BRAND WATCH
Oliver Balch on why brands are rushing to partner with startups

ESG WATCH
EU muddies waters on sustainable investment, writes Mike Scott

POLICY WATCH
Angeli Mehta on why the logic of oil and gas expansion is spurious

INTERVIEW
Oliver Balch meets the new head of Latin America's B Corp movement

THE SUSTAINABLE BUSINESS

Review

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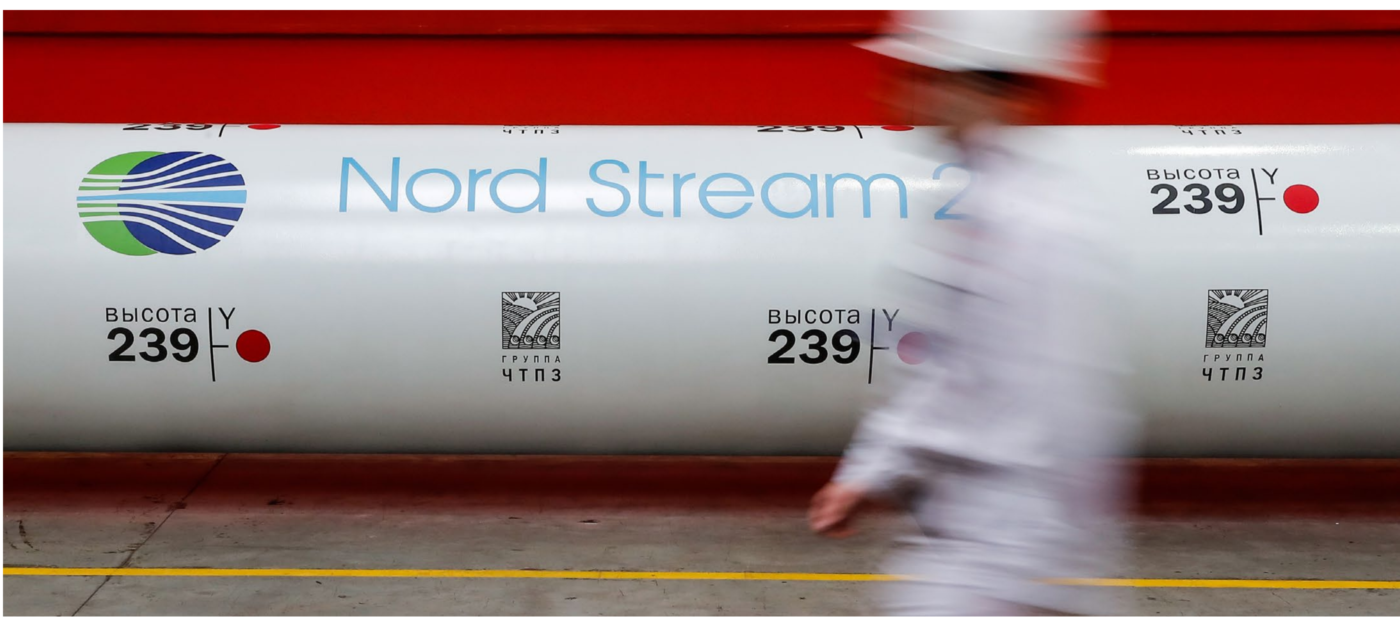
March 2022



MAXIM SHEMETOV/REUTERS

As war in Ukraine escalates, how far will the world go to tighten the screws on Russia?

In the wake of Vladimir Putin's invasion of Ukraine, oil giants BP, Shell and Norway's Equinor have announced plans to divest of their Russian energy assets.

Among other sanctions, Germany has halted certification of Nord Stream 2, a major new gas pipeline from Russia, and the European Union is expected to unveil more measures this week to reduce its energy dependency on Russia, which supplies 40% of its gas.

But there are questions about how far western governments and companies will be willing to go to tighten the screws on the world's second-biggest producer of natural gas after the United States.

As Angeli Mehta reports in her Policy Watch column this month, it's been clear since the ›

THE SUSTAINABLE BUSINESS

Review

BRUNO KELLY/REUTERS

tents were pulled down after COP26 last November that "energy security" has replaced climate change as the main focus for countries like the UK and Norway, which have offered new production licenses for oil and gas production, despite talking up the need to build out renewables.

With Russia having failed to sign up to the pledge signed by more than 100 countries at COP26 to cut methane emissions, moves by the European Union to wean itself off gas exports from Russia will be welcomed by ESG investors.

But they will be keen to see it replaced with cleaner alternatives, from renewable energy sources to improving the efficiency of buildings and machinery.

As Mike Scott reports in his ESG Watch column this month, the European Union's decision to include gas as a green investment has been condemned as "greenwash" by one of the architects of the Paris Agreement, Laurence Tubiana.

In Brand Watch, Oliver Balch writes about how big brands, from Amazon to Microsoft, are scrambling to partner with innovative startups to enhance their sustainability credentials in the energy transition.

