FAB ESG WEEKLY UPDATE

01 July 2022

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

REGULATORY

1. The **European Securities and Markets Authority (ESMA)** announced the publication of its **assessment of ESG ratings providers**, forming the next step in the EU's process towards regulating the market for ESG ratings. The European Union (EU)'s securities markets regulator found 59 ESG rating providers currently active in the region. Within the ESG rating providers in the EU, there is a small number of very large non-EU companies, and many significantly smaller EU entities.

- Users of ESG ratings are typically contracting on an investor-pays basis from several providers simultaneously. Their reasons for selecting several providers are to increase coverage, either by asset class or geographically, or to receive different nature of ESG assessments. The most common shortcomings identified by the users were a lack of coverage of a specific industry or a type of entity, insufficient granularity of data, and a lack of transparency around methodologies used by ESG rating providers.
- Entities covered by ESG ratings dedicate at least some level of resourcing to their interactions with ESG rating providers, although the amount largely depends on the size of the rated entity itself. These entities targeted by ESG ratings pointed out some degree of shortcoming in their interactions with the rating providers, most notably on the level of transparency as to the basis for the rating, the timing of feedback or the correction of errors.

2. The **Group of Seven (G7)** shared plans to **establish a Climate Club** by the end of 2022, aimed at coordinating efforts on climate action, with a particular focus on industrial decarbonization. The new initiative will help address the risk of carbon leakage, a situation in which companies move production of emissions intensive goods to countries with less stringent environmental and climate policies.

- In the summit's final G7 Leaders' Communiqué, the leaders also discussed a series of climate-focused commitments, including achieving a highly decarbonised road sector by 2030, and a fully or predominantly decarbonised power sector by 2035.
- Carbon leakage has been a focus for EU countries, with member states in March announcing an agreement to impose a carbon tax on imported products to help tackle the issue. The G7 initiative would extend efforts to counter carbon leakage to the international level, the statement referring to implementing tools such as "explicit carbon pricing, other carbon mitigation approaches and carbon intensities".

3. The **European Council** agreed on **tougher targets for renewables and energy efficiency for the European Union (EU)**. The Council's agreed position includes setting a binding target of 40% of energy from renewable sources in the overall energy mix, compared to the current 32% target, and reducing energy consumption by 9% by that date, compared to 2020 levels. The target update aims to meet the Fit for 55, an EU initiative to cut greenhouse gas emissions by 55% by 2030, compared to 1990 levels.

- The introduction of the proposals follows the adoption by the Commission of the European climate law, setting into legislation the EU goal to reach climate neutrality by 2050. The climate law is a centrepiece of the European Green Deal, the EU strategy to transform the region into a modern, resource-efficient, and competitive economy. In addition to the 2050 goal, the law set the binding target for the 55% reduction by 2030.
- The Council also agreed on a series of sector-specific targets, including transport, giving member states a choice of a 13% GHG intensity reduction or at least 29% renewable energy in final consumption, setting a binding increase of 0.8% per year of renewables for heating and cooling until 2026, and 1.1% from 2026-2030, and a target of at least a 49% renewable energy share in buildings in 2030, among others.

RESEARCH

1. The **United Nations (UN)** published a **report** highlighting that an **increase in extreme weather events and natural disasters like flooding, heatwaves and landslides will impact urban areas the hardest**, making climate change adaptation a matter of paramount importance. The UN Habitat's World Cities Report 2022 showed a worst-case scenario of high damage to urban futures where extreme poverty could increase by 32% or 213 million by 2030.

- Changing course to a sustainable path can lead to an optimistic scenario. With concerted policy action through the effective implementation of the New Urban Agenda as a framework for achieving the SDGs, it is possible for cities to avoid either of the high damage or pessimistic scenarios. Any vision for an optimistic future of cities must embody a new social contract with universal basic income, health coverage and housing.
- The report forecasted a population growth of nearly two and a half times by 2070 in cities of low-income countries. Most expansion of city land area will occur in low-income countries and without effective planning, urban sprawl might become a low-income country phenomenon. The UN also flagged that most countries in Sub-Saharan Africa are off-track from ending poverty by 2030.

2. Eurostat shared recent figures on European energy demand with the conclusion that **renewables surpassed fossil fuels in electricity generation during 2020**. During 2020, lower energy demand caused by lockdown measures related to the COVID-19 pandemic significantly affected certain fuel categories. Renewables stand out as an exception, continuing their growth especially in electricity generation.

- In 2020, electricity generation from fossil fuels continued to decrease, recording its lowest point: from 1 226 156 Gigawatt-hour (GWh) in 1990, to a peak of 1 584 005 GWh in 2007, to 1 133 402 GWh in 2019 and 1 022 589 GWh in 2020 (9.8% decrease compared with 2019). A similar trend was observed for electricity generation from nuclear, where 2020 provisional data shows the lowest point since 1990, at 683 183 GWh (6.3% lower than in 1990).
- In the last decade there was a remarkable growth of electricity generation from renewable sources. According to 2020 data, electricity generation from renewables overtook for the first time that from fossil fuels. The share in electricity generation from renewables increased over time, from 303 279 GWh in 1990 to 979 866 GWh in 2019. The 2020 provisional data shows a further increase to 1 052 582 GWh, which was 29 994 GWh more than the generation from fossil fuels.

