FAB ESG WEEKLY UPDATE

27 October 2023 – 83rd 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 **International Energy Agency (IEA)** claimed that **fossil fuel is on track to peak by 2030 for the first time and due to the current policies**. The momentum behind clean energy transitions is now sufficient for global demand for coal, oil and natural gas to all reach a high point before 2030 in the stated policies scenario (STEPS). The share of coal, oil and natural gas in global energy supply, stuck for decades around 80%, starts to edge downwards and will reach 73% in the STEPS by 2030. This is an important shift. However, if demand for these fossil fuels remains at a high level, as has been the case for coal in recent years, and is the case in the STEPS projections for oil and gas, it is far from enough to reach global climate goals.

- Policies supporting clean energy are delivering its purpose, as the projected pace of change picks up in key markets around the world. Thanks largely to the inflation reduction act (IRA) in the United States, IEA now projects that 50% of new U.S. car registrations will be electric by 2030 in the STEPS. 2 years ago, the corresponding figure in the WEO-2021 was 12%. In the European Union by 2030, heat pump installations in the STEPS will reach two-thirds of the level needed in the NZE Scenario, compared with the one-third projected 2 years ago. In China, projected additions of solar PV and offshore wind by 2030 are now 3 times higher than they were in the WEO-2021. Prospects for nuclear power have also improved in leading markets, with support for lifetime extensions of existing nuclear reactors in countries including Japan, Korea and the United States, as well as for new builds in several more.
- Proven policies and technologies are available to align energy security and sustainability goals, speed up the pace of change this decade and keep the door to 1.5 °C open. The STEPS sees a peak in energy-related carbon dioxide emissions in the mid-2020s, but emissions remain high enough to push up global average temperatures to around 2.4 °C in 2100.

2. The **Australian Accounting Standards Board (AASB)** proposed **climate-related reporting standards based on the International Sustainability Standards Board (ISSB)'s sustainability disclosure standards**. The launch of the new proposed standards follows plans released by the government of Australia earlier this year to implement mandatory climate-related financial disclosure requirements for companies and financial institutions, with reporting requirements applying as soon as 2024 for large businesses and smaller entities phased in over the following 3 years.

- While using the ISSB standards as a baseline, the AASB noted several proposed modifications in its draft, including specifying that the climate-related disclosure requirements are limited to climate-related risks and opportunities related to climate change, and do not apply to non-greenhouse gas emissions such as ozone depleting emissions. The AASB's proposal also provides relief on scope 3 value chain emissions, which often account for the bulk of a company's emissions footprint but are also the most difficult to track, allowing companies to use immediate prior period data if reasonable and supportable current period reporting data is not available.
- The AASB's draft also proposes include the 15 scope 3 categories specified by the GHG Protocol Standards as examples that an entity could consider, opposed to requiring disclosure of scope 3 sources by the 15 categories, as outlined in the ISSB's standard. The IFRS standard also requires financial institutions to make disclosures related to financed emissions, while the Australian standard would require only that the entity consider the applicability of those additional disclosures. The AASB's draft includes a proposed modification determining that entities which are not exposed to material climate-related risks or opportunities must disclose that, and explain how such conclusion was reached.

Australian Government

Australian Accounting Standards Board

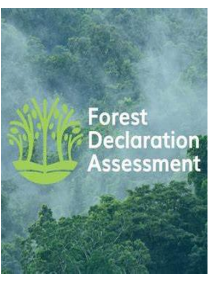
3. The **Swiss Federal Department of Finance (FDF)** will implement a **proposal to prevent greenwashing in the financial sector**. The regulations will include investment and disclosure rules for financial products using labels such as sustainable, green, or ESG.

- In December 2022, the Federal Council of Switzerland had instructed the FDF, together with representatives of the Federal Department of the Environment, Transport, Energy and Communications (DETEC), the Federal Department of Economic Affairs, Education and Research (EAER), the Swiss Financial Market Supervisory Authority (FINMA), the banking industry and non-governmental organisations, to assess how these requirements could be implemented most efficiently.
- The Federal Council had also published a proposal to tackle the practice of misleading clients about the sustainable characteristics of financial products and services. The measures outlined included requiring financial products that feature a sustainability label to pursue at least one investment objective which aligns with one or more specific sustainability goals and contributes to the achievement of specific sustainability goals, as well as implementing product documentation to specify which of these characteristics, or combination of characteristics are applied.

