

G7 Workshop

*Tools making value chains more circular and resource efficient
Voluntary agreements, standardisation & non-financial reporting*

Hôtel de Roquelaure
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Session 4: Non-Financial Reporting and Metrics for Circularity in Value Chains

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President Green Budget Europe

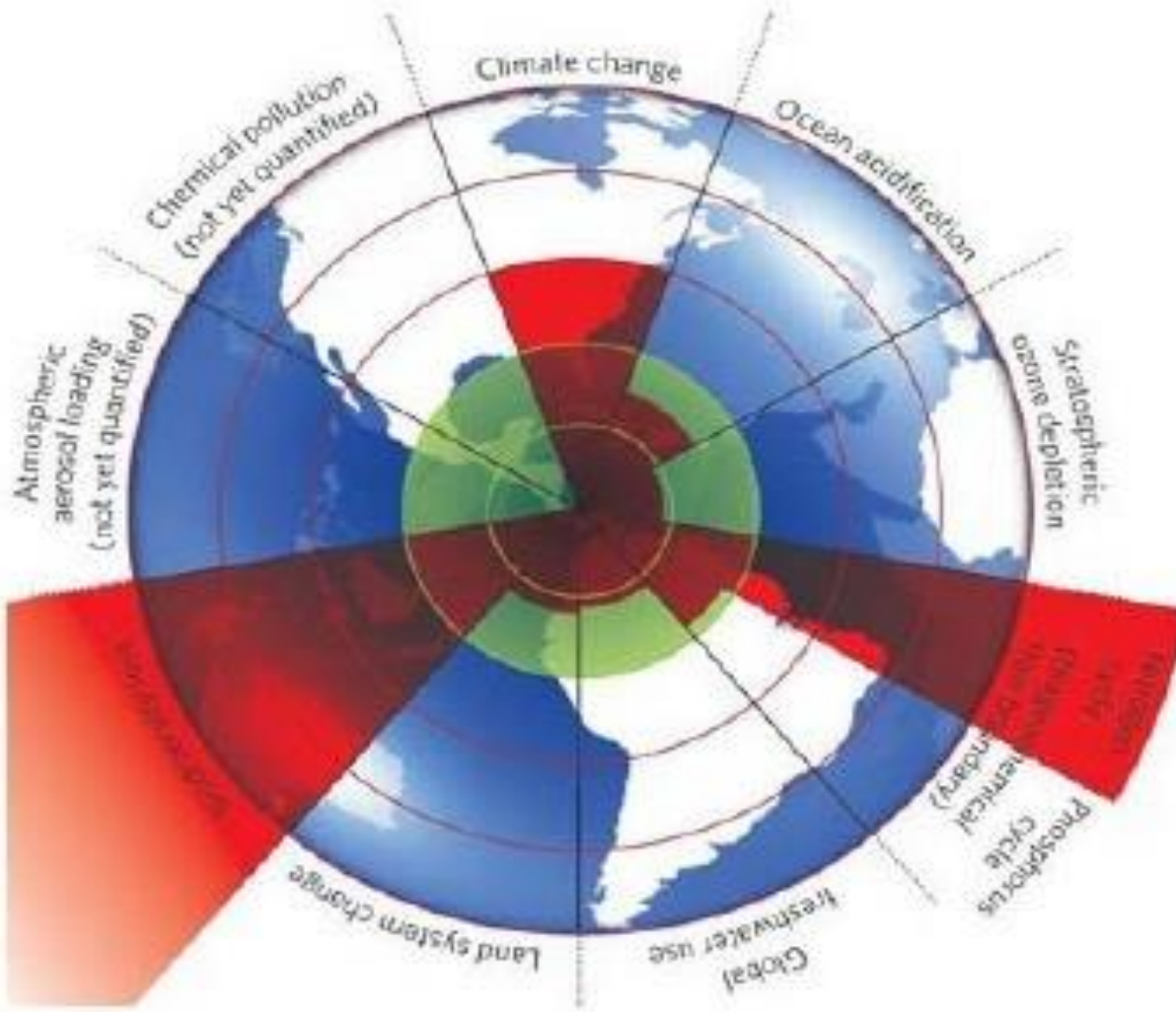
IRP – International Resource Panel – Steering Board

