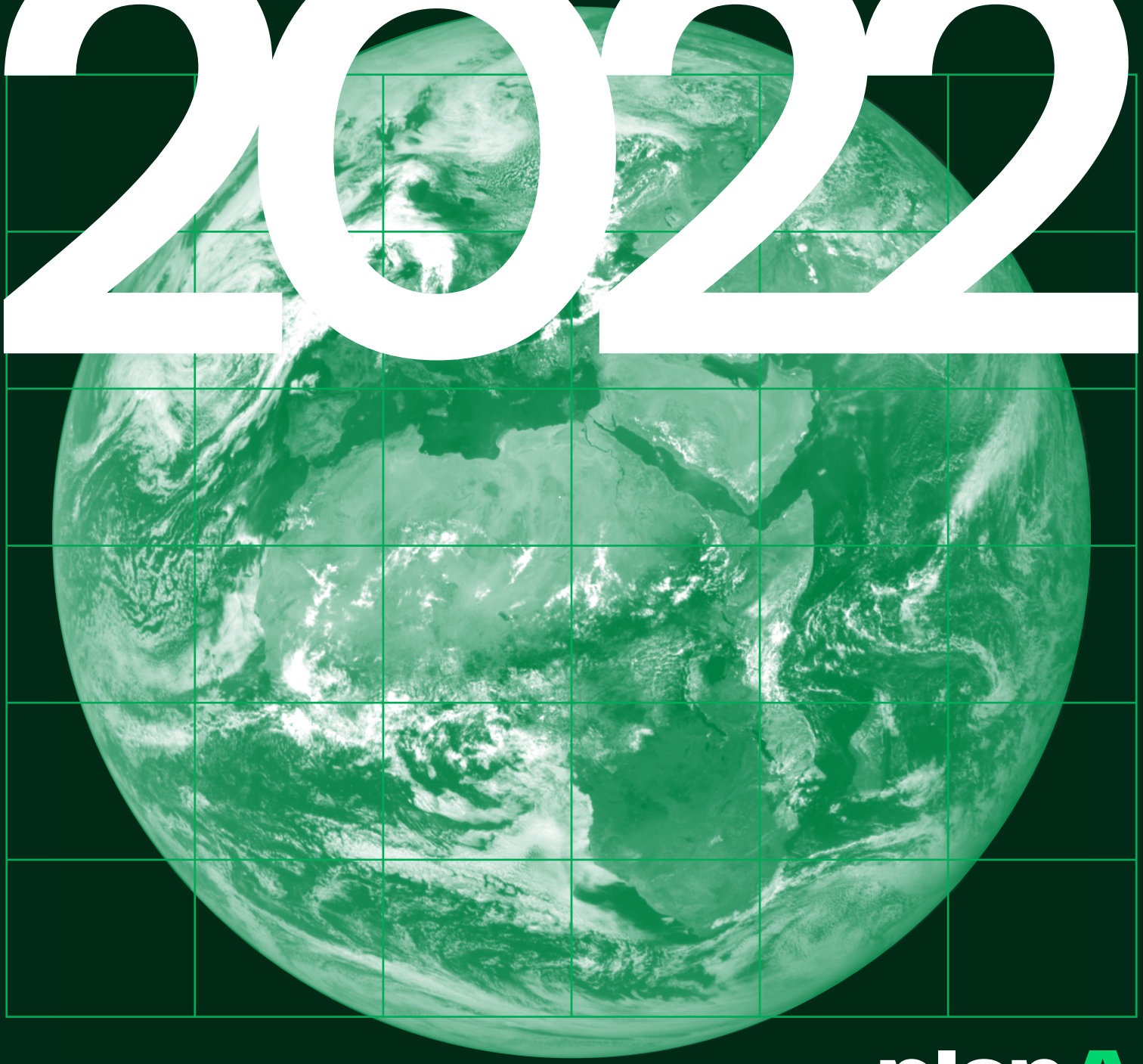
Sustainability trends for 2022



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Intro-duction

The effects of climate change on our lives and economies are increasingly apparent. Scientists, governments, policy-makers and individuals now understand the necessity for our systems to shift towards a decarbonised, resilient and resource-efficient economy to mitigate climate change and prepare for more significant impacts.

