commission Ms Kate Hodson, Partner, Ogier Ms Pratima Divgi, Director – Hong Kong, Southeast Asia, ANZ, CDP Mr Jean-Louis Nakamura, CEO, Lombard Odier (Hong Kong) Limited
16:45-16:50	**Closing Remarks** Mr Richard Lancaster, Chairman, Business Environment Council

II. Conference Opening

Opening Remarks

Mr Adam Koo

Chief Executive Officer, Business Environment Council Limited

Mr Koo acknowledged that the substantial impacts unleashed by COVID-19 has created unprecedented challenges for governments, businesses, societies and individuals across the world. The time has come for businesses to reflect, rethink and look for ways to achieve a low carbon recovery, as well as long-term sustainability. The building of a more sustainable, climate resilient and inclusive recovery is widely supported by CEOs of leading companies and governments worldwide. He hoped the conference will serve as a platform for entrepreneurs, academics and experts to explore strategies and build a more future-proof Hong Kong.

Keynote Speech

Dr María Mendiluce

Chief Executive Officer, We Mean Business coalition

Dr Mendiluce highlighted three key points in her speech:

Global policy trends

- The COVID-19 pandemic has resulted in catastrophic social and economic impacts. As we emerge from lock down, we are faced with a dilemma between business as usual or react to the emergencies and tackle the health and climate crises as one. We need to do all we can to reduce greenhouse gas emissions and build a more climate-resilient world. The decisions governments make now will lock-in the strategic development for the entire economy for years to come. The European Union (EU) and South Korea, for example, are putting climate resilience at the core of their recovery plan.
- Climate actions would make the economy more competitive. Moreover, when business and government targets align, the climate transition accelerates.
- Therefore, governments around the world, along with businesses, should take immediate action and build long-term carbon reduction targets through developing green energy transition, building zero carbon infrastructures and supporting zero carbon technologies.

Global business trends

- The post-pandemic period is the time to reset the global economy. Businesses are calling for a more future-proof and sustainable economy. Climate ambitions are vital strategies for companies to enhance resilience, competitiveness, innovation and long-term growth potential. The younger generation tends to buy and work with companies that are responding to climate change.
- Companies need to understand the short-, medium- and long-term risks across their entire value chain through systems thinking, result scanning and scenario planning. They need to collaborate across the economic system with peers, governments and employees.
- Since the pandemic began, companies with strong environmental, social and governance (ESG) ratings tend to outperform their peers, and sustainable investments have outperformed the overall market. By disclosing climate-related financial arrangements and lowering systemic risks, companies can avoid potential risks in future losses.

Hong Kong's sustainable future

- Hong Kong is showing great progress in developing green technologies, electric vehicles and green finance as seen from the Government's latest budget. It is important that these policies continue and translate into a clear and long-term climate resilient plan beyond 2030.
- Hong Kong still has potential in deploying more renewable energy. More innovations and breakthroughs are needed to make Hong Kong more competitive and energy independent.
- There is a growing trend of investing into the zero carbon economy. Hong Kong and Mainland China are both shifting towards a low carbon economy. There are substantial opportunities for expanding renewable energy development in Mainland China, as we observe offshore wind and solar energy becoming the mainstream energy sources. More Hong Kong businesses are taking advantage of it, while building a more sustainable economy.

III. Plenary 1: Decarbonisation amid Economic Downturn and Plummeting Fuel Price

Decarbonisation in Hong Kong & the Greater Bay Area Post COVID-19

Prof Christine Loh, SBS, OBE, JP

Chief Development Strategist, Institute for the Environment, Hong Kong University of Science and Technology

Apart from being hit by the global pandemic, Hong Kong has also been affected by the increasing number and magnitude of extreme weather events due to climate change; and is also in the middle of the United States (US) -China trade war. All these risks and uncertainties had led to increasing instability on Hong Kong's economy. As Hong Kong transitions towards a more climate resilient and low carbon economy, Prof. Loh suggested four key actions to reinforce business participation in the economy over the next decade:

Action 1: Align multiple stakeholders

- Collaboration between policymakers, engineering and financial professionals is needed to scale up and commercialise new decarbonisation projects.

Action 2: Collaborate with other cities in the Greater Bay Area (GBA)

- The GBA, one of the leading areas in Mainland China in developing renewable energy and green technologies, has great potential for environmental projects. For instance, the Guangdong province is currently experimenting with new offshore floating wind turbines, with can be an opportunity for collaboration and investment.
- The Chinese Government has also taken the lead to develop bold energy goals with emissions trading schemes and carbon capture and storage (CCS) technologies. New business collaborations – financially and technologically – between companies in Hong Kong and the GBA should be explored.

