FAB ESG WEEKLY UPDATE

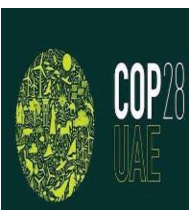
15 December 2023 – 87th edition

This week, we identified the following events of significance at COP28 and their respective business implications.

For previous editions please refer to our website repository.

REGULATORY

1. **COP28** achieved a **historic deal to transition away from fossil fuels**. For the first time at a COP, nations were explicitly called to transition away from fossil fuels to avert the worst impacts of the climate crisis. The landmark decision part of the global stocktake framed as the UAE consensus was approved by representatives from 197 countries, in addition to the European Union, at COP28. It called on countries to contribute to global efforts to transition away from fossil fuels in energy systems in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science.



- The global stocktake recognised the need for deep, rapid and sustained reductions in greenhouse gas emissions in line with 1.5C pathways, and called for a tripling of global renewable energy capacity by 2030. It repeated language agreed at previous summits calling on nations to accelerate efforts towards the phase-down of unabated coal power. It also called for the development of a list of zero and low emission technologies including renewables, nuclear, abatement and removal technologies such as carbon capture, utilisation, and storage, particularly in hard-to-abate sectors, and low-carbon hydrogen production.
- The consensus targeted a rapidly phasing down of unabated coal and limiting the permitting of new and unabated coal power generation. It included phasing out of inefficient fossil fuel subsidies that do not address energy poverty or just transitions, as soon as possible. The deal also aims to accelerate and substantially reduce non-carbon dioxide emissions, including, in particular, methane emissions globally by 2030.

2. **COP28** witnessed an **agreement to operationalize a global fund for loss and damage**. The historic agreement which will assist developing countries that are particularly vulnerable to the adverse effects of climate change. Loss and damage refers to the most severe impacts of extreme weather on the physical and social infrastructure of poor countries, and the financial assistance needed to rescue and rebuild them. The fund was first agreed upon during COP27, held in Sharm El Sheikh, Egypt.

- With more than $757 million pledged so far, the loss and damage fund will benefit from financial contributions by countries such as Italy ($110 million), France ($110 million), the UAE ($100 million), Germany ($100 million), the U.K. ($100 million), Denmark ($50 million), the U.S. ($17.5 million), Canada ($16 million) or Japan ($10 million).
- Parallelly. the COP28 Presidency also announced a $30 billion climate investment fund Alterra, the largest ever climate-focused investment vehicle. It aims to mobilize $250 billion of institutional and private capital into climate action by 2030. The fund will have two components: Alterra Acceleration ($25 billion) and Alterra Transformation ($5 billion).

3. **116 countries** have agreed at COP28 to **triple renewable energy capacity by 2030**. The tripling target would bring global renewable energy capacity to at least 11,000 gigawatts in just 6 years, more than 20% higher than the current projections from BloombergNEF of around 9,000 gigawatts by that time. The commitment also implies and to double the global average annual rate of energy efficiency improvements from around 2% to more than 4% every year until 2030. Countries with low credit ratings are struggling even more to attract investment in renewables. The UAE announced a $30 billion fund with asset managers BlackRock, TPG and Brookfield to catalyse investment into the Global South.

- That would mean pumping up investment in renewables, which the International Energy Agency (IEA) says hit $600 billion globally last year, at a time some investors are retreating due to higher borrowing costs. Investment in renewables needs to more than double to over $1.2 trillion annually by 2030, to have tripled capacity and be on a path to net zero emissions for 2050. Infrastructure funds raised $29 billion in the first nine months of the year, a precipitous decline from the $128 billion raised over the same period a year ago, according to the research firm Prequin.
- A record 500 gigawatts of renewable capacity is expected to be added globally in 2023, according to the think-tank Ember, up from 300 gigawatts in 2022, with 12 countries including China, Brazil, Australia and Japan, set to exceed national targets. Ember said global renewable capacity would need a sustained growth rate of 17% annually to triple by 2030, a pace it has already been posting since 2016.

RESEARCH

1. **FAB** and **Volans** co-authored a report on **greenwashing and green hushing as a guide to high integrity corporate action**. The number of companies around the world that have made a net zero commitment has grown exponentially since the start of the 2020s. According to the UN-backed global campaign Race to Zero, more than 11,000 non-state actors have pledged to reach net zero greenhouse gas emissions by 2050 at the latest. These commitments and the transition plans put in place to support them, are being carefully scrutinised by regulators, civil society organisations, academics and media. Insofar as it makes it harder for companies to get away with making misleading claims, the crackdown on greenwashing is a good thing. But it also has an unintended consequence: the rise of greenhushing.

