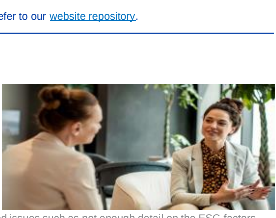
FAB ESG WEEKLY UPDATE

24 March 2023 – 56th edition

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

For previous editions please refer to our website repository.

REGULATORY:



1. The **U.K. Financial Conduct Authority (FCA)** outlined **improvements needed in ESG benchmarks**. The British regulator concluded a preliminary review on ESG benchmarks and found that the overall quality of ESG-related disclosures made by benchmark administrators was poor. As result, the FCA sent a letter to administrators outlining the issues identified.

- FCA identified issues such as not enough detail on the ESG factors considered in benchmark methodologies; not ensuring that the underlying methodologies for ESG data and ratings products used in benchmarks are accessible, clearly presented and explained to users; or not fully implementing ESG disclosure requirements; benchmark administrators failing to implement their ESG benchmarks' methodologies correctly – for example, using outdated data and ratings or failing to apply ESG exclusion criteria.
- In September 2022, the British regulator sent a portfolio letter to benchmark administrators where it highlighted the risk of poor disclosures for ESG benchmarks. High quality ESG benchmarks are important to support trust in the market for ESG products and the transition to a net zero economy. FCA expects all benchmark administrators to have strategies to address the issues identified.

2. The **European Commission** proposed **common criteria against greenwashing and misleading environmental claims**. The proposal aims to deliver more clarity to consumers and stronger reassurance that when something is sold as green, it actually is green, while adding better quality information to choose environment-friendly products and services. Businesses will also benefit, as those that make a genuine effort to improve the environmental sustainability of their products will be more easily recognized and rewarded by consumers and able to boost their sales. The initiative will help establish a level playing field when it comes to information about environmental performance of products.

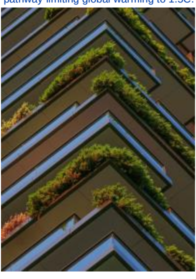
- According to the proposal, when companies choose to make a green claim about their products or services, they will have to respect minimum norms on how they substantiate these claims and how they communicate them. Before companies communicate any of the covered types of green claims to consumers, such claims will need to be independently verified and proven with scientific evidence. The proposal will also regulate environmental labels. There are currently at least 230 different labels and there is evidence that this leads to consumer confusion and distrust.
- A Commission study from 2020 highlighted that 53.3% of examined environmental claims in the European Union (EU) were found to be vague, misleading, or unfounded and 40% were unsubstantiated. The absence of common rules for companies making voluntary green claims leads to greenwashing and creates an uneven playing field in the EU's market, to the disadvantage of genuinely sustainable companies.

3. The **United States** President Joe Biden issued the **first veto of his presidency to counter an anti-ESG resolution**. The move aimed to defend a recently enacted Department of Labor rule allowing fund managers for employee retirement income security act (ERISA) plans to include ESG considerations in the investment process from a Republican-led resolution to overturn the rule in Congress.

- In a message to the house of representatives, the U.S. president mentioned extensive evidence showing that environmental, social, and governance factors can have a material impact on markets, industries, and businesses. The vetoed Republican-led resolution would force retirement managers to ignore relevant ESG risk factors, disregarding the principles of free markets and jeopardizing the life savings of working families and retirees. Such resolution would prevent retirement plan fiduciaries from taking into account factors like the physical risks of climate change and poor corporate governance, that could affect investment returns.
- Additional initiatives to overturn the veto in Congress seem unlikely and would require a two-thirds majority in both the House and the Senate. Nevertheless, Republicans have set efforts to counter the impact of the rule at the state level, namely the multi-state alliance launched by Florida Governor Ron DeSantis to protect individuals from the ESG movement. The agenda of the alliance includes blocking the use of ESG in all investment decisions at the state and local level and prohibiting state fund managers from considering ESG factors in their investments on behalf of the state.