He also interviews Felipe Chajin, head of Sistema B, Latin America's chapter of the B Corp movement, to find out how companies there are moving from philanthropy to radical new business models.

And in the In Focus slot, Mike Scott looks at what new climate disclosure rules expected this year from the Security and Exchange Commission could mean for U.S. companies.

I hope you enjoy this month's issue.

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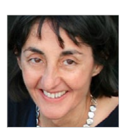
POLICY WATCH

ANGUS MORDANT/REUTERS

The spurious logic behind expanding oil and gas while committing to climate action

The argument that cutting domestic fossil fuel production only increases imports from elsewhere was recently dismissed by a U.S. court



Angeli Mehta
Policy correspondent

Do governments have the political will to wean their societies off fossil fuels?

Even as western countries moved quickly to slap financial sanctions on Russia over its invasion of Ukraine, Wood Mackenzie's analysts pointed out that the sanctions announced so far are not intended to stop energy exports from Russia, though energy sanctions "remain on the table" for the U.S. and the European Union.

Russia is the world's second biggest producer of natural gas, and Wood Mackenzie warned that if Russian gas flows to Europe were stopped, it could trigger a global recession.

It's been clear since the tents were pulled down at the end of the COP26 climate conference last year that the phrase "existential threat" has been replaced with "energy security".

Even as COP26 president Alok Sharma reiterated the need to build out renewables, the Norwegian government offered 53 production licenses to oil and gas companies, whilst the UK quietly authorised a new North Sea oilfield.

Britain's business secretary, Kwasi Kwarteng, tweeted that "shutting down the North Sea just increases foreign imports". But does it?

His department has just concluded consultations on the design of a Climate Compatibility Checkpoint, which will be applied to all future licensing rounds.

Potential tests include the actual reduction in operational emissions, ❯

POLICY WATCH

CARINA JOHANSEN/NTB SCANPIX/VIA REUTERS

Norway has issued new oil and gas licenses, and the UK authorised a new North Sea oilfield.

versus sector commitments; the impact on future emissions targets; and the global "production gap", the difference between planned fossil fuel production and the level that is consistent with limiting global warming to 1.5 degrees Celsius.

A recent assessment from the United Nations Environment Programme (UNEP) reveals that governments' production plans and projections would lead to about 240% more coal, 57% more oil, and 71% more gas in 2030 than would be consistent with meeting the 1.5C warming goal in the Glasgow Climate Pact.

The UK's deliberations may also be affected by the outcomes of several court cases, including one challenging its decision to finance a liquefied natural gas (LNG) project off Mozambique. In its grounds for objection, Friends of the Earth argued that Scope 3 emissions – indirect emissions that occur in a company's value chain – were not quantified, and that there was a failure to consider the findings of the UNEP production gap report. A judgement is still pending.

Another is a decision made in a United States court in January. The judge cancelled oil and gas leases granted by the Federal government for drilling in the Gulf of Mexico. The rationale? That the government had failed to calculate the impact of oil and gas extraction from those fields on global greenhouse gas emissions.

The licensing agency, the Bureau of Ocean Energy Management (BOEM) said it didn't know how to do the maths, but the judge countered that it had the tools at its disposal – and moreover the calculations had already been made.

Pete Erickson is climate policy programme director for the United States offices of the Stockholm Environment Institute and one of the lead analysts on the U.N. production gap report.

He says BOEM had calculated that if offshore production in the United States were to expand by its own estimate of 8.3 billion barrels of oil, domestic consumption would increase by 450 million barrels over the 50-year lifetime of the projects, releasing 190 million tonnes of CO_2 emissions when the oil is burnt.

But what the licensing agency failed to take account of was the impact of a fall in U.S. oil imports on global markets, although its ›

POLICY WATCH

own modelling suggests that for every extra barrel produced by the United States, production elsewhere decreases by half a barrel.

Using the same parameters of demand and supply elasticity as in the agency's modelling, Erickson calculated that the United States not importing 7.5 billion barrels of oil would result in an increase in global oil consumption of around 4 billion barrels, releasing another 1.7 billion tonnes of CO_2. That's almost 10 times the domestic increase in emissions and roughly equivalent to Russia's entire emissions in 2017.

Likewise, says Erickson, the modelling shows that if U.S. oil production decreases by one barrel, production increases elsewhere by half a barrel, so the net effect is a decrease in global consumption of half a barrel. "The argument that if we don't drill someone else will... is just not true. (Rather) if we don't produce it, someone else will produce half as much – and half as much is a big deal."

The UK's climate checkpoint consultation also considers the question of demand for oil and gas, but Erickson considers that a moot point. "You need to do everything you can to ramp down oil and gas production as quickly as the science suggests," he says.

The problem is that governments don't seem to be talking much about reducing demand. In the United States, for example, statisticians forecast that the country's oil and gas production will rise through this year to 2023. A report from Oil Change International finds Canada's top eight oil and gas producers are on track to increase output by nearly 30% this decade, resulting in a 25% increase in associated CO_2 emissions.

