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SUSTAINABILITY IN OUR SECTORS

OCTOBER 2021
COP26 EDITION

HFW

SUSTAINABILITY IN OUR SECTORS

HFW is a leading global law firm with deep, sector-focused expertise, that is committed to promoting sustainability in its sectors.

Welcome to the latest HFW Sustainability Quarterly.

In just a few days, world leaders will converge in Scotland for the United Nations' historic 'COP26' climate change summit. It's fair to say that sustainability has never been higher on the global agenda.

In this issue, Paul Simpson, the co-founder and CEO of the Carbon Disclosure Project, shares his thoughts on the actions that governments, organisations and investors must take in order to avoid catastrophic global climate change.

We also look at the sixth IPCC report, which UN Secretary General Antonio Guterres describes as a "code red for humanity", and HFW partner Jo Garland talks about the critical transition to clean energy, the challenges and rewards for businesses, and how managing climate impact affects commercial strategy.

Finally, HFW corporate finance partner Wing Cheung outlines the initiatives that are helping to establish Hong Kong as Asia's leading green finance hub, we assess the future of sustainable aviation, and HFW disputes PSL Nicola Gare covers the latest sustainability-related legal developments.

If you would like to discuss sustainability-related issues facing your business, please do get in touch. We're here to help.

Giles

GILES KAVANAGH
Sustainability Partner

giles.kavanagh@hfw.com

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If you would like to share feedback on this publication, or be involved in future editions, please contact the editor:

ALANA COWAN
T +44 (0)20 7264 8218
E alana.cowan@hfw.com

Legal Updates

Edited by Nicola Gare, HFW Disputes Professional Support Lawyer

EU Fit for 55

In July, the European Commission announced its proposals (known as 'EU Fit for 55') to make the European Union's (**EU**) climate, energy, land use, transport, and taxation policies support a 55% reduction of net greenhouse gas emissions by 2030, compared to 1990 levels.

EU Fit for 55 supports the EU's ambition for Europe to be the first climate-neutral continent by 2050 under its **European 'Green Deal'**.

Read more **here**

IPCC report examining the physical impact of climate change on the world

The United Nation's Intergovernmental Panel on Climate Change (**IPCC**) published its report in August 2021 on the physical impact of climate change to the world.

The report concludes that the world is "unequivocally" being warmed by human activity, which is in turn quickly causing damage to the biosphere. Further that, steps aimed at reducing the temperature increase to 1.5°C above pre-industrial levels will be insufficient, unless carbon emissions can be greatly reduced over the coming decades.

Read more **here**

Sustainable Trading

In September, the International Swaps and Derivatives Association (**ISDA**) published its "Sustainability-linked derivatives: KPI guidelines." The guidelines set out principles to be used when setting or evaluating key performance indicators (**KPIs**) for sustainability related targets and when monitoring compliance.

The KPIs and guidelines follow the creation in August 2019 of the first sustainability-linked derivative (**SLD**), since which time SLDs have grown in global popularity. The KPIs are intended to monitor compliance with environmental, social and governance (**ESG**) targets, and are therefore key to the operation and credibility of SLDs.

Read more **here**

Sustainable Finance

The Loan Market Association (**LMA**) in conjunction with other bodies has recently published two useful guides for those involved in sustainable lending:

- Together with the European Leveraged Finance Association, the LMA published a best practice guide to Sustainability Linked Leveraged Loans, this provides practical guidance as to the application of the Sustainability Linked Loan Principles to 'ordinary' leveraged loans which incorporate any kind of ESG factor or metric. It also covers what parties to such loan agreements should consider when integrating sustainability factors into loan agreements. The guide is available **here**;
- An updated version of the Sustainable Lending Glossary of Terms has been published by the LMA, the Asia Pacific Loan Market Association and Loan Syndications and Trading Association to promote the development and use of a common language surrounding sustainable lending across the globe, this can be downloaded without membership of the LMA **here**.

Increased UK consumer protection against 'greenwashing'

In September 2021, the UK Competition and Markets Authority (**CMA**) published its **Green Claims Code**, providing guidance for businesses wishing to make environmental claims about their products or services, and aimed at protecting consumers from 'greenwashing' (making false or exaggerated claims about the product's green credentials).

The Green Claims Code covers the areas the CMA considers to be key, and aims to help businesses understand and comply with their obligations under consumer protection law when making environmental claims by reference to principles, the legal framework that supports them, and shows how they are applied using case studies.

The Green Claims Code applies to all businesses (products and services in all sectors) and covers advertisements, product labelling and packaging or other accompanying information, including product names.

Read more **here**

Climate Change Litigation: The Potential Risk To Australian Businesses

Climate change litigation continues to grow in many countries across the globe. Australia has the second largest number of climate change related cases in the world, after the United States.

