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Sustainability Trends

QUARTERLY OUTLOOK

July 2024




TREND 1

Elections, trade wars, and court rulings reshape the sustainability landscape

A string of mostly right-wing election wins puts global sustainability action and policy under pressure, with more elections, including in the U.S., to come. As democracy runs its course, a global trade war over electric vehicles is flaring up, while the U.S. Supreme Court dealt a serious blow to the enforcement of U.S. environmental laws.

Global elections already altering sustainability action, with more change to come

- 2024 is one of the most significant years for elections in recent decades, with close to 50 percent of the world's population heading to the polls. While economic and national security impacts are sure to be top of mind, the future of sustainability action will also be significantly effected as evidenced by elections that have already occurred.
- In the European Union (EU), right-wing parties failed to make the bloc-wide gains in parliamentary elections some had projected, even as they made significant strides in France and Germany. Still, the sustainability advances made by the previous EU parliament may be hard to replicate as growing pushback against green policies force centrist parties to slow down action to keep their fragile governing coalition together. Sustainability action may move the other way in the United Kingdom. With Labour returning to power, climate action is already receiving greater emphasis after the party dropped a de facto ban on onshore wind farms shortly after taking office.
- Beyond Europe, elections in India and Mexico also have sustainability implications. India's general election coincided with a record heatwave across much of the country that killed election officials. However, climate change was rarely featured by either of the major coalitions beyond vague promises like the ruling Bharatiya Janata Party's to create huge solar and wind farms and build out energy distribution networks. Even so, sustainability issues like the water shortage gripping the capital will undoubtedly feature prominently throughout Narendra Modi's third term. In Mexico, the election of Claudia Sheinbaum, an actual climate scientist, brings hope of accelerated action after current President Andrés Manuel López Obrador pushed for expanded fossil fuel development under the auspices of energy security.
- Of elections still to come, none will be more closely watched than the U.S. general election. In April, former President Donald J. Trump hosted oil and gas executives and lobbyists, promising to

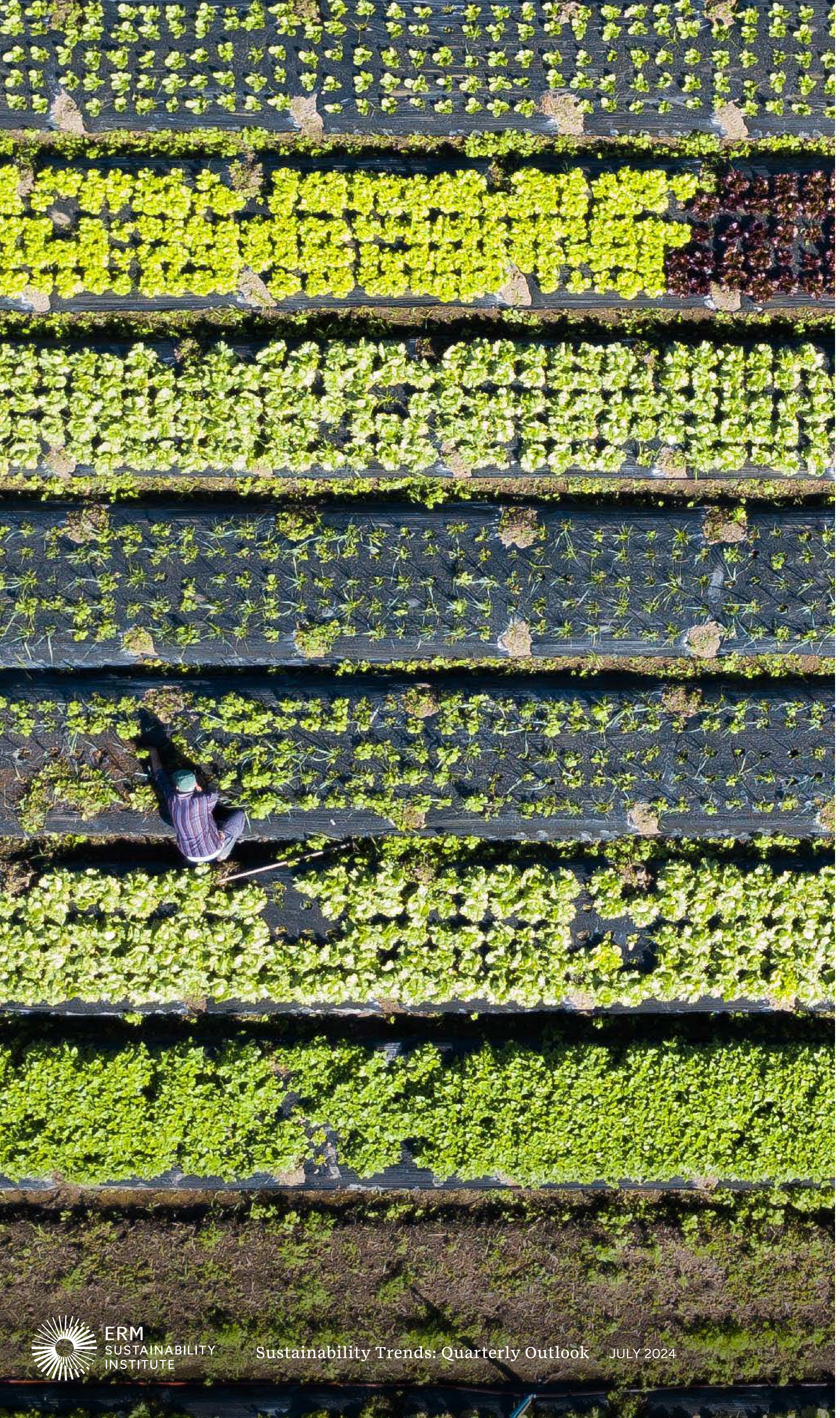
rescind environmental actions taken by the Biden administration in exchange for campaign support. However, the energy landscape has changed since President Trump was in the White House. Many oil and gas companies approve of many of the provisions included in President Biden's signature climate policy, the Inflation Reduction Act, and are likely to defend against their rollback by a future Trump administration. The race is sure to heat up further after President Biden decided not to run for reelection on July 22nd. While who will replace him at the top of the Democratic ticket remains to be seen, what is clear is that President Biden will leave office with the most impactful climate record in U.S. presidential history.

