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**ANALYSIS OF THE ENVIRONMENTAL DISCLOSURE  
OBLIGATIONS REQUIRED BY THE CORPORATE  
SUSTAINABILITY REPORTING DIRECTIVE IN THE  
PORTUGUESE HOTEL INDUSTRY THROUGH CASE  
STUDIES**

Thesis to obtain a Master's Degree in Law,  
in the specialty of Master Degree in Law and  
Management.

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## **ANTI PLAGIARISM STATEMENT**

I hereby declare that the work I present, is my own work and that all my citations are correctly acknowledged. I am aware that the use of unacknowledged extraneous materials and sources, constitutes a serious ethical and disciplinary offence.

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**Stéphanie Sant'ana Ramos**

## **DECLARATION**

I hereby declare that the body of the thesis, including spaces and notes, occupies a total of 157.209 characters.

## **ACKNOWLEDGEMENTS**

This research represents the completion of an important stage in my academic life, which would not have been possible without the assistance of all those who contributed to its realization, to whom I express my sincere gratitude.

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## LIST OF ACRONYMS

- CSRD – Corporate Sustainability Reporting Directive
- EU – European Union
- ESG – Environmental, Social, and Governance
- ESRS – European Sustainability Reporting Standards
- IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities
- PRI – Principles for Responsible Investment
- TBL – Triple Bottom Line
- TEU – Treaty of the European Union
- TFEU – Treaty of the Functioning of the European Union
- TNFD – Taskforce for Nature-related Financial Disclosures
- UN – United Nations
- UNWTO – United Nations World Tourism Organisation

## **ABSTRACT**

The urgency to promote significant changes in business activities in order to achieve the goals of the sustainable development agenda and generate greater corporate commitment to environmental sustainability has moved the legal system in an attempt to drive the international and national ideals established in each of these scenarios. In this context, the Corporate Sustainability Reporting Directive (CSRD) was implemented, consisting of a European Union standard with a purpose aligned with the European Union's journey towards sustainable development.

This directive implements new characteristics to sustainability reports, in particular the need to prepare documents that communicate the environmental impact according to the dual materiality study, expressing the commitment to opportunities for action within the strategic plans of the company and the international organizations and countries in which they operate.

This research aims to concretely analyze the use of these two recent features implemented by the CSRD through a case study of the reports presented by the Savoy Signature and Pestana hotel Group chains based in Portugal, in order to verify the extent to which these business are ready to comply with the new requirements.

To this end, the study analyzes the need for corporate action committed to sustainability, aware of the relevance of the hotel sector in Portugal and committed to the impact of this industry on the environment, in the light of possible opportunities for action from a strategic perspective, in the publication of their reports.

**KEYWORDS:** Corporate sustainability; environmental reporting; hospitality industry; case study.

## RESUMO

A urgência para promover mudanças significativas nas atividades empresariais em prol do alcance das metas da agenda de desenvolvimento sustentável e gerar maior comprometimento corporativo com a sustentabilidade ambiental movimentou o sistema jurídico na tentativa de impulsionar os ideais internacionais e nacionais estabelecidos em cada um daqueles cenários. Nesse contexto, foi implementada a Diretiva de Relatórios de Sustentabilidade Corporativa (CSRD), consistente numa norma da União Europeia com propósito alinhado à jornada da União Europeia pelo desenvolvimento sustentável.

Trata-se de diretiva que implementa novas características aos relatórios de sustentabilidade, em destaque à necessidade de elaboração de documentos que comuniquem o impacto ambiental segundo o estudo de dupla materialidade, expressando o compromisso com oportunidades de atuação dentro dos planos estratégicos da empresa e dos organismos internacionais e países nos quais atuem.

Esta pesquisa propõe-se a analisar de forma concreta a utilização dessas duas características recentes implementadas pela CSRD por meio de um estudo de caso referente aos relatórios apresentados pelas redes hoteleiras Savoy Signature e Grupo Hotel Pestana, sediadas em Portugal, a fim de verificar até que ponto os mencionados grupos empresariais estão prontos para cumprir com os novos requisitos.

Para isso, analisa-se a necessidade da atuação empresarial comprometida com a sustentabilidade, atenta à relevância do setor hoteleiro em Portugal e comprometida com o impacto dessa indústria no meio ambiente, frente às possíveis oportunidades de atuação sob a perspectiva estratégica, na apresentação de seus relatórios.

**PALAVRA-CHAVES:** Sustentabilidade corporativa; relatórios ambientais; indústria hoteleira; estudo de caso.

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# **1 INTRODUCTION**

## **1.1 The theme relevance and motivation of the research**

In the digital and informational world, many topics have become widely discussed and have impacted on human relations. Recently, sociological studies on generational characteristics hit the headlines on a daily basis, mainly because it demonstrates major differences in the thinking and actions of people born a short distance apart. The concerns of the population have changed rapidly and abruptly, and this phenomenon requires a great deal of normative and political effort to enable the public to achieve their ideals.

One example of change is the European Union's journey towards concrete and effective constructions for continuous social development aligned with environmental protection. Concerns about sustainability precede recent studies into the behavior of the Millennial and Z generations, but appear to be increasingly intense at the moment, in the midst of a generation that is apparently more aware of its impact on the environment.

Indeed, it's so evident that news channels and social networks are full of posts about the acronym ESG, which stands for Environmental, Social, Governance. The acronym first appeared in 2004 in the publication of the World Bank's "who cares wins" in conjunction with the United Nations (UN) Global Compact (ALVES, 2023, p.52), and although it doesn't have a singular accepted concept, it is used to highlight the importance of the three aspects in making corporate investments and in corporate decision-making regarding internal organization and the role of social purpose. Although it is not a recent topic, it has been shaping new debates regarding the business approach.

It is common knowledge that the regulation of a new factor of social change is slower to emerge than the repercussions of the fact itself. However, the European Union is making many efforts to understand the consequences of implementing ESG in business, especially in the context of the imminent end date of the goals set by the 2030 Agenda for Sustainable Development.

There are many bodies and norms dedicated to establishing a standard of sustainable conduct at international level for individuals and companies. The most recent move by the European Union in the ongoing search for effective sustainable actions was the publication of the Corporate Sustainable Reporting Directive (CSRD). The CSRD is an important directive that modernizes and strengthens the rules relating to the environmental, social and governance information that companies need to communicate.

There is an interconnection between the Directives 2013/34 EU, 2014/95 EU and 2022/2464 EU (CSRD). For instance, the Directive 2014/95/EU of the European Parliament and of the Council on disclosure of non-financial information entered into force on December 6, 2014, amending Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

Besides the companies that were required to comply with the Directive 2014/95 of the European Parliament and of the Council, the CSRD has expanded the number of companies obliged to provide a sustainability report. This includes all large undertakings and all undertakings, except micro undertakings, whose securities are admitted to trading on a regulated market in the Union to report sustainability information.

Also included third-country undertakings whose securities are admitted to trading on a regulated market in the Union should also disclose information on sustainability matters and all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level.

The CSRD applies in four stages from January 2024. Article 5.2 of Directive 2022/2464 of the European Parliament and of the Council reads as follows:

2. Member States shall apply the measures necessary to comply with Article 1, with the exception of point (14):
  - a) for financial years starting on or after 1 January 2024:
    - i) to large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU which are public-interest entities as defined in point (1) of Article 2 of that Directive exceeding on their balance sheet dates the average number of 500 employees during the financial year,
    - ii) to public-interest entities as defined in point (1) of Article 2 of Directive 2013/34/EU which are parent undertakings of a large group within the meaning of

Article 3(7) of that Directive exceeding on its balance sheet dates, on a consolidated basis, the average number of 500 employees during the financial year;

b) for financial years starting on or after 1 January 2025:

i) to large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU, other than those referred to in point (a)(i) of this subparagraph;

ii) to parent undertakings of a large group within the meaning of Article 3(7) of Directive 2013/34/EU, other than those referred to in point (a)(ii) of this subparagraph;

c) for financial years starting on or after 1 January 2026:

i) to small and medium-sized undertakings within the meaning of Article 3(2) and (3) of Directive 2013/34/EU which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive;

ii) to small and non-complex institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013, provided they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive;

iii) to captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council (39), and captive reinsurance undertakings defined in point (5) of Article 13 of that Directive, provided that they are large undertakings within the meaning of Article 3(4) of Directive 2013/34/EU or that they are small and medium sized undertakings within the meaning of Article 3(2) and (3) of that Directive which are public-interest entities as defined in point (a) of point (1) of Article 2 of that Directive and which are not micro-undertakings as defined in Article 3(1) of that Directive.

As a result, a greater number of companies will be obliged to present sustainability reports, so as to facilitate access to ESG-related information for stakeholders, as well as allowing investors to better assess the risks compared to the financial opportunities related to sustainability issues. The directive begins its application on 2024 and follows the order presented in the article 5 of the Directive 2022/2464 of EU parliament and council, considering companies sizes detailed above.

It should be noted that companies will have to report their information according to the European Sustainability Reporting Standards (ESRS) to ensure a minimum level of comparability. In December 2023, the first group of ESRS standards was approved, by the EU Delegated Regulation 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards,

consisting of two general standards, five relating to environmental issues, four on social matters and one regarding governance.

All the care taken to improve the system for issuing sustainability reports emphasizes the importance of this document. Among the essential features it should be stressed that the reports promote transparency and help to monitor how business activities are conducted and how companies intend to improve their contribution to ESG aspects. Every enterprise has an impact on the locality in which it operates, in economic, environmental and social terms, and must therefore act responsibly in relation to them.

## **1.2 Scope limitation and research question**

From this perspective, this research is dedicated to the study of the hotel sector, since it is evident that the activity of this industry is in contact with all the parameters of the ESG, in addition to the fact that there has been a growth in the hotel industry in the post-pandemic world, to the extent that it is of great relevance to the economy of several countries around the world.

Among the aspects that hospitality influences, the research will be restricted to the environmental impact caused by hotels, since this is a concern of the new generation and all the international apparatus that aims to protect the environment in order to guarantee quality of life for new generations. It is therefore imperative that hotels provide sustainability reports so that stakeholders can assess the risks, impacts and opportunities of the company's actions on the journey towards sustainable development.

It is even more important to identify whether this large sector is only promoting sustainability reports for formal reasons, in an evasive and vague way, or whether there is a specific and consistent commitment to exploring opportunities for present and future action in accordance with the principles of environmental law.

It is worth stating that, for the purposes of research feasibility, this thesis is restricted to analyzing the universe of sustainability reports from the non-financial and environmental perspective two hotel groups based in Portugal.

In this sense, the research question is to what extent do the Portuguese hotel companies in this study materially comply with the reporting obligations required by the CSRD, in particular the obligation to address environmental opportunities?

### **1.3 Research Objective and methodology**

To this end, the aim is to analyze the reporting obligations of companies in the hotel industry to verify whether they are complying with the new reporting standards imposed by the CSRD and ESRS. Beyond that, it is studied how the European Union and Portugal, particularly, position themselves on the international protection of the environment, especially in relation to the impacts caused by the hotel industry.

Subsequently, the development and purpose of the Corporate Sustainability Reporting Directive (CSRD) will be analyzed by means of a literary and legislative review, since the objective is to conclude whether the reports, that are the subject of this study, are able to meet the requirements of the aforementioned directive, in terms of the dual materiality and opportunity aspects.

Furthermore, by means of a literature review and a case study, it is intended to examine what dual materiality entails and what mechanisms the Portuguese hotel industry uses to identify and justify it when preparing the report required by the CSRD.

Lastly, an analysis will be made of how the non-financial sustainability reports issued by two anonymous hotel groups cover environmental impact and how they present their commitments to opportunities for sustainable action in the coming years.

## 2 CORPORATE SUSTAINABILITY AND THE STANDPOINT OF THE HOTEL SECTOR IN PORTUGAL

The word sustainability is used broadly and in various contexts. In this sense, in order to be able to demand a commitment from companies regarding sustainability, it is necessary to understand what this term encompasses in relation to the activities they carry out.

Malheiro et al. (2020, p. 01), when introducing the study of sustainability in tourism and hospitality, emphasize the complexity of the topic and explain that the analysis of corporate sustainability involves three main pillars, as shown below:

Sustainability is a topic that is currently being discussed and constantly adapting, since it is related not only to an ecologically correct posture and strategy, but also economically viable and socially equitable. On the other hand, it is also a very complex concept, as it serves a set of interdependent variables, from the most diverse fields and disciplines, such as cultural, business, geographic sustainability, among others, which leads to the emergence of different interpretations about this.[...] sustainability bases its action on three aspects: economic, social and environmental, which are the so-called pillars of sustainability as it seeks economic prosperity, environmental quality and social integrity.

Sustainability, alongside other concepts such as ESG, has gained prominence over time through studies designed to identify ways of reverse and/or mitigate the negative impacts on the world caused, as well, by business activity. These criteria for analyzing corporate conduct, in addition to their similar purposes, are close in subject matter.

Alves (2023, p.50-51) reveals the relationship between the acronym ESG and sustainability:

The term ESG has been used to refer to business and investment practices that are concerned with sustainability criteria, and not just profit in the financial market.[...] The adoption of the ESG agenda represents a real paradigm shift in relations between companies and their investors, since best practices traditionally related to sustainability have come to be considered as part of companies' financial strategy. (our translation).<sup>1</sup>

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<sup>1</sup> “O termo ESG tem sido usado para se referir a práticas empresariais e de investimento que se preocupam com critérios de sustentabilidade, e não apenas com o lucro no mercado financeiro.[...] A adoção da agenda ESG representa uma verdadeira mudança de paradigma nas relações entre as empresas e seus investidores, já que as melhores práticas tradicionalmente relacionadas à sustentabilidade passaram a ser consideradas como parte da estratégia financeira das empresas.”

Accordingly, it is understood that the ESG was established with the purpose of rooting the pillars of sustainability in corporate practice, reinforcing the need to formalize entrepreneurial governance that is determined to verify whether any decision-making generates a negative impact on the environment and society, and how to promote environmental quality and social integrity in business and in the locality in which it operates.

In this respect, despite the importance of the theoretical study of the subject, it is vital that the practical aspects of sustainability are analyzed, in a way in which could be possible to observe and verify how companies have incorporated the concepts of sustainability into their daily operations, and how they have presented these actions to society.

Since there are three pillars that guide the understanding of the extent of the study of sustainability, namely environmental, social and economic, this research will analyze sustainability from an environmental perspective.