Our partners Joachim Delaney, Jo Garland, and Dr Michael Maxwell analyse recent significant decisions where Australian courts recognised the duty of care of the government and the public sector to protect against climate change. This trend of climate change litigation poses an increasing risk to Australian businesses.

Read more **here**

US Federal Court rejects Carbon Cost Law Suit as Being Premature

The U.S. District Court for the Eastern District of Missouri has rejected a challenge to the Biden government's methodology for identifying harm created by greenhouse gas pollution, the law suit challenged President Biden's 'social cost of carbon' calculation

The judge held that the 13 states' lawsuit was premature because the regulations had not taken effect, stating: *"The injury that plaintiffs fear is from hypothetical future regulation possibly derived from these estimates .....That injury is not concrete and therefore insufficient for standing."*.

However, the judge did leave it open for the plaintiffs to bring a later action if the *"regulations pose imminent, concrete and particularized injury."*

Read more **here**

European Commission fines car manufacturers €875 million for restricting competition in emission cleaning for new diesel cars.

In what is thought to be the European Commission (**EC**)'s first such decision for restriction of a technical development, it imposed a €875 million fine on five car manufacturers having found them guilty of breaching anti-trust laws by acting as a cartel and colluding on technical development in the area of nitrogen oxide cleaning for new diesel cars. The EC decision will allow those affected by the cartel behaviour to bring a follow on action in the Member State courts seeking damages. It is also an example of the EC supporting the **EU's Green Deal** and sustainability goals.

Read more **here**

CODE RED:
Getting down to business

Published this August, the sixth Intergovernmental Panel on Climate Change (IPCC) report was officially titled *Climate Change 2021: The Physical Science Basis*. This dry, academic title gives little indication of the gravity of its contents. Perhaps unwittingly, the UN Secretary-General, Antonio Guterres, gave the report its unofficial title when he summed it up as a "code red for humanity".

The report certainly pulls few punches. It opens with the finding that it is now "unequivocal that human influence has warmed the atmosphere, ocean and land", before going on to point out that the scale of recent changes across the climate system is unprecedented in human history and that this human-induced climate change is already having devastating impacts in every region of the world.

As the report landed, various parts of the world were experiencing heatwaves and wildfires, while others were deluged in record-breaking storms and flooding. All the evidence to support the IPCC's claims is being presented nightly on TV news reports from around the world. Since then, Greece has appointed its first 'minister for heat', while a new precedent was set with rain recorded at the summit of Greenland for the first time ever.

(Un)sustainable progress

The IPCC report is also clear that our current trajectory is unsustainable: "Global surface temperature will continue to increase until at least the mid-century under all emissions scenarios considered". The report continues, "global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in CO2 and other greenhouse gas emissions occur in the coming decades."

The report is a timely reminder for governments and policymakers that the pace of change is too slow. Faster, more drastic action is needed. Landing as it did just a few months before the COP26 climate conference, the report adds impetus to the notion this is a make-or-break moment for the climate. Governments must act, not only agreeing tougher targets for emissions reductions – or setting a target date for achieving net zero – but also swiftly moving to detailed plans for *how* they intend to hit these targets. So far, so top-down.

But, for the world's democracies at least, there is already an upswell of bottom-up pressure underway. Consumers – and that means voters – are more alive than ever to the reality that something needs to be done. The more frequently lives are tipped upside down by extreme weather, the more this pressure grows. As the next generation of consumers comes of age, there will be a multiplier effect. Scotland has just seen the UK's first Green politicians granted a share of power. While there are aspects of the local politics and independence at play, the Greens won their share of votes by staying true to their core climate agenda.

A time for middle-out action

The classic model of top-down and bottom-up pressure can be a fine model to drive change, but it's not the complete picture. It's missing what might be called "middle out" pressure from non-governmental organisations (NGOs), academia, charities, pressure groups, and business-led initiatives. The key driver of middle-out pressure is the business, finance and investment community.

Business has the power to influence in both directions, shaping the views and actions of governments and consumers. For those business leaders that get it right, it presents a wonderful opportunity. There is a growing chorus from influential business voices, with leaders such as Bill Gates and former Bank of England governor Mark Carney taking a leading role in the debate.

Large companies around the world are also using their influence to enact change, insisting on the rapid decarbonisation of their supply change. Danish shipping company Maersk's recently announced plans to invest in a bunch of new green-fuel tankers are a great example of this. If companies want to keep working with the 'big names', they must prove their green credentials.

The role of innovation

Innovation is one area where the middle plays a major role in directing future outcomes. Whether it is direct climate technology and geoengineering initiatives such as those to **re-ice the Arctic**, or projects such as "green steel" firm Hybrit, which recently delivered the first batch of steel made without using fossil fuels, such innovation will ultimate drive change.

