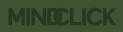
The Hotel Yearbook Hospitality ESG Edition 2024

Unlocking the ESG Innovation Stack in Hospitality









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2024: the turning point for doing business

From Strategy to Regulation

Ufi Ibrahim Founder and CEO of the Energy and Environment Alliance.

Synopsis

Energy and Environment Alliance (EEA) Chief Executive Ufi Ibrahim discusses the significant shift in 2024 from voluntary sustainability initiatives to mandatory Environmental, Social, and Governance (ESG) reporting in the hospitality and lodging industry. It emphasizes that the introduction of mandatory climate disclosure requirements is expected to profoundly impact global financial markets and business practices. The transition, driven by historical precedents and warnings from financial leaders, aims to tackle misinformation and greenwashing.

2024 marks the irrevocable departure from voluntary sustainability initiatives to mandatory environmental, social and governance (ESG) reporting and disclosure. This turning point will change the way we do business across the hospitality and lodging industry.

Up to now, sustainability compliance requirements have primarily focused on energy, be it the Buildings Energy Act in Germany, the Law on Energy and Climate in France, the Buildings Control Act in Singapore or the minimum energy efficiency standards and energy performance certificates in the United Kingdom. Coupled with the huge spike in energy costs, such regulation has encouraged improvements in energy efficiency and thereby, the operational carbon performance of many hotels and serviced apartments.

Improvements in energy use have largely been achieved through behavioural change and low capital expenditure, such as switching to more efficient lighting. However, achieving more substantial improvements will require greater capital expenditure; and that is a challenge, given high interest rates and the sums required.

However, the pressure to invest in transformational change is about to increase, starting with new, mandatory climate disclosure requirements, which are expected to have a sobering effect on global financial markets, akin to rules initiated following the stock market crash of 1929. Back then, regulators grappling with ways to avoid another great depression granted powers to the Securities and Exchange Commission (SEC), which was licenced to regulate business practices. This led to the creation of globally accepted accounting and auditing principles which, even today regulate business practices worldwide. Given this proven track record of success, it should come as no surprise that almost 100 years later, regulators are adopting the same principles to tackle growing concerns over misinformation and greenwashing.

The 2024 regulatory step change has been brewing for some time. Mark Carney, the then Governor of the Bank of England, led the charge back in 2015, warning governments that "climate change presents systemic financial risks with the potential to destabilise markets and to induce a new global financial crisis". Since then, regulators have been working with institutions including the International Organization of Securities Commissions, to harmonise global disclosure and reporting requirements as the first major step in the transition process of the global financial system.

New sustainability and climate disclosure requirements were announced in June 2023 at the London Stock Exchange.

These new rules, governed by the International Financial Reporting Standards (IFRS) and International Sustainability Standards Board (ISSB), aim to consolidate and rationalise ESG reporting globally. They were drafted in conjunction with world securities regulators from 130 countries, all of whom are expected to mandate them in their jurisdictions over the coming months. The US (SEC), Singapore, Hong Kong, Brazil, the United Kingdom, Australia, South Africa, and Japan have already done so; and the EU has confirmed interoperability between the IFRS/ISSB and European reporting requirements.

Taking effect in 2024, these new reporting rules will impact information published in 2025 financial reports. First, annual reports will have to include non-financial, as well as financial risks and prospects. Just as financial information is audited, non-financial information will have to be validated by independent auditors. The non-financial information, which, at the outset, covers general sustainability and climate-related material disclosure, will have to be conveyed using a common language, allowing investors to compare performance across any given sector or market. Furthermore, ESG must be connected to financial reports, detailing the projected impact on cash flows, capital expenditure, profits, and losses. Investors and financial markets will use this information to assess asset values.

The provision of capital, be it equity or debt, will soon rely on climate and sustainability disclosures as much as on financial statements. As with the introduction of globally accepted accounting principles, IFRS/ISSB standards will very quickly trickle down to businesses of all sizes. Furthermore, new standards, such as biodiversity, will be added to the reporting requirements over time, extending from materiality (pertaining to climate and sustainability risks and prospects), to double materiality (including externalities – the risks and prospects of the business on the environment and on society).

So, what does all this mean for the hospitality and lodging industry? It means that ESG must be embedded throughout the entire business, with responsibility shared by all the functions and executives in the organisation including the CEO, Chief Financial Officer, Risk and Compliance Officer, HR, the investment committee, and the board. All businesses will be impacted. The largest firms will feel the heat sooner, but in time every business will confront change. Small to medium sized businesses will not be under the radar for long because regulation such as the Green Asset Ratio will push banks to demand reporting from lenders. Also, as the pressure on capital funds and larger firms to report on their supply chains increases, all hotels will eventually enter the frame.

This is the start of a challenging period of transformation for our industry. It's a period in which we will need to re-engineer the way we design, construct, refurbish and operate our buildings. We will need new controls and processes, including board level oversight, applying the same level of rigour to nonfinancial information as we apply to formal financial statements.

With more than 600 green certification programmes, the majority of which are based on self-reporting, investors are at a loss when it comes to the reliability of information and comparability of operational, asset or portfolio performance.

That is why we established the Energy & Environment Alliance (EEA); to unite hospitality and lodging industry leaders and advocate a standardised approach. In doing so, we aim to prioritise initiatives that are scientifically robust and commercially sustainable while discouraging those that are not.

Over the past few months, we have worked in partnership with Kings College London to launch the first ESG Executive Education programme specifically for hospitality industry leaders. It will cover all the upcoming new regulation and much more besides, including the implications for attracting capital. So, if you are responsible for managing or investing in hospitality, and you want to be thoroughly briefed, please sign up.

Ufi Ibrahim — Founder and CEO of the Energy and Environment Alliance.

Previously, as Chief Executive of the British Hospitality Association (BHA), 2010 to 2018, she reshaped and reformed the organisation from the ground up, achieving significant financial and commercial success. She led the BHA merger with the Association of Licensed Multiple Retailers, creating UK Hospitality, to wield increased commercial and political influence. Ufi also shaped the UK Tourism Industry Group, a Government led Advisory Board, and delivered ground-breaking campaigns, such as the Big Hospitality Conversation, which engaged over 4,000 businesses with the government to create 67,000 new jobs and apprenticeships for young people across the UK. At the World Travel & Tourism Council, where Ufi was Chief Operating Officer between 2000 and 2010, she supervised the formulation of the International Competitiveness Monitor for Travel and Tourism. This established a benchmark for policy makers and is now operated by the World Economic Forum. Under the auspices of the WTTC and UNFCCC in 2009, she led the industry's first global commitment to cut carbon emissions, 50% by 2035. Ufi is also a commissioner of the Food Farming and Countryside Commission, overseeing executive and legislative issues affecting the future of the UK's food and agricultural sector. The remit embraces negotiating with authorities and legislative bodies to address environmental impacts, changing economic climate and dietary trends, health & safety and funding to remain relevant within a highly volatile and competitive global market. Ufi also chairs the UK All Party Parliamentary Group for Tourism, which works with the Government to enhance the UK's tourism proposition to international investors.

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The Energy & Environment Alliance, a new coalition of hospitality businesses and investors, to transform the industry to become climate positive. Peter Till will be the Chairman and Ufi Ibrahim, the CEO.