



ESG Digest #12

June 2023



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Research: Asian companies are not telling the full story of their carbon footprint

A report by the National University of Singapore (NUS) Business School and PwC scrutinised the sustainability reports of the top 50 publicly listed companies by market capitalisation across 14 jurisdictions in Asia Pacific. It found that the proportion of large firms that report climate risks under the Task Force on Climate-Related Financial Disclosures (TCFD) increased from 77 per cent in 2021 to 88 per cent in 2022.

While 80 per cent of the companies studied disclose their Scope 1 (a company's direct emissions) and Scope 2 emissions (indirect emissions from electricity purchased and used), only about a half are reporting their Scope 3 emissions that are usually by far the biggest part of a company's climate footprint.

The report stated that the measurement of Scope 1 and 2 emissions is "reaching maturity", but most companies in the region still need to push for greater transparency and accuracy of the measurement of their Scope 3 emissions.

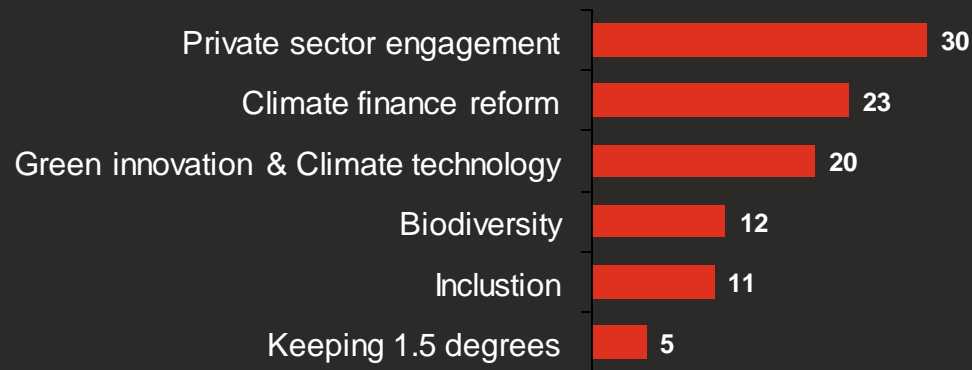
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Research: Business prioritizes climate and sustainability less

A survey of the top 100 businesses by revenue across 14 countries in Europe, the Middle East, Africa and Asia Pacific, conducted by advisory companies East & Partners and Impact & Influence, found that only 5% of companies cited limiting global warming to 1.5 °C as a key priority.

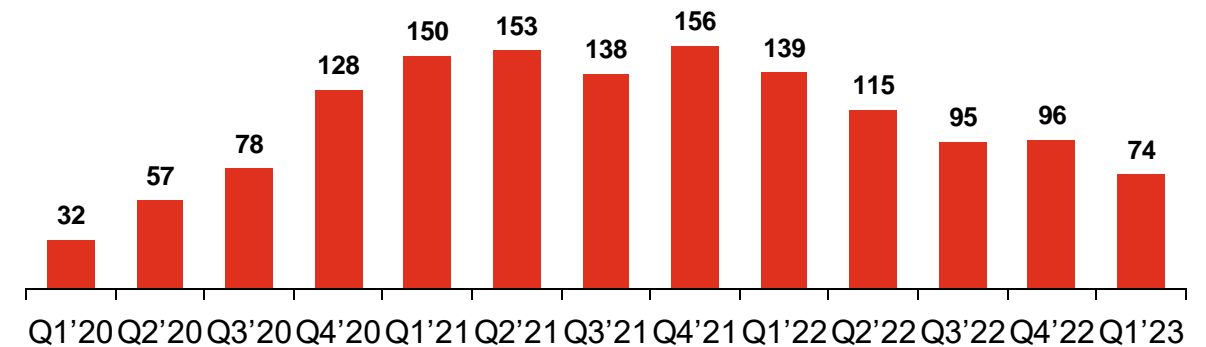
Key Themes for COP28, Survey results



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Also, according to the new FactSet research, only 74 of S&P 500 companies cited the term “ESG” during their earnings calls during Q1 2023. This is the lowest number of S&P 500 companies citing “ESG” on earnings calls going back to Q2 2020 (57).

of S&P companies citing ESG



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Global oil demand growth will trickle nearly to a halt by 2028, the International Energy Agency found in its latest Oil 2023 medium-term market report. The report forecasts global oil demand to rise by 6% between 2022 and 2028 to reach 105.7 million barrels per day (mb/d).

