KPMG

CSRD Implications on Decarbonization Strategies

How are maritime companies embedding decarbonization in their reporting and strategic steering?

26 March 2024

ESRS E1 sets clear requirements for companies on how to structure their climate-related efforts

Governance and strategy

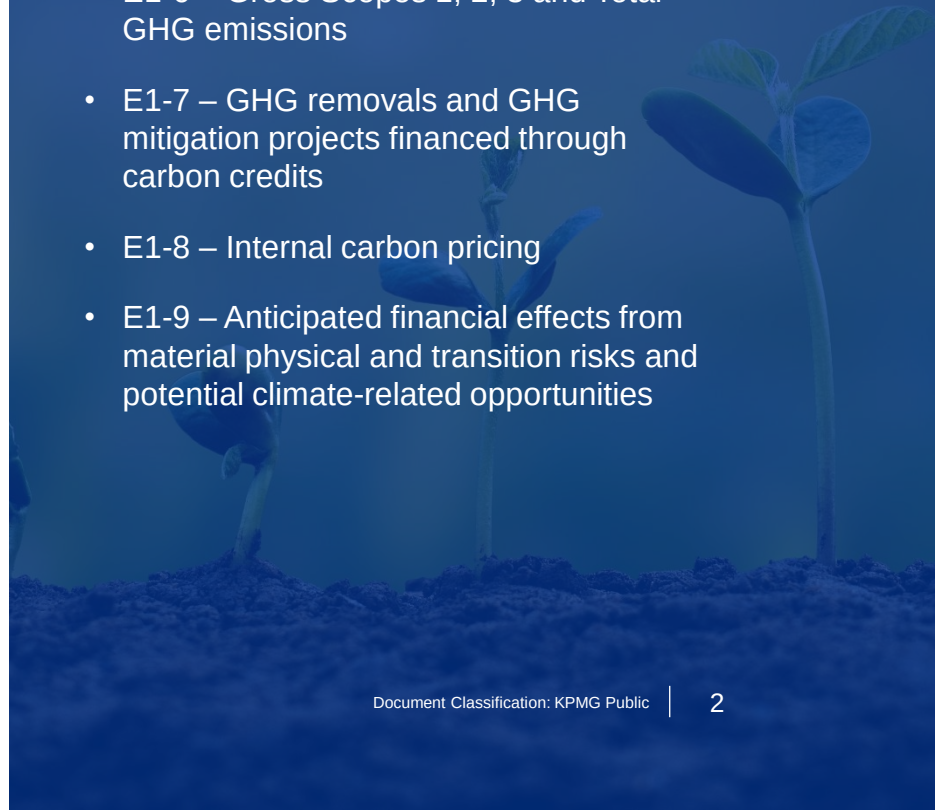
- DR related to ESRS 2 GOV-3 Integration of sustainability-related performance in incentive schemes
- E1-1 – Transition plan for climate change mitigation
- DR related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

Impact, risk and opportunity management

- DR related to ESRS 2 IRO-1 – Description of the processes to identify and assess material climate-related impacts, risks and opportunities
- E1-2 – Policies related to climate change mitigation and adaptation
- E1-3 – Actions and resources in relation to climate change policies

