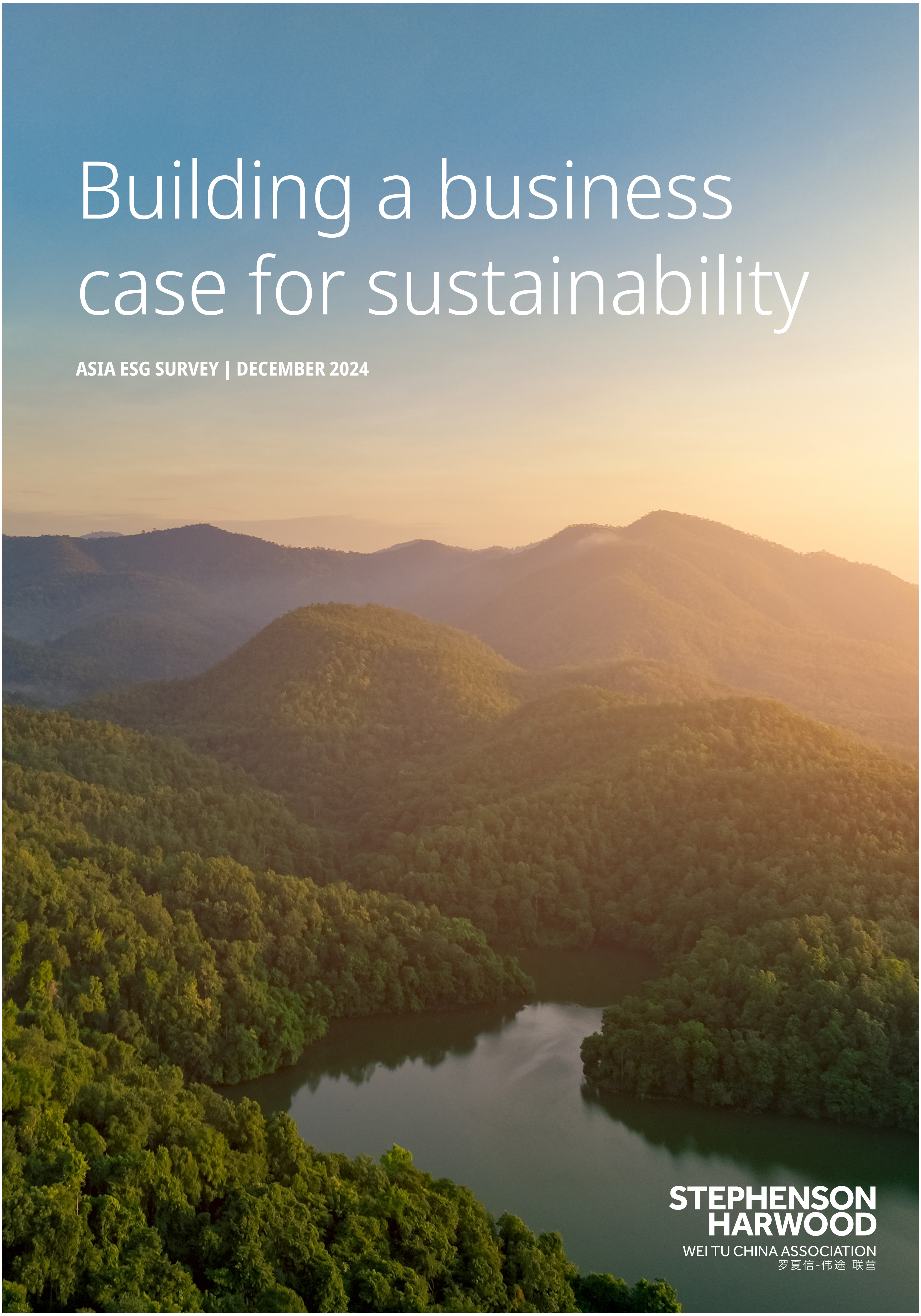


Building a business case for sustainability

ASIA ESG SURVEY | DECEMBER 2024

STEPHENSON HARWOOD
WEI TU CHINA ASSOCIATION
罗夏信-伟途 联营

Contents

Foreword

In search of clarity

Much has changed since we published our white paper in 2023, *From Uncertainties To Opportunities: How lawyers can support Asia's transition to a low-carbon economy*.