It is crucial that investors take these innovators and innovations seriously, offering a supportive funding framework that encourages the best of them to succeed and scale quickly. In purchasing the Hybrit steel for use in concept cars, Volvo are illustrating the role that purchasing and supply chain managers can have in supporting green thinking through creating a market for new, cleaner materials.

In his **new book** on the climate crisis, Bill Gates talks at length about 'Green Premiums', which are the extra costs associated with taking a low or no-emission option over an existing route. These premiums can vary wildly. They can be as low as 15% for Maersk to switch to green methanol, or for consumers to opt for a renewable electricity supply in the US or Europe. For some sectors, they can be as much as 600% or 800%. The focus, according to Gates, has to be on activities that help drive more of these Green Premiums down to a level where it makes financial sense to act. Not many businesses can or will swallow a 600% cost premium and expect to survive.

Greenwashing won't wash

If they were ever worth the effort, empty promises or bold statements not backed by actions will certainly not work today. There are entire sections of social media focused solely on holding the corporate world to account. Today, reputation is tied to meaningful actions and investors and analysts across the financial community are investigating claims to good behaviour on environmental, social or governance (ESG) in minute detail. Anything that smells too good or is too vague to be meaningful will be quickly and publicly called out.

Business means business

Luckily, for those CEOs genuinely keen to adopt new behaviours and help to drive the green agenda forward, there is an endless parade of initiatives and coalitions, working parties and task forces, able to show employees, investors or customers (and sometimes all three) that your business means business.

These business-led coalitions and institutes include a wide range of initiatives CEOs can sign-up to, or apply to join. The best ones compel CEOs and employees across the organisation to measure the impact of their behaviours and to adopt the new behaviours.

The **Science-Based Targets initative** (SBTi) now has over 1,000 companies signed up, from across 50 sectors. It provides a range of really detailed sector-specific guidance and advice, some of which is finalised (such as **this guide** for the aviation industry) and includes details of what to measure, how to measure it and what is and what is not acceptable when setting a SBT. Signatories have to get all targets signed off and approved by the organisation, thus ensuring a degree of rigour often lacking from self-assessment schemes.

In the 15 years since the BCorp (**Certified B Corporation**) movement launched, over 4,000 companies have received the certification, in 77 countries and 153 sectors (according to BCorp). The standard is rigorous and increasingly respected. Certification has started to become something younger potential employees look out for. As the recruitment squeeze increases, this ability to appeal to as wide a talent pool as possible may become an essential business superpower.

It doesn't have the snap or youth appeal of BCorp, but the **Taskforce on climate-related disclosures** has played an essential part in working out clear rules and guidance on how companies report on their climate impact – both positive and negative – in annual reports. A similar taskforce on biodiversity and nature-related disclosures is also now underway.

The **Sustainable Markets Initiative**, is a multi-sector forum founded by HRH The Prince of Wales at Davos in 2020 as a "global coalition of the willing", with a shared vision on the need to accelerate a sustainable future. It includes the Financial Services Taskforce.

The list goes on, but what is clear from the above and a wealth of other campaigns, taskforces and initiatives, is that there is no lack of desire for action across the business, finance and investment community. This is the engine room of the "middle out" approach.

The truth is that there will be extra costs – Bill Gates's green premiums – associated with such actions. The transition to net zero business will not be free and some companies may seek to avoid the outlay, but others will accept it as the new cost of business, and the price of doing the right thing.

Writing in the *Financial Times* about his new **green manifesto**, Gates suggested that accepting these extra costs will require conviction and patience on the part of CEOs , board members and investors. "Yet, in the long run, these risky steps will be good for business. The Green Premiums will come down, and consumers will remember which companies were serious about helping avoid a climate disaster."

Speaking at the launch of the Sustainable Markets Initiative at the World Economic Forum in Davos 2020, HRH Prince Charles asked what are without doubt the most pressing questions of our time for all business leaders: "Do we want to go down in history as the people who did nothing to bring the world back from the brink in time to restore the balance when we could have done? I don't want to. And just think for a moment – what good is all the extra wealth in the world, gained from 'business as usual', if you can do nothing with it except watch it burn in catastrophic conditions?"

"Do we want to go down in history as the people who did nothing to bring the world back from the brink in time to restore the balance when we could have done?"

Interview with Paul Simpson

Co-founder and CEO, CDP

CDP
DISCLOSURE INSIGHT ACTION

Paul co-founded the not-for-profit charity CDP in 2000 and has been CEO since 2008. CDP runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Paul is a thought leader on climate change and sustainability and the actions that governments, corporations and investors must take to deliver the Paris Agreement and keep the world at no more than 1.5°C warming.

