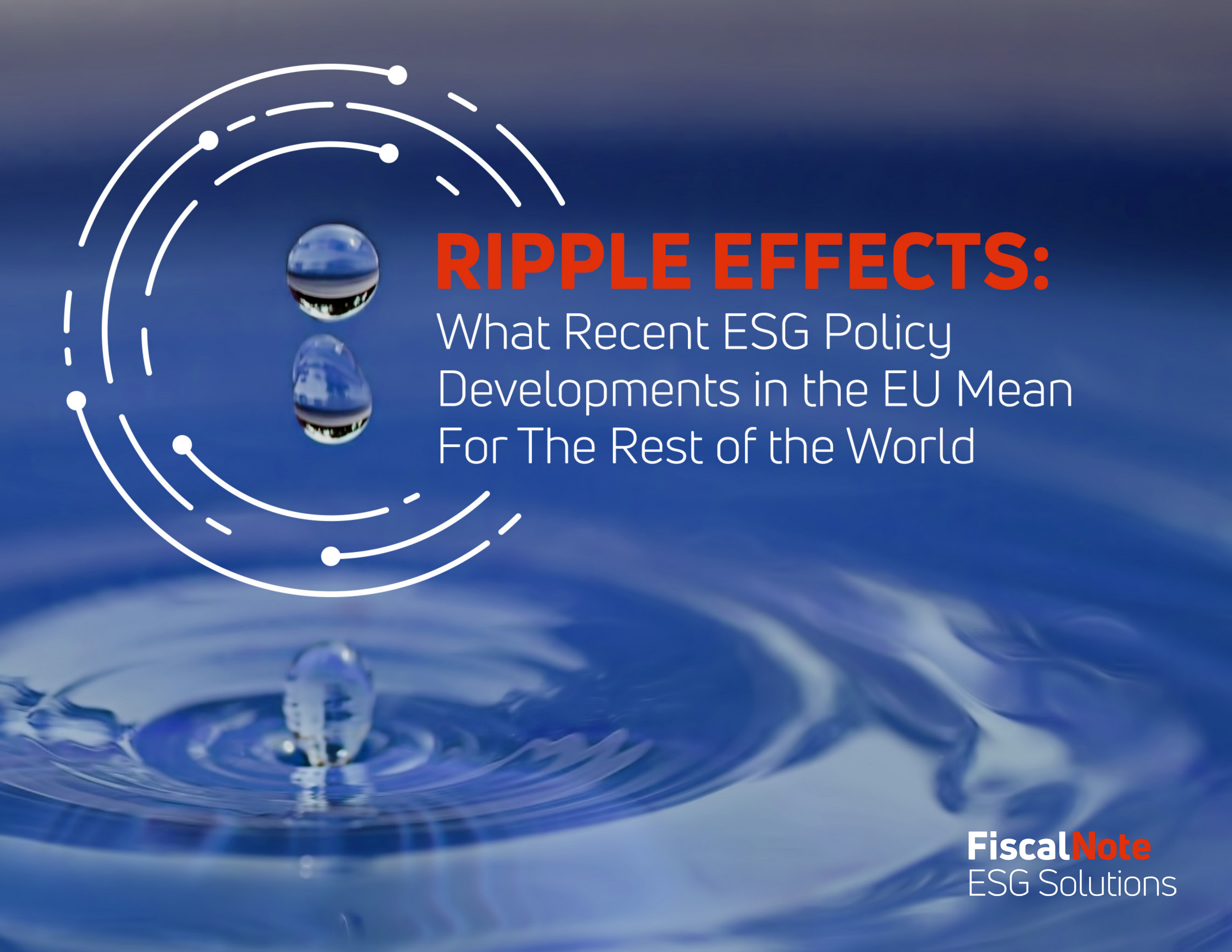

RIPPLE EFFECTS:

What Recent ESG Policy Developments in the EU Mean For The Rest of the World

FiscalNote
ESG Solutions

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How the EU's Ambitious Climate Policies Are Changing the World

With its remarkable **Green Deal** and a world-first commitment to achieving carbon neutrality by 2050, the European Union is taking ambitious and comprehensive action toward a green economic transition.

But what happens in the EU doesn't always stay in the EU. Due to the global nature of large organizations and their supply chains, any policy developments within the **world's third-largest economy** have far-reaching effects across regions and countries. And with its reputation as a global sustainability leader, what develops in the EU often provides an indication of what's to come in other markets around the world.