Ottawa's own reporting shows Canada has been on an upward emissions trajectory since 1991,

Canada's top oil and gas producers are set to increase output by nearly 30% this decade.

driven "primarily by increased emissions from oil and gas extraction as well as transport".

Its Natural Resources minister recently told the Financial Times that while the government would "aggressively" enforce sector emissions cuts, Canada needed to extract value from its resources, including the highly polluting oil sands, while oil demand continues. How it can do both might become clear this month, when the Environment and Climate Change ministry outlines Canada's path to meeting its 2030 emissions reduction target. So far it appears to be relying on tough targets to reduce methane emissions to provide some headroom for the sector.

When the Norwegian government announced its most recent production licenses, it said new discoveries were crucial in developing the country's petroleum industry.

In a statement, Amund Vik, state secretary at the Norwegian Ministry of Petroleum and Energy, told Sustainable Business Review that Norway will continue licensing and exploration in its waters. Thus, "we will be able to help cover the future global oil and gas demand with profitable oil and gas, produced efficiently and with low greenhouse gas emissions. There is no conflict between this petroleum policy and meeting our targets under the Paris Agreement."

Norway's government is being taken to court by environmental activists over earlier licensing rounds. While Greenpeace has lost its case in the domestic courts, judges have ruled that exported emissions are relevant.

Under the Paris accords, countries calculate their own emissions and set domestic targets, but as courts are highlighting – what they do domestically has global impacts.

ESG WATCH

Including gas in Europe's green investment rules muddies waters for ESG investors

Amid mixed policy signals, investors are developing their own protocols and initiatives to translate net-zero commitments into action

Mike Scott
ESG Correspondent

VIEW ONLINE

BENOIT TESSIER/REUTERS

Green activists denounce the French push to include gas in the EU Green taxonomy.

Any move by the European Union to wean itself off gas imports from Russia in response to the invasion of Ukraine will be welcomed by ESG investors who will be keen for it to be replaced with cleaner alternatives such as renewable energy.

Russia accounts for 40% of Europe's gas supplies, yet the country refused to join more than 100 countries in signing a pledge to reduce methane emissions by 30% by the end of the decade.

High methane and CO2 emissions from Russian gas is one of the reasons that the European Commission's decision last month to include gas in its draft rules for what constitutes green investment, known as the sustainable investment taxonomy, has been highly controversial.

One of the architects of the Paris Agreement, Laurence Tubiana, now chief executive of the European Climate Foundation, said: "Europe is undermining its climate leadership and lowering standards in the EU and beyond. When a gold standard does emerge elsewhere, this taxonomy will be left behind."

The financial sector needs direction, Tubiana argued. "The value of the (taxonomy) tool is to drive the deep change we need, to reach net zero emissions by 2050. It is not about stabilising the energy mix like it is now."

But investors can't afford to wait for greater clarity, as they are coming under pressure to translate their own net-zero commitments into action. For example, the 69 members of the United Nations convened Net-Zero Asset Owner Alliance have committed to a new protocol that requires them to halve the emissions of their portfolios by 2030, not just in equities, bonds and real estate, but also in infrastructure. The protocol provides guidelines for engagement and investment opportunities to support the real-world transition and to benchmark progress.

Caroline Clarke, commercial director of financial services at business advisors Carbon Intelligence, says the commitment will require asset owners to significantly increase the pace of their decarbonisation efforts. It sets "much clearer expectations for asset owners and asset managers, as well as (giving) greater clarity ›

ESG WATCH

FABIAN BIMMER/REUTERS

A gas pipeline at an import terminal of Norway's company Gassco in Emden, Germany.

and guidance on how these will be implemented over the next few years".

There is also the Transition Pathway Initiative's new sectoral decarbonisation pathways, which the asset owner-led initiative says "provide the definitive framework for assessing corporate climate targets in 10 key high-emitting sectors within energy, transport and industrials" to see if they align with the Paris Agreement.

The pathways cover electricity, oil and gas, aluminium, cement, diversified mining, paper, steel, autos, aviation and shipping.

Adam Matthews, chair of the Transition Pathway Initiative (TPI), says investors are faced with multiple interpretations of what the low-carbon transition should look like, "often with the intention of slowing rather than accelerating the rate of change". To take decisions, investors need credible, rigorous analysis that reflects the economic, technical and societal realities of the low-carbon transition. "The TPI sectoral decarbonisation strategies provide that analysis," said Matthews.

The need for rigorous analysis is illustrated by a damning new report from the Corporate Climate Responsibility Monitor, a collaboration between the New Climate Institute and Carbon Market Watch. The report assesses the transparency and integrity of 25 major global companies that have made ambitious net-zero commitments and finds that "the rapid acceleration of corporate climate pledges ... means that it is more difficult than ever to distinguish between real climate leadership and unsubstantiated greenwashing".

