

**ESG WATCH**

Mike Scott talks to CDP's Cate Lamb about the risk of stranded assets from

**POLICY WATCH**

Angeli Mehta on the need for joined up thinking on nature loss and climate

**BRAND WATCH**

Oliver Balch on the rise of the robots in supply chains

**COMMENT**

James Alexander of UKSIF gives a net-zero road map for the UK

**THE SUSTAINABLE BUSINESS**

# Review

 **REUTERS EVENTS™**

June 2022



FRED GREAVES/REUTERS

## Companies urged to wake up to water risk amid looming global shortfalls

**T**he deadly heatwave that has gripped India and Pakistan since the start of March is no freak of nature. According to a newly published scientific study, climate change has already increased the probability of such an event by a factor of about 30.

The growing frequency of extreme weather events due to global warming is one reason that the United Nations is predicting a 40% global shortfall in water supplies by 2030 if current consumption and production patterns do not change.

Yet, as Mike Scott reports in his ESG >

THE SUSTAINABLE BUSINESS

# Review

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TIKSA NEGERI/REUTERS

Watch column this month, water risk is a blind spot for a large proportion of companies, with a third of listed financial institutions failing to assess exposure to water risk in their financial activities, according to disclosure organisation CDP.

"Some companies don't even know where the key to the meter room is," says Cate Lamb, CDP's water lead.

Angeli Mehta picks up on the water theme in her Policy Watch column this month, reporting on a meeting of the U.N. Convention to Combat Desertification (UNCCD) in Cote d'Ivoire, the first of the year's three big United Nations summits.

Delegates were urged to take a holistic approach to tackling the three interlinked crises of biodiversity loss, desertification and climate change, as more can be accomplished by working on them together rather than individually.

Oliver Balch's Brand Watch column shifts gears to focus on the use of artificial intelligence to help decarbonise supply chains and the

growing appetite for "tech-for-good" solutions.

The need for be able to access and manage data to get a grip on supply chain emissions was a recurrent theme of Reuters Events' recent Responsible Business Summit in New York, as I report in my write-up. But companies will also need to engage in unusual collaborations if they are to get suppliers to come along on their net-zero journeys.

Mike Scott reports on another focus of the conference, developments on sustainable finance in the United States, hot on the heels of the Securities and Exchange Commission publishing its proposals for mandatory reporting of climate risk.

And the last word comes from James Alexander, chief executive of the UK Sustainable Investment and Finance Association. He argues that the UK government should replicate its success supporting offshore wind across other sectors as it seeks to deliver on its net-zero commitments. ●



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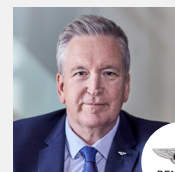
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ESG WATCH



RITESH SHUKLA/REUTERS

A woman walks across a dried pond in Uttar Pradesh during India's record-breaking heatwave in early May.

# New study sounds alarm about risk of stranded assets due to water scarcity

With a third of listed financial institutions not assessing exposure to water risk, they have a big blind spot, says CDP

[VIEW ONLINE](#)



**Mike Scott**  
ESG correspondent

**F**or something that is so crucial to all aspects of life, including the most fundamental business operations, water risk is a blind spot for many investors and businesses.

There is little understanding of how overuse, pollution and increasingly frequent extreme weather events, such as the years-long drought in California, the recent

heatwave in India and Pakistan, and last year's floods in Europe, are affecting water availability, says Cate Lamb, global director of water security at disclosure not-for-profit CDP.

A third of listed financial institutions do not assess exposure to water risk in their financial activities, although 69% of listed equities told CDP in 2021 that they are exposed to water-related risks.

"A large proportion of businesses still have the mindset that water will always be available to them whenever and wherever they need >



## ESG WATCH

it, and that they don't need to manage it like other issues," Lamb says.

Yet with the United Nations predicting a 40% global shortfall in water supply by 2030 if current consumption and production patterns do not change, it is a mindset that will increasingly open companies up to operational risk, according to a new report from CDP and UK-based non-profit financial think-tank Planet Tracker.

Businesses in key industries are already losing billions of dollars as a result of the global water crisis, CDP and Planet Tracker say in the report, which highlights how changes in regulation, high levels of pollution and community opposition have "stranded" assets, including the Keystone oil pipeline in Canada, a gold mine that straddles the border of Chile and Argentina, an Australian coal mine and a nuclear facility in the United States.

But a host of other sectors also face significant risks around water availability and quality, from fashion to agriculture to chip-making and data centres.

In Chennai, in India's Tamil Nadu state, one of the world's fastest growing cities, a devastating drought in 2019 caused it to run out of groundwater. This led to a number of the local tech companies having their licence to operate constrained, or rescinded altogether, Lamb says. In the recent heatwave, India's largest tributary completely dried up for the first time ever, threatening agricultural production that feeds the vast majority of the country, and huge amounts of energy production, too.

"When events like this happen, we see governments having to make really difficult decisions to ensure water supplies for citizens and food production, at the expense of energy and other businesses," she adds.



THILO SCHMUELGEL/REUTERS

**Floods in Germany last July following heavy rainfall – water risks include the physical risks of extreme weather events.**

Earlier this week U.S. officials announced unprecedented measures to boost water levels at Lake Powell, an artificial reservoir on the Colorado River that is so low as to [endanger the production of hydroelectric power](#) for seven Western states. The region has experienced the driest period on record over the past two decades. Las Vegas has banned watering of lawns, and similarly drastic measures are being considered in parts of California.

Lamb stresses that the water insecurity crisis would exist anyway, but the climate crisis has exacerbated it. "There is a finite amount of water on the planet and we are increasing our demands for it all the time. The amount of water required for producing energy is

predicted to double by 2040, as is the amount for growing food, which already accounts for 75% of demand.

"Unlike fossil fuels, there is no replacement for water. And what water we have left, we are polluting – 80% of all wastewater leaves homes, factories or farms untreated, further degrading the freshwater we do have. There is enough water to meet our needs, but there has been a catastrophic failure of management."

This is an issue for all businesses and their investors, she adds. Like climate, water risks include the physical risks of extreme weather events such as droughts and floods, as well as transition risks including water-hungry products being banned, zero-pollution laws such ➤

## ESG WATCH



HENNING BAGGER/RITZAU SCANPIX/VIA REUTERS

**The U.N. predicts a 40% global shortfall in water supply by 2030 if current consumption patterns do not change.**

as those being introduced in the European Union, and litigation risks arising from community opposition.

The current situation on the subcontinent provides a stark reminder of physical risks and their consequences – to people and to business. Unilever analysed its water risk and found that using its range of products, for cleaning dishes, clothing and people, could account for more than 90% of a household's domestic water use. Without innovating to make them more water-efficient, water scarcity could cost the company around 300 million euros a year by 2030, it said.

