ESG Study on the impact of EU’s new sustainability agenda

South Africa

Welcome remarks

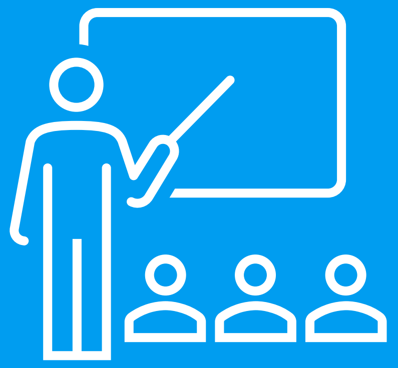
Shameela Soobramoney, CEO, National Business Initiative

Clara Halvorsen, Senior Advisor, Danish Industry

Who am I

Gustav Plantin

- Consultant at Strategic Sustainability Consulting at Ramboll.
- Previously experienced in sustainability consulting for politicians and companies both in Sweden and internationally – amongst others the Swedish Embassy in South Africa.
- Specializes in issues related to social sustainability, business development, and just and green transition.



Who are you?

Name and organisation?

Why are you here?

What do you expect from today?

Why are we here?

The ESG landscape is rapidly shifting

The EU has recently developed new legislation on ESG matters, primarily targeting EU companies but affecting those in global value chains.

Non-EU companies operating within European value chains are facing increasing expectations to meet various sustainability criteria. This is a critical juncture where companies face both challenges and opportunities stemming from regulation.

The impact of this legislation on non-European companies remains highly uncertain, raising concerns that insufficient attention has been paid to the awareness, challenges, and opportunities confronting these entities. **Non-compliance also poses the risk of disconnecting certain companies from European value chains.**

This is why we are conducting a comprehensive cross-border study. Your insights and experiences are invaluable in navigating our understanding of these complex issues.

The outcome of the study is to uncover insights that will help guide aiding interventions.

These interventions will be tailored to support local companies in complying with EU legislation and meeting the demands of multinational corporations, thereby facilitating their integration into global value chains and promoting sustainable growth.

Today's agenda

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09.15	Introduction to the study and to the European ESG agenda
10.00	Session 1 – Awareness and Prioritization
10.45	Summary of main points in plenum
11.15	Pause
11.30	Session 2 – Customer Demands and Business Impact
12.15	Summary of main points in plenum
12.45	Lunch
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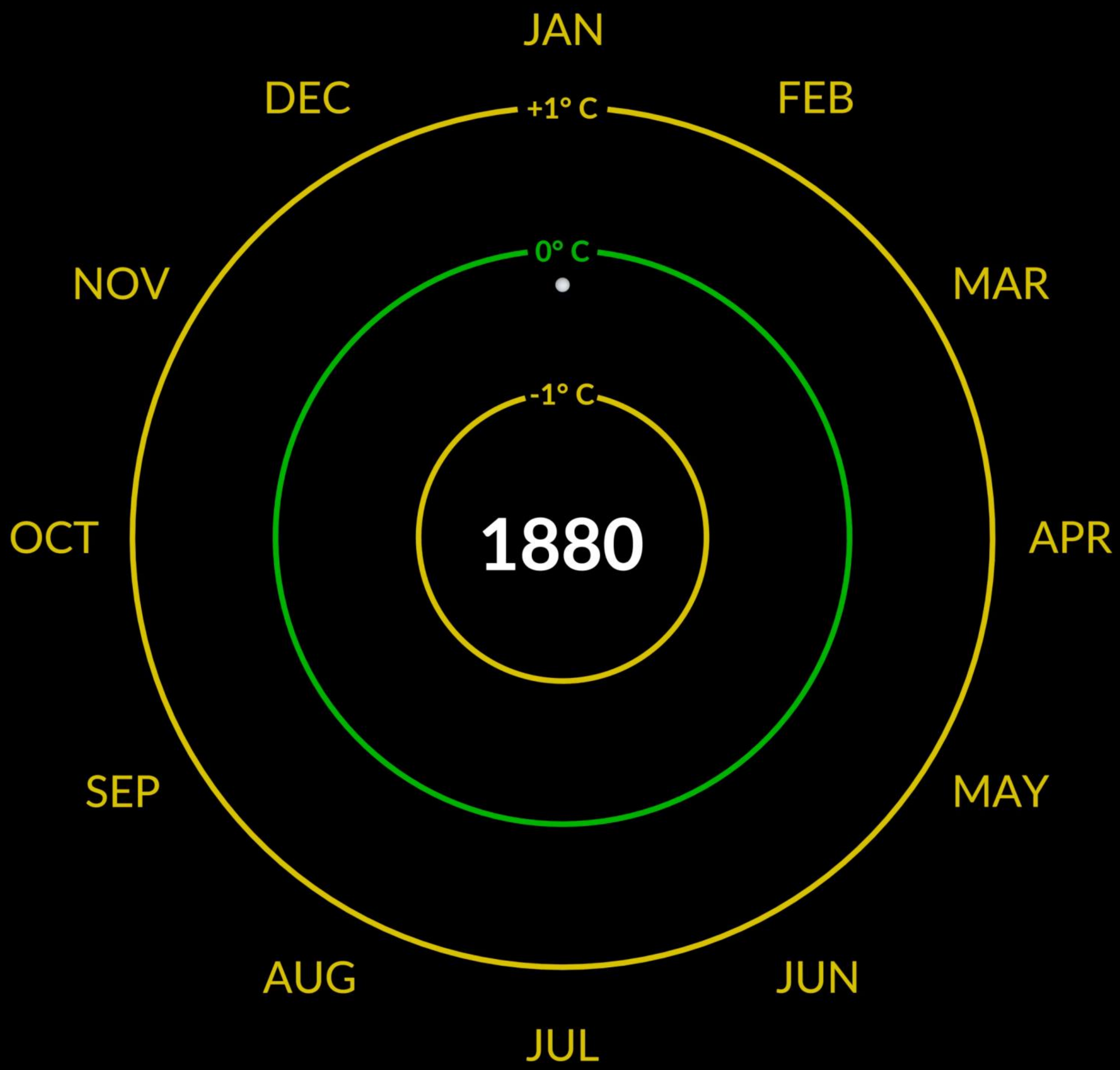
14.00	Summary of main points in plenum
14.30	Final remarks and next step

