Standards for Sustainable Trade
& Sustainable Trade Finance

A roadmap and vision for industry, policymakers and traders worldwide.

Positioning Paper
November 2021
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The ICC would also like to extend its thanks to the programme’s Review Group for its generous contributions in preparing this first positioning paper.

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# TABLE OF CONTENTS

1. Foreword ........................................... 2
2. Context & Background : Why Sustainable Trade? ............... 3

3. Role of this Document & Programme Roadmap .................... 3
   3.1 Objective of this Document .................................. 3
   3.2 Next Steps and Priorities for 2022 ......................... 4

4. Purpose, Objectives and Audience ................................ 4
   4.1 Our Purpose, Target Outcomes, and Objectives .......... 4
   4.2 Target Audience ........................................... 4

5. Scope & Framing Principles .................................... 5
   5.1 Framing Principles for the Definitions & Standards .... 5
   5.2 Scope of Assessment ....................................... 5

6. Proposed Definitions & Assessment ................................ 6
   6.1 Proposed Definition ......................................... 6
   6.2 Scope of Assessment ....................................... 7
   6.3 Outcomes & Scorecards .................................... 8

7. Approach to Defining Standards .................................. 13
   7.1 Types of Standards Required ............................... 13
   7.2 How Standards Will be Used ............................... 14
   7.3 How ICC Recognised Standards will be Determined .... 14

8. Areas for Further Input & Next Steps ............................ 15
   8.1 Areas for Further Input .................................... 15
   8.2 Feedback and Engagement Process ....................... 16
   8.3 Next Steps and Closing Remarks ......................... 16

9. Appendix ............................................. 17
   9.1 Programme Governance & Structure ....................... 17
   9.2 SteerCo Q&A ............................................ 18
1. FOREWORD

JOHN DENTON, SECRETARY-GENERAL, INTERNATIONAL CHAMBER OF COMMERCE

The mission of the International Chamber of Commerce is to make business work for everyone, every day, everywhere. More now than ever, it is evident that enabling business to be sustainable is not only of critical importance, but also central to our purpose and values.

Global trade and the facilitation of goods and services across supply chains is a key engine of economic development; but this comes with an enormous responsibility. Not only do global supply chains account for up to 80% of the economy's carbon emissions, but they are also responsible for the work and livelihoods of billions of people. As such, it is imperative that parties involved conduct business in a way that protects our planet and the people who live on it.

While many businesses agree with this objective, implementation is far more challenging in practice. In order to encourage more sustainable practices across global trade, as a first step it is essential to define sustainable trade — and set-up meaningful, rigorous, yet implementable standards. Recognising the transition needed to make business more sustainable, such standards must not only recognise positive activity, but also guide those involved towards what best-practice — or even minimum acceptable standards — should look like.

Although existing definitions and standards may exist for other forms of sustainable finance, these rarely capture the complexities of trade. For example, a single trade transaction can involve as many as 20 different parties, involve different types of goods, services and raw materials, cross multiple jurisdictions, require different forms of transport — and, crucially, represent one step in a much larger supply chain.

In addition, while specific goods may not in themselves be sustainable, they can often be used for purposes such as sustainable infrastructure. And the same applies in reverse — the trade of sustainable goods for non-sustainable purposes. Breaking through such complexity to provide visibility and transparency on genuine sustainable trade, in a way that is implementable at scale, is a substantial challenge that requires collaboration across the industry.

As such, ICC has launched a project to start the journey of defining, recognising, and setting the standards for sustainable trade and trade finance. This document, 'A Roadmap and Vision for Industry, Policymakers, and Traders Worldwide', is an initial positioning paper following the project's first phase of work that lays out draft proposals for industry consultation and input.

On behalf of ICC and project team, we very much welcome you to share your thoughts and considerations on these proposals, so that we can work together to set standards that enable global trade to accelerate the journey to a more sustainable business world.

This is just the start. But I hope you will agree it is a big step forward towards making trade work fully for people and the planet.

1. Boston Consulting Group analysis
2. CONTEXT & BACKGROUND : WHY SUSTAINABLE TRADE?

Global trade is a key engine of economic development, facilitating countries to integrate into the global economy, access differentiated goods and services, and give their people a rising standard of living. And yet today, as the global community shifts towards building a sustainable, inclusive economy, we are only just beginning to understand what that means for trade globally, or what sustainable trade transactions look like on the ground. Without question, global trade must transform into an engine for sustainable development and into a facilitator of sustainability at the international, sectoral, and enterprise level.

While a number of related standards for sustainable goods and services and financial products exist, none are readily adapted to robustly define and demarcate sustainable trade.

In light of that, the ICC established a programme in September 2021 to begin defining and setting the standards for sustainable trade in a manner that is practical, comprehensive, and provides sufficient transparency into the sustainability of a transaction.

Bringing together stakeholders from the ICC, numerous trade banks, corporates, infrastructural players, and Boston Consulting Group, the programme sets out to achieve the following:

> Define sustainable trade and trade finance
> Establish a framework to measure and assess the sustainability of a given trade transaction/trade finance portfolio etc. the standards for sustainable trade
> Engage with the broader trade community to iterate and refine these over time

The ambition for the first sprint of this programme has been to establish first principles thinking on the above, and prepare a high-level positioning paper for further industry engagement. In the longer-term, we expect these to shape widely adopted ICC definitions and standards that work to increase the sustainability of global trade.

3. ROLE OF THIS DOCUMENT & PROGRAMME ROADMAP

3.1 OBJECTIVE OF THIS DOCUMENT

Our ultimate aim is to galvanise discussion and consensus around the need for industry-wide definitions of sustainable trade and sustainable trade finance. As a first step, we propose to articulate a draft definition and consider how such a definition would be implemented by the key stakeholders of sustainable trade worldwide.