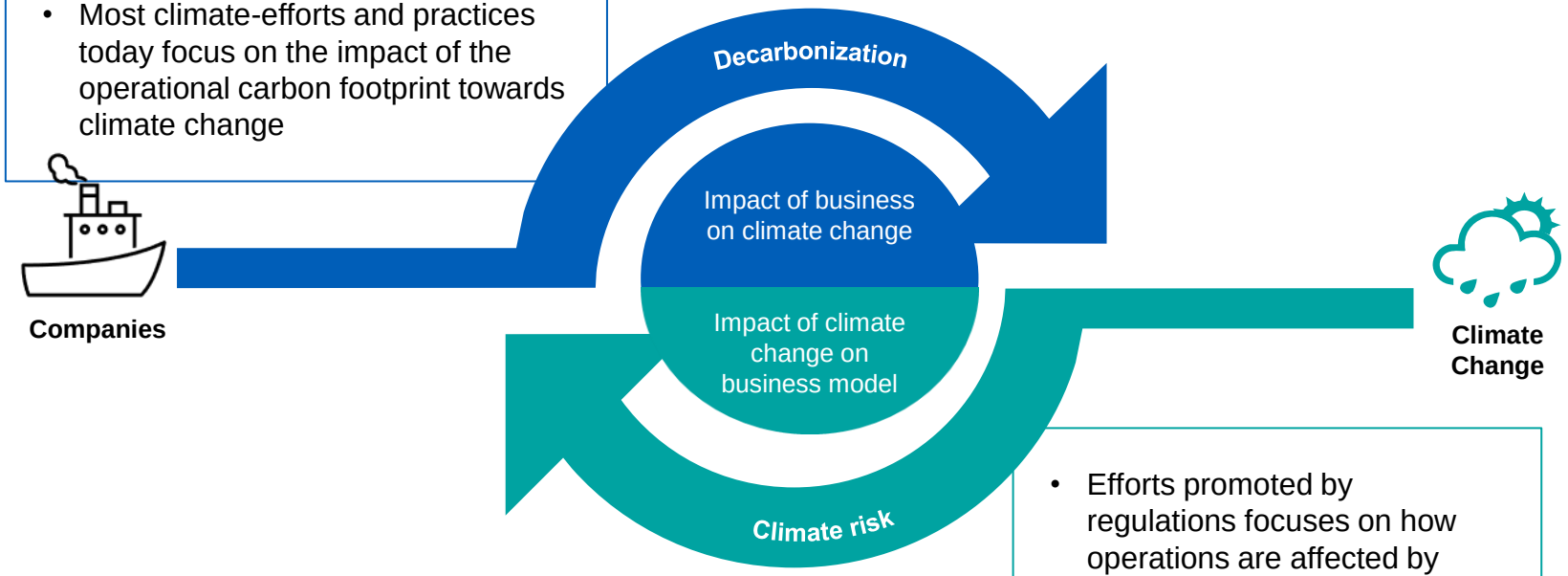
Metrics and targets

- E1-4 – Targets related to climate change mitigation and adaptation
- E1-5 – Energy consumption and mix
- E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions
- E1-7 – GHG removals and GHG mitigation projects financed through carbon credits
- E1-8 – Internal carbon pricing
- E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities



Companies are required to have a holistic approach that considers both external and internal factors

- Most climate-efforts and practices today focus on the impact of the operational carbon footprint towards climate change



- Efforts promoted by regulations focuses on how operations are affected by climate-related risks and opportunities

Add to that, pressure to decarbonize is increasing in the sector

Regulatory

- **Paris Agreement 1.5°C reduction pathway**
- **IMO** energy efficiency and carbon intensity schemes; intensity GHG reduction targets
- **EU ETS** inclusion of maritime sector by 2027
- **National systems / regulations** – differences between nations, with EU leading the way

Business

- **Higher energy/regulatory costs** to be expected if there is no investment in decarbonization/sustainability
- **Access to capital** from banks can be constrained without action
- **Loss of competitiveness due carbon intensive asset base**