Why are we *really* here?


JAN
FEB
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APR
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+1° C
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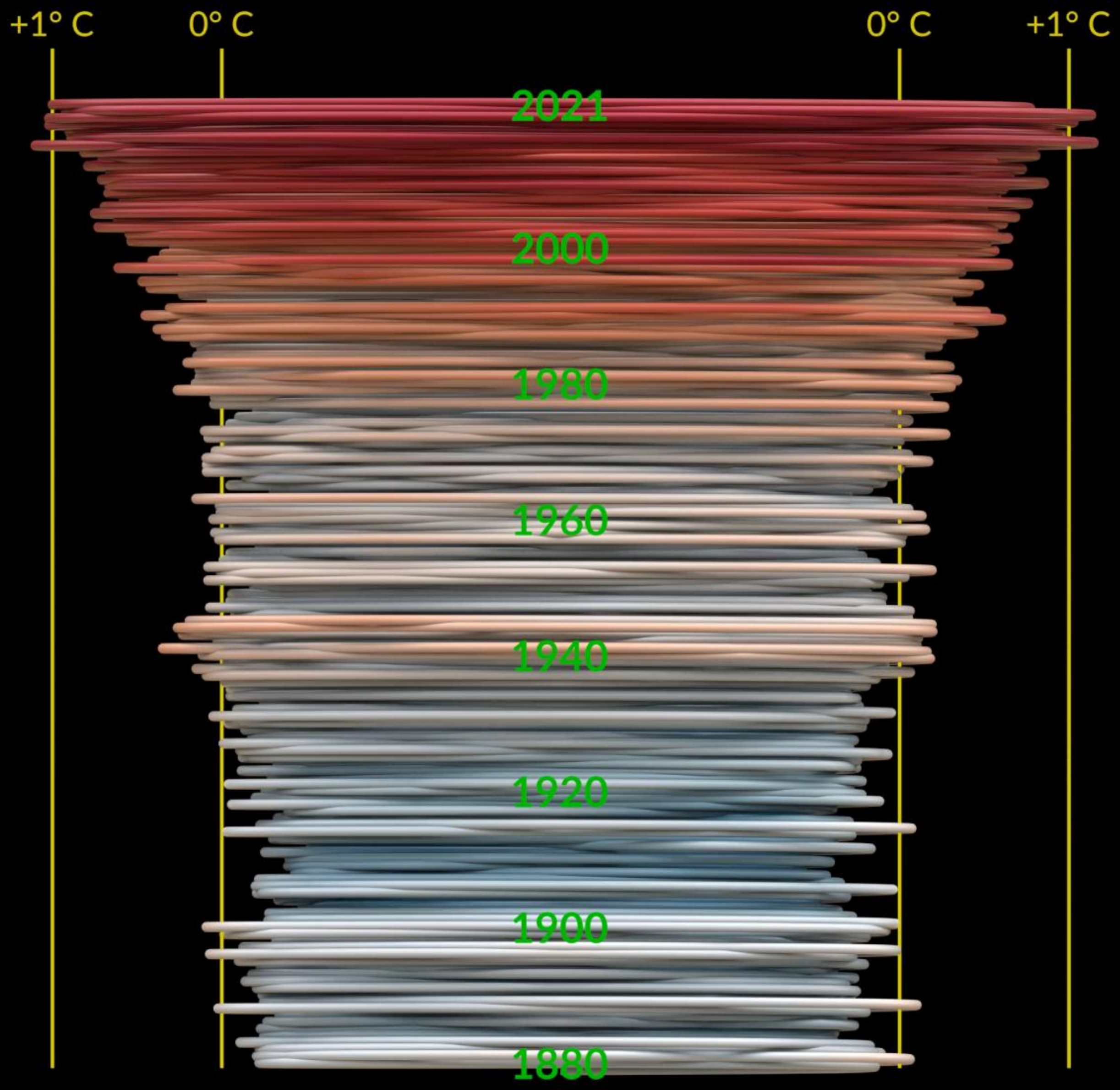
1880



