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Key Sustainability Trends to Watch

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Introduction

The world has experienced several extreme weather events against the backdrop of the warmest year in recorded history in 2023 and 1H24. Heatwaves and floods were featured in headlines frequently, with spiralling impacts on economies and communities. The UN Climate Change has assessed that the world is not on track to meet the goals of the Paris Agreement, as existing national climate action plans are insufficient to limit global temperature rise to 1.5°C. Stepping into the second half of 2024, this report elaborates on three key sustainability trends to watch in 2024 amidst ongoing economic uncertainty and climate anxiety.

1. Mandatory climate reporting becoming mainstream

Reporting on climate risks and emissions is becoming a norm for many companies, especially when governments are increasingly transitioning from a comply-or-explain basis to mandatory climate reporting. Some investors are calling for mandatory climate reporting on companies' green transition plans to improve transparency and accountability.

Businesses are increasingly seeing climate reporting regulations and supportive capacity building initiatives, including in Singapore and Malaysia. All listed companies in Singapore will be required to make climate-related disclosures from FY25 based on local reporting standards aligned with the International Sustainability Standards Board. These requirements will also apply to large non-listed companies from FY27. To support companies through the changing regulatory landscape, authorities are rolling out a Sustainability Reporting Grant to defray costs associated with the preparation of eligible companies' first sustainability report. In addition, authorities will be launching a programme to support SMEs to develop their first sustainability reports, as well as training programmes to equip the workforce with skills necessary for the transition to a low-carbon future.

As climate reporting becomes mainstream, nature reporting is anticipated to follow a similar trajectory as central banks and financial institutions are increasingly recognising nature loss as an important issue and a systemic risk to financial systems. Adopting standards such as the Task Force on Nature-related Financial Disclosures (TNFD) are also starting to gain positive momentum in the industry.

2. Positive momentum for voluntary carbon market (VCM) integrity initiatives

After a few years of exponential growth, the growth of the VCM has slowed recently because of the challenging macroeconomic environment, coupled with growing public scrutiny on the quality of carbon credits amidst greenwashing accusations. Numerous VCM projects were heavily criticised in 2023 for issues pertaining to integrity and credibility, leading to a slump in prices. This was exacerbated by the lack of progress on Article 6 of the Paris Agreement at the UN Climate Change Conference (COP28) in Dubai. Parties could not reach a consensus on both Article 6.2 (guidance on bilateral or multilateral trade of carbon credits) and Article 6.4 (mechanism for trading greenhouse emission reductions), with much of the disagreements surrounding the rules around carbon removals and the issue of transparency over the final text. The lack of progress was a setback for the VCM as the operationalisation of Article 6 could have provided new structure for the global carbon market and increased market demand for carbon credits.

To address market concerns on quality and transparency, there has been progress on new integrity initiatives such as the Integrity Council for Voluntary Carbon Markets (ICVCM) publishing new integrity guidelines for projects with the high-integrity Core Carbon Principles (CCP) labels. The ICVCM has approved five carbon-crediting programs, which have a 98% share of the VCM, to be CCP-eligible i.e. American Carbon Registry, Architecture for REDD+ Transactions, Climate Action Reserve, Gold Standard and Verified Carbon Standard. The volume of CCP-labelled credits is expected to grow steadily this year as the ICVCM Governing Board aims to complete the assessment of the different categories (e.g. improved forest management, sustainable agriculture, renewable energy) by the end of September.

Another integrity initiative is the Climate Action Data (CAD) Trust, a global platform that aims to enhance transparency of carbon credit trading by tracking the full life cycle of carbon credits. It aims to bring on board the large independent registries, as well as national registries over time, so that CAD Trust can aggregate and harmonise the data to prevent double counting. On a national level, the Singapore Government has published the Eligibility List under the International Carbon Credit (ICC) Framework, which sets out the requirements that ICCs must meet for carbon tax-liable companies in Singapore to offset up to 5% of their taxable emissions. Authorities will update the Eligibility List to maintain relevance and uphold high integrity standards based on the latest science-based evidence and market developments. As the VCM remains one of the key decarbonisation strategies to enable companies to offset residual and hard-to-abate emissions, these integrity initiatives help support the delivery of high-quality carbon credits to the market.

3. Shifting away from fossil fuels towards renewables and low-carbon solutions

Countries at COP28 agreed on a historic deal that calls on all nations to ‘transition away from fossil fuels in a just, orderly and equitable manner, so as to achieve net-zero by 2050.’ While the final text did not indicate tangible targets or actions, some countries are making progress towards the low-carbon transition. The G7 energy ministers have agreed to phase out the use of coal power where the emissions have not been captured by 2035, after the US Environmental Protection Agency outlined a new directive that requires US coal-fired power plants to capture emissions or shut down.

The transition away from coal will be more challenging for developing economies because of the high reliance on fossil fuels and high costs required for the energy transition. Developing countries may therefore require significant international investment to fund their energy transitions. For example, Indonesia is working on the early retirement of its 660 MW coal-fired power plant as a pilot project for the energy transition, under the Energy Transition Mechanism[1] program of the Asian Development Bank.

As Singapore is an alternative-energy disadvantaged country, the lack of domestic renewable energy resources poses a challenge for its energy transition. With 95% of electricity generated from natural gas, Singapore aims to decarbonise the power sector by importing low-carbon electricity from the region and exploring low-carbon alternatives. The Energy Market Authority has granted Conditional Approval for projects to import low-carbon electricity from neighbouring countries, comprising 2 GW from Indonesia, 1 GW from Cambodia and 1.2 GW from Vietnam. If realised, these projects will tap on a diverse mix of solar energy, hydropower, and wind power to meet Singapore's target of importing 4 GW of low-carbon electricity by 2035. Singapore is also working on ramping up the deployment of renewable energy, as well as exploring low-carbon alternatives such as hydrogen, geothermal and carbon capture, utilisation and storage. In efforts to advance carbon capture and storage (CCS) as a decarbonisation pathway, Singapore and Indonesia have signed a letter of intent in Feb 2024 to collaborate on cross-border CCS after Indonesia's presidential regulation to allow cross-border CCS was announced. This can catalyse the deployment of cross-border CCS projects in Southeast Asia and generate new opportunities for both countries in the green economy.

Conclusion

International pressure on countries to transition away from fossil fuels will increase as adverse climate-related impacts on economies and communities become more apparent over time. COP29, set to be held in Azerbaijan in Nov 2024, is drawing closer. We anticipate COP29 discussions to cover the aforementioned sustainability trends, particularly on operationalising Article 6 and enhancing the integrity of the VCM, as well as financing the global energy transition, especially for developing economies.

Sources: ADB, CNA, EDB, EMA, ICVCM, MTI, S&P, The Straits Times, UNFCCC, WEF

[1] The Asian Development Bank launched the Energy Transition Mechanism in 2021, aimed at using concessional and commercial capital to accelerate the retirement or repurposing of fossil fuel power plants and replace them with clean energy alternatives. The program began with three pilot countries i.e. Indonesia, the Philippines, Vietnam, and has since extended to Pakistan and Kazakhstan.

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