"There is a massive business opportunity in addressing the water crisis, in areas ranging from

infrastructure and reducing leakage to water treatment and efficiency measures," says Justin Winter, who manages water strategy at Impax Asset Management. However, he adds, investors' analysis of water risks is a long way behind their consideration of climate risks.

This is partly because water is more local and more complex, and partly due to a lack of data from companies. "Some companies don't even know where the key to the meter room is," Lamb says. There has been a growing push for mandatory reporting, with the EU looking to introduce this within the next couple of years, not just for companies but investors, too.

CDP has now asked 1,200 listed financial institutions to disclose

data about the water usage in their portfolios. "Currently institutions don't have to do due diligence of the implications of water issues for their investors, or to disclose what steps they are taking to manage those risks and harness the opportunities."

When CDP first asked companies to disclose water risks in 2010, it was on behalf of 150 investors with \$50 trillion under management. This has now increased to 680 investors managing \$130 trillion, while the number of companies responding has risen from 140 to more than 3,500 in 2021.

Still, awareness levels are nowhere near where they need to be. Water is a business risk that companies and investors can no longer ignore. ●



POLICY WATCH



TIKSA NEGERI/REUTERS

VIEW ONLINE

Children at the Higlo camp for people displaced by drought, in Gode, Somali Region, Ethiopia.

# Why we need a joined-up approach to tackling biodiversity loss, desertification and climate change

Policymakers meeting in Abidjan last month were urged by the U.N. to work on all three critical issues together to make progress

**W**e need tree-planting, we need renewables, and we need fossil-free fuels. But in our efforts to tackle the climate emergency, are we forgetting the soil beneath our feet?

Many organisations are warning that the overlapping crises of climate, biodiversity and land degradation must be tackled together – not sequentially – if planet Earth is to continue to support us.



**Angeli Mehta**  
Policy correspondent

The Global [Land Outlook report](#) published in April by the U.N. Convention to Combat Desertification (UNCCD), describes land as the “operative link between biodiversity loss and climate change”.

Underlining that, parties to the Convention who met in Cote d’Ivoire from May 9-20 for the first of the

year’s three big U.N. summits, heard French president Emmanuel Macron in a video message call for all public policies to incorporate the three interlinked conventions on biodiversity, climate change and desertification, that grew out of the 1992 Earth Summit in Rio de Janeiro.

UNCCD itself suggests countries could work on all three together rather than individually to achieve economies of scale and engage business and civil society ➤

POLICY WATCH



LUC GNAGO/REUTERS

Cote d'Ivoire president Alassane Ouattara and others attend the United Nations Convention to Combat Desertification in Abidjan, Cote d'Ivoire.

to mutual advantage. Land restoration also connects all the Sustainable Development Goals, the 17 objectives adopted by all U.N. member states in 2015 with the aim of ending poverty, protecting the planet and improving lives by 2030.

Delegates in Abidjan were asked to increase investment in land restoration and to tackle the growing impact of drought. Droughts not only affect food production; they also cause the release of carbon dioxide into the atmosphere, thus fuelling climate change. A warming planet is itself doubling the risk of drought in vulnerable countries, and even in Europe the effects of drought are having a financial impact.

Ibrahim Thiaw, executive secretary of the UNCCD, called on countries to make "transformational, not incremental" decisions. "Proactive national drought policies and a joined-up approach to managing natural resources" are needed,

alongside new technologies (such as satellites) to deliver early warning and precision for informed decisions.

Over a quarter of all land is degraded, and billions of tonnes of soil are lost each year because of unsustainable agriculture practices.

Countries have committed to restore over 1 billion hectares of degraded land by 2030, but decisions must be made about where restoration will have greatest impact. Brazilian scientists looked at almost 3 billion hectares of land globally that had been converted to farmland and found that 55% could be restored while maintaining current food production, assuming realistic yield increases.

This could be achieved by focusing restoration efforts in priority areas (eg wetlands or arid ecosystems) instead of constraining it to a fixed proportion of national areas, and optimising for both biodiversity and climate mitigation rather than treating each separately. Another

argument, perhaps, for taking targets out of siloes?

Sub-Saharan Africa has committed to restore over 400 million hectares. There, one of the world's most ambitious projects, [the Great Green Wall](#), aims to stop the southern expansion of the Sahara Desert. The ambition for 2030 is to restore 100 million hectares of degraded land, which will absorb some 250 million tonnes of carbon dioxide and transform millions of lives in the process.

But – depending on how it's measured – just 4%-20% of that target has been reached over the past 15 years, and there are concerns not all its projects are reaching the most needy. Another \$33 billion in funding is required to complete the wall. Last year, President Macron announced an accelerator fund to give fresh impetus to the project, while 16 billion euros has been pledged in international finance, although wrangling continues as to ➤



## POLICY WATCH



ZOHRA BENSEMRA/REUTERS

Fulani nomadic tribe members travel in the Barkedji-Dodji forest, part of the Great Green Wall of the Sahara.

how it will be managed. The UNCCD will review progress on how much of that commitment has materialised.

Finance is an issue that also dogs another planetary pillar: biodiversity. A new round of negotiations gets under way in June, after failure to make progress at talks in March. NGOs want to see a serious push for collective action and ambition ahead of the long-delayed 15th session of the Convention on Global Biodiversity (COP15) in Kunming, China, in August, though that date is also now open to question. While there seems to be broad support from nations to protect or conserve 30% of land and ocean by 2030 (the so-called 30x30 plan), details of how and where are lacking. A previous global commitment to halt species loss by 2020, which was not met, may be pushed out to at least 2030.

It's estimated that \$700 billion is needed to address the global

biodiversity financing gap.

"Much of that (funding gap for biodiversity) can be closed by ... repurposing, reforming or eliminating subsidies for activities that harm nature, whether that be industrial agriculture, fishing or fossil fuel subsidies," says Brian O'Donnell, director of the Campaign for Nature.

Various estimates suggest the most harmful subsidies amount to some \$500 billion – leaving \$200 billion to be found.

That's twice the amount pledged to developing countries for climate adaptation, and even that sum has not fully been delivered. Negotiators expect some money will come from redirecting domestic resources, but finance will have to come from the private sector.

However, O'Donnell has no illusions that companies will voluntarily sacrifice profit

maximisation for. Instead, regulation will be required.

"The most important thing is to get the destruction of nature that we're seeing priced in to the cost of doing business". At the moment, he adds, "it's basically happening for free, and companies are making quite a bit of profit (from) it".

That requires an all-of-government approach, especially getting finance ministries involved in discussions, he says.