+1° C
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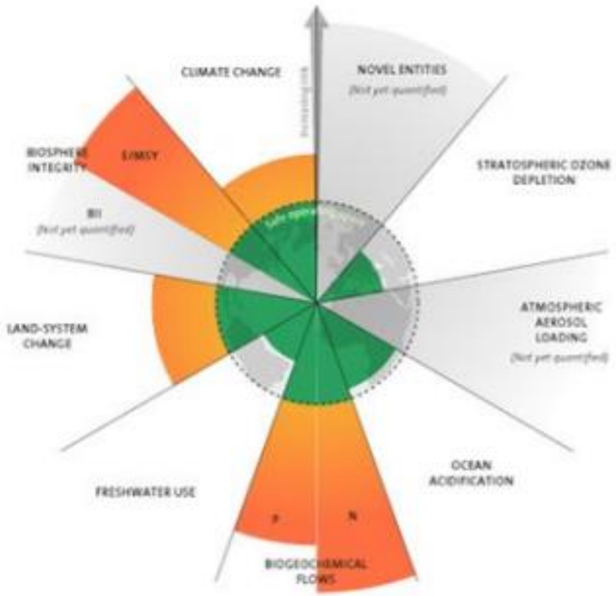
+1° C
2021
2000
1980
1960
1940
1920
1900
1880

In 2023, six out of nine planatary bounderies have been crossed

2009

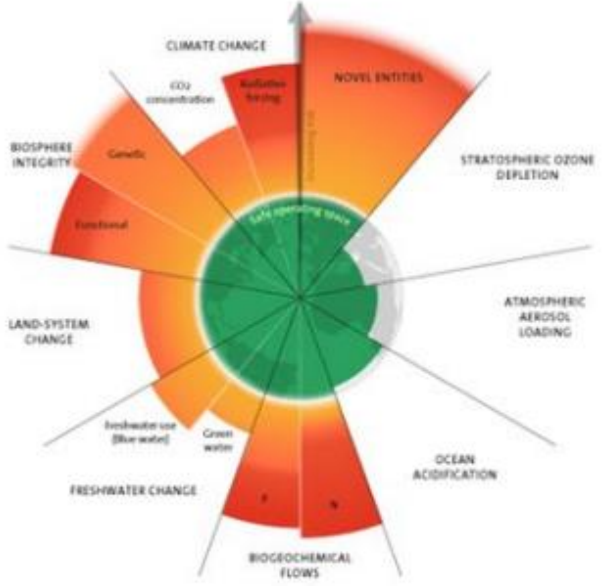
3 boundaries crossed

2015



4 boundaries crossed

2023



6 boundaries crossed


We are on a highway to climate hell with our foot still on the accelerator.”

The urgency has spurred growing regulatory pressure for firms to integrate ESG factors into their decision-making

The has led to a critical turning point, with firms progressively moving away from voluntary commitments, such as adherence to the Sustainable Development Goals (SDGs) and corporate social responsibility (CSR) policies, to a more defined, structured and data driven paradigm

The European response to the global challenges

Over the few last years several new EU ESG regulation and directives have been approved, and more is to come

EU Green Deal

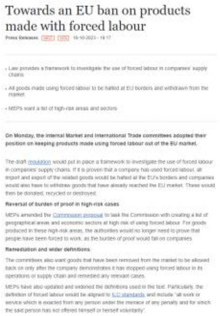
Proposal for an eco-design for Sustainable Products Regulation (ESPR)

EU Battery Regulation

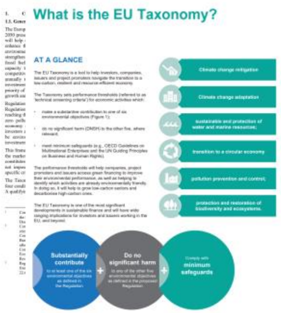
Carbon Border Adjustment Mechanism

Corporate Sustainability Reporting Directive (CSRD)

