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Sustainability Quarterly

SUSTAINABILITY IN OUR SECTORS

Sustainability Spotlight

Interview with Sunil Rana, Founder & CEO, Vyzrd

European Logistics and Supply Chains

Market Analysis and Future Trends

Driving technology sustainability at HFW

Interview with John Court, HFW's Global Director of Information Technology

FEBRUARY 2025

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SUSTAINABILITY IN OUR SECTORS

HFW is a leading global law firm with deep, sector focused expertise, that is committed to promoting sustainability in its sectors.

Welcome to the latest HFW Sustainability Quarterly.

In this edition we share valuable insights into the latest trends, challenges, and opportunities in sustainability.

Our Legal Updates covers significant developments such as the landmark judgment on court-imposed corporate carbon targets and the increasing use of OECD guidelines to achieve ESG aims. It also discusses the delay in the European Union Deforestation Regulation (EUDR) and its implications for businesses.

We talk to Founder and CEO of Vyzrd, Sunil Rana, who highlights the company's approach to climate intelligence and its unique features. The industry-leading climate intelligence platform is used to quantify the financial, strategic and operational implications of climate change and ESG to company performance and valuation.

We examine the strategic importance of bioenergy in the transition to net zero, including the impact of the Recast Renewable Energy Directive (RED III) on the biomass market and the successes and challenges of the Brazilian biofuel industry.

This edition also features an analysis of European logistics and supply chains, exploring market trends and future directions.

Additionally, there is a spotlight on carbon trading and key outcomes from COP29, providing insights into the latest developments in carbon markets and international climate negotiations.

We also interview HFW's Global Director of Information Technology, John Court about our efforts in driving technology sustainability and the firm's initiatives to reduce its environmental footprint.

We always enjoy hearing from you, so please do feel free to drop us a line with any feedback, comments or enquiries about our expertise.

Giles

GILES KAVANAGH
Sustainability Partner

giles.kavanagh@hfw.com

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Legal Updates

Edited by Amanda Rathbone, HFW Knowledge Counsel

Landmark judgment on court imposed corporate carbon targets

The Hague Court of Appeal handed down judgment in *Milieudefensie v Shell* on 12 November 2024, overturning an earlier decision by the Dutch District Court, which had imposed a set reduction target of 45% by 2030 for Shell's CO2 emissions.

The Court of Appeal affirmed that protection against climate change is a fundamental human right and that pursuant to a social standard of care in private relationships that exists in Dutch law, Shell has an obligation to limit CO2 emissions to combat climate change and achieve the goals of the Paris Agreement.

However, it held that it could not conclude that Shell must reduce its scope 3 emissions by a set target, for reasons including that: Shell's activities could temporarily result in an increase in its scope 3 emissions whilst lowering global emissions (such as if it supplied gas to a new customer previously using coal); and its emissions are spread across multiple sectors, in some of which it is harder to find fossil fuel alternatives, and a general percentage reduction would ignore these different pathways. The fact that companies must make efforts to reduce emissions did not mean a global average could be converted to a mandatory standard for Shell. Further, Shell could meet a set reduction percentage by disappearing from the value chain in relation to sales of third-party fossil fuels, but then others would fill the gap. Therefore, it could not be established that the order sought would reduce CO2 emissions.

The Court of Appeal did acknowledge that it was plausible that planned investment in new oil and gas fields would not comply with the Paris Agreement and the social duty of care, but that was not at issue here.

Shell has welcomed the finding and reiterated its net-zero commitments, whilst NGOs have welcomed the Dutch court's confirmation of corporate duties in relation to climate change. However, Milieudefensie has recently indicated that it has decided to appeal to the Supreme Court, so we wait to see further developments.

For more information, see our article **here**.

KATE AYRES
Knowledge Counsel
(Insurance/Reinsurance)

Delay to the EUDR takes effect

An amendment to the European Union Deforestation Regulation (EUDR) has come into effect, having been published in the Official Journal of the EU on 23 December 2024. The EUDR's provisions were set to be implemented on 30 December 2024 for larger companies, or 30 June 2025 for SMEs. Following the amendment, they will now take effect on 30 December 2025 and 30 June 2026 respectively.

The delay aims to provide companies, member states, and international partners with additional time to comply with the new requirements. This follows calls from industry stakeholders, concerned that implementation would be challenging and costly, particularly for businesses with extensive supply chains. Those concerned highlighted potential problems including limited guidance from the European Commission and fears that producers in non-EU markets would be excluded from the EU, resulting in market disruption.

The EUDR aims to ensure that affected products sold in the EU (cocoa, coffee, palm oil, soy, rubber, timber and cattle) and products derived from them (e.g. chocolate and paper) do not contribute to deforestation, thereby protecting forests and biodiversity. It will have a profound impact on supply chains, promoting transparency and responsibility among producers and suppliers of these products.

To learn more about the EUDR, read HFW's publication **here**.

AMANDA RATHBONE
Knowledge Counsel
(Commodities)

A reduction in red tape? EU Omnibus Simplification package awaited

In November 2024, the European Council published the Budapest Declaration on the New European Competitiveness Deal. This referred to "a simplification revolution, ensuring a clear, simple and smart regulatory framework for businesses and drastically reducing administrative, regulatory and reporting burdens, in particular for SMEs." A key objective was for concrete proposals on reducing reporting requirements by at least 25 % in the first half of 2025. Following this, Ursula von der Leyen announced that the Commission was planning an Omnibus Regulation to reduce red tape, mentioning the CSDDD, CSRD and EU Taxonomy Regulation as examples.

The Commission's "Competitiveness Compass," published on 29 January 2025, suggest that the proposals are on track. It set quantified targets for reducing the reporting burden of at least 25% for all companies and at least 35% for SMEs, with the first of a series of Simplification Omnibus packages due in February 2025. This will focus on sustainable finance reporting, sustainability due diligence and taxonomy. It specifically identifies an intention to address the "trickle-down effect," to prevent smaller companies along supply chains facing "excessive reporting requests that were never intended by the legislators." It also indicated that simplifications of both the EU CBAM and REACH are planned.

