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Table of Contents:

- Brazil Appoints Luiz Alberto Figueiredo as Ambassador for Climate Change
- Green Banks Express Frustration After Net-Zero Banking Alliance Declines to Impose Restrictions on Fossil-Fuel Financing
- Singapore Moves Toward Finalizing Green Taxonomy with Final Public Consultation Period
- UK Local Government Pensions Schemes Will Vote Against Chairs of Oil Companies Failing to Meet Climate Pledges

Brazil Appoints Luiz Alberto Figueiredo as Ambassador for Climate Change

March 14, 2023

By Duncan Grieve
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On February 17, the Brazilian Ministry of Foreign Affairs **appointed** Luiz Alberto Figueiredo as the Brazilian Ambassador for Climate Change. Figueiredo is an experienced diplomat who previously served as Brazil's permanent representative to the UN and as the Brazilian ambassador to the United States, Portugal, and Qatar. He also served as the Minister of Foreign Affairs in the administration of former-president, Dilma Rousseff, between August 2013 and December 2014.

As the Ambassador for Climate Change, Figueiredo will be responsible for ensuring that Brazil has high-level representation at international events and that the country is globally engaged in discussions regarding climate change. He will also promote Brazil's candidacy to host the 30th UN Climate Change Conference (COP30) in the Amazonian city of Belém in 2025.

Figueiredo's appointment is an additional signal by President Lula's new administration that it intends to make environmental protection and climate-related initiatives a key priority. As we **previously reported** in January, Lula's Minister of the Environment and Climate Change, Marina Silva, made significant changes to the structure of the Ministry of the Environment, foreshadowing a reactivation of federal environmental protection agencies. Soon after, the Institute of Environment and Renewable Natural Resources (Ibama), carried out the **first significant environmental enforcement activity** under the new administration, targeting illegal deforestation in the Amazon region. In February, the Brazilian Federal Police, Ibama, and the National Indigenous People Foundation (FUNAI), carried out r**aids and enforcement activity** targeting wildcat gold mining enterprises that have illegally invaded Brazil's largest indigenous reservation. The activity of more than 20,000 illegal miners in the protected Amazon reserve has led to armed violence, infant mortality, and disease among the native Yanomami population and was declared a public health emergency by the Brazilian government and international publications such as the ***Lancet***.

Taking the Temperature: The first months of Lula's new administration have presented a mixed picture for international investors. Lula provoked alarm by criticizing Brazil's central bank and questioning whether it should remain independent. His government also recently amended the Brazilian State-Owned Companies Act by reversing an anti-corruption measure that prohibited in-office politicians or political appointees from directing state-owned companies.

On environmental policy, however, the administration appears to be taking steps to fulfill its ambitious reform agenda designed to position Brazil as a leader in global environmental policy. Brazil requires significant international investment in order to fund

programs to protect the Amazon region. On February 10, following a meeting between President Biden and Lula at the White House, the U.S. announced its intention to contribute to the Amazon Fund, starting with an initial contribution of $50 million. The U.S.'s commitment is a positive step in bolstering the international credibility of Lula's environmental agenda, but funds committed to date only represent a small fraction of the estimated $1 billion required. As we have previously discussed, there are potentially significant long-term adverse effects on Brazil's economy as a result of Amazonian deforestation, and the protection of the Amazon, in turn, is crucial to efforts to address rising temperatures and global deforestation. As Lula stated at COP27 last year, there "is no climate security for the world without a protected Amazon."

Green Banks Express Frustration After Net-Zero Banking Alliance Declines to Impose Restrictions on Fossil-Fuel Financing

March 14, 2023

By Sara Bussiere
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The **Net-Zero Banking Alliance ("NZBA")**, the UN-led coalition of global banks "committed to aligning their lending investment portfolios with net-zero emissions by 2050," is facing backlash from certain sustainability-focused banks after it declined to impose binding limitations on fossil-fuel financing. At least one bank has left the alliance in opposition and others have expressed **similar frustration**, contending that the NZBA's decision is "disappointing and discouraging," "frustrating," and "incompatible with net zero." The decision was made in response to large U.S. banks threatening to leave the alliance if such restrictions were imposed.

