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Ecofin Editorial:

From the desk of Ecofin's Sustainability Strategist

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Top Stories this week:

Russia & Ukraine war: implications on climate change efforts

We continue to pray for an end to the human catastrophe in Ukraine. As things continue to unfold, it's clear these events will carry significant ramifications to the energy landscape and ESG investing world. Geopolitical risks penetrate all areas of the environmental, social, and governance spheres, and should therefore inherently be regarded as ESG risks.

Here are some of our latest perspectives:

- EU implications
  - **The war may accelerate the EU's clean energy transition**. Across Europe, countries are reconsidering their dependency on oil from Russia. Energy independence is at the forefront of conversations while the EU pushes to hasten its move to clean energy.
    - An expedited transition could lead to an increase in the accessibility of renewables and product offerings, all while collectively decreasing emissions and moving closer to Paris alignment.

  A few notable actions regarding EU climate efforts:

    - Germany has recently announced it aims to fulfill all its electricity needs with renewables by 2035, which is 5 years earlier compared to its previous target. It is also planning to deploy 200 billion euros to ramp up industrial transformation by 2026.
    - The IEA released a 10-Point Plan aimed at the European Union to reduce dependency on Russian supplies by over one third within a year, while also supporting the European Green Deal and supporting energy security and affordability.
    - The European Commission has published REPowerEU, which illustrates how the EU can become independent from Russian fossil fuels before 2030 and outlines an action plan to achieve more affordable, efficient, and greener energy in Europe. Its ambition reaches beyond the mere acceleration of renewable capacity additions, and includes details on diversifying fuel supply with LNG, biomethane, and green hydrogen.

- **In the short term however, the crisis may increase global emissions**. Achieving independence from Russia will lead to nations looking to other energy sources in the interim, including fossil fuels.
  - Increased traditional fossil fuel usage will likely lead to even higher energy prices and increased emissions. Coal generation may also rise as certain countries including Germany and Italy will increase coal plant production in the short term.
  - Further, EU carbon permit prices have plunged since the beginning of the invasion. These prices essentially will lower the cost of emitting carbon for polluters, therefore discouraging large polluters to reduce emissions.

- U.S. implications
  - The Biden administration has announced the ban of Russian crude oil and product imports into the U.S. According to Bloomberg data, in 2021 the U.S. imported roughly 700,000 barrels per day of Russian crude oil and products.
  - Conversely, while energy security and independence will be incorporating more renewables, this could drive up demand for materials and metals, and consequently create additional reliance on non-U.S. sources such as China.

ESG stakeholders react to the Russia and Ukraine war

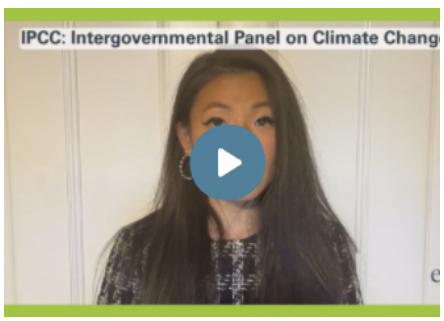
- **ESG community initiatives**

  The PRI laments that the devastating crisis will take focus away from its sustainability goals.
  - The PRI will be "assessing implications" of the crisis on it and its signatories. This assessment will bring more clarity and alignment on how the ESG community may collectively respond to this upheaval moving forward.

- **ESG investors**
  - Across the globe, various investors are signaling divestment initiatives regarding Russian exposure. Ethical investors are cracking down on Russia: Norway's sovereign wealth fund and The Church of England will be divesting Russian companies and government bonds. Some general ESG investors view the invasion as a clear violation of human rights and a big threat to basic principles of democracy.
  - This war has raised some fundamental ESG dilemmas. This week, Transparency International, a global collation against corruption, has openly criticised "Russian kleptocrats' reliance on the global financial system." According to Morningstar, 14% of sustainable funds had exposure to Russia before the invasion. Have ESG investors failed to assess the material risks associated with dictatorship? This question seems to have created a divide among ESG investors.
  - We view geopolitical issues as material ESG risks, which should be identified and managed to avoid any controversies. This war will be an ESG overhang and stocks with significant exposure to Russia will remain at risk of further divestments.

