



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



## REGULATORY

1. The **European Central Bank (ECB)** added the **stepping up of efforts to address climate change as one of the three supervisory priorities for 2023-2025**. The ECB aims to reduce material exposures to climate-related and environmental risks, while focused on physical and transition risk drivers. According to the Central Bank's strategic objective, banks should adequately incorporate climate-related and environmental risks within their business strategy and their governance and risk management frameworks in order to mitigate and disclose such risks, aligning their practices with current regulatory requirements and supervisory expectations.



- The 2022 ECB climate risk stress test demonstrated that banks are making progress in incorporating climate and environmental risks into their business operations, risk management frameworks and disclosure practices. However, banks' income-generating capacity relies heavily on higher-emitting sectors, while considerable alignment gaps remain. These gaps relate to the lack of robust materiality assessments of banks' exposures to climate and environmental risks, the development of appropriate data governance and risk quantification approaches, performance and risk appetite indicators, limits and thresholds, and robust climate risk stress-testing frameworks.
- Among its supervisory activities, the ECB will: develop preparatory work for reviews of banks' transition planning capabilities and readiness for environmental, social and governance related mandates expected in the sixth Capital Requirements Directive (CRD VI); take deep dives on reputational and litigation risk associated with climate-related and environmental strategies and risk profiles for selected banks; and review of banks' compliance with new reporting and disclosure requirements related to climate risk, and benchmarking of banks' practices against supervisory expectations.



2. The **European Union (EU)** implemented a **carbon tax on imports to tackle climate change and prevent carbon leakage**. The EU Carbon Border Adjustment Mechanism (CBAM) will be set up to equalise the price of carbon paid for EU products operating under the EU Emissions Trading System (ETS) and the one for imported goods. This will be achieved by obliging companies that import into the EU to purchase so-called CBAM certificates to pay the difference between the carbon price paid in the country of production and the price of carbon allowances in the EU ETS. CBAM rules will apply from 1 October 2023 with a transition period..

- The law will be the first of its kind and will incentivise non-EU countries to increase their climate ambition. Only countries with the same climate ambition as the EU will be able to export to the EU without buying CBAM certificates. The new rules will ensure that EU and global climate efforts are not undermined by production being relocated from the EU to countries with less ambitious policies.
- This week, the EU also announced an **implementation of the polluter pays principle to the aviation sector by phasing out free allowances by 2026**. The move provides a new support scheme to speed up the use of sustainable aviation fuels. It will also create a new system for airlines to monitor, report and verify non-carbon dioxide emissions and climate effects of aviation, which make up two thirds of aviation's total carbon footprint. Until the start of 2027, EU carbon pricing will apply to flights within the EU/EEA and departing flights to Switzerland and the United Kingdom, maintaining the current stop the clock mechanism on the international application of the rules.



3. The **Government of Australia** released a consultation paper targeting the **development of an Australian climate risk disclosure framework**. The internationally-aligned framework aims to provide business and investors with the clarity and certainty needed to manage climate risks and invest in new economic opportunities such as investment in cleaner, cheaper and more reliable energy. It will ensure large business and financial institutions provide more information and greater transparency on how they are responding to climate change and supporting the transition to net zero. These reporting requirements are expected to be mandatory for large entities and phased in over time.

- Australian businesses are already leaders in meeting global market and regulatory expectations for climate risk disclosures. In 2021, Australia had the 4th largest number of organisations issuing disclosures aligned with the Taskforce for Climate-related Financial Disclosures (TCFD). As more countries move towards a global best practice, and investors demand higher-quality disclosures, Australia is looking to establish a framework for consistent, credible, internationally-comparable disclosures.
- The strategy will include the development of new standards or taxonomies for sustainable investment, further initiatives to reduce greenwashing and strengthen ESG labelling, and more ambitious participation in global forums to support climate and sustainable finance frameworks and investment. The Government has already made progress by legislating Australia's 2050 net zero commitment, updating the country's Nationally Determined Contribution to a 43% reduction in emissions by 2030, and implementing a range of measures to deliver on these goals.



RESEARCH

1. CDP released its [2022 company scores](#) where only 12 out of 18700+ companies achieved a top performance across all environmental categories. Last year, 14 companies ranked the highest tier in all categories. CDP scores companies across key environmental categories such as climate change, forests, and water security. It provides rankings from D to A, where D indicates that the companies are only at disclosure level and companies ranked A achieved a leadership level. In 2022, CDP raised the bar on qualification for leadership status across the categories, with more stringent criteria such as the adoption of a 1.5°C-aligned climate transition planning, verification of deforestation commodity volumes and water data.



- Companies such as Danone, HP, L'Oréal, LVMH and Philip Morris achieved a triple A status in 2022 or an A-level score across the three categories. While the list of companies awarded a triple A scores declined, 333 companies achieved an A score in at least one category in 2022, up from 272 in 2021.
- The biggest increase in top scores took place in the climate change category, with 283 companies reaching an A score, up 34% from 2021, while 25 companies achieved an A score in the forests category, up only by 1 company compared to prior year. Companies that achieved a top score in water security declined from 118 in 2021 to 103 in 2022.



2. Deloitte shared the findings of a [survey](#) where 99% of companies expressed willingness to invest in new ESG technologies and tools in the next 12 months. Companies aim to be prepared to meet stakeholder expectations and future regulatory requirements. The online survey targeted 300 senior finance, accounting, sustainability, and legal executives, and conducted interviews at publicly owned companies with revenues greater than \$500 million, across sectors including consumer products, financial services, life sciences and health care, oil and gas, and technology, media and telecommunications.