Forced ban labour regulation *(draft)*



2020 | 2021 | 2022 | 2023 | 2024 | 2025/2026



EU Taxonomy

Sustainable Finance Disclosure Regulation

Revision of the Packaging & Packaging Waste Directive

EU Deforestation Regulation (EUDR)

Corporate Sustainability Due Diligence Directive (CSDDD)

The EU Green Deal gives rise to a new ESG regulatory landscape

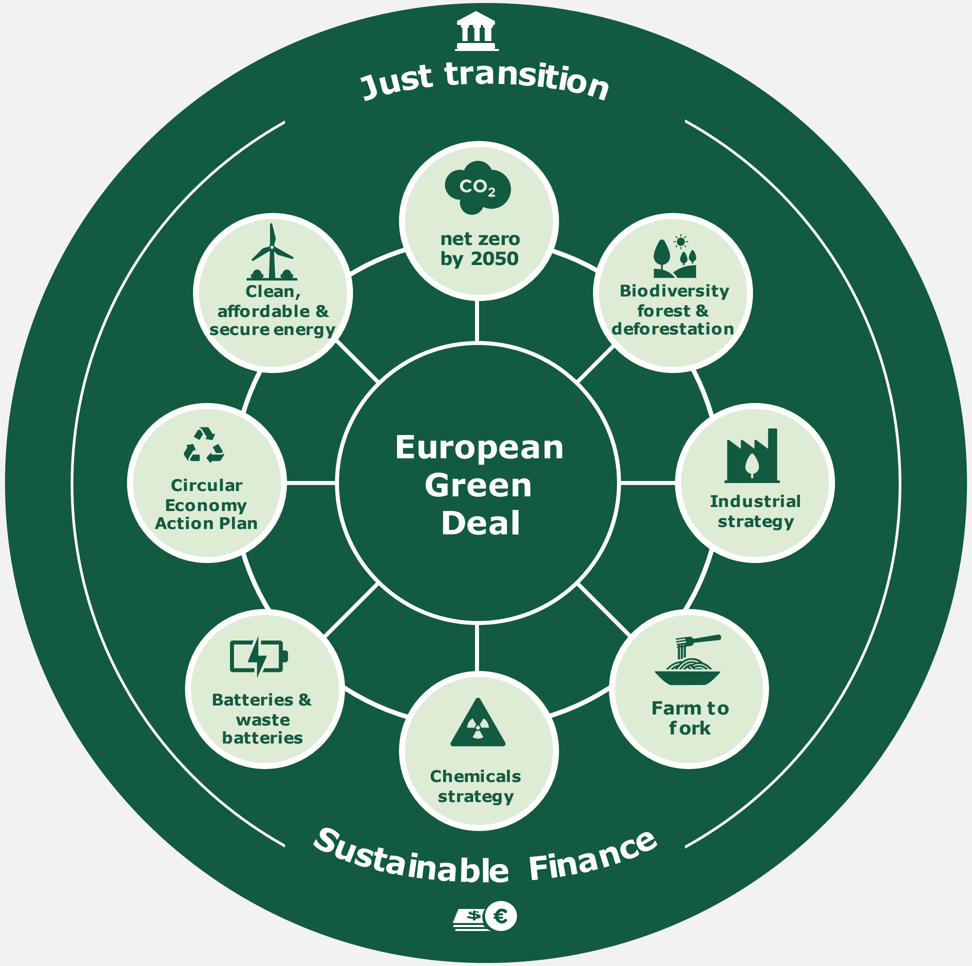
The European Green Deal consists of a series of policy initiatives, important commitments, and **a detailed roadmap to create a Net Zero EU by 2050.**

Among other things, it includes:

- Proposals to **reduce greenhouse gas emissions** to half of 1990 levels or even more by 2030
- Policies to ensure **economic growth is decoupled from resource use**
- Key actions to **restore biodiversity**
- A law that will direct the European Union towards the goal of being **climate neutral by 2050**

All these policies are supported by the **Just Transition Mechanism** and the **Sustainable Finance Strategy.** The Sustainable Finance Strategy aims to finance the sustainable transition, while the Just Transition Mechanism ensures this transition is just and inclusive.

The different policy initiatives



Ensuring sustainable finance is a key part of EU:s strategy

1 Trillion EUR by 2030

- 503 Billion EUR
  EU Budget
- 114 Billion EUR
  National Co-financing
- 279 Billion EUR
  Private Sector Investment
- 104 Billion EUR
  Just transition mechanism

* *Approximate figures*

The EU Green Deal includes four major ESG regulations that will affect all large companies operating in the EU

EU Taxonomy

Defines "green" business

The EU Taxonomy guides private investments by **defining which types of businesses can be considered sustainable**.

It provides the first uniform and credible standard that allows investors to align their activities with the transition to a low carbon and sustainable society.

Timeline: Fully implemented.