In this publication, we cover the following: the current hypotheses on the objectives, principles, and definitions relative to sustainable trade and sustainable trade finance; the envisioned roadmap until and during implementation; an introduction to the methodology for assessing sustainable trade; and a view on how standards will be applied to enable this assessment.

As the goal of the effort is to eventually develop the standards and definitions for sustainable trade to be adopted in the industry, such input is very much welcome and considered crucial to the framework’s development.

As such, at the end of this document, we have provided a ‘discussion’ of questions and challenges and invite more specific reader feedback through an online survey.
4. PURPOSE, OBJECTIVES AND AUDIENCE

4.1 OUR PURPOSE, TARGET OUTCOMES, AND OBJECTIVES

In order to manage the scope, keep us focused, and maximise this project’s impact, we have defined a specific purpose, outcomes, and objectives.

**Our purpose:** Articulate a definition of sustainable trade and sustainable trade finance, agree on the components of what constitutes a sustainable trade transaction, and propose a methodology for qualifying trade transactions for this purpose.

**Our target outcomes:** Accelerate global trade’s role in helping businesses (i) meet the Paris agreement towards a reduction in global greenhouse gas emissions to limit global temperature increase to 1.5°C above pre-industrial levels, (ii) reach the UN’s Sustainable Development Goals, beyond climate and ‘green’, and (iii) enable greater understanding of sustainability considerations in global supply chains.

**Our objectives in delivering these outcomes:**

> Align on definition of sustainable trade and sustainable trade finance
> Set the standards for sustainable trade and sustainable trade finance
> Bridge the gap in current standard frameworks for recognising and tracking sustainability in trade and trade finance
> Ensure recommendations are actionable and lead to wider adoption by providing a practical, easily implementable framework

4.2 TARGET AUDIENCE

In managing scope and ensuring relevance, we believe there are two key target audiences for the outputs of this programme:

> Businesses that wish to embrace and adopt the standards by assessing, reporting, and communicating their own performance against them, using them as a tool to trade (buy and sell) more sustainably
> Financial institutions and NBFIs that wish to use the standards to support customers in transacting more sustainably, shaping their own business processes and portfolios to encourage and execute more sustainable trade and trade finance, as well as support with broader advocacy

In addition, we believe there are a number of secondary audiences for whom this work will be of interest:

2. NBFIs = non-bank financial institutions
5. SCOPE & FRAMING PRINCIPLES

5.1 FRAMING PRINCIPLES FOR THE DEFINITIONS & STANDARDS

We have applied five key principles which governed the discussions around the definitions and development of standards for sustainable trade:

(i) The standards are defined to promote and encourage sustainable trade and are not positioned as a way to penalise non-compliance with standards.

(ii) The standards are not intended to replace existing definitions and legislation but rather build on existing certifications and standards used across and within sectors.

(iii) The standards are designed to be adjusted by sector, as different industries exhibit different levels of maturity when it comes to relative exposure to sustainability issues, data availability, and transparency.

(iv) The standards will be inspired by the UN’s Sustainable Development Goals (SDGs) as a taxonomy of reference to enable a comprehensive framework for sustainability (see exhibit 3). However, SDGs will not be assessed on an individual basis, considering underlying targets are not always applicable to goods, transactions, and organisations. Rather, they will be collapsed into more relatable dimensions of sustainability (see Section 6.2.1, Exhibit 2).

(v) The definitions and standards will be developed to balance comprehensiveness/rigour, while still being a practical framework for the parties involved to ensure wider adoption.

5.2 SCOPE OF ASSESSMENT

As part of this programme, we have defined a clear scope in terms of what is covered by these ICC standards and definitions across the following axes:

Types of trade: The framework will cover both goods and services trade; within goods, it can be applied to both tangible and intangible goods.

The framework should be relevant to all types of trade and supply chain finance (including trade loans, bills, letters of credit, guarantees and receivables finance), however future iterations will need to be refined to meet the requirements of specific asset classes including performance guarantees, project finance, and medium-to-long-term trade finance.

Types of sustainability: The framework will focus on sustainability holistically, largely in line with the UN SDGs, rather than only focusing on environmental sustainability and climate change. This is because many economic, human, and social sustainability issues – including slavery, child labour, poor wages, and unsafe working conditions – can be substantial issues in global trade and supply chains. As such, any ICC framework should play an active role in creating the transparency needed to address these issues. In addition, it will be important to distinguish...
between the different extents to which a transaction is sustainable across these dimensions – for example, whether a transaction actively contributes to reaching a sustainability goal, meets minimum sustainability standards in itself, or simply does no significant harm. A more specific discussion on types of sustainability assessed is included in the next section.

**Domestic versus international trade:** The framework has been primarily designed around the needs of international trade (given this is where the complexity and current lack of transparency is greatest) but can equally be applied to domestic trade.

**Stages of value chain:** Trade is the linkage between one step of the value chain to the next, and is thus uniquely positioned to influence the entire chain if used for a given purpose (see Exhibit 1).

- To balance workability and leverage this unique characteristic associated with trade, it is envisioned that all upstream stages and the direct downstream stage in the value chain will be considered.
- The sustainability assessment of a given trade, or transaction, will therefore be dependent on all activities happening ahead of the transaction, and the immediate thereafter.
- Exceptions to this rule apply in the following situations:
  - Last business-led stage of the chain in a B2C sector: in the case of a B2C retailer with no visibility on the intent or end use of the good
  - Intended end use is known by the seller, no matter where in the value chain: in this case, the intended end use is clear and known by the parties taking part in the transaction. This can weigh in the balance for the assessment of sustainability.
- Please see the next section for a discussion on how these different stages and actors within a transaction will be assessed for sustainability.