Electric vehicles at the center of global trade disputes

- China is the dominant player in electric vehicles (EV) globally, accounting for over half of all global production. This dominance and how it was brought about are topics of concern for many western countries who fear that state subsides have created an unfair advantage for Chinese EV manufacturers that threatens the viability of their domestic champions.
- The U.S. struck first to protect EV manufacturing in May when it raised tariffs on Chinese electric vehicles from 25 percent to 100 percent. The EU, where Chinese EVs already account for approximately 25 percent of EVs sold, followed in June by raising tariffs by up to 38 percent on Chinese vehicles.
- In response, China suggested that it may impose its own tariffs of up to 25 percent on vehicles with engines bigger than 2.5 liters imported from manufacturers in the U.S. and the EU. Despite threats of an escalating trade war, both China and the EU signaled they would be open to discussing ways to resolve the dispute.

U.S. Supreme Court's Chevron ruling poised to have wide sustainability impact

- In one of the final rulings of its 2024 term, the U.S. Supreme Court ruled 6-3 in favor of overturing 1984's Chevron v. Natural Resources Defense Council decision, which stipulated that the judiciary must defer to an executive branch agency's interpretation of a law when that law's language is ambiguous. After the ruling, one focus of those in sustainability circles has been the future Securities and Exchange Commission's (SEC) Climate Disclosure Rule. In creating the rule, the SEC relied on its perceived authority under the Securities Act of 1933 and the Securities Exchange Act of 1934 to protect investors by providing them with information on climate-related risks. However, after Chevron's overturning, the likelihood that the Supreme Court upholds the SEC rule without specific action by Congress to grant it authority over corporate climate disclosure is slim. The ruling will also likely significantly diminish the Environmental Protection Agency's ability to enforce the Clean Air Act and Clean Water Act as every decision it makes on the laws can now be tested in court.



TREND 2

Nature protection goals and sustainable agriculture practices gain traction, but concrete actions is often still elusive

Nature-related disclosures, nature restoration laws, and sustainable agriculture practices continue to gain ground. However, many countries are failing to follow up on these achievements with concrete actions of their own.

