

Sustainability now

FOCUS ON INDUSTRY TRENDS



REPORTING

01

You are holding the first edition of Sustainability Now - an industry focused global trend review powered by Deloitte Finland.

Content	2
Forewords	3
Sustainability reporting is entering a new era	6
Climate and biodiversity finance	12
Industrial sector net-zero future	18
Public sector role in driving green transition	22

Forewords

We at Deloitte pride ourselves on having deep industry knowledge. It is very beneficial when looking at sustainability aspects from the industry point of view. Even if the main challenges – such as fighting climate change, the loss of biodiversity and promoting human rights – may be common for all industries, there are also major differences, especially in the ways of tackling these challenges.

Industries are facing different sustainability challenges depending on, for example, the types of products and services they are offering, the markets they are operating in, the existing and potential client base, the level of energy and material intensity, the type of raw materials used, the complexity and reach of the supply chain, and the opportunities for circularity and digitalisation.

In other words, the severity of adverse impacts – but also the potential for positive impacts – on people, society and the environment vary between Industries. In this article, we focus on three industries: the energy, resources and industrials industry; the financial services industry; and the governmental and public services industry. All these industries carry enormous potential to pave the way for a more sustainable future and, at the same time, have the responsibility to act now when they can still prevent the darkest future scenarios from becoming reality.

Anne-Maria Flanagan

Partner, Sustainability and Climate





Mikko Helin
Partner, Financial Services Industry Lead

“Financial sector organisations are increasingly interested in where they invest, who they finance and to whom they grant insurance. The performance targets of their portfolios cover more and more climate- and environment-related metrics, as well as social sustainability factors.”



Lauri Salmivalli
Partner, Government and Public Services Industry Lead

“The public sector has a key role in supporting a green transition. This can be achieved by creating an environment where innovation can flourish and where policies support new innovation development and ensure funding is directed to the right initiatives.”



Mika Järvensivu
Partner, Energy, Resources and Industrials Sector Lead

“Decarbonization is a challenge which needs urgent and scalable solutions. Innovative thinking and exploring solutions i.e., different types of emerging technologies are the keys to support net zero transition.”

CHAPTER 1

Sustainability reporting is entering a new era



After the commitments to address climate change were made in the Paris Agreement, the EU set the goal to be climate neutral by 2050. The EU's Green Deal provides the overarching strategy with which to reach the 2050 goal and includes a series of strategies and action plans (i.e. climate neutrality, a circular economy, biodiversity and sustainable finance). As a result, a massive set of new sustainability reporting requirements have become a reality.



The first companies will have to apply the new rules for the first time in the financial year 2024, with the first reports published in 2025. The CSRD will eventually also cover small and medium-sized enterprises (SMEs). The current timeline for when SMEs need to start to report according to CSRD requirements is 2027.

In 2022, proposed drafts on 'turning-point' climate disclosure standards were published by the International Sustainability Standards Board (ISSB), the European Financial Reporting Advisory Group (EFRAG) and the US Securities and Exchange Commission (SEC). Climate reporting regulations show no signs of slowing as the International Sustainability Standards Board projects that it will finalise its disclosure rules in June, in the US, the Federal Reserve requested major Wall Street banks to disclose their climate risk preparations the Environmental Protection Agency is pursuing new climate and air standards, European nations are escalating their scrutiny of greenwashing, and African and Asian companies are more receptive to climate disclosure requests.

The Corporate Sustainability Reporting Directive is becoming a reality – what is the new normal in reporting?

As part of the EU Green Deal, the EU took a major step forward in sustainability reporting and published its new [Corporate Sustainability Reporting Directive \(CSRD\)](#) in 2021.

The aim of the CSRD is to create a more transparent culture among the companies that have an impact on people and the environment, and to assess how climate change affects companies financial materiality in terms of generating risks or opportunities that have a material influence on cash flows, the cost of capital or access to finance. This inside-out and outside-in concept is called [double materiality](#).

The need for more standardised, transparent and comparable disclosed sustainability information is now here to stay as companies subject to the CSRD will have to report according to the European Sustainability Reporting Standards (ESRSs). The ESRSs cover extensively detailed

reporting requirements, asking companies to report fully on their environmental, social and governance topics, as well as extending the disclosure requirements so that they cover the company's entire value chain.

Increasing reporting requirements are expected to tackle greenwashing. Greenwashing is difficult to measure or prove, and it remains an issue: according to a Finnish Government report, [Ympäristövaihtämät Suomen markkinoilla](#), around 50% of the environmental claims that companies are making are considered inaccurate.