To achieve the NZBA's climate goals, Bloomberg analysts estimate that the ratio of investment in low-carbon to investment in fossil energy supplies must reach 4-to-1 by 2030. Last month, Bloomberg **reported** that most NZBA members have provided more financing for planet-warming fossil fuels than low-carbon energy projects, with their current average energy ratio (low carbon to non-low carbon) at .92 to 1. In 2021, NZBA banks funded $1.2 trillion of energy supply-related financing, with $585 billion going towards low-carbon energy and $636 billion towards fossil fuels.

Taking the Temperature: While the members of NZBA are "committed to aligning their lending and investment portfolios with net-zero emissions by 2050," the appropriate methods and timing for achieving this goal are subject to significant debate. As we discussed last year, a number of large U.S. banks, concerned about potential greenwashing challenges and the "anti-ESG" movement in the U.S., considered withdrawing from the United Nations' Glasgow Financial Alliance for Net Zero ("GFANZ," and of which NZBA is the banking member) after GFANZ signaled that it would require its members to comply with the Race to Zero minimum standards, which include a "commitment to achieve net zero across 'all emissions scopes.'" In December last year, Vanguard announced that it was withdrawing from the Net Zero Asset Managers initiative amid questions raised by the Minority Staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs over whether it is appropriate for passive investment managers to engage with issuers on "stewardship" issues such as climate change. On the other hand, notwithstanding these challenges, financial institutions around the world continue to articulate emissions financing reduction plans and related governance approaches to assess progress toward those goals. As we have reported, for the foreseeable future, banks and asset managers will have to continue navigating competing demands and priorities on the part of regulators, government, and stockholders to carve out a path forward on climate-related issues.

This piece was updated on March 21, 2023

Singapore Moves Toward Finalizing Green Taxonomy with Final Public Consultation Period

March 14, 2023

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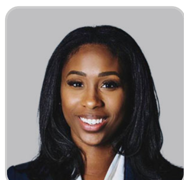

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Last month, Singapore's Green Finance Industry Taskforce (GFIT) **launched the final consultation period** to finalize its Green and Transition Taxonomy (the "Taxonomy"). This is Singapore's third public consultation on the Taxonomy, following two earlier consultation periods. While the **prior consultations** focused on the energy, real estate, and transport sectors, the current consultation seeks responses for the agriculture and forestry/land use, industrial, waste and water, information and communications technology, and carbon capture and sequestration sectors. The consultation period will close on March 15, 2023, and GFIT is expected to publish the final Taxonomy by mid-2023.

Gillian Tan, the Chief Sustainability Officer and Assistant Managing Director (Development and International) of the Monetary Authority of Singapore, said that the Taxonomy, "will drive financing flows to catalyse Asia's transition to net zero. Adapting international best practices for use in Asia, the taxonomy's extensive activity and emissions coverage will encourage Singapore-based financial institutions to direct capital flows towards green and transition activities, thereby guiding the region's transition to a low carbon future." The Taxonomy is being designed to be as consistent as possible with the EU Taxonomy Regulation and other global taxonomies, with a particular focus on Singapore-based activities, metrics, and thresholds.

Building off of the more established and well developed EU Taxonomy, GFIT's Taxonomy eventually will seek to address five objectives: (1) climate change mitigation; (2) climate change adaptation; (3) biodiversity protection; (4) promotion of resource resilience and circular economy; and (5) pollution prevention and control. At this stage of development, however, the Taxonomy only addresses climate change mitigation, though it may be developed to address additional objectives in the future. The EU Taxonomy, by contrast, addresses six objectives – the five addressed by GFIT's Taxonomy plus the sustainable use and protection of water and marine resources.

Similar to the EU Taxonomy, GFIT's Taxonomy proposes **"Do No Significant Harm" criteria** to "ensure[] that while the economic activities make substantial contribution to climate change mitigation, they do not cause significant harm to all other environmental objectives of the taxonomy."

