

Green Carrots & Sticks – How Should Business Respond to the Proliferation of Environmental Policies

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Session motivation:

Additions to the EU Sustainable Finance Framework

- Increase Transparency & Encourage Private Funding to Transition Projects & Technologies
 - (a) Expand EU Taxonomy – climatic and non-climatic objectives - (b) ESG Ratings providers to be authorized/supervised ESMA
- QUESTION: Can the Framework be effective in the pursuit of stated objectives? Can we be more ambitious?
- ANSWER:
 - for the first part: ??? – policies are as good as their successful implementation
 - for the second: we cannot afford not to be more ambitious – time is SHORT
- Accepting the interdependence of public policies, company actions, and stakeholders interests fundamental to success of sustainability efforts - Efforts must be collaborative – policy - business – SHs
- Success also comes down to how well business can pursue double materiality (financially and environmentally material outcomes)



Sustainable Value Creation & Competitiveness - more than 95 percent of S&P 500 companies issue a sustainability report, very few effectively communicate that their ESG initiatives can be a source of growth and bring value (McKinsey, 2023)

Double Materiality

Single Materiality



The Concept of Double Materiality

Based on the Corporate Sustainability Reporting Directive (CSRD) issued by the European Commission in April 2021, the Non-Financial Reporting Directive (NFRD) has been updated to provide a framework for disclosures in the future.

*1 Financial Materiality / Events essential to understanding the financial developments and results and financial conditions of a company

*2 Environmental and Social Materiality / Impacts that corporate decision-making and business activities have on the outside world

Policies business should support (that could begin to fix market failures)

- Implement rapidly rising price on carbon & shift subsidies to clean tech and low-carbon production methods
 - “repricing” of resources & enhance their responsible use? encourage a circular economy?
- Mobilize capital and R&D that pulls public and private investment into cleaner tech
- Prioritize transparency & fight greenwashing

Price carbon, support clean tech and low-carbon production methods

EU's climate commissioner & the European Scientific Advisory Board on Climate Change: "2040 target should be more ambitious - strive to cut emissions by 90-95%"

EU countries not doing enough to meet their existing climate goals

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- EU's tax on 'dirty' imports (eg, carbon-intensive materials such as steel) may help limit emissions
 - A major step towards broader carbon pricing - introduction of the Carbon Border Adjustment Mechanism (CBAM) - heralded as a "leveller" for European companies in global trade (eg, ArcelorMittal and Thyssenkrupp)
 - Can also encourage circular economy practices - fund increased material capture (repair, reuse) (eg, "urban mining" – see Google and Holcim's investments)

Mobilize capital and R&D that pulls public and private investment into cleaner tech (and other sustainability initiatives)

- To *scale up existing clean technologies* (so they have an impact - rapid deployment and commercialization critical)
- Barclays Launches New Energy Transition-Focused Investment Banking Team (January 2024) – earlier goal to facilitate \$1 trillion of sustainable and transition financing until 2030 (as of July 2023 - company said it delivered over \$112 billion of green finance)
- EIB and Volvo - joining forces to accelerate transition to sustainable mobility, investing €420 million to develop a new all-electric vehicle platform (January 2024)
- Deutsche Bank, EIB Launch €400 Million Sustainable Finance Initiative Targeting Mid-Size Companies (September 2023)

Currently...

S&P - Oil & Gas companies face virtually no extra borrowing costs compared with less polluting ones

Eurozone banks 'greenwash' loans to big polluters, ECB says - 'reluctant to disrupt' relations