Emerging global regulations and frameworks on the horizon

In addition to extensive disclosure requirements within the EU, there are many evolving global regulations and reporting frameworks. Plenty of companies within the EU have already reported aligning with the Task Force on Climate-related Financial Disclosures (TCFD) framework, which focuses on four pillars for the climate (governance, strategy, risk management, and metrics and targets), as well as on the GRI framework (multiple geographies use the



CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

standards of this framework). In addition, a new Taskforce on Nature-related Financial Disclosures (TNFD) and its complete recommendations will be published in September 2023.

[A closer look](#)

While we are eagerly awaiting to see how the new regulations and frameworks will shape the market and environment we are operating in, there are already interesting results and data available on how corporates are disclosing information. The [CDP](#) received 42% more corporate climate disclosures in 2022 than in 2021, more than twice as many as it did in 2015. The CDP has the largest environmental database in the world, and this year, it scored nearly 15,000 companies on their climate change, forests and water security disclosures. In these scores, 296 companies made the 2022 Climate Change A-List, 25 companies made the 2022 Forests A-List and 106 companies made the 2022 Water Security A-List.

The need for more standardised, transparent and comparable disclosed sustainability information is now here to stay as companies subject to the CSRD will have to report according to the European Sustainability Reporting Standards (ESRSs).



CHAPTER 2

Climate and biodiversity in finance – critical measures for delivering change

The financial sector plays a vital role on the path to achieving net zero. By now every financial market player should have sustainability at the core of their strategy and embedded into strategic targets, incentive systems and all processes, from procurement to data management and systems.

Climate finance continues to receive a major spotlight internationally, particularly as central bankers from the G20 explore climate-tied regulations. Additionally, at the World Economic Forum in Davos, many countries agreed to work on climate finance.

Banks face the challenge of developing climate-risk data and modelling capacities to meet the demands of regulatory climate stress tests. Understanding the exposure of a bank's balance sheet to climate-related risks has become increasingly important when working to transition their lending and investment portfolios to net zero.

Considering ESG factors in financing can be a tricky business

While many other industries are calculating their Scope 1, 2 and 3 emissions, financial-sector participants are focussing on their investment, debt and insurance

underwriting portfolios emissions and carbon intensiveness. It is not straightforward nor easy to develop ESG metrics and define targets for financing an organisation or an initiative from different sectors and industries. Should there be different pricing for an electric-vehicle insuring compared with insuring a traditional-fuel car? What kind of ESG investment strategies should be used while making an investment decision as a fund manager? Consequently, it is crucial that there are policies and targets in place with which to define what is the right way to go and then set up metrics to measure the impact and performance.

The European Central Bank (ECB) has recognised this and published its [first set of climate-related statistical indicators](#) in January in order to better assess and analyse the impact of climate-related risks in the financial sector and to monitor the green transition – the development of sustainable and green finance – fulfilling another of the commitments of its climate action plan.

Banks can contribute to avoiding biodiversity loss and ecosystems degradation by setting and attaining relevant targets such as no net loss of species or critical habitat results from their lending and investment activities, by financing nature-based solutions and the sustainable blue economy or removing deforestation from portfolios.



Climate finance continues to receive a major spotlight internationally, particularly as central bankers from the G20 explore climate-tied regulations. Additionally, at the World Economic Forum in Davos, many countries agreed to work on climate finance.



The green transition calls for greater volumes

The financial sector has already addressed climate-related issues for years, and green products and services have been available for a while. However, the volume of sustainable and green bonds has more than doubled over the last two years.

Green bonds, green funds, green lending products and ESG frameworks have been emerging over the years, although their issuance has decreased slightly due to many of the current events. The question is whether green bonds can sustain a credible growth path amidst rising interest rates and greenwashing concerns. Hence,

while it is clear that the financial sector is reacting to climate change, achieving the goal of the Paris Agreement will require many more actions and a greater volume of action. ESG and sustainability matters must be at the core of every decision made, whether it is an investment decision, financing decision or an insuring decision.

The European Commission is putting pressure on banks to fight biodiversity loss

Financial institutions should work to embed sustainability across their organisations and in how they do business as they can play a critical role in supporting their

clients' decarbonisation strategies and providing investors with transparency.

In addition, reacting to climate change, the financial sector has a role in financing the transition to a nature-positive economy. Living organisms from a variety of sources – including terrestrial, marine, and aquatic ecosystems – provide essential services that underpin the liveability of our planet.