SFDR

ESG reporting rules for finance

The Sustainable Finance Disclosures Regulation sets ESG disclosure requirements that apply to all **financial firms** in the EU.

Depending on the type of investment fund & its level of ESG alignment, different disclosure requirements apply.

As a result, financial firms are increasing their requests for ESG data and for Taxonomy alignment information from their investees.

Timeline: Fully implemented.

CSRD

ESG reporting rules for companies

The Corporate Sustainability Reporting Directive requires **large companies** to disclose information on the way they manage social and environmental challenges, including a **double materiality assessment** of financial and ESG impacts.

Timeline: Many large global companies must report on their EU operations for FY2025 and for all operations for FY2028.

CSDDD

Rules on ESG management

The Corporate Sustainability Due Diligence Directive requires large companies operating in the EU to proactively identify, assess, prevent, mitigate, and report on adverse **human rights** and **environmental impacts** arising from both their **operations** and **value chains**.

Timeline: Under approval. Will be fully implemented within next three years.

The EU Taxonomy is a common language for sustainable economic activities

- A common classification system for sustainable economic activities
- The Taxonomy Regulation thus establishes a technically robust and credible definition of which activities contribute to EU's environmental objectives
- The goal is to boost the financing of the transition to a more sustainable economy, by indicating what activities contribute to environmental objectives and should be considered sustainable investments
- Creating transparency for investors by clarifying which activities can be considered sustainable investments and also enables companies to pave the way for a more sustainable future.

An ”inventory” for the future

A reporting enabler

Evidence & science-based

Set out in ‘Level 2’ EU law

Dynamic

A transition tool

EU Taxonomy in a nutshell

The EU Taxonomy is a **classification system** for sustainable economic activities. It classifies sustainable activities by setting performance thresholds to help parties identify environmentally impactful activities. In the figures below it is demonstrated how the EU Taxonomy framework outlines eligibility and alignment.

A) Eligibility

There are six environmental objectives

Climate change mitigation	Climate change adaptation	Pollution prevention and control	Protection and restoration of biodiversity and ecosystems	Transition to a circular economy	Sustainable use of water and marine resources

Relevant sectors are defined within each objective

Relevant activities are defined within each sector

Construction of new buildings	Renovation of existing buildings	Installation maintenance and repair activities	Acquisition and ownership of buildings

B) Alignment

For each of the activities the technical screening criteria are defined for:

Example

EU TAXONOMY REPORTING PER ACTIVITY TYPE

ECONOMIC ACTIVITIES 2022	ELIGIBLE TURNOVER		ALIGNED TURNOVER	
	mio. DKK	%	mio. DKK	%
Taxonomy-eligible activities	**7,618.8**	**85.2**	**523.0**	**5.8**
Construction of new buildings (7.1)	4,446.4	49.7	222.7	2.5
Renovation of existing buildings (7.2)	2,556.4	28.6	241.4	2.7
Installation of energy efficient equipment (7.3)	43.8	0.5	0.0	0.0
Installation of charger stations for vehicles (7.4)	1.2	0.0	0.0	0.0
Installation of instruments to control energy performance of buildings (7.5)	1.5	0.0	0.0	0.0
Infrastructure for personal mobility, cycle logistics (6.13)	1.1	0.0	0.0	0.0
Infrastructure for rail transport (6.14)	132.0	1.5	0.0	0.0
Infrastructure enabling road transport and public transport (6.15)	28.4	0.3	0.0	0.0
Infrastructure for water transport (6.16)	371.3	4.2	41.1	0.4
District heating/cooling distribution (4.15)	16.5	0.2	0.0	0.0
Production of heat/cool using waste heat (4.25)	17.9	0.2	17.9	0.2
Construction of supply systems (5.1)	1.3	0.0	0.0	0.0
Professional services related to energy performance of buildings (9.3)	0.9	0.0	0.0	0.0
Non-Taxonomy-eligible activities	**1,326.7**	**14.8**		
Total eligible and non-eligible activities	**8,945.5**	**100**		

The CSRD introduces new requirements for companies' sustainability reporting

The main purpose of CSRD is to create transparency regarding companies' impact and performance concerning risks and opportunities across Environmental, Social and Governance issues

+50.000 companies

The CSRD expands the scope of non-financial reporting obligations to more companies

Double materiality

The CSRD embeds the concept of double materiality and requires the management of material IROs

