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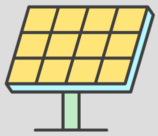
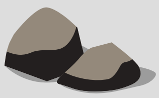
Off track: The UK's climate commitments

Ahead of the delayed Cop 26 climate summit, due to take place in November this year, the UK government has been keen to show off ambitious climate targets. The government's core 10-point plan aims to set the UK as a green economy leader cutting emissions up to 68% by 2030 – eventually leading to net zero by 2050. However, the following recent policy moves which have worried green experts and suggest the government's climate commitment could be going off track.

In his latest budget the Chancellor, Rishi Sunak, continued the decade long tradition of freezing fuel duty. The tax has remained at the same rate since 2009 and the government has even attempted to reduce the tax rather than extend it. Fuel duties, although expensive, pay for 1.3% of national income and that share is due to reduce as consumers purchase greener cars which are not covered by the tax.



The government's £2bn green homes grant faced a U-turn when in its first year the scheme only met 8% of its targets for installing energy efficient improvements. The plan was to create jobs by having grants available to the public to undertake renovations. However, the scheme budget was cut to £320m due to low demand which limits its effectiveness.



In January 2021 the government approved the UK's first deep coal mine in 30 years. The mine's construction aims to support UK steel producers by limiting the amount of coal imported from abroad. Cumbria County Council suspended the project last month following mounting criticism. However, the mining company plans to overturn the decision though legal action. The UK government's advisor on climate change said the project "gives a negative impression of the UK's climate priorities in the year of Cop26".

Source: Edie, The Guardian 2021

Regulations & Standards

Acting Director John Coates of the Division of Corporate Finance at the SEC, suggested in a speech on 3rd March 2021 that the SEC should help lead the creation of an effective ESG disclosure system. Coates posed a number of thoughtful questions for the SEC to address, such as the right balance between principles and metrics, how much standardisation can be achieved across industries, how and when standards should evolve, and the best way to verify or provide assurance about disclosures. (Continued below…)

Fund specific news

An interesting article in the Wall Street Journal (WSJ) highlights how ESG has been a buffer for larger manager's bottom line. Asset managers offering ESG ETF's can bring in 43% higher fees than non-ESG competitors, according to the WSJ's research. ESG demand continues as investors channelled $8bn to US domiciled sustainably themed investments in Q1 2021. *(Continued below…)*

On 3rd March 2021, the UK government introduced plastic packaging tax via the Finance Act 2021 (effective April 2022). While plans were announced last year, the policy paper outlines measures such as a £200 per tonne tax rate for plastic containing less than 30% recycled material. This measure is not expected to impact individuals unless businesses pass on the charge.

The article suggests some of this demand is due to the outperformance associated with the funds. However, the article ends on a cautionary note. Many of these ETF's contain tech stocks which outperformed other sectors in 2020 but have been pulled back by changes to bond rates. The article can be found here.

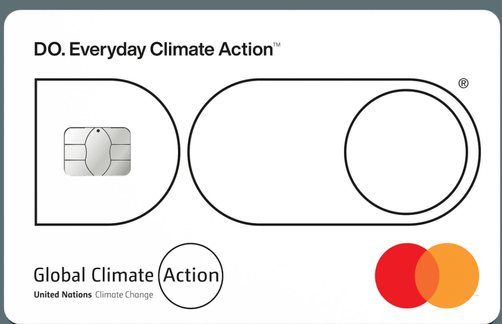
Case Study: Private Equity carbon farming

Private equity firm Adamantem Capital Management is a growing mid-cap private equity player in Australia and New Zealand with over $1bn under management. During 2019 fund raising commenced for its second fund receiving commitments of $700m. The fund's objective is to help investee companies become carbon zero within 10 years of the initial investment. As part of due diligence, companies will be required to engage an independent assessor to measure the company's energy use and emissions footprint.

In 2021 the fund invested in Climate Friendly, a carbon credit farming business which works with farmers, traditional custodians, and foresters to create carbon credits which can be sold at auctions. Australia has a huge agricultural landmass, and within the global market, offers comparatively cheaper carbon credits. The purchase by Adamantem follows similar 'carbon land grabs' by KKR and major oil and gas firms in Australia.

Source: The Australian and RENEWeconomy (2021)

INDOS pick of the month - The carbon credit card



The Impact-tech start up Doconomy is investing in new measures to help tackle climate change via your wallet. The firm has partnered with S&P and the UNFCCC to create two products which track your spending and calculates carbon emissions. Their first product acts like a debit card with an accompanying app displaying the likely carbon dioxide emissions from a purchase. The other acts like a credit card, with a carbon limit set rather than a financial one preventing transactions beyond the limit.

For more information contact:

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