SHIBOLET ESG

# ESG Guide for the Israeli Exporter

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# Introduction - The ESG's Business Case for the Israeli Exporter

**ESG** stands for Environmental, Social, and Governance. The "**Environmental**" aspect focuses on the various environment effects of an organization, mainly reducing carbon emissions and other pollutants and managing natural resources, the "**Social**" aspect addresses issues such as labor practices and community impact, and the "**Governance**" aspect ensures ethical management and accountability. ESG is crucial as it guides companies and investors towards sustainable and responsible practices, aiming for a positive societal and environmental impact.

As ESG is a very broad topic, this report delves into the principal ESG challenges mainly in regards to transparency & climate related aspects. It scrutinizes the variances in ESG regulatory state-based frameworks, underscoring both the potential hurdles and prospects for Israeli firms in foreign markets.

Any exporter should also take into consideration the multi-national ESG frameworks that can be either topic-based ones (such as Human-rights or Climate Change) or sector-based (such as aviation or apparel ones). We will cove these global frameworks in future briefs (or can provide them according to requests received).

The Israeli ESG regulations are fairly advanced and forward-thinking. Nonetheless, the challenge persists due to the regulatory diversity across different countries. Consequently, these internal regulations are insufficient to ensure global regulatory compliance.

For these reasons, a comprehensive country-by-country analysis is essential. This involves studying the main export destinations and their existing regulatory frameworks, as well as projecting their future regulatory landscapes. This approach helps anticipate changes, incentivize innovation, and foster resilience in addressing the complexities of ESG standards.

We welcome any comment or request in regards to this publication:

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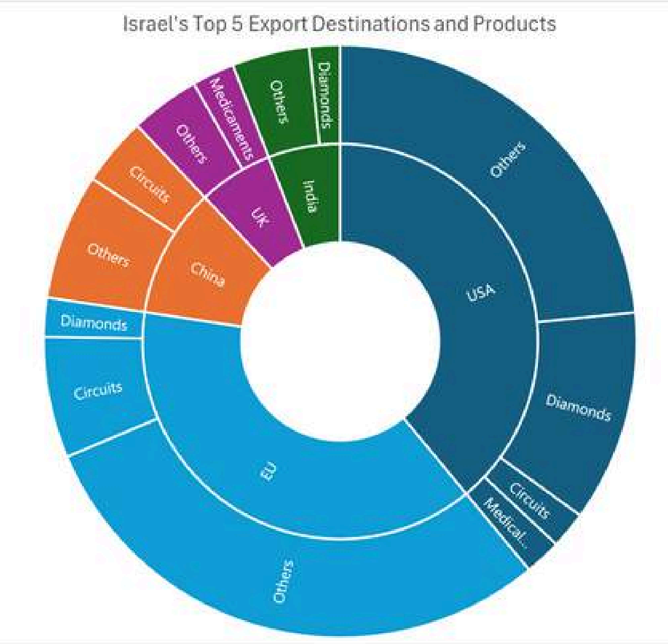
# Israel Export - An Overview

In 2022, goods and services exports account for 31.7% of Israel's GDP, with a significant focus on developed nations such as the USA, EU and China, as well as various developing countries. The disparate ESG policies of these nations are crucial for assessing the future challenges Israeli exports may face.




The Observatory of Economic Complexity (OEC), **Israel 2022 Exports**, Link

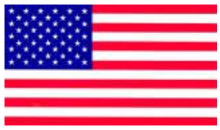
The USA emerges as Israel's primary export market, as depicted in the graph, with the EU and China following. These countries are not only the world's largest economies but also have vastly differing cultures and regulations.

Diamonds, gems, and precious metals make up nearly 14% of Israel's total exports, with the USA being the predominant consumer. With increasing regulatory stringency and a growing demand for ethically sourced products, this sector is likely to encounter significant hurdles.

