FAB ESG WEEKLY UPDATE

13 January 2023

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

REGULATORY

1. The **United Arab Emirates** will **ban some single-use plastics from 2024, all of them by 2026**. Plastic bags, cutlery and drinks cups are among the wide range of nationwide prohibited products. From 1st of January 2024, plastic bags, cutlery and drinks cups of any material or composition will be prohibited nationwide. From 1st of January 2026, it will be prohibited to import plastic cutlery, drinks cups, styrofoam and boxes. The latter ban will include all types of items like food packaging, plastic bottles, cotton sticks, crackers bags, cigarette butts, wet wipes, balloons and balloon sticks that contain plastic.

- The UAE government advised authorities, retailers, suppliers and consumers to prepare with suitable, sustainable and multi-use alternatives in all shopping stores, retail stores and sales outlets on a permanent basis. The federal ruling goes further than the new rules established last summer in Dubai and Abu Dhabi which banned most plastic bags. The ruling contains exceptions such as plastic bags made from recycled materials or plastics required in goods exported abroad.
- At least 4 Emirates already announced bans or regulated the use of plastic so far. In Abu Dhabi, a ban on single-use plastics went into effect on 1st of June, while in Dubai, since 1st of July 1, retailers have been charging 25 fils per bag. Sharjah introduced a 25-fil tariff per single-use plastic bags from 1st of October, with a ban enforced from 1st of January. Umm Al Quwain will ban single-use plastics from 1st of January 2023.

2. Germany requires **[businesses to take responsibility for ESG risks in their supply chains from 1st of January 2023]**. The corporate due diligence in supply chains initiative represents the first time that the responsibility of German companies to avoid human rights and environmental violations in global supply chains has been given a legal foundation.

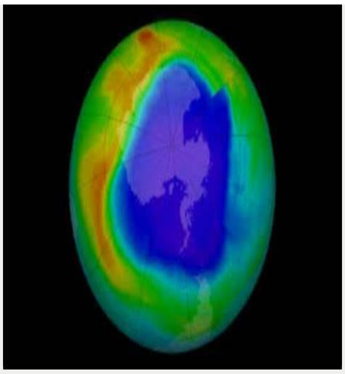
- The Act applies to all companies, irrespective of their legal structure, which have their headquarters, main branch, centre of administration or registered seat in Germany and have more than 3,000 employees as of 1st of January 2023. It will be upgraded to 1000 employees on 1st of January 2024. The rule also applies to the German subsidiaries of non-German multinationals, provided that the subsidiary meets the headcount threshold.
- The framework imposes due diligence obligations which require companies to verify, document and monitor that suppliers comply with basic human rights and environmental standards. These obligations include setting up a risk management system that allows risk identification; performing regular risk analysis; taking preventive measures; taking corrective action; establishing a reporting system; and documenting the fulfilment of the due diligence obligations.

3. Australia announced **plans to make the biggest polluters reduce 30% of carbon emissions**. The Australian government also disclosed an amount of A$600 million to assist trade-exposed facilities in reducing their carbon footprint. The move comes as a proposed reform to the country's safeguard mechanism, aimed to take effect on 1st of July, which is fundamental to achieve Australia's emission reduction goal of 43% from 2005 levels by 2030 and net zero by 2050. The reform is a next step in supporting the country's biggest emitters to remain competitive in a decarbonising global economy and reduce their emissions.

- The safeguard mechanism established in 2016 aims to limit emissions from Australia's biggest polluters or 215 facilities of oil, gas, mining or manufacturing that annually emit more than 100,000 tonnes of carbon dioxide-equivalent. Australia's biggest polluters account for 28% of the country's carbon emissions and are expected to emit 143 million tonnes of emissions between June 2022 and June 2023. The Australian government expects them to cut around 100 million tonnes of emissions by 2030.
- The reformed safeguard mechanism is expected to deliver 205 million tonnes of abatement by the end of the decade, equivalent to cutting emissions from Australia's cars by two-thirds over the same period. The Australian government will conduct a review to consider how to prevent international carbon leakage risks, while protecting Australia's reputation as a reliable and secure trading partner. Some trading partners, including the European Union (EU), have proposed introducing carbon border adjustment mechanisms (CBAM) to help ensure trade competitiveness doesn't compete with decarbonisation objectives.