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10 Planet Ecosystems to be kept under control:

1. Climate change
2. Biodiversity loss
3. Nitrogen cycle
4. *Phosphorus cycle*
5. Stratospheric
ozone depletion
6. *Ocean acidification*
7. *Global
freshwater use*
8. *Land system
change*
9. Atmospheric
aerosol loading
10. Chemical pollution



Source: Rockstrom et al (2009)

BE BASED ON AVAILABLE SCIENCE: THE PLANETARY BOUNDARIES

Potocnik, IRP-GRO

(International Resources Panel,
Global Resources Outlook 2019)

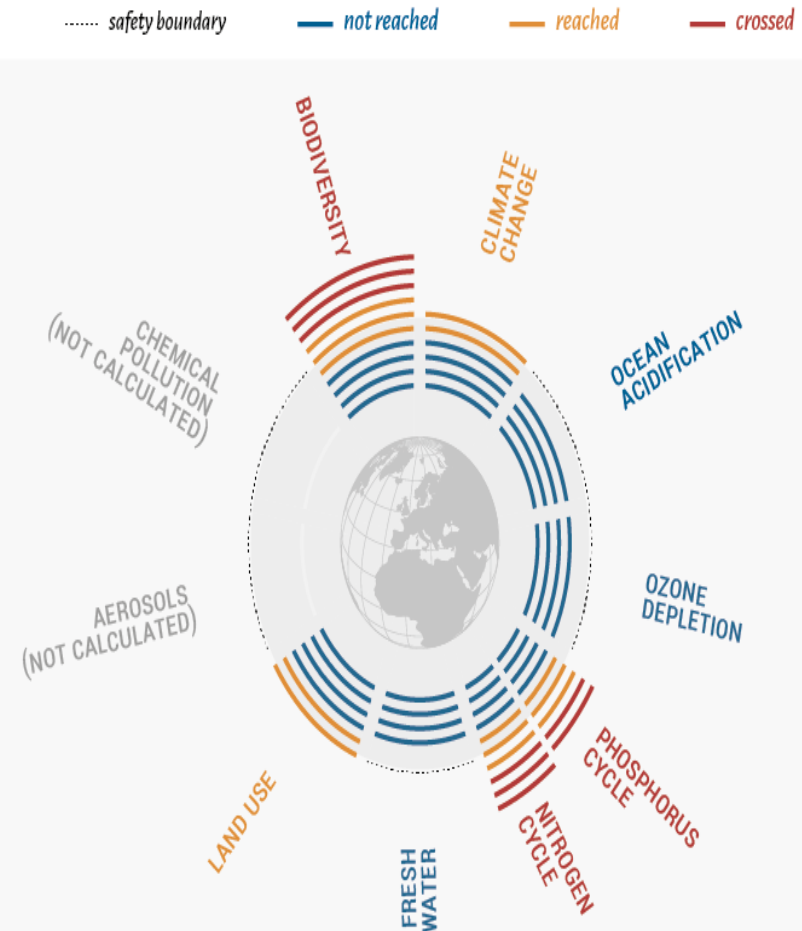
For the first time in a human history we face the emergence of a **single, tightly coupled human social-ecological system of planetary scope.**

We are more **interconnected and interdependent** than ever.