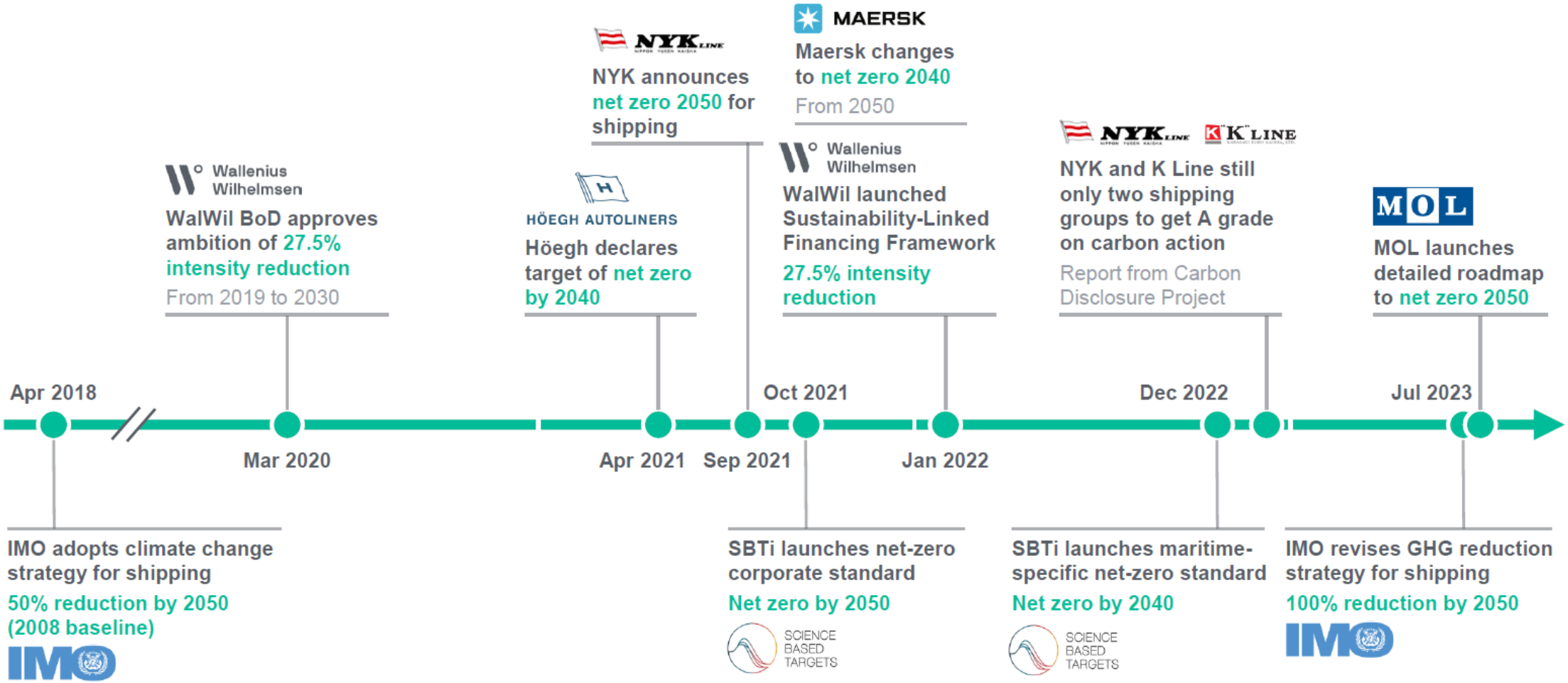
Clients / Public

- **Clients have emission targets** and are demanding their partners and suppliers to take action in line with these targets
- **Public pressure** continues to increase

Future Proofing

- **Fast-changing technologies** requires investment to remain competitive
- Penalties *tomorrow* if no action is taken *today*

IMO and Peers have stated ambitious decarbonization targets



Going from theory to practice comes with uncertainties

How to implement a decarbonization strategy ?

01

What are the business opportunities arising from decarbonization?

02

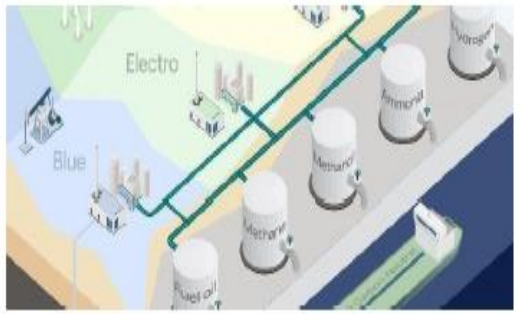
What are the costs incurred ?

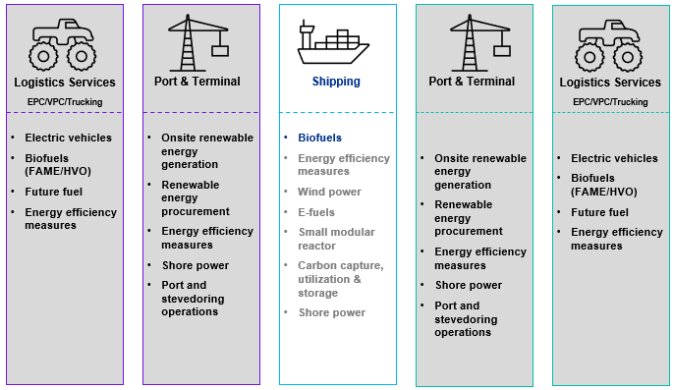
03

How to enable transformation?