We spoke to FiscalNote's global team of policy experts to uncover the major ESG themes to watch in Europe and beyond in 2023. This report analyzes key policy developments and their ripple effects throughout global markets, and offers advice to help large organizations monitor and get ahead of policy developments.

Meet the **Experts**

Stina Warnstam Drolet
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Employment and Social Affairs Policy Analyst, FiscalNote EU Issue Tracker

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How the EU Emerged as a Leader in ESG Policy

The European Union is widely regarded as the frontrunner in global sustainability. The EU has **committed to reach carbon neutrality by 2050** in line with the **Paris Agreement's 1.5°C warming target**, and has a well-established **Emissions Trading System (ETS)** almost in its twentieth year. This level of commitment and early action toward climate action is unparalleled in global markets.

"The EU is a supernational structure," says William Eddershaw, employment and social affairs policy analyst at FiscalNote EU Issue Tracker. "It is neither a government nor an international organization, and it forms powerful partnerships with the private sector. This kind of structure and collaboration has helped the EU succeed in leading the global green transition."

Ultimately, decisions made at the commission level have important ramifications for private organizations both inside and outside the EU. Companies must follow EU policy developments closely to minimize risk, exert influence, and ensure compliance with an evolving regulatory landscape.

> The green energy transition requires involvement from all sides. The EU has succeeded in matching public funds with private investment to accelerate progress on ambitious climate goals.
>
> **Álvaro de la Fuente**
> Energy and Climate Policy Analyst, FiscalNote EU Issue Tracker

Major Themes in EU ESG Policy & Their Global Influence

The EU's green transition policies and directives cover significant ground. Here are five key themes to watch in 2023 and beyond.

Climate and Carbon

Greenwashing and Transparency

Energy

Transport

Circularity

CLIMATE AND CARBON

Carbon Border Adjustment Mechanism

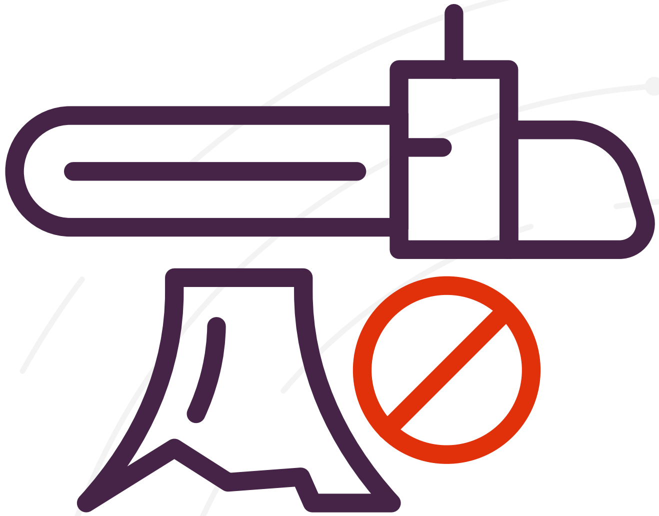
Since 2005, EU companies of certain sizes and sectors have been bound by the greenhouse gas emissions rules of the **Emissions Trading System**. However, the introduction of the **Carbon Border Adjustment Mechanism (CBAM)** in October of 2023 will represent the first-ever carbon tax for imported products, with major implications for international trade. EU importers will be required to buy carbon certificates equivalent to the carbon price that would have been paid if the goods had been produced within the EU, minus any carbon tax already paid.

“CBAM is one of the key pillars that will influence climate policies around the world,” says Álvaro de la Fuente, energy and climate policy analyst for FiscalNote EU Issue Tracker. “We could easily see the policy replicated in other countries and markets over the next decade.”

Deforestation

In December 2022, the EU **reached an agreement on a new deforestation law**. EU importers and exporters of products containing palm oil, cattle, soy, coffee, cocoa, timber, and rubber will be required to conduct strict due diligence to prove that products are not produced on land that was subject to deforestation after 2020, and legally compliant with all laws in the country of production. Further disclosures will be required for compliance auditing purposes.

Any organizations relying on EU trade for these products will be significantly impacted by these new due diligence requirements and will have 18 months to comply once the regulation is in force.

