



# Navigating the EU Green Deal

ESG voices podcast series

*Musical intro*

**Announcer:**

Hello and welcome to another episode of ESG voices! This podcast series addresses the opportunities and challenges within ESG, through interviews with ESG and IMPACT specialists from KPMG and beyond. Throughout this series, we will discuss a broad range of environmental, social and governance issues, aiming to support governments, businesses, and communities in creating an equitable and prosperous future for all.

The European Union set out its ambition on how, by 2050, it will become the world's first climate neutral continent in the European Green Deal in 2019. This ambition has been followed by a series of regulatory reforms, the most notable of which are the proposals in the European Commissions 'Fit for 55' package, which aims to facilitate the EU meeting its interim target of 55 percent emissions reductions by 2030. Today I am joined by Richard Lin, Partner and Head of Compliance Carbon Market, KPMG China, Nicole De Jager, Senior Manager ESG Tax, KPMG in the Netherlands and Pilar Galan, Partner, KPMG in Spain to take a deep dive on this topic! Thank you all for joining me today.

To kick off today's conversation. Perhaps we can start at the beginning and take a deep dive into what the European Green Deal is, and what it means for organizations. Nicole, could we turn to you first.

**Nicole:**

So, I'm certain that our listeners are well aware of the urgency of taking action in response to the climate change crisis and the various measures and methods have been proposed and implemented by governments globally to drive the necessary transformational change required to combat climate change and achieve climate neutrality. The European Union or EU has dedicated itself to sustainable development and has set a very ambitious target of becoming the first climate neutral continent by 2050. As a milestone towards this goal, the EU has pledged to reduce greenhouse gas emissions by 55 percent when compared to 1990 levels by 2030. The European Green Deal which was introduced in 2019, and approved in 2020, is essentially a road-map of both tax and non-tax policy initiatives designed to achieve the 2050 targets. The deal consists of eight major policy areas, each of which consists of dedicated regulations, strategies and funding sources for projects and the different stages of maturity, all of which should result in smarter, more sustainable transport,

a cleaner environment, sustainable use of resources, more affordable energy, the creation of new jobs and an overall better quality of life. There are also a number of funding mechanisms in place to facilitate the EU Green Deal and ensure a just and inclusive transition totaling over 1 trillion euros. The goal is to transform the EU member states from a high to low carbon economy without reducing prosperity. As part of the EU Green Deal, the European Commission proposed the first set of targets to be met by 2030 and adopted the Fit for 55 package in July 2021, which is a set of legislative proposals designed to align the EU's climate, transport, land use, energy and taxation policies. But that's 2030 milestone targets of cutting net greenhouse gas emissions by at least 55 percent when compared to the 1990 levels. One could say that the European Green Deal represents a general action plan to fight climate change, while the Fit for 55 package offers the preparatory path to meet the targets of the European Green Deal. More specifically, Fit for 55 focuses on specific topics that need particular attention, and also need a strong green transition to achieve climate neutrality. Some of these areas of attention relate to energy efficiency, renewable energy, reducing forestry, energy taxation, carbon dioxide emission standards for cars and vans, carbon leakage and emissions from the maritime and aviation sectors. Because we have a global audience for the podcast, and also because I'm sure that it will come up in the podcast. I will quickly mention two of the Fit for 55 legislative packages that are of particular conversation to the international market. The first is the revision of the current EU Emissions Trading System, which has a cap-and-trade system that sets an annual cap on the amount of greenhouse gases that companies and covered sectors may emit. Within the cap companies either receive emission allowances for free or buy them and unused allowances can then be sold or used the following year. The revision essentially entails phasing out free allowances and extending the covered sectors to include maritime transportation, as well as creating a new emissions trading system for buildings and road transportation. Second, and tied to the revision of the EU Emissions Trading System is the introduction of a carbon border adjustment mechanism or CBAM. This mechanism operates by posing a charge on the embedded content of certain imports. That is equivalent to the charge imposed on the domestic goods under the ETS, with adjustments being made to this charge to take into account any mandatory carbon prices in the exporting country. This is designed to prevent carbon leakage, which could occur if consumers switched from buying EU produced goods to purchasing substitutes from non-EU countries where a lower or no carbon price is levied, or if firms shifted production activities from EU producers to such countries.

