SUSTAINABILITY

NEWSLETTER – OCTOBER 2024

CONTENT

EU SUSTAINABILITY REGULATION
UPDATE FOR OCTOBER

01 ESMA Publishes its First Annual Report on EU Carbon Markets

The European Securities & Markets Authority (ESMA), published its **first annual report on the status of EU Carbon Markets** in October 2024. The report's key findings on the EU Emissions Trading System (EU ETS) were the following:

- ***Prices in the EU ETS have declined since the beginning of 2023*** due to lower demand for emissions allowances from weak industrial activity, falling natural gas prices, and decarbonisation of the European energy sector, along with increased supply;
- ***Emissions allowance auctions remain significantly concentrated,*** with 10 participants buying 90% of auctioned volumes, reflecting a preference by most EU ETS operators to sources allowances from financial intermediaries; and,
- ***The majority of emissions allowance trading in secondary markets takes place through derivatives***, reflecting the annual EU ETS compliance cycle where non-financial sector hold long positions (for compliance purposes) while banks and investment firms hold short positions.

Go to the full article →

02 EU Proposes to Delay Landmark Anti-Deforestation Law by 12 Months

The European Commission said it would propose **delaying the implementation of the EU Deforestation Regulation (EUDR) by a year,** following pressure from industries and governments globally.

- Various countries, including Brazil and Malaysia, ***have argued that the EUDR is protectionist*** and could exclude millions of small-scale farmers from the EU market, while industries have argued that it would significantly impact supply chains, increasing prices.
- The WWF said that ***the delay casts a serious doubt on the Commission's commitment*** to delivering on EU's environmental objectives.
- The European forestry campaign group Fern has also ***called on the EU to strengthen its laws*** rather than weaken them.
- The EUDR would have required companies importing soy, beef, cocoa, coffee, palm oil, timber , and rubber products ***to prove their supply chains don't contribute to deforestation.***

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GLOBAL SUSTAINABILITY REGULATION
UPDATE FOR OCTOBER

03 California Becomes the First State to Pass Textile Recycling Law

In October 2024, Governor Gavin Newsom signed the SB 707 legislation **to enact the Extended Producer Responsibility (EPR) program for textiles in California**.

- Currently, most of the labour and cost of textile waste management falls on thrift stores and second-hand markets; the new law will hold textile producers, ***financially responsible for managing textile waste*** at end of life.
- The law will require apparel and textile product manufacturers to implement a producer responsibility organization to fund statewide programs for reuse, repair, and recycling.
- SB 707 also seeks ***to reduce the environmental impacts of fast fashion and 'throwaway culture'***; for example, producers who encourage repair may pay lower fees into the EPR program.
- CalRecycle will need to approve a producer responsibility organization by the 1st of March 2026, and implement the program by July 1st, 2028.

Go to the full article →

04 Brazil's President Luiz Inácio Lula de Silva signs the Fuel for the Future Law

On October 8th, 2024, President Lula signed **the Fuel for the Future Law which aims to promote the production and use of sustainable fuels** and to establish national programs for green diesel, sustainable aviation fuel, and biomethane.

The Law is expected to generate ***over U$46bn in investments in the agriculture and the biofuels sector*** and establishes three programs aimed at promoting research, production, marketing, and use of biofuels ***to facilitate the decarbonization of Brazil's transportation and mobility sectors***:

I. The National Sustainable Aviation Fuel Program (ProBioQAV)

II. The National Green Diesel Program (PNDV)

III. The National Program for Decarbonizing Natural Gas Producers and Importers & Promoting Biomethane which aims to enhance research, production, and use of biomethane in Brazil's energy mix.

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ESG MARKET INSIGHTS
THE END OF THE ESG ‘HYPE’ BUBBLE – WHAT’S NEXT?

