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ESG

MAKING ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE IN EUROPE

A GLOBAL ROAD MAP

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EDITORIAL

MAKING ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE IN EUROPE A GLOBAL ROAD MAP

In recent years, Europe has positioned itself as a world leader in the defense of environmental, social and governance (ESG) principles. The regulatory landscape has been transformed, aligning policies with ESG objectives. The EU has taken initiatives such as the European Green Pact, which aims to achieve climate neutrality by 2050. Rigorous regulations, such as the European Taxonomy Regulation, have been implemented to standardize ESG reporting, ensuring transparency and accountability for investors and companies alike.

Across Europe, investors are now prioritizing ESG considerations, resulting in a substantial transformation of the investment landscape. Asset managers are actively integrating sustainability into decision-making processes, promoting responsible, long-term practices. Financial instruments such as green bonds reflect the financial sector's growing commitment to ESG principles.

Europe's commitment to ESG is driving innovation, positioning the continent as a hub for sustainable technologies. Significant investments in renewable energies, circular economy solutions and green infrastructure are addressing environmental challenges while creating economic opportunities, making Europe a global pioneer in sustainability.

Nevertheless, Europe faces challenges in the widespread adoption of ESG. The harmonization of standards across borders is crucial for consistent reporting, offering opportunities for collaboration, research and global solutions.

In both the public and private sectors, effective carbon accounting based on common sustainability reporting standards is imperative. The ongoing energy revolution, which is driving the transition to a green economy, offers an exceptional opportunity for sustainable growth. The European Commission, through the Delegated Act on European Sustainability Reporting Standards (ESRS), has played a central role in promoting sustainability reporting. However, it remains essential to strike a balance between high sustainability ambitions and practical implementation.

It is essential that standards are realistic in terms of time and content, and avoid imposing undue constraints on individuals and companies. In addition, these standards should offer tangible benefits, promoting transparency and accountability, and bringing added value to the companies that adopt them.

Establishing reliable data sources and transparent methodologies for calculating carbon footprints is essential for a global approach to product lifecycles. Global ESG standards aim to provide reliable information to facilitate sector comparisons, which is becoming fundamental to risk management.

To achieve the ambitious goal of net zero emissions by 2050, it is essential to create a market that rewards sustainable practices and penalizes environmental damage. A robust green financial system is essential to support a green economy. This comprehensive edition explores Europe's commitment to ESG standards, covering regulatory developments, investor influence, corporate responsibility, current innovations, challenges, stakeholder engagement and global collaboration.

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European Commission

MAIREAD MCGUINNESS

European Commissioner for Financial services, financial stability and Capital Markets Union

Environmental, social, and corporate governance (ESG), the EU's action plan for sustainable finance

Our planet is facing an unprecedented climate and environmental crisis which threatens our society and way of life. The magnitude of these threats demands an urgent and substantial response from those in government, industry, and indeed the general public.

The European Green Deal aims to make Europe climate-neutral by 2050 and is therefore crucial to our transition towards sustainability. Public funding alone is insufficient to meet the demands of the transition. Mobilising private capital and the financial sector to join the fight against climate change will therefore be essential to achieving our objectives. This is why the sustainable finance agenda is at the very heart of the European Green Deal.

As the Commissioner for Financial Services, Financial Stability and Capital Markets Union, I oversee the Commission's work on helping to ensure the necessary long-term investments into sustainable economic activities and projects.

Sustainable finance transparency

The role of the disclosures and sustainability reporting is of particular importance to mobilising investment in sustainable activities. With the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), we have established mandatory common standards to be used by all large companies as well as by listed SMEs. This ensures that financial markets get comparable and accurate information about investee companies and allows investors to confidently compare investments. By reporting on their impact on people and planet, companies are encouraged to adopt a sustainability mindset at all levels and the long-term impact. We have all seen, time and again, that companies that embody sustainability and risk analysis in their day-to-day operations are better placed to react to challenges in the long term. This in turn will lead to a more resilient economy.

Our work on the EU Taxonomy has further set out the baseline standards for sustainable finance investments, which *will allow investors to share a common definition of sustainability and direct their investments accordingly*.

Strengthening ESG criteria integration in the financial sector

Although there has been significant work already done on sustainable finance there remains more to do. I am committed to

further strengthening the integration of ESG criteria in the financial sector to promote sustainability and meet the challenges of climate change.

The obligations arising from the disclosure and reporting legislation are being phased in on a gradual basis, with the reporting criteria becoming stronger and more stringent over time. The reporting requirements under the CSRD, for example, are phased in over 3 years according to different categories of company, with listed SMEs coming last and even then having a further two years during which they can chose to opt out of the requirements. This approach allows for crucial industry buy-in to the idea of ESG reporting at an early stage before the full range of criteria become enacted.

Separately, my services are also working on rules for ESG rating agencies in financial markets with a view to enhancing the transparency and reliability of these ratings.

Regulatory mechanisms

One of the European Commission's strengths is the mixture of legal powers as well as 'soft powers' that are open to it when we decide to act in a certain area. In terms of the legal powers, we have adopted the reporting and disclosure legislation which I have referred to above, as well as put in place the EU Taxonomy to ensure transparency in the financial market on what is considered environmentally sustainable and thus to prevent greenwashing.

Furthermore, we have soft powers such as using our position as a global leader in the area of sustainable finance to set the standards on investment products that incorporate sustainability, such as with the European green bond voluntary standard. These bonds have specific rules governing where their funds may be allocated in order to ensure that they too align with our EU Taxonomy.

The EU as a global leader

I firmly believe that the EU is a leader in the area of sustainable finance, but I also want to ensure that we continue to lead the way on this matter.

We have gained valuable experience and insights through our work on sustainable finance to date, this know-how we can share with others and help encourage other countries to join us. We can further use this experience to work with international bodies such as the International Sustainability Standards Board (ISSB). By cooperating at a global level to standardise the ESG definitions and requirements, we can ensure transparency in sustainable finance around the world. The EU is doing a lot in this area – but of course we cannot do it alone, and we greatly value our work with our global partners. We cannot reach net-zero without working together.

The time for **sustainable growth** has begun

PIERRE-YVES DERMAGNE

Belgium Deputy Prime Minister and Minister for Economy

The environmental transition is urgent. Global warming, the degradation of our environment and the resulting loss of biodiversity are all issues that require strong and rapid action in all sectors of our economy.

Firstly, we will have to develop new renewable energy production units (wind turbines, solar panels, geothermal energy, etc.) and connect them via a large pan-European intelligent network. At the same time, our buildings will have to be renovated to save energy. We also need to develop our rail and public transport networks. The layout of our towns and cities will continue to be reviewed to encourage soft and collective mobility. All this infrastructure work, as well as the maintenance and operation of these networks, will create economic activities with many local jobs that cannot be relocated.

Secondly, the transition to a more sustainable society implies a green reindustrialisation of Europe. We have suffered massive company relocations over the last few decades. We are witnessing a race to the bottom to go and produce where production costs are lowest, i.e. where workers are paid the least and where environmental standards are the lowest. Relocating our industry will enable us to consume products that meet the highest environmental standards, will reduce emissions linked to the transport of goods and will also create economic activities with many jobs at stake. I particularly want to emphasise that the Due Diligence Directive is an important step in this direction, as it will make companies accountable throughout their production chain, with regard to both human rights and the environment. This will make Europe more competitive and combat social and environmental dumping.

Thirdly, our economy cannot be sustainable unless it is circular. We need to make our production chains circular in order to reduce our need for raw materials and cut our waste production. The recycling and reuse of goods sector will therefore have to develop throughout Europe, which will once again create economic activity and a large number of jobs.

So it seems that the transition to a more sustainable society could be a vehicle for creating wealth and jobs. In addition, this transition will strengthen the resilience of our economy by reducing Europe's dependence on imported energy, raw materials and manufactured goods. These are the objectives pursued by the European Green Deal, and we broadly support these policies.

Unfortunately, it is uncertain whether growth can be maintained in the long term solely by developing the sustainable sectors mentioned above. We live in an increasingly uncertain world with a deregulated climate, fragile ecosystems and critical natural resources that are becoming increasingly scarce. These planetary limits lead to a tense geopolitical context that encourages the emergence of frequent crises and hinders economic development, as we have seen recently with the chain of events that followed the coronavirus pandemic and the war in Ukraine.

Furthermore, economic growth is not synonymous with public well-being or prosperity. Many of the items of expenditure included in GDP are harmful or pointless from a societal point of view. What's more, this indicator does not provide a satisfactory measure of inequality, job quality, access to goods and knowledge or the quality of the environment.

This is why we should not be focusing on the dual objective of economic growth and environmental protection embodied in the term "green growth", but rather on the combination of public well-being and environmental protection.

We should therefore focus more on indicators of well-being rather than GDP, and develop policies that improve people's quality of life in an economy in full transition.

First of all it is essential to modernise and strengthen our social security system to offer workers better protection in the face of the economic transformations linked to transition. Secondly, collective reductions in working time will improve the well-being of workers while increasing the employment rate without requiring economic growth. Thirdly, to achieve this, we need to make our companies more accountable and democratic, and we could also mention numerous measures such as the development of the commons, which will make it possible to build a more resilient and protective economic model in a context of transition.

All these transition and support policies will have to be financed by a broader and fairer tax system based more on capital and other tax levies such as a tax on financial transactions to ensure that revenues are sufficient and as stable as possible.

These measures will not be part of a logic of green growth or degrowth, but will support the environmental transition, strengthen the resilience of our economy and help cushion the shocks we face. In this way, our citizens will be able to move forward serenely in a rapidly changing world.

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Taking **sustainability seriously** in all **economic sectors**

BRUNO LE MAIRE

French Minister of the Economy, Finance and Industrial and Digital Sovereignty

The main challenge for the global economy in the next decades is to achieve its just transition to a more sustainable model and to fulfill the objectives enshrined in the Paris Agreement, to limit global warming to 1.5°C, but also the objectives of the Kunming Montreal Global Biodiversity Framework. This transition will not occur in time without decisive actions. Through its Green Deal, the European Union is taking action, shaping a unique framework allowing us to take sustainability seriously in all economic sectors.

Transparency is necessary to drive transition efforts. Standardized disclosure requirements are an important tool to achieve this, as they root out entrenched market failures. With the directive on corporate sustainability reporting (CSRD), the EU is bringing sustainability reporting to a whole new level. The information disclosed by companies will be verified and comprehensive. They will bring transparency on the environmental and social impacts of approximately 50 000 companies in the coming years, from all economic sectors. This will require important efforts from our companies. Nevertheless, it should not be seen as an additional administrative burden but rather as a transformative tool for companies to monitor and manage their risks and improve their environmental performance. The extension of the European taxonomy of sustainable activities to an increasing number of economic sectors sets them a course consistent with our ambitious objectives, and should be pursued.

But transparency requirements will not be enough to drive change. Another milestone in completing this framework will be the directive on corporate sustainability due diligence. As the French law of 2017, it will require large businesses to identify, prevent and mitigate sustainability adverse impacts. Due diligence is not a simple requirement of information but a duty to take concrete actions. Multinational enterprises should no longer turn a blind eye on the activities of their suppliers of cocoa or rare earths. They should make sure that employees and smallholders in their supply chain work in safe conditions and benefit from a decent living. Similarly, clothing brands and car manufacturers should pay attention as to whether their subcontractors handle hazardous wastes in line with international law. These mandatory rules should apply to all. The objective is clear: to use the strength of the Single Market – the first in the world by its size – to upholds human rights and better protect the environment.

To be fully effective those transparency requirements need to be driven by strong public policies that define a clear path and economic mechanisms that incite businesses to invest in sustainable projects to the maximum extent of their capacity and boosts their competitiveness. This is the aim of the European Green Deal through its investment in green activities and technologies and low-carbon energy. The Green Deal Industrial Plan and the Net-Zero Industry Act will create a more supportive environment for scaling up the EU's manufacturing capacity for net-zero technologies and products.

The EU is also committed to implement incentives and make polluters pay for their greenhouse gas emissions while generating revenues to finance the EU's green transition. This is the aim of the European carbon market (EU ETS), described as the cornerstone of the EU's climate policy, that has been recently strengthened in line with the EU's commitment to reach -55% net greenhouse gas emissions by 2030 compared to 1990 and carbon neutrality by 2050. The EU is also implementing a Carbon Border Adjustment Mechanism (CBAM) designed to be compatible with rules of the World Trade Organisation to ensure that the carbon price of imports of carbon-intensive products is equivalent to the carbon price paid by European producers thus preventing more efficiently carbon leakage (that occurs when companies based in the EU move carbon-intensive production abroad to countries with less stringent climate policies).

The EU is building an ambitious framework conducive to the integration of sustainability in all economic sectors and decisions. To embark everyone, we need to keep it practicable and proportionate. To make it effective, we need to make sure that it does not have unintended effects on the competitiveness of our companies. Strong European economic actors will be drivers of the transition worldwide.

Ethical Investing Pays Off – and Not Just for the Planet

AMBROISE **FAYOLLE**

Vice President of the European Investment Bank

It is not easy to be a responsible investor these days.

Take for example the clean energy area, where the war in Ukraine and the ensuing spike in electricity and fuel prices brought windfall profits to oil and gas. Meanwhile, the sharp rise in interest rates to tame inflation is hurting renewables majors, as these companies have been counting on reasonable borrowing costs and liquidity to finance the substantial upfront investments needed to develop and deploy clean technologies. As a result, renewable stock indices and baskets have been underperforming.

Still, none of this makes losing our nerve a viable strategy. The European Investment Bank Group decided in 2019 to phase out support for unabated fossil fuels, and we 're about half-way through the roadmap we adopted in 2020 that is transforming us into a climate bank.

The decision we took was not based on noble intentions only. Of course, we want to finance projects that will create a better world for present and future generations and abide by the unequivocal warnings of the scientific community that unless if we stop greenhouse emissions, we risk an irreversible planetary catastrophe due to biodiversity loss and global warming. But the main driver of our actions was not climate activism, but our fiduciary duty to protect the interests of our shareholders – EU member states.

These shareholders unanimously committed, also back in 2019, to climate neutrality. This landmark decision of EU leaders was not just words. An elaborate legal framework with progressively tightened timelines and binding targets has since been adopted. Dozens of laws implementing this overarching framework we came to call the European Green Deal have already been voted by the European Parliament and the Council of the EU, and are being transposed into national legislation across 27 member states.

Similarly, across the Atlantic, the U.S. Inflation Reduction Act is triggering a massive wave of new investment into renewables. Clean energy deployment in China is also breaking records and global green growth – from electric cars to heat pumps - now far exceeds even the most optimistic expectations of the previous decade.

A wave of human innovation, policy incentives, carbon pricing, regulation and investment has brought down the costs of clean technologies so much that they now cheaper – and easier to deploy – than fossil fuel alternatives. The International Energy Agency has repeatedly warned this year that even current policy settings could lead us into a glut of fossil fuel infrastructure that the world will not need.