The report says that the term "net zero" is misleading, with the companies committing to emissions reductions of only 40% on average, "not 100% as suggested by the term 'net zero'".

Standard-setting initiatives such as CDP and Science Based Targets initiative (SBTi) are lending credibility to low-quality and misleading targets, the report says, because many companies fail to include their Scope 3 emissions, or rely on offsetting to meet their targets.

Among the 25 companies, 18 have set targets approved by the Science Based Targets initiative as compatible with either limiting global warming to 1.5 degrees Celsius or 2C. But in the majority of cases, the report said, "we would consider that rating either contentious or inaccurate, due to various subtle details and loopholes that significantly undermine the companies' plans."

At the same time, you can see why companies might be confused by the signals coming from the financial community. According to non-government organisation ShareAction, 25 European banks with net-zero commitments lent $55 billion last year to companies looking to increase oil and gas production, despite the International Energy Association's Net Zero by 2050 roadmap showing that there is no room for investment in new oil and gas fields if the world is to limit warming to 1.5C.

"There is no pathway to net zero that involves funding an expansion in production of fossil fuels. For the world to avoid 1.5C of heating, then no investment is needed anywhere in any new coal, oil or gas production," Mark Campanale, founder and executive chair of financial think-tank Carbon Tracker, said. "Now is the time for banks to get real with the science and announce a science-based moratorium on funding new fossil fuel projects."

ShareAction is urging asset managers to support resolutions filed by the Interfaith Centre for Corporate Responsibility at banks including JP MorganChase, Bank of America, Wells Fargo, Citigroup, Morgan Stanley and Goldman Sachs, calling on them to urgently scale back their fossil fuel financing.

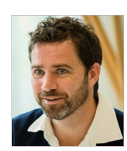
BRAND WATCH

Energy system startup Piclo is helping UK Power Networks balance the grid.

PAN DEMIN/SHUTTERSTOCK

How brands are scrambling to bring clean-tech startups inhouse

Amazon is only the latest to launch an accelerator scheme to partner with early-stage sustainability innovators



Oliver Balch
Sustainable business correspondent

If necessity is the mother of invention, then brand backing is – or, in an ideal world, could be – its midwife, wet nurse and handmaid rolled into one.

Such is the thinking behind a slew of sustainability-oriented "accelerator" schemes to have emerged in recent years. Think, the 100+ Accelerator (set up by Unilever, Coca-Cola, AB InBev, and Colgate-Palmolive), PepsiCo's Greenhouse Accelerator, and Microsoft's recently launched AI for Environment ›

BRAND WATCH

DENIS BALIBOUSE/REUTERS

Solar Impulse Foundation chairman Bertrand Piccard, right, with Nestlé chief executive Mark Schneider.

JERAMEY LENDE/SHUTTERSTOCK

Amazon's accelerator programme is aimed at startups that are developing eco-friendly products.

initiative, to cite but a few examples.

Another name to add to the list is the new Amazon Launchpad Sustainability Accelerator. Geared towards startups that are building physical products to help people live more sustainably, the U.S. online retailer has pledged to provide selected UK and European startups with cash and in-kind grant support worth up to 33,000 pounds, including access to its cloud service, AWS.

Aditi Singh, general manager in Europe for the company's small business-focused platform, Amazon Launchpad, says Amazon will work with participants to complete a climate impact assessment to understand their product's potential climate impact, and develop strategies to make them even more environmentally friendly from the outset.

A major component of the programme is a 12-week bespoke learning programme, supported by Amazon's partner, the European Union-backed innovation hub EIT Climate-KIC.

Singh says in the short term, Amazon's new initiative seeks to respond to changing demand patterns, which have seen year-on-year sales of "climate-pledge friendly" products double on its UK and European sites over the last year.

The concept of corporates helping to fund early-stage startups is well-established within the innovator incubator space (the New York-based Do School and Echoing Green being archetypal examples).

For all the billions of dollars global brands pour into research and development, the popularity of accelerator programmes implicitly acknowledges that the best ideas often come from outside large organisations.

To quote Bertrand Piccard, the Swiss solar flight pioneer and founder of the Solar Impulse Foundation, a catalyst for pro-sustainability market solutions: "Certitude and habit kills innovation (because) innovation only sets in when one thinks about the opposite of what was done before."

But disrupting the status quo is challenging for large, established brands, especially when such practices have proved profitable up until now, Piccard says.

Accelerators aren't about outsourcing innovation, either. The best programmes build in opportunities for collaboration and cross-organisational learning.

A case in point is the Global Cement and Concrete Association's (GCCA) new Open Challenge initiative, which aims to work with ›

BRAND WATCH

ARND WIEGMANN/REUTERS

A Holcim electric-powered cement mixer – the sector is pairing with startups to help it achieve net-zero emissions.

innovative startups to achieve ambitious net-zero goals for its industry members.

Under the scheme, experts from GCCA's member companies (which represent around 40% of the global cement and concrete market) pledge to work side by side with selected early-stage innovators to help them move their technologies closer to full commercialisation.

