

To what extent are leading South African companies tackling climate change?

Executive summary

This report explores corporate responses to climate change amongst South African companies. Commissioned by the Johannesburg Stock Exchange (JSE), the research focuses on the 'Top 40' largest companies (by market capitalisation) listed on the JSE.

Our analysis reveals encouraging signs of progress through improved governance, better strategies and more disclosure on climate change amongst JSE Top 40 companies. Overall, 95% of companies analysed demonstrate at least some form of response to climate change.

Despite this, significant scope for improvement remains. Only 30% of the companies analysed have demonstrated reductions in their operational greenhouse gas (GHG) emissions over the past two years.

We conclude that JSE Top 40 companies have made some progress on climate change to date. However, they must do more to reduce their own climate change impacts and to plan for how they will operate in a world that has been altered by climate change.

Key points

- **Overall response to climate change**
73% of JSE Top 40 companies demonstrate a good overall response to climate change
- **Governance and strategy**
95% of companies have published commitments on climate change and have senior staff responsible for the issue
- **Targets**
60% of companies have set short-term GHG emissions targets, but only 23% have set long-term targets, leaving considerable room for improvement
- **Disclosure**
95% of companies are disclosing absolute CO₂ emissions and 85% are disclosing normalised emissions
- **Emission reductions**
30% of companies have reduced CO₂ emissions over the last few years
- **Remuneration**
35% of companies have linked performance on climate change to board/senior management level remuneration
- **Leading sectors**
Mining and banks sectors – the two largest sectors amongst the JSE Top 40 - demonstrate a high quality response to climate change overall

Introduction

2010 was officially recorded as the second warmest year on record¹. At the same time there is other evidence in the form of droughts and severe floods to suggest that the impacts of climate change are taking effect.

Since 2008 EIRIS has produced annual tracker reports focused on the 300 largest FTSE-listed global companies to assess their performance in tackling climate change.

Commissioned by the Johannesburg Stock Exchange (JSE), this paper focuses on the 'Top 40' largest companies (by market capitalisation) listed on the JSE.

International climate change context

The 16th session of the Conference of the Parties (COP16) to the United Nations Convention on Climate change (UNFCCC) that took place in Mexico in 2010, did not achieve the comprehensive, all-encompassing climate change deal that activists and some governments hoped for. However, a number of initiatives did emerge from COP16 which have provided some direction for companies.

The Cancun meeting acknowledged issues such as the link between climate change and patterns of water availability. Evidence of this was clear in 2010 and early 2011 when droughts in Russia and floods in India and Australia damaged crops and impacted commodity prices.

The Cancun agreement called on developed countries to reduce their GHG emissions as pledged in the Copenhagen Accord, which was signed at the 15th session of the Conference of the Parties (COP15) in 2009. It also called on developing countries to reduce their emissions through mitigation and adaptation strategies as part of a wider approach to sustainable development. This shift in emphasis may provide technological and strategic incentives for companies to address the climate change impacts arising from their operations. For example a Green Climate Fund to invest in low carbon and adaptation technology for developing countries was established.

South Africa is represented on this fund's transitional committee by Minister in the Presidency, and ex-minister of Finance, Mr. Trevor Manuel.

South Africa climate change context

The South African government has openly recognised the need for an urgent response to climate change which threatens economic growth, sustainable development, agricultural production, food security and commodity prices.

In 2009, the government implemented policies to mitigate climate change. These policies will likely be further developed at the COP17 in 2011 in Durban, South Africa. According to the South African Ministry of Environment, there are two core objectives in the improved national policies. Firstly, the policy addresses the need to build a sustainable economy which will have capacity to cope with the consequences of climate change, some of which are already being felt. Secondly, the policy aims to enable South Africa to contribute to international efforts in order to stabilise GHG emissions.

In November 2011, during the COP17 pre-summit talks, the Water and Environmental Affairs minister of South Africa, Ms. Edna Molewa, called for immediate action on climate change. The Minister underlined how agriculture and the natural environment are crucial to economic development in Africa. She highlighted the dangers posed to the South African economy by the anticipated impacts of climate change (e.g. floods as a result of rising sea levels).

Climate change assessment methodology for South African companies

EIRIS conducts research into the climate change performance of South African companies on behalf of the JSE. EIRIS classifies the Top 40 South African companies into 20 sectors according to their business activity.

A range of climate change response indicators are used to assess how well each company is responding to climate change. A full list of indicators is provided on the following page in Figure 1.

