FAB ESG WEEKLY UPDATE

07 October 2022

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

REGULATORY

1. The **European Supervisory Authorities (ESAs)** introduced proposals to **add disclosures to the EU's Sustainable Finance Disclosure Regulation (SFDR) related to investments in fossil gas and nuclear energy activities**. Under the new proposals, providers of investment products classified under SFDR as Article 8 (products promoting environmental or social characteristics) or Article 9 (products with a sustainable investment objective) would be required to provide a yes or no disclosure regarding the product's intention to invest in nuclear or gas, and, if yes, to provide a graphical representation of the proportion of investments in such activities.

- Following the decision to include nuclear and gas in the taxonomy, the EU Commission sent a request to the ESAs – The European Banking Authority (EBA), The European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA) – to propose amendments to the SFDR's regulatory technical standards (RTS), which were drafted by the ESAs and submitted last year, to consider the exposure of financial products to investments in fossil gas and nuclear energy activities.
- The taxonomy regulation went into effect at the beginning of 2022, with the status of nuclear and gas remaining initially undetermined, until the European Commission published a Delegated Act in February, proposing criteria and disclosure rules for their inclusion in the Taxonomy. The decision to include nuclear and gas were controversial, with several member states, sustainable investment groups, and the European Commission's own sustainable finance advisory group opposing their classification as green activities. Efforts to exclude nuclear and gas, however, were defeated earlier this summer in the European Parliament.

2. The **U.S. Federal Reserve** announced the **launch of a [pilot climate scenario analysis with six large banks, aimed at assessing the resilience of the financial institutions to various climate scenarios]**. The move also aims to enhance the ability of supervisors and firms to measure and manage climate-related financial risks. The banks participating in the climate risk exercise include Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo.

- Under the Fed's new exercise, the banks will analyse the impact of scenarios encompassing a series of climate, economic, and financial variables. The Fed will review the banks analyses, engage with the firms to build climate risk management capacity, and publish aggregate-level insights from the pilot.
- The Fed stressed that the exercise is distinct from its bank stress tests, which assess whether large banks have enough capital to continue lending during severe recessions, noting that the climate scenario pilot will not have capital or supervisory implications. The exercise is expected to launch in early 2023, and to conclude around the end of the year.

3. The **U.S. Financial Stability Oversight Council (FSOC)** established a new **Climate-related Financial Risk Advisory Committee (CFRAC) to support the council with identifying, assessing and mitigating climate-related risks to the financial system**. Initial members of the new council represent a broad range of backgrounds, including financial services executives, sustainability disclosure specialists, climate data providers, academics and NGOs.

- According to CFRAC's charter, the new committee's purpose is to assist FSOC in gathering information on, conducting analysis of, and making recommendations to identify, assess, and mitigate climate-related risks to the financial system. Responsibilities of the committee will include gathering and analysing information on climate-related risks to the financial system, identifying and recommending ways to address information gaps and inconsistencies, and making recommendations on identifying, assessing and mitigating the risks.
- The Financial Stability Oversight Council's mandate is to identify risks and respond to emerging threats to financial stability in the U.S. The council is chaired by the Secretary of the Treasury, and brings together federal financial regulators, state regulators and insurance experts. Members of FSCO include the heads of the Federal Reserve, SEC, Federal Deposit Insurance Corporation, and Federal Housing Finance Agency, among others.

RESEARCH

1. EY conducted a **survey** where **70% of senior supply chain executives expect a near-term revenue benefit from ESG efforts**. Among the benefits, senior supply chain executives expect increased revenue and profitability, customer loyalty and improved employee quality of life. However, the survey found that many companies lack a business case to support supply chain development, and roughly half struggle to measure and report on their sustainability progress. EY surveyed 525 large corporations in the American continent, across sectors ranging from retail, consumer packaged goods, health providers, and life sciences, to government, technology, energy, manufacturing, mobility, and food and agriculture.

- The EY study indicated that they are high on the priority list for supply chain executives, with 80% reporting that they are increasing their emphasis on ESG initiatives. While meeting regulatory compliance and pressure from partners and suppliers were among the executives' main drivers for improving supply chain sustainability, however, financial factors took the top spot, with 61% citing cost savings as the top motivator for embarking on sustainability efforts. Global supply chain challenges have pushed visibility to the top priority spot for the executives this year, in order to better assess risk and plan for disruptions but only 37% of respondents reported having seen increasing visibility.
- Similarly, nearly all (99%) of executives said that they see increased revenue as a benefit of their supply chain sustainability efforts, with 70% reporting that they have already seen or expect to see this benefit within the next 1 – 3 years. Other benefits from sustainability initiatives experienced or expected included increased customer loyalty (100%), better management of operational risks (100%), improved employee quality of life (98%) and enhanced efficiency and productivity (100%).