For participants on the accelerator, the prize is "unprecedented access" to an industry worth $333 billion, GCCA says. For the association's members, it's a chance to get a heads up on potential breakthrough technologies coming down the track.

GCCA's chief executive Thomas Guillot describes the initiative as an attempt to "identify and jointly progress" cutting-edge clean-tech solutions, by applying the accelerator principle to the creation of green cement and concrete.

For all the cuddly language around sustainability-oriented accelerators, such initiatives are not without their risks. The most obvious is greenwashing. "Tweaking old systems isn't enough," warns Melanie Hayes, managing partner at Bethnal Green Ventures, a UK-based "tech-for-good" venture capital firm. She points to the risk of brands seeing accelerator schemes as a publicity focused add-on to the real business of research and development.

How can brands prove otherwise? In one of two ways, says Hayes. First, "by providing (startup innovators) access to their networks, reach and influence". And second, "by partnering, rather than competing" with smaller innovators.

A good example of the latter is Piclo, an online energy-systems marketplace, which has teamed up with the large distributor UK Power Networks to facilitate the procurement of clean, flexible electricity. Since its creation in 2013, the small peer-to-peer trading platform has helped procure 667 megawatts of clean power.

To avoid any potential accusations of unfair competition, Microsoft has structured its new accelerator to ensure that startup participants retain all intellectual property rights. The U.S. tech giant has also committed not to take equity in any of the businesses that come through the programme, which kicks off in mid-March.

Previous artificial intelligence startups to have gained early-stage support from Microsoft UK include ThermaFY, which develops real-time thermal analysis solutions, and recycling business Recycleye, which has so far raised more than 4 million pounds in funding.

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INTERVIEW

From philanthropy to radical new business models in Latin America

Oliver Balch meets Felipe Chajin, head of Sistema B, the region's fast-growing chapter of the B Corp movement

When Felipe Chajin first came across the B Corporation movement, a certification scheme for socially and environmentally responsible companies, it was "love at first sight" for the 40-year-old industrial engineer.

As general manager of Servioptica, a Colombian eyecare company set up by his father, he had wanted to kickstart a tie-in with a national magazine to provide subsidised spectacles to low-income consumers.

The project didn't work out, he recalls: "But the magazine said I should focus on B Corporations, which I'd never heard of before … but within three months we were certified."

Today the Bogotá resident is four months into his new job as executive director of Sistema B, the Latin American arm of the B Corp movement, a model that started in the United States in 2006 and is based on the premise that companies should be "inclusive, equitable and regenerative".

To date, 4,642 companies in 78 countries have been certified as meeting the same core standards, which include a written commitment in their articles of association for directors to consider the interests of all "stakeholder" groups evenly.

This means a company has the fiduciary duty to weigh up the interests of employees, consumers, suppliers and wider society, alongside its obligations to shareholders.

Latin America was one of the first regions outside of the United States to adopt the B Corp model and remains one of the areas where the movement is growing most swiftly. Today, one in six certified companies globally are domiciled in the region.

According to Chajin, the COVID-19 pandemic has given rise to fresh discussions about new models of business that offer greater resilience to external shocks.

Although it has less than a 10th of the world's population, Latin America has accounted for about 30% of the global death toll from COVID-19 (with more than 1.5 ›

SISTEMA B

Felipe Chajin heads Sistema B, the B Corp movement's Latin American arm.

INTERVIEW

ADRIANO MACHADO/REUTERS

A woman receives a COVID-19 vaccine in Brazil.

BRUNO KELLY/REUTERS

The Amazon is experiencing record levels of deforestation.

million registered deaths), making it the hardest-hit corner of the planet. According to the Organisation for Economic Co-operation and Development (OECD), this has led a region-wide spike in unemployment and poverty levels.

Meanwhile, the region's heavy dependence on primary commodities means efforts to accelerate growth are putting huge pressure on the natural environment – as recent record deforestation figures in the Amazon illustrate only too clearly.

As a family-owned firm, Servioptica, which has since been sold to global ophthalmic company EssilorLuxxotica, had already enshrined many practices encouraged by the international certification scheme.

These included measures to proactively employ people with disabilities, a generous staff share-option scheme and the use of recyclable packaging.

As a first step in the B Corp certification process, companies are required to complete a standardised impact assessment, which shows where their main social, environmental and economic impacts occur and suggests how these might be improved.

"We had lots of good intentions, but it was a little bit disarticulated and all over the place, which is where the B Corp assessment tool helped," says Chajin.

It is a story echoed across South America's private sector; namely, a cultural predisposition towards philanthropy, influenced by strong firm-founder values, yet backed up with little professionalism or strategic alignment.

Sistema B is not the only organisation in Latin America trying to bring greater rigour to what Chajin calls "conscious capitalism".

Latin America boasts the second largest number of companies after Europe that are members of the world's largest corporate sustainability initiative, the United Nations Global Compact.

