Transition Planning and Sustainable Finance are Key to Net Zero

BY **ERIC LIM,** Chief Sustainability Officer, UOB

With 2023 officially the hottest year on record, there is no question that the world is grappling with a climate crisis. Governments are now hunkering down to achieve their national carbon reduction targets, putting pressure on businesses to contribute towards decarbonisation. What should companies finding themselves at this crossroad of pivoting towards a greener future and a more resilient bottom line do?

During his speech at the Committee of Parties (COP) 28, Ravi Menon, then-managing director of the Monetary Authority of Singapore (MAS), pointed out that half of all greenhouse gases (GHG) resulting from energy production come from the Asia Pacific (see box, "Carbon Dioxide Emissions from Global Energy Production").

In Singapore, our energy is generated mainly from natural gas, a form of fossil fuel albeit a "clean" one. While there have been measures to diversify into renewable sources, massive infrastructure including storage systems need to be put in place to ensure that renewable energy reaches the customer both cheaply and efficiently.

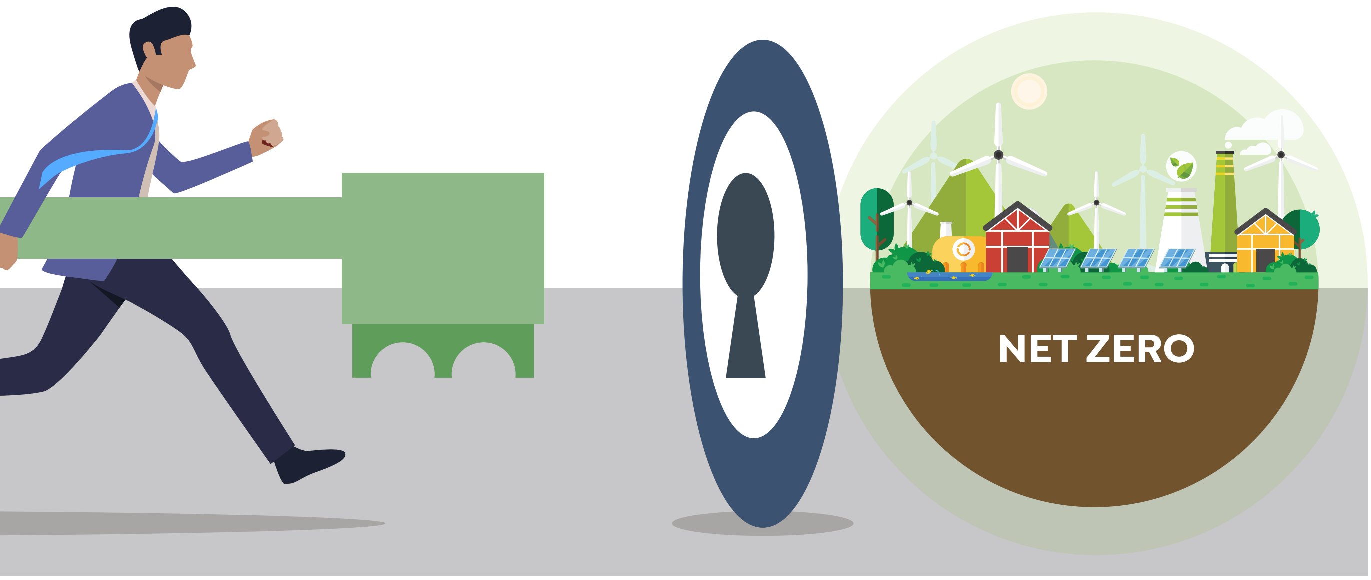
Beyond energy generation, Singapore, as an advocate of climate action, has committed to reducing GHG emissions to 60 megatonnes of carbon dioxide-equivalent by 2030, and achieving net-zero emissions by 2050. The impact of Singapore's commitment on companies is threefold.