In 2021, the Intergovernmental Panel on Climate Change (IPCC) third assessment report, observed the increasing warming of the Earth's surface mainly caused by human activities, with projected increases in rising sea levels and increased frequency of heat waves. Coupled with this alarming statement, scientists insisted that our planet crossed the fifth planetary boundary on chemical pollution. Thus, the COP26 - our world's best last chance to tackle climate change, did not held all of its promises. The current net-zero pledges are insufficient to keep global temperatures under the 1,5°C scenario.

Sustainability is on everyone's agenda and the business case for sustainability no longer needs to be made. If 2021 saw the ascension of sustainability into the mainstream discussion, 2022 is the year to translate commitments into rapid and concrete actions. There is a growing awareness that finance and businesses are critical enablers in this transition. By shifting investments and "putting money where our mouths are", we can build an economy that promotes sustainability. According to the OECD, €6.35 trillion a year is needed to meet the Paris Agreement by 2030[1] – the mobilisation of institutional and private capital will have to be unprecedented in speed and direction.

The sustainable transition is inevitable. To prepare companies and investors the best for this upcoming change, Plan A has compiled a document on six sustainability trends to act on in 2022.

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The *race* to net zero: Ready set targets *go!*

Context

The net-zero transition will accelerate this year and for decades to come. Over 130 countries have already set a target of reducing emissions to net-zero by 2050 - but after the criticised COP26, it is unlikely that current pledges will limit climate change under the 1,5°C scenario to avoid its worst impacts. To keep targets within reach, global GHG emissions must be halved by 45% from 2010 levels by 2030.

The United Nations created the "Net-zero race" campaign with a global coalition of companies and actors to answer this pressing challenge. Collectively these 3000 actors now cover **nearly 25% of global CO_2 emissions and over 50% of the worldwide GDP**[3]. With Fortune 500 companies announcing net-zero pledges, signifying that the race to net-zero is on - will you be part of it?

Science-based targets are gaining momentum

On the one hand, a McKinsey report estimated that the annual cost of getting to net-zero - when CO_2 emissions are entirely reduced or captured - will be $9.2tn (€8.2tn)[4]. On the other hand, the number of companies using science-based targets (SBTs) has significantly increased. More than 1,045 companies representing **€20.5 trillion** in market capitalisation (more than the GDP of the United States) are committed to science-based targets emissions reduction[5]. Companies that translate climate commitments into concrete actions will achieve a sustainable leading status.

NET ZERO EMISSIONS

Net-zero emissions can be achieved when any remaining man-made greenhouse gas emissions (GHG) emissions are neutralised by removing all GHG emissions from the atmosphere. Net-zero does not only mean the necessary and drastic reduction of emissions, which are mainly caused by the combustion of fossil fuels, but the remaining emissions that cannot (yet) be avoided are to be reduced as close to zero as possible in the net-zero emissions scenario. This can, for example, be achieved by restoring forests or through direct air capture and storage (DACS) technology. The concept of net-zero emissions is akin to "climate neutrality."

WHAT ARE SBTs TARGETS?

Targets to reduce GHG emissions, in line with the need to keep global warming well below 2°C - the desired target is below 1,5°C.

However, this model presents limitations. It is criticised that most companies setting out SBTs to reach net-zero emissions looks good on paper but less in practice. Businesses are still making decisions based on outdated data and often do not know which framework they have to refer to. Also, it is primordial for companies to include **all scope of carbon emissions in data disclosure**. For example, Walmart, the world's largest retailer, has an official strategy to reach zero emissions by 2040. Yet, according to the company, its reduction plan excludes Scope 3 emissions—although they make up 95% of its emissions[6].