¹ <http://www.metoffice.gov.uk/news/releases/archive/2011/2010-global-temperature>

Figure 1

Climate change response indicators	
'Entry level'	Senior Responsibility for climate change related issues (G)
	Climate change commitment (G)
	Emissions disclosure (D)
'Core'	Senior responsibility for climate change (G)
	Climate change commitment (G)
	Emissions disclosure (D)
	Product related climate change commitment (where relevant) (D)
	Climate change targets (S)
	Scope of data (D)
	Methodology applied (D)
	Policy context (G)
'Desirable'	Public Policy leadership (G)
	Remuneration linked to climate change performance (G)
	Trend of data (D)
	Reporting against targets (D)
	Risk disclosure (D)
	Operational emissions performance (D)

* (G) = Indicator for Governance
 (S) = Indicator for Strategy
 (D) = Indicator for Disclosure

Companies are assessed against the above indicators and assigned one of the following five scores listed in Figure 2.

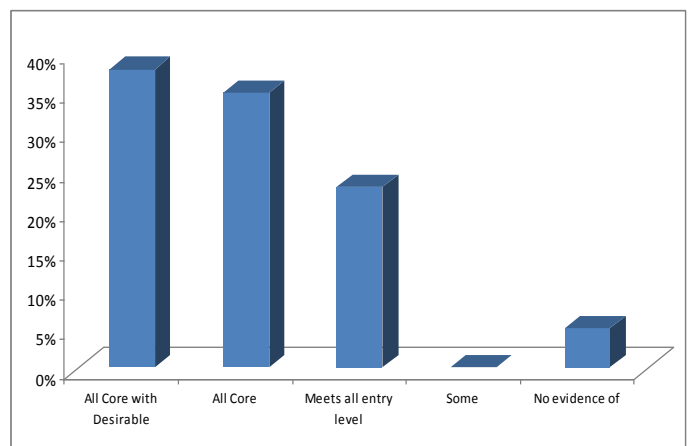
Figure 2

Climate change response score	
'All core and most desirable'	All core (JSE SRI Index Best Performer level) plus <=50% of desirable indicators met
'All core'	The JSE SRI Index Best Performer level (Senior responsibility, climate change commitment, target, absolute or normalised emissions, scope, methodology and policy context) has been met
'Meets all entry level'	The JSE SRI Index entry level (Senior responsibility, climate change commitment and emissions disclosure) has been met
'Some'	Some indicators met, but not sufficient for the JSE SRI Index entry level
'No evidence'	No indicator has been met

How are South African companies responding to climate change?

This paper focuses on the 'Top 40' largest companies (by market capitalisation) listed on the JSE. Our analysis was conducted in September 2011 and shows that 95% of companies have established some kind of policy for addressing the climate change impacts associated with their activities.

Chart 1. Quality of Climate Change Response (% of JSE Top 40)



Source: EIRIS - JSE Companies, September 2011

As shown in Chart 1, nearly 38% of companies on the JSE Top 40 are assessed by EIRIS as having met 'all core and most desirable' criteria as defined in Figure 2.

A further 35% of companies met 'all core' criteria. This means that both groups of companies (73% in total) are significantly addressing the climate change risks they face. Whilst this is encouraging it still means that 27% of the JSE Top 40 have yet to get to grips with the climate change risks they face.

JSE Top 40 companies have made further investment in technological improvements in order to reduce their climate change impacts.

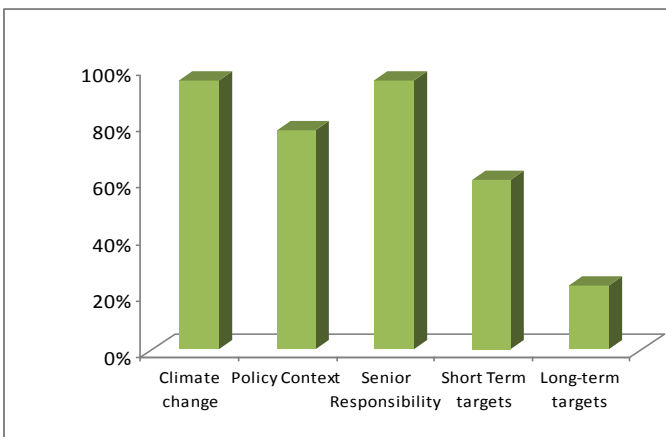
Climate change governance and strategy

Chart 2 analyses the quality of climate change governance and strategy amongst the JSE Top 40 according to the core indicators listed in Figure 1.

By 2011, nearly 95% of the JSE Top 40 had some form of climate change policy as well as a senior staff member with responsibility for climate change in place. Many companies have identified the move towards a tighter international regulatory framework as a driver for their policies.

Overall, 60% of JSE Top 40 companies have established short term climate change targets. However, many of those companies located in high climate change impact sectors such as mining do not have short term targets in place. For example, only 25% of companies in the mining sector have short term targets on climate change.