**EXHIBIT 1**

**SCOPE ALONG THE VALUE CHAIN : WORKED EXAMPLE FOR A TRANSACTION BETWEEN AN OEM AND A WHOLESALER**

**6. PROPOSED DEFINITIONS & ASSESSMENT**

**6.1 PROPOSED DEFINITION**

As part of this work, ICC has developed the following definitions for sustainable trade and sustainable trade finance:

- Sustainable trade represents the import, export, or trade of goods and services which actively support the achievement of one or more UN Sustainable Development Goals (SDGs) without infringing on the achievement of any other SDGs.
- Sustainable trade finance involves the financing or facilitation of sustainable trade, using recognised trade finance instruments.
6.2 SCOPE OF ASSESSMENT

In assessing whether a trade transaction is sustainable, we propose a comprehensive approach that focuses on three sustainability dimensions across five components of a transaction.

6.2.1 SUSTAINABILITY DIMENSIONS

As discussed above, we propose anchoring the ICC definitions and assessment of sustainable trade to the UN Sustainable Development Goals (SDGs) given that these provide a comprehensive view of all sustainability dimensions (i.e., not only environmental) and are widely recognised across jurisdictions.

In their standard form, the UN SDGs are not an appropriate taxonomy for the purpose of assessing the sustainability of trade for two key reasons:

(i) The number of SDGs (17) are likely too many to assess against to develop a pragmatic, practical framework.

(ii) The SDGs are based on goals set for countries and not individual transactions.

We have simplified the UN SDG taxonomy to three high-level dimensions of sustainability to use for the assessment framework:

> Economic (supporting SDGs 8, 9, 11 and 17)
> Human, Social (supporting SDGs 1, 2, 3, 4, 5, 10, and 16)
> Environmental (supporting SDGs 6, 7, 12, 13, 14, and 15)

The specific scope and definitions of these dimensions requires more iteration, but an early directional view is included in Exhibit 2.

**EXHIBIT 2**

**DEFINITION OF THE THREE DIMENSIONS OF SUSTAINABILITY**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Supporting SDGs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all</td>
</tr>
<tr>
<td></td>
<td>Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation</td>
</tr>
<tr>
<td></td>
<td>Make cities and human settlements inclusive, safe, resilient and sustainable</td>
</tr>
<tr>
<td></td>
<td>Empower individuals, SMEs, and emerging sectors in their access to trade and commerce</td>
</tr>
<tr>
<td>Human, Social</td>
<td>Ensure fair wages and distribution of wealth to support reduction in poverty</td>
</tr>
<tr>
<td></td>
<td>Support eradication of hunger through improving food security and nutrition, and promoting sustainable agriculture</td>
</tr>
<tr>
<td></td>
<td>Promote health, wellbeing, and quality education for all</td>
</tr>
<tr>
<td></td>
<td>Achieve inclusiveness and equality for all, and the protection of human rights</td>
</tr>
<tr>
<td></td>
<td>Promote peaceful and inclusive societies, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels</td>
</tr>
<tr>
<td>Environmental</td>
<td>Source and support the use of clean energy, transport, and industrial processes</td>
</tr>
<tr>
<td></td>
<td>Promote environmentally responsible production and consumption (with respect to climate, natural resources, life on land, life below water)</td>
</tr>
<tr>
<td></td>
<td>Actively reverse and/or mitigate the impacts of climate change, supporting the Paris agreement</td>
</tr>
<tr>
<td></td>
<td>Conserve and sustainably use the oceans, seas and marine resources</td>
</tr>
<tr>
<td></td>
<td>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and biodiversity loss</td>
</tr>
</tbody>
</table>

6.2.2 COMPONENTS OF A TRANSACTION

In order to sufficiently and comprehensively assess how sustainable a given trade transaction is across these sustainability dimensions, we need to look at each of its constituent components.

For a given trade transaction, we have identified five components for assessment under the framework:

> **Goods/service:** Underlying goods or service being imported or exported.
> **Sellers/origin:** Characteristics of the sellers/exporters. The sustainability credentials of the sellers/exporters’ jurisdiction will not be considered so long as the sellers/exporters themselves meet the minimum requirements (this is so that the framework can recognise and reward positive change).

> **Buyers/destination:** Characteristics of the buyers/importers and their respective jurisdiction. As above, the sustainability credentials of the buyers/importers’ jurisdiction will not be considered so long as the sellers/exporters themselves meet the minimum requirements (this is so that the framework can recognise and reward positive change).

> **Transition/transportation:** Process by which, and parties involved in how, the transition or transportation of the given goods or services takes place. To ensure this is workable in practice, any assessment of this component should only consider the immediate step being financed rather than transportation across the whole supply chain. Further work will be needed to agree how best to evidence this, given for sea freight documentation such as MARPOL certifies not always mandatory.

Transition/transportation need not be assessed for long-term trade finance products such as performance guarantees, where a specific movement of goods cannot be attributed to the transaction. This information will be provided where available and applicable (e.g., services, which are part of our scope, will not have this component).

> **Purpose:** Economic activities being facilitated via the transaction (immediate use and end use if known).

Assessing a transaction across each of these individually will enable the framework to provide necessary transparency on where and why a given trade transaction is or is not sustainable – enabling trading partners and financial institutions to make a conscious decision on whether they support the trade, highlighting areas needing improvement, and allowing different stakeholders to make purchasing decisions aligned with their corporate social responsibility priorities along these different components.