Real-time observations show **we are already on the cusp of a peak in fossil-fuel emissions and a structural decline**, even in China. In other words, **a technologically obsolescent and increasingly uncompetitive source of power is being retired to the long and dark corridors of history**. **The implications for investors are nothing short of profound**.

None of this is to suggest that the road ahead will not be bumpy. **The fact that clean energy is the future doesn't mean that each and every producer in the area will thrive**. **A lot will depend on sound management, innovation, and maintaining a global level field**, which will make sure that innovators, including here in Europe, are not faced with a competitive disadvantage due to market-distorting subsidies.

Global diplomacy and trade enforcement measures are not the only priority which should make it to the to-do list of our policy-makers. **We also need a conducive, efficient, and clear regulatory environment inside our single market, including a fully developed capital markets union**. Fragmentation, as well as usability issues in some of our rules, for example in the nascent taxonomy framework, risk triggering hyperbolic backlashes from vested interests that seek to turn transition policies into an easy scapegoat.

This would be a grave error. **Talk of watering down or even backtracking on Green Deal commitments only creates confusion to markets and hampers investment**. If we allow ourselves to be **stuck into a limbo of indecisiveness**, Europe will miss the train of the energy revolution which is already in full swing. The damage to the competitiveness of our economies will be irreparable.

That's why **there shouldn't be any doubt about our strategic goals and the direction of travel in terms of policy**. Serious issues which may arise along the way can be resolved with targeted measures: for example, with support for households and businesses affected by both the impact of a warming planet and the costs of transition investment. They can also be tackled with well-designed backing for our industries in these uncertain times, such as the European Commission's Wind Power Package, which the EIB is pleased to support.

At the EU Bank, we see ourselves as a key instrument to advance commonly agreed goals of the governments of our Union. Key among those is the European Green Deal. That's why we raised our clean energy lending to record volumes, in support of the REPowerEU plan to eliminate Europe's dependence on fossil fuel imports from Russia or any other authoritarian government that would seek to blackmail us.

Our commitment is confirmed by the fact that **we are on track to support €1 trillion in green investment this decade, and we have already reached our** Climate Bank Roadmap **target to devote at least 50% of annual financing to climate action and environmental sustainability**.

Our message to ESG investors is that our decision to phase out support for fossil fuels didn't have a negative impact on our business. On the contrary, we avoided the risk of finding ourselves **invested into assets that will end up stranded** as clean technologies advance.

Commercial lenders, asset managers, and governments should follow the same route. We are bending the curve and the energy transition will happen anyway. **We can either embrace change and focus our resources to the future, or stay attached to the past**, which would cost dearly both in opportunities and **even more so in time that our planet simply doesn't have**. The choice is clear.

ODILE RENAUD-BASSO

President of European Bank for Reconstruction and Development (EBRD)

Promoting synergies between public and **private networks** in the field of **green finance**

Climate change is not a distant threat; it is already upon us. The scorching summer of 2023 broke records, igniting the largest wildfires in the EU ever and in North Africa unleashing devastating floods and disrupting agriculture. Such impact damaged essential infrastructure, caused steep financial losses, and disrupted supply chains. More importantly, that impact was felt the most acutely by the vulnerable, who suffered livelihoods destroyed and major risks to their health. For many the most attractive 'solution' to this problem is to flee their homes and move elsewhere, in other words forced displacement and migration.

And yet the transition to a zero-carbon world is not just a threat, it is also an enormous opportunity to make the shift to green growth. Such transition can ensure a sustainable future for generations to come. It can bring about a healthier, less polluted environment, create jobs and make societies more resilient to economic and political shocks.

The truth is, however, that to deliver such a green growth transition in emerging and developing countries, we need large amounts of investments every year. The sums required cannot be financed from the public sector alone. Most of the investments must come from the private sector.

How do we incentivise businesses to scale up climate investments and channel them towards these emerging and developing countries?

The reason climate change is such a gaping market failure is the absence of a credible price for carbon in most countries. To change this state of affairs, we do not need to abandon markets, we just need to change the rules of the game by which those markets operate.

Such changes to the rules would include removing key market barriers, including weak political commitment to green growth, fossil fuel subsidies and a lack of enabling regulations. If we are to significantly curb greenhouse emissions and pursue the net zero emissions by 2050 Scenario, we need a market that rewards sustainable practices and penalises environmental harm.

Multilateral development banks (MDBs) are well placed to catalyse the systemic changes needed to achieve these goals. And the EBRD and its business model – one quarter of its investments in the public and three quarters in the private sector – is particularly well suited for this role.

We use our investments and our policy dialogue to promote regulatory and market reforms which make climate investments economically viable. We channel concessional finance from donors and climate funds to early movers in nascent markets. We make crucial investments that kick-start new markets.

Our reach spans the entire economy, with a special focus on building a green financial system as the backbone of a green economy. We work with regulators and central banks to shape the standards for a green transition. We support local partner banks with developing Paris-aligned transition plans – transforming their lending practices, risk management and strategic planning. And we provide green credit lines to a network of around 190 local partner banks who on-lend the funding to their clients for investments in energy efficiency, renewable energy, and climate resilience. In this way, we reach SMEs and businesses even in remote locations.

Only last year at COP27, we supported Egypt with the launch of the Energy Pillar of its Nexus-Water-Food-Energy (NWFE-EP) program. NWFE-EP aims to develop 10GW of new renewable energy capacity and retire 5GW of inefficient fossil-fuel plants. It channels US$ 500 million in donor funding and concessional finance towards technical assistance, investments in the energy grid, and developing a just transition approach. With these elements in place, we expect to mobilise US$10 billion from the private sector for investments across the Egyptian energy sector. This approach already works.

Scaling climate finance to developing countries and emerging economies requires private capital from developed countries and international investors. In 2022, we partnered with ILX and PGGM from the Netherlands to pioneer an innovative approach to mobilise such climate finance. We are mobilising €500 million of ILX's managed private funds into Paris-aligned EBRD projects for the next five years, while PGGM will be co-investing €250 million for the next three years.

Furthermore, we are piloting different approaches to mobilise climate finance, such as insurer mobilisation. Over the last three years we have mobilised roughly €1 billion from private insurance directed towards green projects. Our partnership with institutional investors and insurers allows them to make the most of the EBRD's experience and knowledge of emerging economies. It helps investors make decisions in the absence of investment-grade credit ratings which they often require to invest in a certain country or region.

Our approach is delivering results. In fact, in the past two years, the EBRD's reported mobilisation of private climate finance reached US$ 24 billion. In the same period, our own climate finance was US$13.2 billion, meaning each dollar of EBRD climate finance mobilised US$1.80 of private finance.

The global shift to a zero-carbon future represents a huge opportunity for us all, one which MDBs are here to help accelerate. Together with the private sector, we can create a world that not only survives climate change but also enjoys a sustainable, green and prosperous future.

LUCIA SILVA

Group Chief Sustainability Officer, Generali

Generali's **Sustainable Transformation** Journey

Intro

At Generali, the journey towards sustainable transformation dates back right to its foundation more than 190 years ago.

For us, Sustainability is about doing business which also has a positive impact on people and the environment. We act as a sustainable player because we believe that it is the right thing to do and it translates into living our purpose: "to enable people to shape a safer and more sustainable future by caring for their lives and dreams".

This requires a continuous process of transforming the way we do business to increasingly integrate environmental social and governance factors in what we do.

As Sustainability and the world keep evolving, we have to keep asking ourselves what the most relevant priorities are, striking a balance between stakeholders' expectations – regulators, investors, clients, civil society all have a view on what Sustainability encompasses – and our ability to deliver on the promises we make.

Our mantra is 'integrating sustainability into the core business', and this has led our journey to position Sustainability as the originator of our current strategy, "Lifetime Partner 24: Driving Growth". Our ambition is for Sustainability to be a true game changer, shaping the way all decisions are made and positioning Generali as a transformative, generative, and impact-driven company.

Our responsible roles

We identify **four responsible roles** to play as investor, insurer, employer and citizen and we have set clear targets to measure our progress:

As a Responsible Investor, we aim at fully integrating ESG criteria into the investment activities, reducing greenhouse gas emissions from the investment portfolio to net-zero by 2050, and increasing our new green and sustainable investments, including investments to support the EU Recovery.

As a Responsible Insurer, we provide insurance solutions with ESG components, reduce greenhouse gas emissions from the underwriting portfolio to net-zero by 2050, and support the sustainable transition of small and medium-sized enterprises (SMEs) through the SME EnterPRIZE project.

As a Responsible Employer, we carry out dedicated actions to foster and promote diversity, equity, and inclusion in our work environment, continuously upskilling our people, nurturing talent in all its forms, and implementing more flexible and sustainable ways of working. In addition to this, we commit to measuring, reducing, and reporting the carbon footprint resulting from our own operations.

As a Responsible Citizen, we act to unlock the potential of people living in vulnerable circumstances through the global initiatives of The Human Safety Net Foundation, a social innovation hub powered by Generali's skills and international network, aimed at creating positive social impact.

Our Foundations

In order to achieve our ambition and targets, we strongly rely on foundational elements, necessary to enable sustainability integration: governance, internal regulation, incentives, monitoring and reporting.

The governance of sustainability ensures we have a sound system to guide our journey, and it involves a Board level committee as well as top management.

Our internal regulation cascades a clear set of definitions and rules across our Group, to truly integrate sustainability into our key processes.

We have also integrated sustainability KPIs into our incentive system for our top management and in our share plan for employees, making sure sustainability is a priority driving our actions.

Finally, last but certainly not least, we communicate our commitment and report on our performance to guarantee transparency and comparability of information. Our Group Annual Integrated Report is "the moment of truth" when we assess our yearly performance and present it to our stakeholders.

The importance of partnerships

True change cannot happen one company at a time. Partnerships are essential to tackle the key issues of our time. Think about the impact that financial institutions can have by coming together – one of our focus areas as Generali is climate change and we are one of the founding members of the Net-Zero Insurance Alliance and a member of the Net-Zero Asset Owner Alliance.

Private and public institutions must work together: insurance can contribute to socio-economic stability an enhance the resilience of communities and local businesses. For example, we have partnered with the United Nations Development Programme (UNDP) to better understand how insurance solutions can be accessible and affordable for the people who need them the most in developing countries.

Looking ahead and future challenges

We foresee three big challenges coming up for Sustainability:

1. **Complexity of regulation**
   EU regulation is and will be key to shape Sustainability for years to come. We are already facing increasing complexity which we expect to continue to grow as Sustainability evolves: all companies will need to manage this complexity and transform regulation into a strategic opportunity.
2. **Polarization**
   In the current political scenario, where ideological and cultural divisions lead to increasing polarization, Sustainability has also become the subject of conflicting world views, causing companies to have to defend themselves against accusation of both not doing enough and doing too much when it comes to sustainability.
3. **Innovation squashed between greenwashing and greenbleaching**
   The increased focus on greenwashing and the risk of greenbleaching by companies poses a threat to innovation, which is essential to continue our collective sustainable journey.

The **CS3D**: a **milestone** for **supply chain responsibility**

AXEL VOSS
MEP (EPP Group – Germany)
Rapporteur on Directive CS3D

The Corporate Sustainability Due Diligence Directive (in short CS3D) has been a long time coming. The corporate responsibility for the violation of workers' rights, especially in producing countries, as well as the corporate responsibility for environmental degradation has become increasingly visible and moved higher on the agenda in the last decade, not only in the EU, but also internationally. Especially the collapse of Rana Plaza, a textile factory in Bangladesh in 2013, which cost the lives of 1135 people, led to a further push for international standards like the UNGPs and the OECD due diligence guidelines for companies to adhere to, in order to prevent such tragedies and increase the possibility for victims to seek justice.

Despite commitments of EU Member States to adhere to the OECD framework, the number of large companies that actually integrated due diligence into their processes with a view to mitigating risks of human rights and environmental adverse impacts remained minimal. The French and German governments therefore implemented national laws for the largest companies to screen their direct suppliers for risks of human rights and environmental violations. While these laws were the first step for binding due diligence rules, they were criticized by companies for the heavy bureaucratic burden, and by civil society for not actually preventing or mitigating risks and damages.

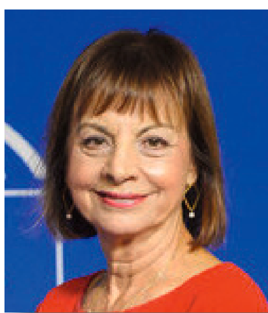
On the European level, the legislative process for a common European framework already started in 2020 with the first proposal for an initiative report by the European Parliament, followed by the Commission proposal for a Directive in 2022 and now having led to a political agreement in trilogue among all institutions in December 2023. Guided by the international guidelines of the UN and the OECD and having learned the lessons of national laws, this European Directive is designed to follow the logic of the OECD framework in targeting the risks that companies have caused and carrying the responsibility for those - nothing more and nothing less. In order to achieve this goal without unnecessary bureaucratic burden, the CS3D follows a risk-based approach.

Companies with more than 500 employees and 150 million in turnover (followed by companies with more than 250 employees and 40 million in turnover in specific high-risk sectors) will have to identify risks of violations of human rights and the environment in their upstream operations, as well as in the distribution and disposal of the product. In order to identify such risks, companies need to map their value chain in order to identify general areas where risks are most likely to occur or are most severe. This is based on the OECD risk factors, determined by the sector, geographic location, product-based or business model-based risks that the company operates in. Despite best efforts, it will still be impossible to make the entire supply chain of a company transparent down to the last tier and this is also not the expectation. It should be clear that companies should focus their efforts on the most severe risks, that are usually either already known or visible. And if a company cannot receive any further information beyond a certain point, it can declare that. In order to reduce the bureaucracy in the process, companies do not have to check other companies that themselves fall under the Directive.

After having identified the most severe and most likely risks, a company also needs to take into account which level of involvement it has with the identified risks. Here, the CS3D is based on the OECD involvement framework: companies are obliged to take measures to mitigate or end risks when they caused or contributed to them through own acts and omissions. Anything beyond that is an obligation of means, not an obligation of results. This means that companies have to really tackle severe risks where they have caused them because they are happening in their own structures, because they are connected to their contracting practices or their pricing practices. If, however, there are human rights or environmental risks deep in the value chain, but the practices of the company under the Directive actually have nothing to do with it, this also should not be the responsibility of that company.

Companies then have to choose and adapt measures like responsibly changing their contracts or purchasing practices in order to minimize or seize the risks they caused. In case not all risks can be tackled at the same time, the company can prioritise the ones it needs to tackle first, based on their severity. In cases of direct suppliers where no measure leads to a satisfactory outcome and the risk or damage does not become even worse if the company cuts its ties, the company needs to terminate the contract as a last resort. If the company fails to fulfil these due diligence obligations, which causes damages because of a company's intent or negligence, they can be held civilly liable, leading to real access to justice for victims.

With this design, the CS3D aims to have a real effect: companies need to care for human rights and the environment in the operations that they are responsible for and victims can hold them accountable. That way, tragedies like Rana Plaza can be prevented. At the same time, the expectations for companies must be reasonable and achievable. There is no need to fill out endless questionnaires in every supplier relationship, no need to try to get information on the last tier and no need to fear mass litigation for things that should in the end be state responsibility. This legislation cannot fix every problem nor should it. Nonetheless, it is a major step for supply chain responsibility where it really counts.