Action 3: Reimagine buildings and building designs

- Hong Kong, as a high-density city, has abundant well-built property but most are not at the cutting-edge in terms of environmental performance.
- The real estate market will see profitable returns on investment given the low interest rate environment, and the property sector should invest in improving the quality of buildings and wellbeing of building users. This will alleviate the transition risks property companies face in the future from more stringent policies and more demanding investors.

Action 4: Utilise the 4Ts framework to success

- Hong Kong needs to combine policy with engineering and finance, for example waste-to-energy plants in response to the tightening standards for waste being imported to China.
- The operational structure of platform for collaboration can be similar to the 4Ts Charter (Timeline, Targets, Transparency, Together) created by the Environment Bureau, which can be useful in creating a roadmap for decarbonisation in Hong Kong's business future.

Panel Discussion 1

Panellists (from left to right):

Mr Justin Wu, Head of Asia-Pacific, Bloomberg New Energy Finance (joining online)

Dr Christian Hübner, Director Regional Project Energy Security and Climate Change Asia Pacific, Konrad-Adenauer-Stiftung e.V

Mr Victor Kwong, General Manager – Corporate Sustainability, The Hong Kong and China Gas Company Limited

Prof Christine Loh, SBS, JP, OBE, Chief Development Strategist, Institute for the Environment, Hong Kong University of Science and Technology

Mr Mike Kilburn, Assistant General Manager, Sustainability, Airport Authority Hong Kong

Mr Simon Ng (Moderator), Director – Policy & Research, Business Environment Council

The panellists provided an overview of the low carbon recovery from different perspectives:

1. The EU has been working on the European Green Deal since 2019, with different long-term decarbonisation strategies, along with a climate neutral target by 2050. Upon the outbreak of COVID-19, the EU has released a Green Recovery Policy. This policy attempts to reinforce the Green Deal, while giving extra stimulus to the economy, redirecting recovery funds towards a more sustainable business models. The plan takes into account a wide variety of industries and stakeholders, such as the power sector,

transportation, circular economy, training of the labour market for sustainable jobs, digitalisation and agriculture.

2. The aviation sector has been hit hard and the Airport Authority Hong Kong (AAHK) is responsible for the coordination and planning with its business partners, who make up more than 95% of all employees in the airport community. Before the pandemic, AAHK pledged to electrify all 3,000 diesel vehicles in the airport by 2030, and it is now combining this climate strategy with a response to COVID-19: by purchasing the vehicles from its business partners and electrifying them. This ensures AAHK gets control of the vehicle while its business partners gain cashflow.
3. There has been an increasing number of companies involved in putting sustainability strategies in place. 2019 also saw a surge in RE100 and Science Based Targets signatories. The impacts of the pandemic can be broken down in the three phases: i) the immediate health impact and reaction to policies by companies, ii) the response by governments and businesses as well as stimulus packages, and iii) the longer term economic impact and the recession that is going to take place in different countries. Interestingly, the observed short-term impacts to companies in Asia are relatively small.

Panellists also raised four key initiatives towards long-term decarbonisation:

<u>Multi-stakeholder collaboration</u>

- In order to design holistic long-term decarbonisation strategies, policymakers, innovators, corporations and financiers should all collaborate closely.
- Within GBA, there are substantial on-going investment opportunities related to decarbonisation and development projects available across the border.
- Collaborating with others puts the significance and magnitude of climate actions into context – it will be difficult for one to determine its own level of ambition without some form of comparison. Working together enables stakeholders to see things at the macro-level and become more ambitious than if they are working alone.
- With more stakeholders aligned to send a clear and consistent message, the voice of these stakeholders can be multiplied within the wider business community, which will in turn enhance the confidence and assurance of policymakers in formulating climate policies.

Clean energy investments and decarbonisation of the electricity market

- Many large oil companies have been investing in liquefied natural gas (LNG) and other forms of clean energy. However, the price volatility of oil due to COVID-19 and lock downs is expected to adversely affect the revenue of oil companies, thus affecting their appetite on investing in clean energy technologies and participating in the energy transition.
- Hong Kong's electricity grid is gradually decarbonising, however the mix of renewable energy is still limited. There could be policies in place to source renewable energy directly from, or allow the arrangement of power purchase agreements with the GBA and other regions.

