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Views from Climate Week NYC 2024

Navigating Industrial Decarbonization, Carbon Markets, and ESG Challenges

Climate Week NYC 2024 took place against the historic backdrop of the United Nations General Assembly's adoption[1] of the **Pact for the Future** where, among many commitments, countries agreed to strengthen their actions to address climate change and accelerate the reform of the international financial architecture to meet the urgent challenge of climate change[2].

As an important precursor to each year's COP, the events and meetings held during this year's Climate Week NYC discussed the implementation of COP28 goals[3] and added significant momentum to the making and delivery of ambitious commitments at COP29 in November 2024 in Baku, Azerbaijan.[4] The UN Global Compact's Sustainable Development Goals (SDGs) for 2030 have stayed largely off course, with only 17% of the targets on track.[5] The SDGs go hand and hand with the COP28 goals, and the pressure to meet them needs to be maintained and treated as an integral part of the discussions at COP29 and COP30. This was the message that echoed across many events throughout the week, with the UN Global Compact renewing its call to action via its **"Forward Faster" campaign** as part of its key messages at the Private Sector Forum.

It was a lively week with 900 events centered on the theme "It's Time." A number of experts from Baker McKenzie and Trench Rossi Watanabe* participated in the events, meetings and conversations, and they share below some valuable insights and takeaways.

1. United Nations Information Service Nairobi
2. Actions 9 and 50, The Pact for the Future
3. For example, 'Global leaders discuss how to deliver on COP28 energy goals at high-level dialogue in New York'
4. COP29 Presidency Arrives in New York for 79th United Nations General Assembly, New York Climate Week
5. United Nations Press Release

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01 Industrial decarbonization

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Industrial decarbonization was a key theme throughout the week, particularly at the World Business Council for Sustainable Development (**WBCSD**) council meetings and subsequent events. This included the launch of the **Center for Decarbonization Demand Acceleration**, backed by 26 founding member companies and focused on using collective action to drive industrial decarbonization. Closely linked to that goal was the release on the same day of **Strategic Investment in Hydrogen Offtake: A Toolkit for Senior Leaders**, which Baker McKenzie was proud to launch with WBCSD — distilling work throughout 2023 and 2024 with hydrogen suppliers and offtakers in heavy industry: steel, heavy-duty transport, chemicals, as well as low-carbon fertilizer producers, food and agriculture companies. The Toolkit outlines practical actions that can be taken by senior leaders to accelerate low-carbon hydrogen adoption, noting the need to shift from "demand signals" to "demand action" through which projects can move forward. The subsequent panel discussion with senior leaders from the maritime, fertilizer and steel sectors all highlighted one key theme: Unlocking industrial decarbonization requires action through the supply chain. Developing book and claim systems to transfer the benefit of emission reductions in a supply chain to end users is a pragmatic and effective way of unlocking the green premiums needed to achieve this. The work of the Center for Green Market Activation in the US was flagged as a key example of how to do this.

Andrew Hedges, Global Chair Climate Change Group and Co-Chair, IETA Legal Working Group

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Ensuring the relationship between decarbonization, innovation and future value creation was also a theme during the **UN Global Compact Leaders Summit**. One of the sessions focused on responsible consumption and production. The objectives of the circular economy can help future-proof and build a resilient business by diversifying supply chains, implementing technological advances at scale and collaborating within and across sectors to drive systemic change — and, as such, should be viewed through a long-term value creation lens.

Alyssa Auberger, Chief Sustainability Officer

02 # Developments in the carbon market

Financing options

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A key theme in multiple events and forums focused on how the voluntary carbon market can be scaled further. The last few years have focused on building answers to the integrity concerns leveled at this market. With solutions now in place — such as the Integrity Council for the Voluntary Carbon Market’s Core Carbon Principles and the Voluntary Carbon Markets Integrity Initiative’s Claims Code — discussions at Climate Week NYC focused on how to bring in new finance solutions to scale the market. At an event hosted by Baker McKenzie, there was an important discussion on how leading developers, long-term buyers, new insurance providers and new sources of capital can come together to invest in repeat deals with similar structural elements.

Another buyer initiative that caught a lot of attention during the week was **Symbiosis**, the 20 million ton advance market commitment to invest in the next generation of nature-based carbon removal projects by 2030. Both this and the other leading coalition, Frontier (focused on technological removals), demonstrated the importance of technology companies as major buyers of carbon credits.