MARIA-MANUEL LEITÃO-MARQUES

MEP, (S&D Group - Portugal), Vice-Chair IMCO Committee

A **regulation banning** all products made with **forced labor** from the **EU market** - a moral obligation

Forced labour has been a reality for centuries. A century ago, in colonized countries and inhospitable jungles, forced labour was easy to hide from external observation, and the improvement of working conditions for those workers was very difficult to obtain. More than a century later, in this connected world, despite having plenty of real-time information about everything, forced labour remains a reality for too many, and it's still a challenge to investigate and eliminate it. We can do better.

In 2021, there were around 27.6 million people working under forced labour across the world, especially in Asia, but also in other continents. State authorities, private enterprises or individuals can force workers using violence or intimidation, or through more indirect means such as getting them indebted (via recruitment fees, for instance), retention of identity papers or threats of denunciation to immigration authorities. All these situations fall under the International Labour Organization indicators, one of the best tools we have to identify forced labour situations.

It's time to change tactics and take a step forward, complementing our approach. Forced labour is already a crime, but currently we have no mechanism to ensure that the products of this crime are not placed in our market. By banning these products from the internal market, we are using the power of our 450 million consumers to reduce the economic incentive to use forced labour and thus correct a moral harm, which is the circulation of products made using forced labour.

How will it work? Competent authorities will get information on a certain product - let's call it "product X" -, either coming from a database of public sources on forced labour risks that will be created, or from submissions of information by civil society, companies or victims themselves.

Then, competent authorities use a risk-based approach to understand what is the risk that "product X" is contaminated with forced labour, based also on the information received from companies. If there is substantiated concern, a formal investigation starts, which will lead to concluding either that there is forced labour, or that there's not forced labour

If there is forced labour, competent authorities will ban "product X", and this ban will be enforceable by customs and market surveillance authorities. Thus ends the economic incentive for bringing forced labour products to the market in the EU.

Adopting this product ban is a moral obligation, but we must make sure our impact goes beyond a ban of products. That's why, in the position we approved in the Parliament, we adopted two crucial changes. The first is remediation for victims of forced labour, meaning that, when a product is banned, this ban can only be lifted if the workers that suffered from forced labour are compensated from the harms they suffered. Secondly, we adopt a specific approach for State-imposed forced labour. These situations are harder to prove and affect entire communities. It's almost impossible for companies to choose not to use forced labour in the regions affected. Thus, we have made it easier to prove State-imposed forced labour, by reversing the burden of proof and placing it on the economic operators.

This regulation focuses on products, as it should, regardless of the size of the economic operators involved in the production, and it ensures all products are covered if they are tainted with forced labour. There's no minimum amount of forced labour that becomes acceptable. Companies know that if they use forced labour, or if they buy raw materials or components that are tainted with forced labour, their products will be banned from the internal market, losing access to a great source of revenue.

However, contrary to what some would argue, this regulation should not be seen as an extra burden for companies. Quite the opposite: this regulation will help to protect companies that play by the rules. This proposal will help, in particular, our SMEs, which are suffering from unfair competition from other parts of the world. This is a competition based on lower labour standards or, in this case, human rights violations, which translate into large unfair competitive advantages. We cannot let that happen.

At the moment, the USA already has a ban in place for imports of forced labour products, and some other countries are working on adopting one, such as Mexico and Canada. This shows us that the proposal is part of a larger trend of democracies worldwide demanding more accountability from companies regarding human rights. However, this also implies that, if we don't approve our ban, the products banned in these countries are diverted to the European market and sold here to our consumers. Lastly, the eradication of the economic incentive for using forced labour is greater if we combine our power with the power of those other markets.

I hope we can quickly negotiate and approve this proposal, so that the Union will have a strong, effective instrument to fight forced labour worldwide.

The challenges and **benefits** of **integrating ESG criteria** into the **ICT value chain**

JEAN **BENOÎT BESSET**

VP for Group Environment and Energy Transition, Orange

Orange's "Raison d'être" clearly encompasses the ESG criteria: "*As a trusted partner, Orange gives everyone the keys to a responsible digital world.*" Our mission is to ensure that digital services are well conceived, made available and used in a more caring, inclusive, and sustainable way in all areas of our business. Orange does everything in its power to ensure people and organisations enjoy a more autonomous, secure digital life.

We have a responsibility to support the societal and environmental transitions generated by our activities. And we cannot deploy technology without the efforts of our teams and partners in the countries we operate. Our Corporate Social Responsibility (CSR) policy is built around ethics, anti-corruption and compliance, duty of care, close collaboration with stakeholders and providing support throughout the value chain (from supplier to customer). As of 2019, our CSR ambitious commitments have become part of our strategic plan and were amplified in our new strategic plan "Lead The Future".

ESG by Design sits at the heart of our enterprise model. This is essential to transform ourselves and help others transform to meet ESG targets. It is a guarantee of performance and long-term sustainability for the Group, and legislation such as the Corporate Sustainability Reporting Directive is a very useful tool but nevertheless complex to implement.

Our ESG commitment

Being net zero carbon by 2040

As a leading telecoms operator, we aim to build a more responsible digital world by committing to net zero carbon emissions by 2040. This translates into considerable efforts to reduce our direct and indirect CO_2 emissions, whether via energy efficiency, renewable energy, circular economy, and carbon capture for the residual emission (10% maximum of our 2020 emissions).

We have set a new milestone to reduce our greenhouse gas emissions on all scopes 1, 2 and 3: -45% in 2030 versus 2020. Orange is fully in line with its first emission reduction target on scopes 1&2 related to the energy consumed in Orange's activities, reaching its 2025 target as early as mid-2023.

We have implemented a proactive policy for energy efficiency, use of low-carbon energy solar panel installations, and low carbon energy purchasing, primarily from new production assets. Almost 60% of renewable energy bought by Orange in 2023 comes from Public Purchase Agreements, the remaining 40% is bought with Guarantee of Origin Certificates. Orange is also very committed to the circular economy, focusing on mobile phone collection in our stores, refurbished smartphone sales and network equipment reuse and improved lifetime.

Contributing to a trusted society and digital inclusion

Orange's DNA is the development of a trusted society. Orange has notably developed protection against digital threats. For example, as part of the fight against cyberbullying, Orange created in the autumn of 2022 Safe Zones (safe havens for the user) in the world of the game Fortnite, then Roblox in several countries.

We are also committed to digital inclusion; we were ranked second for digital inclusion in 2023 by the World Benchmarking Alliance. This includes extending our actions and beneficiaries to our free programmes which aim to provide people with digital skills in all the countries we are operating in, thanks notably to the Orange Digital Centres[1].

1 https://www.orange.com/en/orange-digital-center-committed-digital-equality

ESG across the value chain

To support its transformation and help its stakeholders, customers and suppliers, to engage in their own transition, Orange has started to integrate ESG criteria in some of its key processes, such as implementing a responsible purchasing policy. CSR clauses are now included in our supplier contracts and CSR performance of the potential IT and Networks suppliers is valued in our Request for Proposals at 20%. This is an important lever to reduce our scope 3 commitments. In 2022, 96% of the contracts signed included the CSR clause, compared to 92% in 2021 (URD 2022). We work with our suppliers to reduce our scope 3 and develop a "win-win approach", in particular regarding the recycling of network equipment.

In September 2023, Orange also successfully issued its first Sustainability-Linked bond, for a nominal amount of €500 million, linked to the company's target, as indicated above, to reduce by 45% its absolute greenhouse gas emissions (Scope 1, 2 & 3) by 2030 (vs. 2020) and its commitment to provide digital support and training to external beneficiaries (6 million beneficiaries cumulatively between 2021 and 2030). The interest margin of Orange's Sustainability-Linked bond will increase if those targets are not achieved, thus having an incentive effect. This issuance follows Orange's publication of a Sustainability-Linked Financing Framework. This Framework has received a Second Party Opinion from Moody's Investors Services with a qualification of "Significant contribution to Sustainability".

Impact of the Corporate Sustainability Reporting Directive (CSRD)

The CSRD objectives are welcome.

Orange supports the reporting requirements set up by the Corporate Sustainability Reporting Directive and believes that setting harmonised standards helps

preventing greenwashing; establishing transparency and comparability that are necessary to drive best practices and transformation.

Orange has chosen to make its CSRD implementation project an opportunity to raise questions and awareness within the Group on its policies and action plans to steer ESG issues, their impact, risks and opportunities. The double-materiality analysis, which is the cornerstone of this new regulation, is a very good tool to support the deployment of the Group ESG strategy. This analysis links the company's impact on the environment with their consequences for the company's direct and indirect ecosystems and with the risks to the company's financial performance.

Orange's climate strategy relies on two pillars: mitigation and adaptation. By integrating the value-chain in the analysis and reporting requirements, all the actors of the ecosystem will have to work together towards sustainability.

But its implementation shows several concerns that need to be tackled swiftly.

The timeframe, the huge volume and complexity of the new information required within CSRD is very challenging. It implies an important amount of work and additional costs for many teams in every country from data collection to reporting production. Orange believes this work would be more proportionate and efficient by focusing on information that are really material and allows the company to make a difference and transform itself towards a more sustainable model for all parties.

For instance, for Orange at this stage, the scope of the reporting is equivalent to the consolidated financial perimeter, hence it also includes very small entities for which the reporting of CSRD information will represent a significant workload and costs, even though this information has little impact on the total result.

The competitiveness of European companies is also at stake. Non-EU competitors will not be subject to the same level of detailed reporting obligations and while the CSRD is a European standard, non-financial rating agencies are now essentially non-European. Orange considers this situation to present a risk for the standard itself because those who will evaluate companies and therefore guide investments could follow a different logic from the European one.

In this context, the Group welcomes the European Commission's announcement to reduce reporting requirements by 25%.

Orange will continue with its peers to support the dialogue with the European Commission on how best to implement Europe's vision for the future with an efficient and coherent ESG reporting.

Reporting Standards: Striking the Delicate Balance Between **Ambition** and **Realism**

DANIEL **BUDA**

MEP (EPP Group – Romania)- JURI Committee

As I reflect on the developments of reporting standards, I can't help but recognize the significance of the European Commission's stride in the realm of sustainability reporting by issuing the Delegated Act on European Sustainability Reporting Standards (ESRS). This act, developed within the framework of the Corporate Sustainability Reporting Directive (CSRD), aimed to enhance transparency in sustainability reporting practices among European companies. However, this milestone was not reached without its fair share of controversies and criticisms, prompting important discussions regarding the equilibrium between the lofty ambition to promote sustainability and the practical realism of implementing these standards.

My engagement with the CSRD has been intensive and purposeful. The reached agreement can be considered a significant triumph for the EPP Group, as it materializes our commitment to balance the rigor of sustainability with pragmatic business realities. We have advocated fervently against overburdening European companies with excessive bureaucracy. A notable achievement in this regard is the decision that sustainability and financial reports will not require separate audits. This approach is poised to significantly ease the financial burdens faced by businesses. I consider this relief being especially crucial in these challenging times, characterized by the global pandemic, an ongoing energy crisis, and heightened geopolitical tensions.

In our efforts within the EPP Group, we have vigorously defended against proposals that would have expanded reporting requirements to encompass all small and medium-sized enterprises (SMEs). Our successful negotiation has led to an agreement that confines these obligations primarily to listed SMEs, with a provision allowing them to opt out until 2028. I firmly believe that while reporting standards are instrumental in ensuring fair competition and access to finance for businesses, they must also be realistic in terms of timeframes and content. Most crucially, these standards should offer tangible benefits to every company that adopts them for measurement and reporting. It is with this conviction that we advocated for an additional two-year grace period, providing businesses with ample time to adjust to the new legislation. The rationale for this last point can be observed in Romania, my Member State, where companies are facing substantial changes in sustainability reporting, with compliance being a challenging and time-consuming endeavour. Data from Romania's Ministry of Public Finance and consultancy firms reveal that only a small fraction of the 700 companies which would be required to report on sustainability have already implemented this measure. Hence, the novelty that this Directive is bringing is evident. The CSRD implementation in Romania will roll out gradually, starting in 2025 for companies already reporting under the Non-Financial Reporting Directive (NFRD). In 2026, other large undertakings will also need to disclose sustainability information. As a result, the additional two years for implementation offer a vital window for companies to comprehend, prepare for, and fully integrate these new reporting requirements into their operations.

On the other hand, companies already publishing sustainability information by using international standards and those proactively addressing the issue will find compliance easier. While the CSRD doesn't mandate sanctions for non-compliance, Member States can introduce them. Romania's current stance is against sanctions in implementing acts, following the directive's text. However, to promote compliance, the CSRD introduces auditing of sustainability information in annual reports, holding administrators accountable. In these circumstances, I believe that success depends on the availability of trained personnel.

When considering the feedback on the ESRS, I acknowledge the concerns raised by influential investor associations, environmental NGOs, and notable think tanks. A primary issue they have highlighted is the question of whether the Act provides sufficiently reliable and comparable sustainability data. There's a prevailing scepticism suggesting that the current standards might not be stringent enough. This perceived

leniency could potentially allow companies to underestimate or underreport their environmental impacts. I am acutely aware of the dangers this poses, particularly the risk of "greenwashing" – where companies might misrepresent themselves as more environmentally conscious than they are in reality. Such practices are not only misleading to investors but also threaten to erode the trust placed in Europe's commitment to fostering economies that are both environmentally responsible and socially equitable. However, I also recognize the potential danger of overburdening companies with overly stringent requirements too quickly. Rapid imposition of strict standards could lead to significant compliance costs, operational disruptions, and possibly stifle innovation by diverting resources away from more impactful environmental initiatives. Therefore, it's crucial that these standards evolve and increase incrementally, allowing companies to adapt effectively and responsibly while minimizing counterproductive outcomes.

To conclude, developing non-financial reporting standards is a significant effort, requiring a balance between the overarching goal of sustainability and the practicalities of implementation. These standards need to be achievable in terms of time and content, ensuring they are not overly burdensome for individuals and companies. Furthermore, it's crucial that these standards offer tangible benefits to every entity involved in measuring and reporting. This approach will ensure that the standards not only foster transparency and accountability but also add value to the businesses that adopt them.

CHIARA DEL PRETE

Chair, EFRAG's Sustainability Reporting Technical Expert Group

European Sustainability Reporting Standards (ESRS): a complete coverage of E, S and G disclosures under double materiality to support high-quality reporting

The successful integration of ESRS into the European legal framework marks a milestone in the progress of quality sustainability reporting in the Europe and globally. ESRS introduce a structured set of disclosures, designed to overcome the current lack of comparable, reliable and complete information and to bring sustainability and financial reporting on equal footing.

Developed following a transparent due process, ESRS are the result of EFRAG multi-stakeholder consensual decision-making. The European Commission further streamlined the EFRAG drafts and introduced substantial phasing-in provisions. This process allowed to achieve a proportionate balance between the need for comprehensive information by users and the necessity to avoid undue burden for companies.