Nature-related disclosure momentum continues to grow with more help on the way

- The Taskforce on Nature-related Financial Disclosures (TNFD) was launched to great fanfare in September 2023. Almost 10 months later, the number of companies adopting the recommendations for nature-related reporting continues to grow. At London Climate Action Week in June, the TNFD announced that a further 96 companies adopted the guidance, bringing the total to 416 spread across 50 jurisdictions and representing over $6 trillion in market capitalization. Japan is by far the leading jurisdiction for corporate adoption, with 81 organizations committing to align with the TNFD recommendations by 2025.
- As corporate adoption grows, more help to better align the TNFD recommendations with the particularities of different sectors is on the way. The TNFD also launched the first group of its sector guidance documents for eight industries including chemicals, food and agriculture, and metals and mining. These documents outline what types of company activities could have material nature-related dependencies, impacts, risks, and opportunities and provide a set of sector-specific metrics for nature-related disclosures.

Companies and countries scale up their sustainable agriculture ambitions

- Back in January, we highlighted the growing number of companies utilizing sustainable agriculture practices in our 2024 Annual Trends Report. Six months later, momentum continues to build. In March, Charoen Pokphand Foods successfully applied a corn traceability system to its operations in Thailand, enabling the company to confirm that the corn it sources originated from deforestation-free areas. At the end of April, Archer-Daniels-Midland announced its regenerative agriculture program grew by more than 2.8 million acres in 2023, well over its 2 million acre goal. In June, Heineken completed the first large-scale regenerative agriculture barley harvest following a collaboration with a French farming cooperative.

- Governments are getting in on the action too. In June, Denmark announced that it will impose the first ever carbon tax on agriculture, with a fee on livestock emissions beginning in 2030. Still, the carbon tax's future is not guaranteed as evidenced by New Zealand stopping efforts to price livestock emissions earlier in June after pushback from farmers.

Efforts to stem nature loss receive both welcome and unwelcome news

- Welcome steps were made to stem nature loss this last quarter. After months of uncertainty, the European Union in June formally adopted its Nature Restoration Law, which sets out targets to restore 20 percent of the bloc's degraded land by 2030 and 100 percent by 2050. A few days earlier, Canada released its 2030 Nature Strategy outlining the country's plan to implement the nature protection goals under the Kunming-Montréal Global Biodiversity Framework. Lastly, the Australian government is preparing to host the first Global Nature Positive Summit in October, which will aim to encourage nature-related reporting, accelerate nature finance, and bolster community collaboration in nature positive activities.
- Despite these welcome achievements, governments still have work to do in the nature space. A UN-REDD report published in June found that only eight of the 20 countries with the worlds highest deforestation rates have set deforestation reduction targets under their national climate action plans, or Nationally Determined Contributions. (NDCs). The report also found that all NDCs together fail to halt global deforestation by 2030, a pledge countries made back in 2021 at COP26 in Glasgow.

TREND 3

Companies have sustainability’s commercial upside more firmly on the radar, but not enough to keep them from walking back earlier commitments

After years of viewing sustainability as a drag on profits, many companies now embrace the commercial opportunities of the sustainability transformation. As a result, the demand for green jobs and skills is soaring. However, the growing number of companies backtracking on sustainability goals signals that the conversion is not yet complete.

Company views of sustainability’s value creation benefits are improving

- Companies worldwide are increasingly connecting their sustainability activities to commercial value, heightening the incentive for action. A recent survey of a set of public and private companies across Asia-Pacific, Europe, and North America found that 85 percent consider sustainability a long-term value creation opportunity. The same survey found that value creation was also the number one reason companies pursue sustainability action. CEOs in the U.S. are also expecting their sustainability efforts to create value, with another recent survey finding that 55 percent expect to see a return on their sustainability investments in the next 3-5 years.
- As sustainability’s value creation benefits becomes increasingly attractive, more companies are tying executive compensation to sustainability metrics to inspire action on the long-term issues critical to their future success. Approximately 90 percent of all large companies globally now tie executive compensation to their sustainability strategies and goals.