Oil and gas firms face virtually no extra borrowing costs, S&P finds

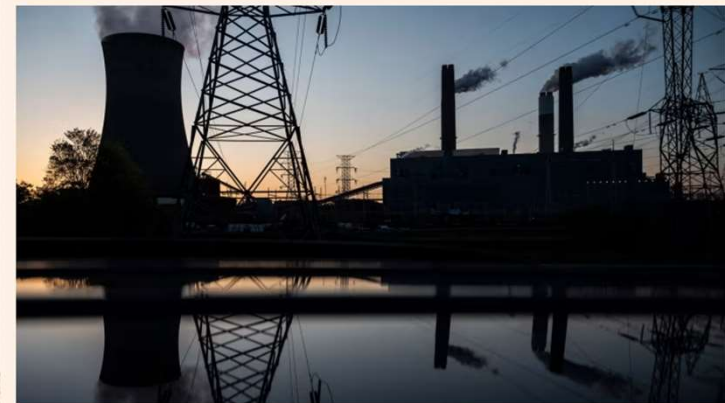
Rating agency says investors ignore climate risks when lending to some fossil fuel companies



Oil and gas accounted for more than half of global energy-related carbon dioxide emissions in 2022, according to S&P data © Bloomberg

Eurozone banks 'greenwash' loans to big polluters, ECB says

Lenders are 'reluctant to disrupt' relations with large CO₂ emitters



Some banks have claimed that their loans help "brown" borrowers to transition to greener technologies or business models © Andrew Caballero/AFP/Getty Images

Prioritize Transparency – Fight Greenwashing

- **Separate and delineate the E, S, and G categories of the ESG concept**
- Reporting – Measure less, better!
- Employ material, industry-relevant, rigorous, science-based targets
- Develop tools to monitor, analyze, and quantify environmental risks (“Lloyd’s called for ‘urgent’ investment in risk modelling”)
- Strive to accurately measure env/social materiality, financial is easier
- **Sustainability reports must be mandated and audited by an empowered referee**

“Banks Not Ready for Climate Disclosure Rules”, ECB says

- “We acknowledge that banks have been making progress, but further improvements are urgently needed,” said. “Stricter disclosure rules are taking effect this year. If necessary, we will take the appropriate supervisory actions to ensure that banks comply” Frank Elderson, Vice-Chair of the ECB’s Supervisory Board (April 2023)



Greenwashing and Future Washing

- ESG Funds Managing \$1 Trillion Stripped of “Sustainable” tag by Morningstar
- Over 1,200 funds no longer merit ESG label, analysis finds
- Move feeds into fears fund industry is rife with greenwashing...

Finance and Investment ESG Landscape

- Huge investor interest in ESG screened assets – but also: “Allegations of “greenwashing”, faltering returns, and a political backlash in the US - a tricky time for sustainable investing.”
- “Pressure grows for tighter scrutiny of funds’ green claims - As regulators focus on sustainable investments, campaigners are calling for greater disclosure and even political action”
- Investors want to hear from companies about the value of sustainability (McKinsey)
- Global ESG assets to exceed \$53 trillion by 2025, representing more than a third of the \$140.5 trillion in projected total assets under management (Bloomberg)

Greenwashing and Future washing, cont'd

- ***Future Washing*** – “net zero by 2050” pledges
- Businesses committing to ambitious sustainability targets
- Many are complicated and opaque
- Companies struggle to create action plans
- Half the world’s largest 2,000 publicly listed companies have a net zero target – colleagues call it “future washing”
- allows current executives luxury of procrastination and the means to personally avoid accountability
- just a fraction meet tough UN guidelines for what constitutes quality pledges (Net Zero Tracker, Reuters)

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EU plans to ban “carbon neutral” or climate neutral claims by 2026 – “misleading” and a form of “greenwashing”

Apple’s ‘carbon neutral’ claims come under scrutiny

iPhone maker flags credentials of its latest Watch products as EU seeks to clamp down on ‘greenwashing’



Apple last month put its ‘environmentally friendly’ credentials at the centre of its biggest annual product launch © Tayfun Coskun/Anadolu Agency via Getty Images

- Apple’s Watch shows progress on its materials recycling targets - latest edition using only recycled cobalt in the battery and recycled aluminium in the casing; cut up to 81% per cent of emissions linked to the Watch compared with a 2015 baseline