Should environmental disclosure be a business norm?

We've been working on climate and environmental disclosure for 20 years – the market is capable of disclosing high quality information. Every company produces financial accounts – we must have the same thing on environmental disclosure. Last year 9,600 companies completed CDP's questionnaires on climate change, forests and water security This year, more than 13,000 companies disclosed, a jump of 37%, and representing 64% of the market capitalisation of the world's top 30 stock exchanges.. We're also working with governments on mandatory environmental disclosure to make it a business norm. We really need that to happen ASAP, but no later than 2025.

What do businesses need to know about Science Based Targets?

Every company should set a target to reduce their emissions and set a target that is in line with the science. We are part of the Science Based Targets Initiative, which has more than 1,800 companies who've committed to set five-year emissions reduction targets. What is good enough? The science tells us –business need to align their targets with a 1.5°C pathway. We need to make that a global business norm.

What are the challenges of meeting the Sustainable Development Goals by 2030?

Meeting the SDGs in a decade means a whole economy transformation. Where we get our energy from; how supply chains work – technology, travel, buildings; how we eat... There's a strong awareness of the need for action. But we also need to get people super serious about the amount of transformation required because it takes a while for change to happen. Another challenge is that many institutional investors seek short-term returns – they want profits within the next year. We need to have much more long-term investing and long-term thinking.

How do you achieve buy-in for disclosure?

When we started in 2000/2001 it was quite tough. Many people were asking, 'Is climate change even real?' In the US, people would say, 'We can't say climate change is real, we might get sued'. Businesses tend to work on a five-year planning cycle, not much longer. It was quite hard to get them to think of it as a priority.

We created the Carbon Disclosure Project (as it was then called) because people needed data and information to understand the risks and opportunities and how to prepare. We had 35 investors with $4.5trn of assets make the first request for disclosure in 2002. Catalysing investors to collaborate on an ask had a lot more influence over the 500 largest companies that we engaged in 2002.

There was then a period of persuading people there is business value in disclosing. It's not just a burden. By disclosing, you will understand your own business better, you will have better dialogue with your shareholders and your supply chain, and ultimately find new opportunities.

How can businesses engage with the SDGs?

There are a lot of SDGs, which can be a bit overwhelming. The SDGs are to be delivered by governments, business, investors, and society. So, there is a responsibility on all. It depends on your sector, geographic coverage and supply chain where you should be engaging for greatest impact. Where can you make the biggest difference, what's the biggest risk, what's the biggest opportunity? If you're an energy company, you absolutely need to be engaging on climate change and energy access for all. If you're a global food company, there are some things you can do about eradicating hunger, by focusing on sustainable agriculture and treating farmers fairly.

How do senior decision-makers balance disclosure with good business?

Every company should disclose their environmental performance, ideally through CDP, and/or with aTaskforce on Climate-Related Financial Disclosures aligned report (CDP's questionnaires are aligned with the TCFD). Every company needs to set a science-based target – a five-year and 10-year target, and a long-term net zero goal.

Larger companies should be publishing a transition plan: 'Here's our target, here's how we are going to deliver on that target'. There's an initiative called Say on Climate, where companies submit their climate change strategies to annual shareholder votes, and we also support this step.

Every business procures electricity. There are more than 200 companies committed to procuring 100% renewable energy, which has a big impact. Equally, most larger businesses have vehicles. Can you go 100% electric? Many large companies now provide some form of their variable remuneration for senior management on the basis of environmental and climate performance. And then there's an important role for communication with employees, customers, and suppliers on collaborating to deliver on some of those goals.

How do organisations align on sustainability commitments?

CDP is part of a coalition of seven non-profits called We Mean Business. We formed in 2014, before the Paris Agreement, to align our requests to business. It's focussed on disclosure, science-based targets, transition plans, and action. There is a shift in focus now. Companies need to make commitments, then they need to implement and deliver on them. The transition to net zero – and it is a transition, you can't just get there overnight – is now the North Star. We must create a net zero economy. We must have an appropriate transition and accelerate quickly to give us a decent chance of getting there.

Where are you seeing good leadership?

The disclosure tells us many facts and stories. There are leading companies all over the world. You can go to any major economy and know some companies are doing great things. Europe has the highest environmental regulation, so European companies are generally good on disclosure, proactive on some climate action. The US has many multinational companies who are exposed to global trends and regulation so, even under the Trump era, we saw more commitment and action from US companies. And the Biden administration is making much stronger policy signals on climate which is leading to further action, this is what we call the ambition loop. Japan has strong disclosure and science-based targets because the government has been encouraging and supporting companies to set science-based targets. Then you can look to a continent like Africa where there has been an uptick, and where COP27 will be hosted – they need to be supported financially and technically to do a lot more.