RESEARCH

1. The **Forest Declaration Assessment** published a **report** flagging that **global 2030 forest goals are off track and falling behind**. Standing forests are essential for limiting global warming to 1.5°C. Yet, the world remains off track to reach the 2030 goals of halting and reversing deforestation and forest degradation by 2030. Several regions continue to lose high integrity forests at alarming rates. These include non-tropical and tropical Latin America, non-tropical Africa, as well as boreal and temperate forests in North America and Europe. Globally, only $2.2 billion in public funds are channelled to forests every year.

- In 2022, global gross deforestation reached 6.6 million hectares worldwide and was 21% higher than needed to eliminate deforestation by 2030. The loss of primary tropical forests reached 4.1 million hectares and is even further off track. The loss was 33% higher than the needed trajectory to halt primary forest loss by the end of the decade. This backslide puts forest goals even farther out of reach after the small but insufficient progress made in 2021. Gross emissions from deforestation increased by 6% compared to 2021, totalling 4 billion metric tons of carbon dioxide equivalent in 2022.
- On a positive note, well over 50 countries are on track to eliminate deforestation within their borders by 2030. For instance, in tropical Asia, the only region that is close to the pathway for achieving zero gross deforestation, Indonesia and Malaysia have achieved sustained reductions in deforestation. Both developed and developing countries have demonstrated the transformative power of political will and dedicated action. Their efforts have led to dramatic and, in some cases, sustained reductions in deforestation rates.



2. **Morningstar** issued a **report** highlighting that **U.S. sustainable funds were hit by a weaker demand in Q3 2023**. Investors pulled $2.7 billion from U.S. sustainable funds, for 4th consecutive quarter of outflows, amid rising energy prices and political backlash. Although the motivations behind outflows cannot be perfectly quantified, many factors are in play. These include rising energy prices, high interest rates, concerns about greenwashing, and political backlash. For the first time in recent history, sustainable fund departures outpaced arrivals. In the third quarter, 3 new sustainable funds were launched, and 1 existing fund was added to the sustainable funds landscape. During the same period, 13 sustainable funds closed, and 4 funds moved away from ESG mandates.

- The overall U.S. long-term open-end and exchange-traded funds, encompassing conventional funds as well as sustainable funds, also lost nearly $3.9 billion over the period. However, the relative decline in demand was more significant for sustainable funds, compared with conventional peers. During the 3rd quarter, sustainable funds contracted by 0.85%. By comparison, overall U.S. funds were flat, declining 0.02% during that period.
- Driven by withdrawals and poor performance, assets in sustainable funds shrank back below the $298.8 billion mark at the end of 2023's 3rd quarter. This represents a 17% decline from the all-time record of $358.2 billion at the end of 2021 but a 10% increase from the recent low of $272.2 billion in 2022's 3rd quarter. By comparison, assets in the broader U.S. funds landscape also peaked at the end of 2021 and slid by 14% through to the end of September 2023.

3. **Schroders** authored a **survey** which found that **64% of institutional investors see financial returns as a top driver for sustainable investing**. Schroder's annual institutional investor study heard 770 investors across 36 regions, representing $34.7 trillion in assets. The majority of investors believe sustainability and impact strategies will support their objective of achieving long-term financial returns and 43% highlighted having a positive impact on people and planet as one of the top drivers for sustainable investing. Investors identified infrastructure (44%) and natural capital & biodiversity (41%) as the best suited asset classes within private assets to deliver their sustainability and impact objectives.