Andrew Hedges, Global Chair Climate Change Group and Co-Chair, IETA Legal Working Group

Scaling up investment in carbon projects in developing countries

Scaling up and de-risking investments in carbon projects is critical in the drive to achieve net zero. A common theme at the events I attended was the importance of building trust in the private sector to invest in such projects. Corporates are seeking carbon credits that are high in integrity and quality. Stakeholders highlighted the following necessary ingredients for this to occur:

- It is imperative that countries issue **legislation that brings confidence to investors** and provide consistency, integrity and predictability.
- **Taxation also plays a crucial role in incentivizing** projects and investment, encouraging key players to take manageable risks and ensuring a just transition.
- Local investment schemes also have to **define financial incentives**, including funding lines, insurance and guarantees adapted to the particularities of the sector to take risk out of the equation. Blended-finance solutions and the use of public capital as a de-risking scheme to mitigate investment risks that are discouraging the flow of private capital could be considered as alternatives.
- From a practical standpoint, players must conduct a **realistic risk assessment and plan ways to address due diligence findings** (such as absence of Free, Prior, and Informed Consent (FPIC), land ownership irregularities, lawsuits that could cause project activities to be suspended) within a reasonable timeframe, which will vary depending on local matters where the carbon project is developed.

Additionally, I sat in several discussions around how the main standards (Verra, Gold Standard, etc.) are called upon to urgently implement processes to speed up the analysis of the projects and issuance of the credits, without abandoning the concern to secure integrity and minimize reputational risks.

Renata Amaral, Partner at Trench Rossi Watanabe*, São Paulo and Chair of the International Chamber of Commerce (ICC) Brazil's Environment and Energy Commission

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Climate-related physical risks need to be taken seriously

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At the panels we participated in, a key takeaway was that companies need to develop and implement strategies to address climate-related physical risks that affect their businesses and operations with much more urgency and not underestimate the financial impact of such risks, especially the short- and medium-term impacts. Governments also lack sufficient appreciation for the significance of this issue. During Climate Week NYC, the World Resources Institute released a technical note[6] that analyzed the difference between 3°C and 1.5°C warming on cities and found the difference is sizable: At 3°C, many cities could face longer and more frequent heatwaves, skyrocketing energy demand for cooling and a shifting risk for insect-borne diseases. This emphasizes the significance of climate-related physical risks and the need for businesses to sufficiently adapt their operations.

While companies and governments have been focusing initiatives on “transition risks” (which relate to the global shift toward a net-zero economy), decision-makers seem to overlook climate-related “physical risks.” For example, as a result of weather conditions in certain parts of the world, commodities may reach prices that will put many companies out of business within five years if they don’t redesign their supply chain immediately.

Renata Amaral, Partner at Trench Rossi Watanabe*, São Paulo and Chair of the International Chamber of Commerce (ICC) Brazil’s Environment and Energy Commission

David Hackett, Senior Counsel, Chicago

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6. City-Scale, City-Relevant Climate Hazard Indicators Under 1.5°C, 2.0°C, and 3.0°C of Global Warming

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04 Climate and other ESG reporting and disclosures – complying with different requirements across the globe

"We participated in a number of panel discussions addressing companies' continuing challenges in navigating the expanding regulatory and voluntary standard climate disclosure obligations.

An increasing number of jurisdictions have adopted, or are in the process of adopting, the International Sustainability Standards Board (ISSB) Standards for their ESG disclosure requirements. However, significantly, though referencing or based on the framework developed by the Task Force on Climate-Related Financial Disclosures (which is now part of the ISSB), the EU's Corporate Sustainability Reporting Directive, California's climate disclosure laws and the US SEC's new climate disclosure rules (currently stayed) have varying approaches particularly related to climate financial risk and opportunity disclosure. Many multinational companies during Climate Week NYC commented on the uncertainty caused by the potential consequences of these differences in requirements.

David Hackett, Senior Counsel, Chicago

"Discussions in a number of closed-door meetings — including meetings of sustainability professionals and meetings between leaders of the legal profession — focused on the complexity of reporting in the current fragmented mandatory regulatory framework, the overlap with mandatory and voluntary reporting standards, and the need for regulators to involve business more actively in discussions on proposed regulations before promulgating them. The concern voiced by many is that if the regulatory framework remains in its current disjointed state, it runs the risk of being treated as a compliance exercise and the benefit of looking at sustainability as a way to create value for business will be lost. Reporting professionals are struggling to keep their head above water, with a clear sentiment that regulators are very disconnected from what it takes to report in practice. There is a real desire in the business and legal community to view regulation in a positive light as an impetus to change via enhanced accountability and transparency and recognizing that a business cannot "go it alone."

