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Low Carbon Hong Kong: Supporting Business to Set Targets

Executive Summary



I am proud that with the publication of Hong Kong's Climate Action Plan 2030+, an ambitious carbon reduction target has been set. To achieve the target, we must engage Hong Kong people including the business sector. This BEC report shows that the business sector takes climate change seriously and I am pleased it is looking to align its activities with the change called for by the Paris Agreement across the world."

KS Wong, Secretary for the Environment

BEC is an important stakeholder for Environment Bureau as it is an excellent forum for exchange of views and co-learning on many issues of mutual interest. It is also a forum that helps us to achieve our 4T objectives. We encourage everyone to set Targets with Timelines in their efforts to fight climate change and achieve sustainability, that we work hard to have the metrics to showcase our efforts so that results can be made Transparent, and that in the spirit of partnership, we should work Together to achieve better results. Thank you BEC for yet another report to rally the business community. We stand ready to partner with you and your members once more."

Christine Loh, Under Secretary for the Environment

To meet the goals in the Paris Agreement, there is an urgency to act now. It is not just a matter of scientists making reliable climate assessment and projection, or government laying down the policies and plans, but even more importantly stakeholders in the business sector need to work together to find innovative and viable business solutions for sustainable economic growth, such as climate-friendly business models or practices that drive the development of our society, as well as products and services that enhance climate awareness and encourage climate-friendly consumer and user behaviour. It is therefore most encouraging to see that the business sector recognises both the challenges and opportunities ahead associated with climate change and makes a conscientious effort to contribute to the targets set by the Paris Agreement."

CM Shun, Director of the Hong Kong Observatory

Hong Kong businesses can adopt the approach of setting targets with timelines and transparent metrics to reduce carbon emissions and do their part in combatting climate change, while adapting their business to flourish in a low or net zero carbon future. A steady transition towards a low carbon future involves long-term thinking and making the right strategic decisions now. Putting targets in place will guide businesses in making the decisions needed today to achieve a low carbon future."

Richard Lancaster, BEC Chairman and CEO, CLP Holdings Limited

For businesses to be future-proofed as well as to play their part in addressing climate change, they need to develop corporate strategies with the goal of being climate neutral. Cutting carbon footprint is not only good corporate citizenship, it is also good business. I believe Hong Kong's businesses with their history of entrepreneurship and innovation are well-placed to take up the gains as a result of the huge shift that is taking place in Asia and beyond."

**Eric Chong, Chairman of BEC Climate Change Business Forum Advisory Group
and President & CEO, Siemens Limited**

“As the operator of a world-class hub airport, we recognise the challenges posed by climate change not only to people worldwide but to business continuity. We have collaborated with 53 business partners to set an airport-wide carbon reduction target and strategies for 2020. Looking forward, the Authority will explore setting long-term carbon reduction targets and we believe that this document plus the collaborative work planned will provide useful guidance and support for other businesses in setting their long-term carbon reduction roadmaps.”

Wilson Fung, Executive Director, Corporate Development, Airport Authority Hong Kong

“The time is right for business to seriously engage in the setting of carbon targets - it is clear that ‘business-as-usual’ is no longer tenable given the evidence of climate change. Gammon welcomes this guidance as it will help us to set a new, longer term target for carbon reduction which in turn will help drive innovation and greater efficiency across our business.”

Thomas Ho JP, Chief Executive, Gammon Construction Limited

“Being a company with over 150 years’ presence in China, we take pride in our focus on the long term and being part of the fabric of Hong Kong society. We recognise that the world needs to act swiftly and decisively to mitigate climate change and are committed to support this through our new group-wide environmental sustainability strategy – THRIVE, focusing on addressing our material impacts, including progressive decarbonisation and building lasting climate resilience. We welcome the recommended approach of this report, to set targets and to develop strategies and plans to achieve those targets.”

Mark Watson, Head of Sustainable Development, John Swire & Sons (HK) Limited

“This report outlines why and how businesses should transform themselves into resilient organisations to face and overcome emerging challenges.”