What are you hoping from COP26 in Glasgow?

Climate finance is a big topic for COP this year – the wealthy countries committed to give the poorest countries $100bn a year by 2020 to help with climate mitigation and adaptation. It's currently around $80bn a year now. We need more climate finance for the countries that can't afford to act. In an ideal world, every government would come to COP with a 1.5 degree aligned nationally determined contribution. The wealthiest countries in the world, particularly the US, would come with a lot more climate finance. On Article six of the Paris Agreement, governments need to be agreeing the rules on carbon markets. And it's not just on governments, it's on all major players to come with commitments. The real question is, the science tells us what we need to do, does what the system is doing collectively add up to enough or even nearly enough?

Energy Boost

Sustainability Quarterly talks to HFW partner and energy transition lead Jo Garland about the critical transition to clean energy, the challenges and rewards for businesses, and how managing climate impact affects commercial strategy

‘We’ve only got our fingertips holding onto the clifftop currently,’ Jo Garland explains. ‘Getting to global net zero is going to require massive change in a tight time frame. The question is whether businesses are going to adopt the strategy of being first movers in the transition, fast followers, or the last men standing.’ It’s a stark warning, but a very necessary one if we are to reach this imperative goal by mid-century and keep 1.5 degrees within reach. The transition to clean energy is one of the most important steps on the road to decarbonisation and irreversible environmental damage.

Energy transition is the global energy sector’s and energy users’ move from fossil-based energy production and consumption to renewable energy sources and greener, more sustainable practices. For many businesses the practicalities of this may seem daunting, but Jo is quick to point out that while it can be ‘a sensitive topic for some companies,’ it doesn’t necessarily mean totally disbanding traditional energy sources.

‘It’s not a perfect journey, and it’s not going to be easy,’ she says. ‘But continual steps in the right direction, such as adopting new tech and looking at emissions within supply chains, are all important. Part of the transition is not just decarbonisation but finding new markets, pivoting and investing in new business.’