Investments in and adoption of new technologies and innovations

- Companies could also consider adopting low carbon innovations available on the market. For example, the Hong Kong and China Gas Company has been continuously developing new decarbonisation technologies, while establishing pilot testing spots in different parts of Mainland China, such as their food waste to biodiesel plant in Suzhou.
- Looking at the EU, the European Green Deal and Green Recovery Package had both earmarked substantial amounts of spending on innovating the power grid, transportation network and other sectors.

Establishing decarbonisation targets and foster information sharing between corporations and small and medium-sized enterprises (SMEs)

- It is recommended that SMEs should participate in programmes, like the HSBC Living Business Awards, where companies would receive business advice on how to incorporate social and environmentally sustainable practices in their daily business operations while staying agile in the industry.

IV. Plenary 2: Investing in a Resilient Built Environment

Envisioning and Building a Future-Proof City: A Hong Kong Perspective

Mr Donald Choi

Executive Director and Group CEO, Chinachem Group

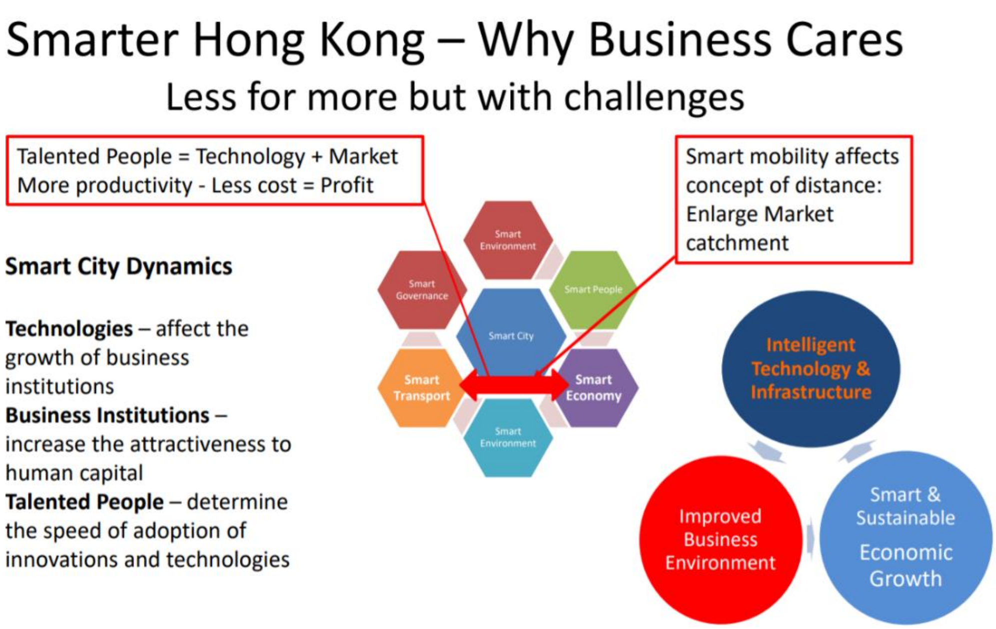
Mr Choi shared 4 main points:

Hong Kong's challenge

- Hong Kong was ranked as the 38th most liveable city in the world in 2019, and was not on the list for Top 30 Future-Proof Cities. Hong Kong's liveability is reducing, as living spaces are getting smaller and public spaces are becoming more congested. Moreover, the poverty rate has reached 20.4% in 2019. The above issues, along with the foreseeable double aging problem, requires effective decisions from the Government and local businesses in order to make Hong Kong more future-proof.

