



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

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**REGULATORY**

**1. The United Arab Emirates signed a pact to develop a national system for carbon credits.** A preliminary agreement between the country's Ministry of Climate Change and Environment and the UAE-based IIG and Venom Foundation, which is in line with country's goal of achieving climate neutrality by 2050. The collaboration effort aims to reduce emissions and enhance sustainable agriculture, environmental health, and biodiversity in the UAE. The country wants to achieve 4 strategic objectives such as reducing and cutting greenhouse gas emissions to achieve climate neutrality; developing agribusiness, and promoting responsible investment in agriculture and sustainable food systems; enhancing the economic value of the environmental health programme; and conserving biodiversity to enhance the use of ecosystem services for sustainable development.



- The main areas of cooperation between all parties imply the developing of basic approaches and specific technological solutions for the project of a global platform for registering and issuing carbon credits in the UAE, within the regulatory frameworks of government decisions related to the project of the national system for issuing and registering carbon credits; providing a blockchain-based solution for safe and effective management of the national system for issuing and registering carbon credits; identifying and selecting projects related to reducing or removing carbon emissions..

- The initiative is designed to develop a legislative and regulatory framework by the Ministry of Climate Change and Environment to establish a national system for issuing and registering carbon credits. This includes creating a licensed platform and leveraging blockchain technology to ensure the safe and efficient production of carbon credit registration system documents. The cooperation also ensures system integration to meet all requirements for establishing and developing business operations and the comprehensive process of issuing and registering carbon credits. Furthermore, it includes evaluating projects to reduce carbon emissions and remove carbon to ensure process transparency and environmental integration. This collaboration ultimately aims to contribute to achieving the UAE's Nationally Determined Contributions (NDCs).

**2. Canada proposed clean electricity regulations which allow some use of fossil fuels.** The move is an integral part of Canada's 2030 emissions reduction plan to help the country reach its emissions reduction target of 40% to 45% below 2005 levels by 2030 and net zero by 2050. The regulations would cut over 340 million metric tons of greenhouse gas pollution between 2040 and 2050, while representing only small increases in average residential electricity rates. Canada acknowledged that many utility companies couldn't reliably generate power beyond 2035 without some use of natural gas or liquid fuel and will therefore allow them to use a fossil fuel plant for 20 years, starting from when it was commissioned, as long as they agree to tight emissions limits.

- The proposed regulations were developed around 3 core principles: to maximize greenhouse gas reductions to achieve net zero emissions from the electricity grid by 2035; to maintain electricity affordability for Canadians and businesses; and to maintain grid reliability to support a strong economy and meet Canada's growing energy needs.

- Remarkably, 84% of Canadian electricity comes from sources such as hydroelectricity, solar, wind, and nuclear, which are far less polluting than electricity generated from unabated coal, oil, and natural gas. As Canada aims to reach a net zero emissions economy by 2050, its electricity supply will need to at least double by then. Meeting this surging demand, while avoiding an increase in greenhouse gas emissions from the electricity sector, makes a critical time to put in place the country's clean electricity regulations.



**3. The Amazon Cooperation Treaty Organisation (ACTO) key summit failed to agree on a joint target to end illegal deforestation.** One of its members, Brazil, had aimed to persuade its neighboring countries to adopt the target of ending illegal deforestation by 2030. Deforestation in the Brazilian Amazon fell by 33% in the first 6 months of 2023 compared with the same period last year. As the world's largest rainforest, the Amazon absorbs and stores huge amounts of carbon dioxide, making it a buffer against global warming. But it has faced continuous destruction in recent years, mainly caused by illegal logging, gold mining and cattle ranching.



- ACTO members Brazil, Bolivia, Colombia, Ecuador, Guyana, Peru, Venezuela and Suriname, issued a joint declaration promising cooperation to combat illegal activity and promote financing of sustainable development. The text was the culmination of the ACTO meeting, a rarely active alliance that just met for the first time in 14 years, in the Brazilian city of Belém. Officials described the summit as a chance to relaunch cooperation between Amazon countries, but environmentalists highlighted the declaration's lack of concrete targets, including the 2030 zero deforestation goal. Nevertheless, the organisation announced some new initiatives such as the establishment of a center for regional cooperation in the Amazonian city of Manaus and the creation of a scientific panel of Amazon countries to avoid a feared tipping point.

