# FAB ESG WEEKLY UPDATE

07 July 2022

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

## REGULATORY

**1.** The **United Arab Emirates** approved **22 policies to accelerate the country's transition to a circular economy**. The UAE Circular Economy Council's policies will focus on four main sectors such as manufacturing, food, infrastructure, and transport. The Council highlighted eight relevant trends, including waste-to-resource, reuse, artificial intelligence, remanufacturing, bio-based materials, and repair work.

- A circular economy is an economic system that focuses on reducing the extraction of natural resources, minimising waste, and regenerating natural systems. As 45% of global greenhouse gas emissions result from manufacturing cars, clothes, food, and other products used daily, the circular economy has great potential to reduce emissions and mitigate the climate crisis. Adopting circular economy principles could deliver $26 trillion in economic benefits by 2030, according to the Global Commission on Economy and Climate.
- The UAE Circular Economy Policy was approved in January 202 and identifies the best approach to the country's transition to a circular economy. Its objectives include building a sustainable economy and promoting efficient use of natural resources. It also encourages the private sector to shift to cleaner industrial production methods by using AI and other advanced technologies.

**2.** The **European Central Bank (ECB)** took further steps to **[incorporate climate change into its monetary policy operations]**, revamping a 344 billion euro corporate debt portfolio to favour greener companies. In one of its biggest moves yet, starting from October, the ECB will tilt reinvestments of cash maturing from corporate debt towards firms with lower greenhouse gas emissions, more ambitious carbon reduction targets and better climate related disclosures.

- The euro system will gradually decarbonise its corporate bond holdings and it will be done by tilting the sizeable redemptions, which are expected to average over 30 billion euros annually in the coming years. The ECB will, however, not exclude any company from its investment portfolio, hoping to give the big polluters an incentive.
- In making actual investment decisions, the ECB will look at companies' past performance, their planned carbon reduction targets and data publicly disclosed. The ECB will only rely on publicly available information and will not disclose which holdings it cut or increased. Further out, the ECB also plans to limit the share of assets issued by high polluters that can be pledged as collateral by banks when borrowing funds from the central bank.

**3.** The **Federal Council of Switzerland** launched the **Swiss Climate Scores**, an initiative based on a series of indicators aimed at providing transparency into the alignment of companies with global climate goals. The council is requesting, on a voluntary basis, that banks, asset managers and insurance companies apply the scores to their client portfolios and investment products, enabling investors to better assess the climate alignment of their investments, identify climate transition opportunities, and meet their own sustainability goals.

- The criteria assessed in the scores includes greenhouse gas emissions, fossil fuel exposure, global warming potential, net-zero strategy, and commitments, as well as climate stewardship. The new scores are compatible with existing climate measures, drawing heavily on current initiatives such as the framework of the Glasgow Financial Alliance for NetZero (GFANZ) or the Taskforce for Climate-related Financial Disclosures (TCFD).
- The scores go beyond current systems like the European Union (EU) Taxonomy, by not only providing a climate snapshot of company or portfolio's current environmental status, but also including forward-looking information of where companies are positioned, and their transition plans relative to the global climate goal to limit warming to 1.5° C.

## RESEARCH

**1.** The **United Nations Environment Programme (UNEP)** published a report on **leveraging public nature-related data in disclosure frameworks**. The paper looks at how publicly available data on nature-related issues can be used to support financial decision making. It uses case studies from five countries: Costa Rica, India, Indonesia, Mexico, and South Africa.

- According to the report, regulators and financial institutions are increasingly recognising the importance of integrating nature issues into their frameworks, but often cite a lack of useful data as being a barrier to doing so. As a drawback, only 7% of the nature-related datasets identified in the case study countries meet the standards generally used to support financial decisions.
- The study concludes that disclosure frameworks such as the Taskforce for Nature-related Financial Disclosures and International Sustainability Standards Board should take steps to address the risks associated with the absence of data. This could include incorporating the use of global rather than just national datasets and investing in data collation efforts.

**2. PwC Luxembourg** shared the results of a **survey** concluding that **European fund managers are set to go all in on ESG**. Over two-thirds of European asset managers and distributors are considering halting the launch or distribution of products that do not comply with environmental, social and governance standards, of which over half intend to do so within the coming two years.

- The survey of 3,354 respondents suggested ESG assets domiciled in Europe could grow to between 7.4 trillion euros and 9.0 trillion euros by 2025 and account for up to 56% of total European mutual fund assets, against 37% at the end of last year.
- Almost 72% of European asset managers were willing to halt all non-ESG product launches, with more than 60% planning to do so by the end of 2024. PwC foresaw long-term challenges for asset managers that maintain a hybrid ESG/non-ESG product range as the shift materialises.

**3. Lloyds Bank** issued a **survey** illustrating that up to **4 million small businesses in the U.K. have no plans for net-zero transition**. Over three quarters of British small and medium sized businesses (SMEs) lack a strategy to address their climate impact, despite acknowledging the importance of sustainability.

