INVESTMENT MONITOR

Companies need to up their climate game. Can FDI help them?

By focusing their FDI activities on climate change, investors have a better chance of future-proofing their companies and enhancing their reputations.

By Sofia Karadima 29 Sep 2021

Companies such as Abu Dhabi National Oil Company are leading the way on green energy investments by launching hydrogen investment mandates. (Photo by Christopher Pike/Bloomberg via Getty Images)

When it comes to climate action, there are companies that are getting it right, there are others seeking advice on what they should be doing (and how), and there are yet more taking no necessary action whatsoever. However, the foreign direct investment (FDI) winners and losers in the post-pandemic world are going to be defined based on which companies took action to address climate change while expanding globally.

A report by the Chartered IIA in partnership with the Climate Group states that there is a "worrying lack of urgency when it comes to taking action" over climate preparedness. The report, which is based on a survey of chief audit executives across all industries in the UK and Ireland, states that "52% of businesses' internal audit functions report doing very limited or no work related to climate change, while 53% of chief audit executives surveyed have not discussed climate change with their audit committee chair, suggesting it has not been embedded properly within the organisation's risk management frameworks".

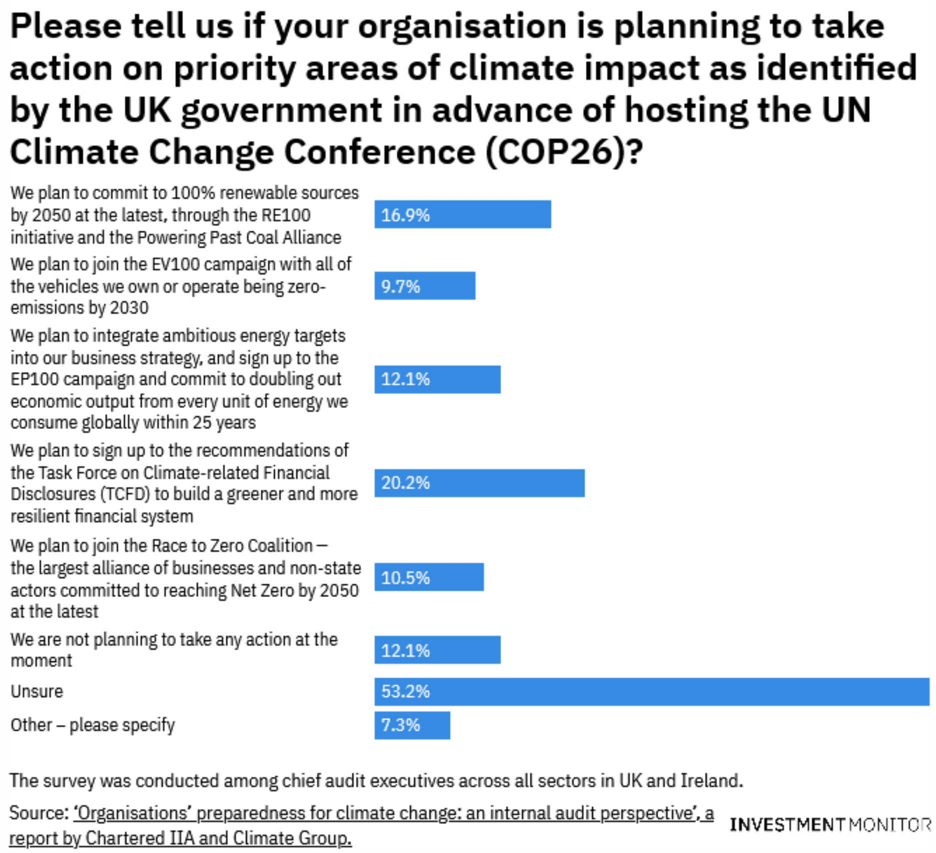
Rina Bardic, managing partner at investment and advisory company BlueOceans, says companies have a key role to play in taking action to proactively tackle climate change, with this onus falling particularly hard on Fortune 500 companies.