Finance must also reach the local communities charged with reviving soil and protecting biodiversity. O'Donnell observes that while the rhetoric is shifting on indigenous land rights, the flow of finance needed to secure those rights isn't yet there. "Land rights are fundamental to both an ambitious biodiversity framework as well as a climate one."

Negotiators in Cote d'Ivoire heard the same message. ●

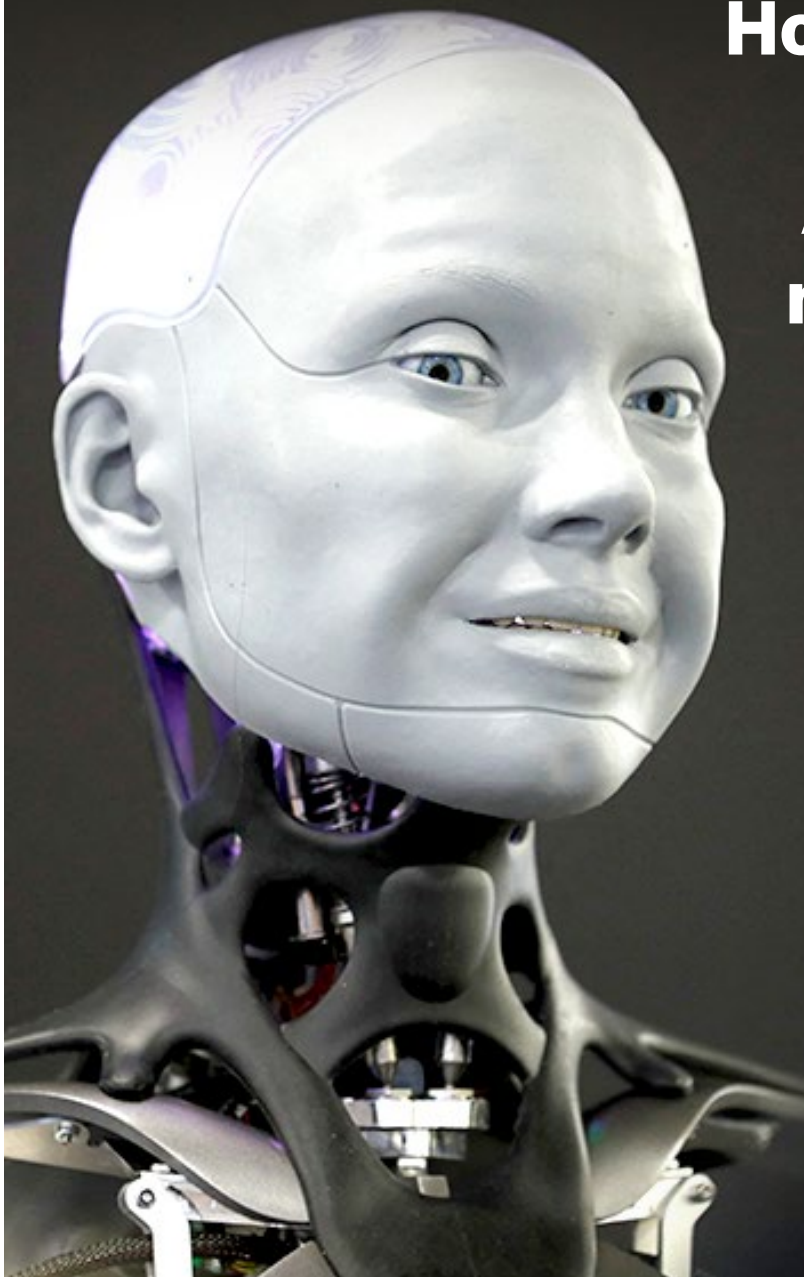
BRAND WATCH

# RISE OF THE ROBOTS

## How companies are turning to AI to get their numbers right

[VIEW ONLINE](#)

STEVE MARCUS/REUTERS



**Oliver Balch**  
Sustainable business  
correspondent

**T**he notion that modern technologies can help resolve some of the largest sustainability challenges has a long track record, not least among tech-minded brands. Many solutions just require a tweak of existing applications, for example Google's decision to add [methane analysers](#) to cars that were already collecting data for its Street View service. Others are more targeted. Think, the super-successful [Global Forest Watch app](#), a free deforestation tracking service. ➤



## BRAND WATCH

Enthusiasm for so-called “tech-for-good” solutions shows no signs of abating, as evinced by the continued flood of brand-led competitions, accelerators and hackathons. Typical is the XPRIZE, set up by Tesla chief executive Elon Musk’s charitable foundation, which recently named [15 finalists](#) for an \$80 million payout. The prize money, due to be dispersed in 2025, will go to the venture with the most compelling solution for removing carbon from the atmosphere.

Similar in ethos (if not in budget) is the new innovation connections initiative from Tesco, the UK’s biggest supermarket. Designed to accelerate the growth of eco-minded startups in the food sector, the scheme sees eight early-stage firms compete to have their solution rolled out in the UK supermarket’s supply chain.

All the finalists have a strong tech profile, from the inventor of a bio-acoustics system for monitoring on-farm pest levels through to a fish-feed producer that manufactures its product from waste-based microalgae.

The Global Cement and Concrete Association also picked out six promising startups this month for its [Innovandi Open Challenge](#), all of which boast “ground-breaking technologies” geared towards achieving net zero.

The tech-for-good lens is being increasingly turned to solving sustainability-related management challenges within brands’ own operations. As the scope of social and environmental issues grows, so does the complexity of managing them. A sharp growth in consumer and investor scrutiny also means brands are more under the spotlight than ever to get it right. Claiming to have a relevant sustainability policy is no longer enough; brands need to provide evidence of a



ALY SONG/REUTERS

**An armyworm on a sugar cane crop – startups are using tech to tackle the problem of pests in agriculture.**

marked improvement in practices and performance.

Step forward the bots. According to recent research by U.S. tech giant Oracle, more than 93% of business leaders would trust artificial intelligence more than a human to make a sustainability decision. Underlying the finding is an assumption that bots make fewer mistakes when collecting data (43%), show less bias (42%), and predict future outcomes with greater accuracy (41%).

Digital technologies, especially artificial intelligence and machine learning, remain a “fairly new space for many business practitioners”, says Elena Avesani, global sustainability director at Oracle. But the potential for their application in the field of sustainability management is considerable.

She cites UK electricity and gas utility National Grid, which now uses cloud-based machine-learning models to calculate the volume of renewable electricity in the grid at

any one time. The solution, which analyses data at a speed and breadth that would be impossible for humans to achieve, has increased the accuracy of the company’s estimations by 40%, according to Avesani.