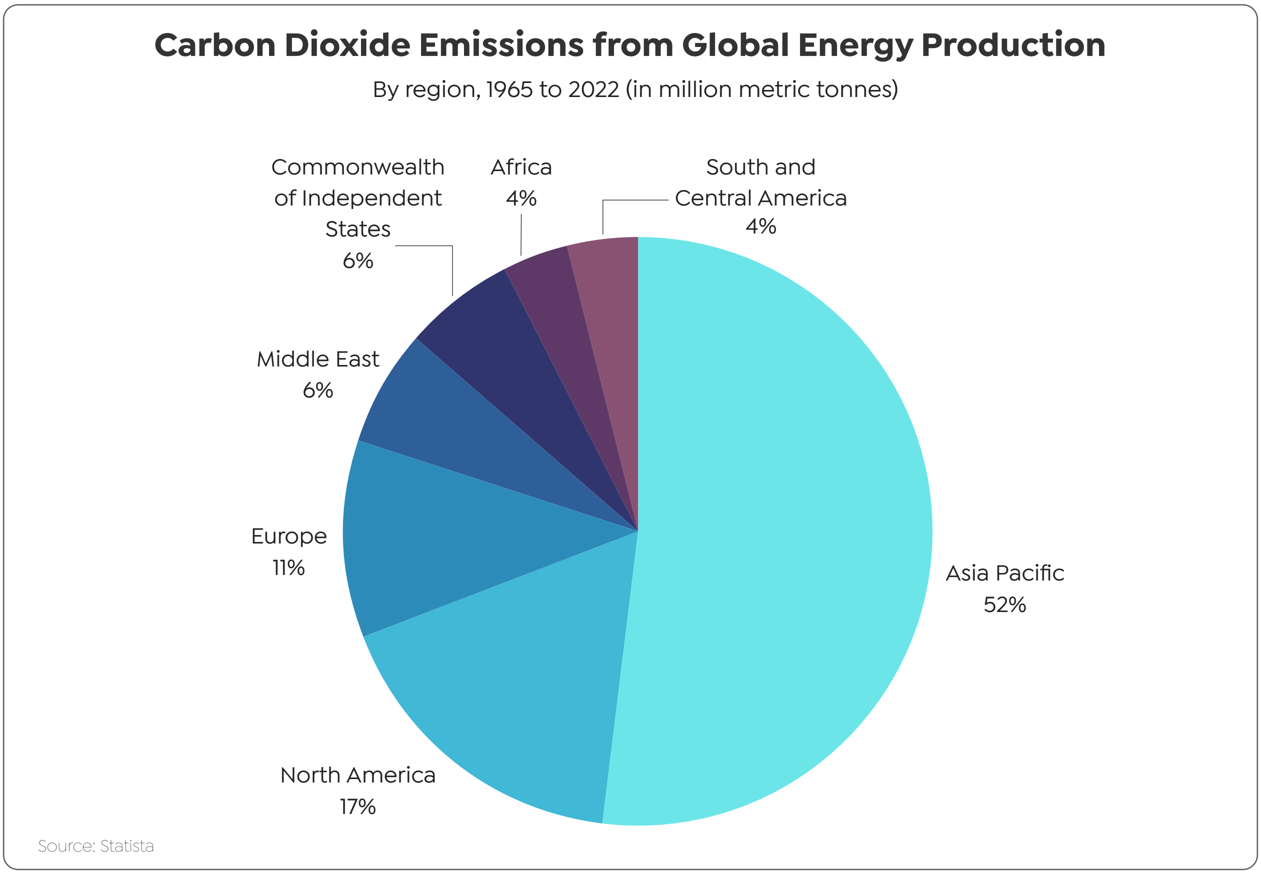
First, Singapore is raising the carbon tax from S$5 to S$25 this year. While the tax applies mainly to energy producers, the additional costs will be passed on to both households and businesses. This means higher electricity bills for everyone.

Second, the Singapore Green Plan has set ambitious targets to achieve the country's net-zero goal. These targets require concrete actions by 2030 and include:

- Reducing waste to landfill per capita per day by 30 per cent.
- Greening 80 per cent of buildings (by gross floor area).
- Limiting new car and taxi registrations to cleaner-energy models.
- Requiring all new harbour craft operating in Singapore ports to be fully electric, capable of using B100 biofuels or compatible with net-zero fuels.
- Producing 30 per cent of Singapore's nutritional needs locally and sustainably.

