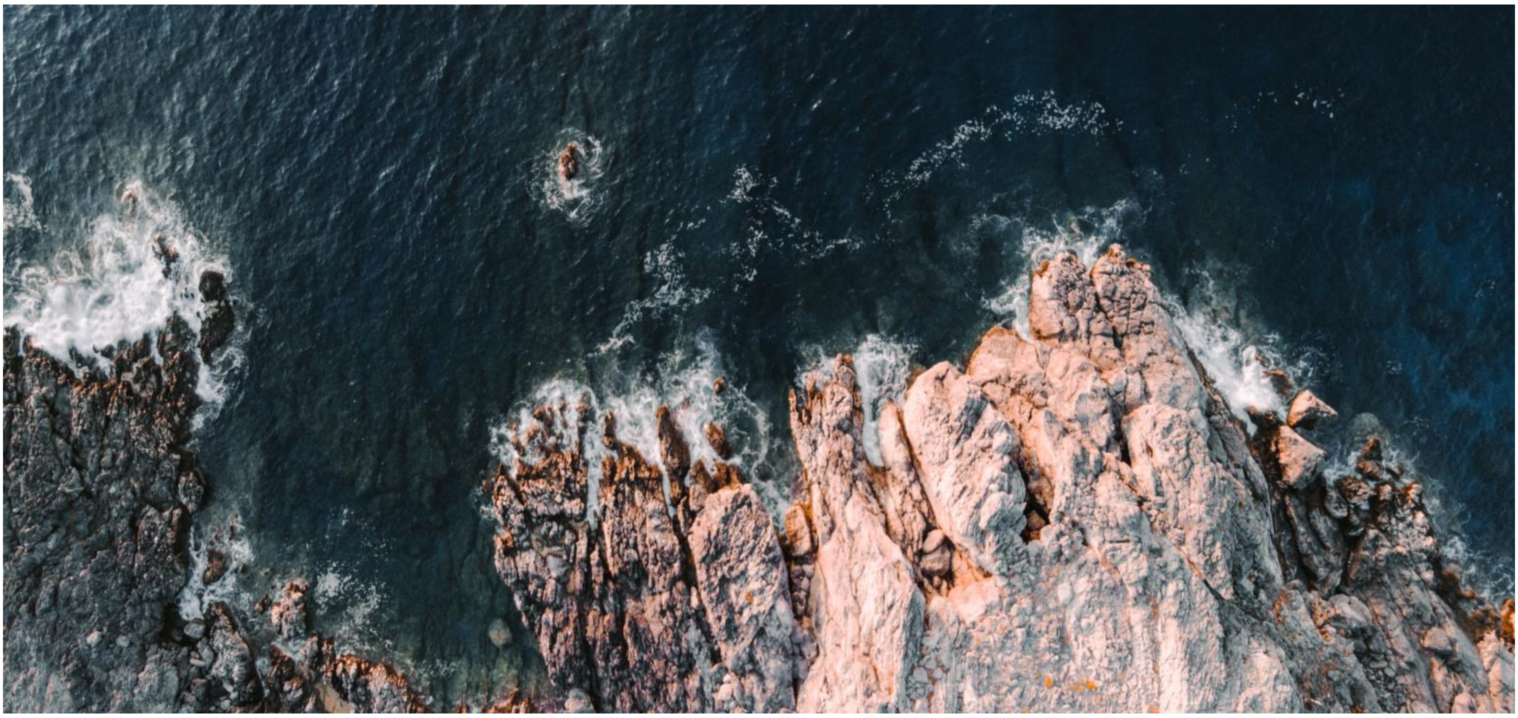

BalticSeaH2

Hydrogen Economy:

Drivers and Barriers

Driver – Sustainability Reporting Standards as Drivers for the Hydrogen Economy

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Sustainability Reporting Standards as Drivers for the Hydrogen Economy

The global shift toward sustainability has increasingly influenced corporate decision-making and investment strategies, and hydrogen is positioned at the forefront of these developments. Frameworks such as the International Financial Reporting Standards (IFRS), Sustainability Disclosure Standards and the European Sustainability Reporting Standards (ESRS) are not only reshaping how companies report their environmental impacts but are also providing a foundation for driving investments in clean technologies, particularly hydrogen.