Early movers will gain substantial benefits

The net-zero transition will unleash a global disruption, from our economy, industries to business models. This means that the way companies operate and are perceived will drastically change. Pay close attention as early-movers will gain a substantial advantage over those going at a snail's pace. Early-movers and climate leaders can benefit from the net-zero transition with improved talent retention and financial performance, carbon emissions reduction, cost saving, lower regulatory risks, access to cheaper capital and generating high value for shareholders and stakeholders.

Besides, there is still room for improvement, as only 20% of companies disclose their full-value chain emissions and have emissions reduction targets in place. Thus, only 9% of companies achieved an actual emissions reduction of more than 4% last year (the annual linear reduction required to limit temperature rise to 1.5°C)[7]. Companies succeeding in disclosing data relating to their total value chain and reducing emissions close to net-zero will be winners in the race to net-zero.

EASIER HIRING, RETENTION

40%

of talent seek sustainability

HIGHER REVENUES

+4-25pp

CAGR of sales growth for 'green' products

SAVE CASH & CARBON

~50%

of emission reduction at net zero cost in key sectors

LOWER REGULATORY RISKS

+2-12 pp

EBIT margin after EU Carbon Border Tax for companies abating 55% of emissions

CHEAPER FINANCING

-100 bp

WACC for top quartile environmental performers in Europe

HIGHER VALUE

+3 pp

TSR for top quartile environmental performers globally

Data visualisation (Climate leaders gain competitive advantage - *Source: World Economic Forum Report (2022) "Winning the race to net-zero".)*

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ESG FRAMEWORK IS A REALITY

the year of ESG driving markets

Context

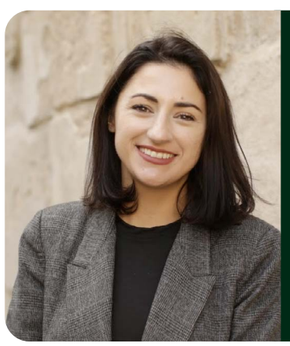
The growing prominence of ESG, coupled with new policies such as the European Union's Sustainable Finance Disclosure Regulation (SFDR), is helping cement ESG as a mainstream reporting framework. Hence, we can predict that 2022 is the year when ESG will be driving markets, but many challenges lie ahead for investors and reporting entities.

ESG DEFINITION

ESG is the umbrella term for sustainable and responsible finance components. It is a framework considering Environmental, Social and Governance factors alongside financial factors in the investmevnt decision-making process.

ESG to exceed **$53 trillion** by 2025

With an assumed 15% growth, global ESG assets are on track to exceed $53 trillion (€47,4 trillion) by 2025, representing more than a third of the €125,6 trillion in projected total assets under management. Furthermore, the ESG market is expected to double this year, with **80% of the world's largest companies reporting exposure**[9] to physical or market transition risks associated with climate change. Thus, companies implementing ESG strategies at their core DNA see their **operating profits** increase by 60%. And, given that ESG reporting mandates have grown by 74%[10] in the last four years, it's safe to say that ESG is here to stay.



"The way we define the success of our economy today is flawed as it ignores the financial, economic and societal risks associated with climate change. The task of the decade is to create transparency around these risks and align on how to mitigate them."

Lubomila Jordanova,
CEO and Co-founder at Plan A

DID YOU KNOW

53% of revenues of the 500 largest US companies and 49% of revenues of the 1,200 largest global companies[11] **come from business activities that support SDGs**? This means that there are opportunities for your company to consider ESG strategies."

A common reporting standard is approaching with global disclosures to come

The UK, Japan, New Zealand, and Singapore will all require climate disclosure for publicly traded corporations by 2021, based on the Task Force for Climate-Related Disclosures framework (TCFD). The Securities and Exchange Commission (SEC) in the United States and the European Union (EU) will require disclosure of greenhouse gas emissions and other ESG issues by 2022. This regulatory pressure will continue to drive more ESG-focused business and investment decisions. It will force investors to be more transparent about their sustainability criteria and corporations to think more carefully about collecting and disclosing ESG data.