Calvin Kwan, General Manager - Sustainability, Link REIT

“Sustainability is central to Sino Group’s business. As one of the leading developers, we strive to curate a better environment and greener future, and aspire to be part of the solution to sustainability. We make continuous efforts to make our properties more environment-friendly through eco-architectural planning and green management while partnering with the community. Vertical Green, relocation of T99 and Mission Green Top, some of our notable initiatives, exemplify social benefits and the role we can play. This philosophy is upheld in every aspect of our operation.”

Thomas Lau, General Manager (Landscape Architecture & Sustainability), Sino Land Company Limited

“Sun Hung Kai Properties understands its responsibility and recognises the importance of timely action in combatting climate change. The Group aspires to achieve the Hong Kong government 40% energy-intensity reduction target in 2025 as compared to 2005. Ranging from the deployment of latest proven technologies to the development of manpower skills, all possible measures are taken to mitigate the potential risks emanating from changes in climate.”

Sze Lai Susanna Wong, Director of Planning & Operations, Non-property Portfolio Businesses Department, Sun Hung Kai Properties Limited

“A bank’s biggest impact occurs indirectly, via its support and advice to customers. However, it is also important that we – like our customers – manage our direct impacts. We therefore reduce our own carbon footprint and analyse the climate risks to our business. We believe that setting carbon targets is key to improvement of climate performance in companies and we set ourselves the target in 2011, of reducing our annual carbon emissions per employee from 3.5 to 2.5 tonnes by 2020.”

Malini Thadani, Head of Corporate Sustainability Asia Pacific, The Hongkong and Shanghai Banking Corporation Limited

“Over the years, it is clear that the world’s energy needs have evolved: the need is now for reliable and accessible energy that is also environmentally friendly. One of HK Electric’s key strategies to achieve this in the immediate term is through a significant increase in the use of natural gas to replace coal for power generation. In the longer term, greater effort is required not only from the power companies but also the whole community including other business sectors to work towards carbon neutrality, the goal of the Paris Agreement. HK Electric is committed to playing its role and will be exploring how it can reduce carbon further in support of this initiative.”

Chi Tin Wan, Managing Director, The Hongkong Electric Company, Limited



Purpose of Report

BEC has written this report to:

- convey to our members and the wider business community why it is important for business in Hong Kong to set carbon emission reduction targets and to put in place supporting strategies in line with a maximum temperature rise of 2°C
- illustrate what changes may be needed across a number of key Hong Kong sectors to keep within this maximum temperature rise of 2°C
- show that long term targets can be set, by explaining the methodologies that have been developed and how they may be applied in Hong Kong

Why should business look to set 2°C carbon reduction targets?

A. It's a legal requirement: Under the Paris Agreement, China committed to work towards achieving no more than a 2°C temperature rise and to set carbon reduction targets with the aim of net zero carbon emissions in the second half of the century. Hong Kong, as part of China, is expected to do the same. Accordingly, in January 2017, the HKSAR Government committed to reduce the carbon intensity of its economy by 65-70% by 2030 (from 2005 levels) and committed to ratchet up these targets as necessary to help put the world on the 2°C pathway. It also committed in the Energy Saving Plan to tighten codes and regulations. Other implementing measures can also be expected in the next term of the Government.

B. It's the right thing to do: It is in Hong Kong's interest to take action to avoid dangerous climate change: we have much to lose from climate change effects, which include heat stress, flood risk and landslides, plus rising sea levels (around 1 metre and possibly substantially more by 2100 if we continue with business as usual) and risks to our supply chain from extreme weather and water scarcity. Acting now to address climate change is important not only for the

benefit of our children and grandchildren, but also for those in poorer parts of the world already being affected by climatic change. The evidence is that it will cost us less to prevent severe change than for the next generation or the more vulnerable to address that change.

For the Paris Agreement to be effective, all must play their part; the failure of one party to act may reduce the willingness of others to act, resulting in a classic "tragedy of commons" outcome detrimental to all. With China playing a leadership role on climate change this is even more vital, and without Hong Kong businesses acting in support, the HKSAR Government will not be able to achieve its aims.

