FAB ESG WEEKLY UPDATE

13 October 2023 – 81st 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 **European Parliament** approved the **adoption of a new European Green Bond (EuGB) label**. The label lays down uniform standards for issuers who wish to use the designation European green bond or EuGB for the marketing of their bonds. An initiative aimed at fighting greenwashing and providing investors with confidence that their investments are being appropriately directed towards financing sustainable business activities and technologies. It will also give the company issuing the bond more certainty that their bond will be suitable to investors who want to add green bonds to their portfolio.

- All companies choosing to adopt the standards and therefore also the EuGB label when marketing a green bond will be required to disclose considerable information about how the bond's proceeds will be used. The adopters would also be obliged to show how these investments feed into the transition plans of the company as a whole. The standard therefore requires companies to be engaging in a general green transition.
- The regulation establishes a registration system and supervisory framework for external reviewers of European green bonds, the independent entities responsible for assessing whether standards are being adhered to. It also stipulates that any actual or potential conflicts of interest external reviewers may face are properly identified, eliminated or managed, and disclosed in a transparent manner. Until the taxonomy framework is fully up and running, issuers of a European green bond will need to ensure that at least 85% of the funds raised by the bond are allocated to economic activities that align with the EU's taxonomy regulation.

2. The **European Union (EU)** announced a **new law to decarbonize the aviation sector**. The main objective of the RefuelEU aviation initiative, as a key part of the EU's Fit for 55 package, is to increase both demand for and supply of sustainable aviation fuels (SAF). SAF has lower carbon dioxide emissions than fossil fuel kerosene and ensures a level playing field across the EU air transport market. The move will also provide legal certainty to aircraft operators and fuel suppliers in Europe.

- The new legislation aims to put air transport on the trajectory of the EU's climate targets for 2030 and 2050, as SAF are one of the key short- and medium-term tools for decarbonising aviation. It should address the current situation which is hindering their development: low supply and prices much higher than prices of fossil fuels.
- The new law carries the obligation for aviation fuel suppliers to ensure that all fuel made available to aircraft operators at EU airports contains a minimum share of SAF from 2025 and, from 2030, a minimum share of synthetic fuels, with both shares increasing progressively until 2050. Fuel suppliers will have to incorporate 2% SAF in 2025, 6% in 2030 and 70% in 2050. From 2030, 2% of fuels must also be synthetic fuels, which rises to 35% in 2050.

3. The **Monetary Authority of Singapore (MAS)** is looking for an **early retirement of coal-fired power plants through carbon credits**. The managed phase-out of coal-fired power plants is critical for Asia's energy transition, and must take place alongside the development of clean energy sources. Notwithstanding existing efforts to finance the early retirement of coal plants, additional financing mechanisms are needed to improve the economic viability of such transactions and crowd in significant private capital at scale.

- Asia has nearly 2000 coal-fired power plants with an average of less than 15 years of operations and responsible for 7.2 GtCO2e of emissions per year. It represents 60% of the continent's power generation. Transition credits can function as a new innovative mechanism. Credits are generated from retiring coal-fired plants early and replacing them with cleaner energy sources, while providing additional revenue to reduce the economic gap.
- The early retirement of coal-fired plants is neither economically feasible nor easily investable. An illustrative 1 gigawatt coal-fired plant retired 5 years earlier would have created a $70 million/GW economic gap when comparing business as usual with early retirement, but also required $310 million/GW in financing. To address it, it is necessary to accelerate the development of credible credit methodology, demonstrate high-integrity of credits and adherence to core carbon principles, but also to explore approaches to bring forward the issuance of credits and an early off-take.

RESEARCH

1. The **International Capital Market Association (ICMA)** published a **report** on the **declining trend of media controversies around sustainability-linked bonds since 2022**. The paper, which builds on ICMA's response to a consultation on greenwashing by European regulators, includes an analysis of media reports around sustainability-linked bonds by the 100 largest issuers in the market from the start of 2022 to September this year.

- While the number of controversy reports peaked in Q4 2022, it has declined each quarter since then, a clear trend both in absolute and relative terms. The number of issuers obtaining Science Based Targets Initiative (SBTi)'s approval for their sustainability-linked bonds targets, which ICMA says is a good proxy for ambition, has risen since 2021, but more than half of controversial issuers still received SBTI approval for their targets.
- ICMA also warned against regulator efforts to create exhaustive definitions of greenwashing, noting these can create more issues than they solve as they risk market paralysis or regression because of excessive reputational or litigation fears. The report argues that unpacking greenwashing into areas of actual concern such as lack of ambition for sustainable bond issuers or misleading ESG fund naming, is more actionable that expanding definitions.

2. The **International Energy Agency (IEA)** authored a **report** on the **imperative of cutting methane from fossil fuels**. Methane is a powerful climate pollutant that is responsible for around 30% of the rise in global temperatures since the Industrial Revolution. Fossil fuel operations are the second largest contributor to anthropogenic methane emissions and the majority of these emissions can be abated with existing technology, often at low cost.