AMANDA RATHBONE
Knowledge Counsel
(Commodities)

FuelEU Maritime now in operation with BIMCO clauses published

FuelEU Maritime (**FuelEU**) now applies to vessels over 5,000GT calling at EU ports. Part of the EU's Fit for 55 legislative package to decarbonise the EU bloc, FuelEU targets the greenhouse gas (GHG) intensity of maritime fuels and energy used onboard vessels.

FuelEU regulates the following key areas:

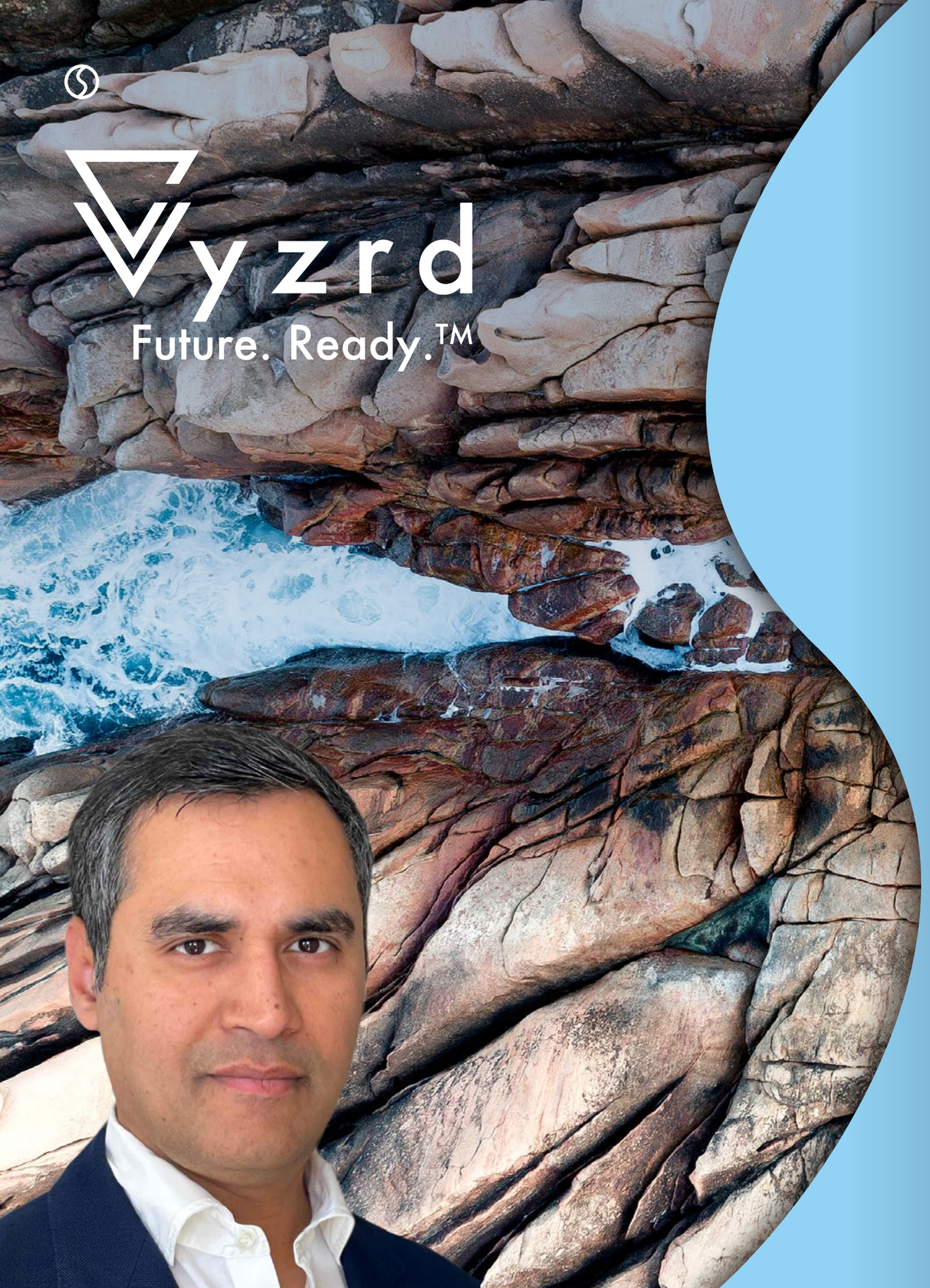
1. Compliance with **an annual GHG intensity limit** for maritime fuels and energy used onboard from 2025 onwards.
2. Mandatory use of **onshore power supply** for passenger and container vessels from 2030 onwards.
3. A ***potential*** **sub-target for renewable fuels of non-biological origin** from 2034 onwards.

FuelEU applies irrespective of a vessel's flag or ownership so long as there is a touchpoint with the EU by way of voyages to/from or stays within an EU 'port of call'.

The adoption and use of sustainable maritime fuels with lower GHG intensity is likely to be a key method of compliance, where 'greener' vessels can be pooled with vessels burning conventional fuels to reduce overall liability. It is anticipated that contractual arrangements such as pooling agreements and the use of pooling platforms will be among the options explored during 2025 in order for vessels to meet FuelEU's GHG intensity limit.

BIMCO has published FuelEU-specific clauses for **time charterparties** and **ship management** agreements. Stakeholders' positions in the physical transport contract chain and their FuelEU strategy will inform what new clauses or new agreements (such as pooling agreements) may be required to capitalise on opportunities and protect against compliance risks. HFW partner Alessio Sbraga was a member of the BIMCO drafting team for SHIPMAN 2024.

JOHANNA OHLMAN
Associate, Shipping



SUSTAINABILITY SPOTLIGHT

VYZRD

We talk to **Founder and CEO of Vyzrd, Sunil Rana**, who highlights the company's approach to climate intelligence and its unique features. The industry-leading climate intelligence platform is used to quantify the financial, strategic and operational implications of climate change and ESG to company performance and valuation.

You have a clear purpose: "To be the world's most trusted source for climate intelligence, reshaping how businesses perceive and respond to climate change." How do you go about bringing that vision to life?