In many respects, progress on decarbonisation has accelerated. About US$840 billion was invested in low-carbon technologies across Asia Pacific in 2023.[1] China alone is building more wind and solar power capacity than the rest of the world combined.[2] As of September 2024, 14 jurisdictions in Asia had either adopted or announced plans to introduce mandatory sustainability disclosure requirements.[3]

Yet progress is rarely a straight line. In the US, a deepening backlash against some elements of ESG has raised questions over the direction of policy under the incoming Republican administration. The European Union has imposed tariffs on imports of Chinese-built electric vehicles. Launches of new ESG-labelled investment funds have cooled. This year's survey aims to provide insight into how businesses in Asia are approaching this evolving landscape.

While mandatory requirements around energy efficiency or fuel usage are pushing companies to decarbonise, many complain that disclosure rules are an expensive burden. Others are holding back investments because they worry about accusations of greenwashing.

Legal practitioners have a clear role to play in helping businesses navigate these pressures with confidence.

We are grateful to the 93 clients who provided anonymous responses to our online questionnaire. And we are especially grateful to the clients who took the time to engage in a deeper conversation as part of our editorial panel, sharing their perspectives on some of the key findings and other developments.

The editorial panel comprised practitioners in financial services, consumer goods, real estate and shipping, representing a cross-section of different industries:

- **Tabitha Logan**, Director – Projects, Cetus Maritime
- **Andrew Lau**, Director, ESG Advisory, Colliers
- **Justin Woo**, Director, Hong Kong Yakult
- **Nana Li,** Head of Sustainability and Stewardship, Asia Pacific, Impax Asset Management

We hope you find the insights useful.

About US$840 billion was invested in low-carbon technologies across Asia Pacific in 2023.

1 BloombergNEF, October 2024
2 IEA, October 2024
3 S&P Global, September 2024

ASIA ESG SURVEY 2024

Common goals, contrasting approaches

This year's survey confirmed that businesses continue to attach a high level of importance to ESG and sustainability. More than eight out of 10 respondents (84%) have adopted ESG or sustainability policies in their business, and a majority are increasing their investment in ESG or sustainable activities. Some 63% of the respondents in this year's survey expect to increase their spending on ESG/sustainability in the next 12 months pointing to encouraging signs of progress in Asia's corporate sector.

"Even though we, as a private company, do not have similar laws and regulations applicable to listed companies around ESG, I think it is the right way to move forward. Sustainability and environmental protection is a duty and responsibility for all firms, big or small," said Justin Woo, Director at probiotics drinks maker Hong Kong Yakult Co. Ltd.

Notably, almost three quarters (72%) of respondents in the shipping industry expected to spend more on ESG in the year ahead.

Respondents from the financial services sector, meanwhile, were in comparison less likely to be spending more on ESG. Against a tougher backdrop for sustainable investments, businesses appear to see little benefit from green or sustainable financing.

Nana Li, Head of Sustainability and Stewardship for Asia Pacific at Impax Asset Management, argues that ESG themes remain attractive. "It's difficult to quantify spending on ESG, because mostly it's about compliance rather than capital expenditure, but there has definitely been a deterrent effect with asset managers withdrawing from net zero initiatives," she said. "We don't worry too much about this, because we see financial returns. We will always continue on this path, because we believe in the opportunities from this transition."

WILL YOU INCREASE FUNDING FOR ESG/ SUSTAINABILITY ELEMENTS IN THE COMING YEAR?

63% YES — OF WHICH — 72% SHIPPING

A powerful regulatory push

The survey also found that the desire to make a positive impact is the top driver of sustainable initiatives, with 76% of all respondents associating this with green and sustainable development. That echoes the findings of the 2023 report, where interviewees agreed unanimously with the need for sustainable development. The majority of respondents (55%) also connected sustainability with a desire to meet their clients' expectations.