"Signing treaties such as the Paris Agreement is one way of acknowledging the issue, but what [these companies] really need to do is reinvent or reinvest in their supply chains and value chains to enable energy-efficient solutions," she says. "[They need to] ensure the recycling of raw materials and, of equal importance, ensure that their suppliers abide with the same standards, which is very often not the case, especially in industries such as fast-moving consumer goods, fast fashion and oil and gas."

What climate action should investors take?

Decreasing energy consumption in offices and factories, reducing waste, backing renewable projects, opting for greener infrastructure, encouraging employees to take public transport to reduce carbon emissions, all while focusing more holistically on reducing greenhouse emissions, are a few of the more obvious climate actions that investors could be taking when investing either domestically or internationally.

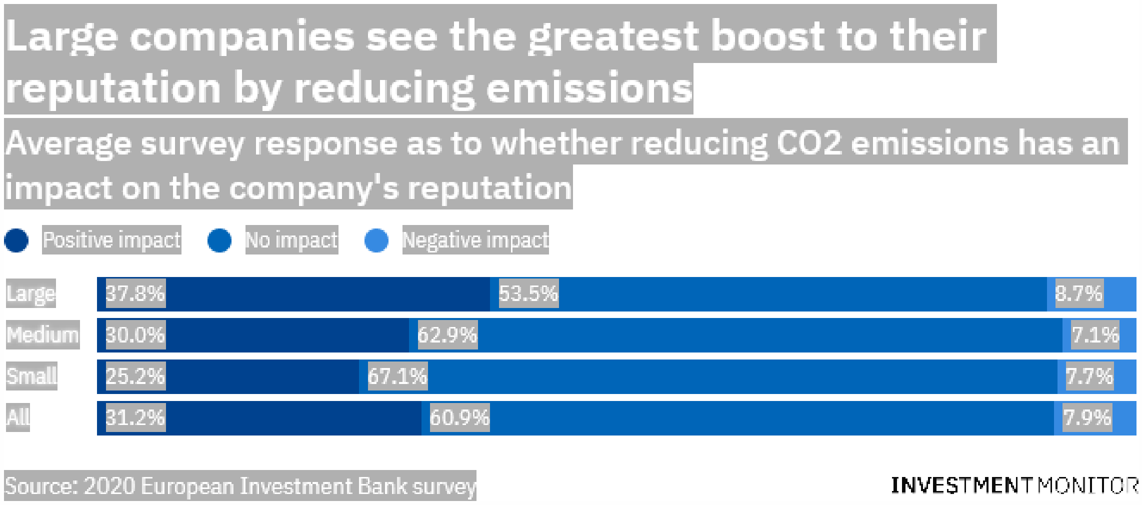
According to the Chartered IIA report, many companies and organisations do have plans to sign up to the recommendations of the Task Force on Climate-related Financial Disclosures. These recommendations include integrating energy targets into their business strategies, joining the Race to Zero campaign (which is a global movement to rally leadership and support from businesses, cities, regions, and investors for a zero-carbon recovery), and committing to using 100% renewable sources of energy by 2050. These are all priority areas identified by the UK Government in advance of the country hosting the UN Climate Conference (COP26) in Glasgow in November.



When it comes to the 'how' part of the strategies used to meet these targets, GlobalData's thematic research on climate change shows that emissions reduction, carbon capture and storage and carbon offsets are the three main strategies being used by companies to tackle climate change.

Why is climate action good for business?

Reducing carbon emissions is not only key for tackling climate change, but data shows that it is also good for business. A survey by the European Investment Bank (EIB) shows that companies believe that reducing emissions is an important factor in creating a positive reputation. Large companies in particular stated that they were more likely to see decarbonisation as positive for their reputation, with 37.8% making such a claim against 25.2% of small companies.