Chart 2. Governance & strategy (% of JSE Top 40)



Source: EIRIS – JSE Companies, September 2011

Only 23% of JSE Top 40 companies have set long term climate change targets. Again, mining sector companies display poor performance in this area as only 22% have long term climate change targets in place.

Best practice case study: AngloGold Ashanti

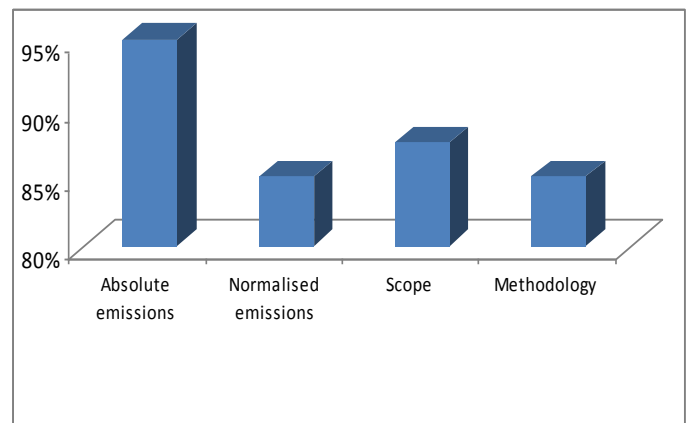
AngloGold Ashanti, a gold exploration, operations and marketing company, demonstrates a strong performance on climate change governance and strategy. The company has a board committee for safety, health and sustainable development, as well as an executive vice president for business sustainability.

The company is a signatory to the 2005 Energy Efficiency Accord in South Africa, the Energy Efficiency Opportunities Programme in Australia and is a member of the International Council on Mining and Metals, which has a policy and has published principles on climate change. The company has also signed the Copenhagen and Cancun Communiqués on Climate Change. It actively engages with government and has broad policies in place designed to deliver emissions reductions. Furthermore, the company has remuneration targets in place linked to climate change.

Climate change disclosure

Chart 3 illustrates the levels of climate change disclosure amongst the JSE Top 40 according to the core indicators listed in Figure 1.

Chart 3. Scope of climate change disclosure (% of JSE Top 40)



Source: EIRIS – JSE Companies, September 2011

Around 95% of companies are disclosing absolute² GHG emissions. A further 85% are disclosing normalised³ GHG emissions. A total of 88% of companies have disclosed information detailing the scope of emissions data. In addition, 85% of companies have clarified the methodology they have used to calculate GHG emissions data.

At the global level there has been some improvement in the quality of disclosure. In part this improvement has been driven by engagement via institutional investors and also through other initiatives such as the Carbon Disclosure Project.

Best Practice case study: Massmart

Massmart is a general retailer company that demonstrates best practice disclosure on climate change. The Company reports both absolute and normalised emissions for scope 1, 2 and 3. Following the launch of King III⁴, the company appointed an independent organisation to verify its sustainability reports. The company also reports against its targets, and achieved a reduction in emissions between 2009 and 2010 of 2.65%.

Performance against 'desirable' climate change indicators

Chart 4 shows the extent to which JSE Top 40 companies have implemented the 'desirable' climate change response indicators listed in Figure 1 in order to achieve a top level score within our analysis.

In total, 58% of companies have disclosed GHG emissions data over the past two years. However, only 30% of these companies have achieved a significant reduction in emissions arising from their operations. The rest have either not disclosed emissions data, or have failed to achieve reductions. This could be due to a lack of previous initiatives or legislation to encourage accurate and detailed disclosure amongst South African companies. However, given the current policy context in South Africa, disclosure levels may improve in the future.

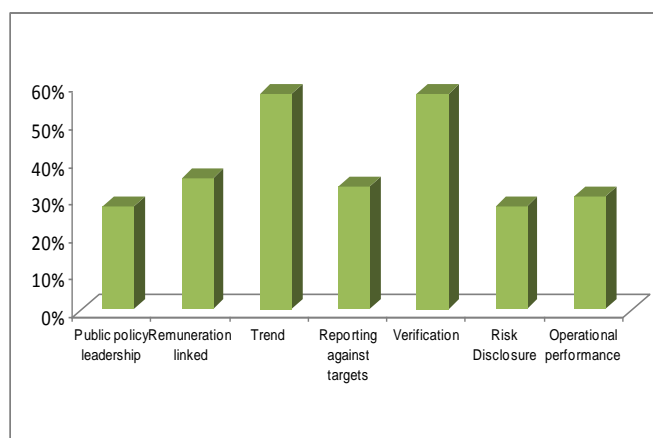
² Absolute emissions refer to CO₂ or GHG emissions (basket of six main GHG: Carbon dioxide (CO₂), Methane(CH₄), Nitrous Oxide (N₂O) Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs) and Sulphur Hexafluoride (SF₆) as tonnes equivalent

³ Normalised emissions refers to emission disclosure with appropriate denominators (production volume, or turnover, etc)

⁴ King III recommends that sustainability reporting and disclosure should be independently assured (Principle 9.3)

In addition, further scope for improvement exists around linking board/senior management remuneration to climate change performance. Only 35% of companies have a policy linking remuneration packages to climate change performance. Creating a link between executive pay and climate change risk management would move companies closer to the post credit crunch consensus that executive pay should be more closely aligned with company performance.