- Nearly 3 out of 5 or 57% executives report having implemented a cross-functional ESG working group tasked with driving strategic attention to ESG and another 42% are taking steps to do the same. A similar profile of survey respondents in 2021 indicated that only 21% had implemented a cross-functional ESG working group. Companies are concerned about the accuracy and completeness of sustainability data and 35% of the executives listed quality as the top data challenge, up from 25% in 2021. Another 25% cited access to data as the greatest challenge, a slight decrease from the 32% cited by a similar profile of respondents in 2021.
- Also, 61% of the companies reported being prepared to disclose scope 1 emissions, and more than 3 in 4 or 76% executives are prepared to disclose scope 2 emissions, an increase from 47% in 2021. However, scope 3 disclosure is still a work in progress, with only one third or 37% of respondents currently prepared to disclose details, an increase from 31% in 2021. The vast majority or 86% reported challenges measuring scope 3 emissions.



3. Wood Mackenzie and the Solar Energy Industries Association published a [report](#) forecasting U.S. solar installations to fall 23% in 2021 due to a ban on goods from China. New U.S. solar installations are expected to fall by nearly a quarter in 2022 due to panel imports stalled by a ban on goods from China's Xinjiang region over forced labour concerns. The report expects the market to return to growth in 2023, with annual increases of 21%, on average, between 2023 and 2027.

- Installations of utility-scale projects, in particular, will contract by 40% this year from 2021 to 10.3 gigawatts. Big projects for utilities and other large customers make up the largest part of the U.S. solar market. Commercial and community installations are also expected to decline, though the residential market is forecast to surge 37%. Overall, U.S. installations are expected to fall 23% to 18.6 gigawatts.
- Utility solar installations should increase during 2023 as importers work through the aforementioned supply chain constraints. IRA-driven demand and supply normalization will



increase 2023 utility-scale installations by 84%. Through 2027, 150 gigawatts of utility solar installations should come online.



## COMMERCIAL

**1. BEEAH Group** announced the [development of the first waste-to-hydrogen plant in the Middle East](#). A partnership with the U.K.'s Chinook Sciences and Japan's Air Water to achieve the production of fuel cell grade hydrogen while tackling the challenge of waste wood and plastic. The regional ground-breaking waste to hydrogen plant will be built in Sharjah, UAE, and will transform waste wood and plastic into fuel-cell grade green hydrogen. The production of waste derived fuels is a clean energy technology and through the production of fuel cell grade hydrogen, the Sharjah waste-to-hydrogen plant will potentially displace thousands of tons of carbon emissions every year.



- The project plans include an on-site green hydrogen dispensing station capable of fuelling several vehicles. To realize this innovative type of fuelling station, the plant will produce fuel cell grade hydrogen, which will be made possible with Air Water's hydrogen refinement technology. Synthesis gas, a mixture of hydrogen and carbon monoxide will be fed into the hydrogen refinement system, resulting in fuel cell grade green hydrogen.
- Green hydrogen is hydrogen generated by renewable energy or from low-carbon power. By 2030, the global green hydrogen production market is expected to reach USD 1 trillion. As per its hydrogen leadership roadmap, the UAE aims to be a hub for the export of green hydrogen and is targeting 25% of the global market.

**2. HSBC** will [end financing for new oil and gas projects or new metallurgical coal mines](#). The decision was made public through the bank's new energy policy and according to it, HSBC will also require the energy sector clients to provide transition plans aligned with the bank's climate targets in order to continue receiving financing. If a transition plan is not produced or if, after repeated engagement, is not consistent with HSBC's targets and commitments, the bank won't provide new finance, and may even withdraw existing financing if appropriate.

- While the policy will see the bank end financing for new oil and gas projects and related infrastructure, HSBC will continue to provide financing and advisory services to energy sector clients at the corporate level, if they provide transition plans consistent with HSBC's 2030 financed emissions and 2050 net zero targets.
- Under the new policy, HSBC will support clients taking an active role in the transition, including engaging on transition plans, and helping to finance related technologies and infrastructure. The bank also pledged to accelerate its activities in renewable energy and clean infrastructure.



**3. Barclays** significantly [increased the bank's sustainable finance goal to \\$1 trillion by 2030](#). A decision taken after the bank surpassed an existing £150 billion target, while reviewing growth opportunities. The investment of Barclays' equity capital into climate-tech start-ups through its sustainable impact capital portfolio will also be ramped up to from £175 million by 2025, to £500 million by 2027.



- Since 2020, Barclays has invested £84 million in innovative start-ups to scale solutions to environmental challenges and fill their growth stage funding gaps. The sustainable impact capital investments supported several aspects of climate-tech innovation, from property retrofit solutions to long-duration energy storage and hydrogen technologies. The bank's sustainable investments will target decarbonisation technologies that are enabling transition within carbon intensive sectors, particularly where Barclays has meaningful client exposure such as energy and power, real estate and transport. A special attention will be dedicated to carbon capture and hydrogen technologies.
- The bank has now surpassed a 2018 target to deliver £150 billion of social and environmental financing by 2025 and is well ahead of the 2030 target to deliver £100 billion of green finance. Barclays new target to facilitate \$1 trillion of sustainable and transition financing between 2023 and the end of 2030, encompasses the long-term green, social, transition and broader sustainability-linked financing requirements of clients such as corporates, governments and consumers.