04

Shipping companies are working on several initiatives





Secure new energy sources

Build end-to-end reduced carbon services

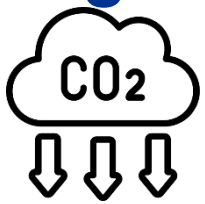
Develop new technologies

Stakeholder management - define and implement robust governance and reporting regime - roll out new contract clauses to recover abatement costs from customers - work with vendors to reduce scope 3 emissions

Maritime sector has a range of decarbonization levers to choose from over near- and long-term

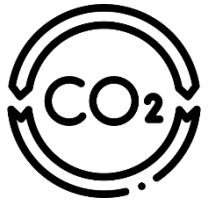
Prevention near(er) term

- **Shore power**
- **Digital optimization**
- **Energy monitoring**
- **Sail efficiency**
- **Hotel load optimization**
- **Batteries**
- **General e`fficiency upgrades** (engines, waste heat, etc.)



Reduction medium to long term

- **Bio fuels**
- **E-fuels**
- **Carbon capture, utilization, and storage**
- **Nuclear power**

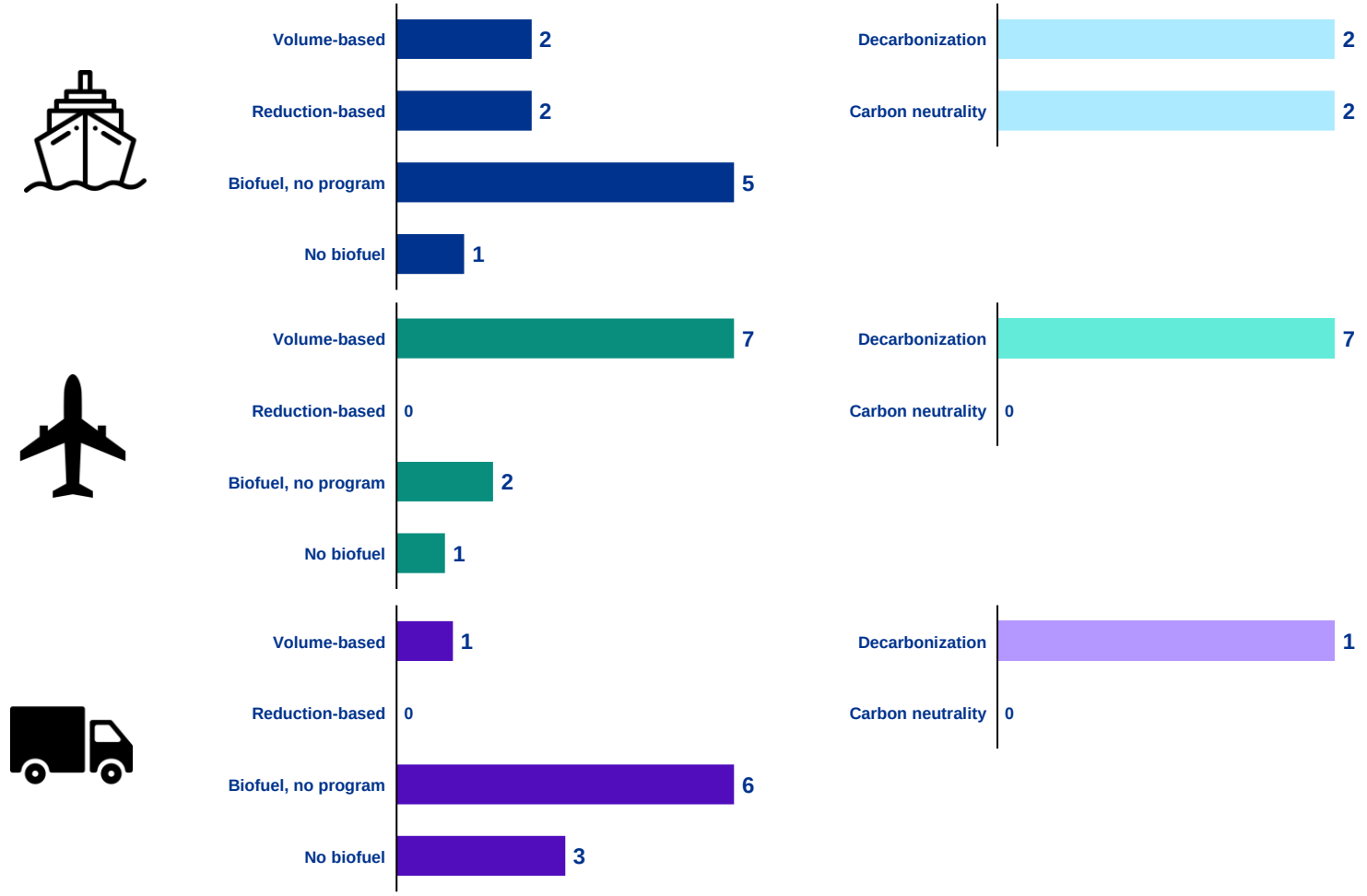


Offsetting

- Part of **last-mile GHG strategy**
- Up to 10% of residual GHG emissions can be offset on path to **net zero**
- Questions of **timing and project type** when it comes to offset procurement

Fuel Type	TRL	Availability	$	Considerations
Bio-fuel	✓	✓	✗	• Bio-fuel available in EU • Prices are expected to increase due to increased demand
E-fuel	?	?	✓	• Availability of e-fuels by 2030/35 for the shipping sector is still uncertain • Prices are expected to decrease due to increased supply

Several logistics biofuel programs are emerging, mainly based on physical reduction and volumetric systems[1]



- Among top shipping companies, the majority are currently testing biofuel use in their fleets and have not declared customer program intentions as of yet
- Among top airlines, the majority have nascent SAF programs that offer volume-based decarbonization
- This trend is expected to continue as economic recovery is a critical requirement in these early days (SAF comes at a significant premium)
- Road transport faces a different environment: most of the top companies have much of their operations within jurisdictions that offer biofuel incentives, therefore they leverage these programs rather than market program offerings to customers

Note[1] We examined the top 10 companies in each industry, therefore the data above should not be viewed as comprehensive; Note[2] CMA CGM, Hapag-Lloyd offer the two carbon neutrality products

Offsetting less favourable from standards perspective, while insetting lacks clear framework in the immediate term