>1100 data points

It includes 84 disclosure requirements and in the region of 1,100 data points

External assurance

The CSRD requires integrated reporting third-party assurance and digital tagging

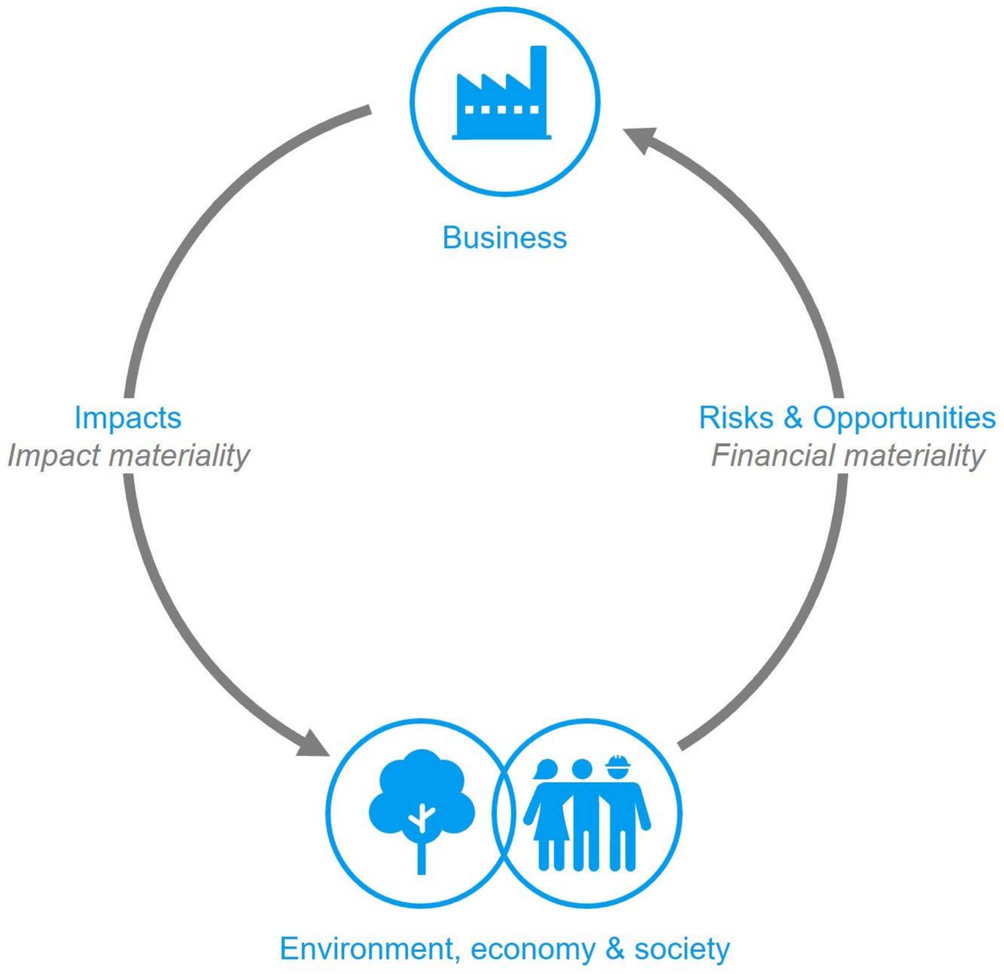
The European Sustainability Reporting Standards (ESRS) outline the disclosure requirements under the CSRD

Cross-cutting standards	**Environmental standards**	**Social standards**	**Governance standards**
ESRS1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct
ESRS2 General disclosures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain	
	ESRS E3 Water and marine resources	**ESRS S3** Affected communities	
	ESRS E4 Biodiversity and ecosystems	**ESRS S4** Consumers and end-users	
	ESRS E5 Resource use and circular economy		

The double materiality approach expands the scope of what is considered material and should be disclosed

Impact materiality:

- The impacts of companies' activities on people and the environment.
- Impacts can be actual/potential, positive/negative, direct and indirect (related to the value chain).



Financial materiality:

- Any risks & opportunities that can trigger significant financial effects.
- These can arise from impacts and dependencies, and affect factors contributing to enterprise value.

Example - ESRS S3 Affected communities & a consumer electronics company

Impact materiality
Positive & negative impacts

Financial materiality
Risks & opportunities

Regional economic development
e.g. investment in local infrastructures near manufacturing sites benefitting local communities

Increased reputational capital
e.g. enhanced brand reputation due to regional economic development in the medium/long term

Forced relocation of local communities
e.g. the mining of minerals used for laptops forces a local village to move

Decreased sales due to damaged brand's reputation
e.g. consumer boycott after the disclosure of forced relocation in the news in the medium/long term