C. It makes good business sense: There is not only a legal and a moral case, but a direct commercial interest for business to act:

- **Levering in efficiency/costs-savings:** Reducing carbon emissions generally means reducing energy usage, not only within the business but within the supply chain. Evidence shows that substantial savings can be made even in the short term. With the risk of rising energy costs (considering inevitable public policy changes) and rising temperatures, through long term planning businesses can ensure

that they are lean and efficient, and future proofed in terms of regulatory and other risks.

- **Strategic change to make the most of wider business opportunities:** By aligning their business model with the regional and global transition to a low carbon economy and developing the necessary skills and expertise, businesses can position themselves to make the most of wider markets in particular under the Belt & Road initiative.
- **Securing Investment:** Investors are beginning to pay increasing attention not only to companies past carbon emissions but also to their potential to withstand climate change and financial risk relating to carbon intensity. The launch of the G20's Financial Stability Board's Taskforce on Climate-related Financial Disclosures reflects this expected shift; and a recent UN Environmental Programme Financial Initiative (UNEP FI) report on the real estate sector emphasises the fiduciary duty or legal obligation on fund managers to take on board these risks.
- **Stimulating ambition and innovation:** Setting long term targets can help bring employees, clients and the supply chain along in a process of change and transformation. Business leaders all know the importance of setting a vision, enabling staff to act purposefully with a clear end in mind. Demanding targets can help stimulate a culture of improvement and catalyse change.

- **Enhancing the reputation of your business:** "Playing your part" in ensuring the Paris Agreement holds together will enhance your business' reputation with customers, investors, and Government. We expect it will be a core part of the "license to operate" going forward. The leadership role that China is beginning to play worldwide in this arena makes this increasingly important.

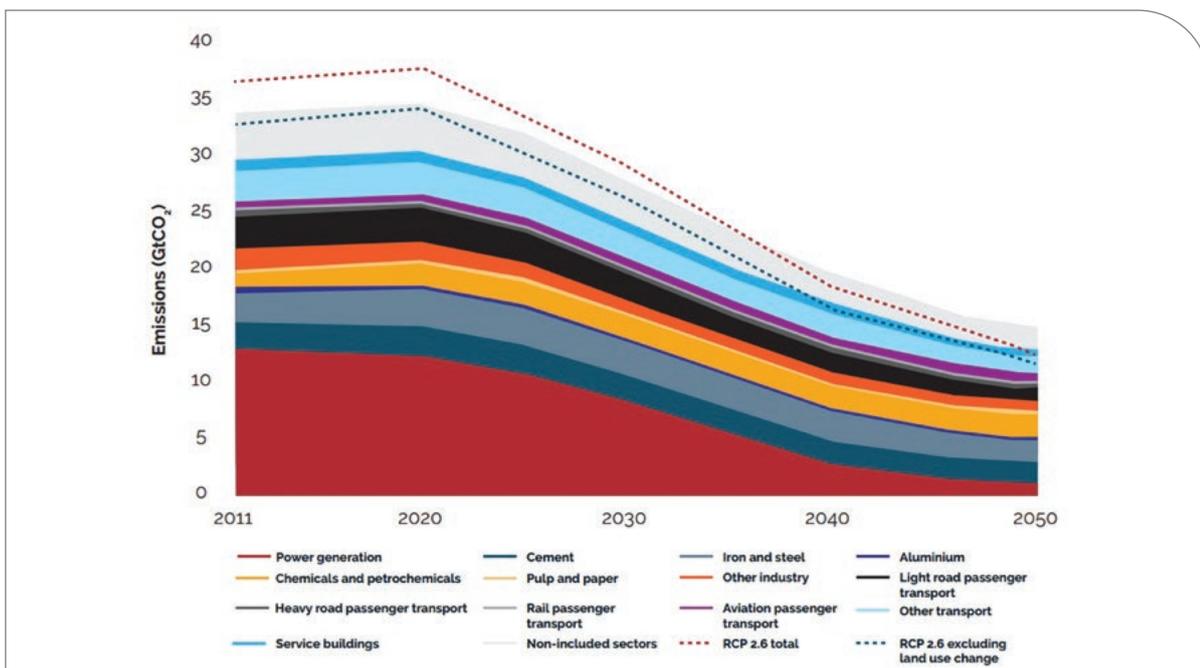
How far and how fast do we need to reduce our emissions for a 2°C maximum?

