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THE ESG IMPACT ON MODERN SUPPLY CHAINS

INDUSTRY REPORT – MAY 2023

MEED
Middle East business intelligence

Foreword

The inaugural MEED-Mashreq Business Leaders Forum served as a platform to discuss the impact of ESG principles on modern supply chains

Actionable change is no longer limited to a business' own operations. It now applies to entire supply chains and is shaping the way organisations are perceived by their internal and external stakeholders.

Governments, businesses, and investors in the UAE, and across the world are progressively turning to business models that are not just profitable, but also sustainable in the long run. This shift is now apparent – and necessary – as issues such as climate change, resource scarcity and social inequality come to the fore.

Rising to the top of the business agenda in the midst of this transition are environmental, social and governance (ESG) principles. Whether in the form of tougher regulations mandating ESG compliance, or the rising number of consumers and organisations who only want to deal with ESG-compliant businesses – ESG and its implications for supply chain management are quickly growing in relevance. It is also a priority consideration for financiers and investors.

In coming years, the need to meet the highest standards of ESG performance is expected to carry significant ramifications for buyers and their supply chains across all business sectors.

At this juncture, it is important for organisations in the UAE and the wider GCC region to introduce structural changes geared at not just adapting to these new variations, but to grow and prosper in a greener and more socially responsible world.

On 31 January 2023, the inaugural MEED-Mashreq Business Leaders Forum titled *The ESG Impact on Modern Supply Chains* brought together industry practioners with the intention of building insights around the role of ESG and its practical application across supply chains.

The event served as a platform for business leaders, investors and regulators to identify innovative opportunities to transform their supply chains, discussing the opportunities for companies in the UAE to introduce ESG frameworks and adopt practical measures to improve the overall financial performance of their business and more specifically their supply chains, in order to meet the evolving demands of their customers, investors and policymakers.

This report captures key conversations from the event, presenting the current state of ESG in the UAE; the implications of remaining stagnated; and considerations for corporations seeking to make the switch to more sustainable business models.

UAE climate change minister, business leaders call for greater ESG incorporation

Public and private sector entities are rising to a growing demand for ESG-compliant products and services

Mariam bint Mohammed Almheiri, UAE Minister of Climate Change & Environment, observes the proceedings at the *ESG Impact on Modern Supply Chains* forum

KEY TAKEAWAYS:

- The inaugural MEED-Mashreq Business Leaders Forum on 31 January highlighted how ESG principles are transforming modern supply chains
- The event presented high-level insights from public and private sector entities, including the UAE Ministry of Climate Change & Environment, Global Compact Network UAE, DP World, Emirates Global Aluminium, Landmark Group, Apparel Group and GMG
- An executive panel discussion identified how industry leaders are responding to the ESG-led transition
- Individual consumers may differ in their intention and behaviour, but corporates and governments are more steadfast in their sustainability mission
- Stakeholder engagement and collaboration is crucial to ensure everyone is on board with ESG adoption
- Sectoral change needs to be driven by businesses, who in turn must introduce sustainability frameworks and also work with the government to build supportive policy and define targets

Industry experts from the UAE's sustainability space have strongly emphasised the need for more robust supply chain practices, underpinned by ESG principles.

Speaking at *The ESG Impact on Modern Supply Chains* forum, representatives from the public and private sector noted that innovation and partnerships have a crucial role to play in achieving the UAE's national environmental targets as well as the 17 UN Sustainable Development Goals (SDGs).

"The effort needs all hands on deck," said Mariam bint Mohammed Almheiri, Minister of Climate Change & Environment, during her opening remarks at the forum. "We need government entities, private-sector communities and individuals to all play a role in achieving the long-term goals."

Ahead of the 28th session of the Conference of the Parties (Cop28), which will convene in the UAE from 30 November to 12 December later this year, the Minister underscored the UAE's net-zero ambitions and how these connect to the ESG principles.

"The net-zero pathway is basically a route towards growing the economy. It shouldn't be seen as a burden, but in fact as a new way of doing business," she said, highlighting that the ministry is now looking at tools such as incentives, regulatory changes, and the capital required to achieve the targets. The National Dialogue for Climate Ambition is a platform by the ministry, which involves regular interactions with stakeholders from various industries to build a supportive framework.

Equally important is the role of agencies in spurring businesses to adopt better ways of working. The UN Global Compact Network (UNGC) is mandated to mobilise the private sector to move from commitment to credible action across the UN's 10 principles of responsible investment.

"UNGC is geared at providing practical tools and guidance to the private sector, to help them reach ambitious yet credible targets," said Ibrahim al-Zubi, vice chair of the Global Compact Network UAE. "This year – the UAE's year of sustainability – will see us launch the second cohort of the Climate Change Accelerator, a six-month accelerator programme designed to equip companies of any size and scale with the knowledge and skills they need to progress towards setting emission reduction targets aligned with the 1.5-degree Celsius pathway, in line with achieving net- zero emissions by 2050."

ADOPTING BETTER PRACTICES

As the government and other entities make a stronger case for ESG, businesses and supply chains must now take a closer look at the opportunities presented on the route to compliance.

In his welcome note at the forum, Mashreq Group CEO Ahmed Abdelaal noted that investing in ESG "does not only make social, ethical, and environmental sense, but also economic sense".

"On average, supply chain emissions are 11.4 times higher than operational emissions, equating to approximately 92 per cent of an organisation's total GHG emissions.

"In other words, the value chain and suppliers are a tremendous opportunity for companies to reduce their carbon footprint drastically," said Abdelaal.

Companies in the UAE are already making rapid progress in line with this paradigm shift. Presenting his company's annual sustainability report at the forum was Neeraj Teckchandani, CEO and director of UAE-based Apparel Group. As a well-known retailer and UNGC signatory, the firm has adopted a number of sustainable and socially responsible practices across its value chain, including merchandise upcycling, wastewater recycling, employing people of determination and equipping its headquarters with renewable energy sources.