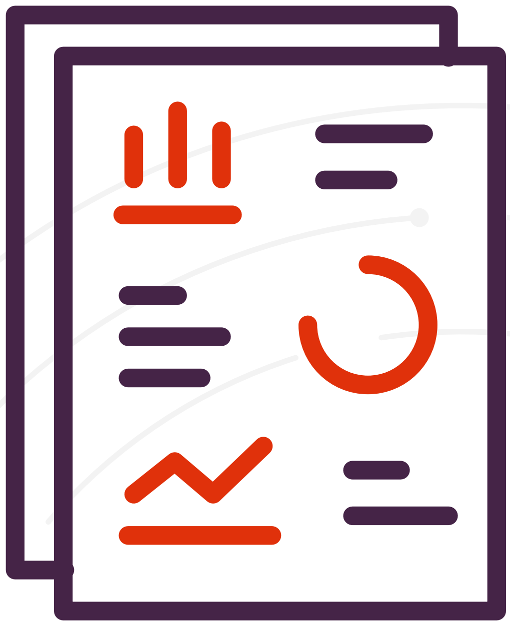


GREENWASHING AND TRANSPARENCY

Corporate Sustainability Reporting Directive

One recent major development in ESG policy was the introduction of the **Corporate Sustainability Reporting Directive (CSRD)**, which **came into effect** on January 5, 2023, and expanded the **Non-Financial Reporting Directive (NFRD)**. Under the CSRD, companies must disclose sustainability-related information according to new **European Sustainability Reporting Standards (ESRS)** developed by the **European Financial Reporting Advisory Group (EFRAG)**. Reporting requirements will be phased in over the next few years; the first companies required to comply (those already subject to the NFRD) will have 18 months to comply.

The global impact of CSRD is significant in large part due to the volume of companies required to comply.



Initially, the CSRD will apply to large companies within the EU that meet **two of the following** thresholds:	**€50 million** in net turnover **€43 million** in assets **>250** employees
A simpler set of reporting requirements will apply to small and medium-sized companies within the EU, meeting **two of the following** thresholds:	**€40 million** in net turnover **€20 million** in assets **<250** employees

Additionally, all companies listed on EU-regulated markets, and some non-EU companies with €150+ million in turnover in the EU and at least one EU-based branch or subsidiary, will also be subject to CSRD reporting requirements.

Corporate Sustainability Due Diligence Directive

The EU's proposal for a **Corporate Sustainability Due Diligence Directive (CSDDD)** would require companies to improve their due diligence standards across human rights and sustainability risks.

The directive would apply to **EU companies** with more than:	• **500 employees and €150 million** in net turnover worldwide. • **250 employees and €40 million** in net turnover worldwide if more than half of net turnover is generated in a high-risk sector such as agriculture or mineral extraction.

It would also apply to **non-EU companies** with more than:	• **€150 million** net turnover within the EU or • **€40 million** net turnover within the EU, where more than half of worldwide turnover comes from a high-risk sector

Although the CSDDD won't apply directly to smaller and medium-sized companies, as suppliers of larger companies, they will also need to meet certain due diligence standards.

Initiative on Green Claims

The EU's **Initiative on Green Claims** is designed to tackle greenwashing by private organizations. The **proposal** will require all companies selling products and services within the EU companies to substantiate environment-related claims with standard methodologies. Though still in the draft stage, the initiative would have significant impacts on manufacturers and traders worldwide.

"This initiative will set out rules for companies active in business-to-consumer commercial practices, to essentially prove green claims using product and organization environmental footprint methods," says Justine Renard, policy analyst at FiscalNote EU Issue Tracker. "It will enable consumers to make more informed purchasing decisions and eventually contribute to increasing environmental sustainability in the EU."

Carbon Removal Certification

Carbon removals and voluntary offsets have been the subject of recent quality concerns. In response, the EU has proposed the first **EU-wide voluntary framework to certify high-quality carbon removals**. The new framework would provide an example for other international markets to follow, ensuring the carbon credits purchased voluntarily by organizations achieve the climate impact they claim.

ENERGY

Energy Crisis and a Cap on Gas Prices

The war in Ukraine has triggered an energy crisis across Europe. The phasing out of Russian fossil fuel sources has opened doors to greater energy trading with the U.S. and Norway in particular. Meanwhile, a series of measures aimed at stemming the crisis include an agreement reached in December 2022 on a **dynamic price cap on gas** and a framework to enable joint gas purchases through an EU energy platform.

“These policies will change the dynamics of gas trading and gas deliveries to the EU,” says de la Fuente, “which could have ripple effects across global markets,” impacting international gas trade and overall financial stability in the market.

