2022

June

ESG Transformation

Webinar White Paper

The Al-Attiyah Foundation

01 OUR MEMBERS

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ESG Transformation: Seizing The Opportunity

Event: Energy Industry Webinar
Date: June 14, 2022
Time: 12.00-01.00 PM (GMT+3)

Since 2020, the Foundation has hosted a webinar series, in partnership with Refinitiv, to explore key trends and insights as the coronavirus pandemic impacts the energy industry and hastens the switch to renewables.

The latest webinar, titled “ESG Transformation: Seizing the Opportunity,” was held on the 14th of June 2022 and saw four global experts examine the business case for ESG and the impact of the pandemic and other geopolitical crises on the implementation of ESG practices.

WEBINAR WHITE PAPER

H.E. Abdullah Bin Hamad Al-Attiyah founded the Foundation as a platform for knowledge exchange and support for the global community in the quest towards a sustainable energy future.

The Webinar Series, which began two years ago, is a crucial networking and learning opportunity in the calendar of industry CEOs, Members, and Foundation Partners.

03 WHAT IS ESG?

Environment, social and corporate governance (ESG) criteria are a set of standards for a company's behaviour used by socially conscious investors to screen potential investments. Environmental criteria consider how a company safeguards the environment, including corporate policies addressing climate change. Social criteria examine how a company manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

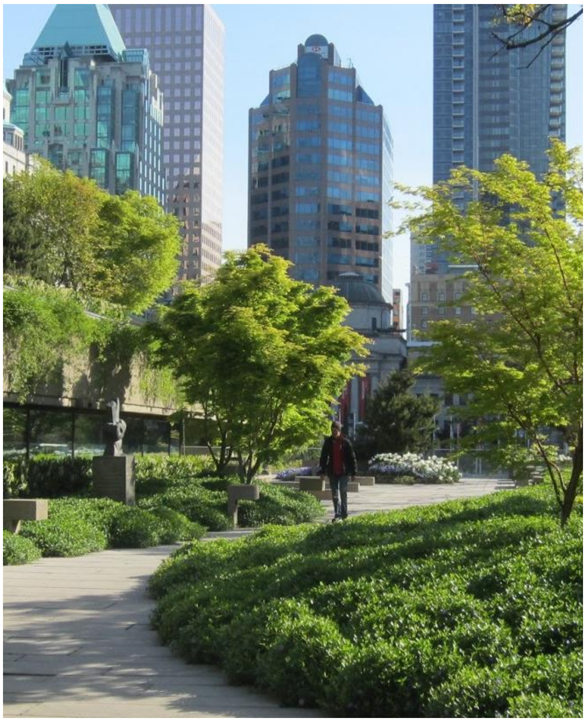
Implementing the core principles of ESG has become the hallmark of socially responsible companies. Gone are the days when investors looked solely at potential profitability and financial risk when making investment decisions. Today, many investors and financial institutions consider it essential to align their portfolios with ESG performance, believing that companies that perform well on ESG are better positioned for the long term and better prepared for risk and uncertainty.

Yet adopting ESG principles brings numerous challenges such as identifying the best reporting framework to implement and the lack of standards to measure results or impact. These issues have slowed progress. For example, while the UN Principles for Responsible Investment (PRI) signatory list includes 431 private equity firms worldwide, only 16 disclose ESG’s impact on their financial returns, and just half use ESG principles in monitoring portfolio companies, according to Institutional Investor.

The Discussion

Corporate leaders see ESG as an opportunity rather than a compliance issue to overcome, but the fraught global business environment following the pandemic and the ongoing war in Ukraine has made setting and fulfilling ESG targets a lesser priority.

“ESG is to be seen as the ability for a company to sustain its business model in the long run in an ever-changing environment,” said Ivano Ianelli, a Board Director at the ESG Foundation.



Implementing ESG practices can benefit companies in three broad aspects – financial, reputational and organisational – said Leo Chi Wai Tong, Head of Sustainability at Qatar National Bank (QNB).

"In the banking and financial services sectors those companies that focus on ESG have outperformed those that do not," he said, noting ESG encompasses multiple parts of a business.

"So, looking at everything from cyber security to health and safety, gender diversity inclusion training more people, and engaging with your suppliers, governance, et cetera. All of those things mean there isn't a single division or department in any organisation not impacted by, or cannot impact, sustainability."

