



Thai Palm Oil Sector focus: ESG Disclosure, TCFD and TNFD Readiness

PwC at the RSPO Roundtable Conference (RT2024)

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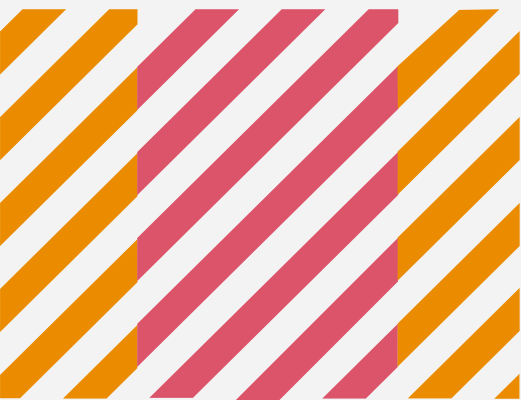
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Key message

The palm sector has strong roots to anchor ESG disclosure

With historically strong sustainability reporting, companies in the palm sector have a good foundation to build on in the disclosure of metrics related to climate and nature. In addition to producing reports using the framework of the Taskforce on Climate-related Financial Disclosures (TCFD), there is also already some reporting related to the Taskforce on Nature-related Financial Disclosures' (TNFD) core global metrics for nature-related dependencies and impacts. For example, greenhouse gas (GHG) emissions, total spatial footprint, waste generation and disposal, and resource use / replenishment. Leveraging on these existing disclosures can serve as a foundation for further integration of TNFD's metrics within the palm sector to streamline reporting and minimise duplication of efforts..



Significant developments are expected to impact sustainability reporting in Thailand



The Stock Exchange of Thailand (SET) offers a Sustainability Reporting Guide to assist listed companies in reporting on ESG metrics, including those for biodiversity and the cessation of deforestation (AGR-E2). These metrics align with biodiversity conservation standards, such as the IRIS+ biodiversity assessment metrics from the Global Impact Investing Network (GIIN). Additionally, some of these indicators are already in line with the core global metrics set by the Taskforce on Nature-related Financial Disclosures (TNFD).



Biodiversity is the variety of all living organisms on Earth, including diversity within species, between species, and ecosystems.



Nature refers to all life forms (biodiversity) including the Earth's non-living components such as geology, water, and climate.

Biodiversity-related indicators such as

- i. Policy and guidelines regarding the conservation of biodiversity and cessation of deforestation, encompassing the company's business operations and supply chain
- ii. Assessment of the risks and impacts on biodiversity resulting from business operations such as natural characteristics, plant species, wildlife species, water source quality, and natural water catchment areas, etc.
- iii. Number of the company's business areas with biodiversity conservation efforts in square meters
- iv. Diversity conservation plans or projects in business operations

Nature-related indicators such as

- i. Number of forest areas conserved under the company's care in square meters
- ii. Forest conservation plans or projects in business operations such as the percentage increase in green areas or the rate of greenhouse gas absorption, etc.

Source: [SET Guidance on ESG Metrics by Industry Group \(Agro & Food\)](#)

The International Sustainability Standards Board (ISSB) has issued International Financial Reporting Standards (IFRS) S1 and S2 effective 1 January 2024. Palm companies can consider leveraging existing sustainability disclosure efforts based on reporting standards such as IFRS S2 (which has subsumed the TCFD). The IFRS S2 standard has nature-related elements, which if already being disclosed can be adapted for alignment with TNFD. For example, the IFRS S2 standard requires the disclosure of GHG emissions, which is one of TNFD's core global metrics. In addition, the IFRS S1 requires the identification of material topic risks and opportunities - of which nature and biodiversity is likely to be a material topic to the palm sector. Pursuing a TNFD approach to reporting will support in meeting some components of IFRS S1 and S2 reporting.

Since its effective date, the Securities and Exchange Commission (SEC), has been encouraging listed companies to consider disclosing per the standard, despite IFRS S1 and S2 not yet a mandatory requirement in Thailand.

There are opportunities for Thai agricultural companies to benefit from tax incentives



While not specific to the palm sector, the agricultural sector in Thailand can benefit from several tax incentives, including corporate income tax exemptions of up to 13 years for certain promoted activities under the Board of Investment (BOI). This includes provisions for environmental protection, energy efficiency, sustainable agriculture, green technology, and circular economy, import duty exemptions on machinery and raw materials for export production, and additional deductions for transportation, electricity, and water supply costs. Additionally, BOI supported all companies within the Eastern Economic Corridor (EEC) with corporate income tax exemptions up to 13 years and a flat personal income tax rate is 17% for qualified experts.

For a full list of tax incentives offered in Thailand, check out PwC's [2024/2025 Thai Tax Booklet](#).

There are several key focus areas to be considered when prioritising nature and conservation



Prioritisation should include the identification of High Conservation Value (HCV), riparian zones, High Carbon Stock (HCS), and areas with Rare, Threatened, Endangered (RTE) species.