	SCIENCE BASED TARGETS	GREENHOUSE GAS PROTOCOL	Analysis
Offsetting	• SBTi companies may not use offset credits for the achievement of near-term targets (2030) • SBTi allows for carbon removal offsets in the achievement of net-zero targets (2050), however this is limited to 5-10%	• The GHG Protocol states 'companies that are unable to meet GHG targets through internal reductions may use offsets generated from sources external to the target boundary' • Offset credits must be based on credible accounting standards, and avoid double counting : i.e. the purchase of an offset is the transfer of the ownership of the emission reduction in question	• **Credible offset credits lead to carbon removal rather than avoidance** • **Avoidance credits are trending to be less valuable over the long run** • **Using carbon offset credits for net zero is very limited in nature – only for last-mile GHG** • **Climate neutral claims are losing allure**
Insetting	• SBTi is studying the use of insets and working to standardize the definition of insetting projects and establish a clear accounting methodology • Currently, SBTi asseses insetting projects on a case-by-case basis during the validation process and reserves the right to not approve their use • It is likely that SBTi will follow the forthcoming guidance by the GHG Protocol	• The GHG Protocol is working on a definition for insetting • In a draft guidance, the GHG Protocol states 'companies shall avoid double counting between insets and the scope 3 inventory (e.g. by accounting for the impact of a value chain activity through scope 3 inventory accounting rather than through crediting)' • Insetting is likely to be linked to avoided emissions rather than a crediting mechanism	• **As of today, there are credibility concerns as there is no clear accounting methodology** • **Claim of avoided emissions within a Scope 3 category is likely to emerge as a credible option** • **Early signals that insetting credits will not be accepted, therefore direct physical reductions may be safer alternative**

The outside-in perspective, climate risks & opportunities assessment, is required to provide certainty to investors

TCFD/ISSB — Outside In

Topic coverage / Requirements

- Physical risks
- Transition risks

Organisations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities)…in qualitative, quantitative, or a combination of both qualitative and quantitative terms. The Task Force encourages organisations to include quantitative information, where data and methodologies allow.