This rise is largely due to unwavering demand from the petrochemical sector, mainly plastics. The aviation sector is also likely to increase its demand as it grows. But at the same time, the demand for oil for road transport is likely to decline. The IEA expects a sharper decline in demand after 2026 as cars become more fuel efficient and biofuel blending becomes more common. The IEA predicts that the world is likely to peak in oil demand either in 2028 or soon after.

The agency said global demand for oil used in transportation will begin declining in 2026, as a clean energy economy is picking up pace.

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Research: Global oil demand set to peak in 2028

Research: 50% of CEOs have pay tied to ESG goals



The practice of linking incentive pay for senior executives to performance on ESG factors has surged in the past year, with approximately half of CEOs reporting that their compensation is now tied to sustainability goals, up from only 15% one year ago, according to the study “CEO decision-making in the age of AI” by the IBM Institute for Business Value (IBV) and Oxford Economics.

3,000 CEOs across more than 30 countries and 24 industries were interviewed, the questions were focused on perspectives on leadership and business, the executives’ changing roles and responsibilities, key challenges and opportunities, and their use of technology, data and metrics.

The survey also found that “Environmental sustainability” was identified as the most frequently cited top challenge over the next three years by CEOs, at 42%, followed by cybersecurity and data privacy at 32% and tech modernization at 27%.

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Japan to invest \$107 bln in hydrogen supply over 15 years

Japan has announced that over the next 15 years, it plans to invest about \$107 billion (15 trillion yen) to supply the country with hydrogen.

Japan was the first country to publish a strategy based on an H2 economy, which it did in 2017 in the form of its Basic Hydrogen Strategy. In June 2023 it updated its own target to raise its H2 supply to 12 million tons per year by 2040 (6x from the current level). By 2050, Japan's goal is to reach 20 million tons annually. At that point, it expects that the global H2 market will be generating an annual revenue of about \$2.5 trillion.

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Germany launches €50bn ‘climate contracts’ for high-carbon sectors

Germany plans to help energy-intensive manufacturers transition to climate-neutral technologies with roughly €50 billion in subsidies.

The program will run over 15 years and be open for companies with at least 10 kilotons of carbon emissions annually. That would include manufacturers in the steel, chemicals, cement, paper and glass sectors. Companies have two months to express their interest.

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U.S. launches Clean Hydrogen Strategy

USA released the U.S. National Clean Hydrogen Strategy and Roadmap, that provides a snapshot of hydrogen production, transport, storage, and use in the United States today and a vision for how clean hydrogen will contribute to national decarbonization goals across multiple sectors in the future. It examines future demand scenarios—with strategic opportunities for the domestic production of 10 million metric tonnes (MMT) of clean hydrogen annually by 2030, 20 MMT annually by 2040, and 50 MMT annually by 2050.

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Climate Action 100+ shifts focus to implementation of climate transition plans for major emitters

Climate-focused investor engagement network Climate Action 100+ (CA100+) announced the launch of its “Phase Two”.

Phase Two will see CA100+ shift focus from corporate climate disclosure towards the implementation of climate transition plans. Accordingly, the initiative has updated its core goals to more clearly emphasize implementation, for example adding to its request for companies to “implement a strong governance framework on climate change” that the framework “clearly articulates the board’s accountability and oversight of climate change risk,” and now asking companies not only to “provide enhanced climate disclosures,” but now to also implement robust transition plans to deliver on targets.

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EU Commission eases sustainability reporting rules however will require companies to introduce climate transition plans

The European Commission released a series of proposed changes to the European Sustainability Reporting Standards (ESRS)). The most significant amendments are proposals to ease the burden on smaller companies and first-time reporters by extending the phase-in times for some key sustainability factors such as Scope 3 value chain emissions, and rules enabling all companies to focus specifically on material sustainability factors. The proposals were released as a draft Delegated Act, along with a consultation requesting feedback on the new rules, which will be open until July 7.

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Lawmakers in the European Parliament approved new rules requiring companies to identify and address the impact of their activities and value chains on human rights and the environment, as well as a new requirement to adopt and implement climate transition plans. Initially, the new rules will apply to companies with over 500 employees and revenues exceeding €150m, and will later include companies with over 250 employees and €40m in revenue. Additionally, non-EU firms generating revenues in the EU beyond these thresholds will also be expected to comply with the new rules.