Despite legislative impetus and a growing commercial justification for incorporating ESG into core corporate planning, ESG integration remains complicated in reality.
A lack of reliable and thorough data has been one of the major roadblocks. But there is room for improvement as the new International Sustainability Standards Board (ISSB) establishes its feet in 2022. There is optimism for improved alignment. The ISSB has already published a draft climate standard and plans to publish two disclosure reporting procedures in the second half of 2022. The ISSB will become the dominant standard for ESG disclosures integrated into financial reporting, thanks to the endorsement of 40 of the world's top finance ministers.

Learn more about the topic with our whitepaper on ESG

In 2022, start integrating ESG into your business

There is an increasing awareness that ESG may become compulsory or mandatory. For companies to stay ahead of regulations competition and unleash all the benefits of ESG, they must integrate this framework at the core of their DNA. In another perspective, organisations that fail to comply with environmental or social factors may end up struggling to deal with regulatory, legal or reputational issues at a later stage. What is the best course of action? Follow a methodology that reflects sustainability and ESG. It is never too late to start: it is easier and faster to incorporate ESG from the start, making the next generations of unicorns or Fortune 500 businesses more diversified and equal, more concerned with the health & welfare of their people, and positively impacting their communities and the environment.

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SUSTAINABLE AND RESILIENT SUPPLY CHAINS

Context

For the past two years, supply chains have been heavily disrupted (e.g. labour shortages, supply and demand disruptions, geopolitical conflicts), highlighting the necessity for supply chains to become resilient and sustainable. Supply chains are at the centre of a business's success and growth while representing opportunities at reducing costs. With uncertainty and planned disruptions as we head into 2022, what can we expect from supply chains?

Supply chains are responsible for **90%** of the company's environmental impact[12]

On the one hand, experts predict that supply chains will continue to experience disruptions in the first half of 2022. According to the Wall Street Journal, **45% of economists believe it would take until the second half of 2022 to improve[13].** Inventory optimisation tactics will continue to be necessary, assisting decision-makers in identifying vital materials, intermediates, and products and determining how much and where they should be stored across the supply chain. Suppliers, logistics service providers, contract manufacturers, and other essential trading partners will also require improved coordination and visibility.

On the other hand, climate change, ESG, sustainability and circular economy have become business imperatives, with global supply chains sitting right in the middle of these challenges, both as a problem contributor and a solution provider. There is, however, a disconnect between sustainable mission statements and the capacity to carry them out. An Oxford Economics survey of global supply chain decision-makers across sectors found that although 88% had written or are in the process of creating a clear sustainability mission statement, just 52% have put those words into action and decreased their shipping miles[14]. Furthermore, only 21% of respondents had comprehensive visibility into their sustainable product procurement from their suppliers. This signifies the importance for companies to monitor their supply chains and reduce the associated environmental impact.

Leverage carbon data for supply chains

Peter Drucker once said, "you can't manage what you can't measure". How can we build resilient and sustainable supply chains without the correct data to make informed decisions? In 2022, there will be a significant focus on the visibility, collection and processing of data in real-time from across supply chains. We collect unprecedented data to develop, manufacture, and distribute more sustainable goods. People may use this information to analyse how well things, equipment, or vehicles are working, calculate carbon emissions, identify whether they require maintenance, and much more. We now have a real-time, 360-degree perspective of the supply chain, thanks to increased demand and consumer data from sentiment analysis and social media, as well as environmental data like traffic and weather trends.

We can predict that machine learning and AI will employ large amounts of IoT-based and social media data from people, devices, assets, goods, and vehicles across the supply chain to automate decisions and procedures in 2022, as part of Industry 4.0.
Further, predictive analytics will enable employees to make better educated, real-time decisions while driving new business models.