Integrated circuits stand as Israel's second-largest export, reflecting its advancement in the high-tech sector. The main purchasers of these products are Ireland, China, and the USA, accounting for 44%, 25%, and 13% of exports, respectively.

A cornerstone of global financial reporting is the **International Financial Reporting Standards (IFRS)** and its recently established companion, the **International Sustainability Standards Board (ISSB)**. These international standard setters, in conjunction with other institutions, play a powerful role in shaping ESG policies for companies worldwide. Their focus on risk mitigation, particularly climate-related risks, incentivizes companies to integrate sustainability considerations into their operations. Ultimately, this concerted effort aims to steer economies towards a more sustainable future. It's important to recognize, however, that the influence of international institutions like the **IFRS** has its limitations. While international standards can provide a strong foundation, the national laws and regulations in the destination country ultimately determine import requirements.

# Import ESG Policies



## United States:

The United States serves as a pivotal destination for Israeli exports, characterized by a robust and multifaceted trade relationship. Among these exports, diamonds occupy a prominent position, reflecting Israel's renowned expertise in diamond cutting and trading. Additionally, the USA imports a substantial volume of electronic circuits from Israel, driven by Israel's strong technological and innovation sectors. Medical instruments constitute another significant portion of Israeli exports to the USA, showcasing Israel's advancements in medical technology and healthcare solutions.

These diverse and high-value imports contribute significantly to the dynamic economic ties between the two nations. Presently, the primary importation ESG policies in the United States focus on preventing products made with forced labor[1] and ensuring fair working conditions, while also promoting new green trade strategies.[2]

The United States mandates that all diamond imports be accompanied by a **Kimberley Process Certificate**[3], which serves as a safeguard against diamonds sourced from conflict zones and ensures compliance with the **Clean Diamond Trade Act**. This certification is pivotal in preventing the circulation of blood diamonds, which have historically funded violence and human rights violations. Beyond certification, the USA has imposed sanctions on diamond imports from specific regions notorious for conflict and unethical mining practices, including Sierra Leone, Angola, and more recently, Russia.

The **Kimberley Process** plays a pivotal role in upholding ESG (Environmental, Social, and Governance) standards by advocating for ethical sourcing, curbing funding for armed conflicts, and fostering sustainable development within diamond-producing communities. This alignment with ESG principles is essential for maintaining the integrity and responsibility of the diamond trade.

# Import ESG Policies

The **Securities and Exchange Commission's (SEC) Climate Disclosure Rule** is poised to become the primary driver of ESG and climate-related disclosure policies in the US. While still under development, the current iteration focuses on Scopes 1 and 2 emissions, encompassing a company's direct operations and purchased electricity. However, anticipation exists for a gradual expansion of the rule's scope to include Scope 3 emissions, which account for a company's entire supply chain footprint.

This potential inclusion of Scope 3 emissions would significantly impact industries reliant on imported materials, such as diamonds and circuits. Disclosure requirements could encompass climate-related risks throughout the supply chain, including emissions associated with mining, production, and transportation. Additionally, companies might need to disclose information on specific materials used in circuits and their associated waste management practices. In the case of certain circuit materials, the **SEC** might even require disclosures related to ethical sourcing practices, similar to the Kimberley Process for diamonds.

Currently, there are no ESG / sustainability disclosure requirements in US regulations.

# Import ESG Policies

## China:

China’s import portfolio from Israel spans a diverse array of products, encompassing circuits, measuring instruments, and potassic fertilizers. These imports serve as pivotal pillars supporting China’s industrial and agricultural sectors, thereby contributing substantively to the nation’s economic growth and overall development. However, transcending mere economic considerations, the importation of these goods carries profound ESG implications. As China progressively prioritizes sustainability and responsible business practices, acknowledging and addressing ESG factors within the importation of these products becomes imperative.

China has undertaken substantial efforts to foster good working conditions[4] and bolster environmental protection, underscoring its commitment to ESG principles. China has implemented a multifaceted approach to enhance labor practices, including the fortification of labor laws and regulations, the promotion of workplace safety, and the empowerment of workers’ rights.

