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Sustainability Insight – unravelling regulatory complexity

Key policy and regulatory developments: October 2024

Sustainability Insight is designed to keep you up to date with the key emerging sustainability-related regulatory developments.

The newsletter is produced by Deloitte's EMEA Sustainability Regulation Hub, supported by RegMiner.ESG, Deloitte's market-leading digital compliance platform.

Recent publications

- Sustainable aviation fuels (SAF) in Europe: Is your company on top of the regulatory landscape and how can policy shape SAF deployment and opportunities?
- Closing the loop for textiles
- Financing the UK net zero transition - How the National Wealth Fund and policy recommendations from the Transition Finance Market Review will steer progress

The information in this newsletter is organised into three sections: **Key developments** highlight the most significant updates and their impact on companies. **Other developments** include additional news items that may be of interest. **Key timelines** provide the timing of recent events and announcements to help readers quickly grasp important regulatory events.

Key developments

European Commission published proposal to delay to the EUDR, alongside additional implementation guidance, 2 Oct

The European Commission proposed a 12-month delay to the application deadline for the EU Deforestation-free Regulation (EUDR), shifting it to 30 December 2025 for large and medium companies and 30 June 2026 for micro- and small enterprises. The Council approved the delay on 16 October, while the European Parliament is expected to vote on the delay on 13 or 14 November.

Alongside this proposal, the Commission also published additional guidance and updated its EUDR webpages to support companies and authorities preparing for the new regulatory requirements.

What is the impact?

The extension of the EUDR deadline provides companies with additional time to develop a more strategic response to the EUDR requirements, enabling them to embed their compliance solutions into their strategy and organisational processes more effectively. While recent EU guidance offers some clarity, uncertainties persist so a flexible, risk-based approach is needed for implementation. Companies should leverage existing EUDR efforts to kickstart compliance with the CSDDD and explore synergies with other sustainability legislation, such as the CSRD, to streamline processes, reduce costs, and establish a comprehensive risk and compliance strategy.

Key Standards for UN Carbon Market Finalised Ahead of COP29, 10 Oct

The Article 6.4 Supervisory Body (the group responsible for creating the UN carbon market under the Paris Agreement) agreed on crucial standards at the UN Climate Change meetings in Baku, held before COP29, to operationalise the new Paris Agreement Crediting Mechanism. The mechanism aims to support a robust, adaptable carbon market that can be used by countries to meet their climate targets. These key standards relate specifically to the methodologies for assessing and implementing greenhouse gas (GHG) reduction projects and requirements for projects involving GHG removals from the atmosphere. Under the new standards, project developers will be required to identify and address potential negative environmental and social impacts, and outline how projects contribute to sustainable development goals.

What is the impact?

The agreement on these standards will help the carbon market become more robust and agile. The standards define the minimum requirements for carbon removal projects seeking accreditation under the mechanism by providing clearer and more stringent guidelines. The standards will contribute to a level playing field in carbon removal projects, especially in the EU, where projects approved under the upcoming the Carbon Removals Certification Framework will have the most stringent criteria.

Council approves conclusions ahead of COP29, 8 Oct

The Council of the EU approved the EU's climate finance commitments ahead of the United Nations framework convention on climate change (UNFCCC) meeting in Baku, Azerbaijan, from 11 to 22 November 2024 (COP 29). The Council's approval indicates two key aspects for the EU and developing countries respectively:

- In its approval, the Council expressed strong support for establishing a new, ambitious climate finance goal for the post-2025 period. Aligning with this stance, the European Parliament adopted a resolution on 21 October calling on COP29 to set a socially fair, post-2025 climate finance goal grounded in the polluter-pays principle and funded by diverse sources. The resolution further urges countries to continue phasing out fossil fuels and related subsidies, building on previous COP commitments.
- The Council reaffirmed the EU and Member States' commitment to the existing target for developed countries to jointly mobilise $100 billion annually in climate finance through 2025.

What is the impact?

The Council's conclusions and the Parliament's resolution reflect a coordinated effort to address climate finance and sustainability while advancing the decarbonisation of the economy and unlocking investments. This is also consistent with the EU's prior commitments and priorities for the new Commission, including the Commission President's political guidelines, the Draghi Report, and the Commissioner-designate mission letters.

UK Government Green Paper on its Industrial Strategy, 14 Oct

The UK Government published a Green Paper outlining its plans for a new industrial strategy for the UK, alongside further detail on the National Wealth Fund (NWF). The Industrial Strategy itself will be published in Spring 2025 (alongside the Government's spending review) and will set out a 10-year plan for eight priority sectors with the aim of delivering the certainty and stability of government policy needed for businesses to invest. Clean energy industries and advanced manufacturing are identified as two of eight high-growth sectors that the Industrial Strategy will focus on. The Government believes that its Clean Energy Mission will enable the UK to achieve clean power by 2030.

What is the impact?