Society
ESRS S3 Affected communities

Positive impacts or opportunities

Negative impacts or risks

CSRD reporting will become mandatory for 50,000 companies

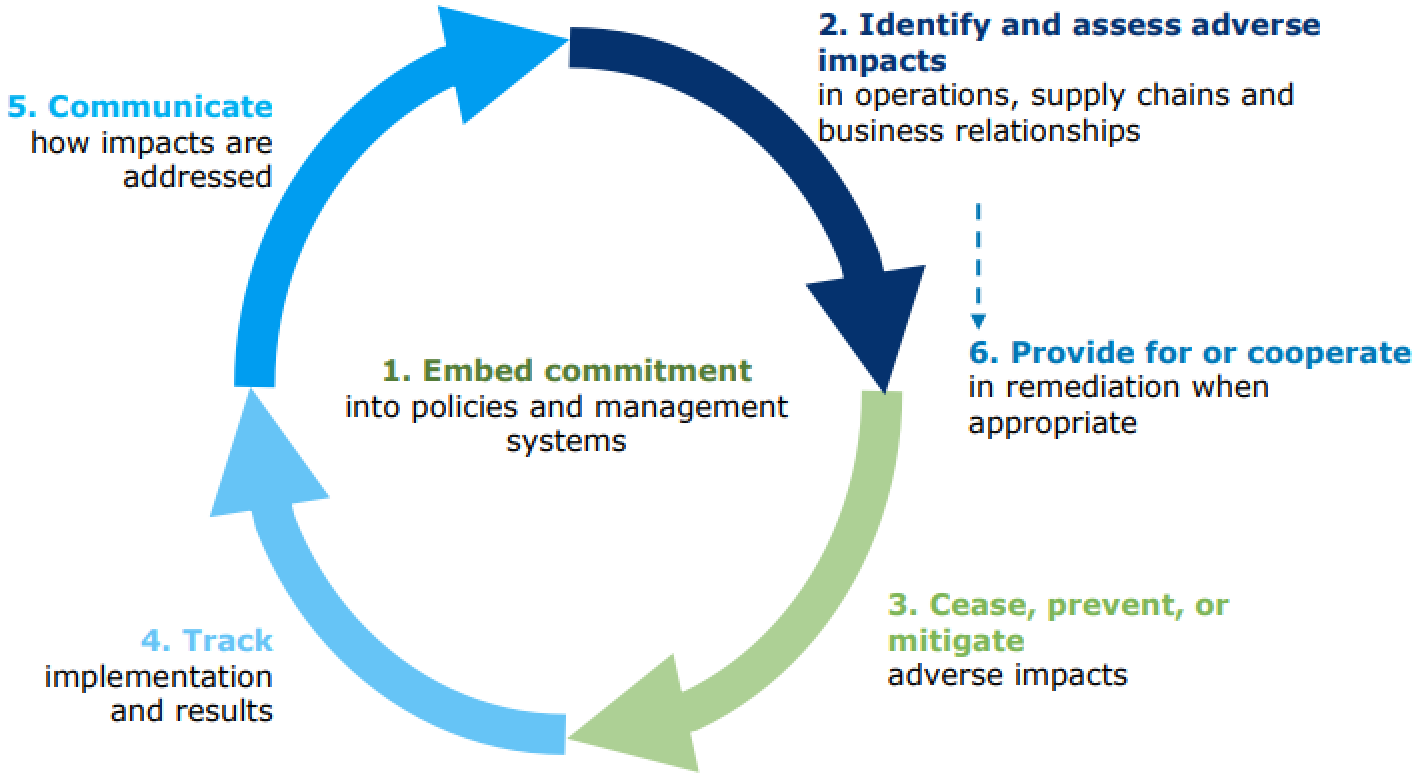
Whom do the CSRD and the ESRS affect and when? Compliance timelines depend on the size and ownership structure of business entities[1].

	2024 – 2025 – 2026 – 2027 – 2028
Undertakings already subject to the NFRD, including EU subsidiaries of non-EU entities[2]	Reporting in 2025 for financial year 2024
'Large' undertakings´, i.e. EU entities not currently subject to the NFRD or EU subsidiaries of non-EU entities[3]	Reporting in 2026 for financial year 2025
Listed companies on an EU regulated market, including SMEs, but excluding micro-enterprises	Voluntary reporting; Reporting in 2029 for FY 2028
Small European **credit institutions** and **insurance companies**	Reporting in 2027 for financial year 2026
Non-EU parent companies having a strong presence in the EU through branches or subsidiaries	Reporting in 2029 for FY 2028

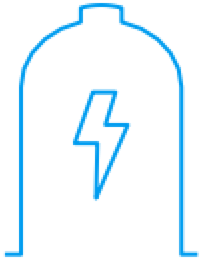
1. The timeline is subject to change in accordance with the applicable regulation.
2. With more than 500 employees and either a balance sheet of more than € 20 million or a net turnover of more than € 40 million.
3. Exceeding at least two of the following criteria: 250 employees on average, a balance sheet total of € 20 million, a net turnover of € 40 million.