01 The Cambridge Institute for Sustainability Leadership’s New Discussion Paper on the Corporate Sustainability Movement & the Failures of the Current Market-Driven ESG Approach

The University of Cambridge Institute for Sustainability Leadership’s (CISL) published a new discussion paper in September 2024 on the failures of the current market-driven ESG approach and solutions to rapidly accelerate the green transitions. Key findings include:

- There is a significant risk that ***most businesses are contributing to the problem by creating the impression that we are making good progress*** – thereby delaying radical changes to markets & policies.
- The ***current ESG and CSR approach has focused on imposing new standards and expectations on firms*** with a focus on individual business performance. This approach ultimately fails to recognize that **no business can be sustainable in an unsustainable market.**
- ***In the short-term, it is still more profitable for businesses to operate unsustainably***, punishing firms who bear the voluntary costs of transformation.
- ***The pressure to appear ‘green’***, while operating in the current market that does not support the costs of transition, ***that drives the phenomenon of greenwashing.***

SO, WHAT IS THE SOLUTION?

I. CHANGE OF MINDSET: businesses must recognize the underlying imperative for action – **one grounded in the laws of nature**, not morality or market sentiment. **Firms need to shift away from ‘declarative sustainability’** (long-term pledges and declarations of support) and focus on committing to shifting markets and sectors:

II. CHANGE THE MARKET: **Strong government policy is required** to ensure that the market rewards individual businesses that are committed to transforming their operations. These include **real economic drivers such as taxes, subsidies, mandates, and bans which punish inaction**.

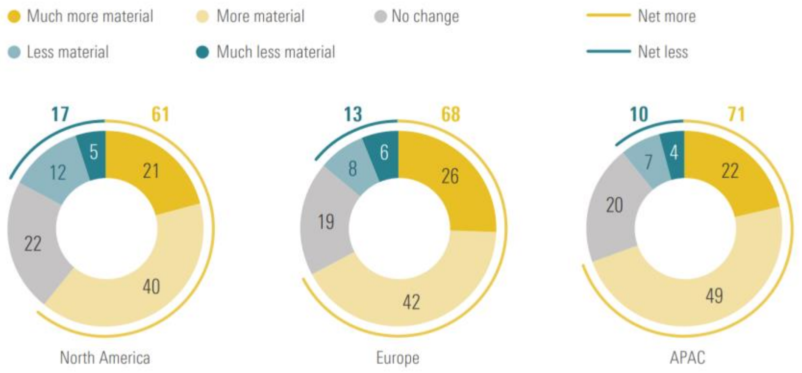
- Policies that support the creation of climate-neutral, nature-positive, and circular economies will only happen if enough business leaders demand it. Ambitious policies need the support of the private sector.
- There needs to be increased transparency, criticism, and challenge of organizations who have public positions supporting action while privately lobbying against it.

Click to read the full paper from the CISL →

ESG MARKET INSIGHTS
ASSET OWNER PRIORITIES & PERSPECTIVES

02 Morningstar Voice of the Asset Owner Survey for 2024 finds 67% of asset owners globally saying that ESG has become more material in the last five years

Whether ESG has become more material or less material in the past 5 years (regional average) (%)*



*Source: Morningstar (2024), *Net more and net less represented in sums of unrounded numbers*

Morningstar conducted a survey of 500 diverse asset owners, including in-depth interviews with 13 of them, **to understand the current investment environment, priorities, the role of ESG in investment decisions**. Key findings from the survey include:

- ***The % of asset owners with more than half of their total assets reflecting ESG considerations has increased*** each year, from 29% in 2022 to 34% in 2024.
- ***Climate transition readiness*** remains the most material environmental factor, followed by ***labor practices and business ethics*** for material social concerns.
- ***78% of asset owners view active ownership as useful*** in driving the implementation of ESG strategies, ranking direct engagement with companies as the most useful method for stewardship across all regions, followed by public policy engagement and collective engagement.
- Leading motivators for considering ESG in the investment process include ***senior management / leadership, local regulations, and stakeholder pressure.*** Top barriers to implementation include ***impact on returns, lack of standardized data, and stakeholder/client reluctance.***