RESEARCH

1. The **United Nations (UN)** shared a **report** stating that **the ozone layer is on track to recover within 4 decades**, due to success of Montreal Protocol. The report published every 4 years on the progress of the Montreal Protocol, confirmed the phase-out of nearly 99% of banned ozone-depleting substances. The overall phase-down has led to a notable recovery of the protective ozone layer in the upper stratosphere and decreased human exposure to harmful ultraviolet (UV) rays from the sun.



- The Montreal Protocol was signed in September 1987 and is a landmark multilateral environmental agreement that regulates the consumption and production of nearly 100 man-made chemicals, or ozone-depleting substances (ODS). The initiative has already benefitted efforts to mitigate climate change, helping avoid global warming by an estimated 0.5°C.
- The report also expects the Antarctic ozone hole to gradually close, with springtime total column ozone returning to 1980 values shortly after mid-century or around the year 2065. Also, Arctic springtime total ozone is expected to return to 1980 values slightly before mid-century or about 2045. However, exceptional events such as the 2019/2020 wildfires in Australia or the eruption of the Hunga Tonga-Hunga Ha'apai volcano, can temporarily perturb chemical and dynamical processes that affect stratospheric ozone amounts.

2. Oxford Economics released a **report** forecasting that **green industries will be worth $10.3 trillion by 2050**. Emerging new markets for carbon-neutral goods and services that help reach the Paris Agreement net-zero target will be worth about 5% of the global projected gross domestic product (GDP), by mid-century. The amount includes the direct contribution of electric vehicles manufacturing, renewable power generation, clean energy equipment manufacturing, renewable fuels and green finance; plus, the activity supported across global supply chains.

- The report found that a green transition would lead to substantial productivity gains from climate change mitigation compared to a world in which climate change has been left unchecked, or poorly tackled. The scenario analysis by Oxford Economics suggested a failure to act could damage global GDP by around 5% by 2050. In 2021, the cost of weather-related interruptions to economic activity reached $233 billion.
- The green transition is not a burden on the global economy, but a substantial opportunity to bring about a greater and more inclusive prosperity. In a green economy, growth of income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, prevent the loss of biodiversity and ecosystem services. Nevertheless, there is a need for a green economic definition that governments can use to identify which green industries to develop in order to foster green prosperity, create green jobs, and position themselves globally as green economy leaders.

3. Citi published a **report** foreseeing **Europe as a global leader of electric vehicle (EV) use by 2030**. The outlook is in line with the agreement reached last October, between the European Parliament and the European Council, under which all new cars and vans registered in Europe will be zero-emission by 2035. The report shows that EV consideration is on the rise for existing new vehicle owners, with 65% considering an EV versus 59% in the prior survey. Lessee consideration also increased compared to the prior survey and remains the cohort most likely to consider an EV.

- Europe is poised to overtake China by 2030 with a 67.3% penetration rate for new energy vehicles, up from 22.2% in 2023. By 2030, China will record a rate of 66.6%, South Korea 60.5% and the US 45.8%, while the Middle East and Africa are expected to have a penetration rate for new energy vehicles of only 2.7%.
- The US recorded a positive EV track during 2022, as electric vehicle adoption in the country illustrated a growth of vehicle sales throughout the year to account for more than 5% of total light vehicle sales. This is explained by the vehicle density in the US or the ratio of vehicles per household, which ranks the highest in the world with around 285 million light vehicles on the road. EV sales in California accounted for 35% of the total US sales and the local EV producer Tesla registered another record for annual deliveries, shipping 1.31 million cars in 2022, up more than 40% year-on-year.