“The pressure is mounting to really change the way you run your businesses. You need to be able to make strategic decisions that look at ESG (environment, social and governance) issues as part of the mix of variables that are part of running your business. (This) is bringing innovation on multiple levels,” she states.

The initial phase of management-focused tech applications centres around delivering efficiency and data-quality gains. Before brands consider providing evidence of improved performance externally, they need to obtain a clear and accurate picture of where they currently stand on multiple different issues, from employee diversity to greenhouse gas emissions. ➤

## BRAND WATCH

ANDREW BOYERS/REUTERS



**Britain's National Grid uses machine-learning models to calculate the volume of renewable electricity in the grid.**

Smart software systems that can collate, organise, store and assess sustainability statistics from multiple data points make this task of internal stocktaking quicker and more reliable.

Once a clear baseline is established, sustainability practitioners have a working platform to set priorities, determine a strategic direction and chart progress. Given the relatively small size of most corporate sustainability departments, much of this analytical legwork is habitually outsourced to the growing crop of sustainability service providers and consultants.

A pioneer in the emerging software-as-a-service field for sustainability is Manifest Climate.

Co-founded by environmental lawyer Laura Zizzo, the Toronto-based tech startup uses a machine-learning model to inform companies the extent to which their climate policies and governance systems are aligned with the 11 recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

With Canada expected to follow the UK in making TCFD-aligned financial reporting mandatory, clients include the Canadian financial services firm Scotiabank, insurance company Manulife and mining company Teck Resources.

Zizzo says the ultimate purpose of software-as-a-service models is to free up management time to make more informed strategic

decisions. "We organise this information (about climate risk and disclosure) in a way that they can better understand ... so that they can then prioritise climate in a way that makes more sense." This central claim saw Manifest Climate recently win 30 million Canadian dollars (\$23.98 million) in a successful funding round.

The next frontier for digital management solutions lies outside brands' own operations, a key challenge given the wider context in which macro-sustainability issues such as water management, carbon emissions and human rights play out. One example of how digital technology is being adapted for sustainable management is the application of blockchain in corporate supply chains. Startups such as Circulor (in mining, plastic, and construction), [Retraced](#) (in fashion), and [Peer Ledger](#) (food) are using the distributed database technology to track products from source to sale, thus answering a growing public demand for product-based chains of custody.

The challenge here is that many suppliers, especially smaller companies, are often privately owned and thus not subject to similar disclosure requirements as listed companies. In response, ESG data providers are building ever more sophisticated software systems to determine credible estimates from dispersed public data sets.

At the heart of all management tech is data. As Jon Sykes, chairman of Carbon Intelligence, a London-based climate information provider, puts it: "Data is at the root of impact. Data is at the root of change. Data is at the root of transition." That's not because numbers in and of themselves carry weight, but rather because if you get them right, they can provide a stable launchpad for impactful action. ●





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SPONSORED CONTENT **Tencent 腾讯**

# TENCENT'S APPROACH TO CARBON NEUTRALITY — TOGETHER FOR A GREENER FUTURE

**A**s one of the major Chinese Internet companies at the forefront of environmental trends, Tencent has pledged to achieve carbon neutrality in its own operations and supply chain, and to use green power for 100% of all electricity consumed by 2030, contributing to the global push in fighting climate change.

By taking its social responsibility seriously and leveraging the power of internet technology, the Chinese company, owner of the powerful social network platform WeChat and many commercially successful gaming products including Arena of Valor and Peacekeeper Elite, is focused on not only internal measures to curb emissions, but also encouraging consumers and business partners to recognize the challenge of climate change and to join hands to tackle the issue.

"Achieving carbon neutrality is complex and requires us to consider both social values and business logic," said Tencent Chairman Pony Ma in the firm's roadmap to carbon neutrality report, which was made public earlier this year. Tencent believes that achieving carbon neutrality is not only the company's responsibility as a global technology leader, but also an essential requirement for the company's development and to realize its vision of "tech for good," said Ma.

According to its net-zero



TENCENT

Tencent Data Center Roof Photovoltaic

roadmap, Tencent will prioritize the use of active emission-reduction measures while keeping the use of carbon offsets to a minimum. The company will focus on improving the energy efficiency of its data centers, actively participate in the transition to sustainable energy and the establishment of related markets, and continue to explore technological innovations in the field of carbon offsets.

## COMMITMENT TO INTERNAL EFFORTS

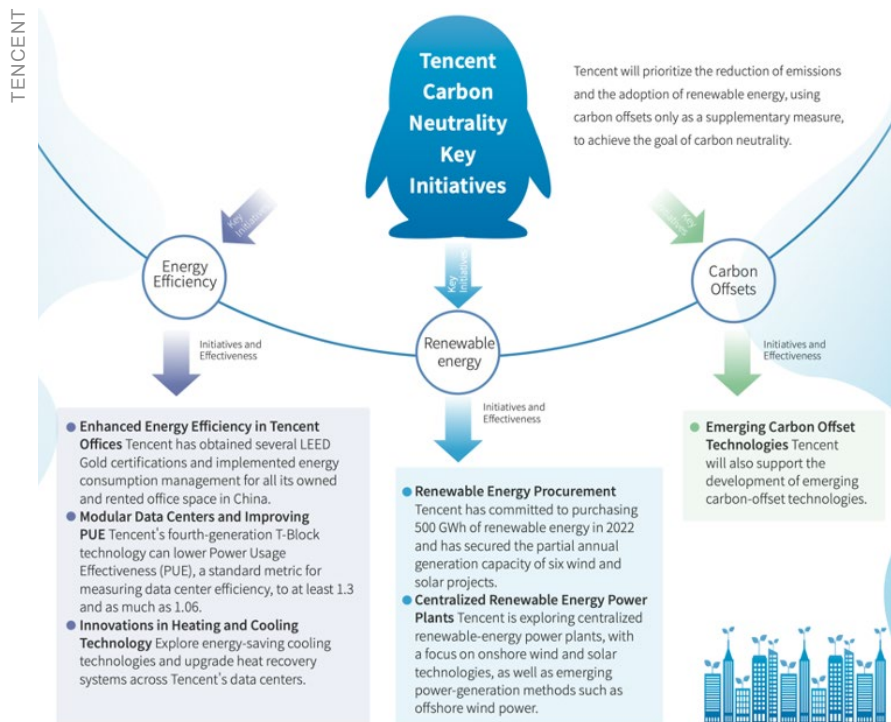
Even before Tencent announced its net-zero roadmap, the company

had already long been promoting internal emission cuts and a low-carbon lifestyle among consumers.