EU Taxonomy — Outside In / Inside Out

Topic coverage

Objectives:

- CC adaptation
- CC mitigation
- Pollution
- Water & Marine resources
- Biodiversity & ecosystems
- Resource use & circular economy

Minimum Safeguards

Requirements

Eligible & Aligned

- % Capex
- % Opex
- % Turnover

CSRD — Outside In / Inside Out

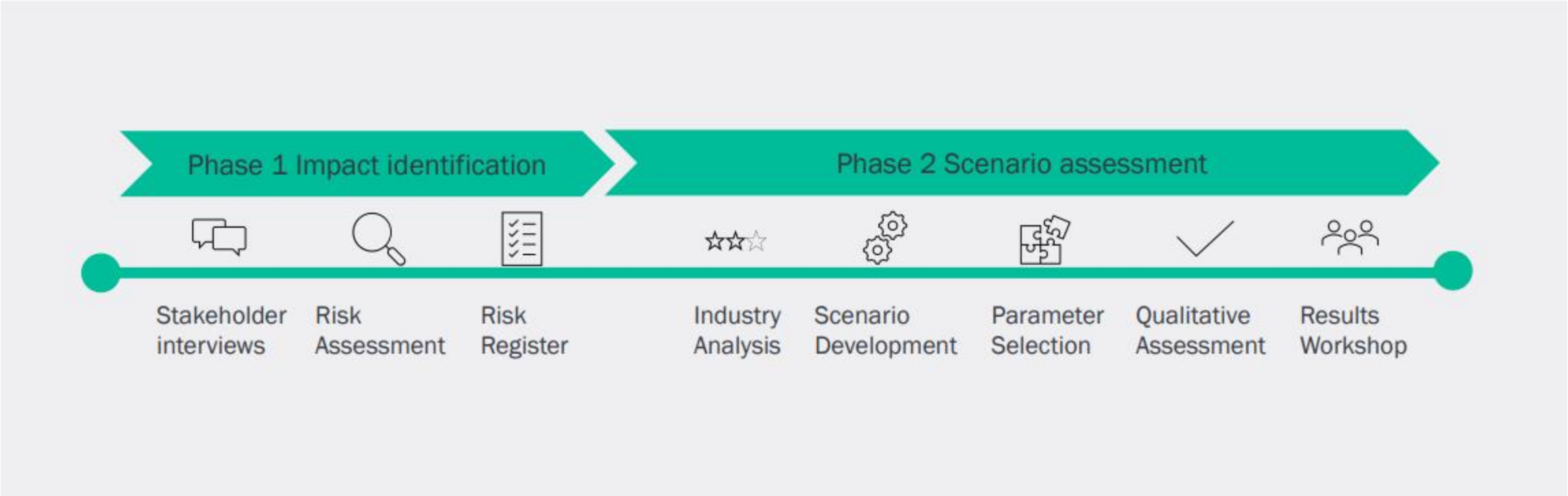
Topic coverage

- ESRS E1 Climate Change
- ESRS E2 Pollution
- ESRS E3 Water & Marine resources
- ESRS E4 Biodiversity & ecosystems
- ESRS E5 Resource use & circular economy
- ESRS S1 Own Workforce
- ESRS S2 Workers in the Value Chain
- ESRS S3 Affected Communities
- ESRS S4 Consumers & end users
- ESRS G1 Business Conduct

Requirements

- Governance
- Strategy
- Implementation
- Metrics

Climate risks & opportunities assessment is a phased process to identify vulnerabilities and develop mitigation strategies



Process KPMG followed with Wallenius Wilhelmsen

Case study - Managing climate-related events will be focus area to mitigate financial impact of climate change