At Vyzrd, value creation and financial sustainability through transition and climate change is core to our modelling philosophy. We have three priorities when it comes to positioning Vyzrd as the most trusted source for climate risk intelligence: democratising access to complex climate risk analytics, decision-useful outputs and intelligence, and transparency. **climaTick™**, Vyzrd's climate intelligence technology platform combines what is industry's most comprehensive approach to integrated climate risk modelling with cutting-edge data analytics, AI-enabled modelling, and rigorous research. Collaboration is key for us - we actively engage with global policymakers, investors, and businesses to develop a richer understanding of climate change and transition implications for the real economy and businesses beyond the basic aspects like emissions linked metrics. Therefore, we don't just aim to inform; we strive to transform mindsets and decision-making processes, ensuring businesses see climate intelligence as a core driver of resilience and growth.

What are some of the unique features of Vyzrd's climate intelligence platform that differentiate it from other solutions in the market?

Vyzrd's platform is redefining climate intelligence analytics with a combination of unmatched depth, accessibility, and actionability. There are a number of features that are unique to Vyzrd. A few examples are:

1. **Integrated and Comprehensive Modelling**
   Unlike fragmented market solutions that focus narrowly on emissions or specific risk types, our platform combines the broadest range of inputs—sustainability, macroeconomic, financial, and operational data—into a unified framework. This allows us to deliver granular, company- and business-unit-level impact analysis that considers physical, transition – risks and opportunities holistically.
2. **Generative AI for Tailored Analytics and Insights at Scale**
   Vyzrd's core analytics engine - TruQube™, integrates Gen AI to provide faster and the most detailed analytics on climate change and transition impact for companies. The platform delivers highly tailored insights to each client and offers the ability to analyse 100s of distinct financial exposure metrics across a 15-year horizon. This innovation enables organisations to integrate climate risk granularly into strategic decisions without being overwhelmed by complexity.
3. **Democratisation of Climate Intelligence**
   We make advanced analytics accessible to organisations of all sizes and data maturity levels, breaking barriers that often exclude smaller companies/SMEs or those with limited internal capabilities. This focus on inclusivity ensures that the benefits of climate intelligence are widely distributed.
4. **Actionable and Decision-Ready Outputs**
   Vyzrd's insights are designed to directly inform strategic, operational, and financial decisions, enabling businesses to not only manage risks but also uncover opportunities for value creation and growth. Our partnerships with firms like Xpansiv, e& (Etisalat) enhance our capabilities in supply chain decarbonisation bringing real solutions for real impact.

5. **Composite Forward Looking Financial Impairment Metric**
   Our CliF™ metric integrates multiple dimensions of climate risk - physical, and transition - into a single, decision-useful and comparable score. CliF represents impairment to the company valuation based on the underlying cash-flow changes emanating from the risks and opportunities specific to the company. CliF can be readily integrated into benchmarking and advanced portfolio analytics.

Our platform stands apart by addressing the market's unmet need for a solution that is integrated, scalable, and focused on enabling real-world impact. This combination ensures Vyzrd delivers tangible value to clients while advancing the global transition to a sustainable future.

How does Vyzrd's approach to climate risk analytics help businesses quantify the financial, strategic, and operational implications of climate change?

Vyzrd's approach transforms climate risk from a complex challenge into a clear, actionable framework for decision-making and action planning. Select highlights and capabilities of the platform include:

1. **Linking Climate Risks to Financial Outcomes**
   Our proprietary CliF™ (Climate Forward) metric integrates physical and transition risks and opportunities, translating them into direct financial impacts. Whether assessing revenue decline, operational disruptions, or CapEx and OpEx needs, we provide a forward-looking analysis that quantifies risks and identifies opportunities for resilience.
2. **Scenario-Based Strategic Planning**
   Vyzrd equips businesses with the most advanced scenario analysis tools in the industry today. These tools enable companies to test strategies under different transition and climate change pathways, ensuring they are prepared for the evolving risks and transitions. Through our DCF-based models and granular scenario analysis, businesses can anticipate risks under varying RCP pathways and regulatory landscapes.
3. **Operational Resilience and Efficiency Gains**
   By integrating granular company- and BU-level data, our platform uncovers opportunities for operational improvements, such as decarbonisation strategies, efficiency gains, market shifts etc. These insights help businesses not only mitigate risks but also achieve cost savings and enhanced productivity.
4. **Generative AI-Enabled Scale and Analytics**
   Leveraging our TruQube™ engine, we combine large-scale data processing with tailored insights. This ensures that businesses receive highly contextual and actionable intelligence that is aligned with their specific financial, operational, and strategic goals.

What impact does the insight you provide have on strategic decision-making for your clients?

The insights we deliver fundamentally change the way our clients approach strategic planning. We view climate risk and transition planning as core to business resilience and growth. By embedding climate intelligence into standard decision-making frameworks, our clients gain clarity on risk prioritisation, resource allocation, and long-term resilience. By providing rapid yet deep analytics, our technology delivers material improvements to agility in decision-making. Our insights provide a competitive edge - clients not only mitigate risks but also identify market opportunities, positioning themselves as leaders in sustainability. As a result, they foster stronger investor confidence and consumer trust.

Can you share a success story where Vyzrd's analytics significantly helped a client navigate the complexities of climate change?

One of our projects involved a global mining company grappling with rising regulatory pressures and climate risks. Using our platform, management quantified the financial implications of various risk and opportunity levers across their operations and identified high-risk geographies for physical climate impacts. Even though the client was data-poor, they were able to extract a number of decision-useful insights. This helped the client rapidly move up the maturity curve and develop a deeper understanding of the risk and opportunity landscape for their company. By leveraging Vyzrd's outputs the client was able to prepare rich and transparent climate disclosure report, which we understand positioned them favourably with their key global institutional investors.

What future developments or innovations can we hope for from Vyzrd in the realm of climate intelligence and sustainability?

While Vyzrd's climaTick™ platform is already significantly ahead of the market, we are continuing to push the boundaries on the product development front. We have recently launched our climate impact simulation platform, **NExT Sim+**, that provides immersive, scenarios-based learning tools for board members and senior executives. Additionally, we are also introducing newer AI-driven solutions to predict and mitigate supply chain risks tied to climate change. Our research focus includes dynamic organisational modelling that integrates ESG-adjusted financial discount rates and developing a deep understanding of the impact of climate risk and transition on portfolio performance. Looking ahead, we aim to foster global industry collaboration by launching an annual benchmarking consortium, helping businesses better understand and manage climate-related reputation risks. These innovations reaffirm our commitment to be the leading and the most trusted partner for corporates, financial institutions and policy-makers when it comes to climate change and transition related decisions.

