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International Chambers of Commerce publishes Principles for Sustainable Trade: Wave 2

Global trade represents as much as 30% of all carbon emissions¹. With the aim of increasing the role of global trade in helping businesses meet the Paris Agreement objective of limiting the global temperature increase to 1.5°C above pre-industrial levels, the International Chambers of Commerce ("**ICC**") cooperated with stakeholders from trade banks, corporates, technology players, and the Boston Consulting Group (BCG) to launch the ICC's Principles of Sustainable Trade (the "**Principles**") in September 2021.

Following the launch of the minimum viable "Wave 1" principles at COP27 in November 2022, the ICC further published the 2nd edition of its Principles of Sustainable Trade (the "**Wave 2 Principles**") during the high-level trade finance discussion at COP 28 in December 2023. The Wave 2 Principles may have profound implications for commodity trading as they seek to expand the applicability of the Principles from merely the textile sector to three new sectors including energy, agriculture and automotive.

The Wave 2 Principles adopt a more holistic, granular grading system for assessing sustainability, taking into account (a) four components of trade, namely (1) use of proceeds, (2) seller, (3) buyer and (4) distribution and (b) two dimensions of sustainability, namely (1) the environmental sustainability of a transaction and (2) how it supports sustainable socio-economic development, across each component of trade. Having considered each of such components and additional evidence such as Environmental, Social and Governance ("**ESG**") scores, regional taxonomies and international

conventions, an overall transaction grade for both environmental and socio-economic dimension will be constructed based on the component grades.

The ICC believes that a wide variety of audiences (including corporates, small and medium-sized enterprises (SMEs), financial institutions, governments and regulatory bodies, etc) will find valuable use cases for the Principles, particularly the updated Wave 2 Principles. It is hoped that the Wave 2 Principles can (a) further help banks recognise and set standards for sustainable trade and sustainable trade finance through widely accepted definitions, (b) encourage the production of sustainable goods through increased access to financing and (c) enable greater investor access to sustainable trade.

Financial institutions' crucial role

Financial institutions offering trade finance services, in particular, are critical actors in the promotion of sustainable trade, for 80 to 90% of trade operations rely on the extension of financial services (including managing and securing payments and offering financing)². While banks' current sustainability offerings are typically incorporated in traditional lending products, research also indicates that demand for sustainable global transaction banking products far exceeds supply³.

This is particularly the case for trade finance, given its significant number of transaction flows within short periods of time (typically ranging from 30 days to 180 days). Trade finance can therefore potentially

¹ World Trade Organization (2021), Trade and Climate Change Information brief no 4.
https://www.wto.org/english/news_e/news21_e/clim_03nov21-4_e.pdf.

² UN Environment Programme, Sustainable Trade and Export Finance . [Sustainable Trade and Export Finance | UNEP - UN Environment Programme](#)

³ McKinsey (2022), Sustainability in global transaction banking: A market imperative.
<https://www.mckinsey.com/industries/financial-services/our-insights/sustainability-in-global-transaction-banking-a-market-imperative>

have an immense impact on carbon emission reduction in multiple sectors worldwide.

Recognising their important role in the road to sustainability, global and regional banks have begun to roll out sustainability-linked financial products in the last few years. In addition to classic sustainability-linked bonds and loans, some banks also offer sustainability-linked trade facilities to support its clients in their ESG transition by incentivising clients' achievements of sustainability goals. For example, bank guarantees and letters of credit are issued to support the performance of and/or to mitigate payment risk of underlying projects or transactions that have a positive contribution to ESG goals.

These measures do not only bring new revenue streams to financial institutions, but they also encourage corporates to develop a sustainable supply chain ecosystem that ensures goods and services are produced, transported, and utilised in the most carbon-efficient manner.

Governments, regulators and international organisations

Governments, regulators and international organisations are also taking the lead in paving the way for sustainable trades. In fact, the UK government and the EU have taken concrete steps in enforcing sustainability in supply chains.

On 9 December 2023, the UK government announced that palm oil, cocoa, beef, leather and soy which have been produced on land linked to illegal deforestation will be banned from being imported into the UK. Introduced through the Environment Act 2021, this legislation will see businesses that have a global annual turnover of over £50 million and use over 500 tonnes of regulated commodities a year banned from using them if sourced from land used illegally. These businesses are also required to undertake a due diligence exercise on their supply chains and to report on this exercise annually for transparency⁴.

The UK's deforestation ban follows the EU's efforts to clamp down on deforestation. On 29 June 2023, the EU's Regulation (EU) 2023/1115 on deforestation-

free products⁵ came into force (the "**Regulations**"). Compared to the planned legislation in the UK, the Regulations apply to more products including palm oil, cattle, wool, coffee, cocoa, butter and some of their derived products, such as leather, chocolate, tyres, or furniture. Under the Regulations, any operator or trader who places these commodities on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation. Operators and traders will have 18 months from 29 June 2023 to implement the new Regulations.

The risk of greenwashing

With all that said, all pushes for sustainable trade and green marketing must be approached with caution at the risk of committing greenwashing, which is regarded as a "*practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants*" by the European Supervisory Authorities⁶.

While consumers, corporates and investors are proactively seeking "sustainable" or "green" products or investments, sustainability-related misleading claims can occur and spread intentionally or unintentionally. This could in turn have a major impact on an institution's financial and reputational standing, including losing shareholder trusts and facing regulatory scrutiny as well as liability claims.

Observations

Sustainable trade is no longer an emerging theme for market participants. It is a topic that will last in the foreseeable future. While corporates and financial institutions are strongly encouraged to embrace and take active steps to promote and achieve sustainability within their organisations, all measures and actions must also be taken with caution at the risk of greenwashing. Meanwhile, regulations and industry guidance in this space are evolving at a rapid pace, and they ought to be followed closely to avoid any unintentional breaches.

⁴ UK Government (2023), Supermarket essentials will no longer be linked to illegal deforestation. [Supermarket essentials will no longer be linked to illegal deforestation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/supermarket-essentials-will-no-longer-be-linked-to-illegal-deforestation)

⁵ Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023. [Regulation - 2023/1115 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2023/1115/oj)

⁶ European Securities and Markets Authority (2023), Progress Report on Greenwashing. [ESMA30-1668416927-2498 Progress Report on Greenwashing \(europa.eu\)](https://www.esma.europa.eu/press-news/esma-news/esma30-1668416927-2498-progress-report-on-greenwashing)

Contact us

We hope that you find this update both useful and interesting. If you have any comments or would like to learn more about this topic, please get in touch with either your usual SH contact or any member of our commodities team by clicking [here](#).

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