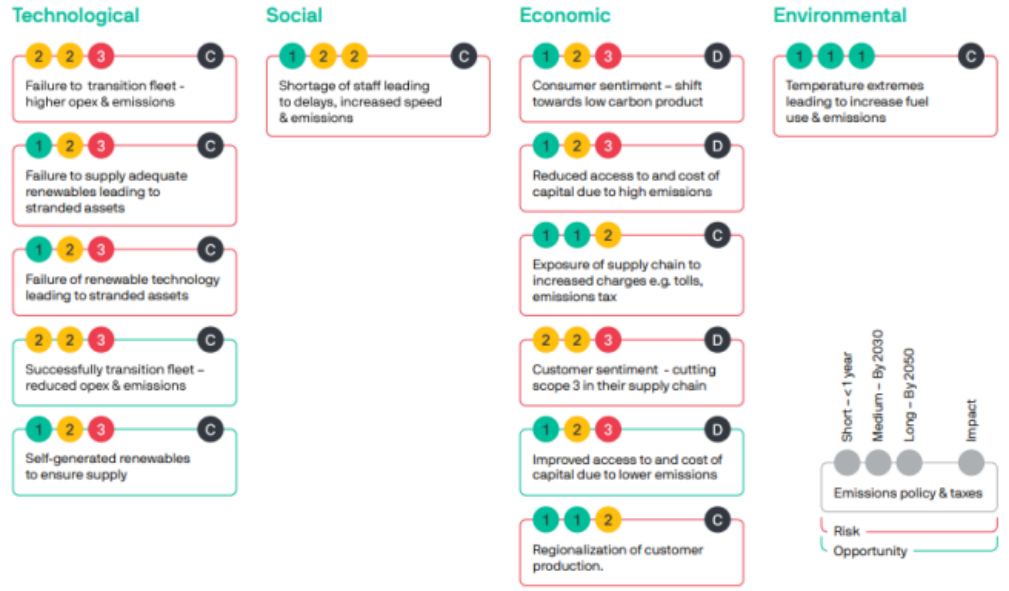
Overview – Physical Risk

Area	Sub-category	Description	Short <= 1 yr	Medium by 2030	Long by 2050	Impact
Physical	Chronic & Acute	Port Flooding	2	2	3	C
	Acute	Business Interruption/ days down due to weather events	1	1	3	C
		Increased insurance costs due to increased abnormal weather	1	1	3	C
		Increased weather-related accidents	2	2	2	D
		Heat stress on vessel crews and production workers	2	2	2	D
		Increased weather-related damage to infrastructure, cargo and equipment	1	1	2	C
		Variation of speed to make up time lost due to abnormal weather	1	1	2	C
		Increased safety requirements due to increased abnormal weather	0	1	2	D
		Increased traffic interruption due to increased abnormal weather	1	1	2	C

Explanation

Impact	C	Continuation of the use of resources	D	Dependency on the use of resources
Critical	4	Impossible, very costly or unavailable in the short term	4	Strong adverse reaction currently or very likely in the future
Significant	3	Possible, but costly in the short term, very costly or lacking in the medium term, impossible in the long term	3	Adverse reaction currently, strong adverse reaction likely in the future
Important	2	Possible in the short term, costly in the medium term, very costly in the long term	2	Negative reaction currently, adverse reaction likely in the future
Informative	1	Possible in the short, medium and log term	1	Signs of negative reaction currently in the future
Minimal	0	Without consequence in the short, medium and log term	0	Neutral / no reaction currently and likely in the future

Overview – Transition Risk



Source: Wallenius Wilhelmsen Sustainability Investor Presentation (walleniuswilhelmsen.com)

KPMG's six lessons learned

Operationalizing a climate strategy implies to involve the whole company, with adequate incentives, metrics and targets in place

A successful decarbonization journey requires a clear value proposition

Requirements evolve in a fast paced environment, agility is required to ensure that you are in line with latest changes and developments

Whilst a legal requirement, reporting under CSRD is the outcome of a broader process of operationalizing climate-related efforts

Plenty of valuable knowledge is readily available within your teams; internal connections are key to leverage it accordingly

Decarbonization is an iterative process; trial and error is to be expected and what works for some might not end up working for you


Questions?

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