2023-2024
Taskforce Green enabling activities
Terms of Reference

Taskforce Coordinators:

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Introduction

To date, initiatives focused on climate change mitigation have understandably been focused on greenhouse gas (GHG) emissions reduction. Historically this was a focus on an entity's Scope 1 and 2 GHG emissions and increasingly the focus has expanded to Scope 3 (value chain emissions). Scope 3 Category 15 "Investments"[1] has been the bedrock of the Glasgow Financial Alliance for Net Zero[2] by which asset managers, asset owners, banks, and insurers all set commitments to align their portfolios with a net-zero world. From a global macro perspective this is the key lens given the planetary boundaries for GHG emissions. However, at an entity level this approach can miss the nuance of the overall climate impact behind an individual portfolio of emissions.

An individual entity does not finance a pro rata share of the global economy, rather entities tend to specialise, either by geography, industries, and/or size of client, and make active decisions on who and how to deploy their capital. Because of this, a focus solely on scopes 1, 2, and 3 can at best obscure, or at worst, restrict, investment in activities that while not low-carbon per se, are critical to unlocking the successful transformation of the global economy to a net-zero world.

The energy transition requires not only moving away, or extensive decarbonisation from and of, carbon intensive activities but also the rapid deployment of decarbonised/low carbon alternatives and solutions. To date the bulk of the sustainable finance industry has focused on funding well-established "green" activities or encouraging improved sustainability performance of issuers/borrowers.

Although many of the solutions are identified, no quantified and consensual data is currently globally available to compare the relative climate benefit of these solutions with each other. This can act as a limiting factor restricting a reorientation of financial flows to activities enabling the decarbonisation of the economy. The notion of avoided emissions, sometimes referred to as scope 4, intends to address this assessment & data issue; but to date does not benefit from the strong Life Cycle Assessment (LCA) methodological basis that is necessary to its credibility.

Beyond the need to assess/build ability to benchmark low carbon technologies themselves, one area that has received less attention are those activities critical to the climate transition but are not typically considered "green".

Clear examples of this are typically further up the supply chain, such as the mining and metals processing industries. Both come with some material ESG concerns (and climate impact) however without their critical outputs we will not have the electricity grid or transportation network of the future. In other words, a successful energy transition is dependent on a rapid deployment of clean energy technologies, which implies a significant increase in demand for critical mineral resources. For instance, lithium-ion batteries used in electric mobility and stationary storage (to compensate for

[1] Category 15: Investments - Scope 3 Definition (GHG Protocol)
[2] https://www.gfanzero.com/

renewable energies' intermittence) require lithium and graphite as well as other critical minerals, and the electrolysers used to produce low carbon hydrogen require platinoids. In power generation, onshore wind and solar PV needs 2.5 times more copper per MW than coal and natural gas[3]. In 2022, 14% of all new cars sold were electric, up from around 4.1% in 2020. In the IEA's Stated Policies Scenario (STEPS), which is not the most ambitious scenario, electric car sales are expected to reach 27.9 million cars by 2040, which would represent 31.8% of car sales. To achieve this electric vehicle growth, on average 66.3 kg of graphite, 53.2 kg of copper and 8.9 kg of lithium per vehicle will be needed among other critical minerals. In comparison, conventional cars use around 6.1 times less minerals per vehicle[4]. Among all critical minerals, lithium's demand is expected to have the fastest growth, by over 40 times in the IEA Sustainable Development Scenario (SDS) by 2040, followed by graphite (around 25 times), cobalt (over 20 times) and nickel (around 19 times)[3].

Overall Objective

Avoided emissions (albeit with no standardised calculation methodologies), have been a key impact metrics used by green bond issuers since the creation of the green bond markets, whose issuances earmark climate-related eligible categories. However, to date GBP compliant green eligible categories have not considered their full life cycle or value chain within ICMA's GBP market guidance. A great number of "green enabling" activities, are not currently considered as green per se, but remain critical to these eligible categories, and have not been expressly framed as eligible for use of proceeds approach. Although more nascent, full life cycle or value chain analysis can eventually be applied to other environmental objectives.

Some of these "green enabling" activities come with ESG (including climate) challenges.

This taskforce aims at exploring the possibility for the Executive Committee of the Principles to develop dedicated market guidance through:

- The assessment of the market participants appetite for such extension
- A definition of "Green enabling activities" encompassing both the induced and avoided emissions dimensions (from reduction of direct and indirect impacts, to assessing the transition enabling potential, including deciphering the challenges of multiple end-uses), as well as the management of related E&S risks, with consideration to potential explicit exclusions.
- The opportunity to create a dedicated green bond eligibility category, leveraging on the definition of "Green enabling activities".
- Coordination with the SLB working group to explore the opportunity to extend the SLB KPI registry to specifically address the full impact (induced and avoided) of these activities.
- Coordination with the impact reporting working group aiming at further guidance on avoided emissions calculations.
- Exploration of a live coordination with the LMA/LSTA/AP-LMA to ensure common appetite and alignment across both the bond & loan markets.

Membership

The taskforce is open to all Members & Observers (including NGOs, rating agencies, technical advisors or consultants).

Active contributors should be limited to **15 institutions**, ensuring a balanced representation of issuers, underwriters and investors, but also organisations involved in Net Zero alignment assessments. Technical and sector expertise should cover, for example: carbon accounting/LCA, climate scenario, mining & metals, equipment / capital goods / ICT / building & construction.

[3] IEA – The Role of Critical Minerals in Clean Energy Transitions

[4] IEA - Global EV sales share