

SUSTAINABILITY POLICY IN TRANSITION: STRATEGIC IMPLICATIONS FOR GLOBAL COMPANIES



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Global Climate Policy Shifts

Regulatory fragmentation intensifies as jurisdictions prioritize economic competitiveness over climate urgency

- Global emissions remain ~60% above levels needed to meet Paris Agreement targets, requiring unprecedented policy acceleration
- Major regulatory delays reflect a shift from compliance-driven to pragmatic, risk-based approaches
- Multilateral institutions (UN, G20, IMF) reinforce decarbonization urgency amid widening implementation gaps
- Carbon pricing mechanisms continue to expand globally despite political resistance in key economies
- Companies must prepare for increasingly divergent regulatory frameworks across major jurisdictions

European Policy Developments

Strategic delays balance sustainability ambitions with industrial competitiveness pressures

- CSRD enforcement delayed to 2028 following German and French efforts to reduce SME compliance burdens
- CSDDD postponed to 2028+ with potential simplification of liability provisions under review
- EU CBAM quarterly reporting active through 2025; full financial enforcement begins January 2026
- 2% Sustainable Aviation Fuel mandate began January 2025, escalating toward 70% by 2050
- Double materiality principle retained—companies must disclose both sustainability impacts and financial risks
- Early movers on compliance may gain reputational and market advantages in the EU

United States Regulatory Landscape

Federal rollback fuels state-level divergence and increases compliance complexity

- SEC withdrew legal defense of climate disclosure rule in March 2025, creating a federal regulatory vacuum
- California's climate disclosure laws now apply to all U.S.-based multinationals with \$1B+ in revenue
- Texas restricts ESG proxy advisory services, requiring warnings for shareholder guidance
- ISS and Glass Lewis have filed federal lawsuits challenging state-level restrictions
- 98.8% of S&P 500 firms continue disclosing climate risks despite lack of federal mandates
- Companies must adopt dual-track strategies: global ambition alongside domestic legal navigation

Asia-Pacific Energy Transformation

Record renewable growth runs in parallel with continued fossil fuel expansion

- China reached 39% renewable electricity generation in Q1 2025—a record, with 19% year-over-year growth
- 11.29 GW of new coal power approved in Q1 2025, signaling continued prioritization of energy security
- India maintains its 500 GW renewable target for 2030; solar capacity hit 102.57 GW as of February 2025
- U.S. tariffs on Chinese EVs increased fourfold to 100%, escalating trade tensions
- Southeast Asia is piloting regional carbon markets and green power trading platforms
- Companies must assess Scope 3 exposure and supply chain compliance amid evolving import regulations



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- ESG terminology increasingly avoided in filings; emphasis placed on "risk management" and "long-term value"
- In 2024, ESG fund closures (71) in the U.S. exceeded new launches (10) for the first time
- All six major U.S. banks exited the Net-Zero Banking Alliance due to political and regulatory pressure
- Anti-ESG shareholder resolutions are increasing, while traditional ESG proposals face stronger resistance
- Executive teams are being trained to message sustainability in business-centric, non-ideological terms
- Fiduciary duty and financial materiality now anchor ESG within corporate strategy

Investment Market Dynamics

Capital flows increasingly reflect geographic and regulatory divergence

- U.S. ESG funds experienced \$19.6 billion in net outflows in 2024, while Europe saw \$52.4 billion in net inflows
- BlackRock revised 60 funds (\$92 billion AUM), enhancing sustainability while removing ESG labels
- Corporate PPA market reached \$36.6 billion, with projected annual growth of 32.4% through 2034
- Virtual PPAs account for 59.9% of activity, enabling renewable sourcing without physical power delivery
- Sustainable bond issuance continues to grow, especially in Europe and emerging markets
- Investors demand science-aligned targets, transition strategies, and quantifiable sustainability ROI

Clean Energy Investment Acceleration

Technology deployment surges ahead of policy frameworks, despite volatility

- The Inflation Reduction Act catalyzed \$422 billion in announced clean energy projects since passage
- EV sales in China rose 32% in H1 2025; Europe saw 26% growth; U.S. posted modest 3–4% gains
- Amazon deployed 30,000+ Rivian electric vans with 24,000+ chargers across 150+ U.S. delivery stations
- FedEx targets fully electric parcel delivery by 2040, with 50% of purchases electric by 2025
- Grid access delays, permitting issues, and intermittency are key barriers to scale
- Industrial decarbonization pilots are advancing in green hydrogen, electrification, and CCS

Climate Risk and Insurance Market Reality

Insurer withdrawals signal rising materiality of physical climate risk

- 98.8% of S&P 500 companies now disclose climate-related risks in SEC filings
- ISSB and CSRD frameworks are aligning global reporting norms amid regional policy divergence
- Audit and risk committees are expanding ESG oversight and assurance responsibilities
- Legal teams are reviewing public ESG claims for exposure to litigation and investor challenge
- Cross-functional governance is essential—linking finance, legal, risk, and sustainability functions
- Investors and regulators are elevating demands on climate data accuracy, comparability, and auditability

Key Considerations for Global Corporates

**Strategic priorities to manage complexity and capture emerging opportunities
(6–12 Month Plan)**

- Closely monitor regulatory shifts: CSRD/CBAM (EU), state-level rules (U.S.), ISSB standards (global)
- Reframe sustainability communications around financial materiality, resilience, and fiduciary duty
- Conduct scenario planning for physical and transition risk; integrate into corporate strategy
- Build global ESG reporting architecture using CSRD and ISSB frameworks for consistency
- Advance renewable energy procurement through PPAs and energy efficiency programs
- Map and mitigate supply chain vulnerabilities—carbon border pricing, sourcing risks, physical impacts
- Revisit ESG governance to ensure disclosure accuracy and strengthen stakeholder trust
- Position climate adaptation as a cost-saving, resilience-enhancing commercial differentiator