

Workshops' summary – NATIXIS CIB Green Summit 2022

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Contents

A. Net zero promises and deadlocks	1
B. Inflation vs. Transition	2
C. Missing adaptation finance	2
D. Greenwashing conundrum	3
E. Making ESG disclosure useful	4
F. Voluntary carbon credits: in search of purpose	4
G. Land uses and biodiversity protection	5
H. Sustainable finance in EM: common goals, differentiated approaches?	6

A. Net zero promises and deadlocks

Participants

Karen Degouve, (Head of Sustainable Finance, Fédération Bancaire Française) – moderator
 Manuel Coeslier, (Lead Expert Climate & Environment, Mirova)
 Julie Raynaud, (independent consultant)
 Frederic Samama, (Head of Strategic Development at Sustainable1, S&P Global)

Net-zero describes **the state of the planet**, where a balance is achieved between greenhouse gases emissions and removals, thereby reaching carbon neutrality, reminded Julie Raynaud. Using the term “net-zero” in reference to an entity is **therefore misleading**, as they cannot be net-zero themselves but may rather contribute to **this global target**. Talking about “net zero” for a firm can even be regarded as “a nonsense”, as stated by Manuel Coeslier. This idea changes the focus to actions, and the question should rather be set on **understanding how entities can contribute to net-zero** and what is needed to **respect our global carbon budget**, or how can financial institutions **favor capital access** to companies that demonstrate efforts to achieve their objectives.

Some encouraging net-zero related initiatives, approaches and solutions were pinpointed by the panelists, such as the Race to Zero’s Starting Line Criteria (or the 5 P’s): **Pledge, Plan, Proceed, Publish and Persuade**. A total of 11k+ institutions, cities and companies have made net-zero pledges to this day and more than 50% of the Glasgow Financial Alliance for Net Zero (GFANZ) signatories have issued interim

targets. Such initiatives play a central role in developing **sectoral pathways** and setting methodologies. Yet, defining a set of common rules to all form of pledges represents an important challenge.

Looking towards the future, the discussion is likely to **shift towards increasing the monitoring and verification of action transition plans**, to assess whether entities have reached their individual targets. Verification will also be needed on a larger scale, within the real economy, to assess these strategies' impact and efficacy.

B. Inflation vs. Transition

Participants

Orith Azoulay, (Natixis GSH Global Head) – moderator
Alex Bernhardt, (Global Head of Sustainability Research, BNPP AM)
Carine de Boissezon, (Chief Impact Officer, EDF)
Marc-Antoine Eyl-Mazzega, (Director Energy & Climate Center, IFRI)
Cyril Rousseau, (Chief Executive, Agence France Trésor)

While inflation rates have reached their highest-level since the 1970's, one driver is receiving vivid attention: the price increase induced by the low-carbon transition. **Surging energy prices** coalesce with **steady demand for critical "transitioning metals"** – copper, nickel, and aluminum. **Climate change related hazards such as droughts and floods** exacerbate food and other commodity prices increase and volatility. These three phenomena were identified as drivers of an ever-growing inflation from the low carbon transition by the ECB back in early 2022, before the war in Ukraine.

Today, **fossil-fuel related inflation** is the biggest of the three identified factors. It started during the 2021 covid recovery during which oil & gas supplies could not meet the demand. **Decreased investments in oil & gas upstream activities since 2015** have not been matched with increased investments in low-carbon electricity generation, therefore reducing the overall energy supply and putting an upward pressure on prices. However, this energy supply gap has reinforced public willingness for **demand-side management** (i.e. voluntary energy consumption reduction). They are especially relevant for the transition, as **intense electrification could also push us further out of planet boundaries**. Companies need to get ahead of this trend and help consumers mitigate their resource usage.

A holistic approach takes into account inflation and transition at the same time. This reflects the recent issuance by the AFT of a French governmental green and inflation-linked bond, to provide investors a way to mitigate both problems in their portfolios. A parallel was also drawn with the ECB's focus on greening its corporate sector purchasing program, while still committing to its mandate to drive down inflation.

To confront this multiplicity of challenges, companies need to resort to a set of tools that are effective only when used in tandem. For instance, pricing externalities could help driving the transition across entire corporate value chains, whilst **investing** both in **supply and demand-side measures** to decrease energy-related inflation and **diversifying away from laggards** as a last resort measure could reinforce dynamics.

C. Missing adaptation finance

Participants

Théophile Bellouard, (Head of Asaptation services, AXA Climate) – Moderator
Ginette Borduas (Head of ESG and Sustainability, Meridiam)

Chris Gottardo, (Head of Global Business Development, Financial Institutions, Climate Change solutions, Munich Re)

Michael Mullan, (Programme Lead: Climate Adaptation Finance & Investment, OECD)

Pierre-Yves Pouliquen, (Sustainable Development Director, Veolia)

Recent extreme weather events like the **flooding in Pakistan** and the **worldwide heatwaves** have shed light on the need for the global economy to adapt to climate change, as global temperature warming has already hit 1.1°C.