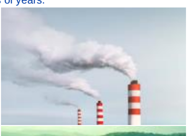
RESEARCH

1. The **International Renewable Energy Agency (IRENA)** authored a report pointing out that the **expansion of renewable power generation in 2022 confirms upward trend of renewables against declining new fossil fuel capacity**. By the end of 2022, global renewable generation capacity amounted to 3372 gigawatts, growing the stock of renewable power by 295 gigawatts or 9.6%. An impressive 83% of all power capacity added last year was produced by renewables. Hence, annual additions of renewable power capacity must grow 3 times the current level by 2030, to stay on a pathway limiting global warming to 1.5C.



- IRENA's data finds that almost half of all new capacity in 2022 was added in Asia, resulting in a total of 1.63 terawatt of renewable capacity by 2022. China was the biggest contributor, adding 141 gigawatts to the continent's new capacity. Renewables in Europe and North America grew by 57.3 gigawatts and 29.1 gigawatts, respectively. Africa continued to expand steadily with an increase of 2.7 gigawatts, slightly above last year. Oceania continued its double-digit growth with an expansion of 5.2 gigawatts and South America continued an upward trend, with a capacity expansion of 18.2 gigawatts The Middle East recorded its highest increase in renewables on record, with 3.2 gigawatts of new capacity commissioned in 2022, an increase of 12.8%.
- Although hydropower accounted for the largest share of the global total renewable generation capacity with 1250 gigawatts, solar and wind continued to dominate new generating capacity. Together, both technologies contributed 90% to the share of all new renewable capacity in 2022. Solar capacity led with 22% increase, followed by wind energy, which increased its generating capacity by 9%, while hydropower increased by 2%. The expansion of bioenergy slowed slightly in 2022, having grown by 7.6 gigawatts, compared to an increase of 8.1 gigawatts in 2021. Geothermal energy increased by a very modest 181 megawatts.

2. The **Intergovernmental Panel on Climate Change (IPCC)** issued a report as the last part of its sixth assessment with a **warning on climate crisis**. Climate change is a threat to human well-being and planetary health. There is a rapidly closing window of opportunity to secure a livable and sustainable future for all. Climate resilient development integrates adaptation and mitigation to advance sustainable development for all and is enabled by increased international cooperation including improved access to adequate financial resources, particularly for vulnerable regions, sectors and groups, and inclusive governance and coordinated policies. The choices and actions implemented in this decade will have impacts now and for thousands of years.



- Finance, technology, and international cooperation are critical enablers for accelerated climate action. If climate goals are to be achieved, both adaptation and mitigation financing would need to increase many-fold. There is sufficient global capital to close the global investment gaps but there are barriers to redirect capital to climate action. Enhancing technology innovation systems is key to accelerate the widespread adoption of technologies and practices. Enhancing international cooperation is possible through multiple channels.
- Prioritizing equity, climate justice, social justice, inclusion and just transition processes can enable adaptation and ambitious mitigation actions and climate resilient development. Adaptation outcomes are enhanced by increased support to regions and people with the highest vulnerability to climatic hazards. Integrating climate adaptation into social protection programs improves resilience. Many options are available for reducing emission-intensive consumption, including through behavioral and lifestyle changes, with co-benefits for societal well-being.

3. The **European Banking Authority (EBA)** published a **report** on the **benchmarking of diversity practices and the gender pay gap within financial institutions**. The figures published are based on a representative sample of 662 credit institutions and 129 investment firms selected by the national competent authorities (NCAs) and those competent authorities in Lichtenstein and Iceland, on the basis of common criteria set out by the EBA. The NCAs and the EBA are mandated by European Union (EU) law to collect information on the gender pay gap of members of the management body.