3. The United Nations (UN)-backed **Race to Zero** released a **report** flagging the need for a **significant and immediate increase in corporate action to address deforestation** in order to achieve global climate goals. The study "Why Net Zero Needs Deforestation Now" concludes that deforestation attributable to companies with land-based value chains, particularly in the forest, land, and agriculture sectors, is responsible for a significant proportion of global greenhouse gas emissions. These sectors contribute 22% of global emissions, half of which are driven by deforestation.

- While commitments from the forest, land, and agriculture sector companies to address their climate impacts have increased, 58% of companies deemed critical to tackling deforestation have yet to set a net zero target. Pledges to reach net-zero by 2050 are up 5 times over just the past two years. Companies such as Colgate-Palmolive, Unilever, Mars, Nestlé, PepsiCo, and Suzano are among the ones that have made a strong progress in their efforts to address deforestation.
- However, most companies in the land-use sectors are at risk of missing emissions reduction targets, as even among companies that have set net zero goals, actions to tackle deforestation have lagged, with fewer than 6% of net zero-committed companies assessed as having made strong progress. Action on deforestation is urgently needed, with the majority of commodity-driven land clearance required to be halted by 2025, in order to keep to the goal of limiting warming to 1.5ºC alive, according to the Accountability Framework Initiative (AFI).

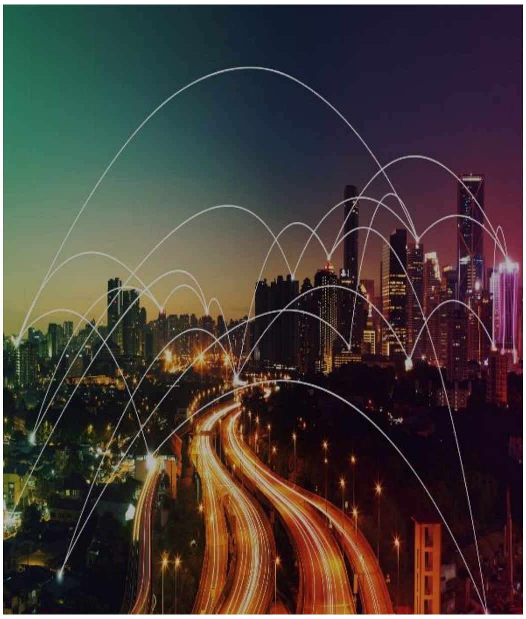
COMMERCIAL

1. Abu Dhabi National Oil Company (ADNOC) signed an agreement to **[create 3,000 new jobs for Emiratis by 2025]**. The deal was reached with the Emirati Talent Competitiveness Council (Nafis) to accelerate recruitment in the private sector.

- As part of the collaboration with Nafis, ADNOC will host sessions to match Emirati professionals with employment opportunities at large companies in its supply chain. The company has already hosted the first session, with more than 300 participants and 11 companies attending. Since the launch of ADNIC's In-Country Value programme in 2018, more than 3,500 Emiratis have been employed by companies in ADNOC's supply chain.
- NAFIS will support a sustainable and diverse Emirati economy by enabling UAE nationals to play an increasing role in the private sector and to continue to make a vital contribution in advancing the nation's economic development. Through tailored initiatives, NAFIS works to integrate UAE nationals in existing and new fields within the private sector. The program is based on cooperation between the federal government, local authorities and private sector companies to achieve common interests and to build a stronger and more sustainable economy.

2. Carbon Disclosure Project (CDP) is coordinating an engagement campaign **targeting nearly 1,500 companies with a high environmental impact, urging them to report climate, forest and water data**. The initiative is backed by 263 financial institutions representing over $31 trillion in assets. The campaign has seen an average 38% year-on-year growth in participation from financial institutions, since inception in 2017, with a 57% uplift compared to last year.

- Companies such as Exxon Mobil, Glencore, Roche, Saudi Aramco, Swatch, Tesla and Volvo are among the 1,473 corporations from 50 countries targeted as part of the data disclosure campaign. These companies cover over US$24 trillion in global market capitalization and are estimated to collectively emit more than 4,800 mega tonnes of carbon dioxide equivalent annually. General Electric Company and Geox are among the list of companies that were targeted in this campaign only to disclose their water-related data. Similarly, Toyota Motor and Gruppo Mastrotto were targeted to only to disclose on their forest-related data.
- 263 financial institutions from nearly 29 countries, including Amundi, Aviva, Cathay Financial Holdings, Insight Investment, La Banque Postale, Legal and General, Nuveen, Schroders, Société Générale Private Wealth Management and Union Investment are urging non-disclosing companies with a high environmental impact to disclose data through CDP.



3. HSBC Bank USA and **PVH Corp.** teamed up to launch a **sustainable supply chain finance program** which provides funding to PVH's suppliers based on their sustainability ratings. PVH Corp. owns brands such as Calvin Klein or Tommy Hilfiger. The initiative represents the first supply chain financing program to be tied to both environmental and social objectives.

- Supply chain issues present significant sustainability challenges for apparel and fashion companies, including social risk due to supply chains concentrated in areas with labour, human capital, and environmental issues, including water use, wastewater production or carbon emissions. Many of PVH's initiatives under its sustainability program target its supply chain, including its goals to reduce supply chain emissions 30% by 2030, have all suppliers meet social and environmental sustainability standards by 2030, and have 100% of suppliers promote safe and healthy work environments by 2025.
- According to recent research conducted by HSBC and Boston Consulting Group (BCG), global supply chains need $100 trillion of investment by 2050 if they are to achieve net zero emissions targets, while half of this is required by small and medium sized enterprises. Sustainable supply chain finance is one way to help leading companies and key sectors like the apparel industry ensure that progress is made to advance their targets and commitments.