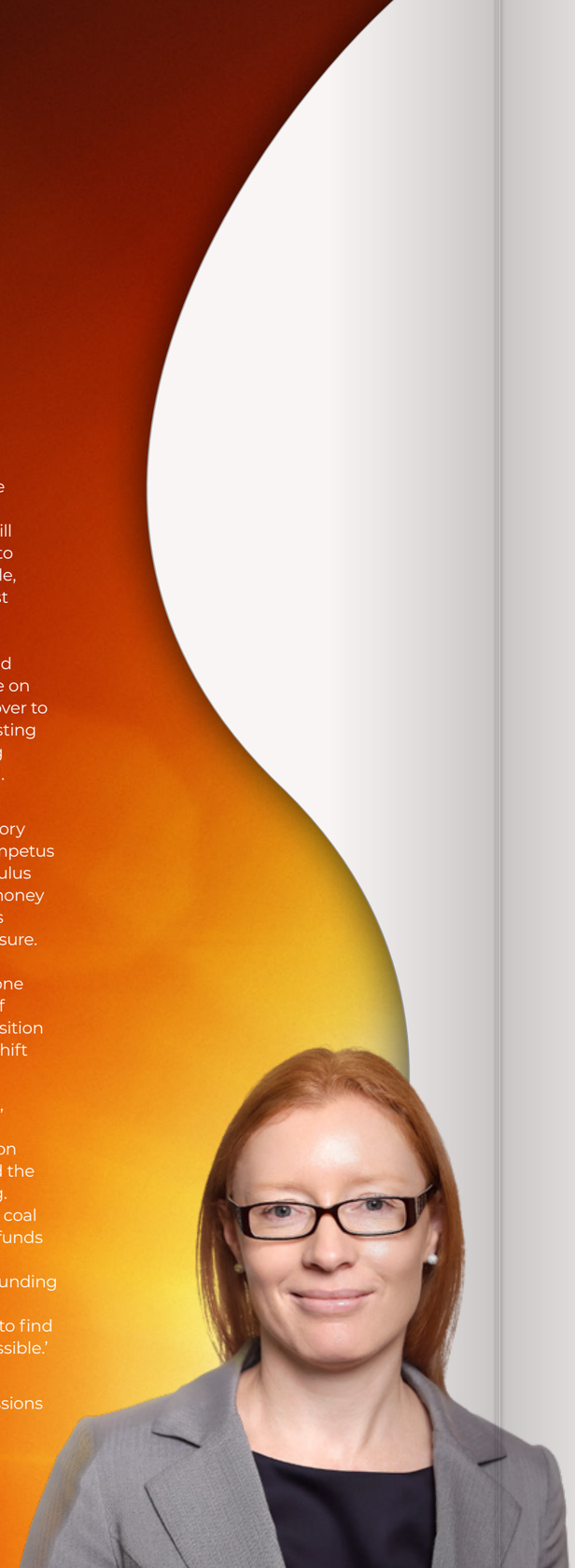
Risks and rewards

As corporates and investors demand greater transparency on long-term climate risks, opportunities, and the impact on their businesses, companies are adapting. Of course, there are many different stages of energy transition – not every business will need to take every step in order to improve their sustainability profile, and each strategy is unique. Most journeys will include looking at the adoption of new technology to improve existing processes and equipment, shifting dependence on non-renewable energy sources over to greener electricity and fuel, investing in green business and off-setting what cannot feasibly be reduced.

However, with no global, comprehensively agreed regulatory framework as yet, where is the impetus coming from? Government stimulus schemes that involve injecting money into green projects and practices have helped, as has societal pressure. What has become increasingly clear, though, is that there is no one main driver, but a combination of sources pushing the energy transition agenda which has resulted in a shift that can no longer be ignored.

Growing pressure from investors, shareholder activism, customer demand and increasing regulation have all helped fuel the shift, and the financial markets are responding. ‘Big banks won’t lend to gas and coal companies any more, and superfunds are doing same thing,’ Garland confirms. ‘If you’re trying to get funding for a business proposal which is patently not green, you’re going to find it extremely difficult, if not impossible.’

Garland adds that she really only started hearing high-level discussions about exactly how to effect the transition to clean energy in businesses around eighteen months ago. Since then the first movers and fast followers have been seriously engaging with the process and planning how it can be realistically achieved. So what was the hold up? The reality is that there are challenges associated with transforming a company. This is especially true of those that have built their strategy and processes around traditional fuel sources, or where traditional fuel sources are a key dependency. The phrase ‘transitional risk’ has been used to describe the issues potentially arising during the process, such as adopting new technology which isn’t ultimately effective, or partnering with a green business which doesn’t work out in the long term. Many companies moving away from traditional energy sources are obliged to look to new markets, only to find that they have been too slow or that it doesn’t suit their customers.



However, it is exactly these challenges that can be turned into opportunities and rewards for businesses. While it may be risky and time consuming to look to a new market or customer base, ultimately this could mean lucrative new income streams, a better product, and an expanded customer base. ‘There is definitely value in it,’ says Garland. ‘Not only is there money to be made, but there are exciting new opportunities to be a leader in the field.’ It has been widely accepted that sustainability can lead to profitability – circular economy principles applied to business strategies can make processes more efficient, cut costs and resources and lead to further growth while meeting the growing demands from stakeholders, investors and customers.

Regulate to accumulate

While the transition to clean energy is starting to happen at growing scale and pace, it is still not legislated in many jurisdictions. This lack of a clear and consistent framework is proving a stumbling block for some global companies in their bid to comply with new standards and laws.

Regulation and investment are often two sides of the same coin, and we have seen the regulatory system bolster sectors such as renewable energy in the past. Increased regulation in this area had a big role to play in the emergence of sources such as wind and solar energy, which are now produced on a cost-effective and widespread basis. However, multi-jurisdictional regulatory structures and instruments relating to energy transition have been uneven. While Europe’s regulators have been active in legislating for a carbon-neutral economy, the same can not necessarily be said for emerging economies and in other global markets.

‘Legislation really differs from jurisdiction to jurisdiction, and the result is a lack of clarity and incentive,’ Garland notes. ‘This is particularly important when it comes to multinational consistency. It’s hard to say how long the transition will take, but as with everything there will be leaders, there will be fast followers, and there will be laggers. A lot of it will come down to the introduction of legislation.’

As regulation increases, it is worth noting that it can lead to a trend dubbed ‘greenflation’ – the hike in prices of materials such as metals and minerals required to underpin renewable energy sources. Inevitably, this will influence investors leery of any issue that may impact profitability. It will be reassuring that these spurts are often temporary, but tighter environmental regulation is predicted to increase some costs.

Facing forward

New technology has had a vital role to play in facilitating the transition. It has become clear that there is no one transformational technology that is the sole key to the success of the journey to carbon neutrality, but instead it will be a combination of many different solutions working together to achieve ambitious climate goals.

Breakthrough low-carbon energy technologies have emerged in the energy transition race, and there has been significant investment and development into areas such as biofuel, green hydrogen and carbon capture and storage facilities. Our global energy ecosystem is complex, and different markets require different solutions, specifically ones that can be deployed at scale if targets are to be met in time.