The GFIT Taxonomy differs from the EU Taxonomy in that it is organized according to a traffic light system, differentiating among green (helpful), amber (transitionary), and red (harmful) activities. Green activities are those that "contribute substantially to climate change mitigation that is consistent with a net zero outcome, or are on a pathway to net zero by 2050." Amber represents transition activities, "including those that are either transitioning towards green within a certain time frame, or enabling significant emissions reductions in the short term." Red activities are not currently compatible with a net zero pathway.

Taking The Temperature: The proliferation of taxonomies underscores the challenges associated with defining what constitutes a sustainable activity, which in turn drives whether the asset or project is suitable for public or private funds dedicated to such investments. In addition to the Singapore and EU formulations, other notable taxonomies include the UK Green Taxonomy, and the Sustainable Markets Initiative Transition Categorization Framework. Notably, the Singapore Taxonomy recognizes the challenges associated with measuring whether an amber activity is correctly categorized based on scientific data. The announcement of the latest consultation points out that a "key proposal of this public consultation is the adoption of a 'measures-based approach' for the industrial sector. Unlike other sectors, for the industrial sector, there is a lack of certainty around the technological solutions to achieve net zero. This makes it difficult to determine science-based metrics and thresholds for the 'amber' category based on the emissions performance of the activity. In lieu of this, a 'measures-based approach' is proposed, which requires the production process of the industrial raw materials to adopt a range of emissions reduction measures." We have previously reported on the challenges associated with the appropriate collection and assessment of sustainability-related data, an issue that is attracting increasing attention from issuers and regulators.

UK Local Government Pensions Schemes Will Vote Against Chairs of Oil Companies Failing to Meet Climate Pledges

March 14, 2023

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Border to Coast Pension Partnership (the "Partnership"), a pension pool consisting of 11 UK local government pension schemes, announced that "[o]il majors and banks must make greater progress on climate pledges or risk losing the support of Border to Coast Pensions Partnership on key votes this" Annual General Meeting season. The Partnership is one of the largest pension pools in the UK, with approximately £38.3 billion assets under management. In its announcement, the Partnership committed to vote against the "Chair of the Board of oil companies which fail to meet one of the first four indicators of the Climate Action 100+ benchmark, which includes short, medium and long-term emission reduction targets. It will also vote against oil companies scored 3 or lower by the Transition Pathway Initiative (TPI), meaning they have not yet developed a strategic understanding of climate risks and opportunities or integrated this into business strategy and capital expenditure decisions." The TPI was established at the Grantham Research Institute on Climate Change and the Environment, which is part of the London School of Economics and Political Science, as "a global initiative led by asset owners and supported by asset managers" to assess based on research and data the progress of the "world's biggest companies from high emitting sectors on the transition to a low carbon economy." The Partnership also took aim at banks, stating that it would "vote against the Chair of the Sustainability Committee at banks where the company has materially failed the first four indicators of the TPI framework for the sector. This includes banks that have not sufficiently integrated targets, decarbonisation strategy, or climate policy engagement into business strategy."

Taking the Temperature: With its announcement, the Partnership joins other public pension funds and pension regulators taking a more aggressive approach on climate-related issues. For instance, earlier this year, the New York City Comptroller, the NYC Employees' Retirement System, the NYC Teachers' Retirement System, and the NYC Board of Education Retirement System announced that they had submitted climate-related shareholder proposals to three U.S. banks and one Canadian bank. The proposals, addressed to Bank of America, Goldman Sachs, JP Morgan Chase and Royal Bank of Canada, seek, among other things, to require the banks to disclose their absolute greenhouse gas emissions targets for 2030. Last month, the UK's Pensions Regulator announced the launch of a new initiative aimed at tightening regulation around ESG data published by trustees, as part of a wider campaign to assess whether

trustees are properly discharging their ESG and climate change reporting duties. And, separate and apart from public pensions, large asset managers continue to articulate stewardship policies requesting that companies set climate transition targets and commit to concrete plans to meet those objectives, at times coupled with the threat of voting against directors with responsibility in this area in instances where there is insufficient progress.