- The Organization expressed concern regarding the non-fulfilment by developed countries of their commitments to provide official development assistance equivalent to 0.7% of their gross national income, and to provide \$100 billion in climate financing per year in new and additional resources to developing countries. It also called on developed countries to fulfil their climate financing obligations and to contribute to the mobilization of \$200 billion per year by 2030, as set out in the Kunming-Montreal Global Biodiversity Framework. The call targeted support for the implementation of national biodiversity action plans and strategies through the provision of new, additional, predictable, and adequate financial resources.



**RESEARCH**

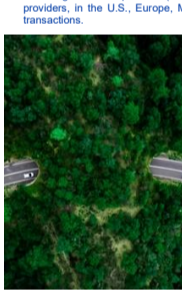
**1. The University of East Anglia and the University of Cambridge co-authored a report concluding that climate change puts sovereigns at downgrade risk.** The joint study used artificial intelligence to combine credit ratings and climate-economic models to simulate the effects of climate change on sovereign ratings for 108 countries. The authors produced the first climate smart sovereign credit rating which showed that without a reduction in emissions, 63 nations can expect a drop in their rating within the next decade. The study is the first to use economic modelling to simulate the effect of climate change on sovereign credit ratings for 108 countries under 3 different warming scenarios. It also provides initial estimates of the effects of climate-induced sovereign downgrades on the cost of public and corporate debt around the world.

- The material impacts of climate change will be seen as early as 2030 and all countries whether rich or poor, hot or cold, will suffer downgrades if the current trajectory of carbon emissions is maintained. In one realistic scenario, the findings showed that 63 sovereigns would suffer climate-induced downgrades of approximately 1.02 notches by 2030, rising to 80 sovereigns facing an average downgrade of 2.48 notches by 2100. The most affected nations include Chile, China, Slovakia, Malaysia, Mexico, India, Peru and Canada. The data strongly suggests that stringent climate policy consistent with the Paris Climate Agreement will result in minimal impacts of climate on ratings, with an average downgrade of just 0.65 notches by 2100.

- The additional costs to sovereign debt, best interpreted as increases in annual interest payments due to climate-induced sovereign downgrades, were calculated to be between \$22–33 billion under a low emissions scenario known as RCP2.6, rising to \$137–205 billion under RCP8.5. These translate to additional annual costs of servicing corporate debt ranging from \$7.2–12.6 billion to \$35.8–62.6 billion in each case.



**2. KPMG published a study pointing out that most U.S. investors want a dedicated ESG due diligence product that can analyze risks and opportunities.** The report is supported by a survey and features insights from over 200 mergers and acquisitions (M&A) practitioners such as corporate investors, financial investors and M&A debt providers, in the U.S., Europe, Middle East and Africa (EMA), on how ESG due diligence affects their M&A transactions.



- Lack of robust data, inadequate understanding of what ESG due diligence means, and difficulty in selecting a meaningful scope were cited as the top challenges in conducting due diligence. The majority of the surveyed individuals said that deal cancellation was the most common consequence of a material finding during ESG due diligence. Also, 74% have ESG considerations as part of their M&A agenda, but only 51% possess a proper understanding of ESG in their area of investment. Most investors (74% of U.S. and 82% of EMA) are now including ESG in their M&A agenda including 72% of financial investors and 76% of corporate investors in the U.S., compared to 94% and 77% of Europe, Middle East and Africa investors, respectively.

- Investors will be conducting ESG diligence more frequently in the future, with 48% of EMA and 27% of U.S. investors now saying they will do it frequently (on more than 80% of deals), up from 25% for EMA and 16% for the U.S. for the previous 2 years. The study also pointed out that 68% of Europe, Middle East and Africa investors and 62% in the U.S. would pay a premium for a target that demonstrates a high level of ESG maturity that is in line with their ESG priorities.

**3. Bain and CDP issued a report flagging that two-thirds of U.K. corporate emissions aren't covered by decarbonisation targets.** The study showed that U.K. businesses' decarbonisation targets only cover up to 36% of corporate emissions and 21% of companies with 2030 emissions targets aren't on track to achieve these goals. The lack of progress leaves the U.K. corporate sector at risk of falling behind incoming regulation in the country, Europe and globally.