"We have only just commenced on our journey of achieving a triple bottom line – profit, people and the planet," said Teckchandani. "We still have a long way to go, and we are keen to work with the public sector and our peers in the private sector to jointly succeed on this mission."

Meanwhile, firms such as global logistics firm DP World are strongly focusing on their ESG credentials to bulk up their financial attractiveness, in line with guidance from third-party ratings agencies.

"We are guided by something called the 'Our World, Our Future' strategy, which includes our internal sustainability strategy that helps us govern our operations on a day-to-day basis, as well as three legacy areas: education, women and water," explained Ayla Bajwa, director for group sustainability at DP World. Bajwa was a part of the high-level panel discussion at the forum which discussed steps being taken by business leaders to implement ESG-led practices across their operations.

Panellist Salman Dawood Abdulla, EVP – HSSEQ and business transformation at Emirates Global Aluminium (EGA) said that much of the demand for 'ESG compliant products' is coming from corporate customers.

"Our customers – from BMW to Apple – are now demanding a very transparent and digital trace of how the aluminium is being manufactured. And so, on our quest to deliver a world-class product, we must ensure it is being done responsibly."

Kapil Sethi, deputy CEO of global retailer and distributor GMG echoed a similar shift, noting that end-users – particularly from Generation Z – are driving change. "Gen-Z and millennials have the knowledge and understand very well where the

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"The GCC's financiers are already working towards defining investment parameters for sustainable projects. For example, Mashreq is designing financing structures that provide working capital in ways aligned with the company's ESG goals and rewards suppliers that display stronger green credentials"

product is coming from – even forgoing brands that don't meet the sustainability criteria," said Sethi. "This shift in the nature of demand has made us very conscious of how we deal with our suppliers, our auditing policies and processes, and collaborating with public and private entities to ensure we aligned in all of our international markets."

At the same time, retailers observe a gap between intention and behaviour when it comes to purchasing ethically-sourced products.

"Surveys show the results we want to see – that yes, there is demand for green products. But the reality on ground is quite different and people are not willing to pay a premium for such products," said panellist Rajesh Garg, CEO of retail firm Landmark Group. "Until that shift doesn't happen among the end-users, either caused by regulation or a conscious mindset change, things will remain the way they are."

DP World's Bajwa added that while individual consumers are still differing in their intention and behaviour, corporate and government clients are embracing the shift more rapidly.

"As organisations set their own targets and define climate actions, they expect all stakeholders to do the same to avoid liabilities. Companies are also facing a recruitment challenge, when the newer generation refuses to work for a firm that lacks a clear ESG strategy. These things are driving hard change."

MAKING BUSINESS SENSE

When asked if returns on ESG-related investments are financially justified in the current economic scenario, Garg said that "in the near-term, the opportunity for transformation by picking on the low-hanging fruits is immense".

"I strongly believe that what is green for the planet will ultimately become green for our pockets," said Garg. "There is a long way to go and ultimately, we will need to find other ways to improve our ESG performance. But for the foreseeable future, there is much value to be extracted by cutting out waste and being clever and creative with your product design and operations. Support from the government and financiers will only accelerate the transition further."

"A common misconception is that ESG compliant companies are destroying value, whereas recent studies show that in

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fact the opposite is true," said Joel Van Dusen, group head of corporate and investment banking at Mashreq. "There are demonstrable benefits for stakeholders, such as a reduction in risk and improvement in credit ratings – more communication is of course needed to continue to shift the narrative."

An important role that Mashreq is playing in businesses' journeys towards ESG adoption is enabling dialogue with executives, communicating what other companies in the region are doing, and helping its industry partners better define their own ESG goals.

"Beyond larger corporate action, the Middle East remains relatively unfamiliar with ESG-linked financing and there is still work to be done," said Van Dusen. "But we are very optimistic, as corporates and financial institutions across the board begin to drive change both internally and externally."

Navigating ESG adoption across inherently complex supply chains, however, is easier said than done.

"What we need as businesses is for financiers and investors to provide the technical expertise necessary to really enable change," said EGA's Abdulla. "Solutions such as carbon capture are only short-term solutions. What we need is to jointly define long-term change."

The GCC's financiers are already working towards defining investment parameters for sustainable projects. For example, Mashreq is designing financing structures that provide working capital in ways aligned with the company's ESG goals and rewards suppliers that display stronger green credentials.

"We must continue to challenge ourselves to be more innovative on financing. We are early on in our journey, but are embracing new ways of supporting our customers because we see the demand for it," said Abdulla.

Responding to ESG demands

Businesses around the Middle East recognise the relevance of ESG reporting, but lack of standardisation and clear frameworks complicates the approach

KEY TAKEAWAYS:

- Supply chains stakeholders are becoming more vocal when it comes to the environmental, social and governance performance of a business
- ESG reporting is commonly seen as a complicated and drawn-out process, weighed down by a lack of uniform, globally accepted standards and limited guidance from public entities
- The rising importance of personnel such as chief sustainability officers is aiding in the measurement and reporting of non-financial information
- The Middle East's financial markets have widely issued voluntary and mandatory ESG disclosure guidelines for listed firms

As governments implement the UN Sustainable Development Goals (SDGs) and their own national targets, organisations and their supply chains must rapidly adopt new ways of measuring and incentivising the right ESG behaviours to not just comply with reporting standards, but drive the right outcomes for stakeholders, investors and customers.

Against a backdrop of climate and societal change, stakeholders across the supply chain have become more aware, ready to question working conditions, supplier arrangements and environmental impact, boycott goods and services, hold boards to account and disinvest.