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**EXHIBIT 3**

**THE FIVE COMPONENTS OF TRADE**

1. **Sustainability of the Good/Service being traded**
2. **Sustainability of the Seller/Origin where the goods come from**
3. **Sustainability of the Buyer/Destination where the goods go to**
4. **Sustainability of the Transition/Transportation from Buyer to Supplier (e.g., transport and storage)**
5. **Sustainability of the Purpose of the trade: (e.g., to recognize transition finance, or activities mitigating climate change)**

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**6.3 OUTCOMES & SCORECARDS**

The proposed ICC framework will provide two different types outcome to classify sustainable trade:

> A reporting infographic that provides transparency on how sustainable a transaction is across each dimension of sustainability and each component of the transaction itself, based on sector-specific standards and certifications.
An overall descriptor or score that provides a high-level summary on the transaction's degree of sustainability and is as such an application or synthesis of the information presented in the reporting infographic.

These two different types of outcomes are designed to meet the needs of different audiences. For example, a user may wish to do the following:

- Use the ICC framework to provide transparency on a given transaction's credentials rather than necessarily testing whether a transaction meets certain thresholds or criteria; for these users, the reporting infographic will likely be of most value.
- Use the ICC framework to provide transparency on a given transaction's credentials in order to develop their own assessment on whether a transaction meets their internal thresholds, criteria, or definitions on sustainability (e.g., to prioritise a certain dimension such as Environment); for these users, the reporting infographic will likely be of most value.
- Use the ICC framework as a common, consistent, codifiable, and rapid means of describing and potentially screening the sustainability characteristics of a given transaction; for these users, the descriptor score will likely be of most value.

Given the priority for this framework to be useful for all and be rapid to implement — as outlined in the framing principles earlier in this document — we propose rolling it out in a phased approach. In practice, this means moving from an initial state — that is limited in scope and largely mirrors recognised Green Bond Principles—to a more ambitious target state. This is outlined in more detail in the following sections.

### 6.3.1 REPORTING INFOGRAPHIC

As a key outcome of the framework, we propose a standardised infographic to provide a consistent means of conveying the sustainability credentials of a given transaction.

#### 6.3.1.1 TARGET STATE AMBITION: WHERE WE WANT TO REACH IN THE LONGER-TERM

As a target-state ambition, we envisage the infographic will describe the degree of sustainability for each component of a trade, across each sustainability dimension. There will be two notable exceptions for simplicity:

- Purpose of the transaction will only be assessed across the Environmental dimension to account for transition finance, climate change–mitigating technologies, etc.
- Transition/Logistics will only be assessed across the Environmental and Human/Social dimensions, as the Economic dimension is difficult to assess for this component.

Within the infographic, the following criteria will be used to assess the sustainability of each component of a given trade, across each sustainability dimension (except for Purpose):

- A: Actively contributes to sustainability dimension for given component
- B: Meets ICC-recognised sustainability standards for sustainability dimension (primarily to be defined at a sector level) for given component
- C: Does no significant harm to sustainability dimension for given component
- N: Does significant harm to / does not meet minimum requirements for sustainability dimension for given component
- X: Insufficient data for assessment

Importantly, from a practicality perspective, we envisage the outcomes for the Seller/Origin and Buyer/Destination components will not vary on a transaction-by-transaction basis, and therefore would likely not need to be assessed for each transaction (so long as there is some form of annual certification in place — which will require further consideration).

3. N = ‘Not Sustainable’
This assessment can then be summarised at the sustainability dimension level:

- **A**: Actively contributes to sustainability dimension across 1 or more components of a transaction and meets ICC-recognised standards on all others
- **B**: Meets ICC-recognised sustainability standards for given sustainability dimension (primarily to be defined at a sector level) across 3 or more components of transaction and does no significant harm on all others
- **C**: Does no significant harm with regard to given sustainability dimension for all components of transaction
- **N**: Does significant harm for given sustainability dimension across 1 or more components of transaction / does not meet minimum requirements
- **X**: Insufficient data for assessment across 1 or more components of transaction

For the Purpose component, which is only assessed across the Environmental dimension, the following criteria will be used:

- **Actively Sustainable Purpose ✨**: Purpose and/or proceeds of transaction are being used for an activity that actively mitigates the impact of climate change
- **Not Actively Sustainable Purpose [BLANK]**: Purpose and/or proceeds of transaction are not being used for an activity that actively mitigates the impact of climate change

### EXHIBIT 4
**VISUAL REPRESENTATION OF THE TARGET-STATE INFOGRAPHIC**

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Economic</th>
<th>Human, Social</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good/Service</td>
<td>A</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Seller/Origin</td>
<td>B</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Buyer/Destination</td>
<td>B</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Transition/Transportation</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Purpose</td>
<td></td>
<td>✨</td>
<td></td>
</tr>
<tr>
<td>OVERALL</td>
<td>A</td>
<td>A</td>
<td>A*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example 2</th>
<th>Economic</th>
<th>Human, Social</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good/Service</td>
<td>A</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Seller/Origin</td>
<td>C</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>Buyer/Destination</td>
<td>B</td>
<td>C</td>
<td>N</td>
</tr>
<tr>
<td>Transition/Transportation</td>
<td>B</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>Purpose</td>
<td></td>
<td></td>
<td>✨</td>
</tr>
<tr>
<td>OVERALL</td>
<td>B</td>
<td>B</td>
<td>N</td>
</tr>
</tbody>
</table>

### 6.3.1.2 PROPOSED INTERIM STATES

As set out in the above framing principles (see Section 5.1), it is a priority for the sustainable trade finance definitions and standards to be sufficiently practical to ensure widespread adoption. As such, we propose reaching the target state over a period of time through a series of transition-state models.