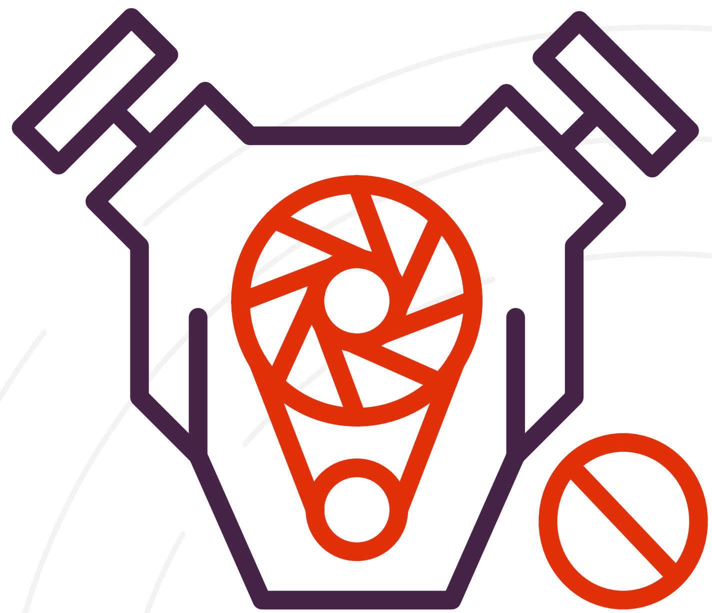
Electricity Market Design

With the energy crisis as a backdrop, the EU began working on the **structural reform of the electricity market** in 2022 under the **Clean Energy for all Europeans** package. The reform aims to secure European energy sovereignty while simultaneously achieving climate neutrality, a move that may have significant effects on energy markets with close proximity to the EU, such as the UK.

TRANSPORT

Phasing Out Internal Combustion Engines

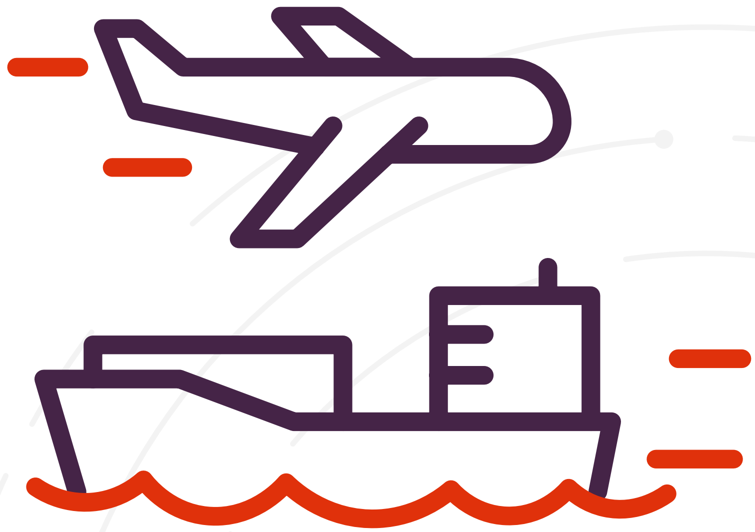
The combined energy and climate crises have also led to new considerations in the realm of transport. In **June 2022**, Parliament backed a proposal by the European Commission to achieve zero emissions from new cars and vans by 2035, effectively phasing out internal combustion engines and creating a complete shift to electric vehicles in the space of 12 years. The **tighter CO2 limits** on new cars and vans under the **Fit for 55 package** will have a significant effect on major global auto markets, particularly in the U.S. and China.



"If you phase out the internal combustion engine," explains Hugo Vinet, transportation policy analyst at FiscalNote's EU Issue Tracker, "you have to prepare for the electric vehicle race." We will likely see a significant global push for EV-related technologies and materials in the coming years, along with an acceleration of the green tech subsidy race emerging between the world's three largest economies.

Maritime and Aviation Initiatives

In a move to address the carbon footprint of the shipping and aviation industries, the Fit for 55 package introduced the **FuelEU Maritime Initiative**. The initiative aims to decarbonize the maritime shipping industry by applying greenhouse gas intensity reduction targets on marine fuels from 2025. The legislation would apply to all ships entering the EU, meaning that international companies shipping to the EU will be required to comply with intensity limits. At the same time, the **ReFuelEU Aviation Initiative** aims to decarbonize air transport and has significant impacts on domestic and international fuel suppliers and airlines.



CIRCULARITY

Circular Economy Action Plan and the Right to Repair Legislation

The EU made a major push toward a more circular and sustainable economy with its **2020 Circular Economy Action Plan (CEAP)** — measures under the plan call for greater disclosure and transparency, and a focus on repairability and recyclability.