Understanding Financial and Sustainability Reporting Standards

Both IFRS and ESRS aim to ensure companies provide consistent and comparable information on their environmental, social and governance (ESG) practices, reducing the risk of greenwashing by enforcing stricter data collection and audit requirements. IFRS focuses on global financial disclosures, helping investors understand how sustainability risks affect long-term financial performance, with an emphasis on market-driven transparency. ESRS, mandated by the EU under Corporate Sustainability Reporting Directive (CSRD), has a broader scope. It follows a double materiality approach, requiring companies to report not only on financial risks but also on their environmental and social impact, aligning with the EU's Green Deal goals.

The Role of Sustainability Reporting in Hydrogen Economy

As we build hydrogen economy, sustainability reporting frameworks such as ESRS can provide critical incentives to support the green transition. These standards encourage companies to invest in green hydrogen by ensuring that sustainability efforts are systematically measured, disclosed, and verified. For hydrogen valleys—regional ecosystems focusing on hydrogen production, distribution, and utilization—this kind of transparent reporting is vital to attract investments and build credibility.

Green hydrogen, produced using renewable energy sources like wind or solar, is a critical component in global decarbonization strategies. Hydrogen valleys often require significant investments in infrastructure, technology, and operations to scale up production and deployment. Transparent sustainability reporting enables these projects to showcase their contributions to reducing carbon emissions, which can help secure financing from ESG-focused investors.

Benefits of Sustainability Reporting and ESG Investing

Sustainability reporting enhances investor confidence by offering clear and accurate data

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on a company's environmental risks and opportunities. This transparency is particularly valuable for the hydrogen economy, where investment risks in clean technologies can be significant. When investors trust that a company's sustainability metrics are reliable, they are more likely to support hydrogen projects. Additionally, as governments tighten climate targets, companies involved in hydrogen production can use sustainability reporting to align their strategies with global decarbonization efforts. This alignment with targets such as the Paris Agreement allows companies to secure financing from institutional investors who prioritize sustainability.

The rise of ESG investing, where decisions are made beyond economic factors, means that companies that can report comprehensive investments in hydrogen economy and other sustainable development projects have access to a wider range of financing options, such as green bonds and ESG funds. Sustainability reporting also mitigates risks by reducing the potential for greenwashing.

Hydrogen and the Financial Sector's Role in Sustainability

The financial sector plays a pivotal role in supporting the transition to a low-carbon economy. As banks, asset managers and other investors incorporate ESG criteria into their lending and investment decisions, hydrogen companies that comply with IFRS or ESRS are better positioned to attract favourable financing terms. ESG criteria also affect the cost of capital. Companies with strong sustainability profiles, such as those engaged in green hydrogen, are typically considered lower-risk investments, which can result in lower financing costs.

In Europe, the EU Taxonomy further supports sustainable finance by classifying green activities, including hydrogen production, to ensure that capital flows toward industries that contribute to environmental objectives. This provides an additional boost to the hydrogen economy, as investors can more easily identify and prioritize projects that meet EU sustainability goals.

Conclusion: Driving Hydrogen Economy through Transparent Reporting

As companies must report their sustainability efforts in a standardized way, it can encourage working towards carbon emission reductions by implementing green hydrogen solutions. With robust sustainability reporting, hydrogen economy actors can demonstrate their contributions to carbon neutrality, appeal to ESG investors, and secure the funding needed to scale their operations. As these standards take effect, they will enhance transparency, reduce risks, and promote investments in sustainable projects, solidifying hydrogen's role in the global green transition.

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