The Government's Green Paper seeks to address longstanding business concerns that have been hindering investment and innovation in the UK, such as unclear industrial policies, burdensome regulations, insufficient financial support, and a shortage of skilled workers. The papers on the Industrial Strategy and the NWF represent an important first step in setting out the Government's growth agenda and mobilising the financing required for the UK's transition to net zero. Companies have an opportunity to engage with the Government – including via roundtables and other conversations – to flesh out specific actions for inclusion in the final Industrial Strategy.

Other developments

TNFD and GFANZ publish complementary draft guidance on incorporating nature into transition planning, 27 Oct

The Glasgow Financial Alliance for Net Zero (GFANZ) and the Taskforce on Nature-related Disclosures (TNFD) published two draft guidance documents on nature in transition planning. The GFANZ draft guidance supplements the existing GFANZ Net-Zero Transition Plan Framework and aims to help financial institutions incorporate nature-related considerations into their net zero transition plans. The TNFD discussion paper provides guidance on how corporations and financial institutions can develop and disclose nature-related transition plans. The documents are now subject to consultation, with final versions expected to be published in Q1 2025.

European common enforcement priorities for 2024 corporate reporting, 24 Oct

The European Securities and Markets Authority (ESMA) published its annual Public Statement setting out its own and European enforcers' priorities for 2025. The document includes priorities related to sustainability statements:

- Companies reporting under the European Sustainability Reporting Standards (ESRS) are advised to follow the European Financial Reporting Advisory Group's (EFRAG) Implementation Guidance on materiality. This includes providing disclosures related to their materiality assessments and emphasising transparency around stakeholder engagement.
- Sustainability statements should include information on material impacts, risks and opportunities (IROs) across the company's value chain, with transitional relief available for value chain data in the first three years of reporting.
- Issuers must use templates under Article 8 of the Taxonomy Regulation, unless no relevant activities exist, assess eligibility and alignment across multiple objectives (highlighting the primary objective), and link financial statements to turnover and CapEx KPIs.

ESAs Joint Committee to focus on sustainability disclosures in 2025, 7 Oct

In their 2025 work program, the European Supervisory Authorities (ESAs) will prioritise promoting sustainability within the EU financial system. The Joint Committee will develop Regulatory Technical Standards for the Sustainable Finance Disclosures Regulation (SFDR), provide further guidance on sustainability disclosures, and a report on principal adverse impacts (see entry below). In addition, the ESAs are likely to start working on technical standards for ESG rating disclosures, under the ESG Ratings Regulation.

ESAs publish 2024 Report on disclosures under the Sustainable Finance Disclosure Regulation, 30 Oct

The ESAs published their third annual report on disclosures of principal adverse impacts made by financial institutions under the Sustainable Finance Disclosure Regulation (SFDR). The report finds positive progress on the level and quality of the disclosures, and that they are becoming more accessible to retail investors. However, the level of compliance is not yet fully satisfactory. The report also indicates that the Commission could consider the report's findings as part of a comprehensive assessment on the functioning of the SFDR.

ESMA published its first annual report on EU Carbon Markets, 7 Oct

In its 2024 report on EU Carbon markets, ESMA analyses the EU Emissions Trading System (EU ETS). The report finds that prices in the EU ETS have declined since the beginning of 2023, averaging EUR 83 per tonne of CO2-equivalent emissions during the year, due to weak industrial demand, lower natural gas prices, and increased auction supply. It also notes that ten participants purchase 90% of the auctioned allowances, which is driven by most EU ETS operators preferring to source allowances from financial intermediaries. Lastly, secondary markets see a significant trading volume of emissions allowances through derivatives. This trend aligns with the EU ETS compliance cycle, whereby non-financial companies typically hold long positions in these derivatives to meet their compliance obligations. Conversely, banks and investment firms often take short positions, participating in the market from a trading and risk management perspective.

CFRF publishes guides on climate risk, 10 Oct

The Climate Financial Risk Forum (CFRF) published guides on three key areas of climate and nature-related risk:

- Nature risk management: handbook for financial institutions. Provides an introduction for financial institutions to help frame nature as a risk and discusses emerging practices in incorporating nature into financial risk management.
- Short-term scenario analysis. Discusses short-term scenarios for banks, asset managers and insurers.
- Mobilising adaptation finance. Provides guidance for the industry to assess physical risks and to facilitate greater levels of investment in climate adaptation measures and capitalise on new opportunities.

Climate Bonds Initiative and European Covered Bonds Council Join Forces to certify bonds in line with the EU Taxonomy, 7 Oct

The European Mortgage Federation - European Covered Bond Council (EMF-ECBC) and the Climate Bonds Initiative have partnered to boost transparency, disclosure, and investment in energy-efficient finance. Their focus will initially be on Germany, France, Ireland, and Hungary but will extend over time. The partnership seeks to establish standards to align covered bonds with EU Taxonomy requirements. Its aim is to enhance market credibility and support issuers in embedding sustainability into their bond programs to broaden investment opportunities, and raise awareness of the benefits of sustainable covered bonds that meet EU sustainability goals.