Jo says green hydrogen ’has a big role to play’, along with the development of renewable power plants, green ammonia as fertiliser and feed stock, and hydrogen and electric-powered vehicles. The growth in technology platforms and distributed energy resources to create virtual power plants is the latest innovation, and she is currently advising a company on a virtual power plant to connect small scale rooftop solar and batteries to create a cumulatively bigger, and controllable, impact which could replace the need for thermal reliant system support services.

The ultimate goal of energy transition is to facilitate the Paris Agreement’s goal of reaching net zero by 2050, but Jo says that even though that is an achievable target if businesses and governments work together, it is potentially too late to prevent catastrophic climate changes. ‘We need to be working towards 2035 or sooner, if possible,’ she says.

There is no doubt that there is work to be done, and journey to continue on, and Jo has some sage advice to help corporates get there. ‘Planning needs to start now,’ she counsels. ‘Start assessing supply chains, looking at decarbonisation opportunities, and if funding is required then that’s a priority.’ She says technology will remain top of the agenda in order to facilitate change. ‘If you don’t have the know-how in house then it’s worth starting to look for partnerships and opportunities to collaborate in that area. Those companies that don’t look to new markets and other complimentary greener businesses as climate mitigation evolves risk getting left behind in the best case scenario and in the worst case scenario getting sued by shareholders or stakeholders. Directors already have a duty to consider climate impact in everything that they do.’

Financing a green future

HFW corporate finance partner Wing Cheung outlines the market-leading initiatives that are helping to establish Hong Kong as Asia's leading green finance hub.

The focus areas set out ahead of COP26 emphasise a clear message: in order to achieve net zero by the middle of the century, "every financial decision needs to take climate into account".

From encouraging private investment in sustainable infrastructure to issuing green bonds, the global finance industry must take a leading role in the fight against climate change. According to research by the OECD, maintaining progress in line with the Paris Agreement will require at least a US$6.9 trillion annual investment into green initiatives. Consistently raising such a large amount of capital is no small task, and so governments around the world find themselves facing the same challenge: how do you rapidly advance the scale of green finance?

As one of the world's leading financial centres, Hong Kong has embraced its climate responsibilities and is now setting the pace for the global adoption of green and sustainable finance.

An environment for growth

Scaling up investment into sustainable initiatives requires a supportive framework of targeted regulation, policy and governance procedures. In Hong Kong, financial regulators have worked alongside the government to build an environment that is committed to thoroughly evaluating green credentials and effectively managing risk, whilst remaining attractive to investors.

It has already implemented numerous market-leading initiatives, including government-issued green bonds that fund sustainable public projects, developing green finance certification schemes to provide third-party conformity assessments on green debt instruments, green funds and ESG funds, and launching the Sustainable & Green Exchange, an online portal providing information on sustainable and green investment products. Since 2018, this progress has been supported by the Hong Kong Green Finance Association, which brings industry experts together to advise on policy to support the development of green finance.

On climate-related disclosures, companies listed in Hong Kong are required to publish an annual Environmental, Social and Governance (**ESG**) report including information set out under the mandatory disclosure requirements and the "comply or explain" provisions in the Listing Rules. With regard to environmental disclosures, companies are required to detail:

- polices and compliance relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste;
- policies on the efficient use of resources, including energy, water and other raw materials;
- policies on minimising the issuer's significant impacts on the environment and natural resources; and
- policies on identification and mitigation of significant climate-related issues.

The right direction

In May 2020 the Hong Kong government and financial regulators established the Green and Sustainable Finance Cross-Agency Steering Group (the **Group**), co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission (**SFC**).

The Group has developed a long-term strategic plan setting out the following six key focus areas:

1. Strengthening climate-related financial risk management
2. Promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection
3. Enhancing capacity building for the financial services industry and raising public awareness
4. Encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes
5. Capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area")
6. Strengthening regional and international collaboration.

Several short-term plans would be carried out, for instance, imposing mandatory climate-related disclosures on banks, asset managers and insurance companies no later than 2025. The Group also oversaw the launch of the Centre for Green and Sustainable Finance, a cross-sector platform that coordinates the efforts of key stakeholders and manages data to support the transition.

Collaboration is Key

The Paris Agreement invites cities, regions and local authorities to play their part in addressing climate change by promoting regional and international cooperation.

Hong Kong serves as the Greater Bay Area's green finance centre, and also as the Belt & Road Initiative's major centre for raising funds for sustainable projects. To strengthen collaboration in the Greater Bay Area, a Carbon Market Work Stream co-chaired by the SFC and the Hong Kong Exchanges and Clearing Limited was set up to assess the feasibility of developing Hong Kong as a regional carbon trading centre.