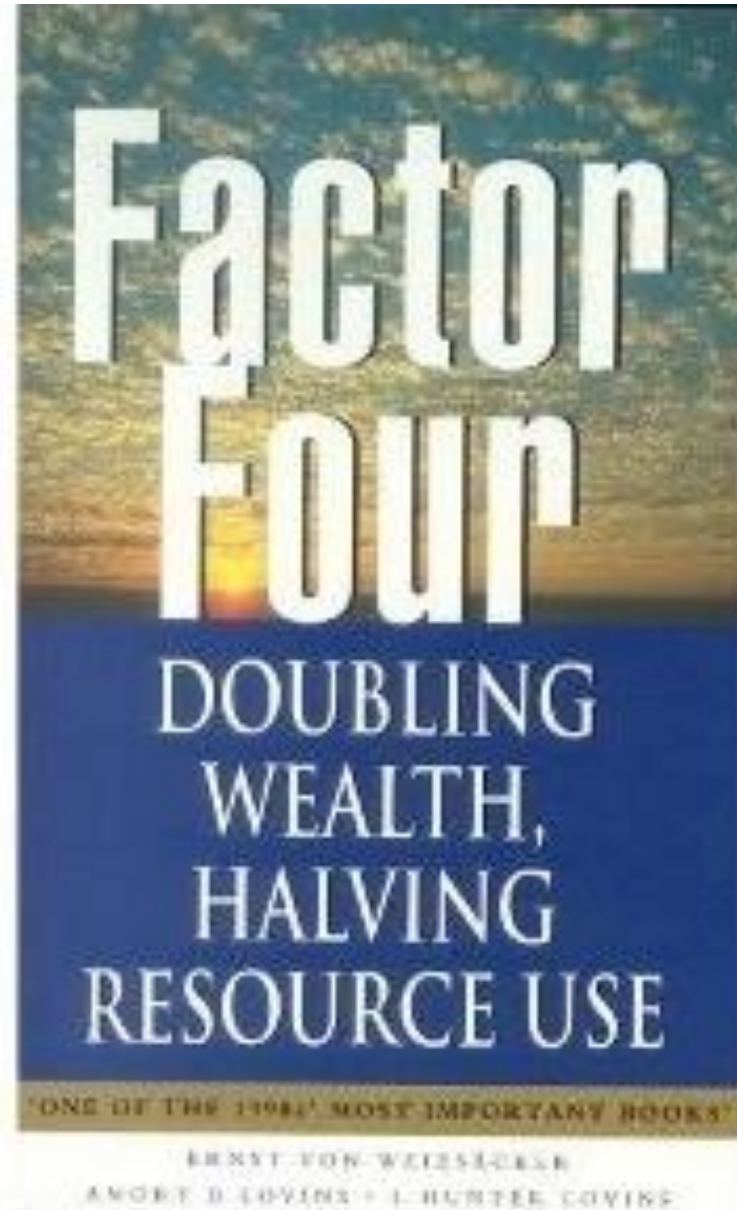
Our individual and collective **responsibility** has enormously increased.

Planetary boundaries

By 2015, we reached or crossed the boundary between safe operating levels and dangerous conditions in five planetary trends.



Origins of Resource Efficiency: “Factor 4”



OUTLINE

- **Roots and background**
- **Climate disclosures and voluntary practices**
- **EU action - Sustainable Finance Action Plan**
- **Reports in Italy on NFR:**
 - **E&Y (Ernst&Young)**
 - **KPMG**
 - **Consob (Italian Stock Exchange Authority)**
- **Italian “Position Paper on Circular Economy” and “Circular Economy Indicators Document”**
- **Issues from a policy-maker (-preparer) perspective**

OECD WORK

- **Material and energy flows**
- **2004 Council Recommendation on Resource Efficiency**
- **2008 Council Recommendation on Resource Productivity**
- **Research on policies and indicators for resource efficiency and circular economy**

G7 WORK

- **3Rs (Japan) and Toyama Framework**
- **G7 Resource Efficiency Alliance and G20 Resource Efficiency Dialogue/Platform (Germany)**
- **G7 Bologna Roadmap on Circular Economy (Italy)**
- **OECD and IRP/UNEP support**

Climate disclosures and voluntary practices

- [Carbon Disclosure Project](#) (CDP) shows that business is picking up the pace on climate action. Spurred by the Paris Agreement, more leading companies are embedding **low-carbon goals** into their **long-term future** business plans. According to [CDP's tracking of corporate action on climate change](#), in 2017 89% of the respondents of CDP's climate change questionnaire (1,073 companies within a sample of 1800 world's biggest and high-emitting companies) report the voluntary adoption of emissions reductions targets, compared to 73% in 2011.
- The number of European companies responding to the CDP climate change questionnaire increased by about 17% between 2013 and 2017.