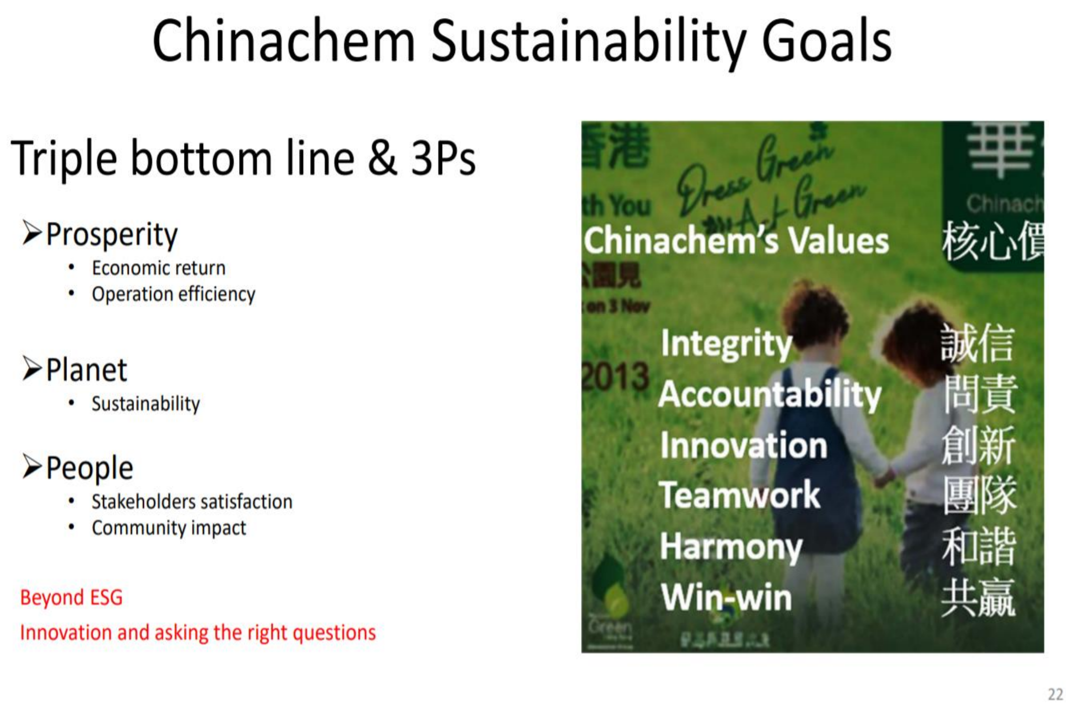
Envisioning and building a more future-proof Hong Kong

- Smart city innovations and the digital economy has become a huge trend. Some hotels are embracing new technologies and are introducing robots to simplify daily activities. Utilising digital technology and big data, companies are able to better monitor customer spending behaviours to providing more personalised services.



Shared value and “Triple Bottom Line” for business

- A future-proof city should be people-based. Future-proofing is not only about utilising technology, but about how leaders can create job opportunities for citizens to build an inclusive community with futuristic goals.
- In this respect, Chinachem Group has introduced several resilient targets on the triple bottom line and the 3Ps. The triple bottom line refers to goal-setting revolving around economic, social and economic developments, while the 3Ps refers to prosperity, planet and people. All these insights would help build a more resilient company and would establish more holistic goals that go beyond the ESG.



Sustainability and opportunities in Hong Kong and the GBA

- Chinachem Group is actively building Hong Kong’s liveability, sustainability and identity.
- On a local level, Chinachem Group has been working on people-based designs, taking into account sustainability, green financing, public health, and decarbonisation. It has also been partnering with different corporations on constructing user-friendly and age-friendly infrastructure.
- Beyond Hong Kong, Mr Choi also noted the great potential for collaborations with the GBA.

Panel Discussion 2

Panellists (from left to right):

Dr Calvin Lee Kwan, General Manager – Corporate Development & Strategy, Link Asset Management Limited

Mr Keith Cheng, Head of Digital Hub, Siemens Advanta Solutions, Siemens Ltd

Mr Donald Choi, CEO, Chinachem Group

Dr Raymond Yau, General Manager, Technical Services & Sustainable Development, Swire Properties Limited

Ir CF Leung (Moderator), Director – Operations, Business Environment Council Limited

The panellist raised six recommendations on building resilience in a developed environment:

Target setting

- Swire Properties have conducted physical and transition climate risk assessments on their global assets. Assessment models, such as the Intergovernmental Panel on Climate Change (IPCC)'s representative concentration pathways (RCPs), have provided better insights on developing their asset-based resilience measures.
- Most of the companies in Hong Kong have some form of decarbonisation target or strategy in place, but only a few have set science-based targets that are aligned with climate science. Panellists hoped that as more companies step up and set science-based targets,

it would help create a paradigm shift internally across different levels of staff and externally to other stakeholders within the corporate world.

Green finance

- As large corporations are shifting into developing climate resilient measures, real estate companies like Swire Properties and Link Asset Management have converted parts of their loans into sustainability-linked loans, with the interest rate being indexed against the company's ESG performance. With the establishment of the Sustainable and Green Exchange in the Hong Kong Stock Exchange, it is expected that more companies will utilise green financial products to build a more climate resilient business.
- Portfolio based assessments on climate resilience for property companies should be adopted to secure future bank financing. From a financing perspective, addressing climate change and improving climate resilience equate to reducing a company's risks, which is one crucial element investors and lenders look for.
- All panellists agreed that SMEs could play a bigger role in green finance. As SMEs typically have lower credit ratings, they are more likely to benefit from sustainability-linked loans which offer lower interest rates than traditional loans. Additionally, the operational scale within SMEs is relatively small, hence SMEs have the ability to quickly react and adapt to a fast-changing market.