The Greater Bay Area Green Finance Alliance launched in September 2021 with the aim of fostering the green finance development in the Greater Bay Area, where Hong Kong will soon lead three green finance-related projects including Green Building project, Block Chain Solar Project and Carbon Connect. A green finance cooperation mechanism is also on its way, designed to promote Hong Kong as the Greater Bay Area green finance hub. Under the latest frameworks in relation to the "Plan for Comprehensive Deepening Reform & Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone", commonly known as the "Qianhai Plan", there are specific incentives to accelerate the development of green and smart supply chains and establish unified green finance standards.

Lastly, SFC's international roles as the vice-chair of the Sustainability Task Force of the International Organization, a member of the Network of Central Banks and Supervisors for Greening the Financial System, and the Advisory Group of the United Nations Sustainable Stock Exchanges Initiative are significant steps in developing a bright future for green finance in Hong Kong.

The future of aerospace

How will we achieve sustainable aviation?

Price, production costs, supply and demand – these are the main areas that need to be addressed before it is possible to find a long-term solution to sustainable aviation. There is a critical need to find a long-term solution for both short and long haul flights.

How delegates choose to travel to key international events in the global sustainability calendar, such as next month's COP26, has long been an easy critique for the mainstream media. It is clear that many will need to fly, but is sustainable aviation an option?

Sustainable Aviation Fuel (SAF)

Development is ongoing in the Spanish market with fuel manufacturer Repsol producing an initial batch of jet fuel from waste products. Their state of the art facilities are targeting production of more than two million tons of biojet fuel in 2030.

The demand for jet fuel is steady, with aviation contributing more than 2% to the EU's GDP. The European Commission is currently taking feedback on the Sustainable and Smart Mobility Strategy, which will give greater focus to both supply and demand of SAF. Should the regulation come into force, the requirement would be to increase SAF from at least 2% in 2025 to at least 63% from 2050.

Rather than mandating production, the US will provide tax credits for SAF. Global appetite for SAF is clear, however many countries face additional barriers to sustainability and effective support for them must be a priority.

Refuel EU [Fit for 55] and blending mandates

The EU Commission recently launched Fit for 55, a package of legislative proposals to reduce net greenhouse gas emissions by at least 55% by 2030. In light of ReFuelEU, aviation fuel suppliers must now blend increasing levels of SAF in jet fuel loaded at EU Airports. The mandate maps progress in three key stages.

Firstly, an increase in SAF production to 10% of all jet fuel by 2030, along with the EU blending mandate. Both access to the feedstock for aviation and policy framework will be required to fulfil these levels of production. Next will come an obligation on fuel suppliers to put into operation the required blending mandates. Thirdly, public funding in excess of EUR120 billion over 15 years is needed to develop the necessary supporting technology.

Biofuels from crops?

The industry has spent much time researching biofuels manufactured from crops including palm, soya and corn. The EU subsequently chose not to pursue these alternatives, due to fears that they would compete with food production and increase deforestation. Although EU legislation precludes their use, there is potential to generate biofuelds from other forestry waste products.

The picture is slightly different in South America, where LATAM's strategy pursues the development of biofuel from sugarcane residue. Chile and Brazil already have a large supply of non-fossil fuels.

Up to 2030, LATAM's sustainability will focus on a number of key areas including work, environmental management, climate change, circular economy and shared value,including an investment of around $100 million over 10 years.

Bringing the price of SAF down?

Without doubt, one of the major stumbling blocks for the rollout of commercial SAF is the cost, with current estimates approximately two to eight times higher than conventional jet fuels.

The US is currently implementing the Sustainable Skies Act,granting a $1.50 to $2 per gallon blenders tax credit. In order to reduce the cost of SAF, it is necessary to significantly increase the scale of production. Feedstock availability, logistics and supply chain along with infrastructure issues are all factors.

Airlines are also rolling out initiatives, with British Airways giving passengers the option to purchase SAF for their flights to reduce their carbon footprint.

The comparison of bio and synthetic SAF

In the Netherlands, Royal Dutch Shell have developed a synthetic kerosene fuel with a combination of carbon dioxide, water and renewable energy, to be blended with regular aviation fuel. More than ten years ago, KLM operated the first biofuelled commercial flight from Amsterdam to Madrid.

Delegate travel to COP26

Delegate travel to COP26 has consistently made the headlines. This year, attendees – including up to 26 heads of state –are due to fly to Scotland utilising SAF.

British Airways has also committed to buying the same amount of SAF as will be required to fuel the above flights. The flights to both Edinburgh and Glasgow will use regular aviation fuel, with British Airways using the SAF on routes across its network.

With one of the aims of COP26 being to "secure global one zero by mid-century and keep 1.5 degrees within reach", it is essential that aviation works towards the same aims. It will be essential to tackle price – production costs – supply and demand of SAF.