- The report revealed that 64% of scope 1 and 2 emissions by U.K. companies aren't covered by a target, rising to 69% for scope 3 emissions emitted further down the supply chain. Even among U.K. companies which are setting targets, 21% are currently expected to miss their 2030 targets for scope 1 and 2 emissions, while 31% are set to miss scope 3 targets. The full number of companies off-track in relation to the U.K.'s net zero plan is likely to be far higher once all businesses not disclosing through CDP, not setting targets, or both, are taken into account. The findings come in the wake of the U.K. Government's own recent statement that its net zero strategy is currently set to miss the key interim 2030 goal of cutting emissions by 60% compared with 1990 levels.

- Still, there are causes for optimism. The number of U.K. businesses disclosing emissions reduction targets through CDP increased by around 130% between 2020 and 2022, with average annual increases of 52% a year over the period. British companies are also decarbonising faster than their counterparts in Europe and North America. On average, U.K. companies have cut emissions by 8% since they began reporting through CDP, compared with just 4% for both their North American and European counterparts. The U.K. hospitality sector has cut emissions by an average of 12%, compared to just 7% in Europe and 6% in North America. Meanwhile, the U.K.'s fashion sector has cut emissions by 12%, compared with 7% and 5% for North America and Europe, respectively.



**COMMERCIAL**

**1. ADQ announced a high-tech greenhouse project to bolster the UAE's food resilience.** In a partnership with the Netherlands-based company Safe Haven Solutions, ADQ unveiled the plans to build an automated 10-hectare facility in Kezad. The infrastructure will leverage advanced agriculture technology to increase sustainable food production in the UAE. A new project to use advanced technology to sustainably cultivate tomatoes and cucumbers year-round in the Emirates, while deploying a high-tech greenhouse to leverage efficient cooling systems that limit carbon footprint and water usage.



- Designed with sustainability considerations, the greenhouse facility will operate with an efficient cooling system that reduces its carbon and water footprint, enabling a year-round cultivation of tomatoes and cucumbers in a carbon-neutral, climate-controlled environment. In phase 2, the project will enter the commercial stage and double the growing area of crops to 20 hectares.

- Consumers will benefit from high-quality local produce that remains fresh for longer due to a shorter supply chain. The project's scalability aims to minimize food waste by efficiently aligning production with local market demand. Safe Haven Solutions' horticulture experts will collaborate with local researchers and agronomists to encourage the development of technology that is ideally adapted to the local climate and growing conditions, while training facilities will enable knowledge transfer to Emirati talent to nurture the next generation of specialized growers.

**2. Borouge launched two new sustainable automotive products made from up to 70% recycled materials.** The Abu Dhabi-based company partnered with its parent company Borealis to develop the products in Shanghai, China, after assessing their carbon footprint. The new product grades will help to reduce carbon emissions and energy consumption in line with both companies' pivot towards more sustainable energy.

- The first product solution is 50% made of a post-consumer recycled (PCR) material that minimizes the carbon footprint by approximately 28%, while reducing long-term heat resistance, processability and achieves unprecedented performance. The second solution that was used to make wheel arches and other exterior components contains up to 70% PCR materials and could achieve up to a 32% carbon footprint reduction.

- In 2021, Borealis signed a \$6.2 billion strategic partnership with ADNOC, aimed at expanding Borouge's facility in Abu Dhabi. The facility utilized Borealis unique technology to produce advanced packaging grades with up to 50% recycled polyethylene content and conducted an in-depth study of a carbon capture unit that would reduce emissions by 80%.



**3. Mitsubishi Corporation unveiled the production of the world's first sustainable polyethylene terephthalate (PET) bottles.** Its partnership with PETY Holdings Limited and BIOMASS Corporation reached an agreement to build a supply chain for sustainable PET bottles derived from biomass. The production will tap cooking oil by applying a mass balance approach to allocate bio-based materials. The usage of biomass for PET bottles, together with further development of the recycling system, will play an important role in the realization of a low-carbon and decarbonized society, while reducing dependency on fossil resources.



- The supply chain counts on bio-based feedstocks supplied by Neste Corporation which will be used as a raw material to replace fossil naphtha with bio-naphtha from biomass resources such as waste cooking oil. Nestle uses 100% renewable raw materials such as waste and residue oils and fats. Through the development of this supply chain, Mitsubishi can reduce emissions in comparison with conventional petroleum-derived products by introducing PET resin produced from bio-PX.

- The world's first production of sustainable PET bottles using a bio-PX component derived from bio-naphtha on a commercial scale aims to have produced the equivalent to approximately 35 million PET bottles by the end of 2023. These will be used as a raw material for Suntory's sustainable PET bottles in 2024.

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