Green innovations

- New technologies have been introduced to build a more climate resilient business environment, and some can have great potential in the property market. For instance, Siemens have designed an interactive chiller cooling system that optimises the amount of energy being used while taking the user's experiences into account through a real-time mobile application.
- Some companies also utilise big data analytics to lower carbon emissions more efficiently. For instance, Swire Properties invested in Internet of Things (IoT) systems to understand the energy consumption pattern and the interaction between different components, and then tested different algorithms using an energy management platform to achieve the highest energy savings.
- Enhancing climate resilience and improving the wellbeing of users not only require active solutions, but passive solutions. For example, better city planning that effectively allocate

resources to prevent the spread of diseases can reduce medical spending. There is also wisdom in old buildings in Hong Kong, where high ceilings and wide windows would enhance indoor ventilation and natural brightness.

Embodied carbon

- Through a research collaborated with the Hong Kong University of Science and Technology (HKUST), Swire Properties discovered that the main source of embodied carbon in a newly constructed building in Hong Kong came from concrete, rebar and structural steel used during the construction. This study drove the company to source low carbon cement and use a high percentage of recycled steel in the specifications for future construction and development projects.
- The Chinachem Group has been adopting a variety of construction technologies to reduce embodied carbon in their projects, for example modular integrated construction (MiC), building information modelling (BIM) and design for manufacture and assembly (DfMA).

Collaborating with a shared vision

- Link Asset Management has been using a “Business As Mutual” model to identify key issues in the community and with their business partners to co-developing solutions. This model ensures that different stakeholders are aligned on important issues, such as building climate resilience along the value chain.
- Companies with a shared vision on building sustainably would be extremely beneficial to develop low carbon construction projects. For example, this can mean working together with joint venture partners, consultants, and construction companies to develop a shared vision to prioritise long term value creation that incorporates environmental and social values.

V. Plenary 3: Developing a Future-Ready Workforce

Panel Discussion 3

Panellists (from left to right):

Ms Pamela Mar, Executive Vice President – Knowledge and Application, Fung Academy

Dr Jeanne Ng, Chair, Hong Kong Institute of Qualified Environmental Professionals Limited

Ms Vicki Fan, CEO, Mercer (Hong Kong) Limited

Ms Ellie Tang, Head of Sustainability, New World Development Company Limited

Mr CW Cheung (Moderator), Director – Development, Business Environment Council

How COVID-19 changed the workforce

- Digitalisation is crucial to allowing flexibility for the workforce during the outbreak of COVID-19. Most companies have sufficient support for workers to work from home. However, they should consider other innovative approaches that may further digitalise the workforce and a company's operation. Long-term planning and strategy are required to decide if there is a potential reduction of office space when some of the workforce do not require compulsory physical presence.
- Some companies treat COVID-19 as an opportunity to change rather than a threat, as employees have learned to be prepared for any kind of crisis. Due to the huge uncertainty faced by the workforce, they are more capable to turn fear into motivation towards the learning and growing zone. This kind of mindset is important for the workforce to face other kinds of crisis such as climate change.

- The new norm in the workspace is different from the traditional Asian working culture which relies on face-to-face communication. Managers and leaders in human resources have to change the mindset and recognise the productivity of the workforce despite remote working and online communication.

What is a future-ready workforce

- Flexibility is key for the workforce in the future as the world will keep evolving. Contingent workforce other than permanent workforce may evolve, which allows companies to have a larger flexibility in budgeting human resources.
- As for the workforce quality, as the rate of change is increasing, workers need to build their own capability in adjusting themselves and adapting to different situations. It may change the traditional Asian working culture, which is based on fixed routines with few varieties. It can become a new culture for the workforce to be equipped to learn on the job and change.
- In the supply chain industry, the portion of the service sector, such as finance and marketing may increase. It is because the supply chain will become more globalised and complex with the influx of data. As a result, the workforce has to be prepared and to learn how to handle the data in order to react immediately in various situations.
- Environmental practitioners will play an important role in a future-ready workforce because environmental knowledge is essential for all disciplines to deal with climate crises in the future. The environmental sector needs to be raised from a technician-grade to a professional-grade. Once this level of professionalism is established, there will be more opportunities to talk to different disciplines and sectors to transfer knowledge.

Readiness of Hong Kong businesses

- The career crunch affects everyone. According to Mercer's 2020 Global Talent Trends for Hong Kong, Baby Boomers are delaying retirement, with 72% intending to work past retirement age. On the other hand, Generation Z presumes to move quicker, with 43% expecting to be eligible for a promotion after 12 months or less. This creates tension within a multi-generational workforce. The difference in inter-generational needs has to be considered when it comes to succession planning.

