Sustainability Snippets

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EU Carbon Border Tax

Earlier this month, the EU launched their initial phase of the world's first carbon border tariff scheme. The mechanism is intended to make the carbon price paid by importers the same as that paid by domestic companies.

For example, anyone selling steel, cement, aluminium, and other carbon intensive goods into the EU, will have to report the embedded emissions from the manufacturing of those products and then purchase certificates to cover these CO_2 emissions.

The idea is to put foreign producers on a level playing field with EU industries that must already buy permits from the EU carbon market and ultimately stop more polluting foreign products from undermining its green transition.

Initially there will be limited financial impact: the bloc will not begin collecting any CO_2 emission charges at the border until 2026. But certain goods and sectors will have to begin reporting their greenhouse gas emissions embedded during the production phase of products.

We believe a well-functioning, global carbon tax is one of the best ways to properly reduce, regulate and incentivise a shift to lower carbon technologies.

Delays to UK corporate governance disclosures

Earlier this month, the UK government announced its decision to shelve reforms that would have strengthened corporate governance rules for large companies. The proposal came in wake of the collapses of Carillion, BHS, and Patisserie Valerie.

The 'shelving' from the government was in response to lobbying efforts by a coalition of individuals and companies within the financial services industry. Their argument revolved around the notion that implementing these reforms would bolster the competitiveness of the UK market. Additionally, they also voiced concerns regarding the roles of Pay and Stewardship in this matter.

Additionally, it is anticipated that the government will exclude a long-awaited legislation that will seek to replace the Financial Reporting Council with a more powerful regulator (the Audit, Reporting and Governance Authority). Again, initially proposed in wake of the various company collapses.

Unsurprisingly, all this news has elicited widespread disappointment within the investment industry. As articulated by Roger Barker, the Director of Policy and Governance at the Institute of Directors, this decision *"places the government's long-standing reforms of audit and corporate governance in disarray."*

One could say, it is ironic at a time when the FRC is imposing record fines on KPMG for their audit failures in the Carillion case, and in the same month that ex-CFO of Patisserie Valerie have appeared in court on fraud charges, that the reforms stemming from those very scandals are being significantly diluted.

Furthermore, as investors, it is also ironic for the UK government to advance on with enhanced Environmental and Social reporting requirements when they are abandoning them for Governance reporting.

Google's data centres

Google has published details of its new system to reduce the energy consumption of its data centres in locations and times where the local power grid is in high stress.

When grid operators inform Google that electricity supplies will be constrained due to extreme weather or above average demand, Google's new algorithm will reschedule non-urgent compute tasks until after the grid event. In some cases, the system will relocate tasks to other data centre locations. This builds on their previous efforts to move compute tasks to data centre locations on grids with an abundance of carbon-free energy.

By shifting energy-intensive data centre operations, Google is reducing peak energy demand and ensuring grid stability. Historically, an increase in demand would have been met with an increase in electricity supply – mostly fossil fuel-based. However, the net zero energy transition requires an increase in renewables which will require greater flexibility in both supply and demand. Google hopes their new system shows other big energy users, and not just those in the data centre world, that this sort of flexible demand response is possible.

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A change of climate in the boardroom?

A recent PwC survey of more than 600 directors points to the necessity for a broader and deeper integration of ESG understanding within the boardroom.

The survey found that more than two-thirds of corporate boards lack a strong understanding of the ESG risks affecting their companies - a troubling stat amid a raft of forthcoming mandatory ESG disclosures. However, it also found that the percentage of directors that say their Board is prepared to oversee mandatory ESG disclosures more than doubled, from 25% in 2022 to 51% in 2023. It tells us that companies are more prepared for reporting on ESG, but still lack full comprehension of the impact ESG risks could have on their business. Is ESG still a tick-box exercise?

Especially interesting was the gender differential in views on ESG - female directors are more likely to see ESG issues as linked to company strategy, and 61% of female directors believe ESG issues have a financial impact on company performance compared to just 35% male directors.

What can companies do? Directors should seek to understand the internal controls and processes that support ESG within the business, and review how management can gain confidence through this data, especially in light of the evolving ESG regulatory landscape.

Can Tobacco Ever Be Green?

Stoptober has gathered momentum since 2012 as an opportunity to give up smoking for a month – and there are many well documented health benefits for doing so.

But the CEO of Philip Morris has recently claimed that his company is on its way to be an "ESG Stock" – could this ever be possible? The reason for this claim is that the company are moving heavily into e-cigarettes as a healthier alternative to smoking cigarettes. The risks do seem to be less than smoking cigarettes, but the World Health Organisation claims that smoking kills up to half its users who don't quit – so the hurdle is not high!

It is doubtful that Philip Morris, or any other tobacco manufacturer, will be considered as an ESG stock any time soon!

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