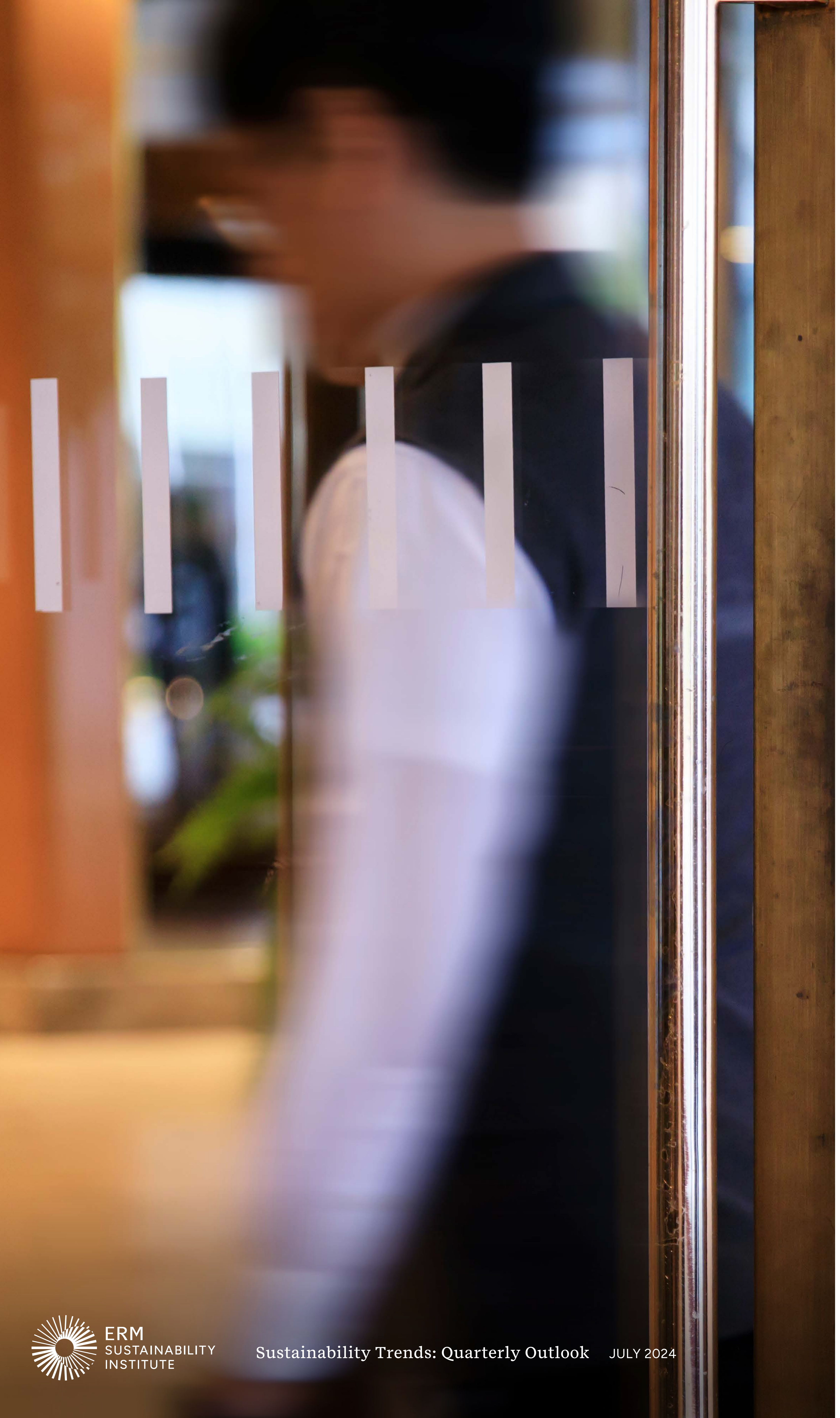
Green jobs numbers continue to tick up as new corporate sustainability roles emerge

- The transition to a truly sustainable economy will require tremendous growth in the number of workers with green skills. There are signs this needed growth is occurring. According to LinkedIn’s annual green skills report released early this year, the share of green talent (defined by if the worker has a green skill listed in their profile or who has a title associated with green skills) in the global workforce grew by 12.3 percent between 2022 and 2023, while the number of green job postings requiring at least one green skill rose by 22.4 percent. In the U.S., climate-related jobs are also growing. A 2024 review of 2022 employment changes of jobs involving energy efficiency, renewable energy, and other types of clean energy work found that job creation grew by 3.9 percent compared to a 3.1 percent increase in overall U.S. employment in 2022.

- Singapore is one country aiming to accelerate green skills growth. In April, the city-state announced that it will invest $26 million over the next three years to help upskill and reskill financial workers in sustainable finance-related topics. The move was motivated by a Singapore-commissioned study that projected that the sustainable finance market in southeast Asia would grow by up to $5 trillion over the next decade.
- New corporate sustainability-specific jobs are also emerging, with the position of ESG controller foremost among these. More than 50 Fortune 100 companies now employ an ESG controller to oversee the data infrastructure and procedures required to develop sustainability disclosures. In a similar vein to traditional financial controllers, ESG controllers are poised to help companies comply with the increasing number of sustainability disclosure regulations emerging globally.