China's **Ministry of Finance** has unveiled draft standards for corporate sustainability disclosure, aligned with the IFRS’s **International Sustainability Standards Board (ISSB)**. These **Corporate Sustainability Disclosure Standards -- Basic Standards**[5] aim to establish general provisions, disclosure objectives, and information quality requirements for sustainability reporting by Chinese companies. These initiatives exemplify China’s dedication to sustainability and its astute recognition of the pivotal role played by social and environmental considerations within the business landscape and reporting frameworks.

This implies that China's regulations will require Scope 3 emissions reporting, which will have a significant impact on importers of goods like circuits, medical devices, and fertilizers. Since these standards consider a product's entire life cycle, importers will face stricter environmental requirements when choosing suppliers. This includes evaluating emissions associated with production, transportation, and end-of-life management for circuits and medical devices. Similarly, importers of fertilizers will need to consider the upstream emissions generated during potash production.

# Import ESG Policies

## European Union:

Within Europe, the importation policies concerning circuits—integral to Israel's exports—are profoundly shaped by the European Union's ambitious ESG objectives. At the heart of these aspirations lie the **Circular Economy Action Plan (CEAP)** and the **European Green Deal**, both championing the extension of life cycles for raw materials, products, and services. These goals find expression through strategic measures, including the promotion of reuse, recycling, repair, and refurbishment—a concerted effort to foster sustainability and responsible resource management.

Recent developments in Europe underscore a proactive approach toward sustainable practices. Notably, the future incorporation of the **Ecodesign Directive**[6]—complete with fresh sustainability labeling requirements and the introduction of a novel digital product passport—stands at the forefront. These initiatives empower consumers to make informed, environmentally conscious choices and actively contribute to the ongoing green transition. Moreover, the correct handling of recycling and waste-related packaging assumes growing significance within Europe's importation policies, reflecting a steadfast commitment to responsible resource management.

Europe's importation regulations prioritize sustainability and responsible business practices. Beyond the previously mentioned rules, strict guidelines address products associated with forced labor, ensuring ethical sourcing. For this reason, diamond importation must be accompanied by a valid **Kimberley Process** Certificate. This stringent requirement underscores the EU's unwavering commitment to ethical sourcing practices and broader ESG considerations.

Additionally, the **Corporate Sustainability**[7] **Due Diligence Directive (CSDDD)**, and the **Corporate Sustainability Reporting Directive (CSRD)** will force companies to incorporate sustainable and responsible corporate behavior in their operations and global value chains, including disclosure on supply chain emissions, reflecting transparency and accountability in climate and environmental efforts. These regulations may present more challenges compared to the regulatory frameworks of the USA or China.

## Import ESG Policies

Additionally, in 2026, the **Carbon Border Adjustment Mechanism (CBAM)** will become a game-changer for imports to the EU. Its goal is to encourage cleaner industrial production in non-EU countries by charging a fee to imported goods based on the carbon emissions of their production. This fee will be determined by benchmarking these emissions with similar EU-produced products, hence forcing non-EU companies to reduce their emissions to maintain competitive prices.

Ireland stands out as the European Union's leading importer of Israeli products, with circuits topping the list. However, the landscape of **Corporate Social Responsibility (CSR)** in Ireland is undergoing a significant shift led by the **Department of Enterprise, Trade and Employment (DETE)**. The **DETE** recently concluded its public consultation process for implementing the **Corporate Sustainability Reporting Directive (CSRD)**. This paves the way for upcoming modifications to Ireland's regulatory framework, integrating the **CSRD's** stricter ESG reporting requirements. These changes, once approved by the **Irish Parliament**, could potentially influence the future of Irish imports, including those from Israel, as companies will need to demonstrate their commitment to sustainability throughout their supply chains.