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EU Commission proposes regulation of ESG ratings providers

The European Commission released a series of measures aimed at bolstering its sustainable finance framework, including a new proposal to regulate ESG ratings providers, and the introduction of a new set of criteria for sustainable economic activities under the EU Taxonomy.

Under the new Regulation on the transparency and integrity of ESG rating activities, ESG ratings providers will be supervised by ESMA to ensure the quality and reliability of their services. The Regulation is intended to harmonise regulation across the EU given that there are currently no laws governing ESG rating providers in any of the individual EU Member States. However, the Commission is not intending to require harmonisation of the methodologies used by ESG ratings providers.

The EU Taxonomy was expanded to include the other climate related objectives, which include sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystem.

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UK Government funds £4.3m to develop space-based solar power

The UK Government has announced it will fund £4.3m to advance the country's space-based solar power capabilities.

Space-based solar power collects energy from the Sun using solar panels located on satellites. The energy is then transported back down to Earth via wireless technology, providing an endless supply of clean energy.

The investment will support eight UK projects developed by leading universities and technology companies. E.g. University of Cambridge will develop ultra-lightweight solar panels that can survive long periods in high-radiation environments, and Queen Mary University will develop a wireless power transmission system with high efficiency over long ranges to beam solar power from the satellites back to Earth.

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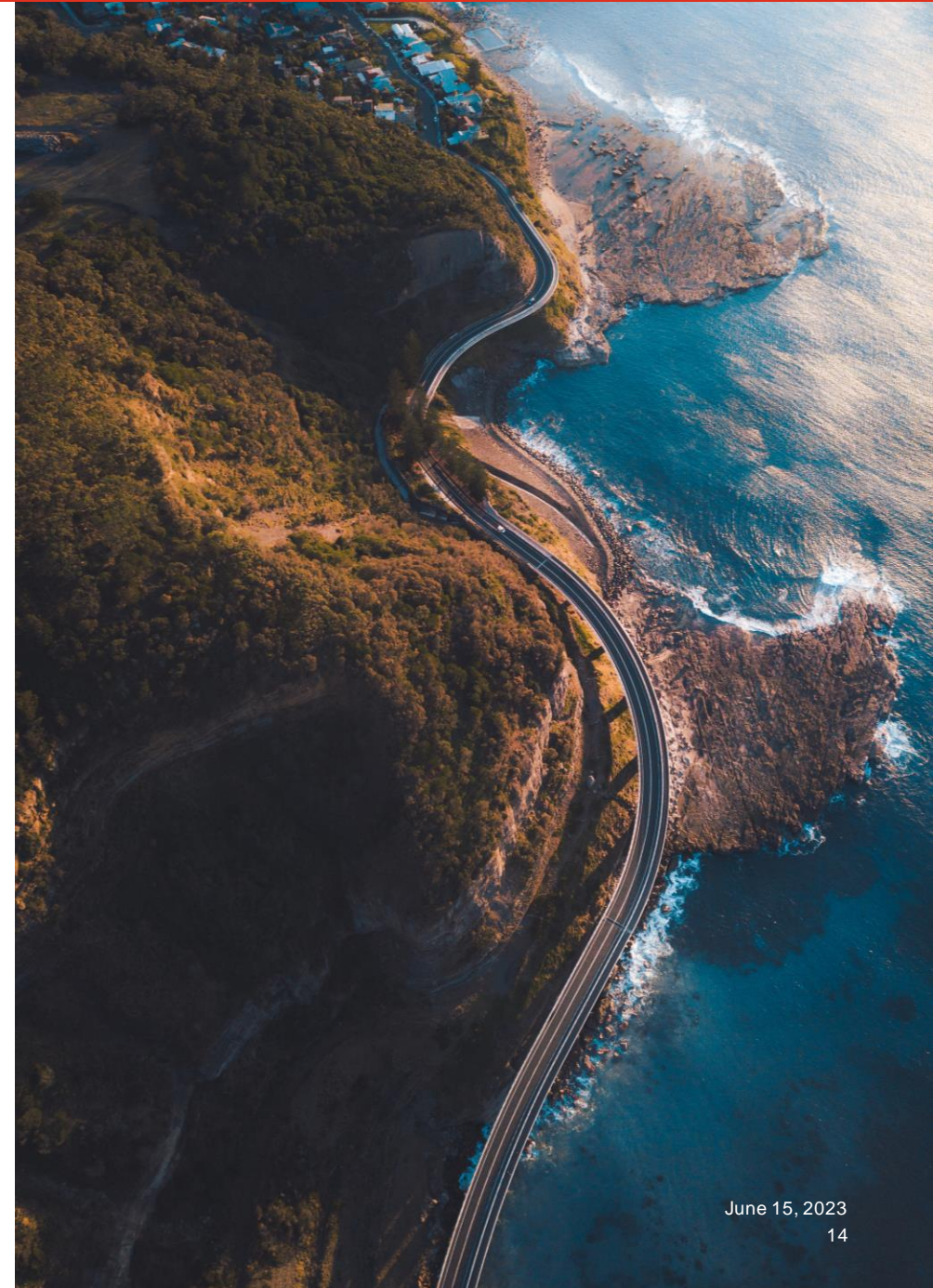
World Bank: Trillions Wasted on Subsidies Could Help Address Climate Change