- In the net zero emissions by 2050 scenario, a huge scale up in clean energy drives down fossil fuel use and this naturally leads to lower methane emissions. However the report finds this is not sufficient to reduce methane emissions at the necessary pace and scale to avoid the worst effects of climate change. Additional, targeted actions to tackle methane emissions from fossil fuel production and use are essential to limit the risk of crossing irreversible climate tipping points and can also lead to benefits for public health.
- More than 75% of methane emissions from oil and gas operations and half of emissions from coal today can be abated with existing technology. Cuts in methane emissions from fossil fuel operations will likely need to provide half of the reduction in total methane emissions from human activities needed to 2030 to limit warming to 1.5C. Immediate, targeted methane abatement in the fossil fuel sector can prevent nearly 1 million premature deaths due to ozone exposure, 90 million tonnes of crop losses due to ozone and climate changes, and roughly $260 billion in direct economic benefits.

3. **PwC** issued a **survey** pointing out that **less than 1 in 3 board of directors have an understanding of ESG risks**. The survey also showed that directors are ready to manage enhanced disclosures in areas such as sustainability but there is a growing hesitancy when it comes to seeing the link between ESG factors and company strategy and performance. There are good news for ESG reporting practices, as this year, 51% of directors are prepared to oversee mandatory ESG disclosures, from 25% in 2022.

- However, the integration of ESG issues in the company's strategy showed a decreasing trend. This year, 54% of the surveyed directors saw a link between ESG risks and overall strategy, from 57% in 2022 and 64% in 2021. Moreover, 40% of the directors said their board does not understand carbon emissions very well or at all, while 37% stated that their board does not understand climate risk/strategy very well or at all.
- There is a gender disconnection, as female directors are more likely to see ESG issues linked to company strategy and having a financial impact on company performance. PwC mentioned that 67% of female directors and 51% of male directors believe that ESG issues are linked to the company's strategy. Also, 61% of female directors recognized that ESG issues have a financial impact on company performance, in comparison to 35% of male directors who recognized it.

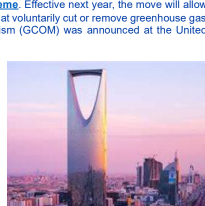
COMMERCIAL

1. The **United Arab Emirates** will add **utility-scale wind power to the country's energy mix for the first time**. The 103.5 megawatt wind programme developed by Masdar will displace 120,000 tonnes of carbon dioxide or the equivalent to removing more than 26,000 petrol-powered cars from the roads annually, while powering over 23,000 homes per year.

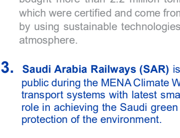
- The project will introduce cost-effective, large-scale, utility wind power to the UAE's electricity grid, further diversifying the country's energy mix. It leverages advances in technology, material science, and aerodynamics to capture low wind speeds at utility scale, while paving the way for further projects.
- The wind programme spans 4 locations. Sir Bani Yas Island in Abu Dhabi, where a 45 megawatt wind farm and a 14 megawatt peak solar farm have been developed. Delma Island with a 27 megawatt capacity and Al Sila in Abu Dhabi with 27 megawatt. Also, Al Halah in Fujairah will account for a 4.5 megawatt capacity.

2. **Saudi Arabia** announced a **domestic greenhouse gas credit scheme**. Effective next year, the move will allow companies to offset their emissions by buying credits from projects that voluntarily cut or remove greenhouse gas emissions. KSA's greenhouse gas crediting and offsetting mechanism (GCOM) was announced at the United Nations' MENA Climate Week in Riyadh.

- The GCOM aims to incentivise the deployment of emission reduction and removal activities at scale to support and enable climate-related national strategies, policies and programs. The participation in the scheme, which aligns with Article 6 of the Paris climate agreement, is voluntary and project-based, covers greenhouse gas and non-greenhouse gas metrics across all sectors and is open to the public and private sectors as well as subsidiaries of foreign firms.
- In 2022, Saudi Arabia's Public Investment Fund announced plans to set up the Regional Voluntary Carbon Market Company (RVCMC) with Saudi's Tadawul Group. Also, 16 Saudi companies, including Aramco and the Saudi Electricity Company, bought more than 2.2 million tonnes of carbon credits in June which were certified and come from projects that avoid emissions by using sustainable technologies or removing carbon from the atmosphere.



3. **Saudi Arabia Railways (SAR)** is testing the **first hydrogen train in the Middle East**. The initiative was made public during the MENA Climate Week 2023 and represents a partnership with Alstom to take on more sustainable transport systems with latest smart technologies. Stemming from Saudi Vision 2030, SAR is committed to their role in achieving the Saudi green Initiative through reliance on clean energy, reduction of carbon emissions and protection of the environment.



- Alstom, a global leader in the green and smart mobility sector and Saudi Railway Company had already signed a memorandum of understanding (MoU) in 2022 to develop hydrogen train solutions and explore opportunities for a seamless, safe, and integrated sustainable future in the public transport services of Saudi Arabia.
- As economies and industries transition to a low-carbon world, hydrogen is predicted to become a critical fuel in future years as it can be produced from renewable energy and natural gas. The hydrogen train will be the first in the Middle East and one of the most important innovations in sustainable transport seeing that energy used for the operation and movement of the train is generated without emitting carbon.

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