Both internal and external stakeholders are pushing corporates to integrate ESG into their commercial strategies
Source: Deloitte

However, understanding and implementing the appropriate framework to guide ESG behaviours is not an easy task. ESG reporting, which forms a key part of the overall governance framework, is often regarded as an overwhelming process.

Moreover, the question that arises is that – why must companies take the onus of driving the ESG agenda forward?

"As significant users of natural resources, employers of scale and the source of much technological innovation, companies do have a significant impact," explained Damian Reagan, assurance leader for sustainability at Deloitte Middle East. Reagan was the host of an exclusive workshop held at the forum, highlighting how corporates can initiate and strengthen their ESG organisational strategies.

"Their licence and ability to trade may be provided by governments and regulators, but influence over companies' strategies and operations also lies with its stakeholders: shareholders/owners, clients, consumers and employees. If companies do not recognise the importance of their role, then stakeholders will take action."

As stakeholders increasingly make their demands known and the weight of their decisions have more influence, companies are being urged to improve communications and transparency.

But key to communication is information, and in this case, it is often non-financial information, such as carbon reporting, water usage, waste produced, diversity metrics, governance policies and practices that is needed. In many ways, the reporting of non-financial information is becoming as relevant to stakeholders as traditional financial data.

"Companies are not as mature in terms of collation processes and controls, calculation methodology and disclosures for non-financial information, as they are with financial information," said Reagan. "However, the industry is responding by creating ESG accounting and reporting standards and disclosures, developing careers for professional ESG managers, and expanding the role and importance of the chief sustainability officer."

The changes are all happening in the face of what Reagan describes as a "tidal wave of legislation, regulatory requirements and expectation driving the production and disclosure of such information", which will inevitably impact and roll out across all financial markets, including those in the Middle East.

For instance in January 2021, the UAE Securities & Commodities Authority issued a circular that required all companies subject to the Joint Stock Companies Governance to complete a sustainability report as part of their set of integrated reports, in line with the internationally-recognised Global Reporting Initiative (GRI). Reports need to be completed on an annual basis, within three months of fiscal year-end.

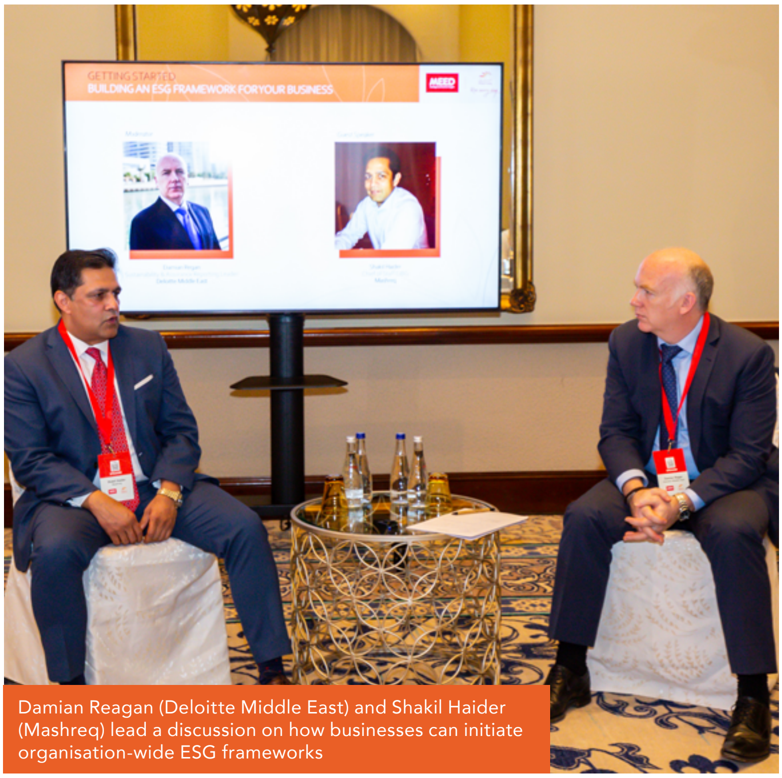
The UAE is the first in the region to mandate formal reporting requirements for issuers.

A GRI sustainability report typically provides material non-financial performance information about a company, highlighting ESG concerns. It explains the strategy put in place to set goals, measure performance, manage sustainability-related impacts and risks. Importantly, it must also be balanced and disclose a company's potential negative impact, as well as its positive impact on the environment, society, and economy.

"We are seeing these initiatives in parallel to significant local changes across the Middle East with regards to diversity and inclusion, "in-country value" localisation initiatives and worker welfare concerns. These are all of great interest to stakeholders, and raise their own challenges in reporting," said Reagan.

The Middle East will not be immune to the challenges of ESG or the weight of non-financial reporting that stakeholders increasingly demand.

"It is time for Middle East companies to be part of the global response to these ESG issues and take action in the development of their response to and reporting of ESG, recognising their role in driving a more equitable and sustainable economy and society, both now and in the future," said Reagan.



Damian Reagan (Deloitte Middle East) and Shakil Haider (Mashreq) lead a discussion on how businesses can initiate organisation-wide ESG frameworks

In January 2023, the GCC Exchanges Committee, chaired by the Saudi Exchange, issued a unified set of voluntary ESG disclosure metrics that includes 29 standards aligned with the World Federation of Exchanges (WFE) and Sustainable Stock Exchanges Initiative (SSEI), and comprise categories across GHG emissions, energy usage, water usage, gender pay, employee turnover, gender diversity, data privacy, ethics and more. The indicators are mapped against the GRI standards.

The committee includes Abu Dhabi Securities Exchange, Bahrain Bourse, Boursa Kuwait, Qatar Stock Exchange, Muscat Stock Exchange, Saudi Exchange and Dubai Financial Market. The metrics do not replace existing ESG disclosure guidelines for GCC stock exchanges.