A new World Bank report examines how subsidy reform can help safeguard the world's foundational natural assets—clean air, land, and oceans. Subsidies for fossil fuels, agriculture, and fisheries are driving the degradation of these assets and harming people, the planet, and economies. This money -numbering in the trillions - could instead be used to finance much-needed climate action in countries across the world.

Subsidies for fossil fuels, agriculture, and fisheries exceed \$7 trillion in explicit and implicit subsidies, which is around 8% of global GDP. Agriculture subsidies are responsible for the loss of 2.2 million hectares of forest per year - or 14% of global deforestation. Fossil fuel usage—incentivized by subsidies—is a key driver of the 7 million premature deaths each year due to air pollution. Fisheries subsidies, which exceed \$35 billion each year, are a key driver of dwindling fish stocks, oversized fishing fleets, and falling profitability.

According to World Bank experts, repurposing these wasteful subsidies will help ensure a green and just transition that can provide jobs and opportunities for all.

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The International Public Sector Accounting Standards Board (IPSASB) announced that it will develop a climate-related disclosure standard for governments and other private sector entities, marking the first sustainability reporting standard for the public sector.

IPSASB Chair Ian Carruthers called the announcement a “huge first step in addressing the public sector’s need for sustainability reporting standards,” with the board noting that it hopes to initiate additional sustainability reporting projects in the coming months, and will consider addressing other ESG topics as well.

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IPSASB launches development of Climate-Related Reporting Standard for public sector

Swiss voters approve Net Zero Climate Law



Voters in Switzerland approved the country's commitment to reach net zero greenhouse gas (GHG) emissions by 2050, with 59% backing the Climate and Innovation Act in a national referendum.

The new law targeted a series of objectives, including reducing greenhouse gas emissions and deploying technologies to capture and store CO₂, taking measures to adapt to the effects of climate change, and aligning financial flows to low-carbon and climate resilient development.

Interim targets set by the new law include reductions in GHGs, on a 2019 basis, of an average of 64% between 2031 and 2040 with at least a 75% reduction in 2040, and at least 89% on average between 2041 and 2050. Beyond 2050, the law requires CO₂ removed and stored to exceed remaining GHG emissions.

The law also sets targets for carbon intensive sectors, including mandating emissions reductions of 82% by 2040 and 100% by 2050 for the building sector, 57% by 2040 and 100% by 2050 in the transport sector, and 50% by 2040 and 90% by 2050 for industry.

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France and Canada commit to decarbonize aviation

French President Emmanuel Macron announced a commitment to invest €300 million per year through 2030 in technologies and low carbon fuels aimed at decarbonizing the aviation sector. The funds will be used to support research at the Civil Aeronautics Research Council (CORAC) into technologies aimed at decarbonizing the aviation sector, including the development of low carbon emitting aircraft and engines.

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The Government of Canada announced an investment of C\$350 million (USD\$265 million) to support the newly launched Initiative for Sustainable Aviation Technology (INSAT), aimed at supporting research and development into sustainable aviation technologies, and accelerating the aerospace industry's green transformation.

Initiatives being pursued to address the climate impact of the industry typically involve efforts to improve aircraft efficiency, develop sustainable aviation fuels (SAF), or create aircraft utilizing low or zero carbon propulsion systems such as electric or hydrogen-based, although many of these are at early stages of development.

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EU Council announces agreement on Nature Restoration Law

The proposed law aims to improve the state of nature by setting binding targets and obligations across a broad range of ecosystems, including agricultural land, forests, marine and freshwater areas, and urban ecosystems.