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WILL YOU LEAD?

DECARBONISATION

OR BE LEAD?

Context

Throughout 2021, decarbonisation became part of the mainstream conversation on sustainability. 2022 is the year of endorsement. Indeed, decarbonisation is needed to achieve net-zero emissions and reach global climate targets to stay well below 2°C, pre-industrial levels. Companies must start implementing decarbonisation pathways and strategies to obtain a substantial competitive advantage and generate corporate value. 2022 will be the year for decarbonisation actions

DECARBONISATION
is the process of removing or reducing all human-made carbon emissions to eliminate them - to achieve net-zero emissions. According to the Oxford Dictionary, "decarbonisation is the process of replacing fossil fuels with fuels that are less harmful to the environment." In this sense, decarbonisation is achieved by implementing low-carbon to zero-carbon technologies and energy sources (e.g., renewables, regenerative agriculture, grid power, hydrogen).

Examples of successful decarbonisation and associated benefits

Unilever

Unilever achieved €800 million ($900 million) in savings by sourcing low-cost renewable electricity, which more than offset the premiums paid to source plastic and palm oil sustainably.

IKEA

IKEA realized €130 million ($147 million) in savings in five years through the roll-out of renewable energy.

"Corporate decarbonisation journey can be strenuous. However, it is scientifically proven that such a commitment will add corporate value in the long run while safeguarding our planet."

Dr Ramana Gudipudi
Decarbonisation lead at Plan A

Global decarbonisation is possible

Here is how it will impact the economy and companies

01 Technological innovation

Technological innovation can diminish **85 % of today's emissions in Europe with low and zero-carbon technologies**, which are already demonstrated - including 28% mature and 32% in the early adoption phase[15]. Companies must think about the technologies they are currently using, how familiar they are with low-carbon technologies and the cost of implementation. These technologies must be cost-effective to be implemented on a global scale.

02 Ability to create at scale supply chains

Low or no-carbon technologies must be developed and broadly implemented to reduce or eliminate GHG emissions. Scaling up production and distribution capacity and building out global supply networks will be required to enable and deploy critical technologies. For example, in a 1.5°C scenario, the number of solar panels deployed every week throughout the world would be almost eight times more than it is now. For companies, it is essential to encourage and enable collaboration across supply chains and ecosystems to scale production.

03 Capital allocation

About €245,5 trillion ($275 trillion) of cumulative spending on physical assets would be needed under the NGFS Net Zero 2050 scenario over the next three decades[16].

04 Managing demand shifts

Decarbonisation will play a pivotal role in the demand for various goods and services. It is estimated that by 2050, gas and oil production will drop by 70% compared to today[17]. Also, decarbonisation will end coal production for energy use by then. It is then essential for companies to assess how these shifts will impact their production chains and associated costs. In other sectors, demand could shift towards low-emission energy sources.

05 Decarbonised products and services

As the shift advances, companies that minimise the emissions intensity of their processes and outcomes may gain an edge. Decarbonising methods and interests can make them more cost-effective in some situations. Even though decarbonisation increases operational costs, businesses can gain from it if consumers are prepared to pay more for low-carbon products or subject to carbon-pricing requirements.

06 Decarbonisation on a business scale

For companies, **decarbonisation means completely reducing carbon emissions on all scopes of carbon emissions**. Each company must establish a decarbonisation strategy in line with its industry. Then, a company needs to evaluate the number of emissions it is directly or indirectly responsible for due to its business operations and then identify the options for reducing them.

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Data and technology to the service of sustainability

A couple of years ago, sustainability data was mainly used for reporting, compliance and disclosure requirements. Today, companies and business leaders ask for reliable, transparent and quantitative data to improve sustainability. This noticeable change from compliance to performance means exploiting sustainability, ESG and carbon data at scale, which can be achieved by automation like carbon and ESG accounting tools. With new technological innovation and data becoming more available, 2022 is when companies can take ownership of data and improve their decision-making and sustainability performance.