# Import ESG Policies

## United Kingdom:

The United Kingdom, a pivotal trading partner for Israel, actively participates in the exportation of diverse goods. Among these, unpacked medicament and diamonds emerge as prominent commodities. These exports not only wield substantial economic impact within the UK but also assume a critical role in sustaining Israel's healthcare sector and bolstering its diamond industry.

In the context of diamond importation to the United Kingdom, strict adherence to the **Kimberley Process** is obligatory. Companies engaged in the import and trade of diamonds are held to exacting standards of sustainable and ethical practices. These encompass responsible sourcing and transparent supply chains, with considerations spanning labor practices and human rights. Compliance with these regulations transcends mere legal obligation; it serves as a compelling demonstration of companies' unwavering commitment to ethical business practices and sustainability.

From a broader perspective, the UK is also creating the **UK Sustainability Reporting Standards (UK SRS)** to be implemented by the **Policy and Implementation Committee (PIC)**, intending to endorse the **IFRS S1** and **S2** standards. Additionally, the **Technical Advisory Committee (TAC)** has been established to assess the **IFRS Sustainability Disclosure Standards (SDS)** on a technical basis.[8] This includes the mandatory disclosure of Scope 1, 2, and potentially Scope 3 emissions if considered material.[9] This provides a comprehensive framework for sustainability reporting and aligning with global standards, while also compel companies to analyze their supply chain to decide if they are a material topic and require reporting.

# Import ESG Policies

## India:

India’s imports from Israel predominantly encompass diamonds and potassic fertilizers. Regarding diamonds, Indian authorities mandate the use of the **Kimberley Process** certificate for all diamond imports and exports, thereby promoting ethical practices within the diamond industry. These regulations serve to uphold transparency and accountability in the diamond trade, aligning with global efforts to eliminate the circulation of conflict diamonds.

The **Business Responsibility and Sustainability Reporting Standards (BRSR)**[10] mark a significant shift in India's approach to corporate sustainability. Replacing the earlier **Business Responsibility Reporting (BRR)**, the **BRSR** represents a more comprehensive framework for ESG disclosure. While the current iteration focuses on Scopes 1 and 2 emissions (a company's direct emissions and those from purchased electricity), the **BRSR's** emphasis on practicality[11] and continuous improvement suggests that Scope 3 emissions reporting might be integrated in the future.

This potential inclusion of Scope 3, encompassing a company's entire supply chain footprint, would have a far-reaching impact. Importing companies, in particular, would need to adapt their operations to account for the environmental impact associated with raw material extraction, production processes, and transportation occurring outside of India. This could necessitate closer collaboration with suppliers to ensure sustainable practices throughout the supply chain.

The **BRSR's** evolving nature reflects India's growing commitment to global sustainability goals. By potentially incorporating Scope 3 reporting, the **BRSR** could become a powerful tool for promoting transparency and accountability within Indian companies, while also influencing the environmental practices of their international partners.

## Conclusion

While the importation policies of Israel's primary export destinations exhibit variability, a consistent theme emerges concerning Environmental, Social, and Governance matters. Each country, guided by its distinct institutions and regulations, shares a fundamental objective: the promotion of sustainable practices and the assurance of ethical standards within specific industries. Despite the diverse challenges encountered by various sectors, a discernible global trend is evident—a shift toward more stringent policies and heightened emphasis on ESG reporting across the entire supply chain. This trend poses a substantial challenge for exporting companies worldwide, necessitating their adaptation to evolving standards. In sum, the harmonization of ESG policies signifies a collective endeavor to address environmental and social concerns, fostering a more sustainable and responsible global trade landscape.

As ESG reporting standards tighten, a crucial focus is emerging: comprehensive Scope 3 emissions reporting and full life cycle assessments. This shift, driven by present and future national regulations demanding Scope 3 reporting, will significantly influence all importers to that country. To meet these evolving requirements, companies will need a deeper understanding of their products' environmental impact throughout the entire life cycle, from raw material extraction and production to transportation, use, and end-of-life management. This focus on the full life cycle, alongside responsible sourcing practices that ensure alignment with human rights, labor rights, and environmental conservation, will be critical for building sustainable supply chains that contribute to global sustainability goals.