The continent also has a well-established network of business-led organisations promoting corporate responsibility, including Instituto Ethos in Brazil, the Instituto Argentino de Responsabilidad Social y Sustentabilidad (IARSE) in Argentina, and Cecodes in Colombia.

Like the U.N. Global Compact, Sistema B works with businesses of all sizes, not just large corporations. With small or medium-sized firms generating 60% of productive employment in Latin America, this fills an important gap.

But it is more radical in its ambition, with its eyes set on affecting systemic change at an economy-wide level.

Hence, Sistema B's strong advocacy for updates in company ›

INTERVIEW

IRENEUKE/SHUTTERSTOCK

Small or medium-sized business generate 60% of productive employment in Latin America.

law to formalise business models that allow for a fiduciary duty towards people and planet, and not just shareholders.

Chajin's home country of Colombia has been at the forefront of this move, establishing in 2018 a law (Ley 2019) that permits companies to form as Benefit and Collective Interest Societies. Peru, Ecuador and Uruguay have followed suit.

He admits that the requirements, which include changes in a firm's legal objectives and regular reporting on its non-financial impacts, are "not that tough", and that the new legal format could present a "greenwashing risk".

But the flipside is a "very positive" increase in awareness of alternative business models, he argues: "We're now seeing lots of companies from rural areas and small cities joining the movement, and more companies just in general joining the conversation."

In a similar vein, Chajin plans to increase calls for the region's governments to integrate social and environmental considerations into public procurement.

He cites the example of Argentina, which recently made changes to its public online procurement system, Sistema de Identificación de Bienes y Servicios (SIByS), to include environmental credentials of listed goods and services.

"We want companies that have good triple-impact practices (social, environmental and economic) to have some recognition in the assignment of points in public procurement systems," he states.

Chajin is not naive about the challenges ahead. With high levels of political instability, labour informality and public distrust, doing business in Latin America is hard enough as it is.

One vital step will be to massively ramp up management skills and mindsets, he states. The second is significant given the widespread assumption that sustainable business is about risk mitigation rather than a vehicle for new opportunities and positive impact, as Sistema B maintains.

This shift in thinking is in train, says Chilean social entrepreneur Gonzalo Muñoz, former U.N. high-level champion on climate change and co-founder of Sistema B.

He points to the influence of Academia B, an online training programme designed to bring business educators across the region up to speed on tools and strategies for the "new economy".

"I honestly believe that Sistema B has been critical in the evolution from CSR to sustainability to ESG-driven management in Latin America," states Muñoz.

Sistema B's new executive director hopes the economic turmoil of recent years will awaken companies to the relevance of business resilience and sustainability.

"The pandemic has left many companies in a terrible situation because they hadn't prepared properly," he observes. "In five to 10 years' time, the same will happen to companies that don't embrace purpose-led strategies."

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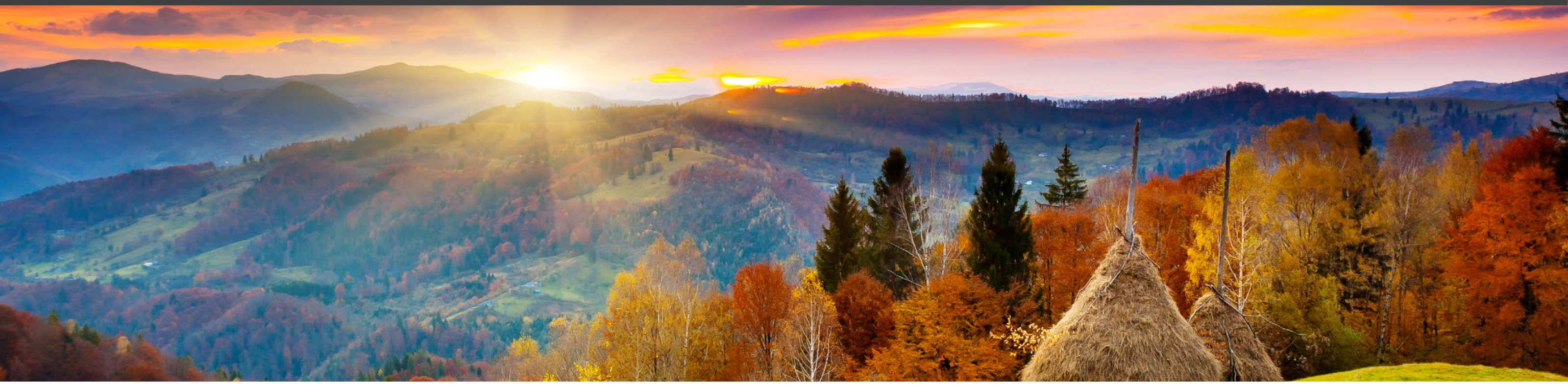