Banks can contribute to avoiding biodiversity loss and ecosystem degradation by setting and attaining relevant targets (such as no net loss of species or critical habitat results) for their lending and investment activities by financing nature-based solutions and the sustainable

blue economy or by removing deforestation from portfolios.

Many global bodies and different forums are addressing biodiversity in the financial sector and taking action. As part of the new Sustainable Finance Package, the European Commission is drafting technical screening criteria for biodiversity that are to be incorporated in the EU Taxonomy. [The EU Biodiversity Strategy for 2030](#) is a plan to put Europe's biodiversity on the path to recovery by 2030, with a long-term vision that all the world's ecosystems are restored, resilient and adequately protected by 2050.

[A closer look on financing nature and biodiversity.](#)

CHAPTER 3

A net-zero future for the industrial sector

Different types of technology continue to emerge in order to solve climate change. Competition for talent with tech and ESG skills is poised to further catalyse climate innovation. The journey to net zero includes establishing a reliable baseline, setting clear and credible science-based net-zero goals, evaluating the impact of current initiatives, developing a roadmap, and reporting and acting on these plans.



In most areas, suppliers will have considerable influence on how emissions are reduced through their own purchasing decisions and innovations.

Taking a global view across sectors, the top drivers of decarbonisation include stakeholder demands, pressure from investors and responding to regulatory requirements. Developing more resilient and stable operations results more efficient and optimised frontier which will create a long-term impact and sustainable business. To validate the net-zero targets, many organisations are aligning their objectives with science-based targets.

Scope 3 emissions are in focus in the decarbonisation challenge

For many businesses, Scope 3 emissions account for most of their carbon footprint. For an organisation that manufactures products, there will often be significant embedded carbon emissions from the extraction, manufacture and processing of the raw materials. Companies need to collaborate on solutions in order to reduce emissions with the current suppliers or to consider making changes to their supply chain.

In most areas, suppliers will have considerable influence on how emissions are reduced through their purchasing decisions and innovations.

Scope 3 target setting is required under the Science-Based Target Initiative (SBTi) net-zero standard, as well as being required by the general SBTi criteria for near-term targets if the company's Scope 3 emissions account for 40% or more of its total emissions.

At the end of 2022, the SBTi began reviewing its Scope 3 guidance, informed by the results of its September 2022 comprehensive, global and cross-sector survey. Notably, over 80% of the survey respondents believe that both data access and inability to influence suppliers are barriers to their Scope 3 targets. The work will continue throughout 2023.

Global challenges require a broader perspective

The combined hard-to-abate industry emissions – including those of the steel, chemicals, automotive and food industries – accounted for approximately [82% of total global CO₂eq emissions in 2021](#). Reducing fossil raw materials and carbon emissions from these sectors is a global challenge that should be tackled on a global scale.

The diversity of regulations, insecurity around technological advancements and geopolitical situations, as well as disruptions in the global supply chains, might set challenges. There are two solutions that may lead enablers for many sectors: green electricity and green hydrogen. For example, according to [Deloitte's recent hydrogen study](#), clean hydrogen will play an important role in the future, especially in sectors aiming to reduce carbon dioxide emissions when emission-creating activities cannot realistically be electrified. For example, the chemical, oil-refining, aviation and road freight industries, and later, also the shipping industries, are expected to start using clean hydrogen by 2030.

Many organisations have undertaken voluntary commitments to reduce Scope 3 emissions. However, small companies often lack the adequate resources, capacity and technological capability to contribute significant effort in this way. Financial incentives can help balance the scales of opportunity and accelerate Scope 3 decarbonisation, especially in hard-to-abate sectors.

According to the World Economic Forum, a 20% reduction of GHG emissions by 2050 can be facilitated through digital solutions implemented at scale in hard-to-abate sectors. Emissions in these sectors are driven by poor efficiency, waste and by-products, as well as by indirect emissions throughout the value chain. The organisation has developed a digital tool to showcase digital technologies and enable companies to find relevant solutions for decarbonisation.

StartUs Insights conducted a study to analyse more than 5000 global decarbonisation startups and scaleups, mapping the top decarbonisation trends and innovations in 2023. The top trends revolve around renewable, low-carbon and efficient energy; carbon capture; electric mobility; climate-positive food; low-carbon materials; and emissions intelligence.

Fact: Once we discover the best innovations and technologies to help us reach net zero by 2050, we must find the funds and a collaborative manner with which to scale and accelerate progress.