Tencent has several buildings that obtained LEED Gold certification. The roof of the Tencent Binhai Building in Shenzhen and the surrounding paving stones consist of water-absorbing sponge bricks that help to recycle and reuse rainwater, thereby reducing consumption of tap water for greenery and restrooms. This is the first "sponge building" in the country. In addition, the orientation, curtain wall and shutters of the building are specially designed to maximize the use ➤



SPONSORED CONTENT **Tencent 腾讯**



of natural light and reduce the power consumption of internal lighting. In 2020, by implementing energy-efficiency measures such as optimizing air conditioning controls, the Binhai Building saved 5.98 GWh of electricity and reduced emissions by the equivalent of about 2,690 tons of carbon dioxide compared with 2019.

Tencent developed its fourth-generation T-Block technology for data centers, lowering Power Usage Effectiveness (PUE) to as little as 1.06. The company also applied emerging technologies such as natural cooling, liquid cooling, tri-generation, water-heat recovery and AI algorithms to boost cooling efficiency and reduce the power consumption of its data centers, a main source of carbon emissions from internet technology companies. Rooftop solar cells were installed at its data centers. To date, more than 80 MW of distributed new energy projects are either in operation or under construction and the annual

power output of these projects after completion is expected to exceed 80 GWh.

Tencent is also an active player in China's green power trading market. In 2022, the company signed sustainable power trading contracts for a total of 504 GWh, meaning the actual transaction volume of mid- and long-term agreements in several of its large data centers accounts for 43.5% of their annual electricity consumption. Among them, Tencent Qingcheng Data Center in Guangdong uses renewable energy for 100% of its annual electricity needs. Tencent is exploring centralized renewable-energy power plants, with a focus on onshore wind and solar technologies, as well as emerging power-generation methods such as offshore wind power.

### LEADING CONSUMERS TO ADOPT A GREEN LIFESTYLE

In addition to achieving its own carbon-neutrality goals, Tencent

also aims to act as a helper and connector by taking the initiative in assisting the low-carbon transformation of society and supporting emerging low-carbon technologies.

Digital technology can promote industrial advancement and low carbon economic development via efficiency improvements, widespread connectivity, and other benefits. Tencent's ecosystem connects with a broad segment of consumers, who are themselves practitioners of a low-carbon lifestyle. Shared business and consumer efforts will drive the low-carbon transformation of society.

Tencent is deeply rooted in the consumer internet and has many internet products that are familiar to Chinese and other consumers. Its business ecosystem connects massive numbers of consumers whose choices directly or indirectly affect the carbon neutrality of broader society. Based on its wide reach, Tencent realized that it has the responsibility to advocate for a new low-carbon lifestyle. To this end, the company launched a series of internet products with the hope of simplifying the complex and specialized topic of carbon neutrality, introducing the concept of a low carbon lifestyle through lively and entertaining interactions.

Its WeChat platform actively promoted emission cuts and low-carbon lifestyle through popularizing digital payments in various scenarios across China, including cable fees, metro tickets, gas station and hospital payments, as well as online donations, and therefore significantly reducing paper consumption. In the past 5 years, the reduction of paper consumption after being replaced by digital transaction through WeChat has resulted in a total of 188,200 tons of carbon emission reductions. ➤

**SPONSORED CONTENT** Tencent 腾讯

In 2021, Tencent partnered with the Publicity and Education Center of the Ministry of Ecology and Environment to launch a carbon neutrality Q&A mini program on WeChat, helping users learn about carbon neutrality and contribute to related charities during the experience. As of January 2022, 7.7 million users took part in the mini quiz in the program, and each time they answer one question correctly, the Tencent Charity Foundation makes a donation to support programs to protect grasslands and forests.

The interactivity and immersion of games, one of Tencent's core businesses, make them an effective tool to spread low-carbon awareness and educate the public. This year, Tencent launched a charity game called Carbon Island that simulates a city's progress toward net-zero, helping to raise awareness of a low-carbon lifestyle among the public. Meanwhile, Tencent Games Timi Studio Group was invited by the United Nations Environment Programme (UNDP) to join the Playing for the Planet Alliance. Since 2021, the environmental protection content in Timi games has reached 110 million players and helped them better understand climate challenges.

As a technology enterprise, Tencent believes that digitalization is where it can play a big role in the low-carbon transformation of various industries. Companies cannot achieve low-carbon operation without efficient and convenient online office tools. In 2019, Tencent launched its Tencent Meeting/VooV video conferencing product. Since then, the product has resulted in the cumulative reduction of more than 15 million tons of carbon emissions. Along with the rapid development of digital products, demand for digital infrastructure is also increasing



TENCENT

**Tencent Binhai Building**

across society. The transition of traditional IT infrastructure to cloud computing has improved the efficiency of resource utilization and offered another potential avenue to reduce emissions. Moreover, the variety of measures Tencent has taken to reduce emissions at its data centers has not only helped progress toward carbon neutrality in its own operations and supply chain, but has also provided low-carbon computing power and helped Tencent's clients reduce their own carbon footprints.

As a digital technology company, the significance of Tencent's carbon

neutrality strategy lies not only in its own energy conservation and emissions reductions, but also in leveraging carbon neutrality to drive scientific research, technological development, and applied innovation, ultimately helping the rapid development of low-carbon technology. In addition, Tencent will innovate and integrate the consumer and industrial internet, continue to popularize low-carbon lifestyles, and promote the transformation and improvement of traditional industries, all while promoting the sustainable development of the local and shared global economies.●





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FEATURE

# In the race against time to cut emissions, companies' supply chains are key

LUC GNAGO/REUTERS

[VIEW ONLINE](#)



Delegates to Reuters Events' Responsible Business U.S.A. event got into the weeds of the challenges of tackling Scope 3 climate impacts

**T**he question of how the hundreds of companies that have set net-zero commitments are actually going to deliver on them has taken on greater urgency in the wake of the UK Met Office's recent assessment that there is an even chance global temperatures will overshoot the "safe" limit of 1.5 degrees Celsius in the next five years.



**Terry Slavin**  
Editor-in-chief  
Reuters Events,  
Sustainable Business

According to the Science Based Targets initiative (SBTi), 1,373 companies have had emissions reduction plans approved as being in line with the science of climate change, which calls for emissions to

be halved globally by 2030.

But talk – and targets – are cheap, and there are concerns that companies that are voluntarily setting targets could undermine the global effort to address climate change if it becomes a substitute, rather than a spur, for decisive action to cut emissions.

As U.N. Secretary-General António Guterres said at an inaugural meeting of a new high-level expert >



FEATURE



WIKIMEDIA COMMONS

Vanilla farmers often live in extreme poverty despite the spice's expense on world markets.

panel to develop clearer standards for corporate net-zero commitments: "The world is in a race against time. We cannot afford slow movers (or) fake movers."