- Greenhushing happens when companies deliberately keep quiet about their sustainability plans and commitments for fear of being labelled green washers. The problem is that greenhusher companies often do not just stop talking about their plans and commitments, they stop acting on them too. Many companies might be so worried about the potential backlash of communicating their decarbonisation efforts, they could get paralysed into doing nothing. If companies are too afraid to publicly commit to net zero targets, the momentum that is so desperately needed to address the climate crisis will be impossible to achieve.
- Clear standards for ensuring the integrity of the voluntary carbon markets, renewable energy certificates (RECs) and sustainable aviation fuel certificates (SAFcs) remain a work-in-progress. Carbon credits, RECs and SAFcs are all important tools in the climate action toolbox. None should be used in isolation and not every tool will fit every job. Understanding the distinctive characteristics of each of these tools and the nuanced issues surrounding them will help companies to utilise them to maximum effect. While there are no silver bullets, there is a place for each of these solutions in a well-formed climate action plan. Greenwashing is undoubtedly a problem, but so is greenhushing. At a time when the urgency of the climate crisis is reinforced almost daily, inaction is as inexcusable as inaccuracy. Though the landscape of solutions is complex, there is no longer reason for companies to fall prey to either.

2. **FAB** and **KPMG** published a report on **leveraging finance for food security and climate resilience**. The global agricultural industry is already undergoing a shift towards greater resilience with implications for water and energy use associated with food production. Vertical farming enables more crops to grow in less space, shortening distribution chains, providing higher-nutrient production, and reducing water usage. In the GCC, this technology can provide local produce and save water without being constrained by arid soils. The vertical farming industry is expected to grow to 9.7 billion worldwide by 2026 and 6.2 billion by 2030 in the Middle East and Africa.

- The global financing gap for agriculture stands at an estimated $150-200 billion annually, with only 4% of global climate finance directed toward climate-resilient agriculture projects. This is partly due to the prevailing financing focus on specialized institutions, which offer microfinancing to farmers and SMEs, and dedicated facilities for downstream companies. In the GCC, governments are also allocating significant funds to enhance domestic agriculture production and invest in farmlands. Private sector financial institutions are actively increasing their involvement in the sector, identifying opportunities and financial innovations to bolster the sustainability and resilience of the agricultural value chain.
- Given the pervasive and long-term nature of the food security challenge, the GCC region needs to build resilience and preparedness. GCC countries are relatively oil-driven economies, with prevalent water scarcity and high dependence on food imports, making the region particularly vulnerable to the adaptive capacity of water. Other geographic and environmental factors lead GCC countries to import around 85% of their food items. This dependence leaves them exposed to a variety of global shocks. GCC states are building initiatives guided by nationwide food security plans. For example, the UAE Food Security Programme 2051 aims to make the country one of the most food secure in the world, through 38 initiatives focused on facilitating global food trade, diversifying food import sources, and identifying alternative supply schemes.

3. **FAB** and **Sustainable Square** issued a report on the **state of ESG in the Gulf Cooperation Council (GCC)**. The study was supported by a survey sent to companies across the 6 countries in the GCC region. Its aim was to increase general understanding about the current status of sustainability and ESG practices among companies in the region, identifying the drivers behind them and recognising future outlooks. The UAE came out as the top GCC country prioritizing net zero.

- Companies in 2018 did not place much emphasis on incorporating ESG factors due to compliance with regulations and policies and stakeholders' demands, however companies in 2022 see both these items as top drivers to invest in sustainability, with an increase from 14% to 64% and from 16% to 29% respectively. Needing to comply with regulations and policies and meet stakeholders' demands is an indication of the formal development and growth that has been established across different industries over the past few years, with new frameworks, standards and policies for companies to abide by. In 2018, 75% of organisations with a holistic sustainability strategy produced annual sustainability reports whereas in 2022, this has increased to 82% of companies reporting via sustainability or ESG reports. Companies with a sustainability/ ESG strategy in place were asked whether this strategy aligned with any leading frameworks. The study showed that 72% of respondents said their sustainability/ ESG strategies are aligned with the UN's Sustainable Development Goals, followed up by 39% of respondents saying their strategy is aligned with the UN Global Compact.
- The report showed that 49.2% of respondents currently have a blend of a Sustainability or ESG strategy along with another form of strategy, be it a CSR, Environmental and/or net zero strategy. Moreover, 20.3% of respondents said they did not have any form of sustainability strategy in place. Of the 47% of respondents that said they do not currently publicly disclose or report on any sustainability or ESG-related information, 48% of them said they are planning to disclose their sustainability/ESG-related information, and 29% of them said that they are not planning on reporting on their sustainability or ESG- related information.