Click to read the full survey report →

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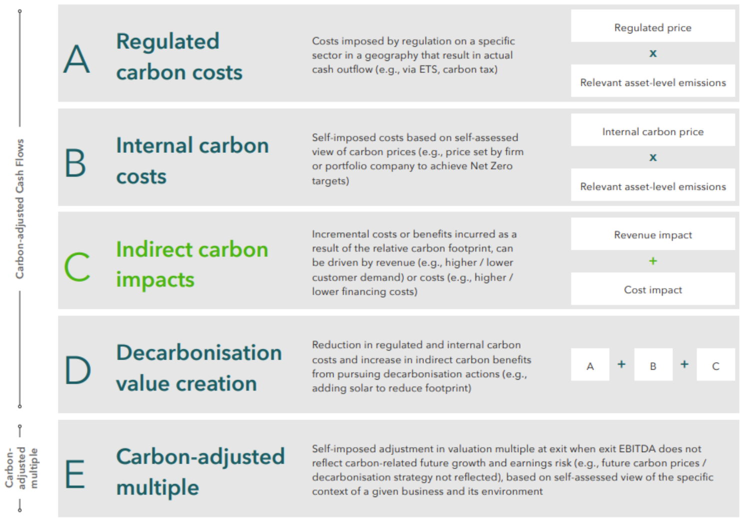
NEW IN RESEARCH
CARBON VALUATION FOR PRIVATE MARKETS

01 ERM and PESMIT Publish Guidance on the Valuation of Carbon Pre-Investment for PE Firms

The guidance builds on the [2023 Valuing Carbon in Private Markets](#) publication from the Sustainable Markets Initiative's Private Markets Taskforce (PESMIT) to **provide a framework for carbon valuation in the context of pre-investment.**

- Key arguments for the integration of carbon valuation into the due diligence process: **(i) meeting investor demand** - 52% of European LPs have net-zero commitments influencing investments; **(ii) generation of long-term value** (EBITDA increase potential from decarbonization); and **(iii) risk management.**
- The framework provides **a calculation for each component of the Carbon Valuation Framework** (from A to E as summarized in the diagram), allowing investors to quantify total carbon enterprise value. These components include:
  - ***Cost of carbon when no decarbonization action is taken*** (regulated & voluntary carbon costs, loss of clients)
  - ***Decarbonization costs & savings***, such as Capex expenditures on decarbonization initiates and Opex reduction from energy savings.
  - ***Enterprise value creation & protection*** through retention of existing clients and access to new markets by meeting client climate demands.

Overview of the Key components for Carbon Valuation



Click to read the full guidance from ERM and PESMIT →

NEW IN RESEARCH
CASE STUDIES ON REAL-ECONOMY DECARBONIZATION

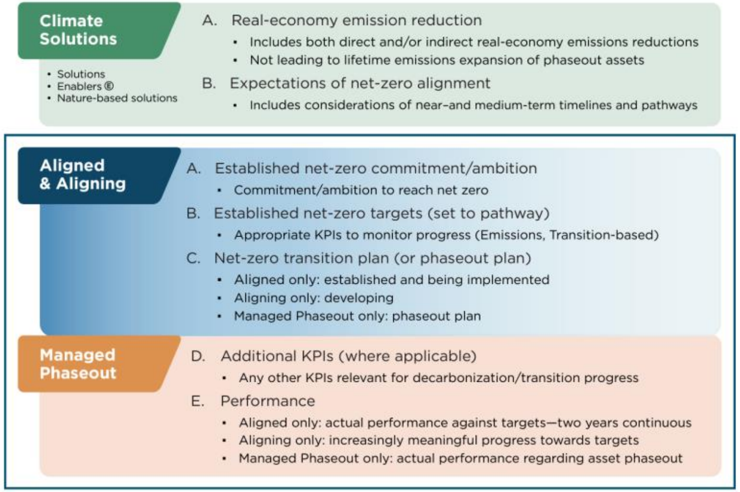
02 GFANZ Report - Case Studies on Transition Finance & Decarbonization Contribution Methodologies

The Glasgow Financial Alliance for Net Zero's (GFANZ) latest publication provides **case studies on learnings and perspectives of specific financial institutions on transition finance and decarbonization.** The case studies detail how financial institutions have developed and implemented transition financing strategies and piloted the Expected Emissions Reductions (EER) metric.