At Reuters Events' recent sustainable business conference in New York, speakers and delegates spent two days getting into the weeds of some of the issues that U.S. companies are grappling with as they seek to deliver on their decarbonisation commitments.

With some 80-90% of emissions in corporate supply chains and in consumer use of their products, what is known as Scope 3 emissions, supply chains are where the greatest potential to make a difference lies.

Indeed, with the U.S. Securities and Exchange Commission (SEC) including Scope 3 emissions in its newly announced proposals for climate risk reporting, it's an area



ELYSIS

CO<sub>2</sub>-free aluminium is four years away from being commercial.

that no large listed company in the United States can afford to ignore.

But venturing into those vast supply chain hinterlands is fraught with complexity, not to mention

reputational and operational risk if companies get it wrong. As Rich Lesser, global chair of Boston Consulting Group, told delegates in one of the opening sessions: ➤

FEATURE



ALLBIRDS

Footwear brand Allbirds used sustainability data from the outset to inform decision-making.

almost 90% of BCG's 13,000 clients reported last year that they were not on track to meet decarbonisation goals for their own operations that they set five years ago.

So, little wonder that companies are at sea when it comes to the prospect of delivering on the far bigger challenge of cutting Scope 3 emissions.

Barry Parkin, chief procurement and sustainability officer of Mars Inc, outlined the scale of the challenge in delivering its climate commitments, explaining that Mars's carbon footprint is 30 million tonnes of carbon dioxide (CO<sub>2</sub>), comparable to that of a medium-sized country. Of that, 95% is outside of its control, embedded in the goods and services it sources from 20,000 suppliers.

"Three years ago, we surveyed our top 200 suppliers and asked if they'd set a science-based target for greenhouse gas emissions. Only 20 had. That's pretty frightening, because their footprint is in our footprint," he said in one session.

Last April, Mars launched an initiative with spice and flavours giant, McCormick & Company,

and PepsiCo offering their biggest suppliers support and education in setting science-based climate targets. The initiative, [Supplier Leadership on Climate Transition](#), last month announced that another nine companies had since joined, including the Coca-Cola Company, Estée Lauder, General Mills, Keurig Dr Pepper, Mondelēz International, and Nestlé, while 1,200 representatives from 400 supplier firms are now participating.

Parkin said 80 of Mars's top-tier suppliers, accounting for 25% of its footprint, are now on the path to setting science-based targets as a result of the programme.

"The scaling potential is huge. If we engage a few hundred suppliers, and they engage their suppliers" it could reach hundreds of thousands of companies, Parkin said. "That's what the world needs. There are only 1,000 companies that have set net-zero targets but we need millions to do that."

Mars has also been working directly with its competitors on driving sustainability improvements in the cocoa supply chain for the

past eight years as part of the World Cocoa Foundation, which also includes governments, civil society groups and cocoa-growing communities.

"Trust is a major barrier to partnerships, and that doesn't come easily," he said. "Over that time, we've had fights, and breakdowns, but we've built trust, so when you come to a difficult issue to solve, you come together. ... I now talk to my peers in these companies every week, and that didn't happen 10 years ago."

Michael Okoroafor, chief sustainability officer of McCormick, said the company strikes partnerships with organisations such as the U.S. Agency for International Development (USAID) and the Cooperative for Assistance and Relief Everywhere (CARE) in the countries where it sources its ingredients to help improve social outcomes and the resilience of smallholder farmers. It has set a 2025 goal to source all of its ingredients sustainably.

"If you want to make an impact, you can't go it alone. You need to ➤



## FEATURE

be able to bring these Mom and Pop farming operations around the world, in places like India, Nigeria and Madagascar, along on the journey. ... The social license (to operate) is more important than the legal license."

Okoroafor, who was himself raised in a village in Nigeria, gives the example of the African island nation of Madagascar, where 80% of the world's vanilla is grown.

While vanilla is the second most expensive spice in the world, after saffron, farmers typically live in abject poverty, at the mercy of exploitative middlemen and lenders. After a cyclone devastated the vanilla region in 2015, McCormick partnered with USAID to help communities establish a vanilla cooperative, allowing them to increase incomes by selling directly to buyers, and giving them access to low-interest loans, cheap health insurance and education. They have also been helped to gain Rainforest Alliance certification for their crops.

"To me, that's an example of how you can really symbiotically create impact, through partnerships with NGOs (non-governmental organisations). That's what the journey is all about, though we aren't there yet," Okoroafor added.

Partnerships are also crucial as companies innovate to try to reduce the carbon footprint of their products, conference delegates heard.

Benjamin Kahrs, EVP Chief Innovation Officer for aluminium maker Alcoa, said his company was collaborating with Rio Tinto, the Quebec and Canadian governments, and technology giant Apple in a new joint venture to develop a process to eliminate CO<sub>2</sub> from the production of aluminium, a material that normally generates two tonnes of CO<sub>2</sub> for every tonne of product.

The Elysis carbon-free smelting process, which produces oxygen



CHRIS HELGREN/REUTERS

**Campbell buys tomatoes directly from independent farmers and helps them reduce their carbon footprint.**

rather than CO<sub>2</sub>, was an innovation that the company had been working on since 1981, but hadn't made headway on, Kahrs said. Then five years ago, "we decided to go out of house and partner with Rio Tinto, who were resident experts in processes to make aluminium, and could cover some of our gaps".

Given that the technology, if retrofitted at existing aluminium smelters in Canada, could cut 6.5 million tonnes of CO<sub>2</sub>, the two governments kicked in 120 million Canadian dollars to the C\$180 million cost, while Apple, which wants to use Elysis in the iPhone, invested \$10 million and technical support.

Kahrs said Elysis was now four years away from being able to produce CO<sub>2</sub>-free aluminium at industrial scale. "You see a collaboration where you have the expertise of two process companies, which cover each others' gaps, a host government that's willing to contribute major dollars, where you have a customer that can bring

finance and expertise to the problem as well. That's been the foundation that's allowed Elysis to grow."

The need to be able to access and manage data to get a grip on supply chain emissions was another recurrent theme during the two-day event.

Lesser of BCG said having accurate data in order to set baseline CO<sub>2</sub> emissions was critical, because conventional emissions calculations are often off by as much as 30%-40%.

"That's a high risk for companies because it leads to baselines that are off," Lesser said. "If your baseline is too high, you'll show massive drops (in emissions). No one will believe you, and you'll lose credibility. If your baseline is too low, you won't show much progress unless you restate it (your baseline). Then you'll be accused of greenwash."

He said BCG's CO<sub>2</sub> artificial intelligence tool applies AI across 80 different databases to help ➤

FEATURE



REUTERS/JAYANTA DEY

**'Mom and pop' operations, like this mustard farmer in India, need to be brought along on the net-zero journey, says McCormick's Michael Okoroafor**

companies track and measure emissions across their entire supply chains. In March, BCG launched a partnership with technology company SAP to integrate CO<sub>2</sub> AI in SAP's business management software.