Other examples that can be considered as part of nature and conservation initiatives to address nature related dependencies and risk include systematic biodiversity monitoring and community-based conservation, capacity building, and empowerment of local communities, improved forest management and restoration, and publishing key information about critical species. To ensure the effective implementation of nature conservation efforts, it is essential to consider collaboration with research partners and community engagement. There are also potential opportunities related to Nature based Solutions, that also can support emissions reduction pathways.

For a comprehensive sustainability outlook, palm companies must adopt a holistic approach



Prior to delving into nature-related assessments or aligning with frameworks like TNFD, it is imperative to take a step back and assess the broader spectrum of ESG topics. These encompass a myriad of critical areas, including social-related topics such as affected communities, suppliers, buyers, and end-users, workers in the value chain, and own workers. Ensuring alignment with other critical areas, such as the social impact of changes from a nature perspective, is equally crucial.

This involves considering how alterations in the natural environment might affect local communities, suppliers, buyers, and end-users of palm oil products, as well as the welfare of workers both within the palm oil industry's value chain and within the companies themselves. By integrating social considerations alongside environmental ones, palm oil companies can develop more resilient and sustainable practices that benefit not only their bottom line but also society at large, supporting a just transition.

To find out more about key opportunities and barriers to a just transition, check out PwC-PETRONAS' report on [Laying the Foundation for a Just Energy Transition](#).



Points for consideration

1 Potential for disclosure efficiency via overlaps in framework

- **As the adoption of the TNFD gains momentum and with potential integration into the ISSB announced in April 2024, it becomes imperative for companies to initiate assessments of nature-related matters within their sustainability reporting practices.** With indications of regulators potentially mandating nature related reporting and financial disclosures covering nature related risks in the future, a good starting point is for companies to capitalise on existing overlaps between different frameworks. Leveraging the similarities in approach of these frameworks enables interoperability and efficiency, especially in the identification and collection of relevant data for disclosure requirements. By using established frameworks as a foundation, companies can strategically position themselves for a more efficient sustainability reporting process.
- Companies can consider their ambition level and assess their level of maturity to undertake TNFD's core disclosures, as well as additional metrics for more mature companies.

PwC has developed an **in-house TNFD maturity assessment tool** that assesses companies' readiness for TNFD disclosure, allowing companies to identify preliminary areas for enhancement towards TNFD alignment. Reach out to PwC to find out how we can help you in assessing and improving your TNFD readiness.

2 Quantification of climate, nature and sustainability related risks

- **The increasing demand for disclosures mandating sustainability risk quantification, particularly concerning climate and nature-related risks, reflects a shift driven by regulator, investor and bank expectations to understand the financial implications of sustainability efforts.**
- Quantifying risks can be challenging as it requires financial modelling, and quantification has to be driven by certain technical or operational assumptions and inputs provided by other teams, particularly, the sustainability team. In this process, it would be beneficial for the sustainability team to have a robust understanding on financials and risk management frameworks to effectively integrate sustainability considerations with financial and risk management needs. There are also potential discrepancies between what are considered material issues and how these link up to broader investment plans, highlighting the importance of robust risk assessment methodologies.
- By leveraging insights gained from previous experiences in implementing TCFD quantification, companies can initiate the adoption of TNFD by building on the same architecture and supporting the identification of nature risks and opportunities with financial impact. A parallel can be drawn from companies mapping the financial implications of emissions reduction programmes within TCFD reporting, which aligns with a similar reporting component integral to TNFD.

3 The Finance, Sustainability and Risk Function

- **An enhanced clarity on roles between the sustainability and finance department is recommended** to effectively utilise financial modelling techniques for risk quantification
 - PwC suggests a structured approach wherein the Chief Sustainability Officer (CSO) retains core responsibility on sustainability reporting including climate and nature disclosures, with specific input on financial insights and data from the Chief Financial Officer (CFO) into the final report. This mirrors the process of gathering inputs for financial statements from the Chief Operating Officer (COO) and Chief Executive Officer (CEO), while ensuring that the CFO retains ultimate responsibility. However, with regulatory requirements such as the EU Corporate Sustainability Reporting Directive (CSRD) and IFRS framework focussed more on financial reporting, the responsibility sits much more toward the CFO
 - Expectations on financial reporting are set prior, where the covered measurements and parameters are discussed in advance to ensure data integrity, with the CFO and Chief Risk Officers (CRO) working together. This includes agreements on sources, systems, and processes required to churn out the necessary data to ensure that the sustainability report is investor ready.
 - This further addresses the potential discrepancies between material issues and broader investment plans
- **Companies can be better supported in their disclosure of material nature-related issues by integrating nature-related decision making into traditional enterprise risk management (ERM) processes.** Adaptations to this existing framework will provide clarity on sustainability and finance functions to identify, quantify, and surface scenarios of material risks as well as detail on future mitigation and management.