## 2.1 Corporate sustainability

The environment has special protection in the international legislative scenario, primarily motivated by the intention to preserve life itself on the planet. Guerra (2019, p.642), in defining what the environment is, expresses a holistic view as follows:

The concept of the environment must not take a simplistic and reduced view. On the contrary, it must include original and artificial nature, as well as related cultural goods, including soil, water, air, flora, natural beauty, historical, artistic, tourist, landscape and archaeological heritage, and the working environment. Thus, any asset that is essential to the healthy quality of human life and is in common use by the people has the characteristics of an environmental asset. (our translation).<sup>2</sup>

The aforementioned Brazilian author (2019, p. 643) points out that: “Environmental right, more than a description of existing right, is a right that carries a message: a right of the future and of anticipation, based on which man and nature should find a harmonious and balanced relationship” (our translation).<sup>3</sup>

Some of the important milestones on the international landscape relating to environmental protection were the Stockholm Conference in 1972; the United Nations Conference on Environment and Development, known as Rio-92; the World Summit on Sustainable Development in 2002 in Johannesburg, Rio+10; and the UN Conference on Sustainable Development, known as Rio+20.

Still on the subject of international legislation which deals specifically with business and the environment, Atchabahian (2023, p.215) explains that:

Since 2011, the branch of international law known as Business and Human Rights has received greater attention from national and international stakeholders. This is because the publication in that year of the United Nations (UN) Guiding Principles on Business and Human Rights (Ruggie Principles), established by John Ruggie,

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<sup>2</sup> “O conceito de meio ambiente não pode apresentar uma visão simplista e reduzida. Ao contrário, deve estar inserida a natureza original e artificial, bem como os bens culturais correlatos, compreendendo portanto, o solo, a água, o ar, a flora, as belezas naturais, patrimônio histórico, artístico, turístico, paisagístico e arqueológico, e o meio ambiente do trabalho. Assim, todo e qualquer bem essencial à sadia qualidade da vida humana e de uso comum do povo tem características de bem ambiental”.

<sup>3</sup> “O direito do ambiente, mais do que a descrição do direito existente é um direito portador de uma mensagem: um direito do futuro e da antecipação, graças ao qual o homem e a natureza deverão encontrar um relacionamento harmonioso e equilibrado.”

brought to corporations the duty to observe the protection of human rights and the environment at the heart of their activities. (our translation).<sup>4</sup>

Hence, the relationship between the economy and the environment has been perceived differently over time. In this sense, Alves (2023, p. 44), outlining the responsibility of companies in this area and the inclusion of environmental sustainability as a key factor in corporate activity, reflects on the sustainability dimensions (TBL – Triple Bottom Line), also known as the three P's: People, Planet and Profit, presented by Jonh Elkington, one of the forerunners in the study of social and environmental responsibility:

TBL differs from other management models since it includes environmental and social dimensions in addition to the traditional profit measures. In this model, it is important to recognize the negative impacts caused by the company's activity and work to mitigate them, always taking into account the economic, social and environmental aspects. (our translation).<sup>5</sup>

In this setting, to act in a way that is fully committed to sustainability is no longer a mere obligation and should become the organization's natural way of thinking, since the effective and serious disclosure of actions and results, in the area of environmental sustainability, is a strategy for publicizing what they consider to be fundamental to their performance in each area of their business. Accountability would be voluntary and serious rather than imposed and formal.

The ideal change in the mindset of the organizations regarding sustainability issues aims to contribute to the sustainable development of the population affected by their business activity. In this context, when dealing with aspects related to the purpose, objectives, solutions and normative obligations of the European Union, Odoabaša and Marošević (2023, p.596) reinforce that:

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<sup>4</sup>“Desde 2011, o ramo do Direito Internacional reconhecido como Empresas e Direitos Humanos (Business and Human Rights) tem recebido maior atenção dos stakeholders nacionais e internacionais. Isso porque a publicação, naquele ano, dos chamados Princípios Orientadores da Organização das Nações Unidas (ONU) sobre Empresas e Direitos Humanos (Princípios Orientadores ou Princípios Ruggie), estabelecidos por John Ruggie, trouxeram para as corporações o dever de observar no coração de suas atividades a proteção aos direitos humanos e ao meio ambiente.”

<sup>5</sup> “O TBL se diferencia de outros modelos de gestão, pois inclui as dimensões ambientais e sociais, além das medidas já tradicionais de lucro. Neste modelo é importante reconhecer os impactos negativos causados pela atividade da empresa e trabalhar para que eles sejam mitigados, sempre levando em consideração os aspectos econômicos, sociais e ambientais.”

Based on the Paris Climate Agreement and the 2030 UN Agenda for sustainable development from 2015, the European Green Deal 2019, the EU Climate Law from 2021 and the EU Biodiversity Strategy 2030 from 2020, the Commission's program outlines the Union's green transition towards a resource-efficient and competitive economy without net greenhouse gas emissions until 2050. In addition to the effective protection, preservation and increase of natural capital, the transition to a model of sustainable development in all sectors of the economy and society should enable inclusive and socially just economic and social development that protects and increases the health and wellbeing of current and future generations that will not endanger social and environmental risks.

In other words, in order to achieve international and national normative ideals, including reducing environmental risks, it is necessary to promote a change in behavior to achieve a sustainable development model.

## 2.2 Sustainable development

Sustainable development is stipulated in Article 3(3) of the Treaty on European Union (TEU) where it is said that it is “based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment”.

In addition, Article 191 of the Treaty on the Functioning of the European Union (TFEU), when dealing with the environment, states that EU policy on the environment shall contribute to pursuit of the following objectives: preserving, protecting and improving the quality of the environment; protecting human health; prudent and rational utilisation of natural resources; and promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

Important to note that development and the right to the environment are both fundamental to every human life and this consideration can also be observed by reading Article 1.1 of the United Nations Declaration on the Right to Development, adopted by Resolution 41/128 of the United Nations General Assembly on December 4, 1986, which states:

The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized.

Nascimento (2023, p.33-34), on dealing with sustainable development and climate change from a historical perspective, argues that:

Also noteworthy on this journey was the first significant meeting on the subject, the United Nations Conference on the Environment, held in Stockholm in 1972. The event was a real milestone in global ecological awareness. At the time, it highlighted the warning given to countries about the need for international cooperation, especially for "transboundary air protection", one of the biggest concerns in the field of air pollution. At this conference, twenty-six principles containing rights and obligations were listed, culminating in the Declaration for the Preservation of the Environment. But it wasn't until 20 years later, at ECO 92, held in Brazil, that the promotion of sustainable development was consolidated, based on the principles of the Rio Declaration and Agenda 21. (our translation).<sup>6</sup>

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<sup>6</sup> “Nessa jornada, se destaca, também, a primeira reunião de relevância sobre o assunto, a Conferência das Nações Unidas sobre o Meio Ambiente, realizada em Estocolmo no ano de 1972. O evento foi um verdadeiro marco na conscientização ecológica mundial. Na época, se destacou o alerta realizado aos países para a necessidade de cooperação internacional, principalmente, para a proteção ‘transfronteiriça do ar’, uma das

Nascimento (2023, p.34) also highlights the concept presented by the Brundtland Report for sustainable development as “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (our translation)<sup>7</sup>.

The concern of the United Nations (UN) about the issue under analysis is highlighted by Nascimento (2023, p.34), when mentions that:

[...] has always been deeply involved in the topic of sustainability, seeing it as an essential issue to be observed in a global context. It should be noted that the agenda is also consolidated in the principles of the Global Compact, an action related to international companies so that they adopt fundamental values in business, in addition, this is also in the Agenda for the fulfillment by 2030 of the Sustainable Development Goals - SDGs, these practices involve an action plan for people, the planet and prosperity, presented in its 17 (seventeen) Objectives that comprise 169 (one hundred and sixty-nine) goals. (our translation)<sup>8</sup>

One of the foundations of the change in the way organizations do business in the post-pandemic era, according to Nascimento (2023, p.35), is the perception that society is strongly inclined towards values and principles that are aligned with a concept of sustainability for the planet.

It should also be pointed out that society's easier access to information has also been one of the instruments driving companies to report on their sustainable principles, values and actions, since greater awareness of the issue has awakened a more discerning public of stakeholders willing to demand information on effective actions in favor of sustainable development.

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maiores inquietações no campo da poluição do ar. Nessa Conferência foram elencados vinte e seis princípios contendo direitos e obrigações, que culminou na Declaração para a Preservação do Meio Ambiente. Mas, somente após 20 anos, na ECO 92, realizada no Brasil, que se consolidou, com fundamento nos princípios da Declaração do Rio e da Agenda 21, a promoção do desenvolvimento sustentável”.

<sup>7</sup> “o desenvolvimento que atende às necessidades do presente, sem comprometer a capacidade das futuras gerações de atender suas próprias necessidades”.

<sup>8</sup> “[...] sempre atuou profundamente no tema da sustentabilidade, tendo o assunto como uma questão imprescindível de ser observada em contexto mundial. Ressalte-se que a pauta se encontra também consolidada nos princípios do Pacto Global, uma ação relacionada às empresas internacionais para que estas adotem valores fundamentais nos negócios, ademais, isso também está na Agenda de cumprimento até 2030 dos Objetivos de Desenvolvimento Sustentável – ODS, essas práticas envolvem um plano de ação para as pessoas, para o planeta e para a prosperidade, apresentado nos seus 17 (dezessete) Objetivos que compreendem 169 (cento e sessenta e nove) metas.”

The voluntary disclosure of information mentioned above is also related to the concern expressed by the UN when it presents the Principles for Responsible Investment (PRI) as follows:

The PRI works together with its international network of signatories to put the six Principles for Responsible Investment into practice. The aim of the Principles is to understand the implications of investing in environmental, social and governance issues, and to support signatories in integrating these issues into their investment and asset ownership decisions.

Also, when it comes to the perspective under analysis, Nascimento (2023, p. 38) warns of the need for transparency and integrity in the actions of organizations: “There is no longer any room for any absence of ethics, zero tolerance for behaviours outside what is characterized as ethical, upright and transparent.” (our translation)<sup>9</sup>.

It should also be noted that the perception of time in the context of the term sustainability refers to what has been called sustainable development, explained in the Brundtland Report (1987, p.16), known as Our Common Future, as "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

One of the main premises of the report under review is that the goal of achieving development in societies implies the pursuit of the satisfaction of sustainable human needs and aspirations in the long term as its fundamental objective. In the absence of the fulfillment of people's basic needs and legitimate aspirations, the result is flawed development that deserves to be improved.

Another point worth noting is that there is no geographical or generational limitation between those involved in the search for sustainable development on earth, which means that actions to maintain it need to be carried out by everyone everywhere.

In this sense, after mentioning the need for a "reorientation of international economic relations" (1987, p. 48), the aforementioned report presents the essential objectives of

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<sup>9</sup> “Não há mais espaço para qualquer ausência de ética, tolerância zero para comportamentos fora do que se caracteriza como ético, íntegro e transparente”

environmental and development policies arising from the concept of sustainable development, including "merging environment and economics in decision making" (1987, p. 46).

Therefore, since 1987, the necessary integration of economic issues with ecological concerns has been emphasized, as well as the interrelationship between different economic activities during the development of a given business (1987, p. 55):

The common theme throughout this strategy for sustainable development is the need to integrate economic and ecological considerations in decision making. They are, after all, integrated in the workings of the real world. This will require a change in attitudes and objectives and in institutional arrangements at every level.

Although the conflict between ecology and economy is merely apparent and the solution lies in following a path of sustainable development, sustainable development does not translate into a single, static answer. Trennepohl (2020, p. 31), in his considerations on environmental expectations for the 21st century, argues that sustainable development is a process in construction:

This does not reflect a permanent state of harmony, but rather a process of change in which the exploitation of natural resources, the orientation of investments, the directions of technological development and institutional change are in line with current and future needs. (our translation)<sup>10</sup>.

In more practical aspects, Professor (Kamiński, 2023, p. 01) points out the principles related to the subject under analysis when he states:

The literature formulates the principles on which the development of a sustainable enterprise should be based. These include, among others: 1. Positive impact of the company on the external environment. 2. Taking care of the reputation and striving for a positive perception of the brand. 3. Development taking into account the planned ecological effect. 4. Achieving acceptable financial results. 5. Conducting multidimensional measurement of achievements, including searching for and closing gaps in the area of sustainable development of the company based on indicator analyses.

In short, its possible to see that the international context is committed to the progress of sustainable development and seeks to move many sectors to take on the environmental

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<sup>10</sup> "Isso não reflete um estado permanente de harmonia, mas sim um processo de mudança no qual a exploração dos recursos naturais, a orientação dos investimentos, os rumos do desenvolvimento tecnológico e a mudança institucional estão de acordo com as necessidades atuais e futuras"

responsibility inherent in them as soon as possible. With this in mind, we now proceed to study an industry that stands out among others in the European Union.

### **2.3 The impact and relevance of the hotel sector on the environment in Portugal**

Once the importance of promoting sustainable development based on environmental issues for companies is acknowledged, the next point that deserves special attention in this research is the importance of tourism for Portugal's economy.

The National Tourist Authority, part of the Ministry of the Economy and the Sea, which is responsible for promoting, enhancing and ensuring the sustainability of tourism in Portugal (Turismo de Portugal, 2023, p. 01), stated on its website, when describing tourism facts and numbers, that:

Tourism is a key economic activity for generating wealth and employment in Portugal and tourism data for 2022 is encouraging. In 2022, the tourism sector approached the record values of 2019 in the main indicators of overnight stays (-0.9%) and guests (-2.3%), and exceeded the values in tourism revenue (+15.4%).

The National Tourist Authority also presents "The +Sustainable Tourism Plan 2020-2023" as the strategic, participatory and dynamic, broad and creative framework through which Portugal Tourism assumes responsibility for mobilizing agents and society to promote sustainability in tourism in Portugal over the next three years.

Thus, the guiding principles of the aforementioned Plan are (p. 12):

- a) Contribute towards achieving the goals of the 2027 Tourism Strategy;
- b) Strengthen the role of Tourism in the 17 United Nations' Sustainable Development Goals;
- c) Promote the energy transition and the circular economy of tourism companies;
- d) Involve the stakeholders in a joint commitment to transform supply and sustainability of destination;
- e) Stimulate a change of attitude throughout the sector's value chain.