We intend for these transition-state models to increase in rigour, comprehensiveness, and complexity over time, in line with the increased means of measuring and tracking sustainable practices at an importer, exporter, or transaction level, and increased availability of widely adopted standards to assess against.

In the roadmap to reaching our target-state infographic, we propose two interim transition states:

- **4. N = ‘Not Sustainable’**
> **Initial state (minimum viable product):** Simple framework that assesses (i) whether transaction ‘does no significant harm’ across all sustainability dimensions and (ii) whether the ‘purpose’ of a transaction is ‘actively sustainable’, while prioritising utility and speed of assessment. This framework is largely in line with the Green Bond Principles (in terms of rigour and methodology), but layers on a set of minimum standards covering Economic, Human/Social, and Environmental dimensions – rather than focusing on purpose (or proceeds) only. The principles lay out an interesting structure to ensure visibility on funds reaching an eligible activity, which will be important to build on in this first state where we want to gain visibility on all components that make up a trade.

> **Intermediate state:** As per the initial-state infographic but goes into further detail on the Environmental sustainability dimension to the extent that this is assessed for each component of the trade transaction. While this is more complex than current frameworks such as the Green Bond Principles, it provides substantially greater transparency on why and where a transaction is or is not sustainable from an environmental perspective - while also giving confidence it does no significant harm across Economic and Human/Social dimensions. In terms of implementation, we believe this is more practical than the target-state infographic, given the increased measurability of Environmental sustainability vs. other dimensions.

### 6.3.1.3 ROADMAP FOR MOVING FROM INITIAL TO TARGET STATE

Exhibit 5 below compares the target and transition states, and the relative pros and cons of each model.

#### EXHIBIT 5

**ROADMAP FROM INITIAL TO TARGET STATE INFOGRAPHIC**

<table>
<thead>
<tr>
<th>Short term</th>
<th>Medium term</th>
<th>Long term</th>
</tr>
</thead>
</table>

- **Short term**
  - Rapid, objective assessment
  - Applies min. safeguards across all sustainability dimensions, meaning it is broader than what exists in the market today
  - Does not require complex standards to be developed
  - Limited in scope

- **Medium term**
  - Moderate effort assessment
  - Applies min. safeguards across all sustainability dimensions
  - Assesses all components of trade for environmental sustainability credentials
  - Differentiation between active contributions vs transaction that are sustainable in isolation
  - Only required detailed standards to be developed for the environmental dimension

- **Long term**
  - Detailed, potentially complex, but very comprehensive assessment
  - Applies standards-based assessment across all sustainability dimensions
  - Differentiates between ‘active contributions’ vs. transactions that are sustainable in isolation
  - Requires development of multiple sets of detailed standards, and ability to measure/certify performance against them

### 6.3.2 DESCRIPTOR/SCORE

In addition to the infographic, we propose an overall descriptor or score that provides a high-level summary of the transaction’s degree of sustainability. The ambition is for this to be a common, consistent, codifiable, and rapid means of describing and potentially screening the sustainability characteristics of a given trade transaction.

Given that the two transition states largely focus on one sustainability dimension (Environmental), the descriptor/score is only relevant for the target-state ambition.

As part of this study, our primary proposal is to include an overall descriptor/score as part of the full target-state framework, using the following assessment criteria:
A+: Transaction actively contributes to all 3 sustainability dimensions
A: Transaction actively contributes to 1 or more sustainability dimension and meets ICC-recognised sustainability standards on all others
B: Transaction meets ICC-recognised sustainability standards for 1 or more sustainability dimensions and does no significant harm on all others
C: Transaction does no significant harm across all sustainability dimensions
N\(^5\): Transaction does significant harm across 1 or more sustainability dimension / does not meet minimum requirements
X: Insufficient data for assessment across 1 or more sustainability dimension

In addition, a transaction will also be awarded a star (*) should its purpose and/or proceeds be used for an activity that actively mitigates the impact of climate change.

This scoring framework is easily portrayed on the matrix shown in Exhibit 6.

**EXHIBIT 6**

**SCORING FRAMEWORK MATRIX**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>N</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>A</td>
<td>B</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

As part of our industry engagement, we also explored a number of alternative options with regard to an overall descriptor/score, such as:

> Not to have an overall descriptor/score and rely on the infographic only
> To use a compound numerical score

5. N = ‘Not Sustainable’
A first assessment of alternative options is included below:

<table>
<thead>
<tr>
<th>Alphabetical score / descriptor</th>
<th>Numerical score / descriptor</th>
<th>No score / descriptor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pros</td>
<td></td>
<td>Cons</td>
</tr>
<tr>
<td>Provides simple means of describing sustainability of a transaction</td>
<td>Provides simple means of conveying sustainability of a transaction</td>
<td>Encourages reliance on full infographic, promoting transparency</td>
</tr>
<tr>
<td>Does not require weighting of different sustainability dimensions</td>
<td>Provides a clear hierarchy (i.e., higher scores are better)</td>
<td>Enables businesses and FIs to develop their own scoring</td>
</tr>
<tr>
<td>Scores have a clear meaning (e.g., A requires active contribution, etc.)</td>
<td>Most machine readable / can use with mechanical thresholds</td>
<td></td>
</tr>
<tr>
<td>Able to incorporate ‘minimum criteria’ into scoring (e.g., to go above ‘C’ need to do no significant harm)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Able to introduce new levels over time (e.g., A++)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieving higher scores require sustainability performance across all dimensions</td>
<td>Scores do not have a tangible meaning and therefore more ‘black box’ (e.g., unable to distinguish active contribution on one dimension vs. balanced performance across multiple dimensions)</td>
<td>Unable to provide a simple indicator of sustainability</td>
</tr>
<tr>
<td>Limited hierarchy (e.g., is B* more sustainable than A, etc.)</td>
<td>Requires conscious weighting of different sustainability dimensions</td>
<td>More difficult to set and convey thresholds and associated policies</td>
</tr>
<tr>
<td>Less ‘machine readable’ / more challenging to set mechanical thresholds</td>
<td>Can be more complex to calculate (e.g., totaling score vs. referring to matrix)</td>
<td></td>
</tr>
</tbody>
</table>

The overall descriptor/sustainability assessment comes to fill a gap identified to readily interpret the enhanced visibility gained through the infographic. Our proposal of an alphabetical score is a potential means to address this, and will need to be considered in the context of the overall approach laid out in this paper.