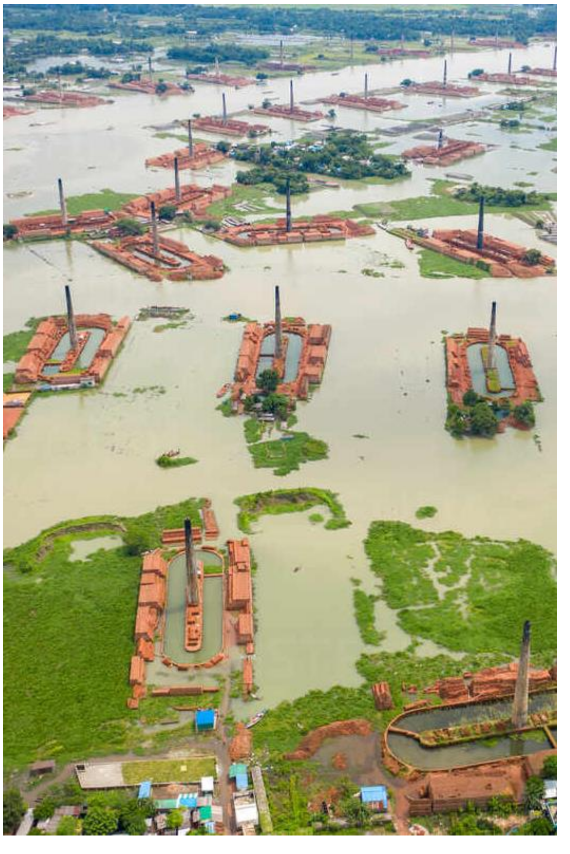
KPMG Survey

According to a KPMG survey of chief executive officers (CEOs), 12 percent of respondents across all industries believe that climate change and environmental risk pose the greatest threat to their organisation's growth. This figure jumps to 37 percent for respondents in the energy sector.

"We compound together E, S and G but it does seem they are separating a bit and fossil fuel companies are looking more at the climate change risk, and not so much at the S and G," said Howard Bevan, Director of Energy at the Al-Attiyah Foundation.

The term ESG brings together three disparate concepts that are neither mutually exclusive nor necessarily complementary. Historically, the "E" has been considered the most important, but 85 percent of CEOs surveyed by KPMG said the pandemic had caused them to shift their focus towards the societal component of their ESG programmes.

"When we look at ESG and we have the tendency of focusing on E … but also the S and the G are very relevant in the way the businesses respond to an ever-changing environment," said Mr Ianelli.



Credit rating agencies are increasingly incorporating ESG factors into their calculations when determining an entity's credit rating, noted Mr Tong. As such, ESG can impact a company's cost of capital.

Mr Ianelli highlighted how all Middle East-based companies that launched initial public offerings (IPOs) in the past 12 months possessed an ESG rating. This was "because they wanted to tap into a larger pool of investors," said Mr Ianelli.

"CEOs are not looking at ESG as a compliance issue to tackle, but more as an opportunity," said Ali Al-Shihabi, a Partner for Governance and Risk, Business Transformation and ESG at KPMG Qatar. "It's an opportunity to adopt new technology, modernisation and innovation into your business."

For example, a company fulfilling an objective to reduce its emissions will likely have found a solution that also lowers its costs, Mr Al-Shihabi explained, noting businesses must first decide on an ESG strategy, set goals, engage stakeholders and incorporate ESG into the wider corporate strategy.

"Really, I look at ESG as an opportunity to rethink how you do your business," said Mr Al-Shihabi.

In the first webinar poll, 10 percent of respondents said demand from institutional investors and consumers would drive greater private sector commitment to ESG, 7 percent said government regulations, 7 percent said business profitability and competitiveness, and 3 percent said pressure from stakeholders and activists, while 73 percent said all of the above.

Low Priority

The prolonged pandemic and the detrimental economic effects from Russia's war with Ukraine have made ESG a lesser priority for corporations. Just 27 percent of CEOs in the KPMG survey said integrating ESG reporting was a top priority, with 46 percent acknowledging their difficulties in articulating a compelling ESG story.

"In the very, very short term, nobody cares about climate change, really about ESG at all - it's all about security of supply," said the Foundation's Mr Bevan. "If a country is short of energy, it costs lives. Everybody is saying ESG is something for the future."

A second poll asked the audience which of the following statements they agree with the most:

- 43 percent chose: "It is becoming common practice for institutional investors to align their portfolios towards better ESG performance as they believe that companies that perform well on ESG are better positioned for the long term and better placed for uncertainties."

- 36 percent chose: “Companies are now more likely to succeed and deliver strong returns if they create value for all their stakeholders – employees, customers, supplies and wider society – and not just the company owners.”

- 14 percent chose: “ESG frameworks provide a strong basis for companies to achieve long-term value creation.”

- 7 percent chose: “Companies with corporate visions that are centred on climate-resilient growth and societal responsibility are viewed by investors and consumers to have more attractive prospects in terms of long-term ability and resilience to withstand systemic risks.”

Greenwashing

“There's a whole alphabet soup of different type of reporting standards in the marketplace and different investors, different stakeholders will be interested in different ones,” said QNB’s Mr Tong.