The targets set for the Action Plan for 2023 were (p. 64):

- a) Have 75% of tourist accommodations with energy efficiency, water and waste management systems;
- b) Have 75% of tourist accommodations not using Single-Use Plastics;
- c) Clean & Safe – 25 000 participants, 30 000 trained and 1 000 audited;
- d) 50 000 professionals trained in the areas of sustainability;
- e) 200 international references on Portugal associated with sustainability.

In order to manage and monitor the Tourism + Sustainability Plan 2020-2023, a Sustainability Monitoring Group was set up, made up of more than 50 interlocutors from the tourism value chain and institutional partners, with a view on shared responsibility for achieving the Plan's goals and, consequently, the Tourism 2027 Strategy.

The overview of the Tourism + Sustainability Plan 20-23 was one of the integral parts of the report of the 3rd Meeting of the Sustainability Monitoring Group, "Accelerating the transition - Preparing for the future", held on November 9, 2023. It highlighted, alongside other things, that (p. 05):

TdP's (Turismo de Portugal) presentation on the Plan's implementation status highlighted that 77% of the actions have been completed, 19% are under development and 4% have not been started. In an analysis by Action Indicator, which showed a high level of execution in all the priority areas, there were examples of some of the initiatives implemented and under development, identifying the partners involved. The status of the Plan's five targets was also presented, providing a positive assessment of the results achieved (our translation).<sup>11</sup>

Afterwards, the challenges that the tourism sector is likely to face in Portugal in the near future on the road to sustainability were presented, in which contributions were made to address the issues that were chosen as the most relevant, namely Climate Action; Responsible Mobility; Water Availability; Safety for All; and Social Responsibility.

The World Tourism Organization (UNWTO), a United Nations agency, in its own presentation, in charge of promoting responsible, sustainable, and universally accessible tourism, when dealing with the issue of sustainable development in the hospitality area, states:

Sustainable tourism development guidelines and management practices are applicable to all forms of tourism in all types of destinations, including mass tourism and the various niche tourism segments. Sustainability principles refer to the environmental, economic, and socio-cultural aspects of tourism development, and a suitable balance must be established between these three dimensions to guarantee its long-term sustainability.

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<sup>11</sup> "A apresentação do TdP (Turismo de Portugal) sobre o estado de implementação do Plano destacou que 77% das ações estão concluídas, 19% estão em desenvolvimento e 4% não foram iniciadas. Numa análise por Eixo de Ação, que evidenciou um elevado nível de execução em todos os Eixos, foram detalhadas, a título de exemplo, algumas das ações implementadas e em desenvolvimento, identificando os parceiros envolvidos. Também foi apresentado o estado de concretização das 5 metas do Plano, resultando daí uma avaliação positiva dos resultados alcançados."

Meanwhile, the hotel industry is part of the tourism industry and must therefore be understood in its interactions with other areas of that industry. As Donaire, et. al. have explained (2009, p.144):

In fact, the business generated by tourism directly and indirectly involves dozens of other sectors with repercussions on the composition of the country's gross domestic product, as well as on the allocation of production in the economic context. Because of the interrelationship between its agents, these activities constitute a complex network of interrelated businesses that must function harmoniously (our translation).<sup>12</sup>

Donaire, et. al. (2009, p.118) elaborate on the interrelationship between the members of the tourism industry:

The organizations involved in tourism are those responsible for activities aimed at the production of goods and services, transport, accommodation, food, agency, operation, promotion, marketing, reception and guiding," suggests Rodrigues (1999). For Cury (2004), the existence of a tourism product is the result of a coordinated network of relationships between specialized companies, to produce a product that none of them could produce on their own. Bignami (2002, p.170) argues that the tourism business network is made up of "a web of relationships between companies, individuals and entities. [...] The tourism product is a chain of offers, in which each point interferes with the final result". Dias and Pimenta (2005) argue that, from the tourist's point of view, the service provided is the result of the functioning of the whole system, equivalent to that of a network." (our translation).<sup>13</sup>

In this sense, after describing an extensive list of participants in the tourism business network, Donaire, et al. (2009, p.119). present a conceptualization of the subject in terms of its main members, stating that:

In order to delimit the study and investigate only the most representative sectors of the business network, we used the definition of tourism product expressed by Lage and Milone (2000) who consider it to be an amalgam made up of transportation, food, accommodation and entertainment. In a complementary way,

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<sup>12</sup> “Na verdade, os negócios gerados pela atividade turística envolvem direta e indiretamente dezenas de outros setores com repercussão na composição do próprio produto interno bruto do país, bem como na alocação da produção no contexto econômico. Em virtude da inter-relação de seus agentes, tais atividades constituem uma complexa rede de negócios inter-relacionados que devem funcionar de forma harmoniosa”.

<sup>13</sup> “As organizações envolvidas na atividade turística são aquelas incumbidas de atividades direcionadas à produção de bens e serviços, transporte, hospedagem, alimentação, agenciamento, operação, promoção, comercialização, recepção e guia; conforme sugere Rodrigues (1999). Para Cury (2004), a existência do produto turístico dá-se em função de uma rede coordenada de relações entre empresas especializadas; para originar um produto que nenhuma delas conseguiria produzir isoladamente. Bignami (2002, p.170) argumenta que a rede de negócios do turismo seja formada por “uma trama de relações entre empresas, indivíduos e entidades. [...] O produto turístico é uma cadeia de ofertas, na qual cada ponto interfere no resultado final”. Dias e Pimenta (2005) argumentam que, na visão do turista, o serviço prestado é resultado do funcionamento de todo o sistema, equivalente ao de uma rede.”

Beni (1998) describes the interdependent relationship of the production and distribution of the tourism system, including transportation, travel agencies, operators, hotels, restaurants and the tourist. (our translation)<sup>14</sup>

Hospitality can therefore be developed by various parties, whereas this research will concentrate on the hotel industry.

Turning our gaze specifically to the island of Madeira, as an example of one of the various places with a strong tourist appeal in Portugal, it can be seen that its population consisted of 253,259 people in 2022, according to data released by the Regional Directorate of Statistics of Madeira, in a report called "Madeira in numbers" (2023, p. 15).

According to the aforementioned report, 26.5 million guests were registered in 2022, of which 15.3 million were foreigners, representing an increase of 83.3% and 158.5%, respectively, compared to the same period last year. However, these figures are still (-2.3%) and (-6.8%), respectively, away from those recorded in 2019.

With regard to the indicators for non-financial companies based in Madeira Island in 2022, the aforementioned report (2023, p.49) gives the following description:

TOTAL BUSINESSES: 31982 (+7.6% compared to 2021)  
EMPLOYEES: 91430 (+7.5% compared to 2021)  
TURNOVER: 9020.8 million € (+38.3%\* compared to 2021);  
GROSS ADDED VALUE: 2629.4 million € (+36.5% compared to 2021)  
(our translation)<sup>15</sup>

The area referred to by the aforementioned report (2023, p. 50) as "Accommodation, restaurants and similar", in turn, had 4351 establishments in 2021, with 15976 people working, with a turnover of 567,977 million euros.

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<sup>14</sup> "No sentido de delimitar o estudo e investigar apenas os setores mais representativos da rede de negócios, empregou-se a definição de produto turístico expressa por Lage e Milone (2000) que o consideram uma amálgama formada por transporte, alimentação, acomodação e entretenimento. De forma complementar, Beni (1998) descreve a relação de interdependência da produção e distribuição do sistema de turismo, incluindo então o transporte, as agências de viagem, as operadoras, os hotéis, restaurantes e o turista."

<sup>15</sup> "TOTAL DE EMPRESAS: 31982 (+7,6% em relação ao ano de 2021); PESSOAL AO SERVIÇO: 91430 (+7,5% em relação ao ano de 2021); VOLUME DE NEGÓCIOS: 9020,8 milhões € (+38,3%\* em relação ao ano de 2021); VALOR ACRESCENTADO BRUTO: 2629,4 milhões € (+36,5% em relação ao ano de 2021)."

Specifically in the area of tourism, the report under analysis shows a large increase in activity in 2022 compared to 2021, notably due to the significant upturn in world tourism following the Covid-19 pandemic. In this sense, there was a 91.7% increase in overnight stays by type of accommodation in 2022 compared to the previous year (2023, p. 77).

When checking the tourism statistics for the Autonomous Region of Madeira, based on the provisional results presented by the Regional Directorate of Statistics of Madeira, consolidated until October 2023, it can be seen (2023, p. 10):

Preliminary results - November 2023. The estimates for November 2023 show that 84.6% of tourist accommodation establishments in the Autonomous Region of Madeira had guests in that month. Analyzing by segment, it can be seen that hotels have the highest percentage of establishments with guest traffic (92.6%), followed by rural tourism, with 84.5%, and local accommodation, with 84.2%. (our translation).<sup>16</sup>

The importance of hotels in the analysis of the statistics mentioned above was confirmed by the aforementioned report (2023, P. 09), when it states:

From January to November 2023, overnight stays in total tourist accommodation in the region increased by 14.4% compared to the same period last year, exceeding 10.2 million, while total revenue and revenue from accommodation increased by 24.1% and 27.1%, respectively, to around 607.0 and 429.9 million euros. It's important to note that hotels accounted for 74.6% of overnight stays in November 2023 (594.9 thousand), growing 5.0% year-on-year, while local accommodation (23.0% of the total) and rural tourism (2.4% of the total) grew 27.2% and 18.0%, in the same order. From January to November 2023, hotels recorded an 8.9% growth in overnight stays, which stood at 7.6 million. (our translation).<sup>17</sup>

The previous information from 2019, related to the analysis formulated by the report in question, as well as international tourist markets, was compared with the results obtained by Madeira Island and the conclusions of the aforementioned analysis were reported as a

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<sup>16</sup> “Resultados preliminares – novembro de 2023. As estimativas, referentes a novembro de 2023, revelam que 84,6% dos estabelecimentos do alojamento turístico da RAM registaram movimento de hóspedes neste mês. Analisando por segmento, verifica-se que a hotelaria é aquele que apresenta maior percentagem de estabelecimentos com movimento de hóspedes (92,6%), seguido do turismo no espaço rural, com 84,5%, e do alojamento local, com 84,2%.”

<sup>17</sup> “De janeiro a novembro de 2023, as dormidas no total do alojamento turístico na Região registaram um acréscimo de 14,4% face ao período homólogo, ultrapassando os 10,2 milhões, enquanto os proveitos totais e de aposento aumentaram 24,1% e 27,1%, respetivamente, rondando os 607,0 e os 429,9 milhões de euros. É importante realçar que a hotelaria concentrou 74,6% das dormidas de novembro de 2023 (594,9 mil), crescendo 5,0% em termos homólogos, enquanto o alojamento local (23,0% do total) e o turismo no espaço rural (2,4% do total) cresceram 27,2% e 18,0%, pela mesma ordem. De janeiro a novembro de 2023, a hotelaria registou um crescimento de 8,9% nas dormidas, fixando-se estas nos 7,6 milhões”

positive year-on-year variations on overnights stay in main international source markets at the same time that the domestic market, also, showed a positive variation on overnights stay (2023, p. 10).

The above information is firm and coherent in indicating the importance of the tourism sector for Madeira Island's economy. Added to this conclusion is the relationship between the tourism industry and the strategies of the Portuguese tourism plans presented by Pato and Duque (2023, p.02), when they clarify:

Strategic planning in the tourism sector is considered a tool of the environmental, economic, and social policy of a country. On the one hand, this leads to a more equitable distribution of incomes and preserves the natural and man-made resources and traditions on which human prosperity is based [3]. On the other hand, it can contribute to reducing regional asymmetries and make the country more cohesive in terms of tourism development.

Planning consists of a “set of ideas and principles that seek to control the spatial distribution of human activities over time” [8] (p. 1). The drawing up of plans allows organisations and destinations to manage all their resources in a way that could benefit many stakeholders. In the area of tourism, planning assumes crucial importance for organisations and destinations given the impacts (positives but also negatives) of tourism activity on the communities where the activity takes place. Tourism planning also helps to sustain a more satisfied tourism market [9,10]. Indeed, this activity is recognised by various authors as an essential condition for successful tourism development and management [9,10,11]. As Williams states, “in the absence of planning there are evident risks that tourism development will become unregulated, formless or haphazard, inefficient and likely to lead directly to a range of negative economic, social and environmental impacts” [12] (p. 125).

With specific regard to tourism planning, Pato and Duque (2023, p. 02) state:

Although (tourism) planning “is an extremely ambiguous and difficult word to define” [9] (p. 6), the pioneering work of Murphy defines tourism planning as “anticipating and regulating change in a system to promote orderly development so as to increase social, economic and environmental benefits of the development process” [13] (p. 156). Yet public tourism planning can be understood as a potential tool for guiding tourism actions in such a way as to create benefits and well-being beyond the industry [11] and tourism destinations [14]. During the last four decades, more precisely after the eighties, the concept of sustainability has gained a preponderant and essential weight in tourism development. More than in other times, tourism planning requires an understanding of the meaning of sustainable development and the guiding values for promoting sustainable tourism [2,15]. Accordingly, it requires that communities be made to be sufficiently aware of the tourism industry and its impacts, as well as the diverse processes to integrate and engage in participatory planning, consensus building and conflict resolution between all stakeholders [15]. This participation is essential in developing countries but also crucial in developed countries [16], such as Portugal, where some regions are in the process of a demographic and socio-economic decline.

The historical context of tourism planning in Portugal is presented by Pato and Duque (2023, p.4-5) in the following summarized terms:

- 1) National Tourism Plan: The first strategic plan specifically dedicated to the tourism sector. Created at the end of the 1980s and implemented between 1986 and 1989;
- 2) 1990s: Period in which there was no strategic plan dedicated exclusively to the tourism sector. There were economic development plans and regional development plans that referred to tourism, but did not highlight its importance in the national context;
- 3) National Strategic Plan for Tourism (PENT): Created in 2007, with an action horizon between 2007 and 2015. The plan underwent two revisions, the first in 2011 and the second in 2013;
- 4) Tourism 2020: Action Plan for Tourism Development in Portugal and Tourism 2020: Action Plan for Tourism Development in Portugal: Created in 2015, with targets until 2020, these two documents complement the previous Plan;
- 5) Tourism Strategy 2027: Published in 2017. Consisting of five strategic axes, namely 1) valuing the territory; 2) boosting the economy; 3) enhancing knowledge; 4) generating networks and connectivity; and 5) promoting Portugal;
- 6) +Sustainable Tourism Plan 2020-2023: Created in 2021, with the aim of complementing the previous plan.

