FAB ESG WEEKLY UPDATE

23 September 2022

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

REGULATORY

1. The European Central Bank (ECB) shared the intention to **tilt its purchases of corporate bonds towards companies that emit less carbon**. The ECB will give each firm a score based on their past performance, future goals and climate disclosures. Hoping to play a part in the fight against climate change, the ECB unveiled a host of measures from bank supervision to monetary policy last year and favouring companies with a better climate performance is among its latest moves.

- The ECB will take a climate score developed by the bank into account in all corporate bond purchases from October, which will for now involve the reinvestment of cash maturing from existing bonds. The ECB will look at each company's past emissions and how these compare to peers. It will also consider objectives set by issuers to reduce their greenhouse gas emissions and will also look at the quality of climate related disclosures.
- The central bank will start publishing climate-related information on its corporate bond holdings as of the first quarter of 2023 and will regularly report on the progress towards alignment with the goals of the Paris Agreement. The central bank is hoping to play a part in the fight against climate change and in line with it, the ECB unveiled a host of measures from bank supervision to monetary policy last year, where favouring companies with a better climate performance is among its latest moves.

2. Norway's wealth fund announced it would [**decarbonise its holdings by pushing firms to cut their greenhouse gas emissions to net zero by 2050**]. The $1.2 trillion wealth fund-- the world's largest and owner on average of 1.3% of all listed global stocks, has engaged with the companies it invests in regarding climate change for over a decade. The fund invests the revenue from Western Europe's biggest oil and gas producer for future generations in stocks, bonds, property and renewable projects abroad.

- The plan follows a proposal made in April by the Norwegian government, which said the fund should push the 9,300 companies it invests in to cut their net emissions to zero by 2050. Under the new plan, the fund will prioritise its dialogue on the 174 companies that are the biggest emitters of greenhouse gases and account for 70% of the fund's emissions via its shareholdings.

- All companies the fund invests in will also need to have a plan to cut emissions to net zero by 2050. Still, the fund reiterated it would not divest from big emitters to achieve these targets but instead be an active shareholder to effect change.

3. The **European Commission** is facing **legal challenges over its labelling of gas and nuclear as green** under a system designed to direct investment into climate-friendly projects. Greenpeace and a separate alliance of environmental bodies, including Client Earth and the World Wildlife Fund requested a legal review of the decision that had applied fake green labels that were incompatible with EU climate laws. Both groups have requested the commission formally reconsider its decision. If it does not agree to, they have said they will elevate the case to the European Court of Justice.

- The challenge from the group including Client Earth takes issue only with the green label for gas, a potent fossil fuel that threatens European energy security and has led to sky-high energy prices across Europe. The risks associated with nuclear energy were cited by Greenpeace for opposition to its inclusion. Gas is a leading cause of climate and economic chaos, while there is still no solution to the problem of nuclear radioactive waste and the risk of nuclear accidents is far too significant to ignore.
- Brussels has said that gas and nuclear-related activities may only be considered green if they meet certain criteria. They must only be used as a means of transitioning away from dirtier fossil fuels such as coal and oil, and that gas projects should only operate with limited emissions and the potential to convert to renewable power by 2035. Nuclear power may only be funded if it adheres to certain standards for the disposal of radioactive waste.

RESEARCH

1. The **International Monetary Fund (IMF)** issued a [paper]() claiming that **climate change is intensifying chronic food insecurity across sub-Saharan Africa (SSA) with lasting adverse macroeconomic effects on economic growth and poverty**. Food insecurity in the region has increased by at least 30% since early 2020. In 2022, 12 % of the population is suffering from high malnutrition and unable to meet basic food consumption needs. According to the document, the international community can help with financial assistance, capacity development, and facilitating transfers of technology and know-how.

- The rising frequency of extreme weather events are set to exacerbate this number by hampering agricultural production and food distribution. Addressing the lack of resilience to climate change, critically underlying chronic food insecurity in SSA, will require careful policy prioritization against a backdrop of financing and capacity constraints. Implementing multiple measures amid high debt levels, competing development needs, and capacity limitations is extremely challenging. However, many reforms can be implemented without raising fiscal pressures. These include crucial changes in trade, regulatory, market structure, and financial sector policies.

- The document identified the following policies as able to reduce the damage. Fiscal policies focused on social assistance and efficient public infrastructure investment can improve poorer households' access to affordable food, facilitate expansion of climate-resilient and green agricultural production, and support quicker recovery from adverse climate events. Improving access to finance is key to stepping up private investment in agricultural resilience and productivity as well as improving the earning capacity and food purchasing power of poorer rural and urban households. Greater regional trade integration, complemented with resilient transport infrastructure.

