FAB ESG WEEKLY UPDATE

06 October 2023 – 80th 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. **Dubai International Financial Center (DIFC)** established its **sustainable finance framework**. The initiative represents an important step to raise capital for impact-driven and sustainable projects in and within the centre. It also leads the way on sustainable finance in the region including enhancing transparency and disclosure. The framework was announced this week during the inaugural Future Sustainability Forum organized by DIFC.

- DIFC sustainable finance framework sets out fundraising principles for investments in its environmental and social projects that enable sustainable business operations. A move focused on the global need for an estimated $3.3-4.5 trillion per year, required to achieve the 2030 agenda for sustainable development. S&P Global Ratings Second Party Opinion (SPO) was appointed to review the DIFC sustainable finance framework and provided strong opinions on its process for project evaluation, selection and reporting.
- As of September 2023, DIFC's Nasdaq Dubai is the largest ESG sukuk market in the world, accounting for approximately 64% of the world's dollar-denominated sustainable sukuk (USD 16.4bn out of USD 25.8bn) and 46% of the world's all-currencies sustainable sukuk (USD 17.5bn out of 38.3bn).

2. The **European Securities and Markets Authority (ESMA)** found a **4x increase in use of ESG-related language in the European Union fund industry**. Tackling greenwashing is one of the key priorities in ESMA's strategy on sustainable finance. In this respect, its assessment of how investment funds signal themselves, via their name or via their documents, is an important first step in the detection and monitoring of potential greenwashing.

- ESMA showed that the share of EU UCITS investment funds with ESG words in their name has increased from less than 3% in 2013 to 14% in 2023. The regulator further highlights that fund managers tend to prefer using generic language like ESG or sustainable, rather than more specific words. This can make it more difficult for investors to verify that the fund portfolio is in line with the name.
- To carry out this study ESMA used natural language processing techniques to examine the use of ESG-related language in more than 100,000 fund documents. As expected, funds with ESG words in their names, and as well as funds disclosing under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR), tend to use relatively more ESG words in their documentation. However, the results also point to differences between the document types (regulatory document vs. marketing material), suggesting that fund managers adapt their communication based on the expected types of readers.

3. The **U.S. Securities and Exchange Commission (SEC)** is considering a **push back on scope 3 emissions disclosures in its climate rule**. The SEC Chair Gary Gensler shared concerns about the early stage of development and current unreliability of scope 3 reporting in his testimony to the House Financial Services Committee.

- The SEC Chair highlighted that many companies know their own greenhouse gas emissions, but they don't necessarily know their entire supply chain and fewer public companies are currently publishing that. The SEC put out a proposal to bring consistency to the disclosure, but it heard a lot of comments saying that scope 3 disclosure is not as well developed, there's not as many companies putting it out and it's not yet reliable.
- Gensler also said that the SEC would take these concerns into consideration when drafting the final rules. The SEC Chair added that some comments raised concerns about the impact of the rules on smaller businesses, particularly farms and agricultural companies that would not technically be covered by the new rules, but would be pressured to gather and provide emissions data to their customers who are impacted.

RESEARCH

1. The **United Nations Environment Programme Finance Initiative (UNEP FI)** published a **report** highlighting that **94% of the member banks established public strategies aligned with the SDGs or the Paris Agreement**. The publication is the second biennial progress report on implementation of the UN Principles for Responsible Banking. Since its establishment, PRB has grown from 130 founding member banks in 2019, to 325 members in 80 countries, representing almost $90 trillion in assets or 50% of global banking assets.

- The report shows the implementation of principle 1, under which member banks commit to align business strategies with the needs of individuals and societal goals. Two-thirds or 69% of the member banks have integrated sustainability topics into their overall strategy, while 25% have standalone sustainability strategies. This reflects a growing trend of main-streaming sustainability into member banks' banking practices. The majority or 83% are analysing the impacts of their portfolios. Also, 94% of the member banks offer sustainable finance products and 98% have integrated sustainability oversight.
- Most member banks or 77% have set at least one public target related to their significant positive or negative impact areas. Whilst 38% have set two targets and are working to refine them to fulfil principle 2, under which member banks commit to establish and disclose targets in at least two areas where they can have the most significant impact. Many member banks prioritise climate change mitigation as a significant impact area, with 71% setting long-term net-zero targets.

2. The **International Energy Agency (IEA)** authored a **report** reaffirming that **there is no room for new oil, gas or coal**. The report outlines pathways to achieve net zero emissions by 2050 and underscores the imperative for a substantial increase in global investment in clean energy. It advocates raising annual investments to $4.5 trillion, starting in the next decade, up from the projected $1.8 trillion in 2023.