Indeed, taking action to reduce carbon emissions can enhance a company's reputation, while also providing investors with key business opportunities. Bardic states that economic stimulus plans that support clean energy and decarbonisation through innovative public-private partnerships can create new models for sustainable growth. Examples of this include the infrastructure bill for clean energy in the US, but also the Gulf Cooperation Council (GCC) countries taking a positive lead in areas of green energy investments, such as Abu Dhabi National Oil Company launching the hydrogen investment mandate.

Which companies are getting it right?

“Being [environmentally] friendly is no longer viewed as anti-business,” says John Boyd, principal at location consultancy Boyd Company. He adds that companies are more likely to qualify for large-scale state financial incentives if their project involves renewable energy and contains green criteria.

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This is especially true in the data centre industry, as companies such as Google, Facebook, Microsoft and Yahoo! are all using high levels of renewable energy. On top of that, Alphabet, Google's parent, plans to be 100% carbon free by the end of the decade.

Boyd adds that all major car manufacturers are aggressively upping their game in the electric vehicle (EV) market to satisfy demand from a more environmentally conscious consumer, while also looking to adhere to government mandates that target phasing out petrol-fuelled cars. One of the pioneers of EVs, Tesla, operates its Nevada 'gigafactory' wholly on renewable energy.

Computer hardware company HP and sportswear brand Nike are two more companies that are making a conscious effort to produce more environmentally friendly goods. At HP, Boyd says that the company is setting an example by streamlining its design and manufacturing process, aggressively reducing its use of paper and shifting towards recycled plastics. With Nike, its Move to Zero initiative is designed to reduce the company's carbon footprint by 30% by the end of the decade.

What are the climate challenges facing companies?

In spite of all the initiatives and well-meaning advice that companies of all sizes receive when it comes to playing their part in tackling climate change, many challenges still remain, particularly for those businesses wanting to expand globally.

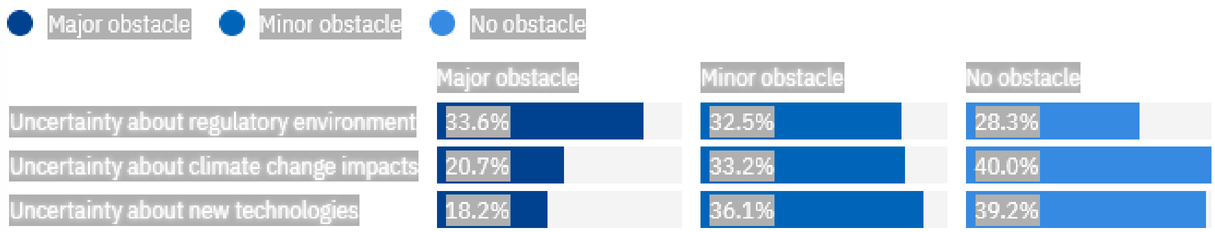
The Covid-19 pandemic in particular has emerged as a key challenge for companies across the world. The virus has, for example, highlighted that global supply chains are very fragile. It has also shown that a high number of organisations, particularly those that source their raw materials and manufacturing labour in the developing world, face both product and labour shortages.

"Going forward, localising supply chains and securing raw material will be a priority for companies as they seek to expand," says Bardic. "From an environment perspective this means sourcing sometimes comes at a higher production cost in the shorter term, but with the implementation of new technologies [that bring with them the use of renewable energy or offer greater automation, there is an opportunity] to create new investment and growth."

Uncertainty is also another challenge for companies looking to address issues related to climate change. In fact, the EIB study reveals that uncertainty about regulations linked to environmental issues is a major obstacle for companies in their efforts to reduce emissions and introduce green practices.

Uncertainty around risks makes it harder for companies to address climate change

Share of companies* citing obstacles to tackling climate-related weather events and emissions reductions in 2019



*Average response rate for companies surveyed in EU27, UK and US

Source: 2020 European Investment Bank survey

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