

Accelerating the sustainability  
transformation in Asia Pacific  
Three strategies to rewrite the future





An aerial photograph of a vast agricultural landscape. The image shows numerous rectangular plots of land, each filled with rows of green crops, likely corn. A winding asphalt road cuts through the fields, with a few vehicles visible. A small stream or canal flows through the lower-left portion of the image. The overall scene is a dense, organized agricultural operation.

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Today's climate crisis urges us all to rethink and reinvent our business practices. Businesses across Asia Pacific are under growing pressure to meet the challenge of climate change and step up to higher expectations of sustainability. Companies in the region are experiencing a dual outlook; on one hand, they face an outside risk of climate change, but on the other, companies that can accelerate their transformation may seize new growth opportunities in the process. There is no better time than now to rewrite the playbook, and transform into a truly sustainable business.

Future-focused businesses across the Asia Pacific region are beginning to rewrite their future by turning sustainability from a risk into an opportunity. First, they are looking ahead to understand what threats and opportunities the pressures toward sustainability present for their future. Second, they are looking inside to reconfigure business operations toward greater sustainability. Finally, they are looking around to identify opportunities to help create competitive advantage in a sustainability-focused world.<sup>i</sup>

### Reimagine the future

In January 2018, Sunny Verghese – Co-founder and Group CEO of Singapore headquartered Olam International, one of the largest agri-businesses globally, took up the role as Chair of the World Business Council for Sustainable Development (WBCSD). The first Asia-based CEO to hold this position, Verghese has long expressed the strategic imperative for agri-businesses to drive sustainability.

Since co-founding Olam, Verghese has led the evolution of the company's strategy to one that firmly embeds sustainability at the heart of its business.<sup>i</sup> The company has repeatedly stated that this is not just the right thing to do, but because there are clear business benefits and opportunities to be won.<sup>ii</sup> It recognises that consumer preferences are changing with greater emphasis on sustainability.<sup>iii</sup> To meet the changing expectations Olam has firmly stated that the industry needs to reimagine global agriculture and food systems, and work together to address climate change.<sup>iv</sup>



### Business' role in sustainability

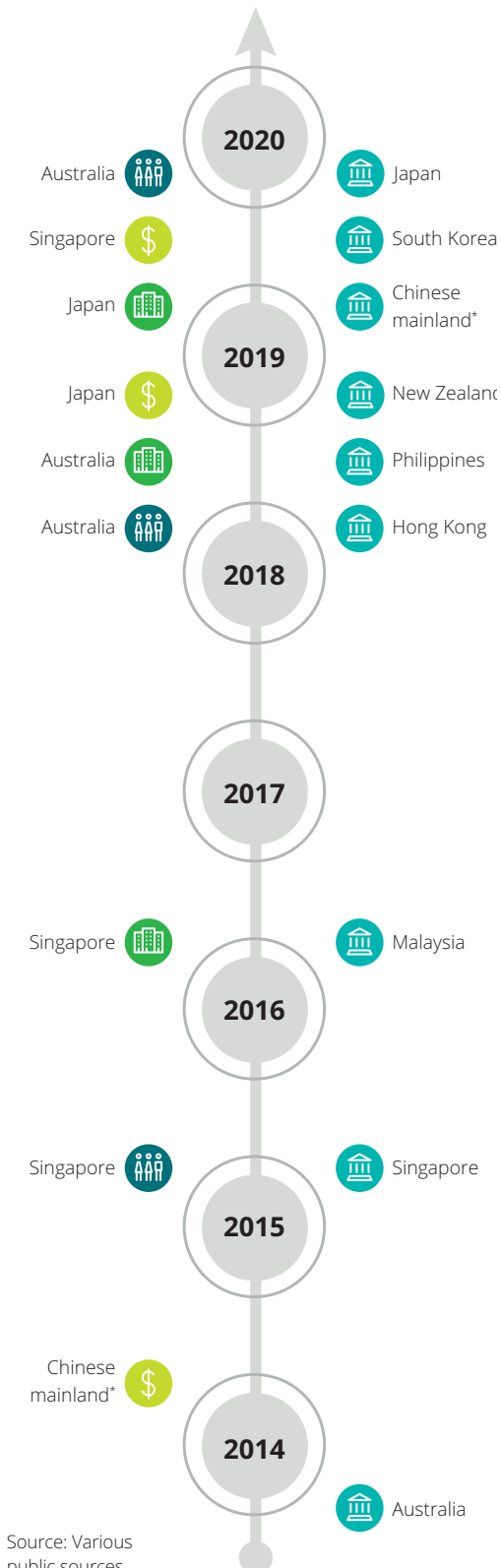
The sustainability agenda, as articulated by the 17 United Nations (UN) Sustainable Development Goals (SDGs), recognises that businesses are an essential partner, from contributing finances to providing products and services that address sustainability.