The legal profession remains committed to being part of the solution, with the UN Global Compact launching its new Legal Council during Climate Week NYC as part of the Private Sector Forum. Resulting from the mandate given by the UN Secretary-General to the UN Global Compact, the Legal Council seeks to tap into the unique position of the legal profession to advocate on policy, positively influence the regulatory environment and drive systemic change.

The Net Zero Lawyers Alliance also focuses on the role the legal profession and lawyers can play in the transition — whether across their own operations or in the advice they provide their clients — and the importance of understanding the impact of climate change and the transition to net zero on legal advice and practice.

Alyssa Auberger, Chief Sustainability Officer

05 Who is responsible to address climate change in the supply chain? Who should pay?

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Several events in which we participated focused on the critical imperative and challenges of addressing climate in the supply chain. Springing from the reporting and disclosure mandates around Scope 3, a priority focus of attention revolves around the difficulties and strategies for companies to gather accurate information and manage climate risks in the supply chain effectively. Ensuring accurate and complete information and providing assistance in changing supplier practices could be massively expensive and resource-intensive, giving rise to questions about who pays and bears responsibility for transitioning climate performance in the supply chain. In light of the complexity and enormity of the scope of that challenge, companies, governments and civil society are increasingly seeking to collaborate to find solutions to finance and address climate strategies in the supply chain.

David Hackett, Senior Counsel, Chicago

06 Business as usual is no longer enough

A final message that kept reverberating throughout Climate Week NYC is that we have no more time to lose and the architecture of global finance needs to be rapidly updated if we want to achieve the main goal of limiting the increase in global temperatures to 1.5°C and control greenhouse gas emissions, while enabling a just energy transition.

While it is true that we can no longer depend on the willingness of governments to get us to net zero, as divergent political views are halting progress and driving us far away from the sustainable transformation we need, betting it all on the private sector seems like a long shot. First, because we cannot pretend that private capital will behave (or will allow to be pressured) like public capital. Second, even though the conversation might be changing, private investors will still be looking for sustainable investments that generate returns. Let's not forget that the main goal of ESG metrics is to assess the long-term health of a business, so it can keep generating profit for its shareholders.

If business as usual is clearly not working, how then will we solve this puzzle?

Although there is no quick or easy answer to this, it is clear that stakeholders involved in the climate arena must be well advised, so that new business can flow. If goals are not clear, risks are not understood, concepts are kept loose and decisions are not informed, the private sector will miss its chance to navigate and act on new opportunities, and we, as a society, will likely miss the last chance to get on the right path.

It is time to think outside the box.

Manuela Demarche, Partner at Trench Rossi Watanabe*, São Paulo

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07 The climate crisis, modern slavery and the supply chain