Focus on Bioenergy

With its strategic importance in the transition to net zero, bioenergy accounts for just over half of all renewable energy and more than 6% of global energy supply.

The IEA's Net Zero by 2050 Scenarios anticipates that bioenergy will grow rapidly expected to displace fossil fuels by 2030. Here we examine three major parts of the bioenergy market. They include the impact of **RED III** on the forest biomass industry, how Brazil has become a world leader in biofuel, and whether biomass can be both renewable and sustainable.

The impact of Recast Renewable Energy Directive (RED III) on the biomass market

Reflecting the increasing pace of transition from fossil fuels to renewables, RED III is a fundamental part of the EU's objective of achieving climate neutrality by 2050 and will come into national law by April 2025. RED III also reflects a move away from more traditional biofuel feedstocks towards new feedstocks capable of delivering greater savings in greenhouse gas (GHG) emissions.

RED III will see an increase in EU targets for the use of renewable energy. Energy from biofuels, bioliquids and biomass will be subject to strengthened sustainability and GHG saving criteria. However, crucially, the directives will be implemented differently in each member state.

RED III stands to have a significant effect on the biomass market. Thorough due diligence will be an imperative for the whole production cycle, and the enhanced sustainability criteria coupled with increased demand means the industry may experience some supply shortages and price volatility. This in turn may result in trading risks such as defaults in performance of contracts and counterparty risk. There may be an increase in installation investment as producers will need to acquire extra technology to meet applicable efficiency levels.

RED III's key changes to sustainability criteria that impact on biomass

- Restrictions on biofuels, bioliquids and biomass from raw materials obtained from land with high biodiversity value will be extended. These will now apply to old growth forest and heathland as well as primary forest and other wooded land.
- Changes to restrictions on biofuels, bioliquids and biomass produced from forest biomass. Criteria has increased in order to reduce the risks associated with using forest biomass derived from unsustainable production.
- Currently the requirement is that the country of production has laws that apply to harvesting, monitoring and enforcement. The requirements have been extended so that areas designated for protection include grassland and heathland and to ensure that the forest from which the forest biomass is harvested does not have the status of primary or old growth forest, highly biodiverse forest and woodland, grassland or heathland.
- Harvesting must be carried out with the aim of minimising the negative effects on soil quality and biodiversity and avoiding harvesting of stumps and roots, degradation of primary and old growth forests and harvesting on vulnerable soils must be prevented.
- Installations producing biofuels, bioliquids and biomass fuel from forest biomass must issue a statement of assurance that it is not sourced from high biodiversity value lands.

The successes and challenges of the Brazilian biofuel industry

Brazil is today the world's largest producer of sugarcane ethanol for fuel and the second-largest producer of fuel ethanol overall. The industry benefits from high production levels of domestic sugarcane, a hardy internal market and effective legislation and regulation.

It is a significant developer of second generation ethanol from sugarcane waste or 'bagasse', which means it can produce significantly more ethanol from the same land. This advanced biofuel is particularly valuable as it meets increasing sustainability related regulation.

Brazil has historically been a significant innovator in the motor fuel market, using ethanol as motor fuel in flex fuel engines. Legislation has played a significant part, requiring gasoline to be mixed with ethanol.

However, the growth in electric cars is proving a threat to the industry. In May 2023, the Brazilian government announced measures, including tax breaks and incentives for domestic components, to protect and promote the domestic car industry.

The market is also lauded for its flexibility. It has produced biofuel versions of hybrid cars with internal combustion engines and electric motors, known as 'flex hybrids', while plug in versions are also under development.

SAF is a significant area of interest, and a number of Brazil-based producers have been amongst the first globally to obtain CORSIA certification. The country benefits from good existing infrastructure which allows for innovative projects. These include the development of the world's largest cellulosic ethanol programme, with the potential for large-scale SAF production a priority.

BRAZIL'S BIOFUEL INDUSTRY

A timeline

2017
The National Biofuels Policy, known as RenovaBio, comes into effect. Its aim is to reduce greenhouse gas emissions in line with Brazil's goals under the Paris Agreement

2022
The International Civil Aviation Organisation adopts its goal to achieve net-zero carbon dioxide emissions from international aviation by 2050, with one significant way to achieve this being through the use of SAF

2023
Corn ethanol industry production in Brazil reaches 6 billion litres, a surge of 800% over the last five years

2024
April - Brazil is the largest export market for Chinese electric vehicles, including battery and plug in hybrids

June - The world's largest sugar and ethanol company, Copersucar, and hybrid biotechnology and renewable energy company Geo bio gas&carbon sign a memorandum of understanding to develop technology for converting biogas into SAF in Brazil

2025
The European Union's ReFuelEU Aviation Regulation decrees a blending mandate on aviation fuel suppliers. All aviation fuel supplied to aircraft operators in the EU must include a minimum volume of 2% SAF from 2025, increasing in five-year intervals to reach 70% in 2050

Biomass – how far can this renewable energy be considered sustainable?

Biomass is considered renewable because it cannot be depleted, as crops and trees can be replanted and waste is produced through human activity. However, there are question marks over whether all biomass is a 'sustainable' or 'clean' energy source. Origin, supply chain and end purpose must be thoroughly assessed to decide whether a type of biomass is truly sustainable.

For companies using biomass to reduce carbon emissions, there are a number of issues to consider. Woody biomass must be responsibly harvested and in line with rate of growth or trees planted as replacements. The regulatory framework within the EU and Switzerland is rapidly developing when it comes to woody biomass, and companies must be sure to understand the applicable restrictions when trading their product.

Meanwhile, using forests, grasslands or land previously used for food crops for biomass production can lead to food shortages, biodiversity destruction and the harmful impact of monoculture.

Checking the accuracy of reporting to avoid greenwashing allegations which cause reputational harm is essential for companies considering biomass. Close analysis of the impact of the entire supply chain and the emissions it produces is highly recommended.

What is biomass?