The 17 UN SDGs are inextricably linked. For instance, business leadership on climate action (Goal 13) has strong benefits for energy security (Goal 7), clean air (Goal 3) and water (Goal 6). Tackling climate change also benefits sustainable food production systems (Goals 2 and 12), as well as life on land and below water (Goals 14 and 15).<sup>v</sup>

However, the Asia Pacific region is falling behind, and cannot expect to achieve the 17 SDGs by 2030 without accelerated action. Armida Salsiah Alisjahbana, the Under-Secretary-General of the United Nations stated that in the Asia-Pacific "[s]ustained economic growth is occurring in the absence of adequate measures to combat climate change, protect our ocean or preserve our forests".<sup>vi</sup>

## Accelerating sustainability pressures

Expectations for businesses are changing. Leaders need to take a more active role in tackling the sustainability agenda in order to protect their future business. Across the region, a number of shifts have elevated the pressure for businesses to respond to sustainability. The actions of various parties – including regulators, consumers and financial institutions suggest that the momentum towards sustainability is accelerating and businesses are responding. Combined, these actions are helping to catalyse the sustainability transformation in Asia Pacific.



Source: Various public sources

\*Chinese mainland excludes the administrative regions of Hong Kong, Macau and Taiwan.



### Governments and regulators are increasingly supporting the adoption of sustainable business practices.

- (2020) China commits to net zero by 2060, Japan commits to net zero by 2050, and South Korea commits to net zero by 2050.
- (2019) New Zealand Zero Carbon Act, the first legislation in the world to make a legally binding commitment to living within 1.5 degrees of global warming, sets agriculture-specific targets to reduce methane emissions.
- (2018) China officially puts the Environmental Protection Tax Law into force, providing a list of taxable pollutants and outlining how environmental taxes will be calculated for all business activities.
- Regulators in Australia (2014), Singapore (2016), Malaysia (2017), Hong Kong (2019), and the Philippines (2019) require public listed companies to publish an annual review of their sustainability performance.



### Customers are increasingly holding businesses accountable for their sustainability impacts.

- (2020) Australian pension fund settled a landmark climate risk litigation case filed by a 25-year old who alleged it was failing to protect his retirement savings against climate change.
- (2019) Australia witnesses the largest public demonstration since 2003, as organizers of the School Strike for Climate estimate 300,000 people attend rallies across Australia calling for increased climate action.
- (2016) Demonstrators took to the streets across China's Chengdu, Sichuan, Jiangsu and Heilongjiang provinces targeting power and chemical plants to protest poor air quality.



### Financial flows are being redirected toward sustainable practices.

- (2020) The Monetary Authority of Singapore (MAS) launches consultation with financial institutions on proposed guidelines to enhance financial institutions' resilience to, and management of, environmental risks.
- (2019) Japan's Government Pension Investment Fund's asset under management tracking ESG indexes reaches ¥ 5.7 trillion and investments in green bonds etc. reaches ¥ 0.4 trillion.
- (2019) Cumulative issuance of green bonds and loans in Southeast Asia since 2016 reaches US \$13.4 billion.



### Shifting attitudes are making it an imperative for businesses to place sustainability at the heart of their strategies.

- (2020) Toyota announces the "Toyota Environmental Challenge 2050", to accelerate sales of next-generation low emissions vehicles, as part of their ambition to reach net zero CO2 emissions by 2050.
- (2017) Olam International, one of the largest agri-businesses globally, updated their company purpose to drive the sustainable transformation of the industry.
- (2020) Qantas CEO Allen Joyce reaffirmed the company's climate commitment stating "the longer we wait to genuinely tackle climate change, the harder it will be...the world is becoming more ambitious in tackling climate change and so must we".

## Three strategies to rewrite future

We have identified three business strategies that can guide the sustainable transformation of future-thinking companies:

### Strategy 1: Look ahead to your future business

#### Understand what threats and opportunities sustainability presents for the future of the business

Companies that want to succeed in the future need to look ahead to understand how to take advantage of new growth opportunities related to sustainability, as well as what threats and challenges may arise from it. The financial services industry is beginning to recognise the cost of climate change and climate-related events.