Still on the subject of strategic tourism plans in Portugal, Pinho and Gomes inferred (2023, p. 04):

In this regard, Portugal has taken significant steps. On the one hand, with the approval of the Tourism Strategy 2027, a commitment was made to make Tourism a hub for economic, social and environmental development throughout the territory, positioning the country as one of the most competitive and sustainable tourist destinations in the world (Turismo de Portugal, 2022). On the other hand, the Tourism + Sustainable Plan 2020–2023 and the adherence of Portugal's National

Tourism Authority (Turismo de Portugal, 2022) to the Global Sustainable Tourism Council (GSTC), to the Portuguese Pact for Plastics, to the Glasgow Declaration for Climate Action in Tourism and the Cancun Declaration of the World Travel and Tourism Council (WTTC) on the Equality and Leadership of Women in Tourism, constitute strong commitments aimed at strengthening the role of Tourism in Portugal, in building a better world for all (Turismo de Portugal, 2022).

Fernandes, et al. after stating that “In 2020, Portugal was elected “The Best European Destination” in the World Travel Awards and, in the same edition too, the cities of porto, Lisbon and the Algarve region were particularly highlighted”, aggregate that (2023, p. 03):

Tourism in Portugal is also extremely important from an economic point of view. In 2018, it represented 16.5% of the country's total exports, and in 2017 this figure was 17.8% (Moreira 2018). In addition, Moreira (2018) states that, in 2016, tourism contributed strongly to the Portuguese GDP, representing 6.4% of the total. In addition, tourism is one of the industries that most employs in Portugal, and in 2016, 8.1% of the working population was dedicated to this industry. However, its total contribution to employment in Portugal, that is, accounting for jobs indirectly supported by the tourist industry, is 20.4%.

In this respect, it is possible to conclude the importance of the tourism industry for Portugal. More than that, the industry needs to act in a sustainable manner, bearing in mind that each of the members of such an important area, including the hotel industry, must pay special attention to complying with the legal standards applicable to the subject and, even more so, to the standards of information related to their performance in the face of the demands of the strategic plans of the European Union, Portugal and the regions where they are located.

Acting sustainably and reporting on the main parameters governing this way of operating are obligations that complement each other to promote environmentally sustainable development.

### **3 APPLICABILITY OF THE MATERIALITY AND OPPORTUNITY CONCEPTS PRESENTED IN THE CSRD**

On June 26, 2013, the European Union established the Directive 2013/34 of the European Parliament and of the Council concerning the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

This directive took into account the Commission's "Better Regulation" program, namely the Communication on "Smart Regulation in the European Union", which aims to design and ensure the highest quality regulation, while respecting the principles of subsidiarity and proportionality and ensuring that administrative burdens are proportionate to the benefits they bring.

This was followed by the Directive 2014/95, of the European Parliament and of the Council of October 22, 2014, which amends Directive 2013/34/EU as regards the disclosure of non-financial and diversity information by certain large companies and groups.

In its preamble, it was pointed out that: “[...] the European Parliament acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust.”.

Specifically, in relation to the approaches adopted over time for companies to report on sustainability aspects, Baumüller and Sopp (2021, p.11) present a narrative overview listing non-financial reports, sustainability reports, integrated reports and climate reports. They go on to explain that:

In recent decades, four important concepts for reporting on a company's sustainability performance have emerged (Baumüller et al., 2020a): (1) non-financial reporting, (2) sustainability reporting, (3) integrated reporting and (4) climate reporting. These concepts have gained global importance in practice and are most often also jointly used in company reporting. But although they share a common core (i.e. the environmental, social and/or governmental matters which are to be presented) and refer to one each other, they are also considerably different in terms of their target audience and how (or even: if) they prioritize those

sustainability matters over financial matters. As a result, these reporting processes also lead to different reporting contents (Mio et al., 2020).

In relation to European legislation, the concept of non-financial reporting is understood by Baumüller and Sopp (2021, p. 11) as follows: “However, in the European regulatory context, non-financial reporting can be defined as a specific European concept applied when reporting on sustainability matters. This context serves as the fundament of the current EU legislation introduced by the so-called “NFI Directive” (2014/95/EU) in 2014”.

Baumüller and Sopp (2021, p. 12) indicate that the point of reference for a proper historical understanding of non-financial information is related to the Jenkins Report of 1994, a study commissioned by the American Institute of Certified Public Accountants (AICPA) to address central questions about the relevance and usefulness of business reports. In this sense, they clarify:

Sustainability reporting, on the other hand, adopts a wider perspective of reporting matters that dates back to the Brundtland Commission's definition of sustainable development: “Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, rec. 27). Sustainability reporting standards like the standards defined by the Global Reporting Initiative (GRI) additionally include the notion of a “triple bottom line” (Elkington, 1997), implying that economic, ecological and social performance levels are equally relevant for reporting purposes (GRI, 2016). The perspective taken to define the content of sustainability reporting has another characteristic: The impacts of the business activities on the company's environment are addressed (“inside-out”) (Baumüller and Schaffhauser-Linzatti, 2018). If information is material under any one of the three performance dimensions, it has to be included in the reporting process. Consequently, a wide target audience is addressed, linking sustainability reporting to stakeholder theory (Hörisch et al., 2014; Schaltegger et al., 2017). Stakeholder engagement is one of the key features of the sustainability reporting process (Stocker et al., 2020).

Providing non-financial information is also related to the company's reputation, built through concrete actions based on data and evidence, particularly since the value of corporations is largely related to their intangible capital. Arbex (2023, p. 88) points out that: “Intangible capital lies in the attributes of the brand, the company's relationship with its public, its capacity for innovation and partnerships, for example. This capital is currently deeply linked to what the company says and does in relation to ESG aspects.” (our translation)<sup>18</sup>.

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<sup>18</sup> “Capital intangível é aquele que está nos atributos da marca, do relacionamento da empresa com seus públicos, sua capacidade de inovação e parcerias, por exemplo. Esse capital está profundamente ligado na atualidade com o que a empresa fala e faz em relação aos aspectos ESG”

Senador et al, (2023, p. 253) note, in discussing reputation as a question of value, that:

Image is built in relationships with others. It's the result of every action, every attitude we adopt. It's the way others will observe us. It's a snapshot of that moment, that episode in progress. As with individuals, organizations are also being observed. Their actions and ability to communicate positions, achievements and their ability to interact with their stakeholders will form their public image. (our translation).<sup>19</sup>

Furthermore, they add (2023, p. 253):

A solid and positive reputation strengthens respect and admiration, facilitates the building of a process of sympathy and empathy between companies, their public and society in general. As a consequence, it strengthens the capacity of these entities to face crises and adverse situations when they arise. (our translation).<sup>20</sup>

Further on the subject, it is important to mention two of the most important communications of the European Union regarding the theme in question. The Communication of 8 March 2018 entitled “Action Plan: Financing Sustainable Growth” established the following measures: reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues, and foster transparency and long-termism in financial and economic activity.

The Communication of 17 June 2019 entitled “Guidelines on non-financial reporting: Supplement on reporting climate-related information” highlighted: benefits for companies of reporting on climate-related information particularly by increasing awareness and understanding of climate-related risks and opportunities within the company, diversifying the investor base, creating a lower cost of capital and improving constructive dialogue with all stakeholders.

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<sup>19</sup> “A construção da imagem se dá na relação com os outros. É o resultado de cada ação, de cada atitude que praticamos. É a forma como os outros irão nos observar. É uma fotografia daquele instante, daquele episódio em curso. Da mesma forma que ocorre com os indivíduos, as organizações também estão sendo observadas. Suas ações e capacidades de comunicar posições, realizações e sua capacidade de interagir com seu público de relacionamento irá formar a sua imagem pública.”

<sup>20</sup> “Uma reputação sólida e positiva fortalece o respeito e a admiração, facilita a construção de um processo de simpatia e empatia, entre empresas, seu público e a sociedade de uma maneira geral. Como consequência, fortalece a capacidade dessas entidades para enfrentarem as crises e situações adversas, quando elas se apresentarem”

In addition, other communications had a major impact, it can be seen that the prospect of sustainability reporting by companies in the European Union, from a non-financial perspective, is also related to the "Europe 2020 Strategy", a strategy for intelligent, sustainable and inclusive growth, interconnected, established in 2010.

The online summary of the 2020 Strategy titled "Europe 2020: the European Union strategy for growth and employment" (2016, p. 01), explain that the aim of the communication is:

The Europe 2020 strategy aims to ensure that the economic revival of the European Union (EU) following the economic and financial crisis is supported by a series of reforms in order to build solid foundations for growth and job creation by 2020. While addressing the structural weaknesses of the EU's economy and economic and social issues, the strategy also takes account of the longer-term challenges of globalisation, pressure on resources and ageing.

One of the key points of this strategy is the European Union's intention to achieve sustainable growth, based on a greener, more efficient and more competitive economy. Major objectives have thus been set to be achieved by 2020, including reducing greenhouse gas emissions by at least 20 percent; increasing the share of renewable energies to 20 percent; and increasing energy efficiency by 20 percent.

Specifically in relation to sustainable growth, the European Commission in its Europe 2020 Strategy Communication specifies that (p.14):

Sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency.

The aforementioned objectives to be achieved, according to the European Commission communication (p. 11): "They must be measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison."

The initial information on Directive 2013/34 of the European Parliament and of the Council also mentions that "The Europe 2020 Strategy" for smart, sustainable and inclusive growth

aims to reduce administrative burdens and improve the business environment, in particular for SMEs, and to promote the internationalisation of SMEs.”.

In this regard, recital 26 of the initial information of the referred Directive contains the guidance that:

The management report and the consolidated management report are important elements of financial reporting. A fair review of the development of the business and of its position should be provided, in a manner consistent with the size and complexity of the business. The information should not be restricted to the financial aspects of the undertaking's business, and there should be an analysis of environmental and social aspects of the business necessary for an understanding of the undertaking's development, performance or position.

The obligations to provide non-financial information in the management report of such companies, however, could be waived by Member States, given the potential burden on small and medium-sized enterprises.

Meanwhile, in accordance with recital 1 of Directive 2022/2464 of the European Parliament and of the Council, in its Communication of December 11, 2019, entitled European Green Deal<sup>21</sup>, the European Commission has made a commitment to revise the provisions on the disclosure of non-financial information in Directive 2013/34/EU of the European Parliament and of the Council.

So, the need for companies to report on the sustainability of their activities from a non-financial perspective has been highlighted over time by the European Union, in particular in its Communication of June 17, 2019, entitled "Guidelines for non-financial reporting: supplementary document on climate-related reporting", where the Commission highlighted the benefits for companies to disclose this type of information, among which are to enable greater awareness and understanding of the risks and opportunities inherent in the company's

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<sup>21</sup> According to point one on the 2022/2464 Directive: “The Green Deal is the new growth strategy of the Union. It aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases (GHG) by 2050. It also aims to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of Union citizens from environment-related risks and impacts. The Green Deal aims to decouple economic growth from resource use, and ensure that all regions and Union citizens participate in a socially just transition to a sustainable economic system whereby no person and no place is left behind. It will contribute to the objective of building an economy that works for the people, strengthening the Union’s social market economy, helping to ensure that it is ready for the future and that it delivers stability, jobs, growth and sustainable investment.”.

climate; diversify the investor base; reduce the cost of capital and improve constructive dialogue with all stakeholders.

Accordingly, Directive 2022/2464 of the European Parliament and of the Council was introduced to promote the improvement of Directive 2013/34/EU of the European Parliament and of the Council<sup>22</sup>. Non-financial information on sustainability is of particular interest to citizens, the trade unions that represent them, investors, business partners, policymakers and environmental agencies, and social organizations that can monitor and hold companies accountable for the social and environmental impacts of their actions.

Besides this, the companies themselves that present their sustainability reports can also benefit from the possibility of obtaining better financing options, managing their risks and opportunities and improving their reputations in the societies where they operate. In short, transparency, ethics and the integrity of the information provided can only contribute to promoting a more sustainable society<sup>23</sup>.

The company "PwC Portugal: auditing, consulting and taxation" presented a publication on Directive 2022/2464, of the European Parliament and of the Council, Corporate sustainability reporting - CSRD, when it states that (p. 02):

The CSRD Directive, together with the Sustainable Finance Sustainable Finance Disclosure Regulation (SFDR, Regulation 2019/2088) and the Taxonomy Regulation (Regulation 2020/852) are the central components of the requirements of the new sustainability reporting framework, which aims to support the EU's sustainable financing strategy. (our translation)<sup>24</sup>

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<sup>22</sup> It should be noted in point 7 of Directive 2022/34 that “Directive 2014/95/EU of the European Parliament and of the Council amended Directive 2013/34/EU as regards disclosure of non-financial information by certain large undertakings and groups. Directive 2014/95/EU introduced a requirement on undertakings to report information on, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. With regard to those topics, Directive 2014/95/EU required undertakings to disclose information under the following reporting areas: business model; policies, including due diligence processes; the outcome of those policies; risks and risk management; and key performance indicators relevant to the business.”

<sup>23</sup> Point 13 of Directive 2022/34 stresses that studies carried out by the Commission Report of April 21, 2021, on the review clauses in Directives 2013/34/EU, 2014/95/EU and 2013/50/EU were conclusive on the need to improve these directives, with the aim of “[...] a robust and affordable reporting framework that is accompanied by effective auditing practices to ensure the reliability of data and avoid greenwashing and double counting.”

<sup>24</sup> “A Diretiva CSRD, juntamente com o Regulamento de Divulgação de Finanças Sustentáveis (SFDR, Regulamento 2019/2088) e com o Regulamento da Taxonomia (Regulamento 2020/852) constituem as

In the presentation, it was also pointed out that the aforementioned Directive will be complemented by models for drawing up sustainability reports, which will be proposed by the European Financial Reporting Advisory Group (EFRAG).

In this context, the main changes formulated by the CSRD are the broadening of the scope of companies required to provide this report; the mandatory use of EU Sustainability Reporting standards in the reports; changes to the terms for auditing these reports; the introduction of an "electronic format for the communication of information, in accordance with a specific digital taxonomy", and the inclusion of information on sustainability in the management report.

In this investigation, it is important to analyze the Sustainability Report, established by Article 19-A, from an environmental perspective. Items 2. "a", and "b" and "d" will be the items that form part of the subject of this investigation, namely:

Article 19a  
Sustainability reporting

1. Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2 shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.  
The information referred to in the first subparagraph shall be clearly identifiable within the management report, through a dedicated section of the management report.

