

The Environmental Pressure Cooker



As the world continues to heat up with record breaking summer temperatures in the northern hemisphere, so too does the policy pressure on climate related matters. The race to net-zero carbon emissions by 2050 is speeding up as climate change, responsible for an increase in extreme weather events, becomes one of the biggest challenges facing the world today.

Environmental policies and regulations to protect against climate change are beginning to shift market themes and it remains important to keep abreast of new regulation and revisions. Truffle has created a glossary of key terms that are now common language in the environmental space and important policies that are turning up the heat on the management of climate change worldwide.

“ At Truffle, it is important that we stay informed of policy and regulatory developments around climate change given the fundamental shifts this could have on many global industries and sectors.

- Vuyolwethu Nzube (ESG Analyst)

General environmental terms



First Global Stocktake

A status assessment on the implementation of the Paris Agreement. The outcome of the stocktake indicated that country policies and actions taken so far are insufficient to reduce warming to 1.5°C. This is a key agenda item for COP28.

Global Boiling

Coined in July 2023 after the hottest July on record, and inferring that global warming no longer sufficiently captures the severity of global temperature rises.

Global Warming

The long-term warming of the earth's temperature.

Greenhouse Gas Emissions (GHG Emissions)

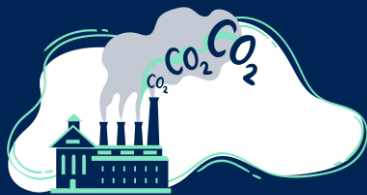
Gases that trap heat in the atmosphere, the most common being carbon dioxide. Larger companies are now reporting their carbon footprint driven by regulation and shareholder pressure. Scope 1 emissions comes from direct company processes, scope 2 from electricity, and scope 3 from the rest of their supply chain. Methane is another important GHG emission to be reduced. The Global Methane Pledge was launched at COP26 in November 2021 - this has 111 countries signed up to it, which represent 45% of global methane emissions.

Adaptation & Mitigation

Adaptation refers to measures to adjust to current and future effects of climate change (e.g., building defences against rising sea levels), while mitigation refers to measures to lessen the current and future effects of climate change (e.g.: reducing the use of fossil fuel through electric vehicles).

Conference of the Parties (COP)

Annual review of implementation of the Paris Agreement. Members include majority of countries worldwide. The next meeting (COP28) will be held in the UAE from 30 November 2023.



Just Transition

A transition to a low carbon economy that considers socio-economic aspects. South Africa's Presidential Climate Commission has a Just Transition Framework given the transition from carbon heaving industry (coal) to renewables would impact the livelihoods of people working in these industries.

Nationally Determined Contribution (NDC)

A national climate action plan submitted to the COP at least every 5 years. South Africa's NDC requires significant investment in renewable energy.

Net-Zero

A state where GHG emissions are balanced by removals of those emissions creating a net-zero effect. This requires a significant decrease in GHG emissions as well as carbon removal technologies. There are several countries that have signed net zero targets into law, such as the UK. South Africa has a net-zero pledge but has not signed it into law.

Paris Agreement

A commitment from signatory countries which was initiated in 2015 to reduce greenhouse gas emissions to keep global temperature rises well below 2°C and if possible, below 1.5°C. This agreement is driving significant country policy and regulation on climate change.



Country-specific policies

As signatories of the Paris Agreement and in recognition of the significant challenge the world faces in managing the impact of climate change on the longevity of our planet, individual countries have committed to targets and outlined plans to support climate change initiatives. Some of the key policies now gaining traction in the developed world and South Africa include the following:

EU Carbon Border Adjustment Mechanism (CBAM)

The EU initiated this measure to level the playing field across countries. The aim is to balance the overall cost of productions by aligning the carbon tax paid on carbon intensive goods produced in the EU to the carbon price paid on carbon intensive goods imported from other countries. This could initially impact around **2.2%** of South Africa's global exports.

EU Deforestation Regulation

The aim of this regulation is to limit consumption of products by EU citizens that could contribute to global deforestation. Brazil has argued that this will contribute to food inflation.

European Union Green Deal

The EU Green Deal is a package of policies representing the EU's strategy to transition to a clean energy economy and reduce GHG emissions to neutral by 2050. The deal includes a Fit for 55 Package which aims to translate the climate ambitions into law. This contains measures around their emissions trading system and ensures a just and fair transition.

Inflation Reduction Act

The United States' IRA provides corporates and consumers with financial, and other incentives in the form of subsidies, and tax rebates to build a clean energy economy, and in the process reduce their GHG emissions. This includes carbon capture and methane reduction strategies and incorporates the concept of a Just Transition. It is estimated that more than **\$370bn** of the US fiscal budget will be allocated through this Act.

South Africa's Just Energy Transition Investment Plan

This plan supports SA's NDC plan to reduce GHG emissions and sets the funding and methodology required for just and fair decarbonising over the next 5 years. SA requires **R1 480bn** over the next 5 years -

- 70% for decarbonising the electricity sector
- 22% for the green hydrogen sector
- 8% for the development of the new energy vehicle sector.

Details on the implementation of this plan are still to be formalised.



New policies and continued regulation advancement demonstrate the level of pressure (or heat) countries are experiencing to reduce carbon emissions and effectively manage the impact of climate change.

It's likely we will see an increased focus on the "climate stick" (in the form of taxes and financial costs) as opposed to the "climate carrot" (in the form of incentives). There will also be new opportunities in sectors and products required in the new energy economy.

Invest in the value of experience.



✉ info@truffle.co.za

☎ +27 11 325 0030

🌐 www.truffle.co.za