Data points for carbon footprint measurement

The business case for sustainability no longer needs to be made. Now, the pressing task for companies is to become sustainable by using data-based evidence. Companies shall prioritise obtaining authentic data points about their scope 1, 2 and 3 of carbon emissions to understand where emissions reduction is possible. Thus, the use of technology and automation tools empowers companies in gathering information from their supply chains to calculate their environmental impact and how their firms' operations contribute to carbon levels. However, most companies still collect carbon data at an organisational level. Still, the most cutting-edge ones will look further by leveraging impact data at a product and service level to communicate about it and lead by example.

"Without data, you're just another person with an opinion."

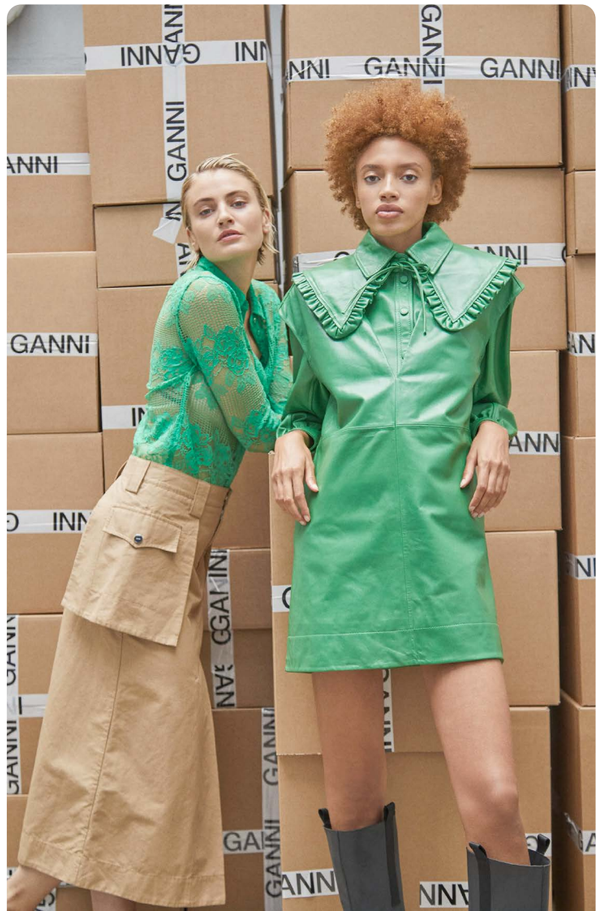
W. Edwards Deming

Technology speeds up the net-zero journey.

There is a correlation between technology and achieving sustainability targets. In a recent Bain survey[18], 40% of respondents said digital technologies positively impact their sustainability goals, but technology holds even more advantages. Technology is considered to speed up companies' journey to net-zero. For example, a study found that for an organisation of approximately 80 000 people, the combination of process automation, **sustainable business models and carbon data transparency may reduce emissions by 45 to 70%**[19], with carbon data transparency accounting for up to 40% of reduction alone. Companies must understand the importance of data transparency to improve sustainability performance. Such technologies combination enables costs savings as well. Companies implementing such processes can reduce their energy consumption while saving tremendous amounts of cash in the meantime.

Process optimisation	Carbon data transparency	Circular products and services	Data ecosystems and ventures
	AVERAGE CO_2 REDUCTION		
5-10%	30-40%	5-10%	5-10%

Source: BCG (2021) "How tech offers a faster path to sustainability".



EXAMPLE

GANNI, a leading fashion brand company, partnered with Plan A, a Greentech company specialising in carbon accounting and ESG software. As a result, GANNI achieved a 44% reduction in emissions associated with used materials and has set a 45% target reduction target by 2025. GANNI improved its sustainability performance by using collaboration and technology and became a leader in its industry.