Biomass is organic material used to produce energy. This occurs through incineration to produce heat or steam for electricity, or using different conversion processes to make biogas or biofuels.

The advantage of biomass over other renewable energy sources is that it is not intermittent and can be more easily stored which means it is prized as a baseload power to electricity grids.

Biomass can be derived from woody biomass, including pellets, logs and unprocessed residual pieces of wood from the forestry industry.

It can also be made from food crops, such as soy and corn, and short rotation crops, such as willow, poplar and miscanthus grasses.

Other sources include waste such as animal waste and manure, sewage sludge and some types of organic household waste as well as oil-rich algae.

European logistics and supply chains: the market analysis and future trends

The European logistics and supply chain sector has seen unprecedented change and a substantial rise in profile over recent years. This can be put down to a number of reasons, including the growth of eCommerce, the knock-on effects of the pandemic, widespread skills shortages and the role of technology and digitalisation.

Today companies say the most important factor driving sustainability activity is the desire to make a positive environmental impact. As sustainability continues to take precedence, we use our ongoing research to assess what this means for companies operating across Europe.

How developing ESG priorities have affected logistics and supply chain operations

Sustainability has become a crucial feature of logistics operations over recent years. What are the major factors behind this transition?

As little as two years ago, regulatory and legislative requirements were undoubtedly driving operators, manufacturers and retailers towards sustainable supply chains. Companies have been subject to growing scrutiny when it comes to their emissions reduction goals. Customer pressure, greater transparency in corporate reporting and the growth in ESG-related investment remain significant.

However, in today's market, making a positive impact on the environment is much more of a catalyst. This is closely followed by the impetus to enhance company reputation and to effect positive social change.

The move towards a circular economy has not come without its challenges. How have the barriers for companies changed?

In the wake of the pandemic, almost two-thirds of companies had concerns about the cost of providing sustainability solutions. This was largely due to high competition and low margin markets. The lack of resources to implement initiatives was also an issue, as was quantifying the benefits of ESG solutions. There has been a significant shift in the last few years, and companies now have much better access to resources.

Many operators are managing multinational, multimodal businesses across Europe and working with such large-scale data requires time and expertise. In 2023, 77% of logistics operators perceived the complexity of solutions as a challenge to introducing or enhancing sustainability solutions in their supply chain operations, making this the main challenge alongside financial costs. That said, this perception dropped to 58% in 2024.

While inflationary pressures may be easing, sustainability measures remain subject to the financial pressure on supply chains. As these measures require significant investment, it is difficult to contextualise sustainability within the financial framework and the economic cost of initiatives. However, it is becoming increasingly possible, and relevant, to quantify the long-term benefits generated by measures taken.

There is no doubt that overcoming the hurdles continues to be worth it. How have the benefits evolved?

Three years ago, two thirds of 3PLs (third party logistics) had won new business as a result of their strong ESG practices, and almost three quarters of manufacturers saw increased productivity following the introduction of staff wellness programmes. Other traceable advantages included better market profile, access to government subsidies and improved collaboration internally.

More recently, these numbers have dropped as our research shows that fewer companies (although still over 40%) have won customers due to their initiatives. Similarly, fewer operators say that sustainability initiatives resulted in improved employee motivation. This reflects the observation that today both customers and employees expect sustainability and ESG initiatives as standard. While logistics operators report a broadly constant impact on collaboration within the company resulting from their sustainability program between 2022 and 2024, 20% more logistic operators reported an improved media or PR profile.

Looking forward: emerging trends

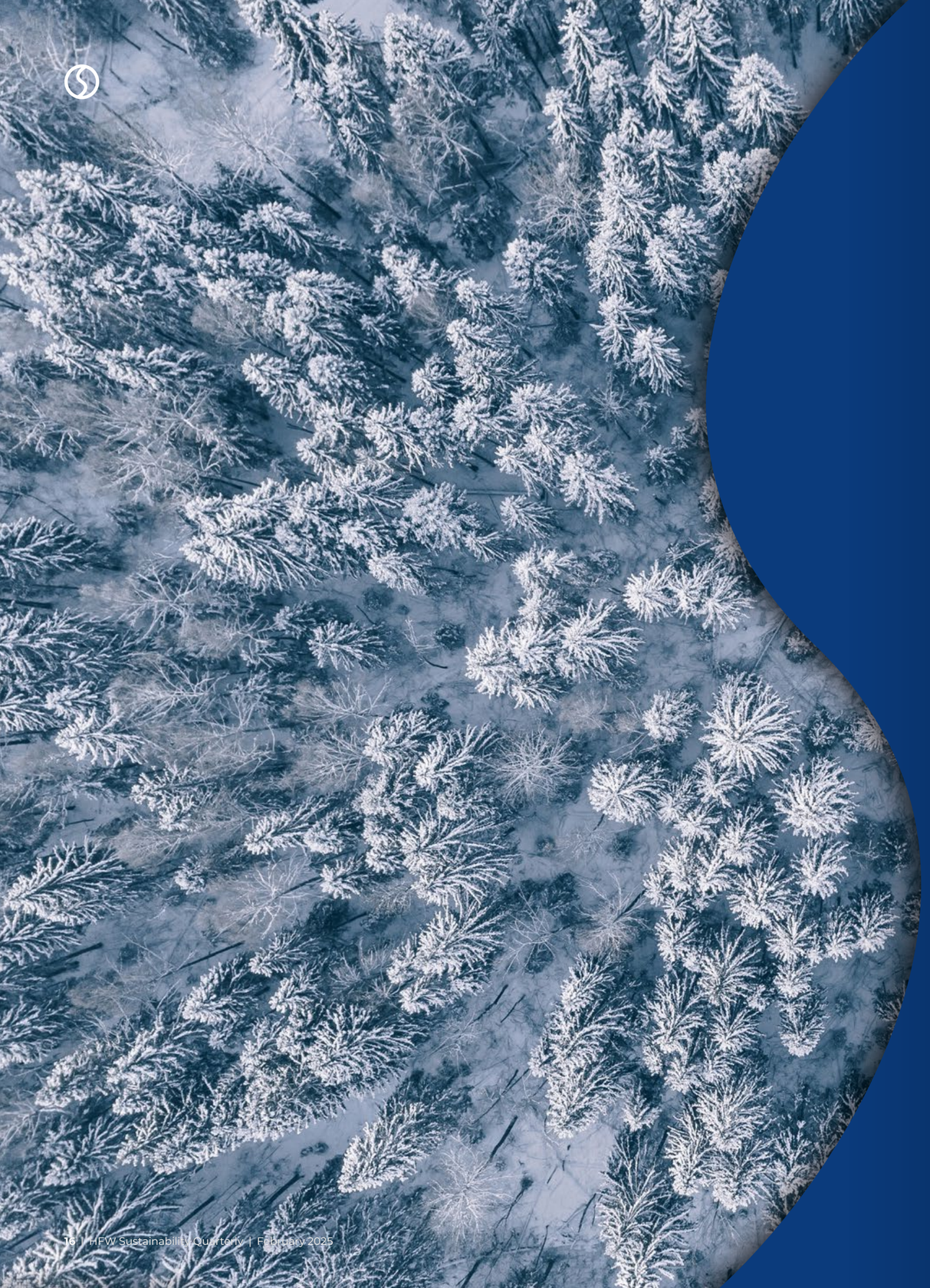
In terms of supply chains, what is the biggest driver in improving sustainability?

