

**Seen exam (assessment 2)**

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2. With reference to present-day examples, evaluate the implications of Climate change for business. (100 marks)

There is overwhelming evidence that climate change is brought about through man made global warming, and as such the global consensus is now to slow or prevent further warming, therefore it is inevitable that there will be an impact on businesses who rely on the use of anything that contributes. The CO<sub>2</sub> output from fossil fuel use is widely proven to be the main culprit and with over 50% of the UK's energy still being produced through burning fossil fuels, the first business type to be considered should be of energy producers. As the government introduces increasing legislations to tackle carbon emissions, and the focus of social responsibility is widely agreed to move away from fossil fuel use, coupled with increasing cost of gas, energy companies must drastically change to survive, and many are doing so. Renewable energy unsubsidised is now the cheapest source of energy and as we are in an energy race of renewables, that's exactly where companies are investing.

Simply being a clean energy seems not enough to secure share prices though as clean energy company's US share values appear to be in decline and traditionally fossil fuel companies shares on the rise, Oersted the Danish wind energy developer's shares fell 21% last year, whereas EOG resources (fracking) shares rose over 45% in the same year. This is primarily due to increased renewable energy market competition, and the lag in these big fossil fuel companies to 'go green', continuing dependency on fossil fuels and boosting their value, as well as company transformation and green investment helping to subdue investors long term company sustainability fears. Some are heavily investing into offshore wind technology, whereas others such as EON have divided their company, separating the new renewable part from the older fossil fuel part.

Energy companies are not the only culprits for carbon emission pollution, nor is carbon the only pollutant causing global warming and as a result climate change. It is safe to say that most items available to purchase today, in one way or another, have contributed through their being. For example, it may be considered that electric cars are the future for reducing emissions but the production of electric car Tesla's model S, including the battery, has a carbon footprint 15% higher than that of an equivalent petrol car. Although the overall pollution through zero fuel emissions, even if you include fossil fuel produced electricity, is a reduction of 53%, the example demonstrates that the process of manufacture is more often just as polluting whether the product is eco-friendly or not. The affect climate change has on the manufacturing business is of cost and to achieve net zero in line with the governments legislations and environmental taxes, in 2022 alone 49% of said sector are planning large investments in green technologies or energy efficient measures.

Plastics are another major contributor, not just their obvious permanent waste, but through manufacture and disposal (burning). On its current projected course, plastics will cause 17% of our carbon emissions budget by 2050. With this information in mind, it is unsurprising that the UK government will be implementing a "plastic packaging tax from April 2022" which will have a direct and significant impact on businesses who manufacture or use them, affecting around 20,000 importers and manufacturers. The impact is not just financial and as clear cut as it appears, there would also be one off costs in training, registration with the HMRC, continued costs of reporting for tax returns and accurate record keeping as there will be shared liability through the supply chain. Users of the packaging will feel obliged to pass the additional cost burden on to consumers, however, this would be negligible due to the relative low costs.

Climate change will also have a profound impact on agricultural business, as changes in climate will inevitably affect crop yields and survivability. Climate change may benefit some crops as warmer periods extend and carbon dioxide increases, however, most others will suffer drastically, and the

suitable croplands will shift markedly for the top commodities. North America's corn yield for example is predicted to drop 20% by 2050, but weather alone is not the only contributing factor. Government legislation and restrictions on agricultural practices, global demand and transportation are also big influences, therefore the farming community will need to diversify and modernise their methods to survive, inevitably at a cost.

The social narrative around climate change is currently very relevant within consumers, and as such buying trends are shifting to that of sustainability. Although millennials are now more likely to highly consider corporate social responsibility when buying products, the products on offer also reflect what that company represents, as well as determine the survival of the business. In today's increasingly digital market, businesses are not limited to supplying products solely from their own stock, so product diversity in line with consumer buying trends has never been easier or more relevant.

Travel is another business sector directly affected by climate change, as the cost of fuel rises, as do environmental taxes, and as consumers are increasingly aware of their carbon footprint, the travel industry is likely to suffer. There is however a glimpse of light on the horizon, with a ZeroAvia commercial Hydrogen plane taking flight from a UK airport, the emissions and fear of increasing costs of tourist flights seem set to diminish, a company clearly taking advantage of the clean energy race this looming climate disaster has created.

Climate change implies that in one way or another there is or will be an effect on almost all businesses. The key to survival is diversity and flexibility, to adapt and overcome, to find opportunities in the challenges posed and to focus on sustainability.

