FAB ESG WEEKLY UPDATE

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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 **United Arab Emirates** are on **track to achieve its non-oil trade target of AED 4 trillion by 2031**. The country's non-oil foreign trade hit an all-time record high of AED 1.24 trillion in the first half of 2023, up 14.4% year-on-year. Non-oil exports grew by 11.9% annually to AED 205 billion in the first 6 months of 2023, which was more than the full-year levels recorded in 2017.

- The country's non-oil exports with its top 10 most important trading partners alone rose by 22% in the first half of this year. The total value of the UAE's re-exports hit a record AED 341 billion, up 9.9% annually, while imports increased 17.5% annually to AED 693 billion, according to the government media office.
- In the first half of the year, China remained the UAE's top global trading partner, followed by India, the U.S., Saudi Arabia and Turkey. Rounding off the top 10 were Iraq, Switzerland, Japan, Hong Kong and Russia. The UAE is currently China's second-largest trading partner in the Arab world with the value of non-oil trade between the two countries exceeding $72 billion in 2022, reflecting an 18% annual growth. Among the UAE's top 10 trading partners, Turkey recorded one of the highest growth rates in the first half of 2023, with 87.4% growth compared to the same period in 2022, and with its share of the UAE's total non-oil foreign trade increasing to 4%.

2. The **European Union (EU)** is preparing to **push for a global deal on phasing out fossil fuels at the United Nations COP28**. Reuters had access to a draft of the EU's negotiating stance which mentioned that the pivot towards a climate neutral economy will require the global phase-out of unabated fossil fuels and a peak in their consumption already in the near term. Unabated refers to fossil fuels burned without using technologies to capture the resulting emissions. The word was in brackets in the draft EU text, indicating that countries have not yet agreed on whether to include it.

- Countries have never before agreed in the United Nations' climate negotiations to gradually stop burning all carbon dioxide-emitting fossil fuels, despite this being the main cause of climate change. EU diplomats hope a deal could be reached at COP28, but expect to meet resistance from economies reliant on income from selling oil and gas..
- The EU document, which is still being negotiated and could change before it is due to be finalised in October, stated that the energy sector should be largely free of fossil fuels well ahead of 2050 as cost-effective, emissions-free energy sources are already available. While not legally binding, the idea behind a global deal to gradually quit fossil fuels is to create a powerful guide for future climate negotiations, government policies and investments towards energy sources and technologies that do not contribute to heating the planet.

3. The **International Sustainability Standards Board (ISSB)** was urged by investors to **develop a standard for human rights and human capital**. Investors representing over $1 trillion in assets under management published a letter to the International Financial Reporting Standards (IFRS) Foundation's ISSB, urging it to prioritize the development of global reporting standards for companies to disclose on social matters.

- The letter, signed by 24 asset managers and asset owners across several countries was sent in response to the ISSB's request for information, and urges the board to prioritise the research on human capital and human rights disclosure standards. It noted that investor demand for workforce data and related issues has reached an all-time high, particularly as companies are being impacted by growing resignation numbers, layoffs, and stalling labour market recoveries following the COVID-19 pandemic.
- The letter also called on the ISSB to integrate projects on human capital and human rights, which were presented as separate topics in the request for information, arguing that companies and investors treat the topics as related areas in practice, with human rights due diligence used as key tools for identifying labour issues, and several areas of crossover existing, such as unionization and diversity and inclusion.

RESEARCH

1. The **International Monetary Fund (IMF)** publish a report flagging that **global fossil fuel subsidies hit a record total of $7 trillion or 7.1% of GDP in 2022**. In its fossil fuel subsidies data annual update, IMF provided a comprehensive global, regional, and country-level update of efficient fossil fuel prices to reflect supply and environmental costs, but also targets subsidies implied by charging below efficient fuel prices. The update showed detailed results for 170 countries.

- Explicit subsidies, undercharging for supply costs, have more than doubled since 2020 but are still only 18% of the total subsidy, while nearly 60% is due to undercharging for global warming and local air pollution. Differences between efficient prices and retail fuel prices are large. As an example, 80% of global coal consumption was priced at below half of its efficient level in 2022.
- A full fossil fuel price reform would reduce global carbon dioxide emissions to an estimated 43% below baseline levels in 2030, in line with keeping global warming to 1.5-2C, while raising revenues worth 3.6% of global GDP and preventing 1.6 million local air pollution deaths per year.

2. The **International Institute for Sustainable Development (IISD)** authored an article arguing that **the G20 provided a record-high financial support for fossil fuels**. The 2022 energy price crisis catapulted public financial support for fossil fuels to new levels.