Key observations from financial institutions include the following:

- ***Private finance is key to enabling the net-zero transition*** and can enable real-economy decarbonization by engaging with clients and portfolio companies and providing them the capital and services necessary for realizing decarbonization opportunities.
- ***Real-economy transition plans are critical for decision-making***, as there is no one-size-fits-all approach to transition finance.
- ***Transition finance is increasingly recognized as an opportunity*** area, and this calls for additional guardrails and clarity for effective implementation.
- ***Internal capacity-building and upskilling is critical*** to the execution of transition financing strategies.

Summary of the Four Key GFANZ Transition Financing Strategies



Click to read the full publication from GFANZ

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NEW IN RESEARCH
CASE STUDIES ON REAL-ECONOMY DECARBONIZATION

03 CDP Report on Supply Chain Climate Risks Finds That Companies Cutting Their Scope 3 GHG Emissions Have Saved US$13.6 billion in Costs

A new CDP report based on the disclosures of over 23,000 companies in 2023 highlights the business case for sustainable supply chains:

- To date, ***only 15% of companies disclosing to CDP have initiatives that target their value chains***; encouragingly, emissions reduction have significant financial benefits, with a combined **US$13.6 billion in savings** occurring in tandem with the reduction of scope 3 emissions.
- ***Upstream emissions from manufacturing, retail, and materials*** sectors alone ***carry a carbon liability of over US$335 billion***. Therefore, it is vital to address supply chain climate risks to develop a resilient business model.
- Companies estimate a total of ***US$162 billion in potential financial costs tied to supply chain climate-related risks***, which ***is 2.9x greater than the US$56 billion needed to mitigate the risks***.
- In 2023, 343 leading corporate buyers engaged with suppliers through ***CDP's Supply Chain Program***, with financial incentives, capacity building and education, and collaboration and innovation.

Financial planning elements that have been influence by climate-related risks and opportunities within the supply chain and/or value chain based on the disclosures of 7,100 companies (31% of all CDP disclosers)

Financial planning elements that have been influenced	#	%
Direct costs	5332	75%
Indirect costs	3321	46%
Revenues	3571	50%
Capital expenditure	3797	53%
Capital allocation	1744	24%
Acquisitions and divestments	1248	17%
Assets	1525	21%
Access to capital	1387	19%
Liabilities	574	8%

Source: CDP (2024). Based on the disclosures of 7,100 companies who reported that climate related risks and opportunities have influenced their supply chain strategies and financial planning. # represents the number of companies out of the total 7,100. and % represents the % from the total.

Click to read the full publication from CDP →

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IN FOCUS: BIODIVERSITY
BIODIVERSITY & NATURE-BASED SOLUTIONS

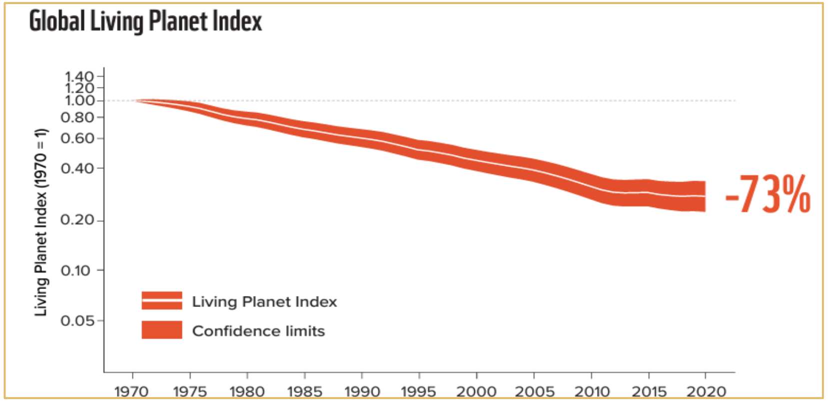
WWF 2024 Living Planet Report Finds a 73% Average Decline in Wildlife Populations Since 1970

As **the 16th Conference of the Parties (COP 16) to the Convention on Biological Diversity (CBD)** is approaching, we wanted to take the opportunity to focus on what biodiversity is and why it is vital to the well-being of people and the planet.