2. The information referred to in paragraph 1 shall contain:  
(a) a brief description of the undertaking's business model and strategy, including:  
(i) the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters;  
(ii) the opportunities for the undertaking related to sustainability matters;  
(iii) the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;

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componentes centrais dos requisitos do novo framework de reporting de sustentabilidade, que visa apoiar a estratégia de financiamento sustentável da EU.”

(iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;

(v) how the undertaking's strategy has been implemented with regard to sustainability matters;

(b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence;

Kamiński (2023, p. 09), when referring to the objectives of Directive 2022/2464, explains:

The objective of the Directive EU/2022/2464 is to improve the existing requirements of the EU's Non-Financial Reporting Directive, in order to better harness the potential of the European Union in the transition to a fully sustainable and inclusive economic and financial system, in accordance with the European Green Deal and the UN Sustainable Development Goals. The Directive UE/2022/2464 extend the scope of mandatory sustainability reporting to all large companies and all companies listed on regulated markets (except listed micro-enterprises). This means that all large companies would be required to do new directive sustainability reporting, whether they are listed or not, and without the previous 500 employee threshold. Therefore a broader set of large companies, as well as listed SMEs, will now be required to report on sustainability – approximately 50 000 companies in total. This results in greater transparency and availability of sustainability information.

The possible benefits of implementing the aforementioned Directive, in the words of the mentioned author (2023, p.09), would be:

This new directive modernises and strengthens the rules about the social and environmental information that companies have to report. The new rules will ensure that investors and other stakeholders have access to the information they need to assess investment risks arising from climate change and other sustainability issues. They will also create a culture of transparency about the impact of companies on people and the environment. Finally, it is assumed that reporting costs will be reduced for companies over the medium to long term by harmonising the information to be provided. The first companies will have to apply the new rules for the first time in financial year 2024, for reports published in 2025.

In this sense, Odošba and Marošević (2023, p. 594-595) enlighten further on the objectives of the Directive in question:

It is the intention of the Union that through a solid framework of reports, coherent standards of information on sustainability and reliable quantification of effects, companies gain a thorough insight into the impact of their own business on the sustainability of nature and society, but also on the impact of all aspects of sustainability in the wider environment on their own business risks and opportunities. Sustainability reports will also be very use-ful for investors, consumers, non-governmental organizations and public policy makers, as well as for the Union and Member States. The companies' periodic reports on sustainability will enable everyone to see the results achieved in solv-ing

sustainability problems within the economy more realistically and progress in achieving the goals outlined in the Paris Agreement, the UN Agenda for sustainable development, the European Green Deal, the Action Plan on Financing Sustainable Growth and other delegated acts that regulate social just transition to a sustainable economy and Society.

This is why the implementation of the CSRD is one of the instruments used by the European Union to promote sustainable development. However, in order to achieve this goal, it is necessary for companies to observe the important concept of dual materiality set out in the above mentioned directive.

### **3.1 The CSRD and the concept of double materiality**

On June 26, 2017, the European Commission published guidelines on non-financial reporting, non-binding guidelines, with the aim of helping companies to disclose relevant non-financial information in a more consistent and comparable way.

In this publication, among other issues, the topic of dual materiality was addressed. In addition, the Commission published guidelines on climate-related reporting, which are a new supplement to the existing guidelines on non-financial reporting.

Right at the opening of the aforementioned guidelines are the so-called key principles, the first of which is the need to disclose material information. Article 1 of the Directive states that the companies concerned: “[...] shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity [...]”.

It also states that “Materiality is a concept already commonly used by preparers, auditors and users of financial information. A company's thorough understanding of the key components of its value chain helps identify key issues, and assess what makes information material.”.

On this subject, Article 2(16) of Directive 2013/34/EU defines material information as “the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking. The materiality of individual items shall be assessed in the context of other similar items”.

Recital 8 of the directive states that “the undertakings which are subject to this Directive should provide adequate information in relation to the matters that stand out as being most likely to bring about the materialisation of principal risks of severe impacts, along with those that have already materialised. [...]”.

The relevance of material information should be considered depending on the context in which each of the companies presenting their sustainability reports operates. In this sense,

comparisons between sustainability reports, in terms of non-financial information, should preferably be made between companies in the same sector.

Another point that deserves attention is that the very understanding of what corporations perceive as the effective concept of materiality in their area of activity should be made very clear during the presentation of their sustainability reports, so that investors and other people who analyze these statements comprehend how the organization interprets this principle and evaluates it effectively.

Therefore, among the issues that can be observed when defining the materiality of companies, the following, found on topic 3.1 of the communication on the non-financial reporting, can be highlighted:

- a) Business model, strategy and principal risks: a company's goals, strategies, management approach and systems, values, tangible and intangible assets, value chain and principal risks are relevant considerations.
- b) Main sectoral issues Similar issues are likely to be material to companies operating in the same sector, or sharing supply chains. Topics already identified by competitors, customers or suppliers are likely to be relevant for a company.
- c) Interests and expectations of relevant stakeholders: companies are expected to engage with relevant stakeholders and seek a good understanding of their interests and concerns.
- d) Impact of the activities: Companies are expected to consider the actual and potential severity and frequency of impacts. This includes impacts of their products, services, and their business relationships (including supply chain aspects).
- e) Public policy and regulatory drivers: Public policies and regulation may have an effect on the specific circumstances of a company, and may influence materiality.

Delgado-Ceballos et al. (2023) clarify that the concept of materiality has always been related, in the area of finance, to refer to factors that can have consequences on the financial performance of companies. However, “Since ESG factors were recognized as able to affect financial profitability, the financial materiality of ESG factors has gained increasing attention, which has spurred the proliferation of ESG data providers and metrics.” (2023, p. 03).

The concept of materiality has thus moved on from perceptions only about financial information that companies should provide to their investors and to society, towards an

understanding of the need to include information about environmental and social issues when disclosing the results of companies' operations.

Delgado-Ceballos et al. (2023, p. 04) point out that “We posit that the double materiality perspective provides a complete picture of the relationship between business and global sustainability, and the external impact of business activities”.

Regarding the importance of assessing materiality, Kamiński (2023, p.09) states that “Risks to the undertaking and the impacts of the undertaking each represent a materiality perspective. Undertakings will be required to consider each materiality perspective in its own right and disclose information material from both perspectives as well as information only material from one of the perspectives”.

There is mandatory information that must be included in the reports, however, “The focus on material analysis guiding reporting means that companies will be able to report on the most relevant issues facing them along with mandatory reporting requirements” (Kamiński, 2023, p.10).

With respect to the thought aimed at implementing dual materiality in the European Union's non-financial reports, Baumüller and Sopp (2021, p.17) assert that:

A major shift within the EU Commission's policy approach materialized in 2015. This was highlighted by two cornerstones for the future political priorities in the European Union: First, the adoption of the 17 SDGs in September. Second, the signing of the Paris Agreement at the United Nations Framework Convention on Climate Change in December. Whereas the prior efforts to support the establishment of a more sustainable economy were motivated by the aftermath of the financial crisis from 2008, the EU Commission's ambitions were based on the need to meet a set of broader environmental and social targets.

The companies will therefore have to adapt to the new legislation on sustainability reports from a non-financial perspective, noting that the increase in their responsibilities is considerably proportional to the increase in society's expectations regarding the transparency, commitment and effectiveness of their content.

### 3.2 CSRD e ESRS

The Corporate Sustainability Reporting Directive (CSRD) mandated the presentation of standardized sustainability reports in electronic form. These sustainability reports must follow the European Sustainability Reporting Standards - ESRS

In relation to the need to improve the use of appropriate taxonomy, Kamiński (2023, p. 09) states that:

Companies subject to the Directive EU/2022/2464 will have to report according to European Sustainability Reporting Standards (ESRS). The draft standards are developed by the EFRAG, previously known as the European Financial Reporting Advisory Group, an independent body gathering various stakeholders. The standards will be tailored to EU policies, while building on and contributing to international standardisation initiatives. The Commission should adopt the first set of standards by mid-2023, based on the draft standards published by EFRAG in November 2022

As mentioned above, Directive 2022/2464 of the European Parliament and of the Council, CSRD, will be complemented by models for preparing sustainability reports, which will be proposed by the European Financial Reporting Advisory Group - EFRAG.

EFRAG is a private association created in 2001 with the encouragement of the European Commission to serve the public interest. EFRAG expanded its mission in 2022 following the new role assigned to EFRAG in the CSRD, providing technical advice to the European Commission in the form of fully prepared draft EU sustainability reporting standards and/or draft amendments to these standards. Its member organizations are European stakeholders and national organizations and civil society organizations.

EFRAG's activities are organized into two pillars: a Financial Reporting pillar and a Sustainability Reporting pillar, with a focus on developing draft EU Sustainability Reporting Standards and related amendments for the European Commission.

Specifically in relation to Sustainability Reporting activities, EFRAG, according to information on its website:

[...] is in process of implementing the sustainability reporting governance structure including the technical bodies aiming to be operational by the end of March 2022.

The sustainability reporting standard-setting work is carried out on a project basis by the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS). The PTF-ESRS entered into cooperation agreements with GRI, Shift and WICI and had meetings with the IFRS Foundation's Technical Readiness Working Group. The cooperation with relevant international and European initiatives in the sustainability reporting (standard-setting domain), including the ISSB is envisaged to be continued in the EFRAG permanent governance structure.

EFRAG, in its online publication “The first set of ESRS - the journey from PTF to delegated act (adopted on 31 July 2023)” clarifies that:

In April 2021, the European Commission adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) that requires companies within its scope to report using a double materiality perspective in compliance with European Sustainability Reporting Standards (ESRS) adopted by the European Commission as delegated acts. Under the proposed CSRD, EFRAG was appointed technical adviser to the European Commission developing draft ESRS. This was confirmed by the text of 21 June resulting from the trilogue between the co-legislators and the text of 10 November 2022 approved by the European Parliament.

The ESRS Exposure Drafts (EDs) prepared by the EFRAG Project Task Force on European Sustainability Reporting Standards (EFRAG PTF-ESRS) during the period from June 2021 till April 2022 were exposed for comments from 30 April to 8 August 2022. The EFRAG Sustainability Reporting Board (EFRAG SRB), advised by the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG), addressed the feedback of the consultation and amended accordingly the twelve draft ESRS that are released today to Europa Commission.

In this regard, it should be noted that the implementation of the reporting requirements will be carried out gradually over time for different types of companies. The first enterprises will have to apply the standards in the 2024 financial year, for reports published in 2025.

In contrast, small and medium-sized companies are required to report from 2026, with the additional possibility of a voluntary opt-out until 2028, and will be able to report according to separate and proportionate standards that EFRAG will develop shortly.

The First Set of draft ESRS & Basis for conclusions is already in place and basically consists of twelve standards. The first one is ESRS 1 General requirements Basis for conclusions, which deals, among other things, with "Double materiality as the basis for sustainability disclosures", Sustainability due diligence, Preparation and presentation of sustainability information, Structure of sustainability statements and Linkages with other parts of corporate reporting and connected information.

The ESRS 2 General disclosures Basis for conclusions, includes, among other topics the Impact, risk and opportunity management; Disclosures on the materiality assessment process, which encompasses the disclosure Requirement IRO-1 - Description of the processes to identify and assess material impacts, risks and opportunities, and the disclosure Requirement IRO-2 Disclosure Requirements in ESRS covered by the undertaking's sustainability statements; and, Actions and resources in relation to material sustainability matters.

The remain 10 ESRS, ESRS E1 Climate change, ESRS E2 Pollution, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems, ESRS E5 Resource use and circular economy, ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities, ESRS S4 Consumers and end-users, ESRS G1 Business conduct, address aspects related to the various areas of the ESG.

For the purposes of this study, only the regulations relating to the environment contained in ESRS E1, E2, E3, E4 and E5 will be detailed below, in relation to the subject of this research, particularly with regard to matters relating to opportunities and materiality.

### 3.2.1 Relevant aspects of ESRS E1

The thematic ESRS cover a sustainability topic and are structured into topics and sub-topics, and, where necessary, sub-sub-topics. ESRS E1 is one of the thematic standards and deals with the Climate changes.

It should be noted that the topical ESRS can include specific requirements that complement the general level Disclosure Requirements of ESRS 2. ESRS 2 Appendix C Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures provides a list of the additional requirements in topical ESRS that the undertaking shall apply in conjunction with the general level disclosure requirements of ESRS 2.

Point 1.2 of ESRS E1, when dealing with the topic “Reporting areas and minimum content disclosure requirements on policies, actions, targets and metrics”, clarifies that the disclosure requirements of ESRS 2, the thematic ESRS and the sectoral ESRS are structured in some specific information areas called Governance (GOV), Strategy (SBM), Impact, risk and opportunity management (IRO), and Metrics and targets (MT).

With regard to writing conventions, ESRS E1 clarifies that In all ESRS the term “ impacts ” refers to positive and negative sustainability-related impacts that are connected with the undertaking’s business, as identified through an impact materiality assessment (see section 3.4 Impact materiality). It refers both to actual impacts and to potential future impacts.

In addition, the term “risks and opportunities ” refers to the undertaking’s sustainability-related financial risks and opportunities, including those deriving from dependencies on natural, human and social resources, as identified through a financial materiality.

Collectively, these are referred to as “impacts, risks and opportunities” (IROs). They reflect the double materiality perspective of ESRS described in specific section of the standard. Besides all of the above, dual materiality should always be emphasized, given that its assessment is the starting point for sustainability reporting under the ESRS.

Well, having said that, right at the start of the Appendix A of ESRS 1, when dealing with the sustainability issues to be included in the materiality assessment, it is stated that when carrying out its materiality assessment, the company should take into account a list of sustainability issues covered by the specific ESRS.

In this sense, when, as a result of the company's materiality assessment, a particular sustainability issue included in the aforementioned list is considered material, the company should disclose information in accordance with the corresponding disclosure requirements of the relevant thematic ESRS.

In addition, the company should also take into account its own specific circumstances when setting its material questions. If necessary, the company should also prepare company specific disclosures on material impacts, risks and opportunities not covered by the ESRS.

Therefore, the sustainability issues covered by the ESRS under analysis are related to the sub-themes of climate change adaptation, climate change mitigation and energy. It should also be noted that climate change is a sub-theme of ESRS E4, which deals with biodiversity and ecosystems.