In June 2017, the **Task Force on Climate-related Financial Disclosures** (TCFD), established by the G20's Financial Stability Board, published recommendations to encourage financial institutions and non-financial companies to disclose information on climate-related risks and opportunities.

There are still significant gaps in company disclosure of climate related information.

Further improvements in the quantity, quality and comparability of disclosures are urgently required to meet the needs of investors and other stakeholders.

EU action –

Sustainable Finance and Non-Financial Reporting

In March 2018 the Commission published the **Action Plan on Sustainable Finance**, with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.

As part of that Action Plan, the Commission **committed to updating the Non-Binding Guidelines on Non-Financial Reporting**, specifically with regard to the reporting of climate-related information.

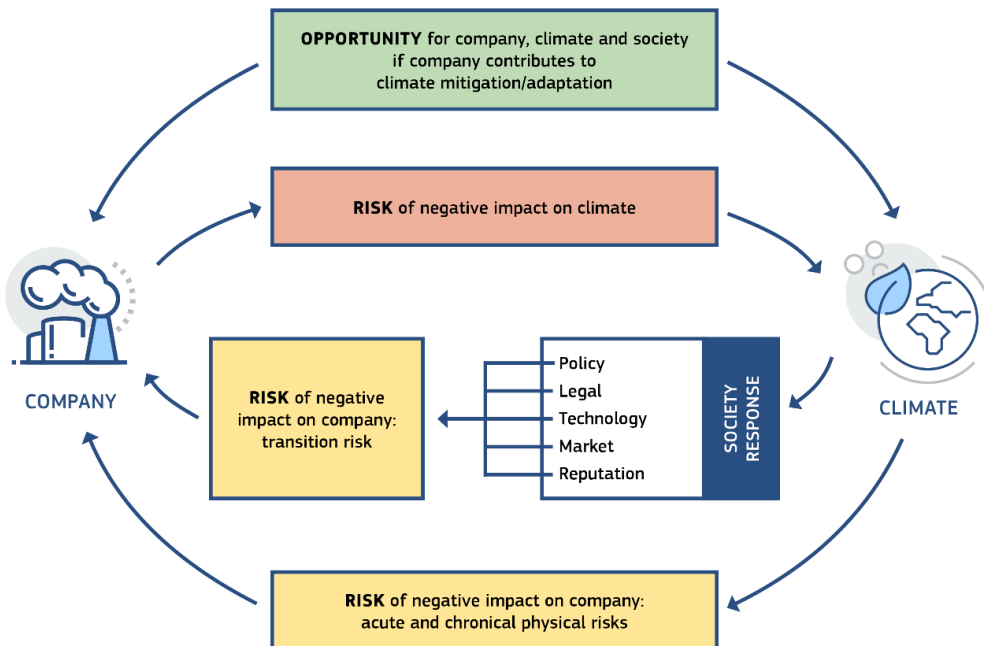
In June 2018, the European Commission set up a Technical Expert Group on Sustainable Finance (TEG) to assist in four key areas of the Action Plan through the development of: 1) a unified classification system for sustainable economic activities (taxonomy), 2) an EU green bond standard, 3) benchmarks for low-carbon investment strategies, and 4) **new guidelines on the reporting of climate-related information**.

In January 2019 the [TEG published its report on climate-related reporting](#). The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments.

In February 2019 the Commission published a [consultation document on the update of the non-binding guidelines on non-financial reporting](#) that takes into account the TEG report and the stakeholder feedback on that report. It is proposed that the update will consist of a **new supplement to the existing guidelines, consistent with the TCFD recommendations**, to be published in June 2019.