Key definitions:

- ***Biodiversity*** is defined as the 'variability among living organisms including terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are a part', which, in all its forms, directly and indirectly effects our quality of life, referred to as 'nature's contributions to people' (NCP).
- ***Ecosystem function*** refers to the processes that occur within an ecosystem. These are essential for the ecosystem's stability, productivity, and resilience, including nutrient cycling, decomposition, water purification, and climate regulation.
- ***Ecosystem services*** are the benefits that humans derive from ecosystems, such as food, clean water, and a stable climate.

55% of the world's GDP is exposed to material nature risk; equivalent to an estimated **US$58 trillion** of economic value creation that is **moderately or highly dependent on nature and ecosystem services**.



Source: WWF, Living Planet Report (2024)

Click to read the full 2024 Living Planet Report from WWF

IN FOCUS: BIODIVERSITY
BIODIVERSITY LOSS & ITS CONSEQUENCES

Biodiversity Loss & Dangerous Tipping Points – What are the Implications to People & the Planet?

Every indicator that tracks the state of nature on a global scale shows **an alarming decline in biodiversity.** Over the past 50 years (1970 – 2020), the average size of monitored **wildlife populations has shrunk by 73%, as measure by the Living Planet Index (LPI).**

- **Freshwater populations have suffered the heaviest declines,** falling by 85%, followed by terrestrial (69%) and marine populations (56%).
- At a regional level, the **fastest decline has been seen in Latin America and the Caribbean at 95%,** followed by Africa (76%) and APAC (60%).

We are approaching dangerous tipping points which pose grave threats to the Earth's life support systems would destabilize societies everywhere:

- The ***mass-die-off of coral reefs***, which would destroy fisheries and storm protection for hundreds of millions of people living on the coasts.
- The ***Amazon rainforest tipping point*** would release tonnes of carbon into the atmosphere and disrupt whether patterns around the globe.
- ***Collapse of the subpolar gyre***, a circular current south of Greenland, would dramatically change weather pattens in Europe and North America.

WHAT ARE THE DOMINANT DRIVERS OF CHANGE?

- Habitat loss & degradation, caused by activities such as unsustainable agriculture, logging, transportation, residential or commercial development, energy production and mining, coastal development, and bottom trawling.
- Overexploitation of resources, including direct overexploitation through poaching, hunting, or harvesting, as well as indirect and unintentional killing of non-target species (e.g., bycatch in fisheries).
- Climate change which indirectly impacts species through events such as shifts in signals that trigger reproduction and migration.
- Pollution through direct sources (e.g., oil spills) and indirect sources (e.g., impact of pollution on food availability).
- Invasive species/genes that compete with native species for resources.
- Disease transported through trade of species and travel.

Click to read the full 2024 Living Planet Report from WWF →

IN FOCUS: BIODIVERSITY
FRAMEWORKS FOR TARGET SETTING & DISCLOSURES

The Kunming-Montreal Global Biodiversity Framework

The Kunming-Montreal Global Biodiversity Framework (KMGBF): The KMGBF aims to halt and reverse nature loss through **global targets to be achieved by 2030** including:

- Ensure that by 2030, ***at least 30% of areas*** of degraded terrestrial, inland water, and marine & coastal ecosystems ***are under effective restoration;***
- ***Minimize the impact of climate change and ocean acidification*** on biodiversity & increase resilience through mitigation, adaptation, and disaster risk reduction actions, including nature-based solutions.
- Ensure that ***people are encouraged and enabled to make sustainable consumption choices***, including by establishing supportive policy, legislative, or regulatory frameworks and improving education.
- Identify and ***eliminate incentives, including subsidies, harmful for biodiversity, by at least $500 billion per year by 2030***, and scale up incentives for the conservation and sustainable use of biodiversity.
- Ensure ***the full, equitable, inclusive, and gender-responsive representation and participation in decision-making***, and access to justice and information for indigenous peoples and local communities.