A closer look:

[*Corporate Climate Responsibility Monitor 2023 Report*](#)

[*Scope 3: Stepping up science-based action*](#)

[*The Role of Supply Chain Emissions in Decarbonization and Compliance*](#)

[*30 digital solutions to power decarbonization for industries at scale*](#)

[*Top 8 Decarbonization Trends in 2023*](#)



CHAPTER 4

The public sector's role in driving the green transition

The increasing frequency and severity of extreme weather events has instilled a sense of urgency within the public sector. Frequent disruptions to operations, supply chains and human lives are compelling broader climate action. Investments in climate adaptation can create jobs and spur significant economic growth.

As part of Finland's green transition recovery and resilience plan, Finland has declared it will reach carbon neutrality by 2035 and stop the decline in biodiversity by 2030, both of which require significant efforts from the public sector as well as the private sector. One of the focus areas is allocating capital in order to channel investments to the most promising and scalable innovations.

As part of Finland's green transition recovery and resilience plan, Finland has declared it will reach carbon neutrality by 2035 and stop the decline in biodiversity by 2030, both of which require significant efforts from the public sector as well as the private sector. One of the focus areas is allocating capital in order to channel investments to the most promising and scalable innovations.

The increasing sustainability reporting requirements are relevant for the public sector as it works directly with private-sector companies through supply chains. Also, many of the partially government-owned companies are subject to sustainability regulations in the EU. Therefore, the need to set sustainability targets and clear roadmaps for accomplishing the sustainability goals and targets are a must in the public sector.

Allocating capital as the catalyst of a sustainable transition

To manage large and complex funding programmes, collaboration is needed among sectors. Financing clean and green tech solutions and other innovations bridging the path to net zero requires volumes and the right targets. Moreover, the means of financing climate-centred innovations enter the mix as the traditional use of fossil fuels dies down and weather patterns disrupt broader supply chains.

According to the [recent report from the Finnish Ministry of Finance](#), the green

transition requires functioning and stable finance markets. Most of the green-transition financing will come from the private sector, but the public sector must create the environment, provide targeted support and create incentives for all sectors to be able to act and operate. The private sector should allocate capital efficiently and in a consistent manner, and public sector financiers must include targets for achieving the green transition.

[As the European Green Deal's sustainable Europe investment plan](#) aims to mobilise public investment and help to unlock private funds through EU financial instruments targeting at least €1 trillion of investments, the challenge is to allocate this capital in the right way. Different forms of public-sector financing have different levels of effectiveness when it comes to mobilising capital on the scale needed and with the right allocation.

Closing the investment gap requires commitment but also a touch of creativity. The public sector can drive policies supporting the investments and financing the right initiatives, but one collaborative and efficient approach to financing is blended finance, which can be a solution for higher-risk projects that are based on innovative climate technologies. Blended finance connects public and private funding to deliver finance to large-scale projects and manage the risk by dividing it among multiple parties. Reaching net zero by 2050 will require innovations in technology and solutions, but it will also require innovative financing products, vehicles, programmes and, finally, collaboration between sectors and parties.

The public sector has many roles and the potential to make a difference

In the face of climate change, the public sector has multiple ways to support the green transition. The development of actionable and balanced policies and incentives sets demands that have an impact on a practical level: switching from fossil-fuel powered vehicles to electric vehicles; and public buildings using green and clean energy; and making procurement decisions utilising ESG-related criteria.

In preparing to align with the Paris Agreement, infrastructure management plays a huge role, and it will become more challenging, requiring greater integration between different parties. Urban housing demands and the need for affordable housing in cities, coupled with public transit options, will become a critical consideration for the public sector. To tackle the climate-related issues, the public sector needs to transform and futureproof operations with digital technologies and efficient risk management in order to achieve a more resilient stage.

One thing we know for sure is that technological development needs to be faster than it currently is, particularly in areas that are not yet explored. A mix of public and private finance needs to be rapidly deployed in order to push climate technology to maturity.



Better is *possible.*

Deloitte.

Contributors work in lead and specialist roles
at Deloitte Finland sustainability team.

Interested in talking more? Please contact:



Anne-Maria Flanagan
Partner, Sustainability
and Climate

anne-maria.flanagan@deloitte.fi
+358 40662 5570



Iida Pulliainen
Business Development
Manager, Climate &
Sustainability

iida.pulliainen@deloitte.fi
+358 40771 3015