The Council agreed that member states would put in place restoration measures that bring at least 30% of habitats in terrestrial, coastal, freshwater and marine ecosystems that are not in good condition, into good condition by 2030. This would apply to at least 30% of the total area of the habitat types that are deemed not in good condition, as opposed to the area for each habitat group, as initially proposed by the Commission. This share will increase to 60% by 2040 and to 90% by 2050.

Majority of state members supported the initiative, although Sweden, Finland, Poland, the Netherlands, Italy and Belgium said they could not support it. Meanwhile, Austria was positive, but was unable to support due to a lack of regional support.

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USA announce \$2.9 bln in climate resilience investments

US President Biden announced nearly \$2.9 billion in investments aimed at helping protect coastal communities and electrical grid infrastructure from the impact of climate change.

The program is designed to strength and modernize power grids in the U.S. against events exacerbated by climate change, such as wildfires, storms and other extreme weather events.

The administration also announced plans by the National Oceanic and Atmospheric Administration (NOAA) to launch a \$575 million Climate Resilience Regional Challenge this week, aimed at supporting innovative coastal resilience and adaptation solutions for coastal and Great Lakes communities, including building natural infrastructure, protecting communities and ecosystems from sea level rise, hurricanes, storm surge and other severe climate impacts.

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China and Germany agree “Climate and Transformation Dialogue” in difficult political landscape

The two governments signed a memorandum of understanding on the new format - the "Dialogue and Cooperation Mechanism on Climate Change and Green Transition" aimed at speeding up their transition towards a more climate friendly economy. Both Beijing and Berlin would focus their cooperation on issues such as making industrial processes more climate-friendly, promoting the switch to climate-friendly mobility and strengthening the circular economy.

Also ministers had discussed the expansion of wind and solar energy, and signed a memorandum of understanding on electric and hydrogen mobility to continue cooperation and technical exchange on safety, regulation and standardisation.

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IFRS releases Global Sustainability and Climate Reporting Standards

The IFRS Foundation's International Sustainability Standards Board (ISSB) announced the official launch of its new global sustainability and climate disclosure standards, expected to form the basis for emerging sustainability reporting requirements by regulators around the world.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires companies to disclose information about sustainability-related risks and opportunities that would be useful to primary users of general purpose financial reports, including those that “could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term.”

IFRS S2 Climate-related Disclosures sets out climate-related metrics regarding reporting of Scopes 1, 2 and 3 greenhouse gas (GHG) emissions – although the ISSB recently announced that it will allow companies an extra year to report on Scope 3

The new standards will begin applying for annual reporting periods beginning as of January 2024, with companies beginning to issue disclosures against the standards in 2025.

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Australia to introduce mandatory climate reporting in 2024

The Australian government is planning to implement mandatory climate-related reporting obligations for the country's largest companies and financial institutions starting from 1 July 2024.

Following a similar track as the ISSB, Australia's proposed climate-related disclosure requirements focus on core elements such as governance, strategy, details risks and opportunities and metrics & targets. Some specific proposals include a requirement for companies to disclose transition plans, including information on offsets, target-setting and mitigation strategies, processes used to monitor and manage climate-related risks and opportunities, and the use of scenario analysis. The rules would also require companies to report Scope 1 and 2 and material Scope 3 emissions, in addition to industry-specific metrics.

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If you have any questions or need assistance, please contact us:



Akbota Askanbay
Director
ESG Assurance Team
akbota.askanbay@pwc.com



Zhazira Zhanadilova
Senior Manager
ESG Advisory Team
zhazira.zhanadilova@pwc.com



Vassiliy Kalabin
Manager
ESG Advisory Team
vassiliy.kalabin@pwc.com



Yelena Krupina
Senior Associate
ESG Advisory Team
yelena.krupina@pwc.com



PwC Offices in Eurasia

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Kazakhstan

Almaty
34, Al-Farabi Avenue

Astana
15/1, Kabanbay Batyr Avenue

Atyrau
55, Aiteke Bi Street
Tel: +7 (727) 330 3200

Azerbaijan

Baku
90A, Nizami Street
Tel: +994 12 497 2515

Mongolia
Ulaanbaatar
Sukhbaatar Square 2, SBD-8
Tel: +976 7000 9089

Uzbekistan

Tashkent
88A, Mustaqillik Avenue
Tel: +998 (71) 1206 101

Georgia
Tbilisi
12, Aleksidze Street
Tel: +995 (32) 25080 50

Armenia
Yerevan
2, Vazgen Sargsyan Str
Tel: +374-10-512151