EU imposes duties on unfairly subsidised electric vehicles from China, 29 Oct

The Commission imposed definitive countervailing duties on Chinese battery electric vehicles (BEVs) for five years. The decision follows an investigation that concluded unfair subsidies in the BEV value chain in China were harming EU producers. Duties range from 7.8% to 35.3%. The EU and China are exploring alternative solutions, and the Commission is open to negotiating price undertakings. The measures will be monitored for effectiveness and circumvention, with options for individual duty rate reviews and importer refunds.

The Commission invests €4.8 billion in innovative net-zero projects, 23 Oct

The Commission has allocated €4.8 billion to 85 innovative net-zero projects across 18 countries. The projects are set to enter into operation before 2030. This marks the largest funding round from the Innovation Fund since its 2020 launch, bringing total support for net-zero projects to €12 billion. These projects, spanning renewable energy, industrial decarbonisation, and sustainable transport, aim to reduce CO2 emissions by 476 million tonnes over ten years. Separately, the EU's Innovation Fund has also granted over €690 million to seven renewable hydrogen projects, supporting the European Hydrogen Bank's goal of boosting supply and connecting it to consumers.

The Commission issues guidance on phasing out financing for stand-alone fossil fuel boilers from 2025, 17 Oct

The Commission issued the first in a series of guidance documents to support EU countries in transposing and implementing the revised Directive on the Energy Performance of Buildings into national law. The guidance clarifies the obligation to discontinue any financial incentives for installing new fossil fuel-powered stand-alone boilers from 1 January 2025. Incentives for hybrid systems using significant renewable energy are excluded. The revised Directive aims to achieve a fully decarbonised building stock by 2050, with most provisions expected to be transposed by 29 May 2026.

The Council adopts updated product liability rules, 10 Oct

The Council formally adopted the updated Directive on liability for defective products. The revised Directive broadens the definition of "products" to encompass digital offerings such as software and online platforms engaged in product sales. It also clarifies liability regulation, and holds companies or individuals accountable for product defects arising from modifications made outside the original manufacturer's purview. This clarification will further help companies navigate liability concerns under the Right to Repair Directive, which requires manufacturers to provide repair services or ensure these are made available to consumers at affordable prices.

Council urges action to tackle desertification in the EU, 14 Oct

The Council has urged the Commission to propose a comprehensive EU-wide action plan to tackle desertification, land degradation, and drought (DLDD) across the EU by 2030. The Council stresses the need for coherent financing strategies, including reviewing existing funding and exploring private and mixed sources. The Council advocates making agriculture and food systems more sustainable and drought resilient, guided by agroecological principles. Furthermore, it underscores the importance of global collaboration and synergistic implementation of UN conventions on biodiversity, climate change, and desertification.

UK Government confirms introduction of UK Carbon Border Adjustment Mechanism, 30 Oct

The UK Government confirmed it will introduce a UK Carbon Border Adjustment Mechanism (UK CBAM) from 1 January 2027. The UK CBAM will place a carbon price on the most intensive goods imported into the UK from the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors. Following industry feedback, the UK CBAM will not include products from the glass and ceramics sectors, as originally proposed. The scope of the scheme, however, will be kept under review after 2027. As a next step, the Government will establish an industry working group in the "near future".

Key timelines	
Revision of the Ambient Air Quality Directives	• On 14 October, the Council of the EU formally adopted the final text of the Directive revising the Ambient Air Quality Directives.*
Platform Work Directive	• On 14 October, the Council of the EU formally adopted the final text of the Platform Work Directive.*
Revision of the Regulation on the classification, labelling and packaging of chemical substances (CLP)	• On 14 October, the Council of the EU formally adopted the final text of revision of the CLP Regulation.*
European Product Registry	• On 22 October, digital identity verification became mandatory for all suppliers registering their product

for Energy Labelling (EPREL)	models in the EPREL as part of secondary legislation adopted in April 2024 under the Energy Labelling Regulation.

* The text will shortly be published in the EU Official Journal

Sustainability Insight is a monthly newsletter to keep you up to date with key sustainability-related regulatory developments in the EU. The newsletter focuses on the EU Green Deal and EU institutions, but also includes selected international and national developments where they provide context for EU developments. The developments covered are intended to be used for broader general awareness and do not imply any form of advice from Deloitte.

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About the EMEA Sustainability Regulation Hub

The EMEA Sustainability Hub is a source of critical regulatory strategy insight and advice, designed to help business leaders understand and assess how sustainability regulation will drive the evolution of business strategies and operating models. As sustainability regulatory requirements and standards expand, it is essential to adopt a strategic approach to navigate the complexity, and to engage with regulators proactively. We develop early insights across industries on emerging EU sustainability regulations, policies, industry standards and codes of conduct to help you assess how best to transform strategies and operating models.

About RegMiner.ESG

RegMiner.ESG helps firms to optimise the management of regulatory adherence. RegMiner is designed by risk and compliance professionals and helps firms establish traceability and transparency, transform how they manage thr risks, and achieve cost efficiencies by digitising the regulatory lifecycle into a single platform.

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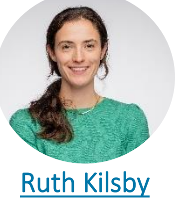

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