

## TCB Digest for Executives

June 14th, 2023

Welcome to the 3rd edition of The Climate Board's Digest for Executives – a summary of key climate-related events, publication activities, and other insights for cross-functional corporate leaders.

*TCB's Key Takeaways from these events and publications can be found below the fold.*

### Regulatory/Disclosure Updates:

- [Corporate Sustainability Due Diligence Directive \(CSDDD\)](#) - The EU Parliament-approved CSDDD will require companies to conduct due diligence on human rights and environmental-related issues in their operations and supply chains. Companies must also have Paris-aligned plans to decarbonize their value chains.

### Industry Events

- [Reuters: The Future of Mandatory Climate-Related Disclosure](#) (May 25) - This webinar explored the implications of a new era for sustainability reporting on businesses.
- [The Economist: Sustainability Week US](#) (May 30-June 1) - This gathering of sustainability leaders from both business and the policy field shared lessons learned and thoughts about the next steps in ESG regulation, governance, and sustainability implementation.
- [S&P Global: The Challenges of Carbon Capture, Removals, and Offsets in Decarbonization Plans of Companies](#) (June 8) - This webinar discussed how companies can leverage carbon credits and how S&P Global incorporates CCS and CDR in their credit analysis.
- [WSJ: The New Economics of Clean Energy](#) (June 8) - This online event explained how the Inflation Reduction Act has affected renewable energy demand, investments, and capital flows.

### Publications

- [World Bank: The Effect of Multinational Enterprises on Climate Change](#) (May 23) – This publication explores the mechanisms that MNEs can use to spur emission reductions, outlining the practices necessary to reach net-zero emissions by 2050.
- [IEA: World Energy Investment 2023](#) (May 25) – This report presents investment trends with subsections covering fuel supply, the power sector, energy end use and efficiency, R&D and innovation, and sustainable finance.
- [JPMorgan Chase & Co.: Carbon Market Principles](#) (May 30) – This report outlines the bank's efforts to support a more effective carbon market, which it views as an important tool for reducing greenhouse emissions. It notes current shortcomings, such as a lack of high-quality credits.

### More must-reads

- LSE's Grantham Institute (May 25) - [CEOs need a serious new mindset on global challenges.](#)
- Financial Times (May 30) - [Companies and conservationists call for better offset models.](#)
- WSJ (June 2) - [Corporate ESG Requirements Are About to Ramp Up. Here's How CFOs Can Prepare](#)
- Transition Pathway Initiative (June 5) - [Net Zero Banking Assessment Framework](#)

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## Key Takeaways

### Reuters: The Future of Mandatory Climate-Related Disclosure

- [Curtis Ravenel](#), Secretariat, Task Force on Climate-Related Financial Disclosures (TCFD)
- [Jessica Thurston](#), Vice President of ESG, Paramount
- [Jason Leiker](#), Associate Vice President of ESG, AT&T
- [Holly Li](#) (Moderator), Program Director, Ceres Accelerator for Sustainable Capital Markets

#### Trends in Sustainability Disclosures

- ESG reporting is not only climate-related but also addresses topics such as modern slavery and employee health & safety that affect many different parts of a business, necessitating a deeper integration of ESG into core business functions.
- Transition plans are gaining traction and expected to be required going forward.
- For better disclosures, companies and investors alike want improvements in timing, consistency, comparability, and credibility from regulators. Investors seek “decision-useful information.”

#### Recommended Actions for Companies

- Build institutional capacity – “this is coming and not going away.”
- Set up a clear governance structure – establish ownership internally and centralize it.
- Think from the investor point of view – own the narrative or someone else will create one for you.
- Put in place a system of controls, including a line-of-sight connection with finance – those who own the data need to attest to its completeness and accuracy.

### Economist Impact: Sustainability Week US

#### How to Deliver on the SDGs

- [Sanda Ojiambo](#), Executive Director and CEO, UNGC:
  - 93% of CEOs report that business challenges like climate change are existential issues for their position and 98% agree that sustainability is core to business success.
- [Gayle Schueller](#), SVP and CSO, 3M:
  - 3M tried using carbon intensity as a sole climate KPI but found greater success with product-specific sustainability value commitments.
- [Michelle Patron](#), Sr. Director of Sustainability Policy, Microsoft:
  - The best business case for sustainability (e.g., buying carbon removals for \$1000/ton, as Microsoft is) is pushing towards a longer time horizon for returns on expenditures and considering how businesses can position themselves to operate in perpetuity.