Companies may use the technological eco advantage mentality to create a roadmap for new technology adoption, which will assist in accelerating the journey to sustainability by helping to entrench sustainability as a fundamental value. Traditional technology methods must be rethought, notably in digitised operations, digital product and service design, cloud computing, IoT, blockchain, AI and advanced analytics, data sharing, and ecosystem creation and management.

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Regulations that will shape sustainability reporting

"It is time to comply compulsorily or voluntarily"

You can expect a wave of regulations and norms heading your way. 2021 was about setting up European standards and regulations such as the EU Taxonomy and SFDR. 2022 already saw the implementation of these regulations with the kickstart of the mandatory reporting under the EU Taxonomy Regulation, but there is more to come. Companies need to stay put to upcoming regulations.

"An economist without knowledge of nature is like a physicist without knowledge of mathematics"

Carl Linnaeus
father of the modern Taxonomy

The EU Taxonomy Climate Delegated act

The EU Taxonomy Regulation, or simply the Taxonomy, is the first uniform and reasonable standard that allows economic parties to align with the transition to low carbon, resilient and sustainable economy.

After a long delay, the EU Taxonomy finally took effect on January 1st, 2022. Organisations impacted by the Taxonomy must identify and disclose which of their economic operations are taxonomy-eligible, i.e. covered by the Taxonomy, beginning in 2022. To give the market time to react to the Taxonomy, reporting on the alignment has been delayed until 2023 for major corporations and 2024 for financial institutions. As a result, there are no excuses for starting the reporting process at the last minute.

Read our whitepaper on the EU Taxonomy to prepare your business

EU's Sustainable Finance Disclosure Regulation (SFDR)

The European Commission announced in November 2021 that the application deadline for the SFDR's regulatory technical standards (SFDR RTS) will be pushed back from January 1, 2022, to January 1, 2023. Regardless of the delay, collecting and monitoring the significant adverse effects (PAI) will be needed starting on January 1, 2022, when the SFDR's first reference period begins.

DID YOU KNOW THAT
27% of the revenues of the 500 largest US companies and 31% of revenues generated of the 1,200 largest global companies come from activities aligned with the EU Taxonomy for Sustainable Activities?[20]

From NFDR to CSRD: Europe's new sustainability reporting directive

Are you aware of the European Union's new sustainability reporting directive? The EU proposed a new Corporate Sustainability Reporting Requirement (CSRD) in 2021, which would replace the existing non-financial reporting directive (NFRD) in 2023. The scope of who is covered by the EU Taxonomy and SFDR will rise from roughly 12 000 entities to approximately 50 000 with the new directive.

SMEs will become more appealing to investors and other stakeholders by mandating more firms to publish sustainability-related information, as well as providing more accessible data to investors to inform ESG decision-making better. To say the least, CSRD will take sustainability reporting to a new level.

Overall, 2022 will usher a wave of new sustainability rules and regulations, which will necessitate significant effort for businesses and financial institutions. Despite the difficulty, this is the necessary action for the transition to the green economy that we all desire. And the most significant part is that assistance is available: Plan A is there to help you with reporting requirements.

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Conclusion

2022 is the year to witness a natural stride for sustainability. Individuals and companies alike will be more conscious of their impact on the environment, promoting a more regenerative society. However, immediate efforts are required to reap long-term benefits. Businesses cannot afford to wait for others to take the initiative. Sustainability is shaped by multiple trends that companies can act upon to reduce their environmental impact and attain net-zero emissions: from decarbonisation, ESG, resilient supply chains to data and green technology. Although sustainability is a challenging journey, remember, "perseverance is not a long race, it is many short races one after the other". Although sustainability is a challenging journey, remember, "perseverance is not a long race, it is many short races one after the other". To win the net-zero race, companies shall set up a decarbonisation strategy according to their objectives. And the good news is you are not alone. Plan A is here to support you in your journey.

Endnotes

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