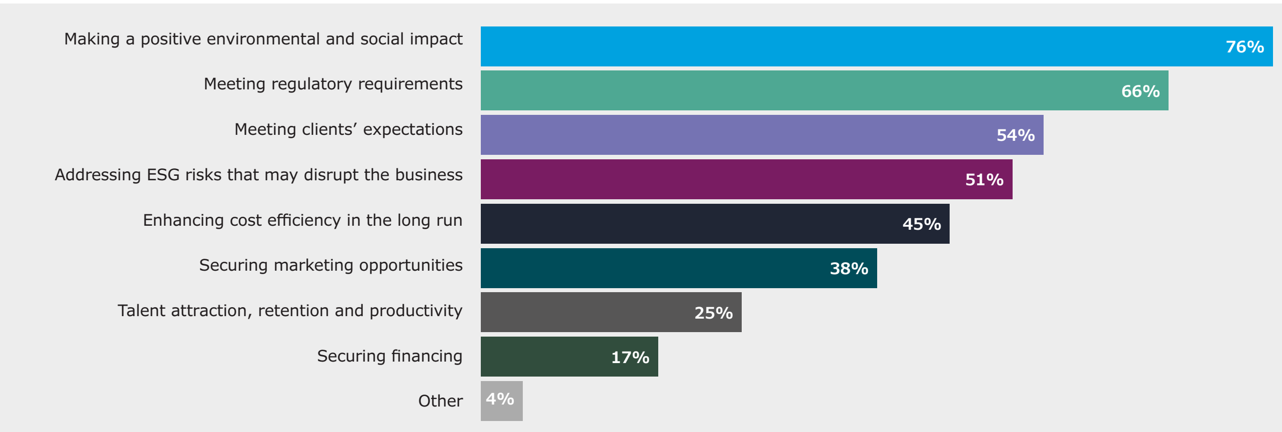
As part of its sustainability initiative, Hong Kong Yakult has installed solar panels above its production facility in Hong Kong.

"The driver for us is really cost saving and potential income generation from selling surplus electricity to the grid. We also anticipate that the Hong Kong government will implement a plastic tax in the future, and that will create a future budget issue" said Woo. "We will need to plan for that, and it's better to start early."

Regulation remains a powerful motivating force. More respondents associated green and sustainable development with meeting regulatory requirements than meeting clients' expectations or saving costs.

Regulatory requirements have continued to increase since the publication of the 2023 paper, when interviewees questioned whether they had "teeth". Many businesses are now required to disclose climate-related information – in some cases including full details of their carbon footprint across Scope 1, 2 and 3 emissions (direct, energy-related and those produced in their value chain, respectively). In Australia, after the passing of legislation in September 2024, new reporting standards will come into force for the biggest companies from January 1 2025 and for smaller businesses from 2027.[4] Hong Kong, meanwhile, will require all listed companies to report their Scope 1 and Scope 2 emissions from 2025 onwards.[5] Singapore[6] and Malaysia[7] will also require more detailed disclosure from 2025.

What does green and sustainable development mean to your company?



4 KPMG, Reporting update, September 2024
5 HKEX, Conclusions on climate disclosure requirements, April 2024
6 SGX, Sustainability reporting
7 National Sustainability Reporting Framework

Respondents in the shipping sector are especially concerned about regulation. In the 2024 survey, several said they would like to know more about new rules, including FuelEU Maritime, which will be implemented from 1 January 2025 to increase the use of low-carbon fuels in international maritime transport within the EU.

Tabitha Logan, Director – Projects at shipowner Cetus Maritime, sees regulation as a necessary first step."Initially, regulation has been the driving force, but the cost component follows very closely. There is a lot of pressure through the supply chain to mitigate the cost of compliance where possible," she said. "We actually see an opportunity here to offer compliance as a service to help our clients meet their own sustainability goals."

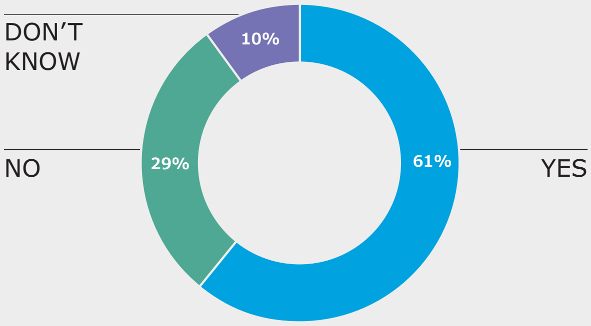
The real estate sector is also facing stricter regulations. In South Korea, for example, new developments must meet zero-energy building (ZEB) standards, while other markets such as Singapore are introducing carbon taxes to encourage decarbonisation.

"These are very, very meaningful," said Andrew Lau, Director, ESG Advisory, at Colliers. "Some companies haven't thought about it before, but now with carbon taxes coming, they are finally getting their CFO to take a serious look."

Real estate owners are also responding to their clients' preference for green certification. In a weak market, such as Hong Kong, more landlords are seeing this as a necessity, Lau said.

Access to finance, meanwhile, ranked low on the list of motivations, with only 17% of respondents connecting this to green and sustainable development. With investors still looking for sustainable assets, this implies that there is more work to do in convincing businesses of the benefits of green or sustainable financing.

