THE CLIMATE BOARD

TCB Bi-Monthly Digest for Executives

May 23rd, 2023

Welcome to the 2nd edition of The Climate Board's Weekly Digest for Executives: a summary overview of key climate related events, publications activities, and other insights for cross-functional corporate leaders.

Takeaways can be found below the dotted line.

Regulatory/Disclosure Updates:

- ASIC Greenwashing Interventions (May 2023) – A recently published report highlighting the Australian Securities & Investments Commissions (ASIC) efforts to combat greenwashing creates a clearer picture as to how governments will treat such charges.
- Reserve Bank of India Report on Currency and Finance (May 2023) – In this report the Reserve Bank of India calls for green taxonomy (pg. 91) and carbon pricing (pg. 105).

Industry Events

- Harvard Climate Symposium (May 9, Boston) - A leader focused event that assembled players from government, business, civil society, and academia to discuss solutions that can lower greenhouse gas emissions to requisite levels (takeaways here).
- ESG Investor Stewardship Summit (May 10, London) - A summit that aimed to bring together asset owners and managers to facilitate more effective stewardship, bringing about 'sustainable' returns that align with ESG principles (takeaways here).
- Can Hydrogen Live Up to the Hype? (May 18, Virtual) - A gathering of hydrogen industry leaders hosted by Dow Jones to discuss policy, technology, and market landscape of green hydrogen and paths forward to meet fuel production targets and climate goals (takeaways here).
- The Clean Edge: Understanding the impact of border adjustments on U.S. competitiveness (May 18, Virtual) - Senator Sheldon Whitehouse (D-R.I.) joined C2ES for a fireside chat on the "Clean Competition Act" and his perspectives on the future of a U.S. carbon border adjustment (takeaways here).

Publications

- Center on Global Energy Policy's Assessing ESG Risks in National Oil Companies: Transcending ESG Ratings with a Better Understanding Governance (May 18) - Through assessing the ESG risk of national oil companies, this Columbia report gives insights into how investors address ESG risk factors across sectors.
- Workiva's Facing up to the CSRD, (May 11) - In this piece of market research, Workiva, through a research partnership with Opinium, deduced that most financial leaders in Europe are not aptly prepared for the CSRD's reporting requirements.
- S&P Global's How the world's largest companies depend on nature and biodiversity (May 10) - Deduced from research from S&P Global Sustainable1, this report illuminates how reliant certain sectors, industry, and the economy are on nature and biodiversity.

Other

- Deloitte (May 18), Over 40% of Gen Z, Millennials Would Switch Jobs Over Climate Concerns
- Goldman Sachs (May 16), Green CapEx – What's on Track and Spare Capacity

- Wall Street Journal (May 8), Carbon Markets Get Boost From Wall Street
- KPMG (May 3), ESG Reporting Update

Takeaways

Harvard Climate Symposium

- The symposium highlighted that companies need to see climate as a business opportunity, not a commitment "that has to be made" or an altruistic endeavor. Technology and innovation, in part spurred by the IRA and other subsidy programs, is particularly key as is the realization that oil/gas is expensive and unreliable. Mandates on disclosure and reporting will begin to bite. Ultimately, the transformation (not transition) of the world economy to green is the business opportunity of a lifetime and a huge risk to those who don't change course.
- Select notes from the panels are presented in the following bullets.

Welcome & Framing

- Private-sector investment in sustainability is accelerating and will be a key driver of climate progress. The IRA subsidies are proving so popular the IRA may cost the government far more than anticipated (per Goldman Sachs study).
- There is a need to disentangle sustainability from politics: a huge problem in the US is green 'hushing' which is described as the fear of being attacked from the left for not doing enough and from the right for doing too much.

How Do We Move to a Better Emissions Path?