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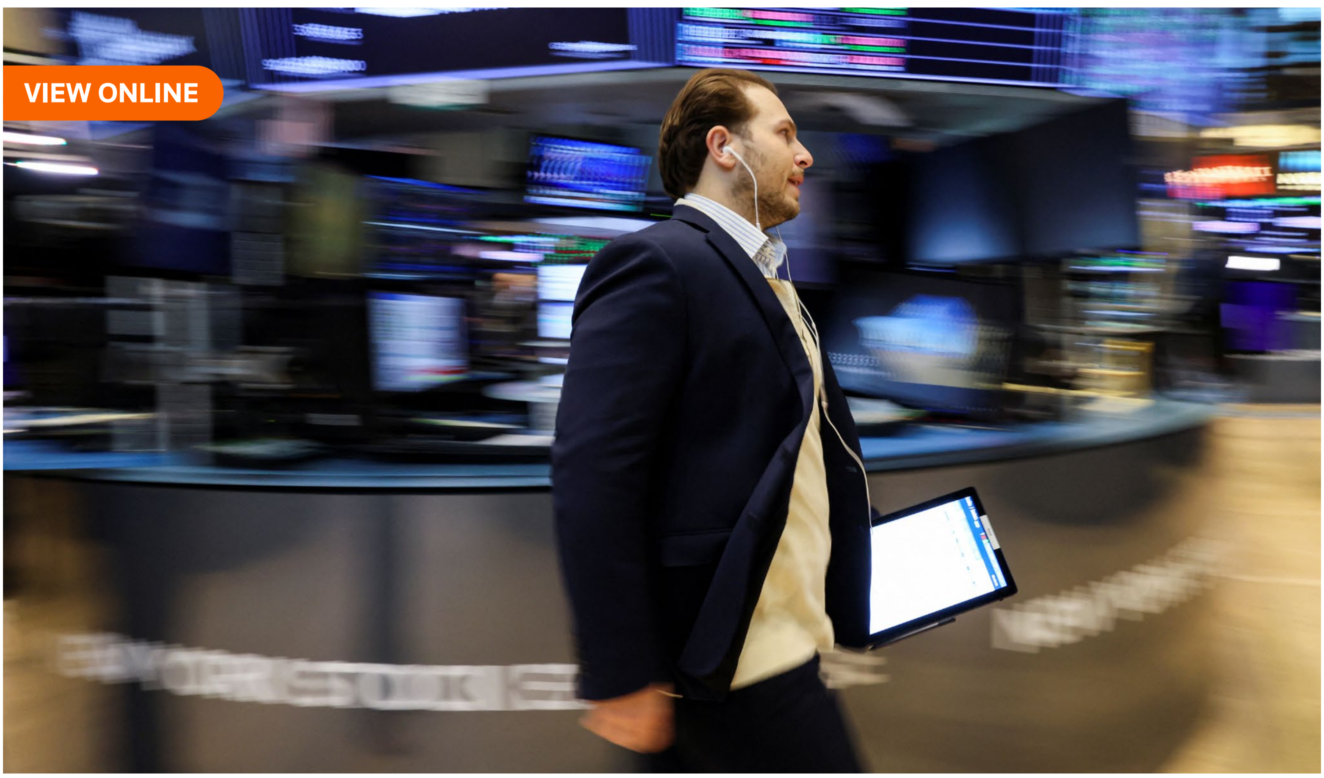
IN FOCUS

What will SEC's climate disclosure rules mean for U.S. companies?



BRENDAN MCDERMID/REUTERS

Mike Scott assesses the implications for listed firms as the U.S. regulator prepares to follow Europe, New Zealand and Hong Kong in making climate-related disclosure mandatory

After four years of climate skepticism in the White House, the election of Joe Biden returned the United States to the climate mainstream. The change in attitude is having momentous impacts, ranging from stronger fuel economy standards to tighter regulations on methane emissions, all in a bid to cut U.S. emissions by at least half by 2030.

A major central plank of the administration's climate action is a proposal by the Securities and Exchange Commission (SEC) that listed companies will have to disclose their climate risks.

Initially, the SEC signalled that the proposed rule would be out in late 2021, but due to challenges in drafting it, the SEC is now not expected to act until the middle of the year. Activist investors want the SEC to require companies to disclose not only their own greenhouse gas emissions but those generated by their suppliers and other partners. Corporate groups, meanwhile, are pushing for a narrower rule that will make it less expensive to gather and report emissions data.

So what could the new climate disclosure rules entail, and how

IN FOCUS

should companies prepare?

Proponents of climate disclosure say it enables companies to gain competitive advantage, identify and guard against reputational risk and get ahead of regulatory and policy changes. It also can help them identify new markets for climate-friendly products or solutions.

"Disclosure is fundamental," said Steven Rothstein, managing director of the accelerator for sustainable capital markets at sustainable investment not-for-profit Ceres. "If investors, employees, regulators and other stakeholders understand what a company's emissions and impacts are, they will be able to compare companies. You can't manage what you can't measure, in restaurants, heavy manufacturing or autos."