Over the past three years, both logistics operators, retailers and manufacturers consistently cite financial incentives such as grants and subsidies as the most significant factor in improving the sustainability of their supply chain operations. There is also a notable shift in how companies treat the achievement of sustainability targets in contracts. Across several areas of supply chain activity, manufacturers and retailers are increasingly setting their sustainability targets as obligations rather than aspirations.

What future role will sustainability play in the commercial relationships between logistics operators and their customers, manufacturers and retailers?

Our 2024 research has shown that 39% of logistics operators expect sustainability to carry a weight of 20% or more in their contract awards in three years' time, compared to just 27% in 2023.

Currently, manufacturers and retailers allocate a higher weighting to sustainability in contract awards than logistics operators. We expect this to change in the next two to three years.



“Operators are increasingly seeking to be in proximity of charging points. The need to invest in charging infrastructure is growing rapidly, as is the call for grants and subsidies to support this.”

The inclusion of sustainability targets as contractual obligations for supply chain partners is increasing, backed by a notable increase in financial penalties for failure to meet defined targets.

However, over the past two years, logistics operators, manufacturers and retailers alike overwhelmingly reported no precedent of losing customers or failing to renew contracts with service providers or customers as a result of a failure to meet sustainability targets.

What barriers are standing in the way of decarbonising fleet operations?

Companies complain of a lack of clarity from both the industry and government levels about future fuel choices, new technologies and the cost of alternative solutions to decarbonise. Operators are increasingly seeking to be in proximity of charging points. The need to invest in charging infrastructure is growing rapidly, as is the call for grants and subsidies to support this.

How will technology continue to help companies achieve their sustainability goals?

Over the past three years, companies increasingly turned to technology to monitor their compliance. Various notification systems support companies’ understanding in various areas such as reaching targets, managing electric vehicles and accessing finance. Harnessing this advanced technology for scope 3 emissions will be fundamental to achieving targets and analysing impact.

What changes are being made to operational buildings?

Energy-saving solutions are the most important sustainability feature in operational buildings. Operators increasingly focus their real estate on on-site renewable energy generation, such as solar panels, but also smaller features such as lighting sensors, LED lighting, heat pumps or heat exchangers next to refrigerating appliances. This is especially relevant to warehouse operations. Companies are also prioritising the installation of electric vehicle charging points and the creation of a positive environmental impact on their premises by landscaping trees, having no mown lawns and improving biodiversity.

How will ongoing financial considerations have an impact?

Sustainability initiatives require substantial investment. There is no doubt that cost pressures persist and indeed, two-thirds of companies (including 80% of logistics operators) reported they are facing challenges related to the cost of sustainability solutions in 2024. Over three-quarters of logistics operators say that cheaper, or subsidised, implementation would improve their sustainability efforts.

A significant proportion of companies note they would be willing to pay a rent premium equivalent to the total operating cost savings to move operations to a ‘green’ building from a standard ‘non-green’ building. There has been a rise in companies prepared to pay a premium equating to less than the total operating cost savings.

In the past, companies have identified a lack of human resources as hindering sustainability solutions. Is this changing?

Yes, this year we note a significant reduction in the share of companies citing the lack of human resources as an obstacle to sustainability solutions. They also report that a lack of skills, knowledge and leadership is no longer as much of a barrier. This all points to the growing trend of logistics and supply chain operations across Europe harnessing the expertise of people with sustainability credentials. There has been a notable drop in companies reporting difficulties measuring the benefits of solutions or understanding regulations and reporting standards.

Spotlight on **CARBON TRADING**

Here's our round up of the recent developments shaping the global carbon trading market.

The EU ETS extension – what effect is it having on the maritime industry?

It has been a year since the largest emissions trading system in the world, the EU ETS, was extended to cover maritime transport. The change means that regulated greenhouse gas (GHG) emissions from vessels of 5,000 gross tons and above fall under the scope of the EU ETS for the first time.

The directive states that companies are financially liable for 100% of a vessel's emissions if travelling between two EU ports of call (intra EU voyages) and during an EU port of call. They are also liable for 50% of a vessel's emissions between an EU port of call and a non-EU port of call (international voyages).

A phase-in period was introduced to promote ease of transition. Currently shipping companies have to surrender EU Allowances (EUAs) to reflect 40% of verified CO_2 emissions reported in 2024, rising to 70% in 2025 together with an increase of the coverage of the GHG emissions that have to be accounted for, and 100% from 2026 onwards.

The legislation brings with its wide-reaching implications for the industry. These include an increase in carriers' costs for every tonne of fuel burned. This extra expenditure is being offset by carriers imposing an emissions surcharge on their customers. However, the calculation of this surcharge is not straightforward. For example, the annual deadline for complying shipping companies to surrender EUAs is 30 September of the year following the reporting year. This means carriers may not purchase EUAs until months after a voyage has completed during which time the price of EUAs could fluctuate significantly.