2. ESG Book published a **study** highlighting that **ESG funds aren't as green as they seem**. One in seven funds branded as sustainable has a carbon emissions intensity higher than the average across all investment funds, and no climate-labelled fund has a portfolio fully aligned with the Paris Agreement's goal. ESG- and climate-labelled funds have boomed in recent years as trillions of dollars are looking for products that are deemed more socially and environmentally friendly, prompting regulators to increase scrutiny of investment managers' claims.

- Among the 515 climate and ESG funds the study analysed, 73 showed a greater emissions intensity ratio than the average recorded across the 36,000 funds ESG Book tracks, and 15 funds exceeded 400 tons of carbon dioxide equivalent per million dollars of revenue - more than twice as high as the wider average.
- The analysis also found that many of the 95 climate funds ESG Books examined invested in fossil fuel and mining companies, including in Shell, Exxon Mobil or BHP Group. While such companies might have a place in climate transition funds, ESG Book said including them in climate aware or climate care funds seemed at odds with the definition of a climate fund.

3. The **International Atomic Energy Agency (IAEA)** released a new **publication** which stresses the **need to secure clean energy for climate resilience**. The 2022 edition of climate change and nuclear power concluded that the energy sector investment must be scaled up and directed towards cleaner and more sustainable technologies that support climate change mitigation and adaptation in order to achieve carbon neutrality and limit global warming to 1.5°C.

- The publication highlighted that 25% of the electricity needs in the **United Arab Emirates** were met by the Barakah nuclear power plant, nearly halving power sector carbon emissions in the Emirate of Abu Dhabi by 2025. Also, 3% of the total electricity needs in the **Middle East** were met by clean sources, similar to levels seen a decade ago despite a substantial increase in total power production.
- Globally, 26% of the global gross low carbon electricity was provided by nuclear energy in 2021. Emissions wise, 5.1 to 6.4 grams of greenhouse gases were emitted per kilowatt hour of nuclear electricity generation over the full life cycle, 100 times lower than coal fired electricity and around half the average of wind and solar generation.

COMMERCIAL

1. The Abu Dhabi-based non-profit organisation **Global Mission** established the **world's most ambitious fund which supports the achievement of the U.N. 17 Sustainable Development Goals (SDGS)**. The $17 billion fund is based in Abu Dhabi Global Market (ADGM) and aims to raise $1 billion to a allocate on each of the 17 SDGs.

- The Global Fund for Sustainable Development has already identified around 100 projects to start working with during the first 12 months. The projects will be implemented in cooperation with governments and private sector, under the form of a public-private partnership platform. The projects will not be limited to any particular country, region or continent. Each project will be evaluated and rated by Global Mission's own internal rating system.
- Regarding the fund's priority list within the 17 SDGs, health will be one of the primary targets to tackle the huge shortage of manpower and medicines. Health will be followed by the environment with a focus on carbon emissions, plastic pollution or clean water.

2. Abu Dhabi Waste Management Centre (Tadweer) produced **more than 1 million tons of products recycled from waste materials collected in the Emirate of Abu Dhabi during the first half of 2022**. A move in line with Abu Dhabi's strategy to promote sound waste management and recycling, and its aim to convert waste into environment-friendly products that contribute to the local economy.

- During the first half of 2022, the centre successfully produced around 14,000 tons of fertiliser, including plant, animal, mixed, and poultry manure, resulting from recycling green and animal waste. This is in addition to producing more than 1 million tons of various sized gravel by recycling demolition and construction waste and producing around 26,000 tons of rubber products resulting from recycling tires. All as part of Tadweer's efforts to improve sustainability outcomes.
- The centre recycled products amounting to 23% of the total waste collected in the specialised facilities during the first half of 2022. As part of Tadweer's efforts to recycle and treat waste, recycled gravel was used in vital national projects such as road pavements, and different rubber products were used as safety floors and rubber tiles for sidewalks in several sectors, including the public sector, the sports sector, the education sector, and landscaping.

3. RWE announced plans to **phase out coal by 2030**. Germany's biggest power producer said it is bringing forward its coal phase-out by eight years and is ready to end lignite-based electricity generation in 2030 as part of a deal reached with the German government. RWE won't request additional compensation for moving the phase-out date forward beyond the 2.6 billion euros it was promised under the previous plan.

- However, faced with a Europe-wide energy crisis after Russia slashed gas deliveries following its invasion of Ukraine, RWE said it would temporarily boost its use of power plants fuelled by heavily polluting lignite, or brown coal. As part of the move, the decommissioning of RWE's Neurath D and E power plant units, which are scheduled to be taken off the grid at the end of this year, will be deferred until March 31, 2024, and remain on the market.
- The German government in November agreed to bring forward the country's exit from coal-fired power generation to 2030, compared with a previous goal of 2038, but that plan still required negotiations with the individual operators. To safeguard security of supply beyond 2030, the German government can also decide by 2026 to keep RWE's last lignite-fired plants on standby until the