Chart 4. Climate Change Performance disclosure (% of JSE Top 40)



Source: EIRIS – JSE Companies, September 2011

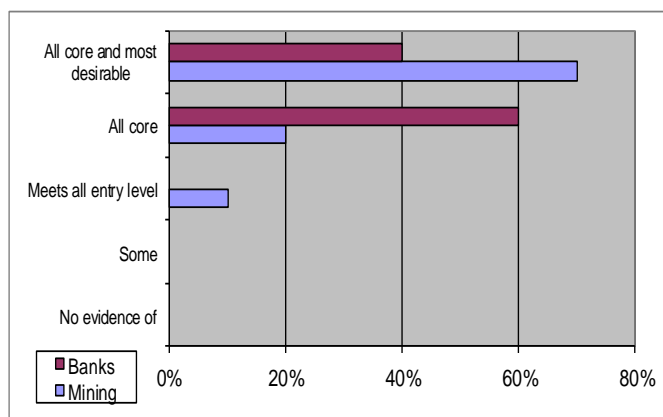
Best practice case study: Santam

Santam, a short term insurance company specialising in the corporate, commercial and personal markets, has demonstrated leadership on working with stakeholders on public policy. As part of ClimateWise the company has made a commitment to engaging with stakeholders on climate change policy development. The company has also participated in UNEP FI initiatives. In 2011 the company engaged with the National Business Initiative and the Department of Energy in South Africa. The company's carbon footprint has been independently assessed and verified. Furthermore, the company has achieved an annual decrease of 9.34% in operational GHG emissions over the last two years.

Sector analysis: mining and banking

Chart 5 (overleaf) compares the climate change performance of the two largest sectors from the JSE Top 40; mining and banks. Together, these two sectors constitute 38% of the sample. Chart 5 shows their overall level of response to climate change.

Chart 5. Sector Performance: Banking & mining (% of JSE Top 40)



Source: EIRIS (as of September 2011)

The mining sector demonstrates a high level of response with 90% of mining companies meeting the requirements to achieve either an 'All core' or 'All core and most desirable' assessment in EIRIS' research methodology.

All of the companies in the JSE mining sector have demonstrated at least some form of response to climate change. This may be because a significant amount of emissions are produced throughout the entire mining process. Coal mining produces methane, the most potent of greenhouse gases, much of which is released from the coal seam during the mining process. Methane accounts for 10% of the total GHG emissions which arise from human activity. This places more pressure on the mining sector to address the issue of climate change.

Additionally, the banking sector also demonstrates a high level of response to managing those climate change impacts arising from office based activities. All companies in this sector either achieved a score of 'All core' or 'All core with most desirable elements' within our analysis.

Disclaimer

This report is intended for the exclusive use of the parties to whom it was provided to by EIRIS. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without EIRIS' permission. This report does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional financial advice. © 2011 EIRIS All rights reserved

Conclusions & recommendations for investors

In light of the social, economic and environmental risks posed by climate change to South Africa and the African continent as a whole, JSE Top 40 companies should expand their management of climate change risks beyond climate change mitigation to also include adaptation strategies. Companies should also consider the climate change impacts arising from their supply chains.

Overall South African companies are responding to climate change risks. However, many are failing to take on the extra initiatives they need to fully tackle the issue. This could potentially damage their reputation and profitability as more significance is given to climate change globally.

As climate change becomes a clearer reputational risk, companies have an opportunity to position themselves ahead of the curve. Early adopters of cleaner technologies have the opportunity to reap the benefits of a better reputation and lower the risk of falling foul of financial instruments to regulate climate change.

Investors need to understand the climate change risks which exist within their portfolios, include best practice companies in their portfolio and also ensure they are well positioned to benefit from the investment opportunities which climate change presents.

Overall, there is plenty of scope for investors to engage with companies on climate change and to encourage them to link board/senior management remuneration to climate change mitigation targets, establish long-term GHG emissions reduction targets and quantitative climate change risks - these are the areas where there is the biggest scope for improvement amongst JSE companies.

In the mining sector long term targets and linkages of pay and climate change performance are two specific areas worthy of further dialogue between investors and companies. In the banking sector better risk disclosure and climate change trend data are also areas of relative weakness that would be a useful focus of engagement activity.

Report author: Valeh Tehranchi with thanks to Mark Robertson