VOLUNTARY SUSTAINABILITY STANDARDS AND REPORTING FRAMEWORKS

Sustainability Accounting Standards Board (SASB)

SASB Standards identify the subset of ESG issues most relevant to financial performance in each of 77 industries. SASB focuses on a subset of financially material issues.

Global Reporting Initiative (GRI)

GRI take a comprehensive reporting approach; it supports broad and comprehensive disclosures on organisational impacts across the various segments of environment, society and economy. It aids companies in the process of understanding which topics are relevant to all their stakeholders and to the company's operation by providing guidance on how to determine the material topics. GRI standards are considered the most relevant for developing a separate sustainability report serving the needs of multiple stakeholders.

Task Force on Climate-related Financial Disclosure (TCFD)

TCFD is an industry-led organization set up to develop and promulgate climate-related financial disclosures. TCFD focuses on the material financial impacts of climate-related risks and opportunities.

International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council, which puts out the Integrated Reporting Framework (IRF), urges companies to issue "concise" integrated reports (combining traditional, annual financial with ESG data).

Climate Disclosure Standards Board (CDSB)

Focuses on climate disclosures geared towards investors and financial markets.

SUGGESTED 'PLAN ON A PAGE' FROM DELOITTE TO HELP COMPANIES DEVELOP THEIR ESG STRATEGIES

PHASE 1

Identify and evaluate current ESG position

- Current ESG related initiatives
- Key policy drivers for ESG (Government direction, country commitments and aspirations
- Identifying current ESG related capabilities and understanding

2 WEEKS

PHASE 2

Strategic considerations

- **Stakeholder expectations (e.g., customers, agencies) national**
- **National policy landscape (such as a country's national vison and commitments**
- **Legal, statutory and listing requirements**
- **Market positioning and differentiators**
- **Alignment to commercial strategy**
- **Operating model impacts on business units and portfolios**

PHASE 3

Identify your ESG material Issues

Stakeholder expectations: Shareholders, rating agencies, regulators, customers, industry

Board and senior management defined vision, aligned with corporate strategy, risk appetite and ESG differentiators

Stakeholder Expectations

Materiality Assessment

ESG materiality and priority assessment deliverable
Prioritisation of stakeholder, government and regulatory focus areass and indicative ESG priorities, based on a materiality assessment that will consider:

- Impact of operations on environment, economy and society and
- impact to the company from external force

Align with GRI reporting requirements for stakeholder based ESG material issue

3 MONTHS

WORK STREAM 1

Develop ESG statement of intent (ESG strategy), governance and implementation

- **ESG statement of intent (ESG strategy)**
- **ESG governance framework**

- Incorporate ESG into operations & policies (HR procurement, health & safety etc)
- Incorporate ESG into risk management

Drive key initiatives, such as:

- Net zero
- Evaluate product development and services in line with ESG
- ESG efficiency development reviews on operations

4 MONTHS

WORK STREAM 2

Develop annual ESG reporting

- **Year 1 - Prepare GRI report aligned to local stock exchange KPIs (report annually)**
- **Year 2 - Develop TCFD disclosures and prepare for IFRS sustainability disclosures**
- **Year 2 - IFRS sustainability disclosures reporting**

YEAR 2

YEAR 3+

UAE firms steer towards net-zero future

Decarbonising supply chains requires concerted efforts from governments and businesses alike

KEY TAKEAWAYS:

- Industry experts highlighted the importance of reducing supply chains' carbon footprint
- Supply chains account for over 80 per cent of global greenhouse gas emissions
- Collaboration between governments, businesses and banks is essential to achieve net-zero targets
- Clarity on varying terminology and language is necessary to avoid the risk of greenwashing
- Carbon markets are set to be a gamechanger, creating a local economy and providing incentives to companies to reduce emissions by turning carbon into profit

Accounting for more than 80 per cent of global greenhouse gas (GHG) emissions, supply chains are regarded as a significant roadblock in realising global decarbonisation efforts.

Industry experts gathered at the *The ESG Impact on Modern Supply Chains* forum discuss the opportunities that lie ahead as governments and businesses work towards reducing their carbon footprint. Part of the challenge is defining and standardising what ESG terminology actually means.

"One of the biggest challenges for us, especially in the last decade, is the confusion between a lot of the different terminology," said Farah Naz, head of innovation, sustainability & ESG – MEA at engineering consultancy Aecom, and chair of the Chartered Institution of Building Services Engineers. "Before anything, we must clarify what we really mean by net zero."

The terms 'net zero', 'carbon neutral', 'climate positive', and 'climate negative' are often used to describe the impact of human activities on the environment, particularly with respect to greenhouse gas emissions.

"Many companies use varying terminology almost interchangeably, which can lead to the issue of greenwashing. The question companies first need to ask themselves is – what does this terminology mean for themselves or a client?" said Naz.

And while progress has been rapid, discussions with clients reveal that the focus today is largely on reducing carbon footprint as much as possible in the short term, with net zero seen as a long-term goal, said Husam Abdel Al, senior director for origination and sustainable finance, investment banking at Mashreq.

L-R: Colin Foreman (MEED – *Moderator*); Farah Naz (Aecom); Ivano Iannelli (Emirates Global Aluminium);and Husam Abdel Al (Mashreq)

“As financiers, we do not want to burden a developing industry by putting a cap on emissions. In fact, a better approach is to have a production to emissions ratio that better defines areas of improvement.”

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TRANSFORMING INDUSTRIES

Typically regarded as high carbon emitters, industrial manufacturers are now feeling the heat when it comes to meeting rising ‘green expectations’.

Panellist Ivano Iannelli, senior sustainability consultant at Emirates Global Aluminium (EGA) highlighted the aluminium producer’s experience working with German multinational carmaker BMW. In February 2021, the BMW Group became the first customer for EGA’s solar-power manufactured aluminium. While BMW has been an EGA customer since 2013, it decided to use the relatively cleaner alternative to reduce its carbon emissions by 222,000 tonnes annually.