How the proposed supplement of Guidelines on non-financial reporting could encourage companies to make their value chains more circular and resource efficient

Climate related opportunities



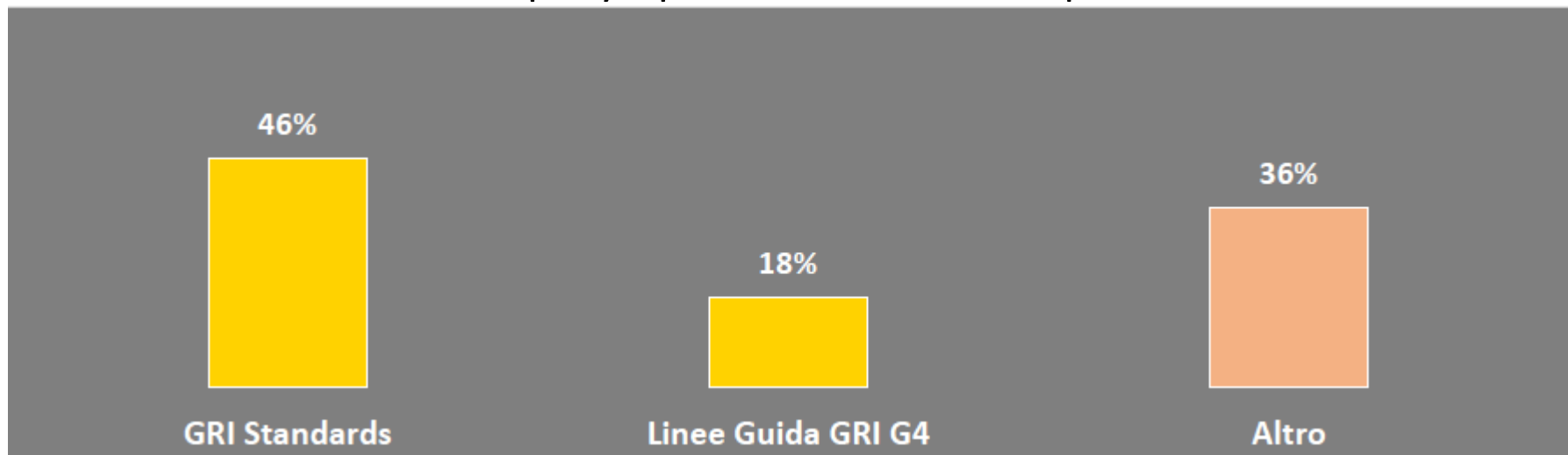
“When reporting on their climate-related risks, dependencies and opportunities, companies should, to the extent appropriate, consider their whole value chain, both upstream and downstream. This means following a product life cycle approach that takes account of climate issues in the supply chain and the sourcing of raw material, as well as during the use of the product and when the product reaches end-of-life.” (p. 12)

Ernst & Young 2018 study (for EU-7)

(Conference “*La Dichiarazione Non Finanziaria: la risposta delle aziende europee ed italiane*”, Milano, 26.07.2018)

Analysis of Non-Financial Declarations (NFD) of 160 listed companies in euro area (Belgium, Finland, Germany, Italy, Netherlands, Portugal and Spain, FY 2017):

- 64% NFD adopted the GRI reporting methodology (46% GRI Standards published in 2016 and 18% the previous version of GRI Guidelines «GRI-G4»)
- the GRI reporting standard seems to be the most widely used and globally recognized to disseminate environmental, social and governance information on the company’s performances and impacts.



Ernst & Young 2018 study (for EU-7)

(Conference “*La Dichiarazione Non Finanziaria: la risposta delle aziende europee ed italiane*”, Milan, 26.07.2018)

According to the Non-Financial Reporting Directive, a company is required to disclose information on environmental, social and employee matters, respect for human rights, and bribery and corruption, *to the extent that such information is necessary for an understanding of the company’s development, performance, position and impact of its activities (materiality principle).*

Themes of disclosure in euro area:

- Fight against corruption (93%)
- **Air emissions and energy (90%)**
- Occupational health and safety (86%)
- Training (81%)
- Gender parity (81%)
-
- Funds allocated to political parties (29%)
- **Biodiversity (25%)**
- Human rights (23%)

Source: E&Y, 2018

Ernst & Young 2018 study (for EU-7)

(Conference “*La Dichiarazione Non Finanziaria: la risposta delle aziende europee ed italiane*”, Milano, 26.07.2018)

NFR Directive - Differences in the National transposition and implementation

Integration of the Non-Financial Declaration in the Annual Budget Report:

- 67% of companies in the euro area (160 company sample) included the NFD within the Annual Budget Report (in many countries this is a Law requirement)
- in Italy there are different options on reporting (76% preferred to publish the NFD as a *separate document*)