Consequently, unless successful hedging strategies are employed, there is the possibility that carriers either over or under estimate the potential cost of EUAs, and therefore go on to charge their customers inaccurately. As a result, customers may choose to avoid shipping goods on voyages subject to an emissions surcharge by varying the route or opting for green carrier programmes and incentives. As HFW's Matthew Gore points out, 'it is clear that the emissions surcharge will vary from carrier to carrier in much the same way as bunker adjustment factors currently do. It is hoped that more green carrier programmes will develop.'

A Question of Port

The legislation has various exclusions, including stops for refuelling and relieving crew. If it is not an offshore ship, this also covers ship-to-ship transfers, carrying out repairs, dry-docking, emergencies, sheltering from adverse weather and, significantly, containership stops in a neighbouring container transshipment port (NCTP).

This ramifications of this can result in the length of a given voyage being extended and therefore increasing the associated GHG emissions. Operators are keen to keep the length of voyages subject to EU ETS as short as possible in a bid to decrease their emission costs. As such, designating NCTPs will lead to a decrease of vessel traffic in these ports and, in turn, an increase of traffic in other non-EU ports.

It is worth noting that stakeholders planning strategically on using alternative ports to minimize EU ETS costs must remain cautious as new stricter regulation comes in to monitor this approach.

Brazil Enacts Emissions Trading Law

On 12 December 2024, Brazil enacted Law no. 15,042 creating a new carbon market. The new law aligns with the country's targets under the Paris Agreement. The law establishes a sector-agnostic emissions trading system and to regulate the country's voluntary carbon markets and Article 6 markets.

- The SBCE will help realise the National Policy on Climate Change and Brazil's Paris Agreement targets. The country has committed to reducing its greenhouse gas emissions by 48.4% below 2005 levels by 2025, and by 53.1% below 2005 levels by 2030. The SBCE will operate as a cap-and-trade system, with the Interministerial Committee on Climate Change approving the maximum limits for greenhouse gas emissions.
- Brazil-based operators will be responsible for the installation of greenhouse gas emissions source that falls within the scope of the SCBE. Subsidiary regulations will clarify compliance liability based on direct or indirect ownership. The SBCE, unlike other emissions trading systems, is not sector-specific with the notable exception of primary agricultural production and associated infrastructure.
- The SBCE acknowledges two types of units for compliance purposes: the Brazilian Emission Quota (CBE), a fungible, tradable asset that represents the right to emit one tonne of carbon dioxide equivalent, and the Verified Emission Reduction or Removal Certificate (CRVE), a fungible, tradable asset that represents the reduction or removal of GHG equivalent to one tonne of carbon dioxide. Compliance assets and transactions will be recorded in a digital registry known as the SBCE Central Registry.
- Carbon market activities and participants – whether in the compliance market or the purely voluntary market – may be subject to financial regulatory requirements unless exempt.
- The law also places particular emphasis on REDD+ projects and programmes, which would be eligible to issue Carbon Credits or CRVEs, potentially increasing activity in the market for these types of project.
- Insurance companies and local reinsurers are required to invest at least 1% of their technical reserves and provisions annually in environmental assets specified in the law or in investment funds focused on environmental assets.

What will the **new carbon market** in Brazil look like?

Provisions in the new law can be divided into several categories. These include regulating the Brazilian Greenhouse Gas Emissions Trading System (SBCE), units intended for the voluntary carbon market (VCM) and those intended for use under Article 6 of the Paris Agreement. General provisions cover the use of compliance units for the VCM and Article 6, as well as regulations for emissions reduction or removal.

While the law is effective immediately, the SBCE will be rolled out in stages. The publication of the law has initiated a timeline for establishing regulations, which are essential for the system's proper operation:

Phase I: Regulation of the law within one year (extendable by another year).

Phase II: Operators implement emission reporting instruments within two years.
Phase III: Operators submit monitoring and reporting plans for GHG emissions and removals.

Phase IV: First National Allocation Plan with the non-onerous distribution of Brazilian Emission Quotas (CBE) and the implementation of the SBCE asset market.

Phase V: Full implementation of the SBCE at the end of the first National Allocation Plan.

Key Outcomes from **COP29**

The **COP29** conference, held in Baku, Azerbaijan, concluded on 22 November 2024 with mixed reactions from participating delegates. While progress was made on some key issues where agreement had been elusive in previous conferences, agreement on some initiatives was less ambitious than developing countries had been hoping for. Key outcomes that were agreed included:

1. New climate finance goal

A new collective quantified goal was set to mobilise at least USD 300 billion per year by 2035 for developing countries.

COP29 was dubbed the "Finance COP," with high expectations for a new collective quantified goal (NCQG) on climate finance to replace the previous target of USD 100 billion per year set in 2009. This new goal is a crucial part of the Paris Agreement, aimed at supporting developing countries in their climate actions post-2025 and informing the next round of nationally determined contributions (NDCs). The COP29 Presidency prioritised reaching a fair and ambitious NCQG.

After prolonged and challenging negotiations, a new, somewhat contentious goal was established. Developed countries committed to mobilising at least USD 300 billion per year by 2035 for climate action in developing countries. This funding will come from a variety of sources, including public and private, bilateral and multilateral, and alternative sources, within the context of meaningful and ambitious mitigation and adaptation actions and transparency in implementation. The agreement acknowledges the voluntary intention of parties to count all climate-related outflows and finance mobilised by multilateral development banks towards achieving the goal. The decision also called for collective efforts to scale up financing for climate action in developing countries from all public and private sources to at least USD 1.3 trillion per year by 2035. It encourages developing countries to make voluntary contributions, including through South-South cooperation.

Additionally, the "Baku to Belém Roadmap to 1.3T" was launched, aiming to scale up climate finance to developing countries to support low greenhouse gas emissions and climate-resilient development pathways, and to implement NDCs and national adaptation plans (NAPs). This includes grants, concessional and non-debt-creating instruments, and measures to create fiscal space. A report summarising the work will be produced for COP30.

2. Article 6 rulebook now complete

The rulebook for Article 6 of the Paris Agreement governs international carbon markets and includes standards for methodologies and removals, enabling the operationalisation of the Paris Agreement Crediting Mechanism.