- While much of this was support for consumers, around one third or USD 440 billion was driving investment in new fossil fuel production. This support can perpetuate the world's reliance on fossil fuels, paving the way for yet more energy crises due to market volatility and geopolitical security risks. It also severely limits the possibilities of achieving climate objectives set by the Paris Agreement by incentivizing greenhouse gas emissions while undermining the cost-competitiveness of clean energy.
- G20 governments were quick to cushion the effects of peaking fossil fuel prices and bolster energy supplies, providing a staggering USD 1.4 trillion in the form of subsidies (USD 1 trillion), investments by state-owned enterprises (USD 322 billion), and lending from public financial institutions (USD 50 trillion). G20 governments need to shift their financial resources away from fossil fuels to instead provide targeted, sustainable support for social protection and the scaling-up of clean energy.

3. **Allianz** issued a report claiming that the **recent heatwaves around the world costed an estimated 0.6% of GDP in 2023**. Climate change will increase the frequency and intensity of extreme hot weather, making heat waves, droughts, and wildfires the new normal. Such events not only impact people and wildlife, but also economies. Natural disasters have significant, direct negative economic consequences, such as high property losses in developed countries and casualties in developing countries.

- The magnitude of what is required to achieve net zero is tremendous, and so is the opportunity. The 2023 GBB Summit demonstrated that many companies are taking on the challenge of driving the green transition with determination. Companies that build the right capabilities to out-execute on the finest of details as they hyperscale can set themselves up to play a key role in the green transition and become one of the winners.
- To reach net zero by 2050, McKinsey estimates that the cumulative capital spending on physical assets after 2021 will total $275 trillion. To develop the low-carbon assets required for the transition, new green businesses such as start-ups and incumbent businesses alike, will need to hyperscale quickly. As the market for climate technologies grows, McKinsey anticipates that 300 decacorn and 1,000 unicorn companies will emerge by 2030, as well as dozens of sustainability-oriented funds of $10 billion or more.

COMMERCIAL

1. **dnata** taps **biofuel switch to slash carbon emissions by 80 tonnes per year in the UAE**. A strategic move which further enhances environmental efficiency across logistics, catering and travel businesses. The group's brands like dnata Logistics, Arabian Adventures, Alpha Flight Services and City Sightseeing switched their vehicles to run on a biofuel blend.

- In line with dnata's 2-year green operations strategy, the biofuel initiative will save 80 tonnes of carbon dioxide emissions per year or the equivalent to over 320,000 kilometres driven by an average petrol-powered car. In June 2022, dnata had announced that it would invest $100 million in green operations in 2 years to further enhance its environmental efficiency globally.
- To reduce its environmental footprint in ways other than emissions, dnata is determined to reduce 20% of waste to landfill by 2024, and is collaborating with industry leaders and policymakers on the treatment of international catering waste. In addition, dnata is investing in sustainable solutions to recycle cargo waste materials, such as transport belts and nets. In close co-ordination with the airport community to enhance the segregation and retrieval of recyclables airside, dnata is targeting a 20% diversion of waste from landfill by 2024.

2. **Red Sea Global (RSG)** announced a partnership to **drive a paradigm shift from sustainable to regenerative tourism development**. The company teamed-up with the World Travel & Tourism Council (WTTC) for the purpose of highlighting the significance of responsible travel, exchanging knowledge with industry leaders and experts that share a vision of a more sustainable future in tourism.

- Red Sea Global and WTTC share a common vision of uplifting communities, driving economies, and preserving the environment. This partnership offers RSG access to WTTC's annual economic impact research conducted on more than 185 countries and 26 regions around the world. RSG will have the ability to take on strategic WTTC initiatives such as travel and mobility, sustainable future, and digital transformation.
- The regions of the Red Sea and Amaala receive over 1.5 million tourists annually, engaging mainly on regenerative tourism and generating 120,000 job opportunities. RSG set in place over 760,000 photovoltaic panels to deploy sun power to the utilities at the resort.

Red Sea Global

3. **LEGO** pledged to **reach net zero by 2050 and to triple its environmental sustainability investment**. LEGO will also integrate shadow carbon pricing on key investments, add a carbon KPIs to executive remuneration beginning in 2024, and pursue responsible travel policies to reduce employee travel, with a particular focus on international air travel.

- The company will work with the Science Based Targets initiative (SBTi) to develop emissions reduction targets covering direct scope 1 emissions from its factories, offices and stores, scope 2 emissions from purchased energy, and scope 3 emissions from the companies supply chain. LEGO Group's new net zero goal marks an extension of the company's SBTi-approved commitment, announced in 2020, to achieve a 37% emissions reduction by 2032. Moreover, 98% of LEGO Group's emissions footprint originates in its supply chain.
- The LEGO Group also plans to triple its investment in environmental sustainability over the next 3 years, particularly in areas that will help reduce emissions, while spending more than $1.4 billion on sustainability-related activities. The company's planned initiatives include designing buildings and sites to be carbon neutral; increasing capacity and production of renewable energy at its sites; taking carbon emissions into account across all business decisions; and joining forces with suppliers to collectively reduce environmental impact.