Learn more about the KMGBF →

The Taskforce for Nature-related Financial Disclosures

The Taskforce for Nature-related Financial Disclosures (TNFC) has produced a set of recommendations for companies and financial institutions for disclosing and addressing risk associated with nature loss and degradation. In January 2024, 320 financial and non-financial companies had signaled their commitment to use the framework to report on their nature-related risks by 2025.

Four key pillars for TNFD disclosure recommendations:

I. **Governance:** oversight and management role in assessing and managing nature-related dependencies, impacts, risks and opportunities, as well as human rights policies related to indigenous peoples and local communities.

II. **Strategy:** effects of nature-related dependencies, impacts, risks, and opportunities on the organization's business model, strategy, and financial planning.

III. **Risk & Impact Management:** describe process for identifying, assessing, prioritizing, and monitoring nature-related dependencies, impacts, risks, and opportunities and how they are used to inform the organization's overall risk management process.

IV. **Metrics & Targets:** e.g., total spatial footprint, GHG emissions, pollutants released to spoil, waste generation, plastic pollution, and resource use.

Go to the press release →

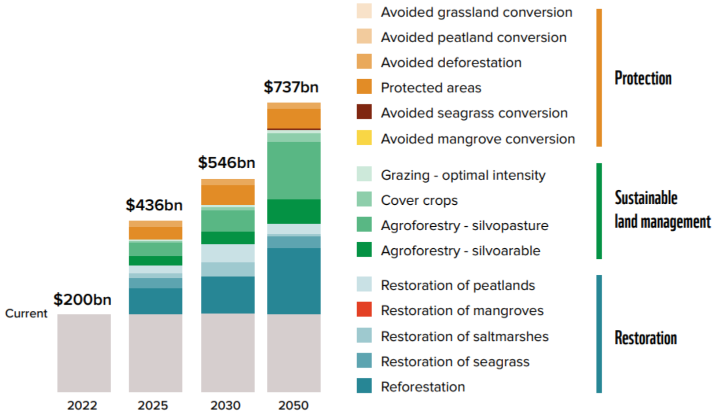
IN FOCUS: BIODIVERSITY
SOLUTIONS TO LIVE IN HARMONY WITH NATURE

Solutions to Halt & Reverse Nature Loss – Natured-based Solutions & Green Finance

Solutions to halting and reversing nature loss include **conservation and restoration of biodiversity sensitive areas, nature-based solutions, and green financing.**

- **Nature-based Solutions (NbS)** are actions to address societal challenges through the protection, sustainable management, and restoration of ecosystems and have the potential to reduce GHG emissions by 10% - 19% (e.g., mangrove & wetland restoration, agroforestry, reforestation).n
- **Reforming the global food system** - food production is one of the main drivers of nature's decline; it's the leading cause of habitat loss, accounts for 70% of water use, and is responsible for over 25% of GHG emissions. Key actions include shifting to plant-based diets, reducing food waste & loss, and adopting nature-positive production practices such as regenerative agriculture and climate-smart farming.
- **Mainstreaming green finance and implementing climate & nature policies that redirect finance away from harmful activities.** Currently, annual financing for NbS is less than 3% of nature-negative finance, at US$200 billion per year, in comparison to almost US$7 trillion that flows to activities that negatively impact the climate and nature. Investment in NbS needs to increase by US$542 per year, which represents only 7.7% of the negative finance flows.

Future finance needed for protection, sustainable management, and restoration through NbS each year from 2025–2050 to meet global targets



Source: WWF 2024 Living Planet Report (2024). Figures adapted from UNEP 2023.

Click to read the full 2024 Living Planet Report from WWF

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