- The panellists are confident that the workforce in Hong Kong can adapt to changes and innovative environments quickly. Motivation goals or career expectations are important to retain the passion and interest of the workforce.

Digitalisation for corporates to acquire future-ready workforce

- Online teaching has become more common, and the younger generation has more access to digital communication. The panellists shared that more colleagues prefer online meetings rather than in-person ones. As a result, the senior workforce may have to cope with it. Panellists agree that the key is to allow a certain degree of flexibility for both managers and the workforce in order to find the most productive approach.
- One of the challenges of digital communication is the lack of spontaneous social interactions. As for the future-ready workforce, knowledge would not be sufficient to secure a job. It is important to obtain inspiration from others in order to stimulate thinking. While online forums at this moment may not be able to facilitate spontaneous interactions, it is important to figure out ways to provide open communication with the online platform.

Ways to ensure all departments and levels of governance are on board on sustainability

- Although there is no fixed formula for corporates to achieve sustainability, management and leadership are key factors. It is important for top management to engage the whole company with sufficient discussions. Managers have to make sure that the workforce understands the purpose of the company in society.
- The sustainability department can act as an agency to drive changes. It has to present the actions required for the company, engage with different departments and develop new business plans at the same time.

Advice during turbulence

- As there are many unavoidable changes in the future, it is important for the workforce to embrace changes and be prepared at all the time. They should not take sustainability for granted and have to make an effort for sustainability to become a part of the solution.
- Empowerment and opportunities by employers would also be essential to facilitate life-long learning for its employees. For instance, allowing employees to switch between departments and carry out different types of work whenever suitable may enable individual growth and development. Personal enhancement of employees could also bring insights and new value to the company, thus improving its performance.

VI. Plenary 4: How the Boardroom and Investors can Lead the Way in Low Carbon Recovery

Keynote Interview

Mr Richard Lancaster, CEO, CLP Holdings Limited

Dr María Mendiluce, CEO, We Mean Business coalition (joining from Geneva)

Dr Nadira Lamrad (Moderator), Assistant Director – Sustainability & ESG Advisory, Business Environment Council

<u>COVID-19's impact on ESG and sustainability of businesses</u>

- With the social unrest in Hong Kong and the growing tension between China and the US, the outbreak of COVID-19 further reminded businesses that this world is full of crises. As a result, recognising the possibility of dramatic changes and variations could be crucial in order to maintain businesses' operation and productivity.
- The pandemic demonstrates the multiple ways that society, environment and businesses are related and how impacts can cascade through such interconnections. The impacts of COVID-19 are not very different from the impacts that may be posed by climate change. There are warnings for businesses to plan and act on the impacts of climate change. They should grasp the chance to be prepared for a potential crisis, rather than ignoring or adapting with little preparation, which can lead to more dramatic impacts.
- One of the top learnings of CLP Holdings (CLP) is that businesses have to react more quickly than the government. While many businesses only respond to government regulations and policies, they are capable of moving quicker and being more flexible and innovative. Corporations have to show leadership and proactiveness in dealing with crises.

<u>Green recovery in Hong Kong</u>

- CLP is confident that Hong Kong will soon return to the new normal but the world will certainly be different in the future.
- Dealing with climate change and reducing carbon emissions is key for future recovery. As electricity generation is the major contributor to carbon emissions in Hong Kong, CLP is continuously seeking for and implementing green initiatives. For instance, CLP has been replacing coal-fired plants with gas-fired plants and developing renewable energy. None

of these projects have been stopped and the trajectory has not been changed because of the pandemic.

- Hong Kong is on the right track towards reducing its carbon emissions and mitigating climate change. The main question is how quickly Hong Kong should move towards a low carbon economy, and what may help accelerate this change.

Panel Discussion 4

Panellists (from left to right):

Ms Pratima Divgi, Director, CDP Hong Kong

Ms Kate Hodson, Partner, Ogier

Mr Richard Lancaster, CEO, CLP Holdings Limited

Mr Jean-Louis Nakamura, CEO, Lombard Odier (Hong Kong) Limited

Dr Nadira Lamrad (Moderator), Assistant Director – Sustainability & ESG Advisory, Business Environment Council

Mr Ashley Alder, CEO, The Securities and Futures Commission (joining online)

<u>Value of ESG for risk management in the new normal</u>

- ESG will gradually be mainstreamed in the new normal for both investors and businesses. Investors will no longer analyse financial and environmental performances separately, and the examination of the sustainability of companies' business model and practices will become increasingly common in the financial industry.
- Companies must consider both financial constraints and ESG, and try to link their operations with sustainable practices. While ESG performance may not be the only factor

determining a company's performance, companies that fully incorporate sustainability into their strategies tend to be more resilient and better prepared for crises.