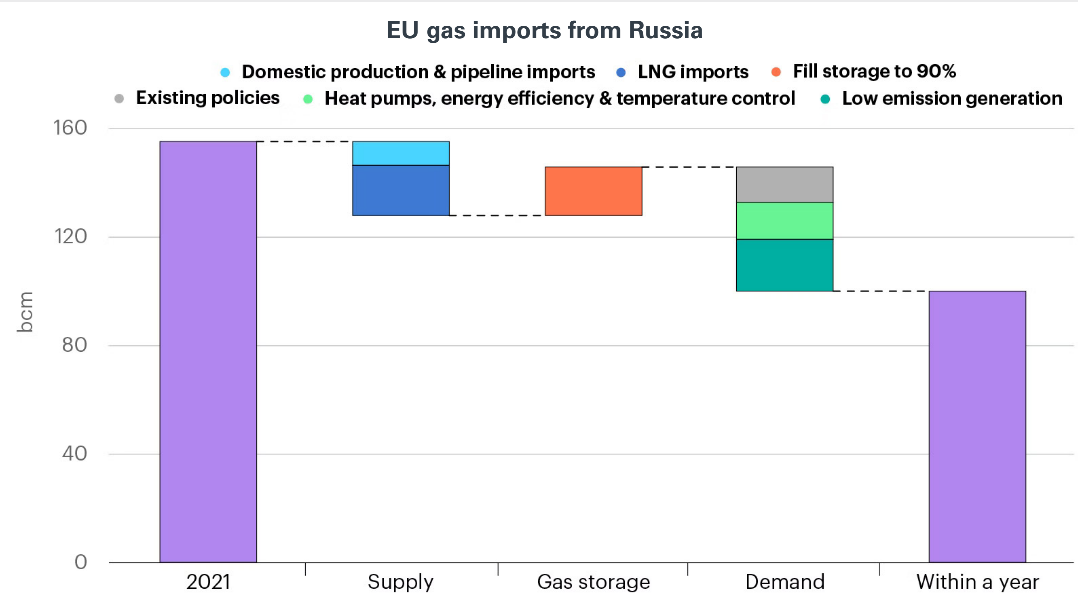
- **Rating agencies, index providers, and stock exchanges**
  - MSCI and FTSE Russell are removing Russian equities from widely-tracked indices. The London Stock Exchange has suspended some Russian depository receipts. MSCI ESG Research has also downgraded Russia to B and applied a ceiling of B for all Russian companies.
- Corporate reactions
  - A slew of international corporations have reacted strongly to the Russian crisis. A few notable highlights:
    - Oil and Gas: BP, Shell, Exxon, and Equinor are exiting Russia. TotalEnergies however, did not cut ties.
    - Overall Market: An abundance of corporations have severed ties with Russia. Prominent examples include, Visa, Mastercard, American Express, Netflix, the "big four" auditors, Apple, Meta, and Google. According to Bloomberg, corporations are viewing exposure to the country as both a "reputational and financial" risk.

IPCC Report



Charts of the week

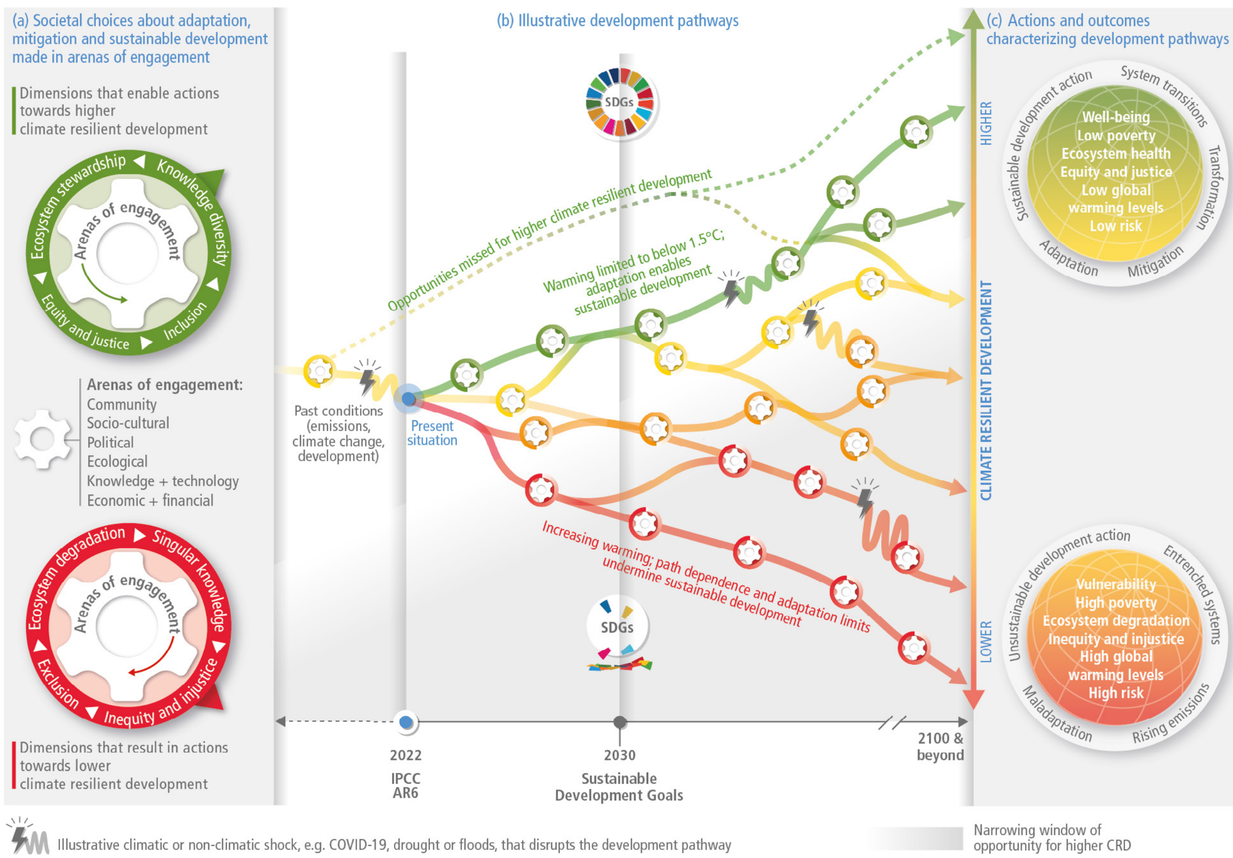
The abovementioned report from the IEA shows that the implementation of measures suggested could reduce gas imports from Russia by over one-third.



Source: International Energy Agency

This chart from the recent IPCC report shows how climate resilient development pathways are the result of a combination of choices and actions by government, private sector and other civil shareholders in different areas.

There is a rapidly narrowing window of opportunity to enable climate resilient development



Source: Intergovernmental Panel on Climate Change