**Announcer:**

With the ever-changing regulations related to the EU green deal, could you walk us through some of the challenge's organizations are facing?

**Nicole:**

Firstly, because the legislative process underpinning the EU Green Deal and Fit for 55 package is still underway. There is some level of uncertainty as to what the final legislation will look like. The legislation process involves the European Parliament, the European Commission, and the Council of the EU, which represents the different member states all agreeing on the final legislative text. Negotiations can be quite intense. Really, some parties may view the proposals as being too ambitious. Others think that the proposals are not ambitious enough. And really the middle ground needs to be found without compromising on the set targets and the ultimate goal of achieving climate neutrality by 2050. So just as an example, there has been a disagreement over the European Commission's proposal to include specific nuclear and fossil gas energy activities in the list of environmentally sustainable economic activities. Now, this has an impact on businesses that are aligned on all use nuclear and gas energy and the operations and we know what the end goal is, but when would companies have to start implementing the changes? How much time do they have to transition? We've also seen that one of the perceived challenges to companies is a lack of understanding of what the EU Green Deal means for their businesses and therefore whether they will whether they have the necessary organizational skills to be compliant with what will become legislation. The EU green deal will change the status quo to make businesses and supply chains more sustainable. At the moment, carbon intensive industries and sectors are most affected by these changes, especially as governments look towards decoupling economic growth from resource use. It's a costly exercise to transition current processing and production operations, which may require substantial investments. And this investment may not be limited to capital expenditure but may require companies to start undertaking research and development to ensure that they meet the demand for higher sustainability standards. And this may be completely new territory for some organizations, which they then need to learn how to navigate.

**Announcer:**

Richard, turning to you, could you provide your perspectives from a developing country point of view?

**Richard:**

I think the biggest impact on developing countries must come from carbon border adjustment mechanisms, CBAM, which is basically a carbon tax system, the question is who is going to bear such carbon tax costs? It will either be the higher landed costs in the EU or lower margin for the non-EU exporters, or both.

**Announcer:**

Pilar, could you highlight some examples to help our listeners understand the complexity of the regulation that is coming?

**Pilar:**

In addition to what Nicole said, I would add that in order to understand the complexity of the regulation that is coming and how it will affect all sectors in the supply chains, that some examples that can be highlighted.

First of them is the circular economy package that consists of two European action plans for the circular economy. This package contains measures covering the full life cycle of products so from production and consumption to waste management and the market for secondary pro-materials. It focuses on resource intensive sectors where the potential for circularity is high. Another initiative is the proposal for a regulation on eco-design for sustainable products. This addresses product design, which determines up to 80 percent of a product's life cycle environmental impact. And it sets new requirements to make products more durable and reliable and also to make them more reusable. Being the products easier to maintain and recycle and so that the energy and resource are more efficient. In addition to this package reinforces product specific information requirements that will ensure consumers knowledge on the environmental impacts of their purchases. So that all regulated products we'll have digital products passports, that will make it easier to repair or recycle the products and facilitate the tracing of the substances of concern along the supply chain. And the last package that I think is important to highlight is the Farm to Fork strategy that lays down a new approach to ensure that agriculture, fisheries, aquaculture and the food value chain contribute appropriately to the objective of a climate neutral union 2050. Food systems remain one of the drivers of climate change and environmental degradation on the other side consumers will also need to be empowered to choose sustainable food, so that will be created favorable environment that makes it easier to choose healthy and sustainable diets that will benefit consumers health and quality of life by introducing transparency requirements and also their requirements in terms of production.

**Announcer:**

How are you seeing organizations address the challenges of the EU Green Deal? Pilar, perhaps we can start with you?

**Pilar:**

There are different levels of maturity. Some are still on denial, others are taking a just compliance approach and the most ambitious ones have an internal strategy.

**Announcer:**

Nicole what would you add?