ESRS set comprehensive disclosure requirements on cross-cutting aspects (such as strategy, business model and governance) and on ten different topics. They articulate each topic in more detailed sustainability matters and provide disclosure requirements for each matter. The architecture of the environmental standards mirrors the objectives of the EU taxonomy (*Climate, Pollution, Water and marine resources, Resource use and circular economy*). The architecture of the social standards considers different groups of affected stakeholders (*Own workforce, Workers in the value chain, Affected communities, Consumers and end-users*). Finally, one standard covers business conduct. Cross-cutting standards define minimum disclosure requirements to report on policies, actions and targets (PAT), a key provision to avoid greenwashing. In addition, topical standards cover specific disclosure requirements on PAT and standardised metrics.

ESRS reporting considers three layers: sector-agnostic, sector-specific and entity-specific. The ESRS adopted in 2023 correspond to the sector-agnostic level, i.e. applicable to all the companies, irrespective of their sector. EFRAG will develop sector-ESRS guidance to support companies in reflecting the specificities of each sector. In addition, when a company concludes that an impact, risk or opportunity is not covered with sufficient granularity by ESRS, but is material due to the company's specific facts and circumstances, it shall provide additional entity-specific disclosures, to enable users to understand the company's impacts, risks or opportunities. Until the issuance of sector ESRS guidance, the entity-specific layer reflect sector-specificities, based on existing practices and other standards. The combination of the three layers enables the necessary level of relevance, capturing potential emerging issues that the standard setter couldn't anticipate.

A key feature of ESRS is the double materiality: they cover impacts of the company on people and environment (impact materiality) and the financial risks and opportunities deriving to the company from sustainability issues (financial materiality). Users of ESRS sustainability statement are the investors, as well as others (such as trade unions, social partners, civil society). Conceptually the two perspectives differ, however in practice most material impacts will result in material financial risks and opportunities. As a result, investors need impact information. Similarly, stakeholders that are not investors, need financial information (next to impact information) to hold companies accountable for their impacts.

EFRAG constant policy is to contribute to the progress of corporate reporting globally and to avoid multiple reports for companies. With the adoption of ESRS, Europe is the first jurisdiction in the world to incorporate IFRS sustainability disclosures, under a thorough interoperability approach. As EU entities prepare their sustainability statement in compliance with ESRS, they can be assured that they also provide information in line with the IFRS requirements in relation to climate change, without undue burden. Similarly, companies reporting under ESRS will be deemed reporting 'with reference' to the GRI Standards, without issuing a separate report. Furthermore, ESRS environmental standards are structurally compliant with the Framework recently issued by the Task Force on Nature-related Financial Disclosure and encourage best practices of that Framework. Finally, when considering the approach to impact reporting, ESRS refer to international instruments, such the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

At the same time, ESRS contribute to the coherence of other existing EU reporting obligations, such as Sustainable Finance Disclosure Regulation, Article 8 EU Taxonomy, Pillar 3. The indicators stemming from those reporting obligations have been incorporated in ESRS, without interfering with the underlying existing definitions and methodologies.

ESRS have been designed to substantially advance the digital usability of the reported information, overcoming the current limits of XBRL tagging of narrative disclosures. The structure of the ESRS combines principles-based and rules based standard setting. Each disclosure requirement has an objective and a detailed list of datapoints to be covered. If a company has in mind this structure when preparing the human-readable report, it will face lower efforts to digitalize it.

Currently, a substantial part of EFRAG activities focus on helping companies in their preparation to ESRS, with the issuance of implementation guidance and with a Q&A platform accessible on EFRAG website, to collect questions from those facing the challenges of preparing to report in compliance with ESRS. At the same time, EFRAG is working with priority on two standards for small and medium enterprises, to reduce the burden deriving from the data requests to which they are exposed, and support their access to finance.

The **EU's ESG Strategy** and **Global Competition: Environmental**, **Social**, **Geopolitical**?

DAVID **HENRY DOYLE**

Vice President, Head of Government Affairs & Public Policy, EMEA at S&P Global

Sustainability risk has become a priority for policy makers, regulators, and business leaders. The integration of Environmental, Social, and Governance (ESG) factors into decision making has migrated from a niche concept to the mainstream. Europe has played a leading role in driving this revolution. A complex ESG governance system has been codified into EU law and is likely to have significant international implications. However, the rapid deterioration of the global geopolitical environment increasingly poses challenges to the EU's sustainability strategy and competitiveness. To deliver on its ESG ambitions, the EU and its financial system will need to account for geopolitical as well as sustainability risk. The Capital Markets Union represents a potential strategic tool to manage both.

The ESG of the EU Green Deal

Despite its complex policy agenda, the ESG components of the EU's Green Deal are simple to identify. First, the EU has committed to minimise environmental impacts and to transition to a climate neutral economy. Second, it has pledged to pursue a 'just' transition which mitigates the social impact of transformational economic change. Third, it has enacted a regulatory governance system to embed sustainability into the management of the EU industrial base, supply chains, and financial markets. Yet, while the EU's ESG policy measures have been hotly debated, their geopolitical impact has received less attention.

The Geopolitics of ESG

The consequences of the world's largest trade bloc pursuing what amounts to a sustainability-based industrial revolution should not be underestimated. When launched in 2019, the European Commission's Green Deal Communication noted that 'the ecological transition will reshape geopolitics, including global economic, trade, and security interests'. While this remains accurate, a radically different geopolitical and economic context now exists compared to when the EU Green Deal launched.

A succession of shocks has shaken the established geopolitical order. States and financial markets have discovered that rapid tectonic shifts in the international system can result in severe vulnerability. External dependencies can be (and have been) weaponised. The prevailing dynamic in the international system is now one of intense competition for strategic capabilities, critical raw materials, technology, supply chains, and investment. Europe, however, still relies heavily on its trade partners for the resources needed to ensure its economic security and to implement its green transition.

The 'Paradigm Shift' of Open Strategic Autonomy

To address this challenge the EU has pursued 'Open Strategic Autonomy', a new operating model which targets 'the capacity to cope alone if necessary but without ruling out cooperation whenever possible'. The EU High Representative for Foreign Affairs and Security Policy heralded this model as a 'paradigm shift' in the EU's approach to international affairs.

The significance of this paradigm shift is remarkable since the EU has long championed a multilateral and rule-based trade, finance, and economic system. The impact of this model on the global financial architecture remains to be seen. However, the combination of the EU's ambitious ESG strategy and the new imperative of strategic autonomy raises questions about the future role, governance, and geometry of EU capital markets as well as their relationship with the international financial system.

Fortunately, the EU High Representative has also warned of the need to avoid dependency reduction resulting in 'green protectionism' or 'regulatory imperialism'. Instead, he has declared that the EU's objective should be 'to create new opportunities to develop our trade relations with many partners' and 'maximise mutual benefits'.

The International Potential of the Capital Markets Union

To maintain and grow its industrial base, Europe must compete with other economies pursuing similar transformational objectives. While the EU has primarily focused on ESG requirements through regulation, other jurisdictions have chosen to stimulate capital formation through financial subsidies which incentivise sustainable investment.

In this context, Europe's financial markets should be recognised as a strategic tool. The EU's Capital Markets Union (CMU) project represents a major opportunity to pursue mutually beneficial financing arrangements for Europe and its partners. Many have pointed to slow progress on CMU being an obstacle to mobilising the necessary risk capital to fund Europe's sustainability transition. However, as Europe comes to terms with its strategic vulnerability in the new geopolitical context, CMU has been propelled to the top of the political agenda.

The untapped potential of Europe's capital markets could be a powerful mechanism to channel investments towards the objectives of the EU Green Deal. However, a CMU which not only integrates ESG but is also open to global partners could become an attractive forum to build strategic and mutually beneficial investment links. The funding potential of deeper EU capital markets and expertise in sustainable finance could be shared with international partners to maximise the attractiveness of forging closer ties with the EU.

To conclude, the integration of ESG into regulation, trade relationships, and financial markets can have a transformative effect on the ecological footprint of the EU and its partners. However, an elaborate governance system alone will not mobilise the capital needed to fuel Europe's transformation. Increased geopolitical competition means that the EU needs strategic partners for its Green Deal. Strengthening, deepening, and opening the EU's capital markets represents a major opportunity to build the future investment partnerships needed to navigate the EU's ESG and geopolitical challenges.

Sustainability reporting: the conundrum of ESG Data

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1 - From voluntary to mandatory sustainability reporting

In Europe, since 2014, the NFRD (Non-Financial Reporting Directive) mandates certain companies to provide non-financial information, often in the form of 'sustainability reports', along with their annual reports. However, in April 2021 the scope of the NFRD has been expanded into the CSRD (Corporate Sustainability Reporting Directive) with some key differentiating elements:

- it expanded the scope of companies affected – 50.000 companies impacted in EU alone
- it introduced the mandatory European Sustainability Reporting Standards (ESRS), and
- it requires an audit as an assurance on reported information, quite similarly as to what is required on financial information

The integration of financial and sustainability reporting is a key focus for IOGP Europe's member companies. Representing over 1,1 million workers in Europe, these companies are central to the net- zero transition set out in the European Climate Law. Several of them have even restructured their internal organizations to align with the CSRD. This involves redefining roles, responsibilities, processes, and timelines for the creation and approval of both mandatory and voluntary reports. By merging sustainability reporting with financial reporting, companies can efficiently adapt to the new sustainability reporting requirements.

Although our sector is being very supportive of the establishment of CSRD, this implementation implies important challenges for companies, as described by one of our members below.

2 – Challenges of the CSRD implementation

As a concrete example, let's take Eni as a company subject to the CSRD : their focus is currently on the new ESRS.

Just like other IOGP Europe members, Eni looks favorably on the introduction of these standards and sees them as an occasion to better reflect its positioning on ESG issues in the external communication ,rather than as a mere compliance obligation. The new CSRD should therefore be seen as an opportunity for the presentation of the "value creation" within the company strengthening at the same time the comparability with other peers. Notwithstanding this, there are some different areas of the new standards which can be considered more challenging and, sometimes, not very clear.

One example of the impact of the CSRD is related to the definition of the reporting perimeter and the related extension to the value chain. The capacity of the undertaking to obtain data from its value chain participants, constitutes a critical point even for companies with a high potential leverage or strong relations towards suppliers/clients, as the ones in the oil and gas sectors The data collection process might involve difficulty and limitation in terms of data consistency, comparability and reliability, and in general about the governance of reported data. By including counterparties in its value chain, the undertaking will report data outside its direct control without the possibility to directly verify them and assure the overall level of quality of the other KPIs included in its sustainability report. Indeed, the undertaking can only guarantee about data from its own operations, but it will not necessarily have the knowledge about the data collection process from the value chain counterpart or on the effectiveness of its (eventual) internal control system over sustainability.

The extension of the responsibility of the information disclosed to the whole value chain will necessarily create issues in terms of clarity of assurance of the reported data, including cases of potential duplication of information. Moreover, this would raise a lot of questions on the issue of legal liability of European undertakings in respect of the information that will be shared in the Annual reports about their value chain.

In order to disclose adequate data from the value chain it would be fundamental to collect it properly, especially from the SMEs that are part of it. On this point, the relevance of the specific standards that is going to be developed for SMEs is key and the data requested should be proportional to their size and capacity to collect the related information, without creating an excessive burden in establishing this process which, for most of these companies, would be a new one. If the SMEs are able to set up a robust disclosure on the information requested by the Directive, this would be of great support also for larger companies relying on this information.

As a further consideration, having defined a clear decarbonization strategy and just-transition framework even before the CSRD, Eni was aware about the importance of engaging with our stakeholders to support their transformation process. To foster a widespread awareness of sustainability along the entire value chain and offer concrete solutions and opportunities to companies, Eni has put in place several tools aimed at supporting suppliers and more generally the entire business system in the path of sustainable

development. Among those tools, Eni has contributed to the creation and promotion of a dedicated platform, "Open-es" that aims to create an alliance open to all companies and industries, not only partners of Eni, engaged in involving their value chains in a common path of improvement of their sustainability performance. The platform is open to both suppliers and clients, and it enables all companies to measure, monitor and share their sustainability performances and the ones of their supply chain with a simple and flexible approach, so that they can play a leading role in the growth of their industrial ecosystem in terms of sustainable development.

This platform is currently based on the "World Economic Forum stakeholder capitalism metrics" but in the foreseeable future and in order to take into account the legislative evolution brought up by the new ESRS standards, the platform would probably shift towards the ESRS standards as most of the companies participating in the platform will soon have to report on those metrics.

3 - Interoperability of reporting standards

In 2023, the concept of 'Interoperability' emerged as a significant topic in the ESG sector. The purpose is to minimize redundancy in global standards and prevent conflicting reporting requirements on the same subjects.

At a national and jurisdictional level, it involves aligning emerging sustainability reporting requirements with global standards, while also considering national priorities and existing laws. This approach enhances the existing disclosure practices of organizations.

Today, three primary sets of standards govern sustainability reporting globally:

- the International Financial Reporting Standards (IFRS) from the International Sustainability Standards Board (ISSB),
- the Global Reporting Initiative (GRI) Standards, and
- the ESRS (under the CSRD) from EFRAG (European Financial Reporting Advisory Group).

The ISSB standards aim to establish a global baseline for investor-focused sustainability reporting, which local jurisdictions can build upon. There is significant overlap among standards issued by the ISSB Board, GRI, and EFRAG, with the (just disbanded at COP28) Task Force on Climate related Financial Disclosure (TCFD) framework serving as a common input.

The crux of the issue is for globally operating companies applying multiple frameworks. Indeed, compatibility issues could amplify if the requirements are not aligned. A crucial practical consideration is to harmonize calculation methodologies to minimize different data requirements. Achieving a global baseline will facilitate companies in applying these standards, promoting consistent reporting across jurisdictions. This reporting would be internationally comparable and would also meet local needs. Nevertheless, a lack of alignment in some areas may pose practical challenges for companies aiming to design coherent and consistent reporting that satisfies both global investors and jurisdictional requirements.

However, promising progress has been made in this area:

- ISSB and EFRAG, of which both standards come into effect in 2024, announced together with the European Commission in July 2023 that they are working together to maximize the
- interoperability of the standards, especially on the climate-disclosure alignment.
- GRI and EFRAG, signed a cooperation agreement in November 2023: as stated,

interoperability will prevent the need for double reporting and results in a user-friendly reporting system without undue complexity. As a consequence, entities reporting under ESRS will be deemed reporting 'with reference' to the GRI standards and existing GRI reporters will be able to leverage their current reporting efforts to prepare their ESRS "Sustainability statement". The first tangible outcome of this collaboration is the publication of a draft GRI-ESRS interoperability index, which showcases the commonalities between the two sustainability reporting standards.

Bye 2023, year of Standard Setting. Hello 2024, year of implementation !

We strongly advocate for a collective effort, urging the global collaboration of regulators, lenders, and corporations to harmonize information requests from companies.

The focus on 'interoperability' in the ESG sector is a significant step towards achieving a globally consistent standard for sustainability reporting, while the collaborative efforts of GRI, EFRAG and ISSB are paving the way for a more integrated and efficient reporting system.