#### Power of public-private partnerships in decarbonizing the federal government w/ [Andrew Mayock](#), Federal CSO, [White House Council on Environmental Quality](#)

- Values- or performance-based procurement, rather than least-cost, transfers relatively well to the private sector.

#### Interview w/ [Mark Wiedman](#), Head of Global Client Business, BlackRock

- Investors favor greening incumbents (focused on those interested in changing how they operate) rather than promoting market disruptors.

- Abrupt, rapid climate transition policy (a la ‘no new oil and gas’) will simply result in changes to government representation because consumers expect low-cost, reliable energy.
- Even so, the developed world should be able to reach 70-80% decarbonization relatively easily in the next few decades.

### Scope 3 and Supply Chains

- For small- and medium-sized enterprises that supply consumer-facing brands or large public companies, there may be funding or other assistance programs available to assist their suppliers in decarbonization to meet their own Scope 3 targets.
  - Estée Lauder CSO [Nancy Mahon](#) notes that her company no longer has any suppliers who are resistant to addressing climate and sustainability.
- For companies with their own suppliers’ emissions in Scope 3, even initial engagement conversations may be enough to drive SBTi commitments.
  - Other helpful tactics include longer payment terms for products and purchasing companies speeding up the time it takes to pay their suppliers – helping both sides finance their own reductions.
- Scope 3 requires significant collaboration with not only procurement teams but also engineering and product design. These business functions may need to use different materials or develop new ways of packaging to reduce impacts.

### Miscellaneous regulatory and governance items of note

- EU governments are at the forefront of [legislating on due diligence](#) with input from multiple stakeholder groups.
- In the U.S., the [Growing Climate Solutions Act](#) may increase the supply of nature-based credits in the voluntary carbon market by offering assistance to U.S. farmers aiming to originate credits.
- [Engine No. 1](#)’s Total Value Framework shifts ESG considerations toward corporate-led externality management as opposed to disclosure and compliance with regulation (reflecting a broader ESG trend).

## S&P Global: The Challenges of Carbon Capture, Removals, and Offsets in Decarbonization Plans of Companies

### Speakers:

- [Paul Munday](#), Global Adaptation and Resilience Specialist, Sustainability Research (Moderator)
- [Terry Ellis](#), Global Climate Transition Specialist, Sustainability Research
- [Simon Redmond](#), Senior Director, Corporate Ratings, Oil & Gas

### Carbon Credits as an Option

- “Carbon credits” are certificates (financial instruments) representing carbon reduction, avoidance, or removal by specific activities.
- Landscape includes project developers, brokers/traders, and end buyers.
- There has been growth in the voluntary market in the last 5 years, such as the Carbon Offsetting and Reduction Scheme for International Aviation ([CORSA](#)). Airlines purchase these credits to support decarbonization in the sector.

### Case Study: Oil and Gas Sector ([full report here](#))

- S&P chose the O&G sector since it has high exposure to climate transition risks and some gas /oil companies are already making investments in carbon capture and storage (CCS) and with carbon credits.

- Method: selection of 25 highest-revenue global oil and gas companies for analysis and review of publicly available sustainability and financial disclosures related to CCS, carbon dioxide removal (CDR), and carbon credits.
- Key Findings:
  - All the companies in the sample are planning to use CCS, CDR and/or carbon credits.
  - CCS was the solution most are looking to deploy, but it is not always clear if it was to be used for enhanced oil recovery.
  - Current CCS capacity, expected to increase six-fold by 2030, in sample represented only 7% of the companies' reported scope 1 and 2 emissions.
  - Most companies in the sample are already involved in CDR - afforestation and reforestation were the main solutions cited, followed by direct air-capture CCS (40%) and bio-energy CCS (28%).
  - 64% of the companies sampled already purchase carbon credits, but 84% suggest it will become part of their strategy in the future.