Julia White, chief marketing and solutions officer for SAP, said if companies are going to achieve decarbonisation strategies, "sustainability strategy has to be as central as any other business growth strategy".

She said sustainability data should be driving innovation in companies' business models, not something that is bolted on afterwards.

She gave the example of one client, footwear and apparel brand Allbirds, which from the outset used sustainability data to inform strategic decisions on everything from choosing raw materials to how its products are delivered, and provides carbon footprint information in its labelling.

In another session, Stewart Lindsay, vice president for corporate responsibility and sustainability at Campbell Soup Company, outlined the challenge of reducing emissions in agricultural supply chains.

He said Campbell had already been working on sustainable agriculture targets for 10 years before it set its science-based target this year, which includes cutting emissions in its purchased goods and services and upstream transport and distribution by 25% by 2030.

Campbell buys tomatoes and potatoes directly from thousands of independent farmers, and has success in helping them reduce their carbon footprint through promulgating agricultural practices such as drip irrigation, Lindsay said. But it is intensive, one-on-one work that would be difficult to replicate across its entire supply chain.

"It's a very diverse industry, place-based and watershed- and climate-specific," he said. "It's thousands and thousands of independent

operators, each with slightly different value propositions and business models."

In order to drive decarbonisation efforts at a greater scale, he said Campbell was working with its processor suppliers on developing farm data management tools that can be applied at regional level. Another solution is to source more ingredients from farmers that are part of programmes such as the California Almond Sustainability Program, which seeks evidence that almonds are grown and processed with sustainable practices.

Lindsay said addressing sustainability in its supply chain was something demanded by consumers, but it was also important to the company's own resilience. "Agriculture is a place-based thing. There's potential climate risk from where things can be grown, and how effectively they can be grown. Having more knowledge of our supply chain is a positive." ●



FEATURE

VIEW ONLINE



ANDREW KELLY/REUTERS

# ‘We all have to get ahead of the curve on sustainability’, says Ceres boss Mindy Lubber

The SEC’s new climate disclosure rule was top of mind for delegates to Reuters Events’ recent responsible business summit in New York

**A**fter many years of lagging behind Europe, sustainable finance is starting to take off in the United States. This is thanks to increased interest from investors, the prospect of new rules from the Securities and Exchange Commission (SEC) and the growing availability of data as well as the tools to interpret it.

The proposed rules on disclosure of climate risks from the SEC earlier this year, which will mandate the



**Mike Scott**  
ESG Correspondent

collection and publication of climate risk data, signal that sustainability is becoming firmly part of the mainstream in U.S. business and finance.

“We can’t address climate fully and comprehensively without knowing what the problem is – what our emissions are, where they’re

coming from, who is responsible and how we stop them,” said Mindy Lubber, chief executive at sustainable financenot-for-profit Ceres, at Reuters Events’ Responsible Business USA summit in April. “There is no way to manage these emissions if we don’t measure them.”

But Lubber also highlighted the limitations to the proposed new rule. “All the SEC rule does is require disclosure. It doesn’t mandate bringing your carbon footprint down.”

She said the companies needed ➤

FEATURE

BING GUAN/REUTERS



**With renewable energy, the market you are selling into has an impact on returns.**

to act on all the new data they collect. “We need to translate words into deeds and science-based targets.”

Appearing in a pre-recorded video interview, the chair of the U.S. Securities and Exchange Commission, Gary Gensler, told Reuters’ financial regulation correspondent Katanga Johnson: “Climate disclosures are already happening, and investors are already making use of information about climate risks.”

However, he said there is no uniformity to how climate risk disclosures are made at the moment, which makes it hard for investors to make meaningful comparisons. “Companies and investors alike would benefit from clear rules of the road,” Gensler added. “Our role is to bring consistency and comparability.”

Christina Shim, who is head of strategy and sustainability,

AI applications at IBM, said that mandating companies to collect more data could have a big impact. Without data, businesses cannot meet their net zero carbon targets, decarbonise their supply chains or open them up to transparency and traceability, she said.

But she added that “around 60-70% of data that is collected is not being acted on. There is still a lot of confusion about where to source data”.

Anoushka Mehta, head of ESG banking, Americas, at HSBC, said financial institutions with net-zero commitments – to reduce their carbon emissions in line with climate science – have a big role to play in the energy transition of the wider economy.

HSBC has committed to become net zero in its own operations by 2030 and for its financed emissions by 2050. “We’re thinking about how this is built into our own business

lines and how we’re supporting our clients on their transition.”

She said banks should be prepared to outline their net-zero ambitions to clients. “Demonstrate that you are on this journey, practise what you preach. Then, help to drive industry standards and global policy, which will help create and scale markets. Financial institutions have played a big role in helping to create clarity around what investors are looking for.”

While there are a lot of different industry standards for companies to deal with, such as the Taskforce for Climate-related Disclosures, CDP, the Dow Jones Sustainability Index and the forthcoming standards from the International Sustainability Standards Board, many of the metrics are transferable across different frameworks, said Jaymin Desai, director of strategy at software platform OneTrust. Companies need to work out “what are the data points that go into the different frameworks and how easy is it to translate them from one to another”.

He added that the main reason companies have started focusing on environmental, social and governance (ESG) issues is due to pressure from investors, who are taking a much more active stance across all ESG issues, and across all asset classes.

However, because much of the focus has come from equity investors, the use of ESG in debt markets is not well understood, said Andrew Steel, head of Sustainable Fitch at Fitch Ratings. Investors want to know how specific factors affect credit ratings without making a judgement on the ethics of that factor. “We’re not looking at good or bad behaviour, we’re looking at the credit outcome from a particular factor.”

Renewable energy generation is an example where the market ➤



## FEATURE

you are selling into has a big impact on potential returns. If regulators have said that renewable power is prioritised over dirtier forms of electricity, that is likely to improve returns, and if they have guaranteed a minimum price, that is even better.

But if the generator has to take the best price available when the electricity is produced, which is often at times of low demand and low prices, it will have a much worse credit profile than a coal-fired power station, which can ramp up and down its power production as required, he pointed out.

Conversely, in Europe, where coal is being phased out, it's not a great business to be, but the risks are much lower in China and India because these countries will depend on coal for electricity generation for the next 10-15 years.

While there are many providers of ESG data, everyone is doing it slightly differently, Steel added. "It became clear that investors needed granular analysis around ESG issues that really looked at the detail so they could really drill down and look at what actually mattered."