It is important to note that if the company finds that climate change is not material and therefore omits all the disclosure requirements of ESRS E1, it must disclose a detailed explanation of the conclusions of its materiality assessment in relation to climate change, including a forward looking analysis of the conditions likely to lead the company to conclude that climate change is material in the future.

On the other hand, if the company concludes that a topic other than climate change is not material and therefore omits all the disclosure requirements of the corresponding thematic ESRS, it may briefly explain the conclusions of its materiality assessment in relation to the topic.

Appendix C of ESRS 2 presents a table with information on the requirements of the thematic ESRSs that should be taken into account when communicating information in relation to the disclosure requirements contained in ESRS 2, when it points out items no. 13, 18, 19, 20 and 21 of ESRS E1, which addresses climate change, as items interrelated to disclosure

requirements GOV-3 - Integration of sustainability performance into incentive schemes; SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model(s) and IRO-1 - Description of the processes for identifying and assessing material impacts, risks and opportunities.

Specifically in relation to ESRS E1, this research will consider the management of impacts, risks and opportunities, particularly as regards the disclosure requirement related to ESRS 2 IRO-1 - Description of processes for identifying and assessing material climate-related impacts, risks and opportunities.

Disclosure requirement related to ESRS 2 IRO-1 - Description of processes to identify and assess material climate-related impacts, risks, and opportunities. In this context, the company should describe its process for identifying and assessing climate-related impacts, risks and opportunities. This description should include its process in relation to the following:

- (a) impacts on climate change, in particular, the undertaking's **GHG emissions** (as required by Disclosure Requirement ESRS E1-6);
- (b) **climate-related physical risks** in own operations and along the upstream and downstream **value chain**, in particular:
  - i. the identification of climate-related hazards, considering at least high **emission climate scenarios**; and
  - ii. the assessment of how its assets and business activities may be exposed and are sensitive to these climate-related hazards, creating gross **physical risks** for the undertaking.
- (c) **climate-related transition risks** and opportunities in own operations and along the upstream and downstream **value chain**, in particular:
  - i. the identification of climate-related transition events, considering at least a climate scenario in line with limiting global warming to 1.5°C with no or limited overshoot; and
  - ii. the assessment of how its assets and business activities may be exposed to these climate-related transition events, creating gross **transition risks** or **opportunities** for the undertaking.

When disclosing the information required under paragraphs 20(b) and 20(c) of the aforementioned Appendix, the company should explain how it has used climate-related scenario analysis, including a range of climate scenarios, to inform the identification and assessment of physical and transition risks and opportunities in the short, medium and long term.

One point worth highlighting concerns item "c", climate-related transition risks and opportunities in the operations themselves and along the downstream and upstream value

chain. It is at this point in the analysis that it is understood that the company must pay attention and take care to identify the opportunities mentioned, also taking into account the strategic plans of the EU, Portugal and the specific location of the enterprise, as far as they are related to the materiality of its operations, in relation to its area.

Likewise, the company should describe the policies adopted to manage its material impacts, risks and opportunities related to climate change mitigation and adaptation, enabling an understanding of the extent to which the company has policies that address the recognition, assessment, management and/or remediation of its material impacts, risks and opportunities related to climate change mitigation and adaptation.

From this perspective, another relevant aspect, this time set out in Appendix A of ESRS E1, which addresses the disclosure requirement related to ESRS 2 SBM-3 - Material impacts, risks and opportunities and their interaction with the strategy and business model(s), is the company's determination, when disclosing information on the scope of the resilience analysis, as required under paragraph 19(a), to disclose information on the scope of the resilience analysis. According to paragraph 19(a), the company should explain which part of its own operations and its downstream and upstream value chain, as well as which material physical and transition risks, may have been excluded from the analysis.

The mentioned standard goes on to state that the disclosure of information on how the resilience analysis was carried out as required under paragraph 19(c) should explain the company's ability to adjust or adapt its business strategy model(s) to climate change in the short and medium term, including guaranteeing permanent access to financing at an affordable cost of capital, the ability to redeploy, modernize or decommission existing assets, to transfer its portfolio of products and services and to retrain its workforce.

### 3.2.2 Relevant aspects of ESRS E2

The ESRS E2 deals with the subject of pollution and in terms of the sustainability aspects covered by the ESRS in question, its sub-themes are air pollution, water pollution, soil pollution, pollution of living organisms and food resources, substances of concern, substances of very high concern and microplastics.

The objective of this Standard is to specify Disclosure Requirements which will enable users of the sustainability statement to understand: a) how the undertaking affects pollution of air, water and soil , in terms of material positive and negative actual or potential impacts; b) any actions taken, and the result of such actions, to prevent or mitigate actual or potential negative impacts, and to address risks and opportunities; c) the plans and capacity of the undertaking to adapt its strategy and business model in line with the transition to a sustainable economy and with the need to prevent, control and eliminate pollution. This is to create a toxic-free environment with zero pollution also in support of the EU Action Plan “Towards a Zero Pollution for Air, Water and Soil”; d) the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s pollution-related impacts and dependencies , as well as the prevention, control, elimination or reduction of pollution, including where this results from the application of regulations, and how the undertaking manages this; and e) the financial effects on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking’s pollution-related impacts and dependencies.

Appendix C of ESRS reveals that the full name of the ESRS E2 disclosure requirement is “Anticipated financial effects from pollution-related impacts, risks and opportunities”.

Appendix C of ESRS 2 presents a table with information on the requirements of the thematic ESRS that should be taken into account when communicating information in relation to the disclosure requirements set out in ESRS 2, when it mentions the following items ESRS E1 Climate change (paragraph 20 a 21); ESRS E2 Pollution (paragraph 11); ESRS E3 Water and marine resources (paragraph 8); ESRS E4 Biodiversity and ecosystems (paragraph 17 to 19); and, ESRS E5 Resource use and circular economy (paragraph 11) as interrelated

items to the disclosure requirements IRO-1 - Description of the processes to identify and assess material impacts, risks and opportunities.

Specifically in relation to ESRS E2, this investigation will consider the management of impacts, risks and opportunities, particularly the disclosure requirement associated with the ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities related to pollution; Disclosure requirement E2-1 – policies related to pollution; and, disclosure requirement E2-2 – actions and resources related to pollution.

In this regard, the company must describe the process for identifying and evaluating the impacts, risks and opportunities involved in pollution. This description should include their process in reference to the following:

11. The undertaking shall describe the process to identify material impacts, risks and opportunities and shall provide information on:
  - (a) whether the undertaking has screened its **site** locations and business activities in order to identify its actual and potential **pollution** -related **impacts, risks and opportunities** in its own operations and upstream and downstream **value chain**, and if so, the methodologies, assumptions and tools used in the screening;
  - (b) whether and how the undertakings has conducted consultations, in particular with the affected communities.

The company should disclose the policies adopted to manage the respective material impacts, risks and opportunities related to pollution prevention and control, with the aim of making it possible to understand the extent to which the company has policies that address the identification, assessment, management and/or remediation of its material impacts, risks and opportunities related to pollution.

The point worth highlighting in this context, in the same way as was emphasized in the analysis of ESRS E1, is that the company should pay attention to and be concerned about identifying the opportunities mentioned, also taking into account the strategic plans of the EU, Portugal and Madeira Island, in terms of the materiality of its activities in relation to its area.

Therefore, the company should also indicate, with regard to its own operations and its downstream and upstream value chain, whether and how its policies address the following areas, where relevant: (a) mitigating negative impacts related to pollution of air, water and

soil including prevention and control; (b) substituting and minimizing the use of substances of concern, and phasing out substances of very high concern, in particular for non-essential societal use and in consumer products; and, (c) avoiding incidents and emergency situations, and if and when they occur, controlling and limiting their impact on people and the environment.

From this perspective, another relevant point, this time set out in Appendix A of ESRS E2, examines the disclosure requirement related to the ESRS 2 IRO-1 Description of the processes to identify and assess material pollution-related impacts, risks and opportunities, is the determination of the company, when carrying out an assessment of the materiality of environmental sub-themes, to assess the materiality of pollution in its own operations and in its downstream and upstream value chain and can take into account the four phases outlined, also known as the LEAP approach (Locate, Evaluate, Assess, Prepare).

The aforementioned standard goes on to address Phase 3 of the aforementioned approach, stating that this phase consists of assessing material risks and opportunities. In Phase 3 to assess your material risks and opportunities based on the results of phases 1 and 2<sup>25</sup>, the company can:

- (a) identify **transition risks** and **opportunities** in its own operations and its upstream and downstream **value chain** by the categories of:
  - i. policy and legal: e.g., introduction of regulation, exposure to sanctions and litigation (e.g., negligence towards ecosystems), enhanced reporting obligations;
  - ii. technology: e.g., substitution of products or services by products or services with a lower impact, transition away from substances of concern;
  - iii. market: e.g., shifting supply, demand and financing, volatility or increased costs of some substances; and
  - iv. reputation: e.g., changing societal, customer or community perceptions as a result of an organisation's role in pollution prevention and control;
- (b) identify physical risks, e.g., sudden interruption of access to clean water, acid rain, or other pollution incidents that are likely to lead to or that have led to pollution with subsequent effects on the environment and society;
- (c) identify opportunities related to pollution prevention and control categorised by:
  - i. resource efficiency: decrease quantities of substances used or improve efficiency of production process to minimise impacts;
  - ii. markets: e.g., diversification of business activities;
  - iii. financing: e.g., access to green funds, bonds or loans;

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<sup>25</sup> Fase 1: localizar, nas próprias operações e ao longo da cadeia de valor a jusante e a montante, em que ponto ocorre a interação com a natureza; Fase 2: avaliar as dependências e os impactos relacionados com a poluição. ESRS 2 — DIVULGAÇÕES GERAIS. AR 1. Disponível em: [https://eur-lex.europa.eu/legal-content/PT/TXT/HTML/?uri=OJ:L\\_202302772#ntr23-L\\_202302772PT.006201-E0001](https://eur-lex.europa.eu/legal-content/PT/TXT/HTML/?uri=OJ:L_202302772#ntr23-L_202302772PT.006201-E0001)

- iv. resilience: e.g., diversification of substances used and control of emissions through innovation or technology; and
- v. reputation: positive stakeholder relations as a result of a proactive stance on managing risks.

### 3.2.3 Relevant aspects of ESRS E3

ESRS E3 handles the subject of water and marine resources and what concerns the sustainability issues covered by the ESRS in question. Its subtopics are Water consumption; Water withdrawals; Water discharges; Water discharges in the oceans; Extraction and use of marine resources.

This Standard sets out Disclosure Requirements related to water and marine resources . With regard to “water”, this standard covers surface water and groundwater . It includes disclosure requirements on water consumption in the undertaking’s activities, products and services, as well as related information on water withdrawals and water discharges. With regard to “marine resources ”, this standard covers the extraction and use of such resources, and associated economic activities.

Appendix C of ESRS states that the full name of the ESRS E3 disclosure requirement is “Anticipated financial effects from water and marine resources-related impacts, risks and opportunities”.

Appendix C of ESRS 2 presents a table with the requirements of the thematic ESRSs that should be taken into account when communicating information in relation to the disclosure requirements contained in ESRS 2. when it mentions ESRS item E3 Water and marine resources (paragraph 8) as an interrelated item to the disclosure requirement IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities.

Specifically in relation to ESRS E2, this research will consider the management of impacts, risks and opportunities, particularly the Disclosure Requirement related to ESRS 2 IRO-1 Description of processes to identify and assess material impacts, risks and opportunities related to water and marine resources.

Disclosure requirement related to ESRS 2 IRO-1 - Description of processes to identify and assess material impacts, risks and opportunities related to water and marine resources.

In this regard, the company should describe the process for identifying and assessing impacts, risks and opportunities related to water and marine resources. This description should include its process in relation to the following:

- (a) whether and how the undertaking it has screened its assets and activities in order to identify its actual and potential water and marine resources -related impacts, risks and opportunities in its own operations and its upstream and downstream value chain, and if so the methodologies, assumptions and tools used in the screening;
- (a) whether and how it has conducted consultations, in particular, with affected communities.

The undertaking shall describe its policies adopted to manage its material impacts, risks and opportunities related to pollution prevention and control. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material pollution-related impacts, risks and opportunities.

The one aspect that should be highlighted in this context, in the same way as in the analysis of ESRS E2, is that the company should be aware and concerned about identifying the opportunities mentioned, also taking into account the strategic plans of the EU, Portugal and Madeira Island, in relation to the materiality of its actions in its area.

The company should also indicate how its policies address the following issues, where material:

- (a) water management including:
  - i. the use and sourcing of water and marine resources in its own operations;
  - ii. water treatment as a step towards more sustainable sourcing of water; and;
  - iii. the prevention and abatement of water pollution resulting from its activities.
- (b) product and service design in view of addressing water-related issues and the preservation of marine resources; and
- (c) commitment to reduce material water consumption in areas at water risk in its own operations and along the upstream and downstream value chain.

From this perspective, another relevant matter, this time set out in Appendix A of ESRS E3, which deals with disclosure requirements related to ESRS 2 IRO-1 - Description of processes to identify and assess material impacts, risks and opportunities related to water and marine resources, is the requirement for companies to, when conducting a materiality assessment on environmental subtopics, the undertaking shall assess the materiality of water and marine resources in its own operations and its upstream and downstream value chain, and may

consider the four phases below, also known as the LEAP approach developed by the TNFD (Taskforce on Nature-related Financial Disclosures)<sup>26</sup>.