The 2C Scenario ("2DS") of the International Energy Agency (IEA) underlies the trajectories that we are looking at.

This anticipates a reduction in carbon emissions with a goal of close to net zero by 2050.

The emissions of different sectors will fall by different amounts and at different speeds, reflecting the need in some parts of the world for substantive growth in some sectors and less growth in others, as well as available cost effective technology. See the graph below.

It should be noted that the Government has indicated its commitment to pursue efforts, as required by the Paris Agreement, to limit the temperature increase to 1.5°C. So in fact businesses are encouraged to explore making even sharper carbon reductions.



Sectoral breakdown of absolute CO2 emissions budget, 2011-50 (Source: SBTi Guidance 2015, IEA ETP 2DS 2014)

Are there satisfactory methodologies for setting long-term targets?

- Setting targets for the long-term is not easy, but a number of tried and tested methodologies are available.
- This report explains these methodologies and what they involve. It also identifies some difficult issues and explains how these may be addressed.
- It suggests the use of the Sectoral Decarbonisation Approach for Hong Kong, based on the IEA's 2DS which sets trajectories for a number of sectors based on achieving the deepest cuts in the most effective way.
- Going forward, we propose sectoral level working groups to enable businesses to work together and solve some of the issues that will inevitably arise as they develop these targets.

Challenges in setting targets

There are a number of complexities involved, but solutions are being developed. Some of them can be co-created by businesses working together to find the best solution.

We have identified the following challenges which we address in our report:

- The inter-relationship between supply side (the fuel mix) and demand-side reductions (by the end-users of fuel). How does one sector take into account the unknowns regarding others?
- Should companies set absolute emissions targets, intensity targets or both?
- The regional dimension: how should companies take into account differences between the regions of the world?
- What about Scope 3 emissions which can be the largest but hardest to control?
- Should targets be for the short term or long term?

These are some of the questions we seek to address in this report.

How can you initiate this process within your company?

Drawing on previous work and further study on leading and influencing within your company and with your external stakeholders, we explain in this report how you can initiate this process and build the support needed for change. We build on BEC's Climate Change Business Forum's previous work: *Influencing Up, Down and Across* in the relevant part of this report.

What can you obtain from this report?

- An understanding of global trends amongst business in working towards carbon neutrality to help you decide where your company should be positioned
- Consideration of the literature and reasons given on why target-setting is important
- Putting target-setting within a wider context of developing strategies and plans
- Consideration of the range of methodologies for setting targets, with a focus on the Sectoral Decarbonisation Approach
- Discussion of the global changes expected for the world to be aligned with the IEA's maximum 2 degree rise scenario, with reference to key Hong Kong sectors eg property, construction, and consideration of whether these changes would be the same for Hong Kong



Full report



Influencing up,
Down and Across

Acknowledgments

The *Low Carbon Hong Kong: Supporting Business to Set Targets* was made possible with the support and advice of many organisations and individuals.

BEC would like to thank the Steering Committee of BEC Climate Change Business Forum AG and several others, for their guidance and contributions.

In addition, we would like to thank the other members of BEC Climate Change Business Forum AG as well as the participants of the workshops held on 4 May 2016, 17 June 2016 and 16 March 2017, Government representatives, and other contributors whose factual input and knowledge helped shape the Report.

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BEC is grateful for the generous support of member companies of the Steering Committee of BEC Climate Change Business Forum Advisory Group, who have provided financial support for this project.

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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 programmes for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

BEC Climate Change Business Forum Advisory Group (“BEC CCBF AG”) promotes awareness of, and builds capacity in relation to, climate change mitigation, adaptation and resilience activities amongst the BEC membership and generally amongst the business community in Hong Kong. It also aims to provide a platform for BEC to engage relevant regulatory bodies on climate change related matters, and forge collaboration links between local and global expertise on climate change.



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