One significant measure is the **right-to-repair legislation**. The proposal would incentivize consumers to repair rather than repurchase, oblige manufacturers to grant free access to repair information, ban planned obsolescence, and offer repairability scores and information on certain products. The legislation was scheduled for November 2022 but has since been delayed. Nonetheless, talks about this legislation in the EU have sparked similar conversations in other countries. For example, similar **right-to-repair proposals are starting to show up across states in the U.S.** Such legislation, if approved, will have significant effects on manufacturers worldwide — particularly technology manufacturers.

Another measure under the CEAP is the common charger law: In October of 2022, the EU formally adopted **a law** requiring that all mobile phones sold in the region be equipped with the same charging port. Companies will need to comply within 24 months; Apple has confirmed that it plans to release future iPhones with USB-C charging ports.

How Companies Around the World Can Get Ahead of ESG Policy Developments

In a global regulatory environment that seems to change daily, it can be difficult for policy and ESG professionals to stay on top of key updates, filter out irrelevant or sensationalist headlines, and secure the executive-level buy-in and resources needed to prepare for upcoming disclosure and compliance requirements.

“Companies face a few main challenges when trying to keep up with ESG policy developments,” explains Stina Warnstam Drolet, head of sustainability and advisory at Oxford Analytica. “The biggest challenge for most is information overload. The ESG landscape is complex and evolving quickly.”

Subscribe to a Regulatory Monitoring Service

"One thing companies can do is put in place a framework for systematically tracking ESG developments and trends within a broader set of global market trends and drivers," says Warnstam Drolet. The simplest way to stay up to date with ESG policy developments around the world is to subscribe to a comprehensive regulatory monitoring service such as ESG Monitor.

FiscalNote ESG Monitor

Industry expertise paired with reports on emerging trends in ESG, all in one place

FiscalNote's ESG Monitor provides a monthly comprehensive report on the latest trends and issues in the global ESG landscape along with quarterly calls with experts in the field to help you tailor your ESG strategies and response.

Leveraging the expertise of our in-house geopolitical analysts, we summarize and analyze the evolving ESG trends from around the globe most likely to impact your organization. Our in-depth report provides analysis and insight into industry trends, latest news, and standards monitoring across the ESG landscape.

Learn more

Exert Influence Early

Policy monitoring shouldn't be a purely reactive exercise. When working with ESG policy experts to stay ahead of what's coming, your organization can wield influence over relevant policy developments.

"The ideal time for large organizations to influence EU legislation is before a proposal is even commissioned," says Vinet. "When agreements are open for public comment, lobbying can have far greater influence in shaping the framework that is eventually developed. After a proposal is released, smaller changes such as targets and ratios can be made, but significant influence is typically only possible pre-proposal."

Capitalize on Opportunity

Policy developments are not always bad news for private organizations. “Developments like the CSDDD represent a huge opportunity for companies — particularly for smaller suppliers along global supply chains,” explains Warnstam Drolet. These smaller companies can capitalize on the opportunity to position themselves as sustainable providers committed to the protection of environmental and human rights, and become preferred suppliers of large organizations. “In this way, companies can view policy developments through the lens of opportunity, and not simply risk,” she adds.

Stay Ahead of What’s to Come in ESG Policy Around the World

ESG-related policy developments in the European Union offer a glimpse into what’s next for the rest of the world. The EU’s climate policies are as ambitious as they are far-reaching, and their ripple effects will be felt throughout the global economy.

It is crucial that large multinational organizations stay ahead of emerging policy developments, exert their influence where possible, and prepare well in advance to meet compliance and disclosure requirements. Beyond risk management, the opportunities for becoming an industry leader in ESG abound.

About Equilibrium

Equilibrium AI offers ESG teams the ability to manage all their data in a centralized, clutter-free platform. With Equilibrium, you can:

- Manage, measure, audit, report, and improve ESG decisions and outcomes for your organization and supply chain
- Evolve your ESG strategy and turbocharge data management and reporting
- Drive better decisions and elevate the roles of ESG across your organization

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Learn more

FiscalNote is the premier information services company focused on global policy and market intelligence. By combining AI technology, expert analysis, and legislative, regulatory, and geopolitical data, FiscalNote is reinventing the way that organizations minimize risk and capitalize on opportunity.

FiscalNote empowers more than 5,000 clients worldwide to monitor, manage, and act on the issues that matter most to them.

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