CSDDD will reinforce due diligence across environmental and human rights areas

- UN Guiding Principles for Business and Human Rights adopted by the UN Human Rights Council in 2011 introduced human rights due diligence
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct expanded due diligence to cover issues such as human and labor rights, environment, anti-corruption, Science, Technology and Innovation
- Due diligence is a risk-based process for companies to identify, prevent, mitigate, and account for how they address actual and potential adverse impacts in their operations as well as their value chain
- Due diligence is a continuous process but should also be applied prior to new activities or business relationships

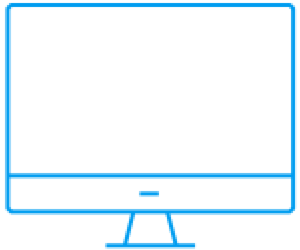


Further EU-level regulatory drivers (sector specific)



EU Battery Regulation

The regulation aims to **reduce environmental and social impacts** throughout the life cycle of the battery. It sets **tight due diligence rules** for operators who must verify the **source of raw materials** used for batteries placed on the market.



EU Conflict Minerals Regulation

The Regulation aims to ensure that EU importers of 3TG (**tin, tungsten, tantalum and gold**) meet international **responsible sourcing standards**, set by the OECD, and help put an end to the exploitation and abuse of local communities, including mine workers, and support local development.

EU Deforestation Regulation

The EU Deforestation Regulation is an EU mandate requiring companies to perform **extensive due diligence on the value chains** of products derived from **cattle, cocoa, coffee, palm oil, rubber, soy, and wood**.

Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) aims to fairly price carbon emissions associated with **carbon-intensive goods** entering the EU, thereby incentivizing cleaner industrial production outside the EU. **The rules apply to** EU importers of **cement, iron, steel, aluminium, fertilisers, electricity and hydrogen.**

What does this entail?

The new ESG legislation forces EU companies to put a greater focus on **three ESG areas across the value chain**

Human rights due diligence

Several of the new EU ESG legislation including the CSRD, SFDR, EU battery regulation, Conflict Mineral Regulation, EUDR and upcoming CSDDD mandate Human Rights due diligence.

These developments indicate a broader shift towards **holding businesses accountable** for their impact on human rights throughout their own operations and **value chain.**

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ESG reporting

CSRD, EU Taxonomy and SFDR are raising the bar on ESG reporting by making it mandatory to provide a much greater depth of information on a variety of ESG topics, and to consider impacts and economic implication **beyond its own operations.**

This development is set to increase the **need for reliable ESG data** and **transparency** on actors that form part of European value chains.

Sustainable production and products

New EU legislation like CBAM, EUDR, Eco-design and Packaging and Waste Directive aim to make sustainable products the norm in the EU by setting new requirements in relation to circular material use, encourage cleaner industrial production in non-EU countries and prevent deforestation.

These regulations are highly likely to result in increased demands for local suppliers to **ensure supplied products are designed, manufactured and transported** in line with the new environmental requirements.

The key take-aways from this session

1. We are currently seeing a rapid shift in sustainability legislations, where we are moving **from a relatively vague paradigm to a more defined paradigm**

2. EU's sustainability agenda, its "man on the moon project", consist of several key pieces of legislation that jointly forces **EU companies to take responsibility over sustainability impacts along the value chain.**

3. ESG factors are set to rise in importance, alongside an increasing focus on sustainability, **introducing new business challenges and opportunities for all firms who are a part of European value chains.**

4. However, how these impacts will play out outside Europe are highly uncertain → your input is highly valuable.

Questions?

Instructions

We will during the day have 3 breakout session where we divide you into **two groups** to discuss different themes relevant to the ESG agenda:

- *Session 1 – Awareness and Prioritization*
- *Session 2 – Customer Demands and Business Impact*
- *Session 3 – Ability to meet demands and Support*

Each session is approximately 45 minutes and contains 5-7 questions. The discussion will be facilitated by either Gustav/Clara. After 45 minutes, we will follow up on the key-take aways in plenum.

Try to reflect, during your discussion, on what such key-take aways can be. **What are the most important denominators and differences between you**?

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What were the key take-aways?

a. What determines your awareness of European ESG legislation?

b. What determines your priority of sustainability work?

c. Did industry and size impact your discussion?

d. Any other observation that we should be aware of?

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What were the key take-aways?

a. How has sustainability demands put on your company shifted in recent years?

b. How has customers sustainability request affected your work (what has been easy or more difficult)?

c. Did industry and size impact your discussion?

d. Any other observation that we should be aware of?

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Lunch

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What were the key take-aways?

a. What determines how well you are positioned to meet (potentially) increasing sustainability demands?

b. What are the main steps that your company has to take to meet increasing international sustainability demands?

c. What support do you require going forward and where should it be directed?

d. Did industry and size impact your discussion?

e. Any other observation that we should be aware of?

Final remarks and next step

Bright
ideas.
Sustainable
change.

RAMBOLL