



This week, we identified the following events of significance within sustainability and their respective business implications.



## REGULATORY

1. The **U.S. Senate** passed a landmark **bill with the largest-ever investment to tackle climate change in the States**. Besides creating a 15% corporate minimum tax and provisions aimed at lowering the cost of prescription drugs, the bill allocates nearly \$370 billion to climate and energy-focused investments and incentives.



- Climate and energy focused aspects of the bill include measures to lower the cost of renewable energy solutions for consumers, promote the development of domestic clean energy manufacturing capacity, support climate solutions to decarbonize industry, and invest in climate resilience and mitigation initiatives in disadvantaged communities.
- Key allocations include over \$60 billion to accelerate domestic manufacturing of clean energy and transportation technologies, \$9 billion in consumer home energy rebate programs to electrify home appliances and for energy efficient retrofits, \$30 billion in grant and loan programs for states and electric utilities to transition to clean energy, and a \$27 billion clean energy technology accelerator to support deployment of technologies to reduce emissions. Also, \$60 billion for environmental justice priorities aimed at driving investments into disadvantaged communities, and over \$20 billion for climate-smart agriculture practices.



2. The **European Union (EU)** described the **U.S. plan for electric vehicle tax breaks as discriminatory** with potential to breach World Trade Organization (WTO) rules. The EU is concerned about the proposed tax credits for purchases of electric vehicles in the U.S. because they would be biased against foreign producers.

- Under a provision of the \$430 billion climate and energy bill that was passed by the Senate on Sunday, U.S. buyers of zero-emissions electric vehicles would be eligible for tax credits worth several thousand dollars. However, domestic content conditions would apply to the tax breaks to push the electric vehicle industry away from reliance on China and spur local investment in battery minerals and manufacturing.
- A group of major automakers said last week that most EV models would be ineligible for tax credits because of requirements for vehicles' batteries and critical-mineral contents to be sourced from the United States.



**3. The Parliament of India approved a bill to accelerate industrial clean energy adoption and to ban export of carbon credits.** A move to enable a series of initiatives by the government of India to regulate and mandate the transition from fossil-based energy to clean and renewable sources in industry, transportation, and buildings. The legislation also allows the creation of a carbon market in the country, centralizing the trading of carbon and environmental credits across industries.

- Key features of the bill include provisions enabling the central government to set a minimum share of energy consumption from non-fossil sources for organizations in industries including mining, steel, cement, textile, chemicals, and petrochemicals, transport sectors including railways, and commercial buildings. It also allows the government to set requirements for buildings encompassing energy efficiency, conservation, and renewable energy use, and extends the scope of the law to large residential buildings.
- The bill also enables the establishment of a domestic carbon market, with the central government or an authorized agency issuing carbon credit certificates, with entities able to sell credits if they exceed their minimum energy efficiency or clean energy thresholds or buy credits to cover requirements that they haven't yet achieved. The bill effectively consolidates and centralizes India's current energy efficiency and renewable energy offset systems. The export of carbon credits will not be allowed until India meets its 2030 climate commitments under the country's Nationally Determined Contribution (NDC).



## RESEARCH

**1. The European Commission published a report providing an overview of a targeted consultation on ESG ratings and ESG factors in credit ratings.** Most respondents or 77% represented the private sector, including mainly business organisations and companies, but also professional associations. In addition, 56% of the companies were large, with more than 250 employees. NGOs represented 8% of respondents, public authorities 3%, and trade unions 1%. As regards the field of activity, over one third of respondents declared being active in financial services.



- Most respondents declared that they do use ESG ratings and among these, 77% use them very much, while only a smaller share use them a little. Almost all respondents replied that they value and need transparency in data sourcing and methodologies and timeliness, accuracy, and reliability of ESG ratings.
- Almost all respondents expect the ESG ratings market to grow. Almost all respondents or 94% considered that intervention in the ESG ratings market is necessary, of which the large majority support a legislative intervention with the remainder supporting the development of non-regulatory intervention in the form of guidelines, code of conduct. Most respondents or 82% considered that ESG rating providers should be subject to some form of authorisation or regime in order to offer their services in the EU.



**2. London School of Economics** issued a [research paper](#) arguing that **central banks should adjust their collateral frameworks based on the environmental impacts of the assets put forward**. It draws a distinction between an environmental footprint approach and a risk exposure approach. In the latter case, credit assessments used in collateral frameworks are modified to better capture climate-related risks.