The aforementioned standard goes on to deal with Phase 3 of the aforementioned approach, stating that this phase consists of assessing material risks and opportunities. In Phase 3, in order to assess its material risks and opportunities based on the results of phases 1 and 2, the company can:

In phase 3, to assess its material risks and opportunities based on the results of phases 1 and 2, the company can:

(a) identify transition risks and opportunities in its own operations and its value chain by the categories of:

i. policy and legal: e.g., introduction of regulation or policy (e.g., changes such as increased water protection, increased quality of water regulations, regulation of flows of water supply), ineffective governance of water bodies or marine resources, in particular across boundaries (e.g., transboundary governance and cooperation) resulting in water or oceans degradation, exposure to sanctions and litigation (e.g., non-respect of permits or allocations; negligence towards or killing of threatened marine species), enhanced reporting obligations on marine ecosystems and related services;

ii. technology: e.g., substitution of products or services by products or services with a lower impact on water and marine resources, transition to more efficient and cleaner technologies (i.e., with lower impacts on oceans and water), new monitoring technologies (e.g., satellite), water purification, flood protection;

iii. market: e.g., shifting supply, demand and financing, volatility or increased costs of water or marine resources;

iv. reputation: e.g., changing societal, customer or community perceptions as a result of an organisation's impact on water and marine resources; and

v. contribution to systemic risks via its own operations and its upstream and downstream value chain, including the risks that a marine ecosystem collapses or the risks that a critical natural system no longer functions (e.g., tipping points are reached, summing physical risks);

(b) identify physical risk including water quantity (water scarcity, water stress), water quality, infrastructure decay or unavailability of some marine resources-related commodities (e.g. the rarefaction of some species of fish or other underwater marine living organisms sold as products by the undertaking) leading for instance to the impossibility of running operations in certain geographical areas;

(c) identify opportunities categorised by:

i. resource efficiency: e.g., transition to more efficient services and processes requiring less water and marine resources;

ii. markets: e.g., development of less resource-intensive products and services, diversification of business activities;

iii. financing: e.g., access to green funds, bonds or loans;

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<sup>26</sup> The detailed integrated approach that the TNFD has developed for the identification and assessment of nature-related issues, called the LEAP approach, can be consulted at the following website: <https://tnfd.global/publication/additional-guidance-on-assessment-of-nature-related-issues-the-leap-approach/>.

iv. resilience: e.g., diversification of marine or water resources and business activities (e.g., starting a new business unit on ecosystem restoration ), investing in green infrastructures, nature-based solutions , adopting recycling and circularity mechanisms that reduce the dependencies on water or marine resources; and  
v.reputation: positive stakeholder engagement as a result of a proactive stance on managing nature-related risks (e.g., leading to preferred partner status).

### 3.2.4 Relevant aspects of ESRS E4

ESRS E4 deals with the topic of biodiversity and ecosystems and, with regard to the sustainability issues covered by the ESRS in question, its subtopics are: Direct impact drivers of biodiversity loss; Impacts on the state of species; Impacts on the extent and condition of ecosystems; and, Impacts and dependencies on ecosystem services.

Their Sub-sub-topics are: Climate Change; Land-use change, fresh water-use change and sea-use change; Direct exploitation; Invasive alien species; Pollution; Others. Finally, examples of sub-sub-themes are presented, which are, Species population size; Species global extinction risk; Land degradation; Desertification and Soil sealing.

The terms “ biodiversity ” and “ biological diversity ” refer to the variability among living organisms from all sources including, inter alia, terrestrial, freshwater , marine and other aquatic ecosystems and the ecological complexes of which they are part.

The aim of the standard is to specify Disclosure Requirements which will enable users of the sustainability statement to understand: a) how the undertaking affects biodiversity and ecosystems , in terms of material positive and negative, actual and potential impacts, including the extent to which it contributes to the drivers of biodiversity and ecosystem loss and degradation; b) any actions taken, and the result of such actions, to prevent or mitigate material negative actual or potential impacts and to protect and restore biodiversity and ecosystems, and to address risks and opportunities; c) the plans and capacity of the undertaking to adapt its strategy and business model in line with the items it specifies; d) the nature, type and extent of the undertaking’s material risks, dependencies and opportunities related to biodiversity and ecosystems, and how the undertaking manages them; and the financial effects on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking’s impacts and dependencies on biodiversity and ecosystems.

Appendix C of ESRS 1 indicates that the full names of the ESRS E4 biodiversity and ecosystems disclosure requirements are “Anticipated financial effects from biodiversity and ecosystem-related impacts, risks and opportunities”.

Appendix C of ESRS 2 presents a table with the requirements of the thematic ESRSs that should be taken into account when communicating information in relation to the disclosure requirements of ESRS 4, when it mentions the following items ESRS E1 Climate Change (paragraphs 18 to 19); ESRS E4 Biodiversity and ecosystems (paragraph 16); ESRS S1 Own workforce (paragraph 13 to 16); ESRS S2 Workers in the value chain (paragraph 10 to 13); ESRS S3 Affected communities (paragraph 8 to 11) and ESRS S4 Consumers and end-users (paragraph 9 to 12) as an interrelated item to disclosure requirement SBM-3 Material impacts, risks and opportunities and their interaction with the strategy and business model.

In addition, it refers to ESRS E4 Biodiversity and ecosystems (paragraph 17 to 19) as an item interrelated to the IRO-1 requirement Description of the processes to identify and assess material impacts, risks and opportunities.

Specifically in relation to ESRS E4, as far as this investigation is concerned, considerations will be given to the management of impacts, risks and opportunities, particularly the disclosure requirement related to ESRS 2 IRO-1 Description of the processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities.

In this sense, the company should describe the process for identifying and assessing material impacts, risks and opportunities. This description should indicate whether and how the company:

- (a) identified and assessed actual and potential impacts on biodiversity and ecosystems at own site locations and in the upstream and downstream value chain, including assessment criteria applied;
- (b) identified and assessed dependencies on biodiversity and ecosystems and their services at own site locations and in the upstream and downstream value chain, including assessment criteria applied, and, if this assessment includes ecosystem services that are disrupted or likely to be;
- (c) identified and assessed transition and physical risks and opportunities related to biodiversity and ecosystems, including assessment criteria applied based on its impacts and dependencies;
- (d) considered systemic risks;
- (e) conducted consultations with affected communities on sustainability assessments of shared biological resources and ecosystems and, in particular:
  - i. when a site, a raw material production or sourcing is likely to negatively impact biodiversity and ecosystems, the identification of the specific sites, raw

materials production or sourcing with negative or potentially negative impacts on affected communities;

ii. when affected communities are likely to be impacted, the undertaking, shall disclose how these communities were involved in the materiality assessment; and

iii. with respect to impacts on ecosystem services of relevance to affected communities in its own operations, the undertaking shall indicate how negative impacts may be avoided. If these impacts are unavoidable, the undertaking may indicate its plans to minimise them and implement mitigation measures that aim to maintain the value and functionality of priority services.

The company must also specifically disclose:

(a) whether or not it has sites located in or near biodiversity-sensitive areas and whether activities related to these sites negatively affect these areas by leading to the deterioration of natural habitats and the habitats of species and to the disturbance of the species for which a protected area has been designated; and

(b) whether it has been concluded that it is necessary to implement biodiversity mitigation measures, such as those identified in: Directive 2009/147/EC of the European Parliament and of the Council on the conservation of wild birds; Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora; an Environmental Impact Assessment (EIA) as defined in Article 1(2), point (g), of Directive 2011/92/EU of the European Parliament and of the Council (83) on the assessment of the effects of certain public and private projects on the environment; and for activities located in third countries, in accordance with equivalent national provisions or international standards, such as the International Finance Corporation (IFC) Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources;

As pointed out in the considerations on the previous environmental ESRS, the aspect to be highlighted in this context, in the same way as in the analysis of ESRS E3, is that the company should take care to identify the opportunities mentioned, also taking into account the strategic plans of the EU, Portugal and Madeira Island, as far as they are related to the materiality of its operations in its area.

From this perspective, another relevant point, this time set out in Appendix A of ESRS E4, which deals with disclosure requirements related to ESRS 2 IRO-1 Description of the processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities, is that the company is required to assess the materiality of biodiversity and ecosystems in its own operations and in its downstream and upstream value chain and can carry out its materiality assessment in line with the first three phases of the LEAP approach:

The aforementioned standard goes on to deal with Phase 3 of the aforementioned approach, stating that this phase consists of assessing material risks and opportunities. In Phase 3, in order to assess its material risks and opportunities based on the results of phases 1 and 2, the company can consider the following categories, detailed in the standard: (a) physical risks; (b) transition risks; (c) systemic risks; (d) opportunities.

### 3.2.5 Relevant aspects of ESRS E5

ESRS E5 concerns the use of resources and the circular economy and, with regard to the sustainability issues covered by the ESRS in question, its subtopics are: Resources inflows, including resource use; Resource outflows related to products and services and Waste.

ESRS E5 explains that Circular economy means an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.

The goal is to maximise and maintain the value of the technical and biological resources, products and materials by creating a system that allows for durability , optimal use or re-use, refurbishment, remanufacturing, recycling and nutrient cycling.

To evaluate the transition from business as usual, meaning an economy in which finite resources are extracted to make products that are used and then thrown away (“take-make-waste”), to a circular economic system, this Standard relies on the identification of the physical flows of resources, materials and products used and generated by the undertaking through Disclosure Requirement E5-4 Resource inflows and Disclosure Requirement E5-5 Resource outflows.

The objective of this Standard is to specify Disclosure Requirements which will enable users of the sustainability statement to understand: a) how the undertaking affects resource use, including resource efficiency, avoiding the depletion of resources and the sustainable sourcing and use of renewable resources (referred to in this Standard as “resource use and circular economy”) in terms of material positive and negative actual or potential impacts; b) any actions taken, and the result of such actions, to prevent or mitigate actual or potential negative impacts arising from resource use, including its measures to help decoupling its economic growth from the use of materials, and to address risks and opportunities; c) the plans and capacity of the undertaking to adapt its strategy and business model in line with circular economy principles including but not limited to minimising waste , maintaining the value of products, materials and other resources at their highest value and enhancing their

efficient use in production and consumption; d) the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies, arising from resource use and circular economy, and how the undertaking manages them; and e) the financial effects on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on resource use and circular economy.

Appendix C of ESRS 1 states that the full name of the Disclosure Requirement for the resource use and circular economy theme of ESRS E5 is "Anticipated financial effects from resource use and circular economy-related impacts, risks and opportunities".

Appendix C of ESRS 2 presents a table with the requirements of the thematic ESRSs that should be taken into account when communicating information in relation to the disclosure requirements contained in ESRS 2, when it references item ESRS E5 Resource use and circular economy (paragraph 11) as an item interrelated to the disclosure requirement IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities.

Specifically in relation to ESRS E5, this research will consider the management of impacts, risks and opportunities, especially the Disclosure requirement related to ESRS 2 IRO-1 - Description of the processes to identify and assess material resource use and circular economy-related impacts, risks and opportunities.

In this regard, the company must describe the process for identifying material impacts, risks and opportunities related to resource use and the circular economy, in particular with relation to resource inputs, resource outputs and waste, and must provide information on:

- (a) whether the undertaking has screened its assets and activities in order to identify its actual and potential impacts, risks and opportunities in its own operations and its upstream and downstream value chain, and if so, the methodologies, assumptions and tools used in the screening;
- (b) whether and how the undertaking has conducted consultations, in particular, with affected communities.

As pointed out in the considerations on the previous environmental ESRSs, the point worth highlighting in this context, in the same way as stressed in the analysis of ESRS E4, is that

the company should focus its attention and concern on identifying the opportunities mentioned, also taking into account the strategic plans of the EU, Portugal and Madeira Island, in what is related to the materiality of its operations, in relation to its area.

From this perspective, another significant point, this time set out in Appendix A of ESRS E5, dealing with disclosure requirements related to ESRS 2 IRO-1 - Description of the processes to identify and assess material resource use and circular economy-related impacts, risks and opportunities, is the determination that when conducting a materiality assessment on environmental subtopics, the undertaking shall assess the materiality of resource use and circular economy in its own operations and its upstream and downstream value chain, and may consider the four phases below, also known as the LEAP.

The aforementioned standard goes on to address Phase 3 of the aforementioned approach, stating that this phase consists of assessing material risks and opportunities. In Phase 3, in order to assess its material risks and opportunities based on the results of phases 1 and 2, the company may:

- (a) identify transition risks and opportunities in its own operations and its upstream and downstream value chain , including the risk of staying in a business-as-usual scenario;
- (b) identify physical risks including depletion of stock and use of virgin and non-virgin renewable resources, and of non-renewable resources; and,
- (c) identify opportunities categorised by:
  - i. resource efficiency: e.g., transition to more efficient services and processes requiring less resources, eco-design for longevity , repair, reuse, recycle, by-products, take-back systems, decoupling activity from extraction of materials, intensifying circular material use, creation of a system that allows for dematerialization (e.g., digitisation, improving utilisation rates, weight reduction); practices to ensure products and materials are collected, sorted, and reused, repaired, refurbished, remanufactured;
  - ii. markets: e.g., demand for less resource-intense products and services, and new consumption models such as product-as- a-service, pay-per-use, sharing, leasing;
  - iii. financing: e.g., access to green funds, bonds or loans;
  - iv. resilience: e.g., diversification of resources and business activities (e.g., start a new business unit to recycle new materials), investing in green infrastructures, adopting recycling and circularity mechanisms that reduce the dependencies , capability of the undertaking to safeguard future stocks and flows of resources; and
  - v. reputation.

## **4. CASE STUDIES**

### **4.1. Hotel Group A analysis and its 2022 sustainability reports in Portugal**

The analysis of aspects of sustainability reports in this research, in accordance with the CSRD and from an environmental perspective, will be carried out through the analysis of a specific case concerning a hotel group referred to in this research as Group A, which operates in Portugal.

The sustainability reports analyzed from Group A provide information on topics related to environmental policy; purchasing; sustainability; food safety; commitment to quality; equality and diversity issues; social responsibility; among others.

Six sustainability reports from hotels belonging to Group A were analyzed, all referring to the year 2022, presenting an internal division that deals with issues related to their strategies, results achieved. The sustainability reports analyzed are individualized by hotel, each containing between 18 and 26 pages.

Of particular note is the repetition, in their entirety, of the texts that make up the parts of the strategy in the sustainability reports of three of the Group A hotels. The same situation occurs with the complete texts that make up this part of the reports of the other three Group A hotels.

Another fact that stands out in Group A's hotel reports is that, immediately after presenting the figures for "Energy, Water and Gas", the same description is given of the corrective actions that would have been taken by three of the hotels analyzed to justify possible improvements in the parameters disclosed between the years 2021 and 2022.

With regard to the other two Group A hotels, right after the presentation of the figures for "Energy, Water and Gas", the same information is presented regarding the corrective actions that would have been adopted by both, repeating the same data that the other four hotels presented, with the addition of the information "Placement of solar panels".

Despite the fact that these hotels are part of the same group, which indicates that the general lines of action in the disclosure of sustainability information should be aligned, as well as the fact that the hotels under analysis are located in the same geographical region, it is noticeable that the reports in question lack the presentation of relevant aspects about the materiality focused on performance in the hotel industry, as well as the identification and presentation of relevant points for development and opportunities for action aimed at improving environmental sustainability.