COMMERCIAL

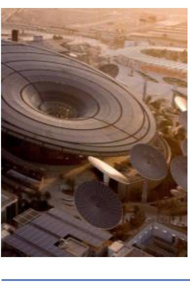
1. The **Central Bank of the UAE (CBUAE)** supported the **Emirati financial sector to collectively mobilise AED 1 trillion in sustainable finance by 2030**. The CBUAE, in cooperation with the COP28 Presidency, organised an event held on finance day to facilitate global climate finance solutions and progress towards a sustainable future. The mobilisation of sustainable finance targets by the UAE banking sector advances forward-looking sustainable finance ambitions of the UAE and sets the foundations for enabling sustainable transformation and climate action.

- FAB, Mashreq, Emirates NBD, ADCB, DIB, ADIB, RAK Bank, National Bank of Fujairah, Invest Bank, United Arab Bank and Commercial Bank of Dubai were among the banks who will contribute to the AED 1 trillion target (more than $270 billion).
- The CBUAE also emphasised the role of digitalisation and advanced technology innovations in driving global climate action and sustainable finance. During the event, the CBUAE highlighted the solutions of the COP28 UAE TechSprint, a global initiative launched by the CBUAE in collaboration with the Bank for International Settlements, the COP28 Presidency and the Emirates Institute of Finance, with the aim of advancing innovative technology solutions in sustainable finance to scale up climate action.

2. **More than 50 oil & gas companies** committed to the **COP28 Presidency's oil & gas decarbonisation charter**. To date, 52 companies, representing more than 40% of global oil production have signed the oil & gas charter, with national oil companies representing over 60% of the signatories. This represents the largest-ever number of national oil companies to commit to a decarbonization initiative. Signatories have committed to net zero operations by 2050 at the latest, and ending routine flaring by 2030, and near-zero upstream methane emissions.

- Signatories agreed to invest in the energy system of the future including renewables, low-carbon fuels and negative emissions technologies; to increase transparency, including enhancing measurement, monitoring, reporting and independent verification of greenhouse gas emissions and their performance and progress in reducing emissions; to increase alignment with broader industry best practices to accelerate decarbonization of operations and aspire to implement current best practices by 2030 to collectively reduce emission intensity; and to reduce energy poverty and providing secure and affordable energy to support the development of all economies.
- The OGDC is a key initiative under the global decarbonization accelerator (GDA), which was launched at the World Climate Action Summit today. The GDA is focused on 3 key pillars: rapidly scaling the energy system of tomorrow; decarbonizing the energy system of today; and targeting methane and other non-carbon dioxide greenhouse gases. It is a comprehensive plan for system-wide change, addressing the demand and the supply of energy at the same time.

3. **Investcorp** announced a **$750 million climate solutions investment platform**. The move is part of the company's collaboration with the innovate for climate tech coalition, a COP28 Initiative. Targeting $750 million of capital investment, the platform's focus is on businesses at the inflection point, where they have matured past many of the risks that face earlier stage ventures and are poised for rapid expansion.



- Innovate for climate tech is a coalition between Masdar City, Tencent, and Catalyst that was launched in November and was facilitated by the COP28 Presidency. Some of the latest entities to join the coalition include Siemens, Asian Infrastructure Investment Bank, The Climate Drive powered by the World Business Council for Sustainable Development, Flat6Labs, Gulf Capital, Martin Trust Center for MIT Entrepreneurship, Climate Collective, Startup Nation Central, Rainmaking, Belt and Road Environmental Technology Exchange and Transfer Center, Foresight Group, and Principes Ventures. The climate solutions investment platform will provide growth capital to companies that provide products, services, and technologies that drive decarbonization and address the impacts of climate change.
- The innovate for climate tech coalition brings climate tech innovators, investors, program and knowledge partners together to drive global climate technology ecosystems. The coalition strengthened COP28's efforts to improve the global climate tech ecosystem and will continue beyond the two-week conference by providing a significant launching ground for expanding the work of its members.

FAB is a strategic pathway partner of the 28th UN Climate Change Conference of Parties (COP28)