Obligation of a third party review:

- Mandatory in Italy and France
- Voluntary in other countries (Portugal and Germany 90% of sample; Netherlands 59%; Belgium 50%)

Source: E&Y, 2018

KPMG – Nedcommunity study 2018

[\(Conference UBI Banca – Nedcommunity, Milan, 3 October 2018\)](#)

Analysis of Non-Financial Declarations (NFD) published in the first year of implementation of the L. D. 254/2016 transposing Directive 95/2014 on non-financial reporting:

- NFD of **205 Italian companies**, 3 of them voluntary
- All companies adopted the **GRI standards** of reporting
- 41% companies have already experienced a form of voluntary sustainability report (mainly big companies)
- **59% are experiencing a non-financial report for the first time ever**
- 70% of companies chose a separate report (different from the Annual Budget Report)
- 70% of companies adopted a structured policy on at least one of the policy areas identified by the Directive, 80% of them related to environmental issues

Governance of sustainability issues:

- 16% companies assigned responsibility on sustainability issues to a previously existing committee on “Control and Risks”
- 14% companies created a new committee within the board of directors

KPMG – Nedcommunity study 2018

[\(Conference UBI Banca – Nedcommunity, Milano, 3 October 2018\)](#)

Main themes of disclosure in Italy:

- Occupational health and safety (75%)
- Training and human capital development (72%)
- Gender parity and diversity (65%)
- Fight against corruption (62%)
- Relations with communities (60%)
- **Climate change (58%)**
- **Energy efficiency (57%)**
- Human rights (52%)
- **Waste management (43%)**

Environmental issues lagging behind...

CONSOB

(Italian Stock Exchange Independent Surveillance Authority):

- Studying NFR by Stock Exchange listed companies and beyond
- Assuming responsibility for monitoring and surveillance
- Exploring issues of transparency, competition and fairness
- Taking as the reference Paris Agreement and Agenda 2030

Presentation at OIFS – Italian Observatory on Sustainable Finance

1st March 2019 - <https://www.minambiente.it/pagina/finanza-sostenibile>



Italian National Position Paper on Circular Economy

by M.Environment, Land &Sea + M.Economic Development (industry & energy)

APRILE 2017 – NOVEMBER 2017
STRATEGIC DOCUMENT

Verso un modello
di economia circolare
per l'Italia

Documento di inquadramento
e di posizionamento strategico

Towards a model
of circular economy
for Italy



ECONOMIA CIRCOLARE ED USO
EFFICIENTE DELLE RISORSE

INDICATORI PER LA MISURAZIONE
DELL'ECONOMIA CIRCOLARE

Documento redatto dal Ministero dell' Ambiente e della Tutela del Territorio e del
Mare in collaborazione con il Ministero dello Sviluppo Economico

Indicators
for
measuring
circular
economy

DECEMBER 2017 – MAY 2018
INDICATORS WORKING GROUP

Documento bozza per consultazione
Maggio 2018



NEW GOVERNMENT
STRATEGY OR ACTION PLAN?



ITALIAN STRATEGIC DOCUMENT: CONTENTS

1. Principi ed Obiettivi

- Uso Efficiente e Sostenibile delle Risorse
- Nuovo Modello Integrato Produzione-Distribuzione-Consumo

2. La Situazione Corrente

- Contesto Internazionale
- Contesto Europeo
- Italia: Stato dell'arte, sfide ed opportunità

4. Il Processo di Transizione

- Ripensare il Concetto di Rifiuto
- Green Public Procurement
- Risorse e Prodotti (tracciabilità)
- Indicatori

3. Il Cambio di Paradigma

- Produzione
- Consumo
- Strumenti Economici



INDICATORS: EU FRAMEWORK and PROPOSALS FOR ITALY

COM(2018) 29 final
«on a monitoring framework
for the circular economy»

Circular economy monitoring framework

1 EU self-sufficiency for raw materials

The share of a selection of key materials (including critical raw materials) used in the EU that are produced within the EU

2 Green public procurement

The share of major public procurements in the EU that include environmental requirements