The reports under analysis do not mention aspects of interrelationship with the strategic tourism plans of European Union, Portugal or the sustainable development plans of the place where they operate, which, in theory, would be possibilities for optimizing the actions of the hotels in relation to the objectives and goals defined by the public authorities for the environmental area of the places where they operate.

After the considerations that will be made in the next section, in relation to the sustainability report of the second group of hotels, a summary spreadsheet will be presented on the relevant items reported by the two groups in comparison to the forecasts of the information that will have to be reported with the entry into force of the ESRS on environmental issues.

## **4.2. Hotel Group B analysis and its 2022 sustainability reports in Portugal**

In addition to the analysis of aspects of the sustainability reports mentioned above in relation to Group A of hotels, in accordance with the CSRD and from an environmental perspective, a specific case analysis will now be carried out in relation to the sustainability report, also referring to data from the year 2022, from another hotel group operating in Portugal, now called Group B.

Hotel Group B is a much larger group than the previous one and despite also operating in Portugal, it has a presence in Europe and other continents.

The analyzed report of Group B consists of one hundred and twenty-eight pages and, at the beginning, presents a message about the group, stating that the Report is an exercise in transparency towards the Group's stakeholders, disclosing the management method and the results from ESG Areas. Information about Group B's view on the interrelationship between the report under analysis and the CSRD is included in the initial message.

In this sense, it brings considerations that the 2022 Report was prepared in accordance with the 2021 standards of the Global Reporting Initiative (GRI), as well as that it is a convergence of the Group with the requirements of Directive 2022/2464/ EU CSRD and ESRS standards on the disclosure of corporate sustainability information, taking into account the overlap between some of these legislative requirements and those of the GRI standards.

Concerning ESG specifically, information is presented in the aforementioned sustainability report, under the themes: a) Climate and environmental commitment (E) – Climate and energy, Water resources, Waste and circular economy, Biodiversity; b) Creation of social (S) value – Employability and talent management, Equality and inclusion, Health and safety of employees and customers, Quality and customer satisfaction, Impact on the Community; and, c) Governance, among others.

In addition to the information mentioned above, a specific section of the report under analysis contains information on the topic of materiality and ESG convergence, a table of ESG indicators and GRI content.

A comparative reading of the sustainability reports of the two hotel groups analyzed highlights the greater breadth and quality of the information provided by Group B, as well as its greater concern in complying with future CSRD determinations, namely its attention to identifying relevant aspects related to materiality of their actions.

In terms of information related to climate and environmental commitment, it is worth noting that, in addition to presenting several environmental parameters in its sustainability report, Group B presents a progressive roadmap for calculating the group's carbon footprint and defining its carbon 2030 action plan, expressing its concern about such an important issue.

On the other hand, despite pointing out improvements in the procedures and indices monitored by Group B through the actions carried out, it appears that only when it comes to the topic of Waste and circular economy is the expression “opportunity” presented, when dealing with the topic of improvement in waste management.

This observation relates to the two basic points that are observed in the analysis of the environmental ESRS, namely the concern that companies should adopt in complying with the non-financial sustainability reports, observing the issues of materiality, opportunity and possible interlocations of their strategic plans with the strategic plans of the European Union, Portugal and the localities where they operate.

It is argued that the above considerations will help companies to present their sustainability reports from a non-financial perspective, in order to effectively promote positive aspects for society and not just for formal reasons of compliance with regulations.

The tables presented below seek to comparatively analyze the information provided by the sustainability reports of the two hotel groups in question, observing the information presented against the information that must be presented in compliance with the CDRD and its environmental ESRS, regarding the topics of materiality and management of impacts, risks and opportunities.

<b>Information about Materiality: ESRS 1 and ESRS 2</b>	<b>Group A</b>	<b>Group B</b>
Double materiality as the basis for sustainability disclosures.	Not cited	Cited
Preparation and presentation of sustainability information.	Not cited	Cited
Disclosures on the materiality assessment process.	Not cited	Cited
Material impacts, risks and opportunities and their interaction with strategy and business model.	Not cited	Partially quoted
<b>Information about ESRS E1: Disclosure requirement related to ESRS 2 IRO-1</b>	<b>Group A</b>	<b>Group B</b>
Impacts on climate change, in particular, the undertaking's GHG emissions.	Not cited	Cited
Climate-related physical risks in own operations and along the upstream and downstream value chain.	Not cited	Not cited
Climate-related transition risks and opportunities in own operations and along the upstream and downstream value chain.	Not cited	Not cited
<b>Information about ESRS E2: Disclosure Requirement related to ESRS 2 IRO-1</b>	<b>Group A</b>	<b>Group B</b>
Whether the undertaking has screened its site locations and business activities in order to identify its actual and potential pollution-related impacts, risks and opportunities in its own operations and upstream and downstream value chain, and if so, the methodologies, assumptions and tools used in the screening.	Not cited	Not cited
Whether and how the undertaking has conducted consultations, in particular with affected communities.	Not cited	Not cited
<b>Information about ESRS E3: Disclosure Requirement related to ESRS 2 IRO-1</b>	<b>Group A</b>	<b>Group B</b>
Whether and how the undertaking it has screened its assets and activities in order to identify its actual and potential water and marine resources - related impacts, risks and opportunities in its own operations and its upstream and downstream value chain, and if so the methodologies, assumptions and tools used in the screening.	Not cited	Not cited
Whether and how it has conducted consultations, in particular, with affected communities.	Not cited	Not cited
<b>Information about ESRS E4: Disclosure Requirement related to ESRS 2 IRO-1</b>	<b>Group A</b>	<b>Group B</b>
Identified and assessed actual and potential impacts on biodiversity and ecosystems at own site locations and in the upstream and downstream value chain, including assessment criteria applied.	Not cited	Partially quoted
Identified and assessed dependencies on biodiversity and ecosystems and their services at own site locations and in the upstream and downstream value chain, including assessment criteria applied, and, if this assessment includes ecosystem services that are disrupted or likely to be.	Not cited.	Partially quoted
Identified and assessed transition and physical risks and opportunities related to biodiversity and ecosystems, including assessment criteria applied based on its impacts and dependencies.	Not cited	Partially quoted
Considered systemic risks.	Not cited	Partially quoted
Conducted consultations with affected communities on sustainability assessments of shared biological resources and ecosystems.	Not cited	Not cited
<b>Information about ESRS E5: Disclosure Requirement related to ESRS 2 IRO-1</b>	<b>Group A</b>	<b>Group B</b>
Whether the undertaking has screened its assets and activities in order to identify its actual and potential impacts, risks and opportunities in operations and its upstream and downstream value chain, and if so, the methodologies, assumptions and tools used in the screening.	Not cited	Partially quoted
Whether and how the undertaking has conducted consultations, in particular, with affected communities.	Not cited	Partially quoted

### **4.3 Identified opportunities in the light of existing materiality**

The Commission's Communication of June 17, 2019, entitled "Guidelines on non-financial reporting: Supplement on reporting climate-related information", highlighted the benefits for companies of disclosing this type of information, mainly by implementing greater awareness and understanding of the risks and opportunities inherent in the company's climate, diversifying the investor base, reducing the cost of capital and improving constructive dialogue with all stakeholders.

Point 2.3 of the aforementioned communication, entitled "Climate-related risks, dependencies, and opportunities", particularly in the item "Climate-related opportunities", states:

Climate-related risks can often be converted into opportunities by companies offering products and services that contribute to climate change mitigation or adaptation. Climate change adaptation means anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause. It includes business opportunities such as new technologies to use scarce water resources more efficiently, or the building of new flood defences. Climate change mitigation refers to efforts to reduce or prevent GHG emissions. Examples of business opportunities associated with mitigation include renewable energy or the development of more energy efficient buildings and transport systems. The taxonomy of sustainable economic activities, proposed by the Commission as part of the Action Plan on Financing Sustainable Growth, aims to identify and classify climate-related opportunities.

With this in view, companies must include in the company's report the information necessary to understand the corporate impact on sustainability matters, as well as the data necessary to understand how sustainability aspects affect the business's evolution, performance and position. Among the previously mentioned information, EU Directive 2022/2464 introduced the duty to inform: "the opportunities for the undertaking related to sustainability matters".

Therefore, given the necessary interrelationship between the actions of companies based in Portugal and the Strategic Plans for sustainability in the European Union and Portugal, it is important that these companies also look at any local strategic plans for sustainability.

From this angle and taking into account the example of Madeira Island, this location has a strategic plan for sustainability, called the "Madeira Destination Sustainability Action Plan 2022-2030". This Plan is a guiding document for the actions of the Autonomous Region of

Madeira in the area of sustainability, particularly in the environmental, cultural, social and economic dimensions.

In this regard:

The Action Plan also promotes the alignment of its proposals with the Sustainable Development Goals. Considering the reality of the territory, and in conjunction with local stakeholders, the destination has identified 10 SDGs (5 priority and 5 relevant) to which it will direct its actions, with a view to sustainable development. (our translation)<sup>27</sup>

The Madeira Destination Sustainability Action Plan 2022-2030 sets out goals to be achieved, defining a set of actions in nine areas considered strategic for promoting and encouraging the sustainable development of Madeira Island. These actions are aligned with the priority SDGs defined for Madeira Island.

These strategic areas are: a) Energy Efficiency, Greenhouse Gas Emissions and Climate Change; b) Protection of Air Quality, Noise Control and Light Pollution; c) Drinking Water and Wastewater Management; d) Waste and Hazardous Substances Management; e) Territorial Planning and Development; f) Transportation; g) Management and Conservation of Ecosystems and Biodiversity; h) Cultural and Social Management and i) Economic Management.

An important point in this strategic plan in relation to the subject of this investigation is point 4, entitled "Opportunities and Challenges for Sustainable Development". It lists eight of Madeira Island's main potentialities.

These potentialities are: a) Consolidated tourist destination; b) Greater air connectivity; c) Resilient economy; d) Security; e) Reference ecosystem; f) Investment in "sustainability"; g) Environmental quality; and h) Heritage and culture in constant development.

All the potentialities mentioned above have a strong relationship with the local hotel industry, and are suitable for use in sustainability reports in terms of non-financial

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<sup>27</sup> "O Plano de Ação promove, ainda, o alinhamento das suas propostas com os Objetivos de Desenvolvimento Sustentável. Considerando a realidade do território, e em conjunto com os agentes locais, o destino identificou 10 ODS's (5 prioritários e 5 relevantes) para os quais vai orientar a sua atuação, com vista ao desenvolvimento sustentável".

information on their local operations, in those specific activities related to the materiality of each hotel unit.

In this way, the strategic plans and sustainability reports of hotels that operate on Madeira Island can seek to target their possible opportunities in the area of environmental sustainability by harmonizing their goals and objectives with the goals and objectives already outlined in the "Madeira Destination Sustainability Action Plan 2022-2030".

Bearing in mind that the "Madeira Destination Sustainability Action Plan 2022-2030" has a set of thirteen commitments and targets for the sustainable development of Madeira Island, broken down into goals to be achieved gradually by the year 2030.

It is argued that companies should take these strategic plans into account when presenting their sustainability reports in terms of non-financial information, particularly in terms of the opportunities that may arise from them, from the perspective of the materiality of their actions.

The analysis of the non-financial sustainability reports of two anonymous hotel groups shows that there is a disproportionate amount of information in all different reports, specifically with regard to environmental information.

This is because the first hotel group analyzed presents its report with a significant gap between the provisions of the CSRS and its environmental ESRS, while the second hotel group demonstrates its report highlighting various environmental indices and targets in a longer set of pages, as well as demonstrating its concern with adapting to the aforementioned reporting standards.

The areas of materiality and opportunity are better dealt with by the second group of hotels analyzed, although they still need to adjust to the respective ESRS standards. There is certainly a long way to go for hotel companies in Portugal to comply with their CSRD obligations.

## **FINAL CONSIDERATIONS**

This research has shown that promoting actions committed to sustainability is important for the implementation of quality life on the planet, both for the present and for future generations.

The European Union has made efforts to promote sustainability, notably through the creation and improvement of legislation that encourages transparency in the information to be reported by companies on the impacts of their actions, with the aim of enabling stakeholders and society as a whole to be effectively aware of the risks and opportunities related to them, allowing them to be monitored and receive investments in a responsible manner.

In this sense, and in relation to the role of companies, it is necessary to identify the materiality of what they do, and to ensure that their actions are adequately disclosed through sustainability reports.

So that stakeholders and society as a whole can understand the financial and non-financial impacts of companies' actions, the European Union created Directive 2022/2464, the Corporate Sustainability Reporting Directive (CSRD). This is legislation that has improved the previous Directive, aiming to improve the process of disclosing this information, understanding sustainability in a broad sense, with the disclosure of environmental, social and governance information.

Sustainability reports must be presented in accordance with the European Sustainability Reporting Standards (ESRS). The first group of standards has already been set up, consisting of 12 standards. The first two standards are general, containing basic principles and determining what should be reported on strategy, governance and materiality. The other ten standards deal with various environmental, social and governance themes.

The publication of sustainability reports must go beyond the fulfillment of a legal duty, moving towards the search for legitimacy for companies from the perspective of the European Union, as well as at a local level, in the countries and regions where they operate.

The cases studies carried out by this research consisted of analyzing the sustainability reports presented in 2022 of two anonymous hotel groups based in Portugal. As pointed out above, there is a significant gap between the current non-financial sustainability reports presented by the hotel groups analyzed.

Taking into account the above-mentioned analyses, it was emphasized that companies should be attentive to presenting information in their sustainability reports about the opportunities related to their activities in the light of the objectives and goals of the Strategic Plans of the European Union, Portugal and the place in which they operate.

It is important for companies to comply with their legal obligations to provide financial and non-financial information on their activities, from the perspective of dual materiality, and to add statements about their performance, risks and opportunities, directly related to the objectives and goals of the aforementioned environmental strategic plans, insofar as this may be applicable to them.

Companies that are subject to the provisions of the CSRD have a transition period to comply with its provisions, which allows them to be prepared, both from an organizational point of view and in terms of refocusing on the importance of providing sustainability information in a broader way than before.

The integration of companies' actions with the sustainability objectives and targets from the European Union and regional perspectives tends to demonstrate to their potential investors that these companies have a concern that goes beyond just formal legislative requirements, moving towards the provision of non-mandatory information, but which demonstrates their alignment with the objectives and targets of the places where they operate.

There is still a long way to go in implementing the CSRD, but the European Union has taken important steps towards promoting a sustainable environment for present and future generations.

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