After decision texts were not agreed upon at COP28 regarding the Paris Agreement's Articles 6.2 (the accounting framework for the bilateral trading of internationally transferred mitigation outcomes (ITMOs) between countries) and Article 6.4 (the centralised UNFCCC crediting mechanism for mitigation activities, now called the Paris Agreement Crediting Mechanism (PACM)), finalising the Article 6 rulebook and fully operationalising Article 6 at COP29 was considered crucial for scaling international carbon markets and enhancing NDCs. Despite this, Article 6.2 transactions continued to develop.

A significant step leading up to COP29 in October 2024 was the Article 6.4 Supervisory Body's adoption of essential standards for methodologies and removals, necessary to make the PACM fully operational.

At COP29, decisions were adopted regarding Articles 6.2 and 6.4, potentially unlocking Article 6's ability to channel significant climate finance.

3. Loss and Damage Fund

At COP29, notable advancements were made regarding the Loss and Damage Fund (LDF):

a. Operationalisation and Leadership: Following its creation at COP28, the LDF was further operationalised, with Ibrahima Cheikh Diong appointed as its first Executive Director.

b. Funding Pledges: Despite initial pledges totalling less than $700 million, COP29 saw calls for increased contributions to meet the substantial needs of vulnerable communities. Developed countries were urged to announce new pledges to address the estimated $580 billion in climate-related damages that developing countries could face by 2030.

c. Implementation Framework: Discussions focused on setting eligibility criteria, defining disbursement procedures, and ensuring rapid access to funding to avoid delays seen in other climate finance mechanisms.

d. Agriculture and Food Systems: There was a push to prioritise agriculture within the LDF, given its critical role in global climate action and its previous underfunding.

e. High-Level Dialogue: The launch of the Annual High-Level Dialogue on complementarity and coherence, co-convened by the LDF and the United Nations Secretary-General, aimed to enhance coordination and effectiveness in addressing loss and damage.

These steps are crucial for ensuring that the LDF can effectively support the most vulnerable communities in adapting to and mitigating the impacts of climate change. The fund is now ready to accept contributions and is expected to start financing projects in 2025. However, there is widespread frustration among less developed countries that the pledged finance will be insufficient to meet the rapidly growing needs of the most impacted populations to shield them from the worst effects of the climate crisis.

Summary: Mixed Reactions: While agreements and commitments secured at COP29 were seen as a step forward, many felt they lacked the ambition needed to meet the urgent challenges of climate change. UN Secretary-General António Guterres expressed hope for more ambitious outcomes in future negotiations.

Driving technology sustainability at HFW

Sustainability is at the heart of everything we do at HFW, and we are committed to promoting it across our entire network. This includes our technology, which plays a significant role in the firm’s environmental impact.

Over the past year, working closely with strategic suppliers Positiv and Dell, HFW’s IT team conducted a thorough technology carbon baselining exercise covering scopes 1, 2, and 3. The goal was to better understand the firm’s carbon footprint to inform its technology sustainability strategy.

The in-depth review revealed several hotspots and priority areas.

We spoke to John Court, HFW’s Global Director of Information Technology, about what the exercise revealed, how we plan to continue to improve digital efficiency, and why our goal of driving down emissions across our technology is so significant.

Why was it important for the firm to carry out a technology carbon baselining exercise?

Sustainability has always been an important factor in our technology strategy; however, with recent developments in power-hungry technologies such as AI, we recognised that we needed to understand in greater detail the specifics of our current technologies and planned projects. This would enable us to keep the environmental impact of our technology to the minimum.

We have had several recent successes in minimising the environmental impact of our technology, such as

achieving a 30% reduction in annual technology-related carbon emissions for our offices in the Middle East.

Our ongoing global network upgrade project is also making a positive impact, replacing ageing equipment with up-to-date, power efficient switches and Wi-Fi access points. Importantly, we are making sure that the replaced equipment is securely erased and then either re-used or recycled responsibly to avoid generating electronic waste.

There are always improvements to be made and the more data we have to measure our efficiency and focus our future priorities, the better.

How does the role of digital sustainability fit into HFW's wider goals

The findings of the exercise validated our Cloud-first strategy, with cloud computing offering a more sustainable alternative to traditional on-premises infrastructure (in co-location datacentres) by automatically optimising resource use (scaling up and down on demand), reducing energy consumption, and using renewable energy sources.

These data-driven insights allow HFW to target high-impact projects, deliver measurable carbon reductions and support the firm's broader sustainability objectives.

What are the positive effects of closing datacentres on carbon emission levels?

Datacentre exits have been effective in decreasing our infrastructure footprint. For example, by exiting our co-location datacentre in Dubai and migrating services to energy-efficient Software as a Service Cloud systems, HFW cut a third of digital carbon emissions in the region. We also avoided lease and capital renewal costs and reduced the maintenance overhead. Looking ahead, migrating further critical services to the Cloud further underscores HFW's commitment to measurable carbon and cost reductions.

Which other methods have successfully cut waste and improved energy use?

We have been rationalising our print technologies and are standardising, globally, on modern, high performance multi-function devices ("MFDs"). We have also enforced a print-release system, which reduces the number of uncollected print jobs, and reduces our paper consumption. By replacing ageing MFDs with higher performance, energy efficient models, we have successfully decreased the total number by over 50%.

In line with our technology strategy, HFW's digital dictation system was recently moved to the Cloud, which has significantly decreased our carbon emissions. It has enabled the decommissioning of old redundant hardware whilst also improving system resilience and user accessibility.

What other Cloud based services have proved effective?

Last April we replaced our on-premises time recording system and introduced a scalable, Cloud-based solution. This new standardised service delivered performance improvements and reduced our environmental impact.

Looking ahead, how will you continue to drive digital sustainability in the coming year?

Looking ahead, we are going to prioritise Cloud migrations and datacentre closures to further reduce infrastructure emissions. In addition, sustainability will be a key procurement consideration, for example as a heavily weighted decision criterion for our planned global laptop refresh.

What's next for HFW's digital landscape?

HFW's technology sustainability efforts are a cornerstone of our broader climate commitments.

Building on recent successes, HFW will continue to move the remainder of its technology services to the Cloud. We will also hold our suppliers to account, procuring hardware and services that minimise the environmental impact of our technology.

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