- It is crucial for corporations to understand that working on ESG issues would not sacrifice economic returns. When the pandemic is over, businesses may prioritise economic development over sustainability; however, other than COVID-19, climate change is another huge challenge for corporations, and will also require a decisive and immediate response.

<u>Linkage between governments and businesses in response to climate change</u>

- As climate change risks are relatively long term, green elements may not be prioritised in governments' COVID-19 stimulus packages, which can hinder both the public and private sectors in planning and implementing decisive actions. Therefore, businesses should not solely rely on governments policies to respond to the climate crisis. Private financing companies can also be one of the crucial drivers.
- CDP shared its cross-sectoral initiative, the City-Business Climate Alliance, in London. Goals and targets are set for the city after an analysis is conducted on the issues related to clean transport, waste production and building sustainability. Businesses have been working towards the targets with support from the government.
- As a utility company, CLP explained that their business decisions are constrained by government regulations and social obligations, as they have to maintain the reliability and affordability of electricity. Therefore, businesses similar in nature need to work closely with the government to discuss the timetable or profile of decarbonisation.

<u>Climate disclosure</u>

- Environmental performance data is typically used to reflect the impacts of companies on the environment. On the other hand, the Task Force on Climate-related Financial Disclosure (TCFD) recommends and provides a guideline for companies to measure the potential financial impact of climate change on company assets. The TCFD climate disclosure framework helps investors determine the climate-related risks companies are facing, facilitates the decision-making process, and aids businesses in determining the priority of business actions related to the impacts of climate change by looking from a different perspective.
- Transparency and disclosure are seen as key to addressing climate change in the short term. Climate disclosure requirements force companies to assess their exposure to climate risks and the related financial implications. With the risk assessment results, companies will then start managing and mitigating the relevant risks by revisiting their

strategies and setting decarbonisation targets. CDP data shows that more companies are willing to disclose their climate risks on a voluntary basis.

- Financial regulators around the globe are concerned with the comparability and consistency of environmental data across jurisdictions. Inconsistent green taxonomies and the incomparability of data can make it difficult for investors to determine the environmental performance of companies around the world. In the upcoming United Nations Climate Change Conference (COP 26) in November 2021, global regulators are working towards identifying categories of meaningful disclosure from existing frameworks which are material for investors and which could have a regulatory component.
- Currently, the Network for Greening the Financial System (NGFS) is putting together a framework that enables central banks to stress test banks and insurers' balance sheet on climate risk, which incentivises banks to lend to companies that manage climate risks well. This may also allow the investment community to adopt more active management practices on the topic of sustainability, and liaise with companies on how the data is calculated and how to make them more comparable.

<u>The role of board of directors and management in addressing climate risks</u>

- Introducing climate change from a risk management perspective would be an effective approach, as it is the responsibility of board of directors to understand and ensure risks are well-managed. Another effective approach to encourage senior management to consider climate risks in the decision-making process is to link their renumeration to sustainability or climate-related key performance indicators (KPIs).
- Education has to be provided for the board of directors as they need to understand climate change and how it may affect business operations. Directors may not know every detail about the organisation, therefore the management team can play the key role in helping directors understand climate related impacts and their implications. Different companies may have different starting points on decarbonisation, but they all need to get to the same end-point – net zero carbon.
- In addition to acting in the best interest of shareholders, there have been calls for board of directors to also consider the interests of employees, community and the environment, which would be necessary for companies when undergoing a low-carbon transition. This shift in perception of directors' duty has been observed in places like US, UK and Hong Kong.
- There are increasing litigation cases related to climate change, and directors need to be more attentive as this risk is becoming more material. With the standards for liability being

raised, more pressure is put on directors to take climate change into account when formulating company strategies.

VI. Closing Remarks

Mr Richard Lancaster

Chairman, Business Environment Council

Mr Lancaster thanked the sponsors and the audience for their enthusiasm at the conference, as well as the BEC team for organising this conference with diverse topics and discussion. The discussion and debates are getting more and more insightful after each conference, and he was already looking forward to the next conference.

Recovering from turbulence and disruption will be very relevant for the Hong Kong business community after the current hardship due to COVID-19. However, businesses should not lose sight of climate change which is an important and long-term issue to address. It is hoped that businesses could gather and focus more on low carbon economy through approaches like the BEC Low Carbon Charter.