4 Managing the narrative of risks and opportunities

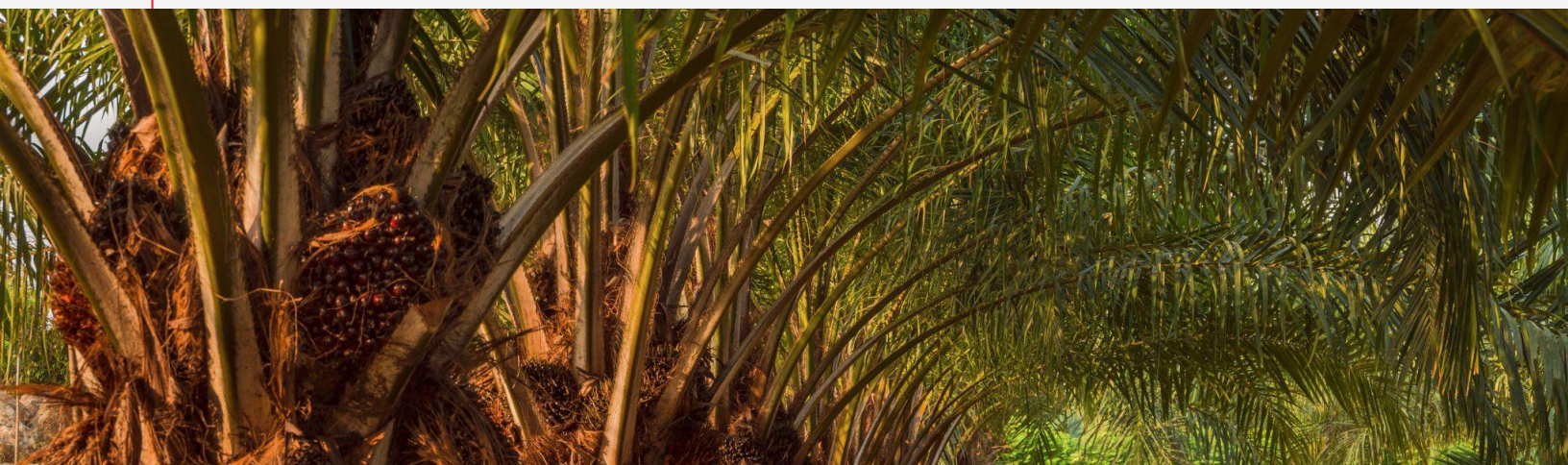
- **Consider that both nature and climate-related disclosures allow companies to position themselves with first-mover advantage concerning sustainability related performance. This could have a positive impact on valuation and pricing.** By highlighting strategically how companies are quantifying and managing sustainability related risks and opportunities, companies have an opportunity to providing clarity to finance providers on business resilience. Disclosing potential risks relevant to nature (as well as positive opportunities), also helps to mitigate potential greenwashing. A double materiality assessment is recommended to identify most relevant sustainability risks and opportunities.

What is double materiality?

Double materiality is associated with the approach that organisations should disclose not only how ESG issues may impact the organisation's immediate financial performance (so-called 'outside-in') but also how the organisation impacts environment and society ('inside out').

- Additionally, the TNFD provides an opportunity for companies to define which nature-relevant factors are most material to their business. In the same way that sustainability reporting and disclosure is built on the most material topics, there is no expectation that every nature-relevant topic needs to be reported. There is definite scope for alignment on what should be considered material in a given sector. Palm companies have the opportunity to build on the sector's known collaborative approach to identify and agree on sector-specific material topics in nature, creating consistency, alignment and taking the lead on defining what is most appropriate for the sector.

Palm oil companies can kickstart their TNFD journey by consolidating existing sustainability data, metrics and disclosure to help identify qualitatively material nature-related issues, including dependencies, impacts, risks and opportunities. Quantification of the financial impacts on nature risks and opportunities can then be undertaken in the next phase, ideally aligned with the quantification required for TCFD.



Related reading materials on nature and biodiversity:

- [Nature at a tipping point: How investors in Asia Pacific can manage nature-related risks](#)
- [Why climate and nature matter to every business](#)
- [Your company may be more exposed to nature risk than you think](#)
- [Managing nature risks: From understanding to action](#)

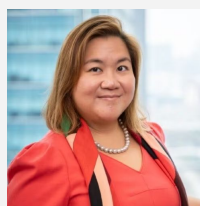
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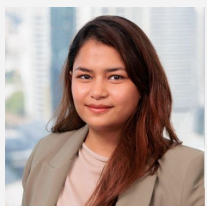
For more information, reach out to us directly:



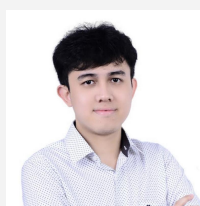
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