Clean Energy Transition: Retail

A hidden carbon footprint

Shopping for a greener world. Accounting for greenhouse gas emissions in the retail sector is tricky. When we assess the carbon footprint of a bricks and mortar high street store, for example, we can look at the energy used in heating, cooling and lighting the building. This may account for a lot compared to a residential property. But of course, the store's greenhouse gas emissions will be nothing compared to heavy industry.

Even stores that blast their air conditioning, or have rows and rows of fridges and freezers or similar guzzlers of energy, will have a vastly smaller carbon footprint than a coke-fired steel-producing arc furnace. But is simply looking at a retailer's point-of-sale energy consumption a true assessment of their carbon footprint? What if we factor in the whole supply chain?

According to the World Retail Congress and the World Business Council for Sustainable Development retail supply chains are responsible for a whopping 25% of the world's greenhouse gas emissions. But, and this is a big but, the industry only has direct control over a small percentage of this.

In Europe, for example, according to EuroCommerce only 2% of the greenhouse gas emissions from Europe's retail and wholesale industry are within the direct control of the sector. This is because the vast majority of sector's carbon emissions are derived from Scope 3 emissions. These are indirect emissions that occur in the upstream and downstream activities of an organisation.

With such a small percentage of greenhouse gas emissions within the direct control of retailers, reaching their net zero targets will be challenging. This might be why, when we asked our retail specialists for their insights into how the clean energy transition is affecting the sector, most said retailers would be unlikely to meet net zero targets over the next three years. This includes the feedback from our underwriters in large markets such as the US and China, as well as smaller Vietnam and Thailand and European markets such as Austria, Italy, The Netherlands, and Switzerland. Our underwriters in Poland noted that the local sector would not reach net zero targets over the next three years.

One way to reduce Scope 3 emissions is to promote a circular approach to the retail economy. Again, this is a dilemma for the industry where profit is often generated from 'selling more'. According to the US National Retail Federation 80% of Americans now agree that a waste-free lifestyle is an appealing possibility in the next 20 years. For consumers, this can mean buying pre-owned goods, often through resale brands such as eBay, Vinted, ThredUp and ReBuy.

Indeed recommerce (online secondhand market places) are now thriving in many regions. In Europe, eBay reported a Gross Merchandise Value (GMV) of USD 30 billion in 2023, closely followed by Vinted with more than USD 8 billion GMV.

For bricks and mortar retailers, offering part-exchange options and selling second-hand or refurbished goods is one way to engage with a circular economy. Many retailers already host 'stores' on recommerce sites such as eBay.

What is clear is that there is an appetite among consumers for sustainable retailers and products. A recent study by Bain & Company found that a significant majority of consumers throughout the world are concerned about sustainability, with the greatest percentages located in Brazil and Asia Pacific.

This was reflected in the information we received from our retail specialists. Our underwriters in China said there is significant growing demand for clean energy in the retail sector and this would be likely to promote sector growth in the coming years. Our underwriters in Taiwan said local retail companies would benefit from green ratings from risk assessors, even if not yet standardised. And our underwriters in Vietnam, Japan and Taiwan all said that local consumers are increasingly valuing sustainability and environmentally friendly practices.

What do Atradius underwriters see as the primary issues for the retail sector?

One of the primary issues facing many retailers throughout the world right now is survival. The pandemic hit many traditional bricks and mortar retail businesses hard, with high inflation and supply issues compounding a tricky period even further.

As our underwriters covering both Austria and Switzerland noted: "We saw many insolvencies in the retail sector in 2023 and also this year. I would assume that the transition to clean energy is currently not on top of the agenda of most retailers." They added: "Many retailers have little or no reserves to invest in the energy transition and most retailers rent their sales premises and have only limited influence on the choice of power source and type of heating and air conditioning."

Our retail specialists in France and Poland echoed this, and pointed out that meeting climate change goals is much harder for small businesses. Our underwriters in France said: "ESG is not the priority for small and mid-sized companies which already struggle due to the difficult context (in particular, the pressure on household expenses)."

Our underwriters in Poland also acknowledged that local retailers were unlikely to meet Europe's climate targets in the next three years. They explained that the clean energy transition in the retail sector is not currently a government priority and said: "'There's not enough support and clear guidance from the government. In the retail sector the focus is on short-term, with no commitment to the energy transition and a focus on private gains."

Outside of Europe the message is similar. Our sector specialist in Thailand said: "There is insufficient capital and investment for the clean energy transition, especially for small and medium-sized retailers." In China, our underwriters noted how difficult it is to identify the carbon emissions of retailers and asked: "An important question is how do we set up scientific and proper ESG/green criteria for retailer players?"