- More than 80% of the small businesses surveyed said that they recognize the importance of being more sustainable, and 68% are aware of the UK government's targets to reach net zero. Fewer than half were aware of the meaning of net-zero and 77% either lacks or are unsure of their business strategy to reduce their carbon footprint in the next three years.
- Cost was cited most often as the main barrier to going green as reported by 44% of respondents, followed by a lack of information reported by 32%. Only 15% of business owners knew how to calculate the carbon footprint of their businesses. The study found that younger business owners were farther along in their climate strategies, with 50% of those under the age of 35 concerned about their carbon footprint, and over a third being able to calculate it.

## COMMERCIAL

**1. Dubai's Roads and Transport Authority (RTA)** announced the **addition of Tesla Model 3 vehicles to the city's publicly-owned taxi fleet** to tackle carbon emissions. The move to gradually phase-out petrol engine cars builds on a trial going on since 2017 under which 172 Tesla vehicles Model S, X and 3s are being used in the RTA's higher-end limo service.

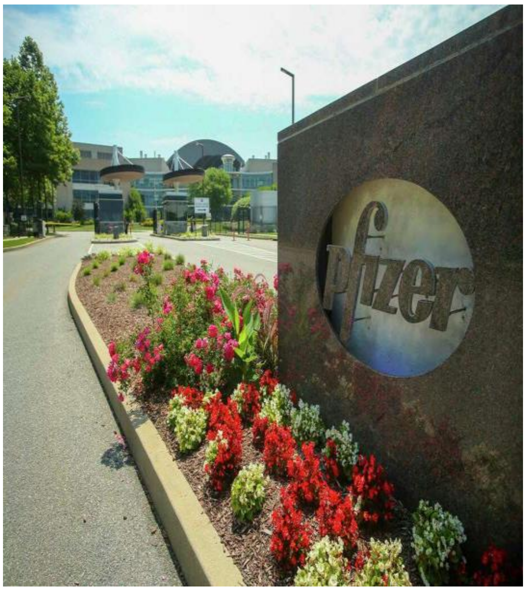
- The Tesla vehicles will be used on a 24-hour-per-day rota to serve all events and hotspots across the emirate, especially in Dubai airports, where DTC runs the biggest fleet of Tesla vehicles in the UAE. Currently, nearly 71% of Dubai's 5,700-vehicle taxi fleet are classed as eco-friendly, with Camry hybrid saloons being the most common model, while other vehicles deploy NGV gas engines.

- The city aims to roll out the first autonomous taxis by 2023 and in June it began mapping the streets with Google Maps-style vehicles to create a digital path for driverless cars. Dubai’s goal to have a highly precise digital map that a vehicle's artificial intelligence computer can follow, without the need for a driver.

**2. Pfizer** made public the **commitment to achieve net-zero carbon emissions by 2040**, 10 years earlier than the expectations of the Net-Zero Standard. The pharmaceutical giant also shares the aim to achieve emissions reductions of 95% in its operations and 90% in its value chain by 2040.

- Pfizer aims to accelerate the transition away from fossil fuels and work with suppliers to take equivalent action. Partner action and innovation were defined as key to develop the technologies to enable the generation of heat and steam production to meet the demand of its manufacturing, research & development, and commercial operations without fossil fuels. Pfizer also plans to transition its fleet of vehicles to hybrid and electric alternatives.

- The company also signed a pledge by the U.S. Department of Health and Human Services (HHS) that calls on stakeholders in the U.S. healthcare system to reduce emissions and build a more climate-resilient healthcare infrastructure. Besides committing to reduce carbon emissions, Pfizer also pledged to report on its progress, and develop climate resiliency plans. The company aims to reduce 46% of scope 1 and 2 emissions by 46% as an interim milestone towards its new 2040 target.




**3. KLM Royal Dutch Airlines** was **sued for greenwashing by environmental groups over an advertising campaign**. The case represents the first lawsuit of its kind against an airline industry company. Allegedly, KLM’s Fly Responsibly adverts mislead customers on the sustainability of flying with the Dutch airline and its plans to address climate, a breach of the European consumer law.


- KLM’s campaign says it is on track to reach net zero carbon emissions by 2050, and that it plans to introduce hydrogen and electric planes and scale up the use of synthetic kerosene from 2035. The litigants claim KLM is violating European consumer law by misleading customers, as they say the aviation sector cannot reach net zero without limiting the overall number of flights.
- The lawsuit adds up to KLM’s last month issue with the Dutch advertising regulator over a separate marketing campaign using the line “Be a hero, fly CO2 zero”. The regulator found that although the carbon credits bought by KLM for the scheme resulted in some offsetting of emissions, it was not “adequate” for the airline to claim carbon neutrality.