“The point here is that decarbonising the supply chain cannot be a single-handed effort,” explained Iannelli. “We were driven to come up with our specialised, lower-emission product because we saw the demand from the likes of BMW, and also because of the UAE’s overall shift towards net-zero at a national level.

“Now, our biggest focus is elevating the level of ambition and knowledge even with the smallest participants in our supply chain. It’s easy to source data from the bigger players in your supply chain, but it gets more challenging when you are dealing with smaller supply chain partners. This is where collaboration can help.”

As a construction and infrastructure consultant, Aecom finds that supply chains constitute a significant part of its scope 3 emissions, which are all the indirect emissions that occur in a company’s value chain. Naz explains that in 2019, the firm pledged to reduce 50 per cent of its scope 3 emissions by 2030, driven by investor and customer demand. Thus far, it has managed to achieve a 10 per cent reduction.

“What we realised in our first year is that we cannot do it by ourselves, but also that the kind of knowledge and awareness required to achieve our goal does not exist in the supply chain,” said Naz. The firm further found that suppliers faced a lack of capital and resources, and in many cases did not have the mindset to embrace change.

Aecom then initiated a supply chain engagement strategy, working with its suppliers to create their ESG strategy, by leveraging Aecom’s own funding pool.

“This is where collaboration and co-creation comes into play,” said Naz. “It doesn’t always mean adopting the latest technology or investing millions – it’s about rethinking processes in a more innovative way and changing the mindset.”

Equally relevant is collaborating with industry peers, said Abdel Al. “Industry peers and competition must also be aligned when it comes to achieving national and global targets, so that no one company is at a disadvantage simply because they are trying to create a more ethical and resilient way of working. It also creates a level-playing field for suppliers, who must upskill themselves to work with an entire industry and not just one company.”

Iannelli added that firms are also “coming to terms” with the commercial resilience surrounding net-zero, and that efforts around carbon trading and credits help build a better business case.

“What was easily neglected just 10 years ago can no longer be ignored today. You have investors actively rejecting fossil-fuel linked industries, simply because they see it as a train approaching a station.”

80%

Of global greenhouse gas emissions come from supply chains

Source: Boston Consulting Group

RELEVANT TERMINOLOGY

- **A net-zero goal** or target means that an individual, company, or country has reduced its GHG emissions as much as possible and has offset the remaining emissions through activities such as carbon capture, reforestation, or the purchase of carbon credits. The aim is to balance the amount of GHGs emitted with the amount removed from the atmosphere.
- **Carbon neutral** means having a net zero carbon footprint, which entails that the total amount of carbon dioxide released into the atmosphere is equal to the amount removed. This can be achieved through a combination of reducing emissions and offsetting the remaining emissions through activities such as carbon credits.
- **Climate positive** refers to actions or initiatives that not only reduce GHG emissions to zero, but also actively remove more carbon dioxide from the atmosphere than they emit. For example, planting trees, which absorb carbon dioxide through photosynthesis, can be considered a climate positive action.
- **GHGs** are categorised into three groups or scopes. Scope 1 covers direct emissions from owned or controlled sources, such as fuel combustion or company assets. Scope 2 refers to indirect emissions from elements such as purchased electricity, cooling and so forth. Scope 3 covers all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions. This includes purchased goods and services, logistics, employee community and so on.
- **Carbon markets** are trading systems that allow emitters to offset their unavoidable emissions by purchasing carbon credits emitted by projects targeted at removing or reducing GHG from the atmosphere.

CARBON MARKETS

Carbon trading systems or 'carbon markets' are seen as an important stepping-stone to advancing the local economy and industries towards a net-zero environment.

Illustrating this, in November 2022, Abu Dhabi Global Market (ADGM) said that it would soon launch the UAE's first carbon-credit exchange in partnership with AirCarbon Exchange, a digital commodities exchange. ADGM will regulate carbon credits and offsets as emission instruments, and issue licences for exchanges to operate both spot and derivative markets.

"Carbon markets will help create a dedicated revenue stream which can then be utilised to support the commercial maturity of yet-to-be-realised technologies such as carbon capture and hydrogen," said EGA's Iannelli. "Such a system is a market-based mechanism, which means that the government controls the quantity of allowances but does not control the price. This enables major-emitters to invest in their decarbonisation and at the same time enable a circular economic cycle."

The presence of a local market also helps bolster the green credentials of globally competitive UAE firms. The Carbon Border Adjustment Mechanism (CBAM) is a border fee imposed by the European Union on carbon intensive imports such as heavy metals, cement and fertiliser, and will come into effect in phases from 2023. This is expected to have an impact on UAE-based entities and their suppliers.

By retaining carbon credits and trading within the local economy, UAE-based entities can reduce their overall footprint and thus face lower tariffs in markets such as the EU.

"It's simple: I invest in the country and the country invests back in me," said Iannelli.

The construction industry also sees benefits in the establishment of a local carbon market.

"One of the questions we often get from our clients in the built environment sector is why we do not have local carbon factors or benchmarks," said Aecom's Naz. "By building a local carbon market, we will be able to have carbon factors of local materials, which helps us regionalise the whole picture."

Circular economy reshapes business strategies

Organisations in the UAE are beginning to see the economic value in adopting closed-loop resource systems

KEY TAKEAWAYS:

- Governments and organisations are beginning to recognise the multi-trillion-dollar business value of circular economy models
- Governments are reaching out to the private players to collaborate as effectiveness of circular economy models depends on buy-in from all stakeholders in the value chain
- Larger corporates are sending ultimatums to their supply chain partners to adapt or be left behind
- Digitalisation plays a key role, by improving transparency, creating accountability and improving collaboration

Recent years have seen demand for materials and goods grow at an unprecedented rate.