- Regarding gender diversity, the report shows that 27.75% of non-executive directorships are held by women and only 18.05% of executive directors are female. Gender balance in northern and eastern Europe is generally better than in other parts of the EU. Also, 27.05% of the targeted institutions still lack the mandatory diversity policy. The report also highlights a clear positive correlation between gender balance and return on equity exists. On the other side, women earn on average 9.48% less than male executive directors and 5.90% less than male non-executive directors.
- The data presented in this report makes clear that further improvements of gender balance and, more generally, of diversity at institutions' management bodies are needed. Henceforth, further work by institutions is needed to overcome the identified shortcomings. All institutions must adopt a diversity policy and many need to improve the gender diversity of their boards in the short to medium term, including through the setting of appropriate gender balance targets. The EBA will continue to monitor diversity in management bodies and issue periodical benchmark studies on diversity and on the gender pay gap at the level of the management body.

COMPANIES

1. Masdar finalized an acquisition which represented Africa's biggest renewable energy deal. The transaction operated through Infinity Power, a joint venture between Masdar and Egypt's Infinity, which acquired the entire shareholding of Lekela Power. The acquisition makes Infinity Power the largest renewable energy company on the African continent and delivers on Infinity Power's COP27 promise of being fastest growing renewable energy company in Africa. A move also aligned with COP28's goal of delivering inclusive climate progress.

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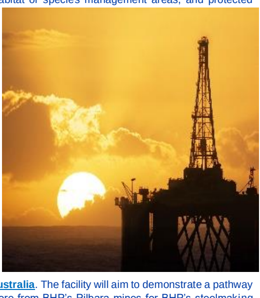
- Infinity Power was established in 2020 to develop utility-scale and distributed solar energy and wind power projects in Africa. By developing renewable projects in Africa, Infinity Power aims to improve energy access across the continent, while boosting economic development, and creating much-needed jobs, particularly in remote areas. Infinity Power's total capacity of operational projects is 1.3 gigawatts, which equates to a reduction of more than 3 million tons of carbon emissions per year using conventional power generation.

2. Chubb announced new climate and conservation-focused underwriting standards for oil and gas extraction. In an industry-first move, the world's biggest property and casualty insurer will require clients to reduce methane emissions, a by-product of oil and gas production that is among the most severe greenhouse gases. Chubb also announced that it will not provide insurance coverage for oil and gas projects in government-protected conservation areas in the world database on protected areas that do not allow for sustainable use. These areas include nature reserves, wilderness areas, national parks and monuments, habitat or species management areas, and protected landscapes and seascapes.



- Chubb will continue to provide insurance coverage for clients that implement evidence-based plans to manage methane emissions including, at a minimum, having in place programs for leak detection and repair and the elimination of non-emergency venting. Its clients must adopt one or more measures that have been demonstrated to reduce emissions from flaring. These criteria will commence immediately, and customers will have a set period of time to develop an action plan based on their individual risk characteristics.
- In 2019, Chubb was the first insurer with significant U.S. operations to limit coal-related underwriting and investment, a policy later extended to oil sands projects underwriting. More recently, the company launched a new climate business unit which will provide a full spectrum of insurance products and services to businesses engaged in developing or employing new technologies and processes that support the transition to a low-carbon economy.

3. BHP released the plans for an electric smelting plant in Australia. The facility will aim to demonstrate a pathway to lower carbon dioxide intensity in steel production using iron ore from BHP's Pilbara mines for BHP's steelmaking customers. The plant will be able to produce steel from iron ore using renewable electricity and hydrogen replacing coking coal. The project is an attempt to slash BHP's greenhouse gas emissions to zero by 2050.

- The small-scale demonstration plant would be used to collaborate with steel producers and technology providers to generate and share learnings with the aim of accelerating scale up of ESF plant designs. Last October, BHP had already partnered with other industry peers like ArcelorMittal to test new technologies to reduce carbon emissions in steelmaking at 2 plants in Belgium and North America.
- An electric smelting facility is capable of producing steel from iron ore using renewable electricity and hydrogen replacing coking coal, when combined with a direct reduced iron step. Estimates show that reductions of more than 80% in carbon emission intensity are potentially achievable processing iron ores through a direct reduced iron step pathway, compared with the current industry average for the conventional blast furnace steel route.