It is essential to view reporting as just one facet of a comprehensive corporate sustainability strategy : it serves as the foundation for all corporate activities, including sustainability reporting.

Emphasizing the importance of quality over quantity, we recognize that an inundation of data without adequate quality will not yield the desired outcome. The data disclosed plays a crucial role for financial market participants in making sustainable investment decisions, aligning with the principles outlined in the European Green Deal. The ultimate goal is to facilitate the transition of challenging industries, such as the energy sector, to achieve net-zero emissions.

Therefore, at IOGP Europe, we are steadfast in our commitment to continuing being a collaborative partner with European Institutions, including when it comes to ESG reporting. In that sense, we are closely collaborating with EFRAG in shaping the Sector-Specific Oil & Gas ESRS, contributing to the broader mission of fostering sustainable practices within the industry.

OLIVIER **BOUTELLIS-TAFT**

CEO of Accountancy Europe

Why a common standard for **sustainability reporting** is a necessity for all

Despite a handful of eccentric comments overheard during COP 28[1], science unequivocally and consistently confirms the climate crisis requires urgent transformative action. The only realistic course of action is to fully engage into a radical transition that fundamentally changes policies and business practices.

While climate is getting most of the limelight, biodiversity destruction, pollution and waste accumulation, soil degeneration, natural resources exhaustion all pose fundamental and systemic risks to the planet's sustainability. Scientists express growing concerns that we are jeopardising the conditions that make earth liveable. How can we do business if the planet is not liveable anymore? This questions the economic model that emerged post World War II and has accelerated exponentially since then.

Company stakeholders have not overlooked these issues. Customers, employees, communities, investors, policymakers and regulators now demand greater accountability and transparency from businesses regarding their impacts on society and the environment.

Markets need useful and credible information on sustainability impacts to make sustainable decisions. Choices, in particular investments, require comparing different options. Having comparable, high-quality sustainability reporting and assurance in the EU (and beyond) is a logical necessity.

In the EU, the Corporate Sustainability Reporting Directive (CSRD) is fundamental to the European efforts to transition to a net zero economy. Under the CSRD, companies have to report in accordance with the European Sustainability Reporting Standards (ESRS) that cover environmental, social, and governance issues, including climate change, biodiversity and human rights. This extends beyond a compliance exercise and considering it as such because it results from regulation, is novel and sometimes very granular would be a mistake. Sustainability reporting is a strategic imperative for humankind and the planet, but it is also a strategic imperative for companies who want to thrive in a changing world. Fully incorporating science and sustainability considerations into strategic decisions, operations, value chains and company culture is the only pragmatic approach to secure the business' future. Alignment between the company's purpose, strategy and culture is essential to ensure a consistent delivery on the sustainability efforts.

There are also proven business opportunities arising from considering ESG matters. These include efficiencies and operational cost reductions, supply chain resilience, better management of business risks, including liability, regulatory, reputation and market risks and attracting talent. Connecting financial and sustainability reporting is essential to make better decisions and prevent the risk of inconsistencies and loopholes. It also helps to provide a holistic view of all the factors that may affect value creation and facilitates better integration of physical realities in a world where finance has become the key, if not sole, driver of business decisions. But there is not a finance planet on the one hand and a physical planet on the other. In the end, physical realities always prevail over laws, finance and politics, we cannot extend the planetary boundaries.

By providing comprehensive information beyond finance and commercial strategy, corporate issuers can not only enhance transparency and satisfy a legal and societal demand – they can also increase investors' trust and secure their loyalty. This is indispensable in view of the massive investments that are required to transform and survive.

To secure this loyalty and restore trust in societies, independent and expert assurance on sustainability information plays a crucial role. It brings reliability, accuracy, and transparency of sustainability-related data and reporting.

Peter Drucker is often quoted with the shorthand "what gets measured gets managed" (though the exact wording may vary). He however wisely added that things get managed "even when it's pointless to measure and manage them, and even if it harms the purpose of the organisation to do so." While sustainability impacts need to be measured, unreliable measurement surely is harmful.

1 https://www.theguardian.com/environment/2023/dec/03/back-into-caves-cop28-president-dismisses-phase-out-of-fossil-fuels

SIRPA **PIETIKÄINEN**
MEP, (EPP Group, Finland) -ECON Committee

Advancing Global Sustainability: The Urgency of Harmonized ESG Ratings

There is an urgent need for globally standardized ESG measuring, reporting, and ratings to ensure consistency, comparability, and reliability across industries and regions. We require a globally harmonized, science-based, transparent framework based on a comprehensive lifecycle assessment. This methodology should be applicable to both private companies and countries. It is definitely needed to make it imperative for CRAs to include ESG evaluation in their all ratings by legally binding requirements. The call for global standards in ESG ratings originates from the recognition that a unified framework is essential for fostering consistency and reliability. A global standard would provide a common language for ESG reporting, ensuring that companies worldwide adhere to the same set of criteria. This standardization is not only desirable but also necessary to facilitate meaningful cross-industry and cross-border comparisons.

It is estimated that the costs of climate change and biodiversity loss for our economies are at least ten times greater than those of the Covid pandemic, leading to situations where no business is profitable or manageable. In financial risk evaluation, the principle of third materiality suggests that if you contribute to the problem of climate change and biodiversity loss, you are directly increasing your own risk and causing financial risk to the company. The cost of non-action needs to be made visible and effective, with ESG ratings serving as the tool for this.

We have a well-rounded system in IFRS for measuring the return on investment or the debt level of a company. This logic needs to be mirrored symmetrically to ESG matters also. There is a need to establish reliable sources for data collection and a transparent methodology for calculating the CO2 footprint and other indicators. The open masterfile and calculation methodologies for information sources could be IFRS's set of rules, the UN statistical authority, or both. The Beyond the GDP project in the UN requires anyway alignment with calculation models and data in the private sector. In the future, Copernicus and other effective data collection systems will serve as a firm data source on the environmental condition. For SMEs, a simplified version of the ESG reporting scheme, akin to a "nutritional value tablet," is necessary, where reporting data is easy to extract and calculate.

A primary objective of global ESG standards is to produce reliable information that facilitates cross-industry and cross-sector comparisons. Investors need a clear and standardized yardstick to assess the ESG performance of companies operating in diverse sectors. This approach allows for a more nuanced understanding of how companies within the same industry and across different sectors are faring in terms of sustainability and responsible practices.

ESG considerations are increasingly viewed as a fundamental aspect of risk management, arguably surpassing the importance of traditional financial reporting. Companies that prioritize ESG factors are better equipped to navigate a complex landscape fraught with environmental, social, and governance risks. Therefore, ESG ratings serve as a proactive measure, helping investors identify and mitigate risks that may not be immediately apparent through traditional financial metrics. This would enhance trust and stability in markets overall, attracting more capital to companies with strong ESG performance. Currently, over half of all investor portfolios are in unsustainable investments, and only about 5 percent are in sustainable investments. Reversing this trend is crucial for combating negative impacts on the planet, people, and businesses and ensuring that pension funds are invested sustainably.

Global standards would promote consistency in data collection and reporting methodologies, facilitating more accurate and reliable ESG ratings. This would enable better benchmarking and performance evaluation across industries and regions. Standardization would also help mitigate the risk of greenwashing, where companies overstate their ESG credentials.

Rating agencies play a crucial role in evaluating and rating companies based on their commitment to these diverse factors, ensuring that the assessment goes beyond financial metrics. The more complex the setting, especially when evaluating a company's financial stability and future performance, the more there is a need for ratings as a professional tool. Investors increasingly require this kind of rating service.

The ecological competence and sustainability of companies are as important as financial competency, if not more so, from a societal perspective. Hence, there is an obligation for CRAs to rate and align the ratings. They cannot be too separate but need to develop methodologies together.

Extending the application of ESG ratings beyond private companies to entire nations is a logical progression. We cannot demand the private sector to be sustainable if the public sector and societies are doing the opposite. Ecological competence is rising to be as important part of knowledge and knowhow as the understanding of markets, economics, and financial aspects for the politicians, financial sector, companies, and credit rating agencies. This is the only way to solve our looming sustainability crisis.

JEAN HORNAIN
CEO of Citeo

European Green Deal & CSRD: what if the Extended Producer Responsibility (EPR) model was a path to follow for environmental performance?

Presented in 2019 by the European executive, the Green Deal was conceived as the cornerstone of the European Union's "New Growth Strategy" for the 2019-2024 mandate. It encompasses a set of policies aimed at achieving three major objectives:

- no net emissions of greenhouse gases by 2050,
- economic growth decoupled from resource use,
- no person and no place left behind.

Achieving these objectives requires a substantial transformation of the European economy, primarily reliant on the mobilization of all economic actors. The European Union aims to guide investments and consumption towards companies and projects that are virtuous and dedicated to the well-being of the planet and society. The recently adopted taxonomy regulation aims to respond to this demand and classifies different activities to define those considered sustainable and non-sustainable. In the field of circular economy, the criteria selected include the possibility of reusing packaging and the integration of mechanically recycled materials[1].

To complement the European legislative framework, the Corporate Sustainability Reporting Directive (CSRD) applies downstream by requiring companies to standardize and normalize their sustainability reports. To facilitate decision-making and guide consumers and investors towards sustainable projects, it is essential that they have access to transparent, comprehensive, and standardized information. That is the objective the CSRD is aiming for.

Companies are henceforth accountable for their actions, considering this legislation requires to provide precise reporting on their environmental and societal impacts (with reference to a set of indicators defined in the European Sustainability Reporting Standards (ESRS)). Companies shall also adopt transition strategies, setting quantifiable objectives, and developing associated action plans.

On the environmental aspect, the CSRD considers the circular economy as a driver of performance.

Circular economy: a model promoted by the CSRD

The ESRS E5 standard[2] requires companies to assess and report various indicators related to the founding principles of the circular economy and waste hierarchy. These indicators refer to, but not limited to, the company's ability to transition from the extraction of virgin materials to the use of secondary raw materials, the weight of materials used, recycled and non-recycled waste. These data help to understand how the company's policy incorporates resources depletion into its strategy and, therefore, initiatives or commitments made by the company in response to ensure a transition towards a fully circular economy.

Given the interdependence of economies, access to raw materials, and market constraints, the establishment of an effective circular economy model requires collaborative efforts among stakeholders to achieve a large-scale impact. The Extended Producer Responsibility (EPR) scheme provides a solution to tackle this challenge.

EPR, CSRD, and circular economy: a real asset for increased environmental responsibility and performance

EPR gives to all companies selling products the responsibility of the environmental impact of the products they sell (carbon, resource, and biodiversity impact). To exercise this responsibility, producers gather into PROs, to which they declare each year the number of products sold, and to which they pay fees. With those financial contributions, PROs operate eco-design, reuse, collection, sorting and recycling programmes, as well as awareness and educational campaigns to fight against littering of waste.

The CSRD strengthens the development of the circular economy already initiated by EPR schemes.

In the early 1990s, France implemented the EPR scheme for households packaging, focusing on recycling as a mean to address environmental impacts. Today, EPR faces new challenges:

- **Reducing,** Citeo recommends minimizing single-use packaging as much as possible to limit raw material extraction, preserve resources, and reduce transportation-related impacts. Citeo has developed a "LESS" methodology to assist its clients enabling them to identify all possible options for reducing their packaging. Additionally, Citeo initiates calls for projects to support, financially, the development of reduced packaging solutions (elimination of plastic grouping packaging, lightweighting glass packaging, etc.).
- **Supporting the implementation of a reuse model** at a larger scale, notably through the establishment of a new "ReUse" approach. This initiative aims to pave the way for a shared and national reuse system for food packaging in large and medium-sized stores, aligned with

1 Delegated Regulation (EU) 2023/2485 amending Delegated Regulation (EU) 2021/2139, June, 27 2023.

2 The ESRS E5 standard corresponds to the norm that defines the format and content of sustainability reporting for large companies concerning resource use and the circular economy.

the French 10% of reused packaging by 2027 target.

- **Ensuring the recyclability** of 100% of plastic packaging, improving recyclability, and increasing the incorporation of recycled material. To achieve these objectives, Citeo applies an eco-modulation system that serves as a financial incentive. Packaging that is more difficult to recycle incurs an EPR fees penalty, whereas those incorporating recycled materials receive a bonus[3].

EPR schemes can also enable companies, with the help of PROs, to meet the requirements of the ESRS E5 standard through the following measures:

- **Sharing resources:** EPR fees and the optimisation of schemes enabling businesses, of all sizes, to contribute to a circular economy by developing research and development projects in eco-design, supporting the emergence of a reuse market, or creating new recycling streams.
- **Access to comprehensive data** for an overview and the initiation of concerted actions. PROs share non-financial information essential for companies, serving the dual purpose of ensuring compliance with the CSRD and facilitating the pursuit of changes leading to enhanced environmental performance. This includes details like the recyclability rate of packaging introduced to the French market.
- **Accessing expertise and receiving support** in adapting products and production methods to align with the circular system in place and market expectations (eco-design in accordance with collection, sorting, reuse, and recycling processes).

By contributing, companies play a role in achieving these objectives, aligned with their individual objectives.

"The paradigm shift implied by the CSRD and more broadly the Green Deal also compels EPR schemes to set themselves ambitious targets."

Environmental performance as the "*raison d'être*" of Citeo

While the CSRD will only become mandatory for Citeo from 2025 onwards, the company is already making commitments and implementing structural changes.

The definition of our purpose for the planet is translated into our *raison d'être*: engaging and supporting economic actors in producing, distributing, and consuming while preserving the planet, its resources, biodiversity, and climate. By enshrining this *raison d'être* in its bylaws, Citeo has become one of the first Mission-oriented Companies in France.

This status urges us to adopt a broader and long-term vision of our impact, both as a PRO serving a circular economy framework and as a company. Thus:

- **Our actions and decisions are conceived in light of our raison d'être.** We are guided by a Mission Committee, composed of external stakeholders, responsible for advising us and ensuring the proper trajectory of our social and environmental objectives.
- **Our definition of performance is based on two inseparable criteria: financial/economic performance and environmental performance.** For instance, the former Finance department of the company has transformed into the Environmental and Economic Performance Management department, elevating the monitoring of environmental performance indicators to the same level as financial performance indicators. This choice reinforces the role of Finance, tasked not only with ensuring the financial sustainability of the company but also with promoting its overall sustainability, in collaboration with all departments.
- **Convinced of the virtues of the EPR model, we commit to its development on a European and international scale.** Therefore, Citeo is an accredited observer at the UN Environmental Programme as part of the negotiations for an international binding instrument on plastic pollution.
- **Our actions extend beyond packaging alone, as any waste poses a threat to biodiversity.** The integration of a biodiversity strategy aims to address the prevention and reduction of litter at the regional and national levels.

We are confident that the CSRD will accelerate the momentum in favour of the environment and a virtuous economy, where the circular model and EPR have a crucial role to play.