- By aiming for a 10-1 ratio of clean energy versus fossil fuel investment by 2030, IEA's strategy significantly amplifies wind and solar capacity, tripling and quintupling their growth from 2022 to 2030. It also reveals record growth in clean energy technology in the two years since the first edition of the roadmap.
- Due to a long lifespan of fossil fuel infrastructure, the IEA explicitly warns that a net-zero scenario requires substantial changes to operating patterns and the early closure of some existing fossil fuel-based infrastructure. Furthermore, the rate of reduction in oil and gas demand necessary to reach net-zero emissions by 2050 is now so fast that it may imply the early closure of some existing oil and gas fields.

3. **KPMG** issued a **report** concluding that **75% of the companies aren't ready for pending ESG data assurance requirements**. The views of senior executives and board members at 750 companies across industries and global regions with an average revenue of $15.6 billion were captured to gauge their relative ESG Assurance maturity.

- Only 1 in 4 companies are at advanced stages of preparation to obtain independent assurance on their reported ESG information, even though 66% are required to disclose ESG data or expect to be soon, including 78% of listed companies.
- KPMG found that 75% of companies were still in the early stages of ESG assurance preparedness, despite the pending regulatory requirements, across a range of key factors including governance, skills, data management, digital technology and value chain, with even the top 25% of identified leading companies having significant work ahead to become ESG assurance ready. The study indicated that 56% of companies are publicly reporting ESG data, and while 93% of these are providing some level of external assurance, only 14% are obtaining reasonable assurance, and 16% limited assurance.

COMMERCIAL

1. **Abu Dhabi National Oil Company (ADNOC)** took the **final investment decision on the world's first project that aims to operate with net zero emissions**. ADNOC awarded contracts for the Hail and Ghasha offshore development project. The project aims to operate with net zero carbon dioxide emissions, reinforcing the company's legacy of responsible energy production and supporting its net zero by 2045 ambition and accelerated decarbonization plan.

- The awards, which comprise 2 engineering, procurement and construction (EPC) contracts, were signed at ADIPEC, the world's largest energy industry gathering. Hail and Ghasha are part of Abu Dhabi's Ghasha Concession which is set to produce more than 1.5 billion standard cubic feet per day of gas before the end of the decade, contributing to UAE gas self-sufficiency plans.
- Over 60% of the investment value of the entire project will flow back into the UAE's economy under ADNOC's in-country value (ICV) program, reinforcing ADNOC's commitment to ensuring more economic value remains in the country from the contracts it awards.

2. **Abu Dhabi National Energy Company (TAQA)** will inaugurate a **mega solar plant in the UAE capital**. The plant, with a capacity of 2 gigawatts is located in Abu Dhabi's Al Dhafra region and is being built by TAQA in partnership with Masdar, France's EDF Renewables and China's JinkoPower. The information was confirmed by TAQA's CEO Jasim Thabet, this week, during the Abu Dhabi International Petroleum Exhibition and Conference.

- The project will be one of the worlds' largest photo voltaic (PV) projects in the world. When fully operational, it is going to help contribute to a reduction or avoidance of 2.4 million tonnes of carbon dioxide. The plant will also be one of the world's most cost-efficient with a tariff rate of 1.32 cents per kilowatt hour.
- The project was first announced in 2020 and it reached financial close in the fourth quarter of the same year. It was being financed by 7 international banks, according to TAQA. The UAE is investing in renewable energy plants as it aims to achieve net-zero emissions by 2050. The country is also developing the 5 gigawatt Mohammed bin Rashid Solar Park in Dubai, which will cut 6.5 million tonnes of carbon emissions annually when fully operational in 2030.

3. **Emirates** signed an **agreement for SAF supply at airline's Dubai hub**. Over 300,000 gallons of blended SAF will be supplied by Shell Aviation to Emirates for use at its Dubai (DXB) hub. The agreement is the latest step forward taken by Emirates as part of its environmental strategy that focuses on 3 areas: emissions reduction, responsible consumption, and the conservation of wildlife and habitats.

- The first SAF delivery under the agreement is expected to commence before the end of the year, making it the first time that SAF is supplied through the DXB airport fuelling system. In 2023, Emirates successfully completed the first 100% SAF-powered demonstration flight in the region. The airline's first flight powered by SAF blended with jet fuel took place in 2017, operating from Chicago on a Boeing 777. The airline has also uplifted SAF for flights from Stockholm, and currently operates flights from Paris, Lyon and Oslo with blended SAF.
- Under the agreement, Emirates will track SAF delivery and its use data through Avelia, one of the world's first blockchain powered SAF solutions. Through Avelia, Emirates will purchase the physical SAF and associated environmental attributes to help decarbonise its scope 1 related emissions, while scope 3 environmental attributes associated to the same physical SAF will be purchased by Shell Corporate Travel to help decarbonise its related business travel. By using Avelia, the agreement demonstrates how book and claim solutions can enable airlines and corporates to both share the environmental benefits of SAF.