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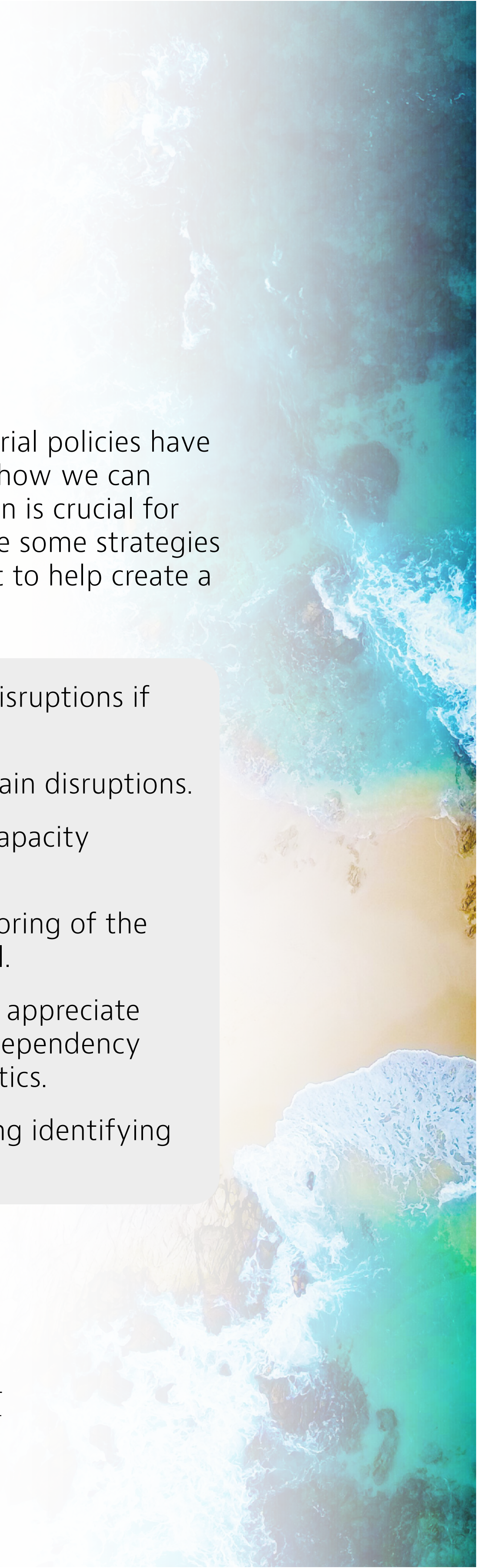
Against a backdrop of geopolitical challenges, the legacy of the COVID-19 pandemic and climate crisis-induced migration, modern slavery is on the rise. According to Walk Free’s **Global Slavery Index 2023**, an estimated 50 million people were living in modern slavery on any given day in 2021 — an increase of 10 million since 2016 (as per the 2018 Index). These new drivers compound well-documented systemic risks within business supply chains. The private sector, where the 2021 Global Estimates indicate an estimated 17.3 million individuals are in forced labor on any given day,[7] is particularly exposed. The underreported global challenge of modern slavery was discussed during the United Nations General Assembly week, including at the World Economic Forum’s Sustainable Development Impact Meetings 2024 in which we participated. It was clear that collective action involving not only the private sector but also governments, international organizations and civil society is required to fight against modern slavery.

As the electric vehicles (EV) sector continues to grow, more attention is being paid to the EV supply chain. From production to trade to foreign direct investments and subsidies, economic statecraft tools have a significant impact on global companies, including their supply chains, and unintended effects that need to be addressed by policymakers. At a session discussing the vulnerabilities and opportunities in the EV supply chain, which was part of the **2024 Transatlantic Forum on GeoEconomics** hosted by the Atlantic Council’s GeoEconomics Center and Atlantik-Brücke, we discussed what impact industrial policies have on supply chains, why we need to be realistic about what is achievable and how we can still work to reduce dependencies. Reducing dependencies in the supply chain is crucial for enhancing resilience and mitigating financial and human rights risks. Here are some strategies that corporate boards need to continuously consider, analyze and implement to help create a more resilient and flexible supply chain:

- Diversify suppliers for critical components to reduce the risk of supply disruptions if one supplier faces issues.
- Increase inventory buffers for key materials to protect against supply chain disruptions.
- Strengthen supplier relationships to improve forecasting, planning and capacity management for more efficient and reliable supply chains.
- Invest in advanced technologies for better visibility and real-time monitoring of the supply chain to help identify potential issues before they become critical.
- Localize or regionalize supply chains whenever possible (and we need to appreciate the factual limitations here — be it cost- or product-related) to reduce dependency on international suppliers and mitigate risks associated with global logistics.
- Develop contingency plans for critical supply chain components, including identifying alternative suppliers and logistics options.

Anahita Thoms, Sustainability & Trade Compliance Partner, Berlin

7. The Global Estimates of Modern Slavery: Forced Labour and Forced Marriage report published in September 2022 by the International Labour Organization, Walk Free and the International Organization for Migration



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Baker McKenzie is leading on the development of both international and domestic climate change markets and climate finance. As the only law firm ranked Band 1 in Chambers' Global Market Leaders for Climate Change for 16 consecutive years, we have unrivaled knowledge and expertise in climate change law and climate finance and wider sustainability solutions.

We are currently engaged on multiple levels advising governments, companies and other entities on the implementation of the Paris Agreement, emerging compliance and disclosure regimes and innovative approaches to carbon markets and climate finance transactions. Our team will be present in Baku for COP29, and we look forward to engaging in groundbreaking discussions with all key stakeholders to share insights and continue to offer cutting-edge advice to our clients.

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