VII. Conference Takeaways and Related Work by BEC

1. **The business community has demonstrated that they are willing and ready to step up their decarbonisation efforts by initiating various emission reduction projects and pledging to join voluntary initiatives.**
    - To harness this momentum from the business community, the BEC Low Carbon Charter was launched to mobilise companies in Hong Kong to decarbonise. Since its launch in March 2019, a total of 72 companies of all sizes and across various sectors have committed to set and achieve decarbonisation targets as of September 2020.
    - To further deepen private sector's decarbonisation effort, the Government can consider emulating other countries and form a cross-sectoral coalition that allows business leaders and the administration to co-develop decarbonisation strategies and scale up business climate actions with policy support.

2. **Accounting for over 60% of the carbon emissions in Hong Kong, 93% of the city's electricity consumption is attributable to buildings, of which 66% is consumed by the commercial sector[1]. To decarbonise the built environment, more incentives should be provided for better building design, energy conservation and retro-commissioning or retrofitting throughout the building life cycle.**
    - In 2019, BEC compared Hong Kong's policy framework related to buildings energy efficiency with other jurisdictions and proposed 20 policy recommendations across 7 different policy categories to further improve energy performance of buildings. For example, enhancing building energy data availability and transparency and promoting landlord-tenant collaboration on energy saving and optimisation through green leases should be encouraged. Read more about the recommendations in the Investing in the Buildings Energy Efficiency – How to Enhance Hong Kong's Policy Framework Report.

3. **To achieve net zero carbon emission, Hong Kong needs to decarbonise and have a transition plan to gradually switch to zero-carbon energy. One interim option during such transition is to promote the use of LNG in the marine and road transport sector**

[1] https://www.emsd.gov.hk/filemanager/en/content_762/HKEEUD2019.pdf

before other zero-carbon fuels such as green hydrogen become market-ready. As one of the major container ports in the region, Hong Kong should actively consider the development of LNG bunkering facilities in order to enhance port competitiveness and improve environmental performance of the transport sector.

- In this respect, BEC will soon begin a research and engagement project on LNG bunkering in Hong Kong, making reference to other major international bunkering ports like Rotterdam and Singapore.

4. **Data disclosure and transparency is essential to energy saving, decarbonisation, and enhancement of businesses' climate resilience, as companies rely on quality data to track their performance, formulate performance improvement plan and risk management strategy, as well as benchmark their progress against their peers.**
    - BEC's Improving Data Transparency in Buildings Energy Performance report points out the inadequacy of the current building energy consumption indicators and recommends the introduction of a mandatory reporting system to increase availability and quality of relevant data.
    - With the data supplied by the BEC Low Carbon Charter signatories, a progress report on their decarbonisation progresses and achievements will be published to enhance transparency and inspire actions in the wider business community.
    - In our Submission on the Chief Executive's 2020 Policy Address, we also called for the Government to also map out and share information on the possible changes in regional and local climate, as most companies lack the human and financial resources to conduct comprehensive climate risk assessments. This would be essential for the private sector to acknowledge and manage climate risks and improve climate resilience.

5. **SMEs are vital to Hong Kong's economy – they account for 98% of all companies and employ nearly half of the private sector workforce. Climate actions without their support and participation would be inadequate.**
    - The surging number of SME signatories of the BEC Low Carbon Charter in 2020 has suggested their readiness in taking part in the low-carbon transition. However, in midst of the current crisis, emission reduction is probably not their top priorities, and SMEs may have limited capacity and resources to do so. To accelerate green recovery, incentives like tax concessions, green funds, and interests-free loans

can be provided to them to invest in decarbonisation or climate mitigation and resilience technologies or facilities.

6. **The GBA, comprised of 11 cities, has a population of more than 70 million and represents 12% of China's total GDP. With a shared vision of transitioning to a green and low-carbon economy, the area possesses enormous potential for improving environmental sustainability, for example through renewable energy, green buildings and circular economy.**
    - Apart from sourcing renewable energies from the region, there are also potential collaboration opportunities with the GBA governments on the harmonisation of regulations and standards on building resilience and energy efficiency, ecosystem restoration, and circularity. The GBA can also be a prospective R&D hub for low carbon technologies and testing ground for low carbon demonstration projects.
    - BEC held a conference on the sustainability related opportunities in the GBA in May 2018. Read the full conference report here.

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2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong

Tel: (852) 2784 3900 Fax: (852) 2784 6699

http://www.bec.org.hk

About BEC

Business Environment Council Limited ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

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