“Missing” adaptation finance mainly refers to finance coming from the private sector. While single materiality (i.e., the impact of climate change on assets) is increasingly taken into account by investors in decision-making, **adaptation projects** must find ways to **generate cashflows over time to attract private investors**. The importance of the public sector in adaptation in catalyzing private sector investments is key: through regulation (EU Taxonomy on adaptation; CSRD), as well as public-private partnership.

An important issue, however, remains the **low level of awareness related to climate change adaptation by corporates and financial institutions**. Changing mindsets and pushing for climate adaptation frameworks inside companies, like Carbone 4’s OCARA, remains complex.

Inclusive and fair adaptation is needed, as stressed by the IPCC in its report on the smatter, everyone will eventually be impacted by climate risks.

D. Greenwashing conundrum

Participants

Maia Godemer, (Sustainable Finance research association, Bloomberg NEF) – moderator

Stéphanie Mielnik, (Director of Research, Anthropocene Fixed Income Institute)

Viet-Linh Nguyen, (Head of the Strategy & Sustainable Finance unit, EXCOM)

Anatoli Van der Krans, (Director of European Investor Relations, BLB&G)

Wim Van Hyfte, (Global Head of ESG Investments and Research, Candriam)

Greenwashing practices include **misrepresentation, wrongful disclosures, mis-selling, mispricing, mislabeling and wrongful corporate disclosures**. It is therefore multifaceted and can be **intentional or unintentional, voluntary or reflect a misunderstanding of regulatory constraints**. Overall, greenwashing includes **all misleading claims** on sustainability products, impacts and risks. What is considered 'greenwashing' by society may also be different than what it is for the financial world or legal considerations. This is why a lot of greenwashing cases are **not necessarily illegal**, and therefore **cannot easily be penalized**.

Different actors have been trying to narrow down the definition of the term “greenwashing”, to penalize greenwashing-linked behaviors. A large part of the question depends on **regulators and which role they decide to play**, where they **set the compass** and which **red lines they choose to draw**.

Despite regulators’ efforts, a robust definition of greenwashing is still missing. **Inconsistencies remain between different legal interpretations**, market practices and what retail investors consider “greenwashing”. The term remains insufficiently defined, as we are still **missing frameworks, standards, and definitions**. For instance, the SFDR framework and its article 8 and 9 classification have both **revealed the need for standards** and created some **confusion with very general definitions and categories**: there is a need for coherent and exhaustive interpretation to ensure that they **do not strengthen what they wish to combat**. Coherence at local level is needed, for instance within the EU, but also globally, which is a challenge with the differences in philosophy across jurisdictions.

For a product manufacturer, avoiding excessively complex products and **overengineering is part of the challenge**, to keep them understandable to assess their real contribution to sustainability. Another challenge revolves around a lack of data: it is hard to compare two portfolio's "greenwashing levels", as there is no baseline or data points to rely on.

Even if the EU has much more regulation relevant to greenwashing, we can expect **litigation cases over greenwashing to grow in the US first**. Why? While the US has less regulation, financial institutions' clients and society at large have more legal power to sue over greenwashing.

E. Making ESG disclosure useful

Participants

Adèle Almohalla Baux, (Sustainable Project Manager, BPCE) – moderator

Thomas Harding, (Founder & CEO, ESG Regulatory Solutions)

Tegwen Le Berthe, (Head of ESG scoring & methodology, Amundi)

Alice Froideveaux, (Director of Product Development, Quantcube Technology)

Having ESG data has now been made mandatory for firms, with different levels of regulation. Firms have had to adapt: IT systems had to be upgraded and data architecture reinforced. The challenge has now shifted to the need to provide transparent, credible, and valid data that stakeholders expect.

By nature, ESG metrics are diverse. They cover many different topics and can come in both quantitative and qualitative formats. **Qualitative ESG metrics are usually more difficult to compute and compare, but they are essential to complement and contextualize quantitative data.** ESG scores and ratings data are more akin to qualitative research opinions than quantitative facts.

Regulation may push firms towards the right direction. However, not all ESG data are relevant when it comes to building investment strategies. Raw data are rarely used, but rather more sophisticated indicators are being utilized. These are often linked with net zero strategies, trajectories, testing whether initiatives are aligned with sectorial approaches...etc.

In time, **inconsistent reporting will be addressed** by initiatives such as the EU Corporate Sustainability Reporting Directive (CSRD), which will ensure that in-scope entities provide consistent and comparable sustainability information. During the interim period, however, there may be considerable uncertainty about the availability and reliability of data.

With the proliferation of regulation around the world, understanding the different frameworks and the different requirements is one of the key challenges that market participants are currently facing. The fragmentation of ESG reporting frameworks, differences between regional regulatory approaches, the lack of standardized taxonomies, and varying and complex data requirements are challenging, especially for firms that have operations in multiple jurisdictions.