7 APPROACH TO DEFINING STANDARDS

7.1 TYPES OF STANDARDS REQUIRED

The methodology described above will need sets of standards against which to assess the sustainability of a given trade transaction.

In total, three types of standards will be required:

- Minimum standards to do no significant harm
- ICC-recognised sustainability standards
- Standards defining active contributions to a sustainability dimension

A key principle of this exercise was to not unnecessarily increase the overhead for businesses and financial institutions in meeting and reporting on sustainability standards. Rather than defining specific ICC-driven standards, our proposed approach is to map existing and widely recognised general and sector-/jurisdiction-specific standards to the ICC framework. So, as long as a given entity can demonstrate they adhere to these standards, they – or their counterparts or financial institutions – can objectively complete the ICC assessment framework.
7.2 HOW STANDARDS WILL BE USED

Given the different sustainability dimensions and components of a trade transaction, it is very likely that to complete the ICC framework, multiple different standards will need to be used. For example, while certain sector-specific certifications may provide sufficient evidence of meeting sustainability standards across Economic, Human/Social, and Environmental dimensions, they may only certify the Goods and Supplier/Origin.

As such, additional information and standards would be needed to assess the Buyer/Destination (unless they share the same certification) and Transition/Logistics. Other standards, such as Better Cotton, are more comprehensive and consider factors such as Transition/Logistics where under the farmer’s control. It is likely that the majority of standards will need to be sector-specific, and some may be jurisdiction-specific.

We expect a large proportion of such global sustainability standards to at least meet the ICC-recognised level (i.e., score of ‘B’ in the assessment matrix). Additional ICC-driven work, however, will likely be required to determine what are the absolute minimum standards to ‘do no significant harm’ across any dimension and what would constitute ‘active contributions’ to meeting a given sustainability dimension. Learning from the Green Bond Principles and EU Taxonomy for Sustainable Activities, we believe they can be set at a broad, sector-agnostic level.

To maximise ease of implementation and minimise overhead for the initial-state framework, we believe a simple set of minimum standards to ‘do no significant harm’ can be developed by ICC and its partners at a cross-sector, cross-sustainability-dimension level.

In addition, we envision that a number of corporates (and smaller companies) will meet specific standards (or make sufficient declarations) at a group level, meaning that there is sufficient evidence for them to score a ‘B’ or above for the Supplier/Origin or Buyer/Destination components of all trade transactions (within a period of time, e.g., annually) without the need for any additional assessment. This again can reduce the overhead of applying the ICC framework.

7.3 HOW ICC RECOGNISED STANDARDS WILL BE DETERMINED

Both minimum and ICC-recognised standards will need to be agreed by expert groups affiliated with ICC. While some existing standards may be applicable at an overarching basis, many will need to be applied at a sector, jurisdiction, or trade-component level.

As such, ICC plans to establish these expert groups in the next phase of work (following broader industry input) to start the process of mapping recognised standards.

It will be important to set criteria to ensure standards are indeed sufficiently rigorous. At a minimum, the standards should ideally exhibit the following characteristics:

- Measurable: The pre-existing standard comes with a workable methodology for individual assessments.
- Objective: The pre-existing standard is assessed based on objective and transparent parameters/inputs.
- In use: The pre-existing standard is known and extensively adopted for the sector considered.
- Representative: The pre-existing standard meets the objective(s) it was established for (i.e., signalling sustainability performance along one or more SDG or sustainability dimension).
- Comprehensive: The pre-existing standard covers the relevant SDGs in sufficient depth across any sustainability dimension

Given that standards are constantly being developed and iterated and the measure of good practice is constantly changing, we expect the list of recognised standards to be a living artefact, requiring frequent (at least annual) updating by the ICC to remain relevant.

Specific processes and activities to agree and maintain these standards will be detailed in the next phase of this work.
8. AREAS FOR FURTHER INPUT AS WELL AS NEXT STEPS

8.1 AREAS FOR FURTHER INPUT

As discussed earlier, this positioning paper is intended to share initial thinking and direction of the ICC project team ahead of wider industry socialisation.

We recognise that there are a number of questions requiring consideration in future iterations—particularly on the themes of scope and methodology, assessment standards, and logistics/considerations for implementation. A list of key questions is shared below.

In addition, a ‘SteerCo Q&A’ is included in the appendix that provides more transparency on and the rationale of some of the SteerCo recommendations made in shaping this document.

Scope and methodology

> Should the framework only recognise sustainable transactions as those which actively contribute to reaching one or more UN SDGs, or those that also already meet sustainable best practices?
> To what extent will the framework, and its transition states, be usable by businesses and financial institutions in real life (e.g., time to complete, data availability, and applicability of standards)?
> How do we best balance comprehensiveness and practicality/ease of implementation?
> Should the assessment be nuanced by product or product type beyond the general assessment of raw materials and manufacturing processes?
> How will the methodology be applied to financial institutions, and to Trade Finance between financial institutions (FI-FI)?