QNB’s approach was to engage with its stakeholders to understand what they considered important and to see the extent their priorities matched those of the bank. Today, QNB primarily follows the Global Reporting Initiative (GRI) standards.

“An ESG rating is a more structured framework that will allow you to compare apples to apples,” said Mr Ianelli.

Myriad corporations stand accused of greenwashing – hyping their environmental credentials and achievements while implementing little real change to reduce their carbon footprint. Greenwashing in part stems from companies making overly bold claims in the beginning.

“In the early stages of adopting and deciding to report ESG, companies tend to over promise, and then realise that the execution is not as easy as they thought,” said Mr Al-Shihabi, noting governments should provide a roadmap for companies to follow in terms of improving their ESG reporting over a number of years.

Although ESG has taken a backseat to more immediate concerns, the long-term, strategic advantages that effective, companywide ESG programmes can deliver should ensure that corporations remain committed to making good on their ESG pledges and provide quantifiable data to demonstrate their progress in this regard.

Conclusion

As wildfires rage across Europe and the United States amid an historic heatwave in the northern hemisphere, both investors and the broader public will demand greater corporate responsibility especially in regard to their environmental obligations. Profit cannot be prioritised over the planet, and so companies must find a better way of operating so that they achieve a positive societal impact beyond a myopic focus on growing their bottom line.

Furthermore, the numerous societal and business advantages that effective, companywide ESG programmes can deliver, should encourage corporations to remain committed to making good on their ESG pledges and provide quantifiable data to demonstrate their progress.

GUEST SPEAKERS

Moderator:

Mr. Nawied Jabarkhyl
Correspondent News & Presenter, CGTN

Speaker:

Ali Al-Shihabi
Partner, KPMG Qatar

Speaker:

Ivano Ianelli
Board Director, ESG Foundation

Speaker:

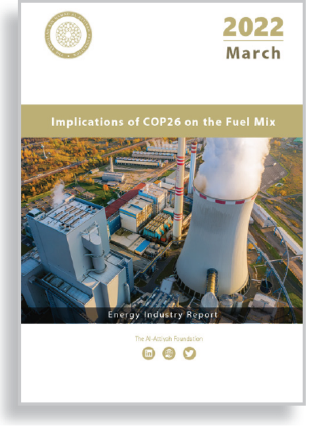
Leo Chi Wai Tong, Head of Sustainability, Qatar National Bank (QNB)

Speaker:

Howard Bevan
Director of Energy, The Al-Attiyah Foundation

08 PAST ISSUES

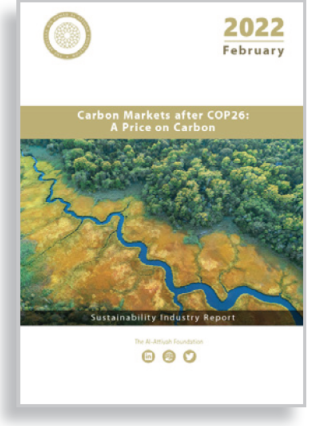
Have you missed a previous issue? All past issues of The Al-Attiyah Foundation's Research Series, both Energy and Sustainability Development, can be found on the Foundation's website at www.abhafoundation.org/publications



March - 2022

Implications of COP26 on the Fuel Mix

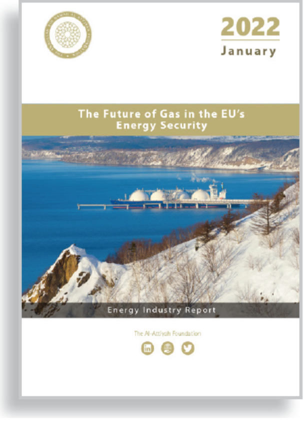
The outcomes from COP26 included major milestones such as the commitment to phase-down coal and fossil fuel financing, and the global pledge to reduce methane emissions by 30% by 2030. How will these pledges impact the sources of energy in the future?



February - 2022

Carbon Markets after COP26:A Price on Carbon

The Paris Agreement's Article 6, on carbon markets, was a crucial part of the COP26 negotiations. A price on carbon is a key tool for reducing global emissions in anefficient and fair way. But there were serious challenges in reaching a workable text, that would allow carbon markets to function effectively while avoiding doublecounting or encouraging unsustainable activities.



January - 2022

The Future of Gas in the EU's Energy Security

The European Union is currently seeing gas shortages and high prices, with declining domestic production and concerns over its relationship with Russia. Gas is also required as coal is being phased down. European countries vary in their attitudes to gas depending on domestic politics,resource position and energy mix.

Our partners collaborate with The Al-Attiyah Foundation on various projects and research within the themes of energy and sustainable development.

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