IS CLIMATE CHANGE A FUNDAMENTAL RISK TO YOUR BUSINESS?



"I think Hong Kong is doing its part, but there is always room for improvement. We don't yet have a comprehensive ESG-related set of laws and regulations, which I think would be a good thing. Disclosure requirements for listed companies are a first step in that direction."

– Justin Woo

"Mandatory disclosure is coming, but the penalty is not there. It's not material."

– Andrew Lau

The need for collaboration

While new disclosure rules aim to make it easier for businesses and investors to assess ESG risks and opportunities, there is little evidence that the information gap is closing. This year's survey ranked inadequate data – both on ESG metrics and the commercial returns of ESG investments – as the biggest hurdles for companies looking to integrate sustainable practices.

This mirrors the sentiment shared by interviewees in the 2023 report, when asset managers in particular highlighted the lack of complete and reliable ESG-related information from listed companies as a hurdle to investment decisions.

Li at Impax welcomed the introduction of mandatory climate reporting in many markets. "We are definitely getting more disclosures from companies, which is good. The question really is how much of that is meaningful," she said. "In many cases, we still don't have the data that we need."

Logan at Cetus sees significant room for improvement when it comes to transparency in the shipping sector. "There are concerns around greenwashing and marketing strategies that exaggerate environmental commitments. As an industry, we need to ensure that we don't lose credibility and that we are really making meaningful changes," she said.

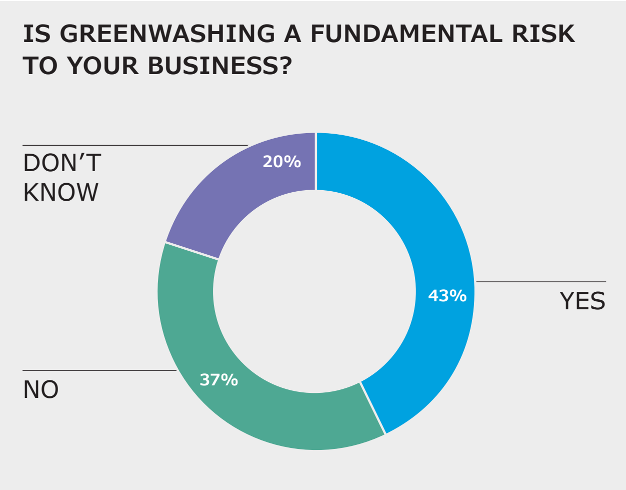
While stricter disclosure rules will help in that respect, a number of businesses still lack the clarity they need to justify green and sustainable expenditure. In the shipping sector, for example, respondents highlighted the need for guidance from the IMO Marine Environment Protection Committee (MEPC) on near-term fuel standards, as well as uncertainty over which low-carbon fuels will ultimately carry the industry towards net zero emissions.

"There are concerns around greenwashing and marketing strategies that exaggerate environmental commitments."

– Tabitha Logan

Top 3 key obstacles in incorporating ESG/sustainability elements

46%	46%	33%
Insufficient data for demonstrating ESG/sustainability impact	Lack of systemic methods to prove the business return	Lack of government incentives and guidelines



"It's quite hard to measure the success of ESG initiatives when you might not see the results for some time," said Logan at Cetus.

The wave of disclosure regulations and the inclusion of maritime emissions in the EU Emissions Trading System (ETS) from 2024 also adds costs and complexity for shipping companies who operate in the EU. "It has been complete chaos with EU ETS and FuelEU, with all the different rules, reporting requirements and holding accounts needed," said Logan. "That's where legal advice has been really helpful."

The 2024 survey also highlighted concerns over the scrutiny of Scope 3 emissions, which are often outside of a company's control. For shipowners, for example, Scope 3 includes emissions produced when the ship is built, while logistics and trading businesses must consider those generated in the transportation of their goods. The choice of fuel, route, speed and availability of green shore power can all impact the calculation. A number of respondents highlighted the challenge of integrating ESG into their commercial contracts. With Scope 3 emissions coming into sharper focus, and with an increasing number of EU regulations that could require funds or companies in Asia to comply with EU disclosure or due diligence requirements, businesses will need to work with their suppliers and customers to bring about positive change across the value chain.

"Access to data is a real challenge – especially for bulk carriers who are dealing with less-established ports and a range of smaller suppliers," said Logan.

The challenge of measuring and reducing Scope 3 emissions is not limited to any particular sector: respondents from the maritime, real estate and logistics industries all raised this as an issue. Scope 3 emissions also present a challenge for all businesses, irrespective of size, because of the need to measure the performance of other parties in their value chains.