On one hand, this demand powers entire economies and provides impetus for industries. However, as nations work towards tackling climate change, they find excessive consumption based on linear production models (create-consume-discard) to be a significant barrier.

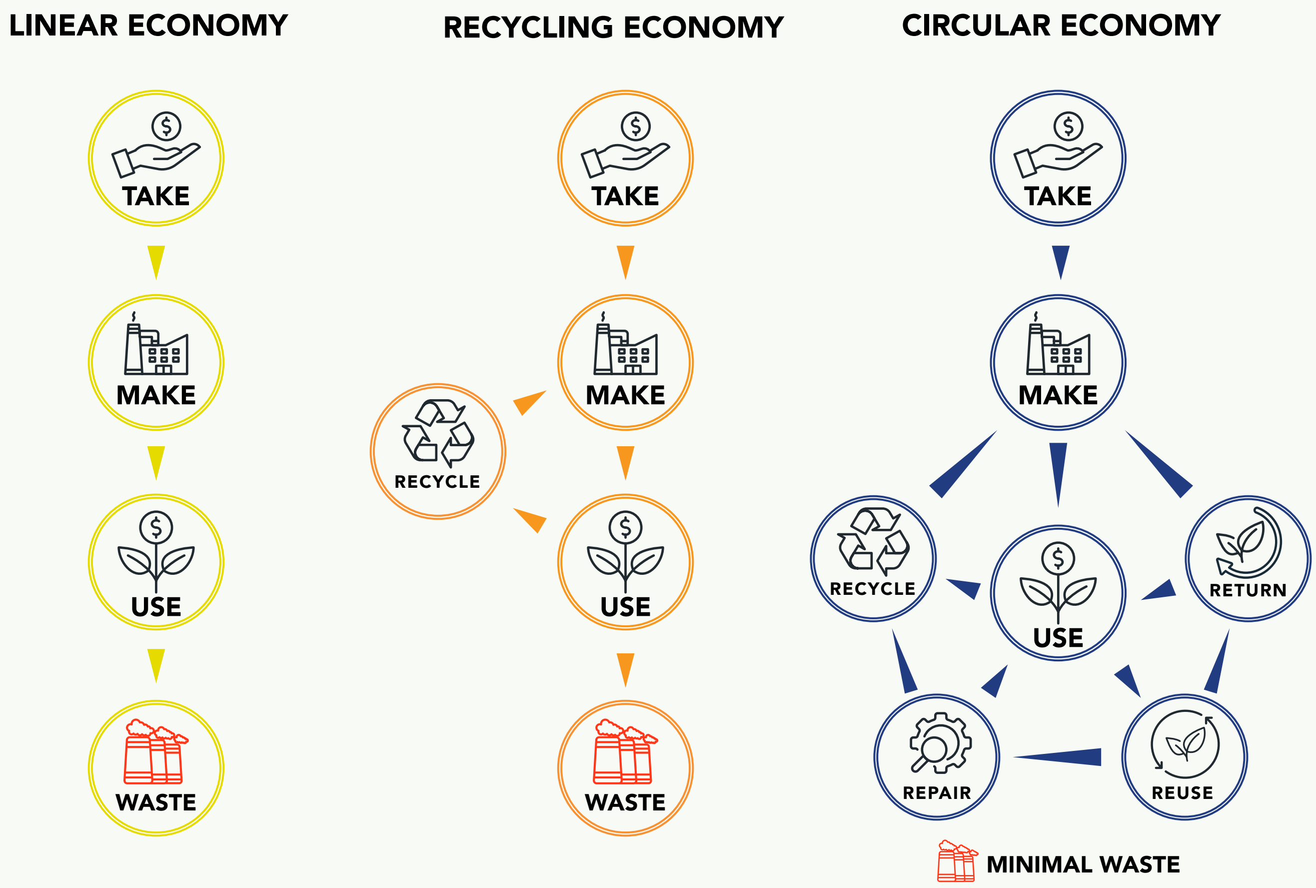
"With global population levels expected to surpass almost 10 billion people by 2050, there is an urgent need to reduce the rate at which we consume resources to avoid catastrophic impacts to the planet," said Hashem Stietiya, director of research and development at waste management and environmental services group Bee'ah.

Speaking at a panel discussion during *the ESG Impact on Modern Supply Chains* forum, Stietiya and other industry experts discussed how businesses in the UAE can prepare to adopt circular economy models.

"The harsh reality is that the era of abundance is over and we now need to transition to an economic model that inputs waste from one value chain into another," said Stietiya.

Circular economy refers to a more sustainable, closed-loop system of production and consumption. Raw materials are retained within usage cycles for longer and utilised repeatedly.

Today, governments and businesses recognise the value that



Source: World Economic Forum

circular models can bring to entire economies. In 2015, global IT services firm Accenture estimated that circular economy models could unlock $4.5tn worth of economic growth by 2030.

"Circular economy is just as much about profitability as it is about protecting the environment," said Stietiya. "It is about people, planet and profit. Take Finland for example and how it has sustainably managed its forests. They have successfully combined three components, environment, social and profit to create a working system at a country level."

In line with national and global targets, the UAE government is actively working towards designing circular economy implementation policies.

In January 2021, the cabinet approved the UAE Circular Economy Policy, which serves as a framework to identify priorities relating to circular economy, including infrastructure, transportation, manufacturing, food production and consumption. The policy is further supported by programmes and projects geared at attracting investments to the sector.

Given that the effectiveness of such circular models typically depends on buy-in from all stakeholders in the value chain, the government is actively reaching out to the private sector for support. Stakeholders, meanwhile, require greater clarity on where materials originate and ultimately end up, i.e., an end-to-end view on the product's lifecycle. Moreover, there is a need for greater accountability to establish roles at various touchpoints in the usage cycle.