3a-c Waste generation

Generation of municipal waste per capita; total waste generation (excluding major mineral waste) per GDP unit and in relation to domestic material consumption

4 Food waste

Amount of food waste generated



7a-b Contribution of recycled materials to raw materials demand
Secondary raw materials' share of overall materials demand - for specific materials and for the whole economy

8 Trade in recyclable raw materials

Imports and exports of selected recyclable raw materials

5a-b Overall recycling rates

Recycling rate of municipal waste and of all waste except major mineral waste

6a-f Recycling rates for specific waste streams

Recycling rate of overall packaging waste, plastic packaging, wood packaging, waste electrical and electronic equipment, recycled biowaste per capita and recovery rate of construction and demolition waste

9a-c Private investments, jobs and gross value added

Private investments, number of persons employed and gross value added in the circular economy sectors

10 Patents

Number of patents related to waste management and recycling

- **3 categories:**
 - ✓ Economic
 - ✓ Materials
 - ✓ Environmental (circularity vs sustainability)
- **3 perspectives:**
 - ✓ Macro (national)
 - ✓ Meso (sector/district, regions, urban areas)
 - ✓ Micro (firms)
- **5 dimensions:**
 - ✓ Production/design; Raw and Secondary Materials (markets, flows, traceability);
 - ✓ Product as a Service (new business models from the firms side)
 - ✓ Sharing/Renting (new business models from the consumers side)
 - ✓ Durability/Repairability/Remanufacturing
 - ✓ Waste management

Issues from a policy-maker (-preparer) perspective

1. EVERY DAY

Companies/businesses/firms are practicing resource efficiency and circular economy every day across their value chains: it saves materials and energy, it reduces costs, it maximises profits.

Profits as primary and legitimate priority of businesses.

Why the cumulative impact of individual behaviours does not correspond to a social optimum? Public intervention may be justified.

Issues from a policy-maker (-preparer) perspective

2. EFFORT

Many enterprises « making the effort » of Circular Economy and Resource Efficiency Reporting (Non-Financial Reporting, Climate, Sustainability, CSR, etc.) would appreciate that everybody « makes the effort ».

WBCSD CEO at OECD making the point.

Risk of companies coming back (disclosure and industrial secret).

There is an issue of fairness - competition - transparency.

There is an issue of comparability thru time, thru firms, thru sectors, thru countries, ...

Issues from a policy-maker (-preparer) perspective

3. BEST PRACTICES (linked to effort issue)

Strength, exemplarity, usefulness.

We need to recognize and valorize the 5-10% of best practices showing the way.

But what about the remaining 95-90%...

EU-Ecolabel had the pragmatic principle to give the label-medal to the best market 20%.

State Secretary Madame Poirson indicated 25% for G7 Coalitions.

We need to bring with us all the economy.

Issues from a policy-maker (-preparer) perspective

4. EVOLUTION OF REPORTING

Traditional reporting of businesses today is not the same as 30, 50, 100 years ago.

Profit&Losses, Capital Statement, Financial Statement have evolved thru time. Because of:

- business needs and research findings;
- transparency and comparability needs (from public and investors);
- data availability improvements (IT).

After 30 years of reflection at OECD and elsewhere, the time seems ripe to develop a fourth sheet for CE/RE, Climate and Natural Capital. Nobody will contest/oppose minimum contents of traditional financial reporting. They are adapted to size, conditions, knowledge, ..., but we have minimum contents.

Why should we oppose minimum contents for non-financial reporting, starting with circular economy and resource efficiency, climate , biodiversity and natural capital.

Issues from a policy-maker (-preparer) perspective

5. EVOLUTION OF REPORTING - PUBLIC

Countries/States/Governments as well do not calculate their budgets and accounts as 30-50-100 years ago.

GDP didn't even exist 100.

The 1929 crisis, Kuznets and the American Congress.

The 1944 decision on the standard for GDP.

State accounting and Environmental accounting at UN Statistics.

Evolution thru time, again because of:

- Governments needs and research findings;
- transparency and comparability needs (from taxpayers and voters);
- data availability improvements (IT).

Improvements, fine-tuning, adapting to new needs.