F. Voluntary carbon credits: in search of purpose

Participants

Robert White, (Head of GSH, Americas, Green & Sustainable Hub, Natixis CIB) - Moderator

Cécile de Coincy, (Business development manager, Forest Based Solutions, Société Forestière de la Caisse des Dépôts)

Claude Lixi, (Global Co-Head Commodities Market, Natixis CIB)

Muireann Mageras, (Environment Strategist & Advisor, Hartree Partners)

Voluntary carbon credits have been used for different purposes since their inception at the end of the 1980s and as the market has grown it has suffered from a **poor reputation** due to a **perceived lack of environmental integrity**. The market, while experiencing rapid growth since the signing of the Paris Agreement, remains small, at **around \$2bn in 2021**... What could unlock the market and allow for high-scale investments in emission reduction and removal worldwide?

The panel had a consensus that a transparent and well **governed carbon market was needed**, ideally with some integration into compliance markets. This would allow for a supply consistent with needs, less heterogeneity in quality and prices, as well as higher liquidity. Recent market initiatives pursuing this goal, like the Integrity Council for the Voluntary Carbon Market (supply side focus), and the Voluntary Carbon Market (demand side focus) were mentioned. Carbon removal projects, in general were considered to **present less challenges with baselines and additionality** than emission **reduction ones**. However, today they represent only about **6%** of the market and therefore a focus on the due diligence of avoidance projects remains critical...

In the meantime, as the market continues to develop an emphasis was put on the need for end users to have closer relationships with the **underlying carbon-crediting projects**, to ensure the credibility of their climate mitigation effects and that the three core elements of **Additionality, Leakage, and Permanence and were addressed**. Scaling back the market-emphasis of carbon credits was also mentioned as a possible solution, reflecting the “Label Bas Carbone” initiative of the French government, which issues non-tradeable credits, ensuring a direct linkage from the project to the end user. However, whilst mitigating credibility concerns it reduces the scale and benefits of intermediation that the market needs in order to be able to grow. Overall, the ongoing developments in the market provided room for “cautious optimism”.

G. Land uses and biodiversity protection

Participants

Guillaume Neveux, (Head and Partner of I Care) - moderator

Gautier Quéru, (Managing Director, Natural Capital, Mirova)

Virginie Savina, (Group Sustainable Development & Operational excellence Coordinator, Bouygues Group)

Grant Rudgley, (Lead, Nature-Related Finance, CISL)

Arthur Campredon, (Chief of sustainable finance office at the French Treasury)

It is much harder to measure **biodiversity loss than CO2 emissions**: there’s no straightforward metric or KPI. Nonetheless, **proxies should be used, and targets set in an increased effort to halt and reverse biodiversity loss**. A systemic approach combining both carbon and biodiversity measurement must be integrated in financial decision-making. Existing tools **encompass water stress and land degradation stress scenarios**. Academic knowledge must further be operationalized through materiality and sectorial approaches.

Various initiatives emerged from both the public and private sectors. Mirova has set up a €200 M fund for projects aiming to enhance situations of land degradation into sustainable land management and restoration (Land Degradation Neutrality Fund). There is a whole ecosystem of biodiversity actors, with a growth of projects developers dedicated to sustainable land uses. At the AFT level (French state agency issuing governmental bond), a framework on biodiversity has been published for FIs to publish information on their impact upon biodiversity. **The opening COP15 on biodiversity catalyzes hope**. Parties are expected to reach an agreement on a global target for biodiversity.

H. Sustainable finance in EM: common goals, differentiated approaches?

Participants

Karim Arslan, (Green & Sustainable Hub GSH Dubai, Originator, Natixis) - moderator

Gnékélé Gnassingbe, (Director, Treasury and Capital Markets Department, Banque Ouest Africaine de Développement)

Luiza Demoro, (Head of Energy Transitions, BloombergNEF)

Timothée Jaulin, (Head of ESG Development & Advocacy, Special Operations, Amundi)

Dieter Wang, (Sustainable Finance Specialist, World Bank)

Sustainable finance has been **on the rise in emerging markets**. However, it remains highly **concentrated** amongst a few countries, such as **China, Chile and Brazil**.

Sustainability-linked products enable countries, especially EMs, to set ambitious targets, as we witnessed in Chile. GSSS bonds also represent a way to go “forward” for FDIs, international investors and local commercial banks, as they enable investors to engage in a complex financing network, to increase SDG funding whilst using a standardized framework.

Yet, sustainable finance in EMs present a few shortcomings. Whilst public development banks have been increasing green bond issuances, it is harder for other EM actors to do so, due to **a lack of expertise and disclosure**. It is important to strengthen the capacity of local players and enhance commercial banks’ reporting and financing processes.

Moreover, the panelists highlighted that the current market expectation **of convergence in approaches is a barrier** by itself and stressed the need for a **differentiated** approach that considers local circumstances and externalities when setting thresholds and targets. Further **cooperation** and **alignment** between global investors and regional development institutions is seen as **necessary steps to break down barriers** and increase the flow of sustainable finance into EM economies.

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