"Building awareness and improving the understanding of how it all works is the most crucial aspect," said Kamel Mellahi, senior manager at the Centre of Responsible Business at Dubai Chambers (CRB). The CRB was founded in 2004 to support member-organisations embed CSR and sustainability into their business practices.

"What we are seeing now with businesses is that the top management and board members are keen to engage in conversations around circular economy and ESG principles," said Mellahi. "In line with this, CRB is launching a portfolio of services to support its members with the aim to upskill ourselves and our partners."

As businesses increasingly turn to greening their supply chain, larger corporates are now beginning to send ultimatums to their contractors and suppliers.

"This is especially important now as firms begin to recognise the impact of their Scope 3 emissions, which result from activities that sit out of their direct control, i.e, the supply chain," said Stietiya.

Panellist Manuel Alzugaray Rodrigues, vice president – Gulf at Schneider Electric noted a similar shift, highlighting that taking a partnership approach is vital.

"A lot of our suppliers are ultimately also our customers, as part of the ecosystem, because our technology is used in their processes from a manufacturing standpoint. We are approaching the improvement in efficiency from an internal

"Digital technologies not only help save resources, but also optimise and reduce the amount of waste, time or energy that would otherwise be required in heavy production environments"

Marcelo Piva,
Regional Sustainability Director – Greater MEA
Tetra Pak

L-R: Kamel Mellahi (Dubai Chambers); Hashem Stietiya (Bee'ah); Marcelo Piva (Tetra Pak), Manuel Alzugaray Rodrigues (Schneider Electric); Bilal Jan (Mashreq); and Mehak Srivastava (MEED – *Moderator*)

DIGITAL TOOLS IN A CIRCULAR ECONOMY BUSINESS MODEL

- **Digital marketplaces:** These platforms enable businesses to share and exchange resources such as raw materials, products, and equipment, and by extension, reducing waste and improving resource efficiency.
- **Asset management systems:** These tools help businesses keep track of their assets and optimise their use. For example, sensors can be used to monitor equipment and ensure that it is being used efficiently.
- **Supply chain management systems:** These tools help businesses optimise their supply chains, reduce waste, and improve resource efficiency. For example, predictive analytics can be used to anticipate demand and optimise inventory levels.
- **Recycling and waste management systems:** These tools help businesses manage their waste streams and identify opportunities for recycling and reusing materials.
- **Collaboration and communication tools:** These tools enable businesses to collaborate and communicate with other businesses, customers, and stakeholders. For example, digital platforms can be used to share information about resource use and recycling practices.
- **Product lifecycle assessment tools:** These tools enable businesses to assess the environmental impact of their products throughout their lifecycle, from production to disposal. This information can be used to identify opportunities to improve resource efficiency and reduce waste.

perspective and upgrading our solutions to reduce carbon emissions. But we are also taking that knowledge to the organisations in our supply chain, provide consultative services to help them grow just as we have," he said.

Circular business models also offer a significant opportunity for financial institutions to deliver on their climate commitments and create a new stream of revenue.

"Sustainable finance is a priority right now for banks globally," said Bilal Jan, sustainability financing specialist, contract financing division at Mashreq.

"Clients with favourable ESG credentials will see preferential rates moving forward. And this is also coming in as a regulatory requirement as central banks gear up to bring ESG compliance into the fold."

DIGITALISATION

Detailed information on resource usage at various stages in the cycle is vital to unlock opportunities. Digitalisation can help provide real-time data about an item's location, condition and availability; increase traceability of materials; ease access to products and services; and make processes more convenient and effective. In doing so, it enhances value retention in every design, manufacturing and consumer decision.

"Digital technologies not only help save resources, but also optimise and reduce the amount of waste, time or energy that would otherwise be required in heavy production environments," said panellist Marcelo Piva, regional sustainability director – Greater MEA at Tetra Pak.

Tetra Pak is gearing up to achieve net zero status in its operations by 2030 and across its value chain by 2050, by no means an easy feat.

"Digitalisation can help us build the roadmaps and support our suppliers, which in turn allows us to achieve our long-term goals," said Piva.

Putting the S and G back into ESG

An emphasis on sustainability threatens to overshadow efforts to implement proper social and governance frameworks

KEY TAKEAWAYS:

- Growing diversity of workforce and global scrutiny from investors demands greater focus on social and governance principles in the GCC
- Experts recommend the implementation of "a culture of inclusive mindset over a culture of financial return in decision-making"
- Prospective hires are increasingly turning away from corporations that do not have satisfactory ESG policies in place
- Educating the local business community, especially SMEs, is essential to scale adoption of ESG-led practices

There has been an increasing focus on ESG policies and initiatives in the GCC in recent years. Societal expectations have made it clear that governments and companies must rightly incorporate ESG practices as an inherent component of their businesses. Yet, while the importance and subsequent adoption of ESG practices have grown, the emphasis on environmental aspects has tended to overshadow social and governance issues.

This is perhaps not surprising given the region's dependence on energy exports. The GCC is one of the world's highest per capita emitters of global greenhouse gases and suffers from a scarcity of natural water resources.

Official net-zero targets of 2050 in the UAE and 2060 in Saudi Arabia and Bahrain, combined with the Cop27 and Cop28 climate summits, have created the much-needed impetus for companies to act. The existential challenge that the climate crisis threatens is a further catalyst for change.

In this context, it is arguable that the social and governance aspects of ESG have not necessarily received the same level of prominence as environmental aspects.

L-R: Edward James (MEED – *Moderator*); Aneeza Siddiqui (Adnoc); Maya Rmeity (Impactiv ME); Nazly Asadollahpour (Majid al-Futtaim Holding; and Victor Penna (Mashreq)

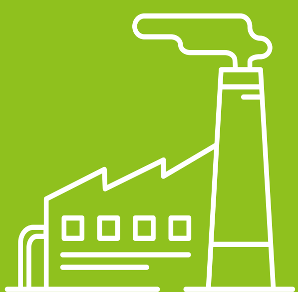
Historically, the focus has been impeded by the GCC's relatively small population and the structure of the economy, making social and governance issues less salient than environmental issues.