Assessment standards

> To what extent will the ICC need to develop its own assessment standards, and how will they be adopted?
> Which external standards will be used for the framework?
> Given the standards, what exact information needs to be provided for the assessment to be completed?
> Will the assessment be completed on a transactional basis or be momentarily fixed and reviewed on a periodic basis (e.g., annually) for any given good or service?
> From a financial institution perspective, should the expected level of assessment vary between their client’s and counterparties, given differences in data availability?

Logistics/considerations for implementation

> Who is responsible for completing the assessment (e.g., buyer, seller, or financial institution)?
> Will the information provided need to be certified or validated by a third party?
> How long will it take for the assessment to be completed and published for a given transaction? Is this realistic?
> What will be the level of disclosure for these assessments? Who will have access rights to them?
> What are the data and technology implications of the framework? How will this be 
operated and funded?
> What will the governance and reporting mechanics around this framework be?
> What is the ICC’s role in implementation, and what needs to happen in practice?

8.2 FEEDBACK AND ENGAGEMENT PROCESS

In order to maximise value from stakeholder engagement, the ICC will to run a structured 
feedback process to enable us to build on these proposals to develop the first iteration of the 
sustainable trade definitions and standards, and associated frameworks – while also ensuring 
we capture broad industry stakeholder inputs on its comprehensiveness, feasibility, and value.

As such readers are invited to share their thoughts and contributions in the following ICC survey: 
Please click here to access online survey

8.3 NEXT STEPS AND CLOSING REMARKS

In the next phase of this effort, the ICC and programme contributors will focus on bringing the 
standards to the next level of detail (both in terms of definitions and assessment methodology) 
to prepare for a launch to market by the middle of next year (see Exhibit 7).

The focus will be on resolving issues as described above and starting to engage with the industry 
to ensure a smooth transition and optimise early engagement.

In the near future, this means establishing a formal process for collating feedback from all 
readers on emerging hypotheses and starting to compile expert groups to develop the library 
of standards that will be recognised by the framework – all of which will feed into our next 
publication.

The ICC extends their gratitude to you as the readers of this positioning paper and very much 
looks forward to reading all feedback, builds, and challenges.

Together, we look forward to setting the standard for sustainable trade and making genuinely 
sustainable trade finance a commonplace reality across global trade corridors.

EXHIBIT 7
PROJECT ROADMAP FOR THE NEXT SIX MONTHS

<table>
<thead>
<tr>
<th>Q4 2021</th>
<th>Q1 2022</th>
<th>Q2 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write up and publish a positioning paper to set out:</td>
<td>Finalise industry engagement and evaluate feedback on proposals</td>
<td>Use inputs from expert groups to build next iteration of ICC Sustainable Trade Framework</td>
</tr>
<tr>
<td>&gt; The background, context, scope and objectives of the project</td>
<td>Iterates proposals based on industry feedback, including closing-off any open points in positioning paper</td>
<td>&gt; Move to an implementable approach, including categorisation and assessment of existing standards by sector</td>
</tr>
<tr>
<td>&gt; How the ICC defines sustainable trade and trade finance</td>
<td>Launch expert groups by sector to identify library of standards that can be recognised—and how—by ICC framework</td>
<td>Test, refine and iterate long-term roadmap</td>
</tr>
<tr>
<td>&gt; The proposed means for assessment of sustainable trade</td>
<td>Communicate to broader industry and establish formal process for collating feedback over quarter</td>
<td>Launch to market and agree sustained operating model</td>
</tr>
<tr>
<td>Start compiling expert groups to develop library of standards that will be recognised by ICC framework</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q1 2022 |
Launch to market and agree sustained operating model | Use inputs from expert groups to build next iteration of ICC Sustainable Trade Framework | Move to an implementable approach, including categorisation and assessment of existing standards by sector |
Test, refine and iterate long-term roadmap | Launch expert groups by sector to identify library of standards that can be recognised—and how—by ICC framework | Iterates proposals based on industry feedback, including closing-off any open points in positioning paper |
Finalise industry engagement and evaluate feedback on proposals | Communicate to broader industry and establish formal process for collating feedback over quarter | Start compiling expert groups to develop library of standards that will be recognised by ICC framework |
Write up and publish a positioning paper to set out: | Finalise industry engagement and evaluate feedback on proposals | Use inputs from expert groups to build next iteration of ICC Sustainable Trade Framework |
> The background, context, scope and objectives of the project | Iterates proposals based on industry feedback, including closing-off any open points in positioning paper | > Move to an implementable approach, including categorisation and assessment of existing standards by sector |
| > How the ICC defines sustainable trade and trade finance | Launch expert groups by sector to identify library of standards that can be recognised—and how—by ICC framework | Test, refine and iterate long-term roadmap |
| > The proposed means for assessment of sustainable trade | Communicate to broader industry and establish formal process for collating feedback over quarter | Launch to market and agree sustained operating model |
9  APPENDIX

9.1  PROGRAMME GOVERNANCE AND STRUCTURE

In order to ensure recommendations are practical for different types of players across the trade community, ICC has brought together a large number of contributors to support this exercise.