For Singapore to meet its targets, industries have to transform and companies must play their part. For a start, companies need to review and revamp their business strategies and operating models, to ensure





that they will not be stranded in the nation's journey to a net-zero economy.

Third, Singapore will require all large companies to publish climate-related disclosures come 2027. Currently, this is mandatory only for listed companies in the financial, agriculture, energy, food and forest products, materials, buildings and transportation industries.

Nevertheless, all listed companies have to comply starting from the financial year of 2025. This regulatory move will make almost all companies accountable for the emissions of their operations and supply chains.

It is therefore imperative that companies develop their transition plans to decarbonise their business as quickly as possible. While the challenges they face may vary significantly among industries and entities, the sooner companies can integrate sustainable practices into their organisational goals, policies and initiatives, the greater their long-term resilience and competitive edge.

Further, with clearer regulatory signals from the government committing to a greener future, companies also stand to build a stronger business case for sustainability or transition-related initiatives.

Ripple effects from global supply chains

Beyond domestic regulatory changes, Singapore companies are also being affected by the increasing sustainability demands in global supply chains given the country's status as an international trading hub.

One such example is Europe's Carbon Border Adjustment Mechanism (CBAM), which entered into force on 1 October 2023. CBAM requires European Union (EU) companies importing cement, iron and steel, aluminium, fertilisers, electricity and hydrogen to report the GHG emissions embedded in their imports.

It is just reporting for now. But from 1 January 2026 onwards, the same companies will have to pay a border carbon tax for their imports, based on the price of allowances under EU's Emissions Trading System.

What this means for Singapore companies, particularly if they are part of the supply chain of these EU companies, is the requirement for reliable emissions data to now be available readily. EU importers complying with CBAM, for example, must submit their emissions reports every quarter.

In time, the pressure to decrease emissions throughout the supply chain will also trickle down. This could come in the form of tighter procurement standards or even changes in buyer perception. The incentive to embark on a green transition will not only be a moral one; it will be about staying competitive.

Tapping on financial levers

As providers of capital, banks play a critical role in supporting companies on their green transition by providing funding for business transformation or diversification.

There are three main types of loans that companies can access – sustainability-linked loans, green loans and transition finance.

Sustainability-linked loans can be used for general corporate purposes, as long as companies commit to meeting mutually agreed sustainability performance targets, which can be of an environmental or social nature. While green loans and transition finance have more specific requirements on the use of proceeds, there have been multiple efforts to provide guidance for companies and banks alike.

The Singapore-Asia Taxonomy for Sustainable Finance, released during COP28, covers green and transition activities across eight focus sectors, namely energy, real estate, transportation, agriculture and forestry or land use, industrial, information and communication technology, waste and circular economy, and carbon capture and sequestration.

The taxonomy employs a traffic-light system. Activities in the "green" category operate with almost zero emissions or are on a pathway to net zero by 2050. "Amber" indicates activities transitioning towards green within a certain time frame, while "red" indicates activities that are neither green nor transitioning.

The taxonomy also provides greater clarity on what makes a high-quality transition plan – companies must include clear pathways, targets and data reporting that are core to their businesses. Companies that align their activities with the taxonomy will find it easier to obtain green or transition financing. In addition, being able to identify the portions of their business that are green, amber or red will significantly reduce the risk of green or transition washing.

The need for a just transition

Decarbonisation must take place in consideration of a just transition, which is to green the economy in a way that is as fair and inclusive as possible to everyone concerned. In the process, livelihoods remain secure, and no one is left behind. The outcome is a resilient society that is able to respond to both social and environmental challenges.

In this regard, companies are finding the balance between meeting net-zero targets while still providing jobs and being profitable. In response, sustainable finance, including transition finance, will become increasingly mainstream for banks.

Conversely, financing unsustainable businesses with no plan to transition will be considered higher risk and unviable in the long term.

Every single effort and initiative counts on the collective journey to net zero. Realistic and pragmatic approaches will ensure that people and the planet can progress in harmony. ●