While Fitch gives some weight to a company's aspirations (10%), almost half of the rating (45%) rewards companies for what they are doing now. "What you're doing now matters more than the future. And where you start is less important than where you end up," Steel said.

Even so, some companies are still failing to take account of their impacts on the environment, and they are starting to pay the price. As Lubber pointed out: "Exxon was so arrogant about its position on climate that investors took out three of their board members."

They were replaced by nominees put forward in a shareholder resolution by activist investor group Engine No.1, which won a majority of votes.



PATRICK PLEUL/POOL VIA REUTERS

**Tesla is testament to the value of sustainable investing.**



**SEC chair Gary Gensler**

EVELYN HOCKSTEIN/POOL/ REUTERS

Jennifer Grancio, chief executive of Engine No. 1, told the summit that investors "want to know that over time, their portfolios are driving profitability and value creation. Our job is to look at each company and their externalities. It creates opportunities to support companies like GM and Ford that are on the right path and help them create value in the transition."

She added that there are also a lot of areas where GM could move

more quickly. "As investors, it's very important to support companies making the transition."

"There are also examples like Exxon, where the governance was egregious and they were not looking at the huge externality of carbon emissions of their business and thinking about ways to solve it," she added.

But she said divestment was not the answer. "If we all divest from fossil fuel companies, there is no one that is a shareholder telling them to find another way to make money."

Perhaps the best illustration of the value of sustainable investing is the fact that at current share prices, Tesla is worth more than GM and Ford together, Lubber said. "Five years ago, we would have thought that was the most insane quote. But they got ahead of the curve and now their demand can't be met. We have all got to get ahead of the curve and find a way to make our products more sustainable." ●

COMMENT

# How the UK can deliver on its promise of becoming a 'net-zero financial centre'

**James Alexander** of UKSIF says the UK should replicate the success of offshore wind with all sectors to green the economy



**James Alexander**  
Chief executive, UKSIF

**A**t COP26 last year in Glasgow, the UK Chancellor of the Exchequer, Rishi Sunak, pledged that the country would become the "world's first net-zero financial centre". As part of this, the Chancellor outlined that the UK would introduce mandatory climate transition plans across the whole economy, requiring companies and financial institutions to produce robust, company-level plans setting out how they will decarbonise as the world transitions towards a low-carbon economy.

After becoming the first major economy to enshrine in law a net-zero target by 2050 and, earlier this year, introduce mandatory climate-related disclosures for the largest businesses, this announcement came as a hugely positive signal to those of us in the UK financial services sector.

The bold objective signalled the UK's intention to continue to be a leader in addressing the climate change crisis, and lead the way in shifting our world-leading financial services sector towards a more sustainable future.

However, six months on and there remains a lack of guidance



Britain's Chancellor of the Exchequer Rishi Sunak holds up a Green Box during COP26 in Glasgow in November 2021.

and necessary clarity from the UK government on how private financial flows will shift towards net-zero at the scale required to meet its objective. This mission has become increasingly pressing in light of new evidence showing we will very likely exceed a 1.5 degrees Celsius global warming threshold over the next five years.

Earlier this year, the UK

Sustainable Investment and Finance Association (UKSIF), a membership organisation for sustainable finance, carried out a "net-zero inquiry" with our membership to identify how the UK's financial sector can move towards aligning itself with net zero. More than 200 senior financial services' representatives participated, reflecting increasing interest from investors and others >

STEVE REIGATE/POOL VIA REUTERS



COMMENT



JOHN SIBLEY/REUTERS

An Extinction Rebellion activist smashes a window at HSBC headquarters during a protest in Canary Wharf.

to contribute to public policy debates on climate change.

In a new report, we provide detailed recommendations for government, regulators and the industry itself, on how the UK can drive the systemic change necessary to move the financial system towards a net-zero future.

With the UK economy and global economies nowhere close to being aligned to a 1.5C or even 2C trajectory, the report identifies radical transformation of the real economy as an absolutely critical priority.

Government has yet to outline the detailed policy frameworks and incentives that will be required for various economic sectors – from heat and buildings to food and agriculture – to decarbonise. It needs to prioritise a sectoral approach, inspired by the success of the UK's previous "offshore wind sector deal", where consistent political support over the past 20 years fostered confidence to invest



REUTERS/FABIAN BIMMER

Natural gas should not be part of the UK taxonomy, says James Alexander.

in research and development, supply chains and skills, so today the UK is second only to China in installed capacity. The government needs to drive forward, at pace, binding decarbonisation pathways, and provide certainty over future financing frameworks.

Carbon pricing will need to be part of the policy mix too. More broadly, a net-zero test should be applied across government's decisions to ensure these are consistent with a net-zero pathway.

Globally, leading financial regulation should play its part ➤

COMMENT



STEFAN WERMUTH/REUTERS

A ship passes an offshore wind farm near Clacton-on-Sea in eastern England.

to support the UK finance sector towards net-zero. There is a clear leadership opportunity for the UK to take its own path on the “green taxonomy”, a list which defines “green” economic activities. The UK’s taxonomy must be based purely on science, and we are extremely concerned by recent reports that the UK will follow the [EU in including natural gas in the taxonomy](#), which we believe would seriously damage the UK’s leadership position on sustainable finance over the coming years.

Wider sustainability issues material to the long-term value of the economy, such as biodiversity and social issues, must also be urgently addressed. We would also like to see a roadmap from the government for the creation of a “social taxonomy” in the years ahead, building off its work on the existing green taxonomy.

Such a taxonomy, which would

identify for investors and companies the social impact and performance of companies, would enhance the UK’s focus on addressing those pressing social challenges that are key to delivering net-zero success and what is known as a just transition.

We strongly believe that if we do not have a just transition, politically it will be impossible to deliver a transition at all, and this must be a key focus of government’s decision-making. A UK-wide Just Transition Commission could advise on this key task, for example working to identify those sectors where jobs are most at risk and propose the reskilling interventions that are needed.

Finally, as the demand for robust environmental, social and governance (ESG) data grows, the role played by ESG data providers will become more fundamental to the finance sector’s transition. That

is why the time has come for this group to be formally brought within the Financial Conduct Authority’s regulatory remit.

Six months on from the UK’s hosting of COP26, now is an opportune moment to set out a comprehensive roadmap to creating the world’s very first net-zero financial centre. We will look to play our full part, alongside our members, policymakers, civil society and others to bring this about in the years ahead, and show the UK can once again lead the way in bringing about a more sustainable future. ●

*James Alexander is chief executive of the UK Sustainable Investment and Finance Association (UKSIF). He is a member of the Green Technical Advisory Group, and a member of the Disclosures and Labels Advisory Group (DLAG) providing advice to the FCA on the UK’s disclosures and fund labelling regime.*