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3 Each company contributing to a PRO pays an eco-contribution, the amount of which depends on the weight, material, and type of packaging. In addition to this, there are eco-modulations, which are bonuses (discounts on the eco-contribution) or penalties (premium on the eco-contribution) based on whether the packaging is recyclable, incorporates recycled material, promotes on-pack awareness of sorting, etc.

Green Asset Ratio: managing expectations

DENISA AVERMAETE

Senior Policy Adviser - Sustainable Finance, European Banking Federation

The primary objective of the Grenn Asset Ratio (GAR), established under the Article 8 Delegated Act of the EU Taxonomy Regulation (2020/852), was to help stakeholders **understand financial undertakings' contribution to European environmental and climate objectives.** However, while the Green Asset Ratio is a step towards improving transparency, it will **not tell the story of the transition** efforts of banks and only have limited information and decision-making value.

In principle, the GAR is a simple ratio of EU Taxonomy-aligned assets as a percentage of total covered assets. While it may be **tempting to look at it as a simple metric** to understand the sustainability of banks, it will only show a small portion of banks' efforts to finance transition.

For example, a bank can be making significant **progress in helping polluting clients** reduce their environmental impact, which will in most cases not be reflected in the GAR. An investment in green government bonds also does not lead to a higher GAR as sovereign exposures are excluded from the calculation. Similarly, the financing of a renovation loan for a building with low energy efficiency will not be reflected in the GAR unless a high energy efficiency level is achieved after the renovation. Financing solar panels for a local bakery will also not be considered taxonomy aligned for the purpose of the GAR, nor will financing of an enterprise outside the EU. This is due to the **asymmetry between the scope of the numerator and the denominator of the GAR.** Except for exposures to sovereigns, that are excluded symmetrically, the rest of these exposures count towards the denominator but not the numerator of the GAR. Financing to SMEs that are not obliged to report under the NFRD/CSRD or to non-EU companies can therefore never qualify as EU Taxonomy aligned. Furthermore, activities that aren't covered by the EU Taxonomy will also be excluded from the numerator but not the denominator.

These **structural features of the GAR will lead to divergence** in the value of the green asset ratio, depending on a bank's business model, client-base and geographical footprint. A simple comparison of GAR numbers between banks could therefore be misleading. Banks financing SMEs and clients in third countries will show structurally lower green asset ratios compared to banks predominantly financing large undertakings - the higher the financing to SMEs and non-EU companies, the lower the ratio.

The GAR comparison will be **further hampered by the large room for interpretation** and by the difficulties in assessing and documenting Taxonomy alignment, both by corporates and banks. Banks find it particularly **challenging to document the energy performance and DNSH criteria** of real estate in their mortgage and car loan portfolios. It is not realistic to assume that banks will obtain evidence on the Taxonomy compliance directly from the clients or via verification from a third party. Homeowners do not necessarily possess the required information. EPC certificates are largely unavailable, outdated or do not contain the necessary information. As it is not possible to rely on non-documented information or assume that DNSH criteria are met under the EU law, the financing of electric cars or mortgages are in many instances not going to be included in the GAR.

Apart from the lack of data and documentation, there is **also confusion on how certain Taxonomy criteria must apply**. The approaches taken by individual companies depend on interpretation and the degree of conservatism. The divergent approaches envisaged will have a major impact on the ability to compare GARs.

The overall expectations on the GAR and its information value therefore have to be managed as GAR numbers of banks will be hard to compare. In addition, GARs **are expected to be low as they will reflect the performance of economic activities in the EU as well as the ability of companies and households to document the alignment with the EU Taxonomy, even on activities that are generally considered green.** The Association of German Banks analysis of the taxonomy profile of 450 corporates concludes that the EU industry is largely still at the beginning of its transition. Only 7% of the analyzed corporates' turnover currently fulfils the taxonomy's technical standards.

To conclude, **GARs should not be compared without understanding the context and other relevant information on banks' efforts to finance transition**. Additional metrics disclosed in the GAR templates need to be analyzed to understand the portfolio composition of financial institutions and the GAR itself as several methodological particularities of GAR may impact its value. While the GAR may be complemented by additional voluntary reporting where a ratio on SMEs and Non-EU exposure Taxonomy alignment can be shown separately, the data to assess the alignment is not necessarily available and could be estimated at best.

It is important that the banking sector not only finance activities that can already be considered EU Taxonomy aligned, but also activities that are performing at different levels and which can accelerate companies' transition. Decisions cannot be made purely based on Taxonomy-related disclosures of companies. Not having Taxonomy-aligned activities does not in itself reveal the company's exact environmental performance. Instead, other disclosures, such as the company's disclosures under the CSRD will help inform markets about the company's environmental performance and the company's direction of travel.

Given the methodological shortcomings of the GAR and the practical usability issues, the planned revision of GAR in 2024 is welcome. However, the GAR will always be limited to Taxonomy alignment and will need to be complemented with other information to understand the progress of the financial sector.

ELODIE FRANCO-RITZ

Government Affairs Director for France & Francophone Africa, SAP

European Sustainability Reporting Standards: Make our governments exemplary again!

Interview

1. The adoption of the European Sustainability Reporting Standards (ESRS) for use by all companies subject to the Corporate Sustainability Reporting Directive (CSRD) is an important tool and a step forward in the transition to a sustainable economy. But what about in the public sector?

The public sector is clearly lagging behind in the environmental transition issues. At best, it produces greenhouse gas (GHG) emissions reports, but many are partial and difficult to use due to poor data quality. Just as investors have held the private sector accountable for its environmental, social and governance (ESG) commitments, citizens and taxpayers are raising their voices to hold governments and the public sector accountable for how they address sustainability challenges.

In the European Union (EU), government spendings account for around 52% of gross domestic product (GDP) in 2022. Public administration budgets in Europe are very large - around half of GDP. They are major purchasers, so it is essential that they play their full role in the environmental transition.

States and governments sign international treaties on climate and biodiversity. They make commitments. The EU aims to be carbon neutral by 2050 and implements policies and regulations for the private sector to comply with. Sustainability reporting is seen as a performance lever for companies. Why not do the same for the public sector? Green budgets and GHG emissions reports are simply not enough. In my opinion, the public sector, like the private sector, needs to implement proper carbon accounting based on common sustainability reporting standards. This will allow carbon reductions to be monitored in real time and informed decisions to be made based on quality data. Well-performing public services will undoubtedly contribute to a more resilient European Union.

2. Why do you think it is appropriate to introduce such standards for the public sector?

It is essential that states and governments are accountable for their environmental footprint using "standardized" indicators. In this way, the actions and impacts of the public sector can be measured, compared, and audited. The establishment of specific indicators for the public sector will help to increase transparency and improve decision-making regarding sustainable development, climate change and biodiversity protection. The public sector needs to be able to collect, report and act on reliable and accessible emissions data to drive its actions. This will enable countries and governments to make more well-informed decisions.

The public sector is a major source of GHG emissions. In France, the Shift Project think tank shows that the main sources of carbon emissions in the public sector are real estate, employee travel (home-work and work-related), catering, digital and public procurement. It is essential to have a reliable set of data for all these sectors.

Promoting transparency and accountability in the public sector will increase public trust and citizen participation in addressing the global challenges of the environmental transition. Data quality and access will provide European governments, citizens, and NGOs with a realistic roadmap to 2050. That is why the public sector should take the lead in sustainability reporting.

Standards created for the private sector cannot be directly applied to the public sector, but like companies, the public sector needs granular sustainability information, quantitative and qualitative metrics, and targets. Sustainability reporting needs to meet the same rigorous standards as financial reporting. Actions now need to be measured against yearly commitments and public interest to avoid issues such as greenwashing.

3. Are there any ongoing initiatives?

Indeed, the International Public Sector Accounting Standards Board (IPSASB) is currently working on a global standard for climate-related disclosures, as it believes that "the public sector urgently needs its own sustainability reporting standards". Following an international consultation on public sector sustainability reporting in 2022, IPSASB now aims to publish the first standards for public sector-specific sustainability reporting in the second half of 2025, with international guidance from the International Sustainability Standards Board (ISSB) and Global Reporting Initiative (GRI). "IPSASB's scope is to develop climate-related disclosure requirements for public sector entities that cover the climate-related impacts of the entity on the economy, the environment, and people; the climate-related risks to which the entity is exposed; and the climate-related opportunities available to the entity."

As the European Union strives to be at the forefront of environmental protection measures, it is important that it quickly grasps the challenges of public sector reporting and soon moves on to social and governance disclosures. It's also important that there is a very high degree of interoperability between global and European standards to avoid unnecessary double reporting by public services.

4. Finally, in a few words, what would you like to see in the future?

European states where public services use recognized sustainability reporting standards and carbon accounting to monitor, control and reduce the GHG emissions generated by their upstream and downstream activities, based on quality data. I believe some of these reportings should be accessible to the public.

FLORENCE BINDELLE
Secretary General EuropeanIssuers

The **taxonomy** must be a tool that helps companies grow and **create jobs**, whilst **becoming greener**

The EU Taxonomy Regulation, a cornerstone of the European Commission's Green Deal, was first introduced on December 18, 2019, as part of the Action Plan on Sustainable Finance unveiled in March 2018. Aimed at shaping the classification of economic activities based on environmental sustainability, it sets criteria to combat greenwashing, especially in key sectors like energy, transportation, and agriculture. In line with the Regulation, financial institutions are mandated to disclose the percentage of their investments aligned with this taxonomy, in a way that fosters transparency and propels the growth of green finance. In essence, it stands as a foundation in the EU's dedicated push towards a sustainable and low-carbon economy by being that supportive tool that encourages companies to integrate sustainability into their operations. Thus, as the title of this article reads, the Taxonomy must (or should?) be a tool that helps companies grow and create jobs, whilst becoming greener.

At EuropeanIssuers, we have, and continue, to closely follow every development of the sustainable finance agenda, hence, including the Taxonomy. We consider that the EU Taxonomy could help accelerate the transition to a net zero carbon economy by 2050, while sharing the ambition of the European Green Deal. However, our experience at EuropeanIssuers reveals a consensus among companies that the Taxonomy is a complex tool insufficiently capable of addressing the main challenge of financing the transition.

Diving into national reports on Taxonomy implementation, from our members, uncovers further challenges. Data shows that approximately 50% of companies struggle with Art. 8 Delegated Act tables, leading to navigation in the dark. Additionally, disclosures, particularly on gas and nuclear activities, are lacking, with many companies seemingly unaware of Art. 8 DA amendments. Our analysis also underlined gaps in compliance with Minimum Safeguards and Technical Screening Criteria, pointing to a lack of due diligence understanding, unclear guidance, and ambiguous activity scopes.[1]

The reason behind this evidence can be identified in the intricacy and complexity of the Regulation itself, resulting in diverse interpretations among companies, auditors, and supervisory entities. Additionally, we attribute this complexity to the EU Taxonomy's limited scope. Similarly, another current challenge is that numerous companies are unable to report their alignment or eligibility because the primary focus of their business is not covered by the issued Delegated Act. Within this picture, we have also witnessed how the Technical Screening Criteria further contributes to uncertainties with numerous loopholes, as the absence of a standardized methodology for climate-related physical risks adds to the complexity. Thus, resulting in limited avenues for interpretative recourse amplification of interpretational disagreement.

On the other hand, on a brighter note an in-depth analysis of turnover, CapEx, and OpEx within the Taxonomy framework, reveals how the CapEx Key Performance Indicator (KPI) stands out as a crucial tool for reporting entities and investors[2]. CapEx emerges as the most significant metric in terms of both alignment and eligibility, with a striking 89% of sampled companies declaring an aligned CapEx KPI. The average alignment reaches 20%, reflecting the Taxonomy Regulation's expansive definition of CapEx, allowing companies to scrutinize CapEx linked to eligible activities, individual measures, and CapEx Plans. Oppositely, OpEx KPI presents distinct challenges, being the most problematic of the three. Despite 59% of sampled companies declaring an aligned OpEx, its average alignment is 12%, and its average eligibility is 29.7%. The reason behind these results may be identified in the narrow definition of OpEx by the Taxonomy Regulation prompting companies to utilize the materiality exemption, limiting its scope. While the analysis of Turnover reveals a relatively smooth landscape, with 70% of sampled firms publishing an aligned Turnover. On average, this aligned Turnover constitutes 15% of the Taxonomy.

Drawing on this evidence, EuropeanIssuers acknowledges the benefits of the Taxonomy and recognizes its potential to empower issuers by providing a tool that fosters growth, job creation, while achieving environmental sustainability. However, amidst this recognition, we also acknowledge the inherent complexity of the Taxonomy. Nonetheless, despite these challenges, we still consider the Taxonomy as an ongoing journey. The evidence may prompt a critical question regarding the Taxonomy's efficacy in facilitating a genuine transition, nonetheless a glimmer of hope emerges in the form of

1 PwC, 2023, "*EU Taxonomy reporting 2023: Data quality and comparability still low – even within sectors*" Available at: https://www.pwc.de/en/accounting-reporting/eu-taxonomy.html
Chiara Laurre for Afep, 2023, "*Implementation of the EU Taxonomy Regulation u How are French companies coping with the first year of alignment disclosure*". Available at: https://www.aefinfo.fr/assets/medias/documents/5/3/537296.pdf

2 Chiara Laurre for Afep, 2023, "*Implementation of the EU Taxonomy Regulation u How are French companies coping with the first year of alignment disclosure*". Available at: https://www.aefinfo.fr/assets/medias/documents/5/3/537296.pdf

the CapEx Key Performance Indicator (KPI). This metric is proving to be a crucial tool for both reporting entities and investors, offering clarity and alignment in the complex landscape of sustainable finance. In conclusion, the EU Taxonomy stands can be an essential tool to support the construction and transition toward a robust and sustainable EU economy.

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EuropeanIssuers is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU Institutions. Our members include both national associations and companies from all sectors in 15 European countries, covering markets worth € 7.6 trillion market capitalisation with approximately 8000 companies.

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer-term. We seek capital markets that serve the interests of their end users, including issuers.

For more information, please visit www.europeanissuers.eu

IT has a major role to play in meeting Scope 3 ambitions

NOURDINE BIHMANE

Deputy CEO Atos Group, CEO Tech Foundations

Atos

Interview

Can you explain what these scopes are and why they are important?

The notion of Scope has been defined by the World Resources Institute and the World Business Council for Sustainable Development[1]. It is a very good global approach to effectively measure carbon emissions generated by any organization, and an even better guide to assess the best remediation that can be undertaken to improve these. It has proven to be very effective in our industry, which, according to analysts, produces about 4% of global greenhouse gas emissions. This 4% is globally encompassing WRI's "Scope 1" and "Scope 2", or carbon emissions generated by the direct operations of a company, within the company. These are the common internal factors companies are working on to reduce their carbon footprint. Like our peers, we have been working on these items, and Atos has been regularly at the top of the Dow Jones Sustainability Index (DJSI) World and Europe or the Carbon Disclosure Project rankings for nearly 10 years.