The issues surrounding clean energy transition for the retail sector also include challenges facing all sectors. For example, as our underwriters in Vietnam said: "The outdated infrastructure is not ready to carry an increase in electricity from renewable sources." There is also an uneven global playing field when it comes to resources for renewables.

Our underwriters in South Korea said: "Renewable energy is expensive in Korea where we have a small area of mountainous land that causes natural limitations."

That said, renewable electricity sources are increasingly creating cheaper energy for several markets. This was acknowledged by our underwriters in the US, Austria, Germany, Hong Kong, Switzerland, Thailand and Vietnam who said that a reduction in energy bills and improved efficiency presents an opportunity for the sector.

Challenges: What are the most urgent challenges for the retail sector over the next three years?

1. Economic pressures

The bricks-and-mortar retail sector is facing many economic challenges including competition from ecommerce, higher rents, and a lack of consumer confidence amid high inflation and interest rates. As our underwriters in Italy said: "The green transition has high costs that will impact on a sector that is already coping with high pressures."

2. Complex supply chains

To reduce greenhouse gas emissions, retailers need to work with suppliers and customers to account for Scope 2 and 3 emissions. In France, our underwriters said: "It is necessary to work with suppliers to ensure sustainable practices along the supply chain."

3. Financial support

Investing in clean energy transition is costly and many retailers are unable to access finance due to the sector's recent uptick in insolvencies and problematic outlook. Difficulty gaining access to capital (especially for smaller players) is an issue listed by our underwriters in Austria, Germany, Hungary, Ireland, Italy, Switzerland, Thailand and the UK.

Opportunities: What are the greatest opportunities for the retail sector over the next three years?

1. Cost savings

In some markets, renewables present lower prices for energy in the longer term. Our underwriters in Germany said: "retailers may save costs through green energy."

2. Improved reputations

The majority of our underwriters acknowledged that consumers are increasingly valuing sustainability and demonstrating this through their purchasing power and buying choices. Our underwriters in Poland noted this appears to be less important in their local market. The opposite is true of Vietnam, Taiwan, Japan, as well as the US, UK and several European markets who felt green retailers can benefit from a solid customer base.

3. Operational efficiency

The act of clean energy transition can also deliver enhanced operational efficiency. This is because businesses that invest in clean energy, often also seek energy-saving solutions. As our underwriters in Hong Kong said: "This, in turn, improves operating revenues."

Where next?

We are likely to see a more circular economy in the retail sector in the coming years. This will include more examples of recommerce (with retailers using third-party resellers as well as reselling their own 'lightly used' products), in addition to the manufacture and sale of items that are designed to be repaired rather than replaced.

As our underwriters in the Czech Republic said: "The economy has to become more renewable than it is now. Platforms such as Vinted will become more important. Consumers' behaviour will change accordingly. Deglobalisation will also provide space for growth of retail subsectors under pressure from abroad (including clothes, medicines, electronics, toys etc)."

Stores that can access cheaper green electricity will benefit from lower operating costs, especially for their lighting and air conditioning bills. Bricks and mortar stores could also benefit from the fact that they tend to consume less energy than online retailers, especially if they can market their greener credentials to consumers seeking sustainable alternatives.

As brands start to look more closely at their Scope 2 and 3 emissions, we may also see changes in supply chains. However, these changes may also come about as a result of the post-pandemic waves of insolvencies (where retailers have been forced to find new suppliers and vice-versa) and even the increase seen in re-shoring in some markets.

As manufacturers increasingly move towards clean energy transitions, retailers will also see an increase in the volume of 'green' products they can stock. For example, although most green steel is currently directed at the automotive market, there will be an increase in the percentage used for items such as washing machines and fridges. Likewise, a factory that runs entirely on renewable energy will supply goods to retailers with a much lower carbon footprint than a factory run on coal or gas fired energy production.

For EuroCommerce, the role of retailer is pivotal in the world's journey to net zero. In the report, "Net Zero Game Changer" the organisation asserts that the sector "can drive change by incentivising producers, manufacturers, and transport providers to adopt more sustainable practices, including in their sourcing of raw materials."

Connect with Crédito y Caución on social media
youtube.com/creditoycaucion
linkedin.com/company/credito-y-caucion
twitter.com/creditoycaucion

comunicacion@creditoycaucion.es
www.creditoycaucion.es

Crédito y Caución
Paseo de la Castellana, 4
28046, Madrid
Spain

+34 914 326 300