While Israel's existing ESG regulations may surpass those of certain export destinations, it remains imperative to proactively anticipate global trends and cultivate ongoing enhancements across its industries. By aligning with evolving global ESG standards and championing best practices in recycling, reuse, waste management, and ethical sourcing, Israel can bolster its competitive advantage in international markets while actively advancing the broader objective of sustainable development. This forward-looking strategy not only ensures regulatory compliance but also fuels innovation and resilience in the face of emerging environmental and social complexities.

# About Shibolet ESG

Shibolet ESG was established with the mission of assisting businesses and organizations in effectively implementing ESG guidelines and standards. As a subsidiary of Shibolet & Co. one of Israel's largest legal firms specializing in corporate law, Shibolet ESG operates under the leadership of Dr. Liad Ortar, a renowned expert in ESG topics. We offer comprehensive services in all relevant ESG areas, including the design of short- and long-term strategies, detailed work plans for ESG tracking and monitoring, and ESG (non-financial) reporting.

**Our Added Value**

- **Expertise:** With over 20 years of cumulative experience in environment, ESG, climate risk management, and corporate responsibility consulting, Shibolet ESG brings a wealth of knowledge and expertise to our clients.
- **Legal Backing:** Shibolet ESG benefits from the legal and regulatory support of Shibolet & Co., ensuring that our activities align with the relevant legal frameworks. Adv. Galit Ofer, partner and head of the Department of Environment and ESG at Shibolet & Co., leads our legal and regulatory initiatives alongside other lawyers from the Regulatory Department.
- **Multidisciplinary Perspective:** Shibolet ESG offers a rich integrated perspective in its consulting activities. This unique value proposition includes services such as conducting market research and surveys, developing SDGs-based impact methodologies, performing life cycle analyses (LCA), calculating carbon footprints, assessing climate and disaster risks, and assisting in business continuity planning.
- **Global Network:** Shibolet ESG maintains active engagement with some of the world's largest and industry-leading organizations on ESG topics. This involvement allows us to stay updated on regulatory developments and offer cutting-edge services to our clients when new regulations emerge in Israel.

# About Shibolet ESG

**Our Services:**

- ESG Gap Analysis
- Stakeholders' Engagement & Materiality Analysis
- Carbon Footprint Assessments
- ESG Reporting (GRI/SASB/SDGs-based)
- Assurance for ESG Reports
- Professional Training and Thematic Lectures
- Carbon Neutrality Guidance
- Impact Measurement
- Climate & Risk Assessment
- Business Continuity Planning

At Shibolet ESG, we are committed to supporting our clients in their ESG journey and delivering exceptional services tailored to their unique needs.

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## Disclaimer

*This document is intended to provide an overview of the current Environmental, Social, and Governance (ESG) importation policies for Israel's main export destinations. It summarizes the existing regulations and practices based on available information at the time of writing. This document is not exhaustive or comprehensive and does not constitute legal advice or a legally binding document.

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## Resources


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2. U.S. Customs and Border Protection, **Green Trade Strategy**, Link
3. U.S. Department of State, **Kimberly Process for Rough Diamonds**, Link
4. Carrots&Sticks, **Law of the People's Republic of China on Work Safety**, Link
5. The State Council, **China charts path to unified sustainability disclosure by 2030,** Link
6. International Trade Administration, **Ireland – Country Commercial Guide**, Link
7. European Commission, **Corporate Sustainability Due Diligence,** Link
8. Department of Business and Trade, **UK Sustainability Reporting Standards,** Link
9. GHG Protocol use within ISSB's IFRS S2 Standard Enables Widespread Adoption of a Common Standard for GHG Accounting, **GHG Protocol,** Link
10. BRSR reporting and the evolving ESG landscape in India, **EY India**, Link
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