The aspect that will become of crucial importance in the near future is the impact that companies can have more broadly on their ecosystem and value-chain – or "Scope 3" as per WRI classification. To say it in other words, Scope 1 and 2 covers what you can directly control, Scope 3 what you can decisively influence. While a growing number of organizations are today implementing emission reduction plans for the first two scopes, few are addressing scope 3 – which is nonetheless the biggest contributor to carbon impact. Only a third of global high-tech companies have set carbon neutrality targets that include scope 3. European companies are slightly ahead of the curve, yet more than 60% of them still do not have scope 3 targets[2].

Commitment to Scope 3 will prove to be unavoidable: first, because the European regulator, via the CSRD (Corporate Sustainability Reporting) directive, has introduced an obligation for European companies to report on their scope 3 by 2024, with their 2023 data.

1 The Greenhouse Gas Protocol, launched in 2001 by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), classified GHG emissions into three scopes

2 Harvard Business Review France, Réduction des émissions de scope 3 dans les entreprises high-tech européennes

In addition, only companies that fullfill SBTi requirements – including Scope 3 – can claim that they have a path to become Net Zero. So, it is just a question of months before it becomes compulsory. More significantly, and beyond regulation, we have reached such a level of public awareness on these issues that commitment to sustainable development has become a global trend impacting the valuation of companies. Not only in terms of image, but also in terms of financial value. Research shows that as much as 78% of investors want companies to prioritize ESG efforts, even if it has a negative effect on short-term earnings[3]. 65% of employees would prioritize working for an employer that focuses on the environment[4]. And 85% of customers say they have shifted their purchasing behavior in favor of sustainability in the past five years[5].

So how can companies identify and activate this "Scope 3" metric?

A study by the World Economic Forum estimated that digital technologies have the potential to reduce global carbon emissions by about 20% by 2030 in the three most emitting sectors[6]. We can therefore see that digital technologies bring a potential to reduce emissions 5 times greater than their own impact, which is considerable. So, our challenge as an industry is not only to reduce our own emissions, which some of us have started to do, but, more importantly, to help our customers reduce their own footprint, thus acting on their Scope 3. This is where we can make the biggest difference.

As a provider of IT services and devices, we are de facto at the heart of our customers' scope 3: we maintain their employees devices fleets; their own services and data are very often hosted either on on-premises we manage or on our cloud infrastructures or those of our partners. It is our responsibility to provide them with effective solutions. You can only start decarbonizing when you can measure, and you can only measure when data is collected in a structured way to be actionable. That's what our core expertise is all about.

With Scope 3 considered, IT leaders must report on the GHG emissions of a wide variety of vendors: manufacturers, software vendors, IT service providers, and cloud providers. As an IT services company, Atos commits to its clients via "Decarbonization Levels Agreement", which is a contractual commitment at the global level to reduce carbon emissions between day 1 and the end of the contract we signed with them.

What tools are available to CIOs and companies today to effectively act on their Scope 3?

If we dig into more details, companies can now access all the necessary tools for collecting, consolidating, analyzing, and exploiting data that were previously only available in a dispersed manner throughout the company. We have for example just launched a "Sustainable Digital Workplace" offer that provides our customers with all the indicators they need to get an extremely accurate picture of their global situation in real time, but also to provide them with predictive scenarios on the evolution of their IT consumption and emissions, and eventually remediation actions, all based on objective, field originated data. In practice, this translates into the provision of various dashboards that make it possible to monitor the company's main indicators with an extremely precise level of granularity, at the level of the IT departments, but also down to the level of departments, and even at the level of each employee.

We offer over 10 different dashboards to track metrics as diverse as device redeployment or improved electricity use. Of course, data is also accessible to CSR managers to support their reporting. This move marks a major step forward in providing clients with access to new sustainable IT solutions, as 57% of enterprise IT's carbon footprint is due to workplace devices. In addition to data, this offer also includes a strong hardware dimension. It is estimated that every year, 40 million tons of e-waste are generated by IT, with only 12.5% being recycled. That's the equivalent of throwing away 800 laptops every second. Most companies replace employee laptops every three to four years, with each new device accountable for emissions of more than 300 kg of CO2e. What we offer to our customers with our "Sustainable Digital Workplace" is also to recondition and reuse equipment with an uncompromising level of quality and user experience. This makes it possible to completely rethink and optimize product lifecycle management. We have drastically selected our partners in several geographies, to limit as much as possible unnecessary shipping that could offset the efforts made by our customers. It is the circular economy put at the service of large corporations. This classification by "Scope" therefore makes it possible to cover all sources of CO_2 emissions, both those of the company and those of its ecosystem, ultimately generating a real virtuous circle with everyone participating in the emissions' reduction of all the members of their ecosystem.

Can public authorities help accelerate the deployment of these actions?

Public authorities have of course a decisive role to play to leverage all the opportunities that lie ahead of us and make a decisive impact. First, I believe it is significant that an AI framework is discussed at the EU level, so as we can all collectively embrace the AI wave that is already giving so many benefits. We have for example inked a global partnership with World Wide Fund for Nature NGO focused on wildlife preservation, where AI is clearly at the center stage in identifying potential areas of vigilance at a very early stage. Another example I can think about are public-private partnerships, with many development opportunities in the North/South relationship. The usual scale of these projects gives the opportunity to deploy the most advanced infrastructure and digital workplace technologies to their full extent, improving sustainability and services to the users and customers. They represent a perfect laboratory of the way forward as they leave room to innovate and imagine new solutions. If you combine the innovative power of private sector, and the traction of public initiative, then we are getting closer to the point where what we do collectively is good for the environment, good for the citizen, and good for our customers and for trade altogether.

About Atos

Atos is a global leader in digital transformation with c. 105,000 employees and annual revenue of c. € 11 billion. European number one in cybersecurity, cloud and high-performance computing, the Group provides tailored end-to-end solutions for all industries in 69 countries. A pioneer in decarbonization services and products, Atos is committed to a secure and decarbonized digital for its clients. Atos is a SE (Societas Europaea) and listed on Euronext Paris.

Tech Foundations is the Atos Group business line leading in managed services, focusing on hybrid cloud infrastructure, employee experience and technology services, through decarbonized, automated and AI-enabled solutions. Its 52,000 employees advance what matters to the world's businesses, institutions and communities. It is present in 69 countries, with an annual revenue of € 6 billion.

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3 EY Global Corporate Reporting and Institutional Investor Survey, November 2022

4 Future of the sustainable workplace in the age of COVID-19 and climate change, Unily, 2020

5 Global Sustainability Study 2021, Simon Kucher & Partners

6 World Economic Forum, Digital solutions can reduce global emissions by up to 20%, May 2022

Clear, transparent rules to protect the world's forests

NICOLAE STEFANUTA

MEP (Group of the Greens – Romania)

The world as we know it is changing along with its climate. It's a new dynamic that we not only have to be aware of, but it is crucial to take the right steps on the path of climate neutrality and environmental protection. This vision might be clear, but it all comes down to technical aspects and the EU is making progress. However, the steps are not perfect.

Protecting the world's forests is a key element of the fight against climate change and biodiversity loss. And there are three major fronts to highlight: fighting deforestation, nature restoration and forest monitoring.

The EU Regulation on deforestation-free supply chains

More than 100 countries promised to halt and reverse forest loss and land degradation by the end of 2030. The EU Regulation on deforestation-free supply chains, a framework on which I worked as shadow rapporteur entered into force and will soon be operational.

This new set of laws is an important component in the fight against climate change and biodiversity loss and a brand new instrument implemented in the summer. The new laws will ensure that a set of key goods exported to the EU must be deforestation free and will no longer contribute to deforestation and forest degradation in the EU and elsewhere in the world.

The innovative element lies in the fact that companies will have to proove that the product has been produced on land that has not been subject to deforestation or forest degradation, including of primary forests, after 31 December 2020. It is a brave new step in the development of new technical solutions around the globe for protecting the world's forests through responsibility and transparency.

The EU Nature Restoration Law

I am glad that we have now an agreement on the EU's Nature Restoration Law after the moment in July when EP passed its mandate with a very thin majority and a series of obstacles during negotiations. It's a piece of legislation that has met strong opposition and a lot of initial stipulations were changed. There were more than 2000 amendments, so it was a colossal fight for our future. It is unfortunate that the disputes have placed environmental protection in opposition to agricultural development after a massive an aggressive disinformation and scaremongering campaign from the right wing groups and industrial farming lobby. Environmental protection and agricultural development must work together for a more sustainable future.

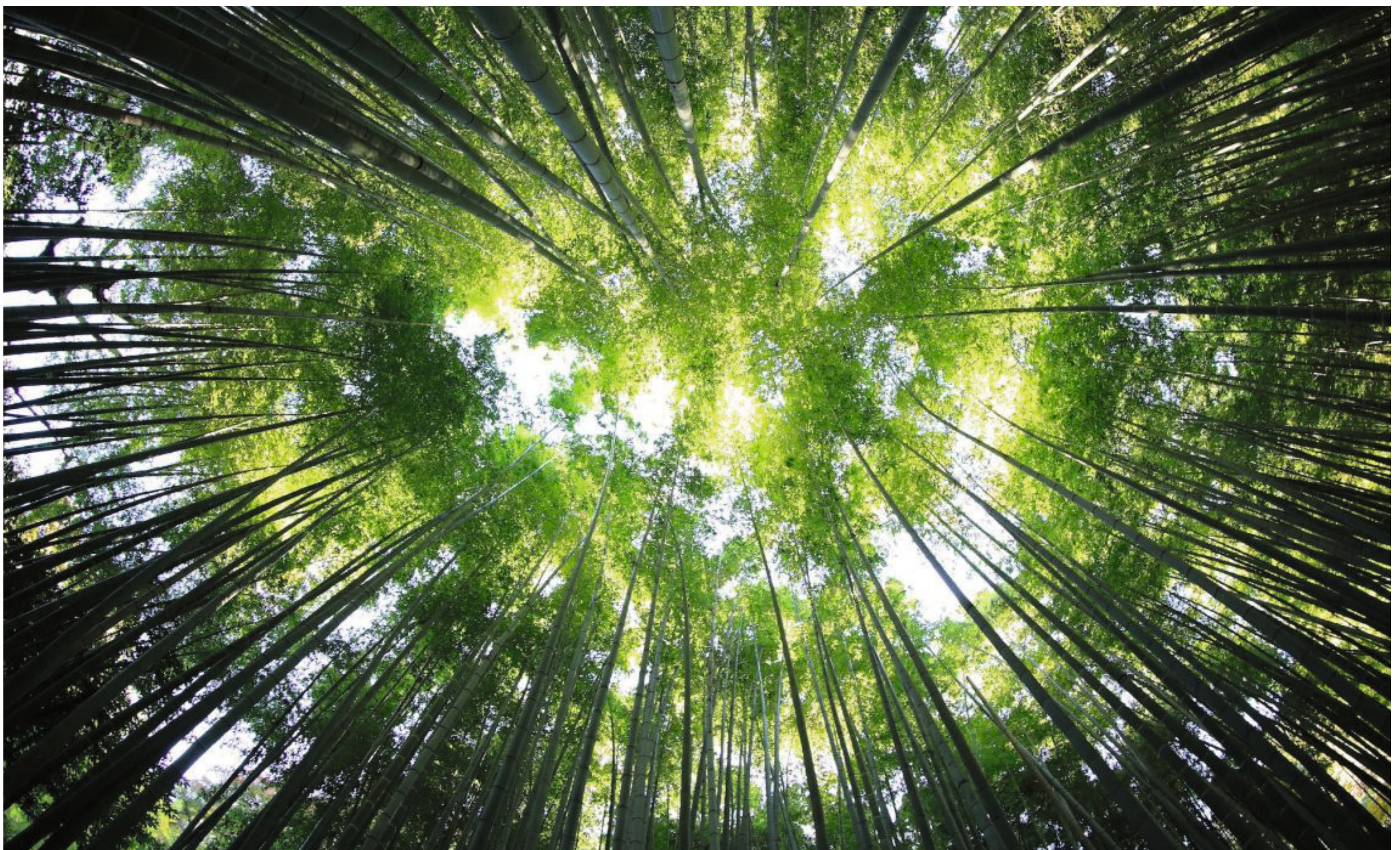
Europe is the fastest-warming continent according to the World Meteorological Organization. Extreme weather with droughts and floods has a disastrous impact precisely on European agriculture and the wellbeing of European citizens. Nature restauration measures and long term plans for a nature friendly Europe will help farmers and sustain the food security in a sustainable and healthy way.

The Nature Restoration Law aims to put in place recovery measures that will cover at least 20 % of the EU's land and 20 % sea areas by 2030, and all ecosystems in need of restoration by 2050. Around 80% of European natural habitats are in poor condition today and it is crucial to restore forests, rivers and lakes. In Romania, for example, a large area of almost 1000 hectares in the Făgăraș Mountains has been restored with healthy mixed forests and the rare European Bison has returned.

As the EU navigates the final stages of adopting this groundbreaking environmental law, a critical analysis is essential to

understand its potential impact. While the law brings forth positive elements, the legislation may face challenges due to numerous exemptions and a lack of robust legal safeguards, raising questions about its long-term effectiveness and setting a potentially worrisome precedent for future EU law-making. Timely implementation becomes crucial in ensuring that the EU maintains its leadership in environmental stewardship and sets a precedent for other regions to follow suit.

One of the pressing factors urging the prompt adoption of the law is the looming 2024 EU elections. The urgency stems from the realization that the law plays a pivotal role in enabling the EU to fulfill its global commitments on climate and biodiversity.



Regulation on Forest Monitoring

Romania is home to the largest proportion of virgin forests that are left in the EU and it has a huge issue regarding illegal logging. The European Commission has expressed its concern about the phenomenon and its intention to continue to monitor the implementation and enforcement of EU environmental legislation in relation to forestry activities in Romania. In February 2020, the Commission opened an infringement procedure in this regard.

After my visit to Romanian forests in the summer, accompanied by fellow MEPs, we witnessed firsthand the devastation caused by illegal logging and irresponsible legal logging, particularly in protected areas. The issue is highly complex, yet European laws, coupled with the new EU regulation on forest monitoring, hold great potential for addressing these challenges. Unfortunately, on-site efforts are often impeded by corruption. The glaring reality is that many initiatives face obstacles due to inaccurate official data provided by the government.

The European Commission's proposal for an EU Forest Monitoring Law responds to the imperative of monitoring the health and resilience of forests amidst various threats. While EU Member States have their own assessment systems, there are notable gaps in reporting, especially concerning environment-related indicators. This regulation aims to remedy these challenges related to data credibility, advocating for uniform rules and practices in the collection and provision of information. In simpler terms, the information on paper should accurately reflect the ground reality. It was a huge priority that all forests in Europe should be monitored according to the same rules, including via satellites.

An imperfect but crucial crossing

There is a lot of work ahead to efficiently protect the forests and natural habitats. European governments must implement their own strategies with their own instruments. And things will take time. The countries' strategies will probably meet up with some forms of resistance due to local interests. But I trust that the governments, no matter which political color they are composed of, will realize the urgency and the help that the EU instruments will provide.