Andrew Lau at Colliers cautions that some businesses are using the complexity of Scope 3 data as a convenient excuse. "The challenge is never a technical one. It can be done. The challenge is the people who don't think they need to do it," he said.

"As an owner, we're not getting a lot of requests for emissions data from our supply chain."

– Tabitha Logan

Keeping pace with progress

In an uncertain world, the findings of the latest survey are notable for their consistency with the 2023 white paper. While attitudes to ESG continue to evolve, the survey again revealed a strong commitment to decarbonisation and sustainable development across a range of industries and multiple jurisdictions. This should not come as a surprise: over 3,000 companies in Asia Pacific have already set robust plans to reduce their emissions, according to the Science Based Targets initiative (SBTi).[8]

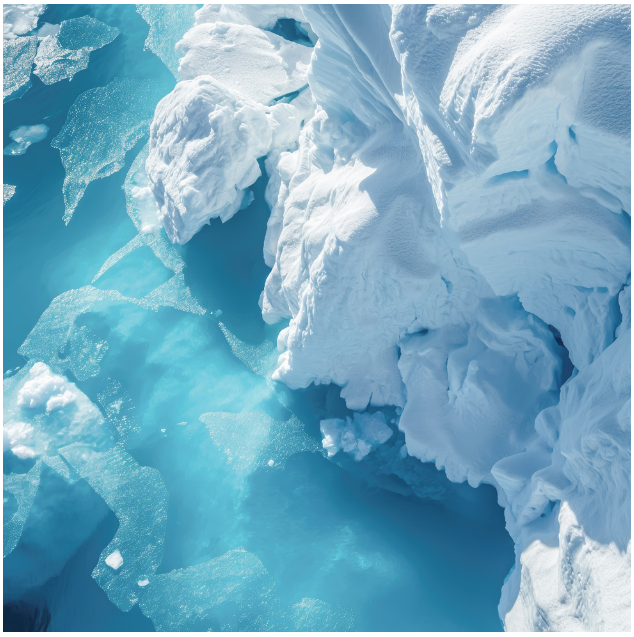
A number of interviewees expressed concern about declining global engagement on sustainability and climate change. The US, in particular, is in focus with the return of president-elect Donald Trump, who took the US out of the Paris Agreement on climate change during his first term in office.

Nana Li, who attended the COP29 climate summit in Baku, Azerbaijan, in November, believes the trend towards a more sustainable future will remain intact. "A lot of countries, like China, have made a lot of progress on decarbonisation already, and it's natural for their own economic transition to remain on this path," she said.

While decarbonisation remains a priority, interviewees also emphasised the importance of social and governance-related factors. Logan at Cetus has noticed a growing focus on governance in the shipping sector as businesses look to tackle emerging risks and future-proof their operations in an era of rapid technological change.

"In our most recent external materiality assessment, the top three concerns for our clients and service providers were responsible business conduct, cybersecurity, and training and development," said Logan. "We will see a big push on cybersecurity and data privacy in 2025."

The 2024 survey also confirms the need to pay close attention to regulation in this fast-changing environment. The international regulatory push for mandatory disclosure and due diligence obligations will only continue to grow, while efforts to consolidate and improve interoperability are addressing the long-standing challenge of the "alphabet soup" of ESG standards and frameworks, such as with the adoption of the International Sustainability Standards Board's disclosure requirements and the upcoming implementation of the EU Corporate Sustainability Due Diligence Directive into local law in the EU Member States. Businesses, especially those with an international footprint, will need to start taking steps now to navigate this changing regulatory landscape, get ahead of the curve and manage their legal risks.



"A lot of countries have made a lot of progress on decarbonisation already, and it's natural for their own economic transition to remain on this path"

– Nana Li

8 SBTi, accessed 15 November 2024

STEPHENSON HARWOOD
WEI TU CHINA ASSOCIATION
罗夏信-伟途 联营

Contact us

Andrew Rigden Green

Partner, Dispute resolution

Energy transition team – Asia Lead

andrew.rigdengreen@shlegal.com

Penelope Shen

Partner, Investment funds

Energy transition team – Asia Lead

penelope.shen@shlegal.com

Janice Yau Garton

Partner, Real estate

janiceyau.garton@shlegal.com

Tze-wei Ng

Associate, Private wealth

tzewei.ng@shlegal.com

Produced and designed by Ashbury Communications