**Nicole:**

Collaboration is the first thing that comes to mind. So, there's already an increased demand from consumers for sustainably produced goods and services. And the laws and measures being proposed under the EU Green Deal will only make this demand stronger. Now for companies to provide sustainably produced goods and services they need to re-evaluate their entire supply chain. And what we're now seeing is European countries with sustainability commitments looking for ways to form supply chain partnerships with the aim of improving environmental practices. Another avenue that organizations are using to address the challenges presented by the EU Green Deal and decarbonization efforts is investing heavily into research and development, which also brings us back to the collaboration aspect. As companies generally don't undertake R&D in an isolated silo. Research institutions, governments and educational institutions are just some of the key players that are involved in the process.

**Announcer:**

Richard, how are you seeing organizations in developing countries address some of the challenges we have discussed so far?

**Richard:**

Let me give you the state in China. Apparently, more and more companies in China know they should take actions to reduce carbon emissions so as to mitigate the future carbon tax risks. And yet, many of them do not know how to do so. For example, the cornerstone of the EU ETS and CBAM is the management system called MRV (Monitoring, Reporting and Verification). This is the fundamental set-up to manage carbon emission and to quantify and realize any carbon emission reduction. The fact is, many companies in China do not have such management processes within the organization. I did an informal survey during a recent webinar and found 90 percent of the C-Suite participants do not know what MRV is. So, I think carbon management and carbon emission reduction is a long way to go for businesses in developing countries. And my team have been working so hard to assist our clients in this respect.

**Announcer:**

Could you all share some of the opportunity's organizations have as it relates to the EU green deal?

**Pilar:**

Those companies being able to understand the challenges of their sector and transform this ESG wave into an opportunity with an strategic approach will have the key to success. We are seeing already examples of this because denial is no longer an option. It is crucial to monitor, analyze and take action with a sound strategy. So monitoring the regulation, monitoring the market and trends is crucial, they're also difficulties for the organizations that they need to transform into opportunities as those operating in an international context where there are many legal risks that may arise including reputational and reimbursement risks.

**Announcer:**

Thanks Pilar, and Nicole?

I'm going to respond to this question from an international perspective, the European Commission recognizes explicitly that it cannot achieve the aims of the EU green deals solely within the EU's boundaries. So not only does the EU need and want goods and services from outside its borders but it also knows that the impacts of climate change, inequality and environmental degradation are global. To this end, and as I mentioned earlier, the EU has a number of funding mechanisms in place to facilitate the EU Green Deal. And some of these will be used to assist developing countries outside of the EU with their decarbonization efforts, so they are definitely funding opportunities available that organizations should explore.

**Announcer:**

Richard, your thoughts?

**Richard:**

With the current energy crisis in place many people ask why we need to take aggressive actions now on decarbonization? My personal view has always been, first of all, carbon pricing mechanism like ETS and CBAM is the instrument to make emitters to take concrete actions and moreover, addressing climate risks is the only way to business certainty.

**Announcer:**

To wrap up our conversation today, can I ask each of you to pass on some advice to today's listeners to better support them in managing what the EU Green Deal means for their organization? Nicole if I could come to you first?

**Nicole:**

The European Green Deal impacts both trade within the EU and imports into the EU and affects most, if not all sectors. Businesses should remain well informed of the EU Green Deal developments and begin evaluating the overall impact that various legislative packages will have on the business activity, which may not be limited to internal operations that may require impact assessments in relation to sourcing and supply chains.

**Announcer:**

And Pilar?

**Pilar:**

I fully agree with Nicole. Monitoring regulation and assessing the impact, taking into account the position of the company – its business on the market is crucial in order to take positions. There are many risks that arise from the uncertainty in the regulation, but also reputational risk.

**Announcer:**

And finally, Richard?

**Richard:**

For companies in developing countries outside the EU, if your company had not had a GHG baseline, you should start from a baseline assessment. If your company has not set up MRV, then you should start from setting up MRV.

**Announcer:**

Richard, Nicole and Pilar, thanks again for speaking today. You've given our listeners a lot to think about and we look forward to hearing more about the many topics discussed today in future podcasts. Join us again next time for more insights from ESG leaders and innovators. You can also find our latest insights covering a range of ESG topics by visiting [home.kpmg/IMPACT](https://home.kpmg/IMPACT). Thanks for listening!

**Thanks for listening!**

*Musical exit*

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