- The authors' preferred method could see higher haircuts applied to the securities of companies that are misaligned with the Paris Agreement targets, potentially raising the cost of borrowing for those firms. Such securities could also be deemed ineligible for use as collateral altogether. The paper highlights research showing that central banks' existing collateral frameworks suffer from a carbon bias, in that they disproportionately favour better financing conditions for carbon-intensive activities.
- The report suggests that an explicit focus on environmental impact would contribute directly to the decarbonisation of the financial system. It argues that it would also avoid certain practical challenges involved in targeting risks, such as a reliance on imperfect data. It would also avoid penalising companies exposed to physical risks.



**3. PGIM**, a U.S. asset manager, [slammed low-impact ESG labelled bonds as 2022 H2 issuance is slashed](#). Social bonds fell out of favour post-pandemic as issuers turn to conventional market or newer sustainability-linked structures. PGIM revealed it ranks half of all ESG-labelled bonds as low impact as the sector faces a tough second half of the year following depressed issuance in H1.

- Banks such as SEB and ING expect issuance to fall short of forecasts put out at the end of last year, while UniCredit has cut its forecast from \$1.3 trillion to \$880 billion. From today's point of view, many predictions were too optimistic. This is due to market headwinds. Bond issuance has slumped in recent months due to a combination of the Russian invasion of Ukraine, inflation and fears of recession.
- Social bonds are expected to struggle as covid-related issuance dies down. Primary sales soared in the first 18 months of the pandemic. The EU sold EUR 89.6 billion of social bonds between October 2020 to May 2021 to fund covid recovery schemes. By contrast, the bloc's target for this year is just EUR 4.6 billion. The segment will need to find other topics apart from pandemic support, while addressing issues of social impact measurement.



## COMMERCIAL

**1. Dubai Electricity and Water Authority (DEWA)** tapped [artificial intelligence & machine learning to improve energy efficiency, reduce costs and cut carbon emissions](#). The technology deployed also helps improving the performance of photovoltaic solar panels.





- DEWA uses artificial intelligence and machine learning to analyse load consumption and develop expansion plans to raise energy efficiency and improve demand-side management. The application of artificial intelligence in big-data analytics for building performance gives rise to improved benchmarking tools, to validate energy project simulations, and leads to a better understanding of energy usage. It also enables the quantification of cooling loads in Dubai buildings and identifies how these impact DEWA's peak power demand.
- The established model helps to identify the various electrical appliances in use, detect faulty devices and forecast peak load periods and profiles. These technologies allow improved energy storage and load distribution management, while indicating opportunities for energy retrofits in buildings. It also increases the efficiency of energy generation reserve, reduces carbon dioxide emissions, and saves 20 percent on costs.

**2. HDFC announced the largest-ever social loan globally, signing a \$1.1 billion syndicated facility to finance affordable housing in India. The deal also marks the first social external commercial borrowing (ECB) loan out of India. Proceeds from the social loan will go towards financing affordable housing loans in India, aligned with Reserve Bank of India (RBI) guidelines.**

- HDFC described the deal as India's largest social financing issuance, the largest social loan globally, the first social ECB loan out of India and the largest ECB loan deal from a Housing Finance Company or private NBFC in India. The India-based mortgage lender has financed 9.5 million housing units and has a gross loan book of INR 6.7 trillion.
- Affordable housing is a critical component of quality infrastructure as also a growth driver for the real estate industry and the economy at large given its strong linkages to nearly 300 industries. It contributes to capital formation, employment, and income opportunities.



**3. Ford announced a record breaking renewable energy deal covering 100% of Michigan vehicle manufacturing. The move represents the largest renewable energy purchase from a utility in the U.S. and will add 650 megawatts of solar energy in Michigan for Ford by 2025, a 70% increase in installed solar in the state.**



- The agreement follows the launch by Ford last year of a series of sustainability goals, including 2035 commitments to reduce Scope 1 and 2 emissions from operations 76% from 2017, and Scope 3 GHGs from use of the company's products by 50%, adding to the company's existing goals to reach carbon neutrality by 2050, and to use 100% locally sourced renewable energy for all its manufacturing plants globally by 2035.
- The deal will significantly support the company's climate goals, enabling Ford to attribute its entire electricity supply in Michigan to 100% clean energy, 10 years ahead of its global ambition. The purchase of carbon-free electricity will avoid as much as 600,000 tons of carbon emissions.