4. With reference to contemporary examples, evaluate the potential implications of Brexit on business. (100 marks)

Brexit or Britain's (UK's) exit from the European Union's (EU's) single market was initially bought to consensus in June 2016 and at 11pm on the 31<sup>st</sup> of Jan 2020 Great Britain left the EU. The transition period ended on the 31<sup>st</sup> of December and although most issues are now resolved, the impacts of this action by the UK government has and continues to have impact on business.

By leaving the single market the UK Government in part pitched better control over the movement of people and its borders, however although they can now set its own policies and laws to this effect, the free movement of people within the EU had previously provided a large cheap and low skilled labour-based workforce which many UK based employers relied upon. Although these workers are still welcome, they must now apply for a work visa, employers must apply to become an approved employer sponsor, and existing EU born employees will need to apply to remain in the UK if desired. There is no doubt that businesses such as Puffin potatoes (a Pembrokeshire potato farm and supplier) will have suffered from this as they are a regular employer of EU migrant workers, benefitting from low wage costs for low skilled labour. The impact on business will most likely be a higher cost on employment as employers need to compete for employees by way of wage increases or more complex and costly paperwork trails.

There is little doubt that the primary reason for leaving the single market was to gain more control over trade with other markets internationally, and although the UK has 'rolled over' many of its existing agreements with other nations, Brexit has enabled the UK to agree in principle a free trade agreement (FTA) with New Zealand, although if New Zealand increases trade with the UK on their new FTA then trade for similar products will likely reduce with nations who also supply them and take away

from their existing FTAs. Brexit also allowed for a differing agreement with Japan and allowed the UK more freedom of control to determine its own trade deals with emerging markets such as south Africa, China, and Brazil.

Although Brexit resulted in continued free trade with the EU, it isn't without restriction, and the UK's independence from the EU isn't without cost. The agreement allows continued free trade on the condition that the goods origin is within the UK or EU, if organic needs to have been grown in British or European soil, or if originates outside of these territories must have significantly changed, i.e., if a UK company produces a product with Chinese steel, it must now be significantly different from the original Chinese product to be sold within these two markets tariff free, and made into specific car parts for example, as supplying unchanged would inevitably lead to a higher cost of product and potentially a loss of trade. This would also lead to less trade with the original Chinese suppliers as manufacturers producing for the UK and EU markets buy locally, changing the trading environments for all three markets.

Tariffs are not the only change brought about by new trade agreements, restrictions, quotas or specific certifications or standards on items such as imported steel can be imposed. An example would be that of Puffin potatoes, who have been affected several folds by Brexit. Whilst part of the single market, up to 10,000 tonnes of seed potatoes were imported into the UK from the EU annually, however as part of the new trade agreement DEFRA have blocked this and although these imports were usually only of European varieties, Puffin have now had to grow some of its own certified, EU-bred, and more disease resistant seed. This is both at a higher cost to puffin and a loss to the EU suppliers, who's government may impose restrictions or tariffs themselves to counter the loss in trade, which if escalated could become a trade war. Additionally for the UK the complexities of Northern Ireland's borders, as well as the differing food standards, in particularly for sausages, between the EU and the UK mean that the issues of borders and where checks are made are still ongoing, raising increasing concerns over the future of the free trade agreement which is having an effect of investor confidence and reflected by the fluctuating strength of the pound.

Aside from geographical location and logistics, the trade agreements in place and the tariffs imposed on each nation ultimately determine the cost effectiveness of their purchasing and dealing, and creation of trade deals and tariffs are partly dependent on the market sizes available as well as products produced. The EU with 27 member states is a very large market and is therefore in a good bargaining position with other nations for trade, comparatively the UK's market is not so large and after leaving the single market, the strength of the pound inevitably went down. This has several effects, it leads to a higher cost of purchasing and investing for Britain's externally, existing investments within the UK hold less value, however it also means that the UK is now cheaper attracting more foreign trade and new investment, showing as a pre pandemic spike in the nation's exports.

With the global pandemic still affecting international trade it is unclear the fullest extent of changes these rules will bring about, however the changes mean there are currently higher costs to most businesses in the UK, whether logistical through delays in transport from increased paperwork and checks, supplier and procurement issues, import and export tariffs, staffing or administrative work, it is also influencing trade and businesses globally. Consideration should be given to how a new trade agreement of any nation potentially affects that of other nations existing trade as inevitably trade shifts to align with the more profitable options, and those business affected will need to act wherever they are globally.