For instance, the Australian bushfires of 2019-2020 are estimated to have cost a staggering US \$100 billion.<sup>viii</sup> Such costs may continue to rise, with the United Nations estimating that the annual cost of climate-related disasters may cost the Asia-Pacific region US \$675 billion annually in the future.<sup>ix</sup> Looking ahead to these projections, the financial service industry is beginning to turn their attentions towards sustainable finance, where environmental, social and governance (ESG) considerations are integrated into financing decisions.<sup>x</sup> In Asia Pacific, the Japanese Government Pension Investment Fund (GPIF), the world's largest pension fund with approximately US \$1.5 trillion in assets, made an early move to integrate Environmental, Social and Governance (ESG) factors into all investment decisions.<sup>xi</sup> The fund's pivot has paved the way for sustainable finance in Japan, and arguably Asia Pacific.<sup>xii</sup>

### Strategy 2: Look inside to accelerate your transformation

#### Understand seek out new innovations to accelerate the transformation towards greater sustainability

Next, executives can look inside their company to see what initiatives they can launch today to accelerate their sustainability transformation. This process can include both weaving sustainability into existing business models, products, and services and creating new sustainability-driven business models.

Here in Asia Pacific, we are seeing various companies in the energy industry take progressive steps to make their business models more sustainable. For instance, BHP, an Australian-headquartered mining, metals and petroleum company, has set out their goal to transition to net zero emissions by 2050.<sup>xiv</sup> To fulfil these ambitions, BHP is strengthening its capacity to innovate, launching new initiatives to increase the efficiency of decarbonisation efforts, such as investing in direct air capture, an innovative technology that has the potential to deliver large-scale negative emissions by removing CO<sub>2</sub> from the atmosphere.<sup>xv</sup>

Companies operating in the region are doing the same, with an eye on capturing new markets in the process. In 2018, the French utility company ENGIE launched ENGIE Factory Asia Pacific. Acting as a venture arm, ENGIE Factory Asia Pacific builds, scales and invests in startups that have the potential to accelerate the transition to a zero-carbon future.<sup>xvi</sup> ENGIE aims to harness these innovations in two ways. First, to accelerate its own zero-carbon ambitions, and second to accelerate the transformation of its own clients through the provision of innovative energy solutions.



## Finance for a climate-resilient future

In recent years, there has been a coordinated movement to promote greater transparency around the climate-related financial risk of companies and industries as a way to support decision making within business. The most notable are the efforts from the Task Force on Climate-Related Financial Disclosures (TCFD) and the Network for Greening the Financial System (NGFS).

The TCFD, formed by the Financial Stability Board (FSB) in 2015, was created to develop a set of climate-related financial risk disclosure standards. Meanwhile, the NGFS was established in 2017 by eight central banks and supervisors with the aim of enhancing the role of the financial system to manage climate-risks and mobilise capital to accelerate the transition to a low carbon future. The membership has since expanded to 54 global regulatory members, including 11 from Asia Pacific.<sup>xiii</sup>



## Unleashing Chinese innovation to tackle climate change

In a virtual address to the 75th UN General Assembly on 22 September 2020, Chinese President Xi Jinping said China would deliver a stronger emissions reduction target, peak emissions before 2030, and strive to reach carbon neutrality before 2060. China's goal goes beyond the 2065-2070 global carbon neutrality schedule under the Paris Agreement 2°C scenario. As the world's largest emitter, China's bold target has the potential to move global carbon neutrality ahead by 5-10 years.<sup>xvii</sup>

Currently coal accounts for just below 50 percent of the country's energy mix. Therefore, China will need to rapidly accelerate and scale the use of renewables if it is to achieve a carbon neutral energy mix. China is thereby poised to emerge as a leader in climate innovation and attract notable investment in the process. It is expected that investment in solar, wind, and other green energy technologies will double over the next decade, with the world on track to hit US \$2.6 trillion for renewable energy investments by 2030.<sup>xviii</sup>





### **Strategy 3: Look around to leverage your business ecosystem**

#### **Leverage the business ecosystem to create competitive advantage in a sustainability focused world**

Finally, looking around at the broader business ecosystem is a good way to evaluate the availability of expertise and skillsets needed to drive the sustainability transformation. By doing so, companies often realise that the required people, skills, knowledge, or technology are not in-house and need not be. Leveraging the capabilities of other entities, and establishing alliances with like-minded businesses within the ecosystem can be a more efficient way to drive a company's sustainability transformation.

For instance, GROW - a Southeast Asian agri-food tech accelerator backed by AgFunder - launched the 'Singapore Food Bowl', a collaborative programme aimed at bringing industry and startups together to build a more sustainable and resilient agrifood system. Dole Packaged Foods, a consumer goods company, and Enterprise Singapore, a government agency focused on supporting enterprise development, supported the programme.<sup>xix</sup>

Through this tripartite collaboration, three positive outcomes were experienced:

1. An accelerator was able to give startups access and insights into a consumer goods company;
2. A consumer goods company was able to access new innovations and technologies; and
3. A government agency was able to nurture the development of Singapore an innovation hub.

### **The bottom line: It's time for the region to transform**

Many companies operating in Asia Pacific will need to radically transform their business models to respond to shifting market conditions calling for greater sustainability. Looking ahead, inside and around can help companies to navigate and thrive in the sustainability landscape of the future.

## Contact us



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