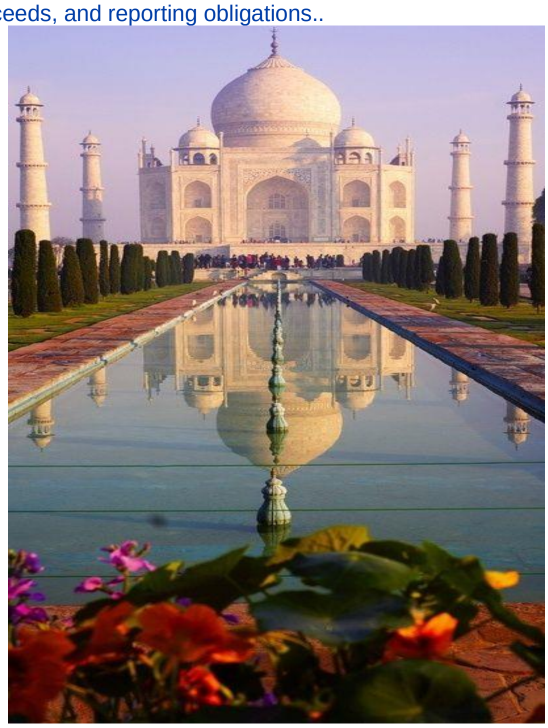
COMMERCIAL

1. Islamic Development Bank will **[support a climate resilient Pakistan with $4.2 billion over the next 3 years]**. Climate change is not only an environmental concern but also a growing threat to sustainable development and poverty reduction in both the short and long term. The move aims to assist the government of Pakistan's efforts in seeking solutions to various challenges brought by the recent catastrophic floods that have caused more than $30 billion of damage.

- The Islamic Development Bank committed to supporting Pakistan in achieving strong, inclusive, and sustainable socio-economic progress through green, resilient, and sustainable infrastructure, strengthened human capital, and reinforced governance systems.
- The Islamic Development Bank also committed to supporting Pakistan in achieving strong, inclusive, and sustainable socio-economic progress through green, resilient, and sustainable infrastructure, strengthened human capital, and reinforced governance systems. The International Monetary Fund (IMF)'s ninth review to clear the release of a further $1.1 billion tranche of funds to Pakistan has been pending since September, so external financing is crucial for the country's broken economy.

2. India to **issue the country's first-ever green bond this month**. The Reserve Bank of India plans an inaugural USD 2 billion offering to support green infrastructure projects. The green bond is aimed at reducing the carbon intensity of the Indian economy. The issuance takes form under two tranches of 80 billion rupees each, the equivalent to two USD 970 million tranches, including both 5 and 10 year maturities, with auction dates scheduled for the 25th of January and the 9th of February. In November, India had already published a sovereign green bonds framework which defines the eligible use of proceeds from green bond issuances, project selection and evaluation, management of proceeds, and reporting obligations..

- India's green sovereign bond market entry is in line the country's pledge to reach net-zero by 2070, made at COP26. In August, the Indian government strengthened the country's nationally determined contribution (NDC), including commitments to reduce emissions intensity by 45% and to reach 50% of electric power from non-fossil energy sources. India also aims to reach 500 gigawatts of non-fossil energy capacity and reduce carbon emissions by 1 billion tonnes by 2030. This month, India approved a national green hydrogen mission to establish India as a major green hydrogen production hub, aimed to reach 5 million tonnes of production and over $2 billion in incentives for infrastructure and production.
- The Indian green bond framework supports a wide range of eligible green project categories such as renewable energy, energy efficiency, clean transportation, climate change adaptation, sustainable water and waste management, pollution prevention and control, green buildings, sustainable management of living natural resources and land use, and terrestrial and aquatic biodiversity conservation.



3. Air France-KLM announced the **first euro-denominated sustainability-linked loan (SLS) issuance in the airline sector**. The carrier successfully placed its first sustainability-linked loan, for a nominal amount of €1 billion. The initiative is linked to the company's target to reduce its well-to-wake scope 1 and 3 jet fuel greenhouse gas emissions per revenue tonne kilometre by 10% by 2025, compared to a 2019 baseline, as part of its 2030 SBTi approved objective. The offer attracted strong investor interest, with an orderbook around €2.6 billion, covering 2.6x the size of the bonds offered.

- The transaction will smoothen Air France-KLM's debt redemption profile over the coming years and provide additional leeway for the airline to deliver on its sustainable transformation plan, including the renewal of its fleet. The proceeds will be used to pursue further partial redemption of the outstanding bank loan guaranteed by the French State.
- The inaugural issuance is framed into Air France-KLM's newly set sustainability-linked financing framework and aligned with the sustainability-linked bond principles published by the ICMA in June 2020. The transaction links the company's financial strategy with its environmental objectives and represents an additional milestone in Air France-KLM's ambition to achieve its decarbonization targets.