Following a decision of the Romanian Parliament, the pastures were removed from those eligible categories to be afforested through Romania's recovery and resilience plan. But the Government has approved an emergency ordinance by which pastures are included once again in the category of agricultural land that can be afforested with funds from the recovery plan. So I expect things to work out in the end.

In Romania there are approximately 7 million hectares of forests, which cover approximately 29% of the country's surface, compared to the European Union average, which is over 40%. Most of the forests are concentrated in and around the Carpathian Mountains. Protecting forests and afforesting vulnerable areas must be taken very seriously. The degradation of forest ecosystems and their disappearance must be seen as a national and global security issue. Because that's what they really are.

Advocating a Pop Culture of Sustainability

SABINE LOCHMANN

President and founding partner of ASCEND, a consulting firm specializing in ESG/ CSR strategy and Duty of Vigilance

In 2024, the European Union's Green Deal brings environmental issues to the forefront of policymaking and the agenda of all executive committees. Ad nauseam, some corporate leaders would argue.

This evolution in the EU's priorities is remarkable. The founding treaties, steeped in the noble ideals of human dignity, freedom, democracy, and the rule of law, did not foresee environmental protection as a cornerstone. Planet Earth was forgotten at the time.

Environmental issues, then peripheral in political discussions, have rapidly ascended the agenda in EU politics following the international mobilization provoked by the signature of the Accords de Paris in 2015. Thus, the Green Deal was announced 4 years later, reflecting the willingness of most EU politicians to position the Union as the global normative power in this field. In her press release, President Ursula von der Leyen admitted openly that the Deal was a leap of faith: "By showing the rest of the world how to be sustainable and competitive, we can convince other countries to move with us.'"

The corporate landscape has mixed feelings about the Green Deal. Even those leaders who have now integrated CSR into their corporate fabric struggle with the intricacies of dozens of directives that comprise the Green Deal's legislative framework. Their critique of «red tape,» reflects genuine concerns over the costs of transitioning to green technologies to the competitiveness in a global market. But critiques can at times be excessive, as these directives are not arbitrary impositions. They are the expression of democratic will, a collective aspiration for an environmentally conscious future.

The media's penchant for Brussels-bashing doesn't help either. The complexities of the Green Deal's policies have obfuscated its benefits and intent. There lies a critical need to demystify these policies, to illustrate their tangible impacts not only on the environment but also on upholding universal human rights, and more broadly, to better anticipate social disorders because of the unprecedented transition our economy and society move through.

A concerted effort to foster a «popular culture» of sustainability could be a critical success factor to provoke anticipated transformations. The EU's recent directives on Corporate Sustainability Reporting (CSRD) and Due Diligence (CS3D), circular economy, and anti-greenwashing possess the potential to instill pride in citizens, if only they were aware of them. Knowledge empowers action, and in this context, it could galvanize a collective movement towards sustainable living.

This is not a call to naïve optimism but an invitation to realism infused with hope. The EU's model, which seeks harmony between ecological care, economic progress, and social equity, is a prototype for the future. Its success therefore depends on collective awareness and action, which represents a real political challenge that the candidates in the forthcoming European elections must take up, as must the representatives of the Administrations of each member state, so that a genuine authenticity emerges from the combined actions to achieve it.

To truly embed sustainability into the fabric of our society, we must cultivate a pop culture of Sustainability, a movement that celebrates and values our environmental milestones by putting them at the heart of ongoing actions, decisions, and transitions. As policymakers, business leaders and citizens, we must promote this cause, forging an alliance that transcends borders and unites us in our commitment to a greener and more resilient world a movement that celebrates and values our environmental as the social milestones.

ESG in the European aviation sector: the contribution of the new regulation on the "ReFuelEU aviation" initiative

JEAN-CLAUDE BEAUJOUR

Is a lawyer at HARLAY, avocats, Chair of the IPBA Aviation Commission[1]

The demand for ESG standards in the aviation sector is no longer a new debate, since the various players in the sector (airports, aircraft manufacturers, carriers, subcontractors) have made it an imperative for many years. Admittedly, some will say that the measures taken are cosmetic in comparison with the demands for carbon neutrality by 2050 when they demand for the elimination of air travel as a means of transport. But it is not seriously conceivable to eliminate this mode of transportation within the European Union, with its 450 million inhabitants, when the distance between Dublin and Athens is 3800 km, or when a region of the Union needs to be opened up to prevent it from dying out. To be clear it is not a question of making aviation sacred, but of recognizing its benefits, while making thoughtful use of it.

Indeed, let's not forget that we need to make effective the right to travel within the European Union, as set out in Directive 2004/38/EC. It's a matter of enabling EU nationals to work or facilitating intra-European family reunification, in line with the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of December 9, 2020.

For this reason, the "ReFuelEU aviation" regulation of October 9, 2023 relies on the premise that the more sustained use of renewable and low-carbon fuels, will enable the aviation sector to reduce its carbon footprint and create a level playing field for sustainable air transport in the EU. However, this regulation will not enable us to fully meet the requirements of the objectives set for 2050 if it is not implemented swiftly and smartly.

Firstly, the Commission must ensure that all aircraft operators comply with the new regulations. The agreement is binding on the 27 members of the Union, but not on non-member states. It would therefore be desirable for the European regulation to be the working basis for an international agreement, especially as SAF can be produced anywhere on the planet. Europe cannot be alone in driving decarbonization policies through SAF. It must be an international approach. The environmental issue is global, not regional. Moreover it is not viable to set up a system that penalizes European companies alone. Finally, let's not forget that the porosity of public opinion will sooner or later force non-European companies to justify their zero-carbon policy.

Secondly, this sustainable fuel must be available in sufficient quantities to meet demand. Production plants must notably be built in Europe to meet demand throughout the Union. Appropriate infrastructures must therefore be envisaged within a fairly short timeframe, which presupposes a European public policy and, with it, the necessary industrial incentives. To date, SAF is only available for 0.01% of the world's aviation needs. Admittedly, the international air transport association (IATA) says it has counted more than 130 renewable fuel projects announced by over 85 countries, which would enable the production of 24 million tons by 2030 . However, it points out that this encouraging figure will only become a reality if each ICAO member country takes the necessary steps to ensure that aviation receives its share of SAF. To achieve this, we need industrial cooperation between EU member states. The aim of this industrial cooperation is to pool our know-how in order to optimize the technical level and quality of production, shorten lead times and provide a supply throughout the Union.

Thirdly, sustainable fuel is currently five times more expensive than kerosene. The very high cost is explained by the fact that demand far outstrips supply on the one hand, and that producers have to absorb the initial investment effort on the other. All the countries of the European Union need to adopt a coherent policy to foster private investments.

In conclusion, one cannot deny decarbonizing air transport is an ecological necessity. Still, for the sake of both effectiveness and fair competition, EU member states must bear in mind that regulation alone is not sufficient – it needs to be smart too. It's an opportunity for the Union to take the lead in a significant international policy for clean aviation, and to draw in the United States, China and India in particular.

1 Jean-Claude Beaujour is a lawyer at HARLAY, avocats, Chair of the IPBA Aviation Commission and a lecturer at the European Air Transport University (*the author's positions are not binding on the institutions with which he is affiliated*).

EU TAXONOMY ECONOMIC SECTORS AND ACTIVITIES COVERED

CLIMATE DELEGATED ACT and ENVIRONMENTAL DELEGATED ACT

DISASTER RISK MANAGEMENT (NEW)
Nature-based solutions. Emergency Services, Flood risk prevention and protection infrastructure.

BUILDINGS (NEW)
Construction and renovations, demolition and wrecking, maintenance of roads and motorways, use of concrete in civil engineering.

Construction, energy efficiency measures and renovations.

WATER SUPPLY AND SEWERAGE (NEW)
Water supply, urban waste water, sustainable drainage systems (SUDS), phosphorus recovery from waste water.

Water supply, sewerage, waste management and remediation.

MANUFACTURING (NEW)
Plastic packaging goods, electrical and electronic equipment, pharmaceuticals.

Enabling technologies, heavy industry (transitional).

TRANSPORT (NEW)
New transitional water and air transport, automotive and rail components.

Low emissions, transitional alternatives until 2025, infrastructures.

ENERGY
Renewables, transmission, specific nuclear and natural gas activities (subject to stringent conditions).

SERVICES (NEW)
Sale of spare parts and second-hand goods. Preparation for re-use of end-of-life products and product components, marketplace for the trade of second-hand goods for reuse.

ICT and professional activities (NEW)
Software and consultancy IT/OT (information/operational technologies) data driven solutions.

Research, data solutions and centres.

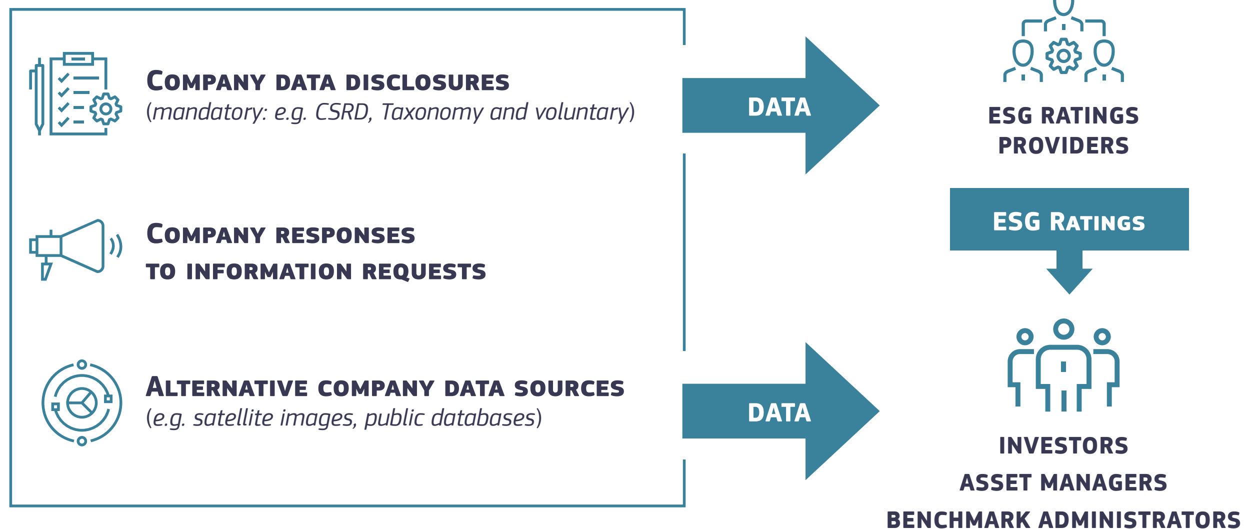
FORESTRY
Afforestation, conservation, forest management, rehabilitation and restoration of forests.

PROPOSAL FOR A REGULATION ON ESG RATINGS

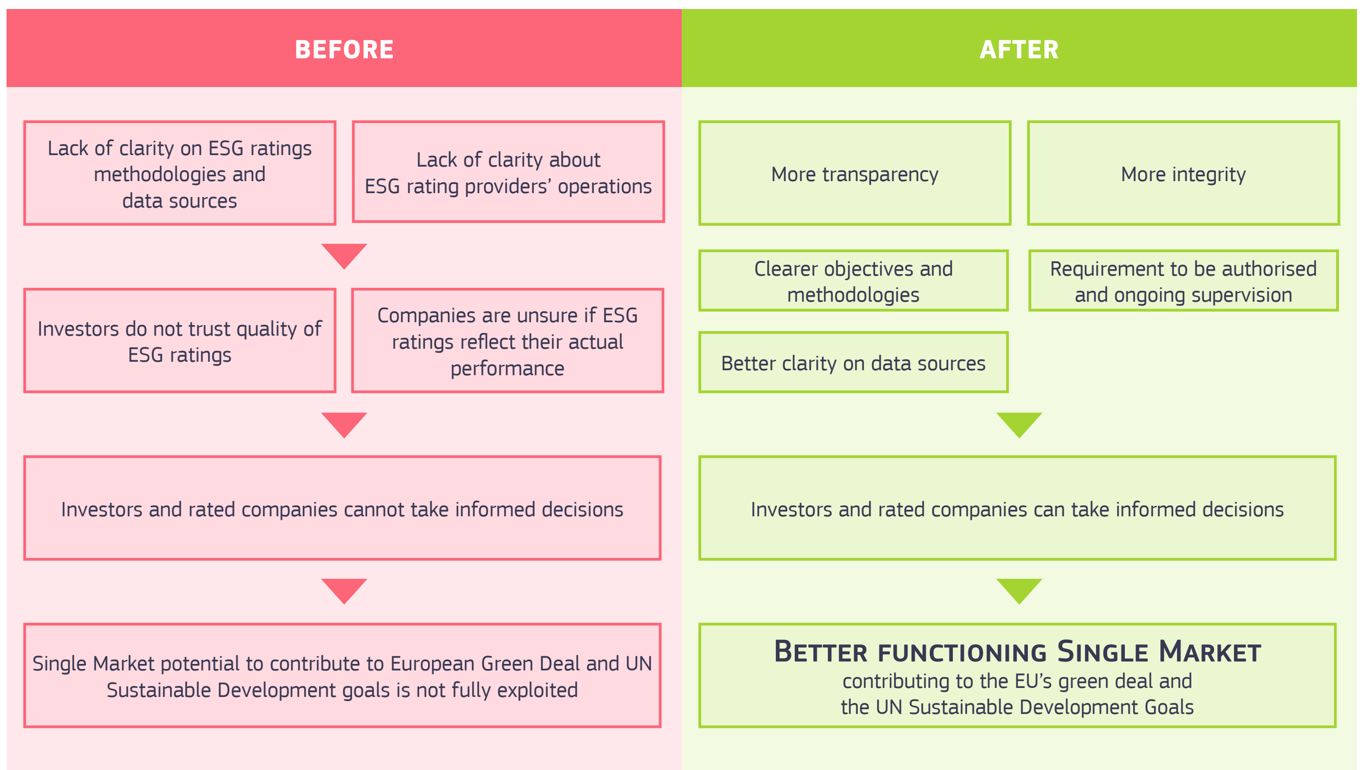
We are taking further steps to make it easier to invest in a more sustainable economy by bringing more transparency to the Environmental, Social and Governance (ESG) ratings market and introducing rules on ESG rating agencies' operations.

ESG ratings assess the **environmental, social, and governance** characteristics, exposures to ESG risks or the impact on the environment and society in general of an entity, a financial instrument or a financial product.

HOW ESG RATINGS WORK



WHAT IS CHANGING WITH TODAY'S ESG RATINGS PROPOSAL?



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Vaccines Europe

One **Strategy** - Three **Results**

Our 2024-2029 Mission

We call on the EU to put in place an EU Immunisation Strategy in the next mandate that strengthens the protection against vaccine-preventable diseases across all generations, by:

1

Promoting forward-thinking policies that foster innovation and stakeholder collaboration.

An **Innovative** Europe

2

Setting and monitoring life-course immunisation targets.

A **Healthy** Europe

3

Setting EU appropriate financial targets to improve national investment in immunisation programmes.

A **Prosperous** Europe

#EUImmunisationStrategy

www.vaccineseurope.eu