Contributors can be categorised in the following three groups, in line with the governance of the programme:

> The ICC/BCG Task Force: Joint ICC and BCG team whose role is to support in the day-to-day activities related to this effort. Key activities of the Task Force include the following:
  - Running everyday programme coordination and governance
  - Working with relevant SteerCo and Review Group members to develop key hypotheses and frameworks for iteration
  - Facilitating stakeholder discussions to reach consensus on critical issues
  - Consolidating inputs to formulate programme recommendations and outputs

> Programme SteerCo: An international group of senior financial institutions and/or corporate executives whose role is to provide steering and decision-making on the project. Key SteerCo activities include the following:
  - Providing expert input and first-hand financial institution and/or corporate perspectives
  - Working with the Task Force to discuss, debate, and develop/refine hypotheses and frameworks
  - Steering discussions and reaching consensus recommendations

> Review Group: Representatives of the international trade finance community whose role is to provide input and opinion on and to challenge emerging content from the SteerCo. Key activities of the Review Group include the following:
  - Reviewing and providing input on and challenging emerging key hypotheses and frameworks from the SteerCo
  - Serving as sounding board for open points for discussion/issues of contention

The first phase of this project, whose outputs are reflected in this document, was an intensive and quick effort composed of four iterative sprints of hypotheses generation, drafting, pressure testing, and iterating across the experts within the ICC/BCG Task Force, Programme SteerCo, and Review Group.

9.1.1  KEY CONTRIBUTORS

The ICC/BCG Task Force

> Andrew Wilson, Global Policy Director, International Chamber of Commerce
> Sandra Hanni, Knowledge Manager, Inclusive and Green Growth, International Chamber of Commerce
> Tomasz Kubiak, Geopolitical Analyst, International Chamber of Commerce
> Sukand Ramachandran, Managing Director and Senior Partner, Boston Consulting Group
> Ravi Hanspal, Principal, Boston Consulting Group
> Auriane Verdure, Consultant, Boston Consulting Group

The SteerCo Group

> Johan Ericsson, Senior Trade Finance Adviser, Ericsson Credit
The Review Group

The Review Group is comprised of representatives from the ICC network’s trade finance community and over 200 experts from several industries.

9.2 STEERCO Q&A

9.2.1 SCOPE AND METHODOLOGY

In terms of the different dimensions of sustainability, should we limit the scope of this programme to either carbon emissions or otherwise only the environmental aspects of sustainability?

The SteerCo came to a consensus that the broader components of sustainability – i.e., economic, human, and social – are of substantial relevance for trade and should therefore be assessed as part of this framework. For example, it would be inappropriate to label a trade transaction as sustainable by any reasonable definition should there be evidence of human rights issues.

How can we prevent the framework from becoming too complex? Why can we not reuse a simpler framework such as the Green Bond Principles?

A key challenge is balancing workability with comprehensiveness. The SteerCo was of the opinion that in the target state it will be necessary to provide genuine transparency on not only the extent of sustainability of a given trade transaction but also against which sustainability dimensions and for which components of a trade transaction. Providing such transparency will enable businesses and financial institutions to make informed choices about the standards they expect of the counterparties they trade with and activities they finance, respectively. The most straightforward and widely recognised frameworks such as the Green Bond Principles take the proceeds of funds into account, but not necessarily the credentials of the goods themselves, the buyer/origin, the supplier/destination, or the mode of transportation – all of which make a substantial contribution to the real-world sustainability of trade activity.

Why do the proposed definitions have so many different degrees of sustainability? Should whether a transaction is sustainable or not be more black and white?

The SteerCo felt that the ICC framework should help provide transparency on the sustainability credentials of a transaction rather than take a black-and-white approach to labelling transactions as sustainable or not. In addition, the framework will need to recognise and distinguish between both transitional activity (particularly where components of the trade are not necessarily sustainable in isolation), and activity that has been through a form of transition and/or is already sustainable in itself. This is one of the reasons why we have applied ‘purpose’ as a distinct component in the assessment infographic.

Why do you propose launching with multiple transition states in a phased manner?

Detailed sustainability assessments are challenging to execute in practice, due to lack of data transparency, consistent industry standards, etc. As such, the ICC proposes establishing its standards and assessment framework in a phased manner to enable a ‘test and learn’
approach where we can iterate the framework over time and move towards a more detailed and stringent assessment at a pace that is workable for the trade community.

9.2.2 ASSESSMENT STANDARDS

> Why is the ICC using existing standards for this programme rather than developing their own?

The SteerCo has felt that the ICC should not develop its own standards and guidelines for sustainable trade, but rather a framework to assess transactions based on widely adopted standards that they already adhere to (with some exceptions). The rationale for this is to (i) reuse widely adopted and accepted existing thinking and (ii) reduce additional overhead for businesses in the form of new standards they need to adhere to and track (this would be counterproductive and limit adoption). In addition, taking this approach will allow for necessary nuances by sector and geography as appropriate.

9.2.3 REQUIREMENTS FOR IMPLEMENTATION

> Beyond defining standards, what other work is required prior to implementation?

An area that requires further thinking is the process of tangibly implementing these standards and frameworks. Our intention is to launch with the initial-state framework in mid-2022 and gradually move towards the target state.

Other practical/logistical considerations include who will be accountable for actioning, validating, and certifying the assessment; what data inputs will be required and of what quality; the tangible process required to complete the assessment; timelines and costs involved; assessment frequency (for example, can this be done annually for the supplier/origin, buyer/destination, and transition/logistics components, a ‘batch’ basis for goods, and then pieced together mechanically on a transaction basis?); level of disclosure (i.e., what is public and what is private); technology implications (e.g., will outcomes be hosted on any central infrastructure or be offline); reporting redundancy (i.e., can this replace anything?); and the overall logistics and mechanics of putting this in practice (e.g., will this simply be a guidance framework, or will the ICC need to establish an ongoing team and processes, etc.?).

Additional consideration also needs to be given to circumstances there is limited information available. For example, from a financial institution’s perspective, data availability will differ substantially between their own clients and their clients’ counterparties. As part of the next phase of work, we will need define how to handle data gaps, and whether the comprehensiveness of assessment can vary between different counterparties to ensure framework is sufficiently workable in practice.