Notable companies walk back sustainability goals

- Despite growing recognition of sustainability's value creation benefits, companies are more frequently walking back their sustainability goals. Unilever, once sustainability's leading light, retreated from its goal to cut its virgin plastic use in half by 2025 when it announced in April that it is now aiming to only reduce use by a third and not until 2026. Emphasizing Unilever's changed approach, its new CEO Hein Schumacher declared that the company was starting a "new era for sustainability leadership" and that it was now pursuing what he called "realistic sustainability", which focuses on fewer, less far-reaching commitments.
- Other companies are also slowing their efforts. Volkswagen once aimed to reduce its CO2 emissions from cars and light commercial vehicles 30 percent by 2025. It now aims to achieve the same emissions reductions by 2030.
- While some companies are pushing back timelines to achieve their sustainability targets, one newsmaker is abandoning some of its sustainability efforts entirely in a move some are deeming the first corporate anti-sustainability declaration. In June, Tractor Supply Company released a statement announcing that among other actions, it would no longer share data with the Human Rights Campaign, eliminate all its Diversity, Equity, and Inclusion (DEI) roles, retire its DEI goals, and shelve its carbon emissions goals. Instead, the company shared that if will turn its focus to land and water conservation.



TREND 4

Employers struggle to adapt to post-COVID work dynamics and changing demographics

Questions of how and where people work continue to define workplaces as companies scrutinize and reshape in-person attendance. Employee wellbeing and the tendencies of younger workers are also on the minds of many as companies search for solutions.

Four years on from COVID-19, companies and employees continue to grapple with evolving workplace dynamics

- Although the depths of the COVID-19 pandemic have long since passed, the workplace disruptions they wrought are still being felt. As companies continue to reverse pandemic-era work from home policies, they are turning to new approaches to ensure employee compliance and steeping up enforcement for those who run afoul.
- In May, Dell made employees classify themselves as either remote or hybrid workers, with the former ineligible for promotion. To ensure hybrid employees meet their required office day goals, the company is now tracking badge swipes at its offices and VPN connections. Wells Fargo went a step farther for remote employees who they found were not doing their job. In June, the bank fired more than 12 employees after discovering they were simulating mouse and keyboard activity to give the impression they were actively working when they were not.
- Where employees work when they come into offices is also evolving. After the pandemic, many companies implemented hot desking wherein employees could use or book any desk in the office rather than having an assigned seat. This practice seems to be fading as companies look for ways to bring more employees to the office. Many employees cite frustrations with hot desking, such as cleanliness and hygiene, a lack of personal touches, and collaboration and relationship issues, that make in-person work less attractive. As a result, the number of unassigned office seats this year is dropping for the first time since the pandemic.

Employee wellbeing improvements fluctuate globally as on the job happiness falls and loneliness rise

- In 2023, employee wellbeing dropped globally for the first time since 2016. According to Gallup's 2024 State of the Global Workplace, only 34 percent of workers rated themselves as thriving at work. To make matters worse, 58 percent of global workers rated themselves as struggling at work, while a further 8 percent rated themselves as suffering. What has driven these results? One factor at play is loneliness. Fewer employees are making meaningful connections as white collar workdays are increasingly defined by remote work, non-stop meetings, few opportunities for spontaneous small talk, and limited interactions across teams.

- Equal and worthy compensation can have a significant impact on an employee's sense of importance and happiness. For example, one 2023 study found that when workers are better paid and when pay gaps between them were lower, their health and wellbeing improved. Despite this connection, women still earn only 77 cents to every $1 that men earn globally. Australia took action to improve pay equality earlier this year when it published gender pay gaps at close to 5,000 Australian companies. While results were unimpressive (50 percent of employers had a gender pay gap of over 9 percent), the move marks a significant step in equipping employees and organizations with the information they need to begin closing and eliminating gaps.

Companies rethink management approaches as younger generations compose larger portions of their workforces

- Workforces are getting younger as Baby Boomers retire and Gen Zers enter the workforce in increasing numbers. As older generations make way for younger workers, companies are rethinking their approaches to management. Many are finding it difficult to figure out where to start given the different ways Gen Z approaches work. One May 2024 survey of workers across 44 countries found that 86 percent of Gen Z employees believe that purposeful work is important to their job satisfaction and wellbeing. This challenge has led to some multinational companies hiring advisers to guide them through the intricacies of Gen Z by, for example, providing insights into the generation's preferred communication styles and inclination to push companies to change from the inside out.