- Jeremy Grantham Co-founder, GMO – Famed investor noted that although the US is behind in many climate efforts, it has the strength of a huge VC community coupled with great research universities that will drive innovation. The world cannot rely on the altruism of corporations; it requires self-interest.
- Mark Carney Chair, Head of Transition Investing, Brookfield Asset Management, former Governor of Bank of England – Notes the price swings, weaponization, and unreliability of fossil fuels. He stressed the need for corporate 5-year plans, and that by 2025 there will be some form of mandatory disclosure in 100 countries. He's helping spearhead the NetZero Data Public Utility, an open-source collection of emissions data.
- Janet McCabe Deputy Administrator, EPA – US government is investing in climate solutions- lots of money from the IRA that will go to municipalities and governments via the EPA. We should see progress on regulating pollutants related to climate.

Net-Zero Commitments: The Good, The Bad, and The Ugly

- It is difficult but not impossible to make progress towards NetZero – the key is to engage directly with supply chains and solve operational issues.
- Kristen Siemen, VP Sustainability, GM - GM often starts by setting a possibly unrealistic goal and then exceeds it. When asked, "how do you set targets across so many different countries?", she stressed GM has been forward in pressing suppliers to make carbon neutral commitments. 70% of companies by purchase volume have made their own commitments.
- David Blood, Co-founder, Generation Investment Management - When investing in a company, Generation looks at the entirety of supply chain and operations, focusing on risks of not transitioning.

How Climate Is Central to Every Business

- Presentation of Harvard Business School case studies on achieving climate goals, highlighting how there are many paths to making businesses sustainable. Technology, business practices, regulations are all changing rapidly, and businesses need to be forward-looking to adapt and thrive.
- Shirley Lu, Professor, HBS – Unlike other auto companies, BMW has not committed to phase out ICE vehicles, in part because EVs are not always greener. Reducing emissions can be achieved by multiple technologies including lightweighting vehicles. John Macomber, Professor, HBS - presented a case study on Allianz Turkey, showcasing how investing in predictive weather technology helped mitigate risks and respond to hailstorm damages.
- Mike Toffel, Professor, HBS – presented case study on Indigo Ag, which has a profitable business providing a digital platform for sustainable farmers to work directly with interested buyers.

ESG Investor Stewardship Summit

Whole Economy Transition – Why we Must Pull all the Levers

- In the opening keynote, David Carlin, Head of Climate Risk, UN Environment Programme Finance Initiative outlined the importance of stewardship by institutional investors in channeling finance to support the construction of a more sustainable economy.
- He flagged that while renewables are outcompeting fossil fuels in costs in many parts of the world and that economies of scale would increasingly translate to further reduction in costs for green energy, the windfall profits from fossil fuels in the past year driven by geopolitical tensions have affected transition financing, notably with rising interest rates.
- The limited transaction financing from the developed world means that the cost of available capital to the developing countries can be prohibitive. And taking into consideration that most fossil fuel infrastructure is currently being laid in developing countries, there is a high risk of increasing fossil fuel dependency without consideration of how the prohibitive costs may affect the green transition.

Finance for Positive Sustainable Change

- In the opening regulatory keynote, Mark Manning, Strategic Policy Advisor, Sustainable Finance, Financial Conduct Authority, outlined the UK regulator's position on the current and future stewardship responsibilities of asset owners and managers. He suggested that the aim of the FCA's recent discussion paper, 'Finance for Positive Sustainable Change' which incorporates market consultation and leverages existing principles and frameworks is for the investment community to have a robust 'gold' standard for disclosures.

Partners in Stewardship

- With a panel of investment stewards (predominately headquartered in the UK), including representatives from the Principles for Responsible Investment and the IGCC, there was recognition about the importance of collaboration with asset owners, investment peers and other asset managers particularly in establishing relevant assessment frameworks.
- PRI's Emmet McNamee called for input into his organization's Stewardship Resourcing Technical Working Group which currently is focusing on better understanding human capital team resourcing needs i.e. a target size for stewardship teams. Audience sentiment was mixed and generally skeptical about the need to have an ideal size of staff as attendees outlined company mix, geographical footprint and existing expertise as criteria that needed to be considered in staffing discussions.