The fact that most firms in the region are privately owned and, therefore, harder to scrutinise has been another determining factor.

But recent, highly publicised examples of failures in corporate governance, such as the NMC Healthcare collapse in Abu Dhabi and the scandal surrounding the bankruptcy of Dubai-based Abraaj Capital, have emphasised the need for companies to treat ESG more holistically.

There are other emerging factors as well. The region is becoming more diverse, with an increasing number of women and younger people entering the workforce. This demographic shift will likely lead to greater demand for social considerations such as gender equality and work-life balance.

Moreover, the region is becoming more integrated into the global economy, so companies and investors will face greater scrutiny from international stakeholders focusing on social and governance considerations.



GCC IS ONE OF THE WORLD'S HIGHEST PER CAPITA EMITTERS OF GLOBAL GREENHOUSE GASES

ESG FORUM

The evolving nature of social and governance practices was the focus of discussion during a panel session at the MEED-Mashreq Business Leaders Forum.

"Companies nowadays are being frequently questioned on their ESG policies, their gender balance ratio, what do you want to be," said panellist Aneeza Siddiqui, vice-president of group ethics and compliance at Adnoc. "These questions come from all angles, whether it's investors, potential and current hires, or regulators."

However, corporations need to be aware that change for change's sake is not necessarily enough. Although there is still much progress to be made, the rapid rise of female workforce participation is a good case in point. Firms should understand that improved numbers alone are insufficient to fully embrace successful ESG frameworks.

"Promoting gender equality as a business case has pushed many companies to rethink their recruitment, retention and supply chain practices, framing women's empowerment principles to create social and economic value amid

"Obviously, most of our international suppliers are on top of the ESG issue, but when it comes to local companies, they are not always familiar with the basics"

Nazly Asadollahpour,
ESG Director
Majid Al-Futtaim Holding

increasing economic uncertainty," said panellist Maya Rmeity, diversity and inclusion adviser to UN Women, board member of the International Business Women's Group and co-founder of Impactiv ME.

"Yet, it's time to urgently stop framing equality around a business case. We should really think beyond that and start instilling a culture of inclusive mindset more than a culture of financial return in decision-making. Only this would guarantee a sustainable impact on our societies."

Gender equality is just one of many issues to address. Mental health is often overlooked, as are considering and making accommodations for staff with physical or educational challenges.

Change is often initiated by a new generation of employees who insist companies incorporate best practices. Increasingly, firms are finding that prospective hires evaluate them based on their ESG policies and will decline to work for companies that do not take the issue seriously.

EMBRACING ESG

For some companies – especially small and medium-sized enterprises (SMEs) – coming to terms with ESG can be daunting. A lack of dedicated resources to oversee policies and a knowledge deficit on what ESG entails can sometimes mean companies fail to implement initiatives or follow up on progress. Educating the local market is key. At times, this needs to be instigated by associated stakeholders in the value chain who can not only improve understanding but also provide incentives for proper implementation.

"Obviously, most of our international suppliers are on top of the ESG issue, but when it comes to local companies, they are not always familiar with the basics," said Nazly Asadollahpour, ESG director at Majid al-Futtaim Holding.

"So, we decided in 2019 to start engaging with them and

provide awareness and training, which has worked really well. In 2021, we started implementing deadlines by 2025 for them to meet certain sustainability requirements, and we are beginning to see real progress as the supply chain moves towards those goals."

Ultimately, the business world has no choice if it wishes to remain competitive.

"The GCC is catching up with some other regions like Europe," said Victor Penna, executive vice-president and co-head of global transaction banking at Mashreq. "Businesses will need to work towards net zero whilst also considering reporting transparency and social impacts. An industry specific approach instead of a 'one size fits all' will be necessary. While strong Governance is essential for any sustainable business, the social elements such as labour conditions may be even more relevant for some industries. Everyone must do their part."

To build a more sustainable future, companies must adopt a more comprehensive and balanced approach to ESG principles, which considers environmental, social and governance issues equally. Only by doing so will companies be able to achieve long-term success while positively impacting society and the environment.

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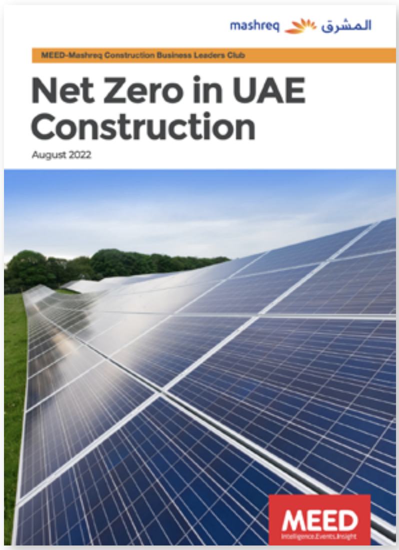

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Mashreq has pioneered key innovations and developments in banking, starting with entry-level digital-first customers, all the way through to powering some of the region's most prominent corporations and wealth accounts.

The bank's mandate is to help customers find their way to Rise Every Day, partnering through the highs and lows to help them reach fulfillment, achieve financial goals, and unlock their vision of success.

Reassuringly present in major financial centers of the world, Mashreq's home and global headquarters remains in the Middle East, offering services whenever and wherever opportunity takes its customers.

Find your way to Rise Every Day at Mashreq.com/RiseEveryDay

About MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 65 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

Our purpose is to support the region's companies make better and more timely decisions through our innovative data solutions and grow through our comprehensive and worldclass marketing solutions. To find out more, email: info@meed.com www.meedmashreqindustryinsight.com