France introduced mandatory disclosure in 2016, he added. By 2020, in the relevant sectors, investments in fossil fuels had fallen by 40%. "This will have trillions of dollars of impact for the whole economy, including many foreign companies that report to the SEC."

Since the creation of the Taskforce for Climate-related Financial Disclosures (TCFD) by former Bank of England governor Mark Carney and former Mayor of New York Michael Bloomberg, there has been growing momentum for companies to disclose their carbon emissions and climate risks voluntarily, through organisations such as CDP and SASB (the Sustainability Accounting Standards Board), which is now part of the Value Reporting Foundation (VRF).

Nearly 600 investors with above $110 trillion in assets under management and more than 200 companies requested environmental data from companies through CDP last year, while more than half of the companies in the S&P Global 1200 index use SASB standards in their external communications to investors.

KEVIN LAMARQUE/REUTERS

President Joe Biden and climate envoy John Kerry at the COP26 climate conference in November.

And while early disclosure requests focused on companies' direct emissions from their operations (Scope 1) and indirect emissions from companies providing its power and fuel (Scope 2), there are growing calls for information about the emissions produced by corporations' supply chains, and also through the use of their products by customers, known as Scope 3, which can make up 70% or 80% of a company's carbon footprint.

The emergence, and astonishingly rapid adoption, of net-zero targets by companies, countries, states and other organisations has increased that pressure.

In 2021, the SEC launched a consultation on climate-related financial disclosure, which received thousands of comments, broadly supporting mandatory disclosure and using the existing TCFD recommendations as a basis.

The SEC had introduced climate disclosure guidance back in 2010, but the impact was limited. SEC Commissioner Allison Lee said for a long time "so-called impact or socially responsible investing was perceived or characterised as ... unconnected to financial or investment fundamentals, or even at odds with maximising portfolio performance".

But now climate and ESG (environmental, social and corporate governance) considerations are front and centre, she said. "We understand these issues are key to investors – and therefore key to our core mission. The most fundamental role that the SEC must play with respect to climate and ESG is the provision of information – helping to ensure material information gets into the markets in a timely manner. Investors are demanding more and better information on climate and ESG, and that demand is not being met by the current voluntary framework."

The SEC's move is not happening in isolation – the European Union, Switzerland, New Zealand, the UK, France and the Stock Exchange of Hong Kong are among the nations and bodies that have made climate- ❯

IN FOCUS

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Since France introduced mandatory disclosure in 2016, investments in fossil fuels have fallen by 40%.

related disclosures mandatory, with Australia likely to join the United States in doing so in 2022.

Last year, G7 countries backed plans to force banks and companies to disclose their exposure to climate-related risks, a measure that they said was vital to safeguard the financial system from climate change shocks.

"We support moving towards mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants," the group said. "This will help mobilise the trillions of dollars of private sector finance needed and reinforce government policy to meet our net-zero commitments."

The United States is very aware of the international context, Rothstein of Ceres said. "It is important to be aligned as much as possible and other countries were ahead of the U.S. I hope that the SEC is encouraged by the support from companies and actions on disclosure going on around the world and that it will continue to be bold on this agenda. I'm encouraged that they're looking at the claims around green funds."

The investment world is strongly behind the SEC move, he added. "Investors representing more than $50 trillion of assets signed a letter to the G20 calling for mandatory disclosure. Investors have made their own net-zero commitments and they can only achieve them if the companies they invest in disclose and are able to move forward."

Several major companies, including Apple, HP, Uber and Salesforce, are also supporting the SEC.

Salesforce said: "We are in a climate emergency, and the world needs bold action today in order to limit global temperature rise to 1.5°C, in line with the Paris Agreement. ... In order for employees, communities, investors, customers, suppliers and all of a business's stakeholders to take informed action surrounding these risks and opportunities, there must be consistent, comparable and reliable information on climate change."

Uber's deputy-general counsel Keir Gumbs said that mandatory reporting could lead to a "seismic shift" in how companies report on climate.

Walmart, the world's biggest retailer, also confirmed its support for stronger rules after meeting the SEC to discuss the rules.

However, support for a robust approach is far from universal. In a survey by the U.S. Chamber of Commerce, 89% of companies surveyed thought that the rules should vary according to a company's market capitalisation, 84% thought the rules should be tailored to different sectors, while almost three-quarters wanted the rules to be phased in gradually.

"While the importance of disclosure in the public markets cannot be overstated, the lack of similar information in the private markets poses its own obstacles," warns Caroline Crenshaw, another SEC commissioner.

"There is no doubt that America's public markets are the deepest, most liquid, and most dynamic in the world. That being said, private markets are a reality of our financial system and one into which the SEC has significantly less visibility. It is critical to consider the growing expansion of the private markets and where the capital that fuels those markets originates."

Disclosure is critical, but it is only a first step, Rothstein points out. "We can't get there with disclosure alone, but we can't get there without disclosure. It gives information for all of us to make more science-based decisions."

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