### Key Challenges

- Lifecycle cost ranges for CCS and CDR show high uncertainty bands, varying by application.
- An evolving regulatory and disclosure landscape affects the decarbonization claims of companies.
  - Incentives that have started to crop up for CCS, such as the United States IRA (Section 45Q tax credit) and programs to support companies with R&D in the space.
  - There are few specific regulations that govern what requirements companies should or should not meet in order to make decarbonization claims; however, this is changing. The EU has a new [proposed](#) framework for certifying CO2 removal projects which contains technology and specific guidance on how companies might measure the benefits of CO2 removal solutions.

## WSJ: The New Economics of Clean Energy

### Interview w/ [Judy Kwok](#), Partner, Linklaters LLP and [Erin Mayfield](#), Assistant Professor of Engineering, Dartmouth College

- Although there is still uncertainty around how IRA provisions will play out in regulations, the IRS is starting to provide additional guidance and clarity around these measures.
  - For one, in April the IRS published a list of areas that are considered “energy communities” taking the pressure off the taxpayer from doing this due diligence themselves.
  - Additionally, the IRS released some guidance this May around the domestic content requirements for the Renewable Energy Tax credits – stating that screws and bolts would not be considered structural and therefore would not need to count towards the percentage of a project that was manufactured in the US. Despite this, there is still some uncertainty around what is considered a manufactured product vs. a subcomponent.
- Judy also noted that a lot of the rules in the IRA depend on companies to publicly report data about their margins etc. that they will be hesitant to report.
- There is an opportunity to be creative in stacking tax credit opportunities with those now offered as part of the IRA. An attendee asked about the potential of placing energy projects in US Opportunity Zones. While Judy wasn't sure of how much overlap there would be between Opportunity Zones and energy communities, she did note that there is still an opportunity to explore how a project could take advantage of various adders.

### Interview w/ [Jehangir Vevaina](#), Managing Partner, Renewable Power & Transition, Brookfield Asset Management

- The IRA has not necessarily changed Brookfield's strategy, but it has accelerated the company's growth and development in the renewable energy space. Although there has been a consistent demand for renewable power, the IRA helps with the economics of a project, allowing capital to be deployed more easily.
- High interest rates and an inflationary environment still pose challenges for clean energy investment.

- Hydrogen and carbon capture are becoming more interesting areas for investment because of the provisions in the IRA.
- The IRA has spurred other countries to act and offer similar incentives (e.g., Canada and some programs in Europe).

### **World Bank: The Effect of Multinational Enterprises on Climate Change**

- The World Bank identified the 157 multinational enterprises (MNEs) with the highest carbon emissions. These companies and their supply chains constitute up to 60% of global emissions, with 10% coming from direct emissions and 50% from the supply chain. Only 25% of these MNEs have committed to Net Zero, and fewer still have plans to get there. European MNEs lead on Net Zero. MNEs headquartered in North America and elsewhere have made few net-zero commitments.
- Nonetheless, MNEs often are leaders in reducing emissions and driving sustainability relative to domestic firms because of susceptibility to pressure and because of their scale and expertise, e.g., Chevron reduced methane emissions to less than a fifth of the industry average. Diffusion of knowledge from MNEs to domestic firms (e.g., via licensing of key technologies) will be critical to climate progress.
- MNEs commitment to sustainability initiatives results from outside pressure: strongest pressure is from regulatory initiatives to improve sustainability, followed by pressure from investors/shareholders and then from customers/suppliers.

### **International Energy Agency: World Energy Investment 2023**

- For 2023, clean energy investment is forecast to surpass \$1.7 trillion, compared with \$1 trillion for fossil fuels. Clean energy investment has increased 24% year-over-year from 2021, partly reflecting intense volatility in energy markets (amid the Russian invasion of Ukraine) as well as the increased incentives of the US IRA and other government programs. China, the EU and the US are investing the most, in that order.
- Clean energy costs have come down by more than 60% since 2014, though costs experienced a slight uptick last year due to tight supply chains and higher input costs. This uptick is already abating, and clean energy remains very cost-competitive against fossil fuels.
- For clean energy generation, solar is the energy investment leader, followed by wind. Investment in coal, hydro and nuclear continues to decline, with marginal increases in gas investment. Investment in hydrogen and carbon capture is accelerating rapidly but from a very low base.
- Investments in battery storage and technology have doubled year-over-year, with a focus mainly on the utility-scale storage necessary to support renewables.

**Thank you,  
TCB Team**



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