- This year's study has found that investors believe the transition to net zero offers significant opportunities. More than two-thirds or 67% of global respondents think it is likely or highly likely that the energy transition will spur investment in innovation, creating significant investment opportunities. Half of global investors believe that infrastructure and renewables are best placed to capture the investment opportunities presented by decarbonisation trends in the medium-term. With this asset class poised to benefit from the green technology revolution, 41% noted that they expect to increase allocations to infrastructure over the next 12 months.
- Whilst half of global respondents have already made commitments to reach net zero across their portfolios, 21% stated that they have no intentions of doing so. EMEA-based investors were the most committed to delivering net zero by or before 2050 and are implementing a strategy with interim targets (39%), whilst the majority of respondents with no commitment were based in the U.S. (44%). About half of respondents think their organisation mostly needs support in measuring and tracking their net zero path, up to 51% from 37% last year.

COMMERCIAL

1. **We Mean Business** coordinated a **$987 billion business coalition urging governments to phase out fossil fuels at COP28**. A movement supported by 131 companies representing nearly $1trillion in global annual. The initiative is urging national governments to seek outcomes that will lay the groundwork to transform the global energy system towards a full phase-out of unabated fossil fuels and halve emissions this decade. The companies also asked financial institutions to work with them and with policymakers to ensure the allocation of capital towards the acceleration of the energy transition, while calling on fossil fuel producers to set science-based net zero targets and publish transition plans.

- The letter addressed to the governments attending COP28 was already signed by companies including IKEA, Nestlé, Ørsted, Unilever and Volvo. It mentioned that companies are already feeling the impacts and cost of increasing extreme weather events resulting from climate change. While celebrating the rapid growth of clean energy solutions, the letter noted that emissions continue to rise globally, and pointed to the continued burning of fossil fuels as the primary factor causing climate change.
- The companies also urged governments to set 1.5°C-aligned targets and timelines for the phase-out of unabated fossil fuels supported by plans for a just transition for affected workers and communities, commit to 100% decarbonized power systems by 2035 for advanced economies and 2040 for other countries and support the Global South through financing and capacity-building in the energy transition. The request included a price on carbon that reflects the full costs of climate change, and the reform and repurpose fossil fuel subsidies toward energy efficiency. Specific outcomes targeted for COP28 include tripling renewable energy capacity and doubling the rate to energy efficiency deployment by 2030.

2. **Abu Dhabi Waste Management Company (Tadweer)** and **Abu Dhabi Airports** are **exploring progressive waste management practices across the emirate's 5 airports**. Both companies signed a memorandum of understanding (MoU) to pave way for a circular economy.

- Under the terms of the MoU, Tadweer and Abu Dhabi Airports will collaborate to raise awareness on providing comprehensive waste management solutions at the 5 airports. The goal is to increase the diversion of waste from landfills, while developing tailored monitoring and reporting practices. A move which promotes circularity within the airport ecosystem and contributes to realizing Abu Dhabi's commitment to sustainable waste management.
- This partnership aligns with Tadweer's mission to build an integrated waste management system and drive the conversion of waste into an economic asset. Abu Dhabi Airports tapped Tadweer's expertise to further advance its ESG ambitions for the newly built terminal A of the Abu Dhabi international airport which will be inaugurated in November.

تدوير Tadweer

مركز إدارة النفايات - أبوظبي

The Center of Waste Management - Abu Dhabi

3. **Emirates Water and Electricity Company (EWEC)** aims to **improve the sustainability standards of the UAE Pro League of football**. With this move, the UAE Pro League sets a sustainability benchmark for professional football in the country as it begins the journey of powering its facilities and venues with clean and renewable energy.

- EWEC will bolster sustainability practices and decarbonise electricity consumption through the wider adoption of clean energy certificates (CECs) across UAE Pro League competitions. CECs, issued by the Abu Dhabi Department of Energy (DoE), empower businesses in Abu Dhabi to verify their clean energy consumption claims and reduce their carbon footprint. Issued by the DoE in 1 MWh units, CECs are tradable digital certificates which comply with the international REC standard (I-REC) and prove ownership of the environmental and economic benefits derived from clean energy consumption.
- The UAE Pro League is developing a sustainability strategy to deliver climate action and manage resources sustainably in collaboration with partners and stakeholders. It is exploring initiatives to minimise its competitions' impact on the environment and is evaluating committing to the United Nations Framework Convention on Climate Change's (UNFCCC) race to zero campaign, which aims to achieve a healthy, resilient zero-carbon recovery that unlocks inclusive and sustainable growth.