Climate and Beyond

- In a broad conversation Chandra Gopinathan (Railpen), Sofía Condés (FAIRR Initiative), Patrick Peura (Allianz & UN Net-Zero Asset Owner Alliance), Laura Hillis (London CIV - Church of England Pensions) and Leon Kamhi (Federated Hermes) shared a range of perspectives with consensus generally suggesting climate-related risks needed to be better captured into their investment frameworks and that the education and standards for existing investors needs to be raised .
- In response to an audience question about activism and the importance of dialogue with asset owners, Laura Hills used CIV's recent decision to vote against Shell's Board of Directors. She outlined that a year ago they voted with the Board on their transition plans after considerable dialogue, but felt this year that leadership was not as committed to timely executing the targets.

Can Hydrogen Live Up to the Hype?

- Green hydrogen likely will be an important fuel of the future and government subsidy programs such as the IRA are accelerating progress, but multiple challenges remain to scale it including increasing renewable energy capacity; solving difficult transportation and storage issues, and driving sufficient profitable investment to make all these pieces fall into place

Starting Point

- Internal combustion engines only reach 26% efficiency compared to hydrogen fuel cell cars, which are around 60% efficient.
- Some challenges of a chemical nature:
    - Hydrogen itself has 1/3 the energy density of natural gas.
    - Hydrogen must be transported as a liquid, but it doesn't condense until –253 Celsius.
    - Hydrogen is acidic (corrosive) to infrastructure.
- Hydrogen production projects in North America have increased 18% in 6 months (note: unclear by what metric).
- In the U.S., hydrogen is a pathway to compliance with EPA emissions limits on power plants.
- IRA has cut the expected timeline for getting hydrogen to $1/kg from ten years to five.
- Remaining challenges: need for even more subsidies or funding to scale up production and distribution, plus certification of sourcing to distinguish green hydrogen from blue, grey, pink for GHG accounting purposes (and potentially ditch color coding altogether).
- Investor concerns around supply of feedstocks like platinum for electrolyzers are a concern, but to a lesser extent than with lithium or cobalt in batteries, for example.

Fuel of the Future

- Primary challenges:
    - Supply of renewable electricity to make green hydrogen.
    - Hydrogen (or hydrogen-based fuel) storage.
- "Those who started when this [technology] first came to fruition and saw the future will be rewarded. When you run out of time, you have to spend money." - Dennis Hennessy, VP of H2 Green Steel.

Hard Promises

- U.S. gov't tax incentive approach vs. EU setting a target, building EU Hydrogen Bank and encouraging member states to de-risk offtake contracts (reference to EU electricity market reform)
    - U.S. approach is simpler and more attractive to private investors.
    - EU approach is more prescriptive in achieving results.
- Tax credits are only a small part of project finance- hydrogen projects have geographic, temporal, grid, and offtake constraints- all more complicated than with other renewables which just put electricity onto the grid.
- Aware of at least one developer that has forgone the IRA hydrogen credits and decided they don't want to mess with it. Instead, they're going after the carbon capture tax credits, and carbon capture related incentives. That may be a better deal.

The Clean Edge: Understanding the impact of border adjustments on U.S. competitiveness

- There is no central designee in the Biden administration for responding to the EU's carbon border adjustment tax.
- Proposes setting up a U.S. border tax on carbon to reduce the differential between the US and EU, therefore encouraging companies to site manufacturing in the US rather than China, which would face a more significant tariff differential. Without a US tariff, China continues to be an attractive site and the US is merely subject to an additional tariff on EU trading.
- Bipartisan effort working on such a US bill, backed by cement, steel, aluminum industries should be beneficial for US.
- Even 33% efficacy for a border tariff could result in 330k steel jobs brought to the US.
- A fee would be set for those at or below the midpoint of carbon efficiency rather than for all, to be WTO compliant.
- Critical to include methane in these calculations to really have the desired impact.
- US bills, unlike EU, rebates exports subject to the tariff to avoid charging the same product multiple times.
- Ultimate goal of carbon border tax is to pair it with an internal carbon price.

Thank you,
TCB Team

THE CLIMATE BOARD
CORPORATE SUSTAINABILITY MADE REAL.