2. The **International Energy Agency (IEA)** and the **International Renewable Energy Agency (IRENA)** released a [report]() flagging that **global efforts to reduce emissions and curb rising temperatures are threatened by a lack of collaboration** between countries in sharing and developing new technology. The publication stressed that through international collaboration, the transition can be achieved quicker, cheaper and easier for everyone. Without this collaboration, the transition to net zero emissions will be much more challenging and could be delayed by decades.

- The document pointed out the collaboration needed to ramp up and made 25 recommendations including increasing cross-border power super grids to support cross country trading in low-carbon power such as wind and solar. According to the report it, countries should agree a common date by which all new vehicles should be zero emission, such as electric vehicles, suggesting 2035 for cars and vans and 2040 for heavy duty vehicles.

- The report was requested by world leaders at last year's COP climate conference in Glasgow, Scotland, to help align actions and scale up investment in technology in five major sectors - power, road transport, steel, hydrogen and agriculture - that account for around 60% of global greenhouse gas emissions.

3. MSCI published a [report]() highlighting that **central banks differed widely in their use of scenarios for climate stress tests**. A lack of available data for many financial institutions compounds the challenge.

Supervisors have noted that data gaps in emissions and climate targets also curbed comparable results across institutions and markets.

- The Bank of England, Bank of Canada, and Hong Kong Monetary Authority assumed a static balance sheet for financial services companies, while the European Central Bank and others used a hybrid approach that assumes a dynamic balance sheet for certain long-term horizons.
- The Bank of Canada has focused on testing for climate transition risk, while central bankers in Europe, Hong Kong and Australia focused on both transition and physical risk. Though regional divergences are expected to persist, climate stress testing by central banks could lead to more climate-related information for investors as supervisors increasingly mandate these exercises.

COMMERCIAL

1. Dubai Electricity and Water Authority (DEWA) announced plans to **build a carbon-neutral water purification and desalination system based on solar thermal energy**. The project is intended to be 100% reliant on solar energy at a target levelized cost of potable water production under less than US$0.02 per litre. The production capacity of the system reaches a minimum 1,000 litres of potable water per day.

- DEWA has been developing efforts to find proactive, pioneering, sustainable and innovative solutions for water desalination. Such efforts include establishing partnerships with start-ups utilising research and development to provide potable water using innovative and sustainable solutions.
- The UAE has limited natural water resources. The country uses thermal desalination as the dominant technology to make seawater potable. 42% of the UAE's total potable water comes from 70 major desalination plants, which account for around 14% of the world's total production of desalinated water. Due to lack of freshwater sources, it is important for the country to identify a sustainable desalination solution to meet long-term water needs. Connecting desalination technologies to renewable energy has been flagged by the government as a strategic priority.

2. Air Canada materialized the company's net zero ambitions through the **purchase of electric aircrafts**. The Canadian carrier ordered 30 electric aircrafts from Heart Aerospace, a 30-seater hybrid electric plane, with an all-electric, zero-emission range of 200 km. Alongside the aircraft order, Heart Aerospace also announced that Air Canada acquired a $5 million equity stake in the company. The new aircraft, expected to enter service in 2028, will enable the airline to serve regional and commuter routes more sustainably.

- Air Canada unveiled its net zero goal last year, with plans to pursue initiatives including deploying a modernized, energy efficient fleet, innovative solution such as electric, hydrogen or hybrid operational technologies, sustainable aviation fuels and clean energy. The company also committed to invest $50 million in Sustainable Aviation Fuel (SAF), and carbon reductions and removals.
- The ES-30 plane will be driven by electric motors powered by batteries, and will also include a reserve-hybrid configuration, consisting of two turbo generators powered by sustainable aviation fuel, giving the aircraft a fully electric range of 200 km, an extended range of 400 km with 30 passengers, and capability to reach up to 800 km with 25 passengers.

3. Mercedes-Benz will build a **wind farm to cover more than 15% of the annual electricity demand of the group in Germany**. The project will be built at its test track in Papenburg, northern Germany, with an output of more than 100 megawatts. With this initiative, Mercedes is expanding its green electricity portfolio in the medium term and at the same time actively supporting the expansion of onshore wind energy in Germany.

- The new plans follow a series of announcements made by the company at its ESG conference earlier this year, including a goal to cut more than 50% carbon emissions per passenger car by 2030, alongside initiatives to expand solar and wind energy at its own locations and to increase the use of power purchase agreements. By 2030, the company’s target is to cover more than 70% of its energy demand in production with renewable energy.
- The carmaker also stated that as part of its plans to erect a double-digit number of wind turbines by the middle of the decade, it is planning a long-term purchase power agreement (PPA) with a partner, equivalent to a triple-digit million euros amount.