



BERENBERG UK ESG REVIEW

Q1 2021 ESG UPDATE

ESG is one of the most important topics faced by investors today. The rapid social and political changes taking place have pushed environmental, social and governance issues right to the heart of the investment analysis process. Part of this is social, in that large elements of the population now want the companies they invest in to “do good”. However, it is more than this. Companies with strong ESG impacts and policies are increasingly being recognised as being sustainable in a business sense. By this we mean, that they are able to retain the “licence to generate profits”, as they positively contribute to meeting societies’ wider goals.

ESG is a new science – as a result there are no globally accepted standards. Hence, from an investor perspective, there can appear to be a bewildering array of rating systems, initiatives and, sadly, a lot of corporate green washing.

To help investors navigate their way through these issues, and to enable them to stay up to date with the latest advances and thinking, our ESG Equity Research team produce a weekly newsletter. From this we have extracted some interesting news stories and developments for the quarter. We hope that this will provide you with insights into what we believe is a fascinating and increasingly important subject.

IN A NUTSHELL

- Obesity bigger killer than smoking in England and Scotland
- Top oil and gas lobbying group close to backing a carbon tax
- No, Wind Farms Aren’t the Main Cause of the Texas Blackouts

Obesity bigger killer than smoking in England and Scotland *(The Guardian)*

The Guardian discussed a report led by the University of Glasgow which found that in England and Scotland **obesity and excess body fat have been contributing to more deaths than smoking** since 2014.

Deaths attributable to smoking have declined from 23.1% of the total in 2003 to 19.4% in 2017, while **deaths caused by obesity have risen from 17.9% to 23.1%** in the same period.

The gap between obesity and smoking related deaths is wider among older age groups and the trend has been more marked in men than women.

Berenberg view

The increasing prevalence of obesity has been widely discussed for some time and has been a topic discussed within Berenberg’s Equity Research. Among other things, they highlighted the potential for more regulation, and we are starting to see that come through. During 2020, the UK government announced plans to **ban volume promotions on high fat, sugar and salt (HFSS) products** and restrict locations in which they can be sold, as well as **ban all online junk food advertising**.

Meanwhile, Berenberg’s Food Manufacturing & HPC Equity Research team found **c.40 countries have introduced sugar taxes** on food or drink. As more of these policies come into force, this could have a significant negative impact on certain food manufacturers, and advertising firms.

On the flip side, healthy eating has been highlighted as a trend for many years without yet making a meaningful difference. However, if these policies do their job, this could be about to change, while **the pandemic could also drive consumers to healthier food choices**.

It is also interesting to see **increasing investor engagement on the topic**, with a group of shareholders this week claiming *Tesco is not doing enough to tackle obesity* (*The Financial Times, 2021*) and putting forward a resolution for the company to begin reporting its healthy food sales.



BERENBERG UK ESG REVIEW

[Top oil and gas lobbying group close to backing a carbon tax](#)
(The Washington Post)



The Washington Post report that the American Petroleum Institute (API), a major US lobbying group for the oil and gas industry, is **moving towards endorsing a carbon price**.

The API appears to be backing a carbon price as an alternative to regulation stemming its activities, with a draft statement saying that “API supports economy-wide **carbon pricing as the primary government climate policy instrument** to reduce CO2 emissions while helping keep energy affordable, **instead of mandates or prescriptive regulatory action.**”

There is further scepticism about the group’s potential position as it **appears unlikely Congress would adopt a carbon price**. A [significant climate proposal](#), planning \$565bn of spending and to **phase out fossil fuels by 2035**, unveiled by House Democrats on Tuesday **does not include carbon pricing**.

It seems the API also has a challenge keeping its membership content, with **some favouring substantial movement on climate change and others opposed to any action**. Meanwhile, Total recently quit the group as it did not feel its interests were being represented.

Berenberg view

At first glance, it appears the API is making a positive step in the right direction but digging deeper it becomes unclear if that is the case or whether it is looking to **limit the extent to which government action is taken to tackle climate change**.

The CLEAN Future Act comes on the back of significant moves made as soon as Biden came into office, including re-joining the Paris climate accord and [suspending new fossil fuel drilling on federal land](#) (Reuters, 2021). Thus, the US landscape is becoming

much more challenging for the oil and gas industry, and **more favourable for renewables players at a very quick pace**.

Meanwhile, **oil & gas companies often pop up in conversations about ESG improvers**, both following their own decarbonisation strategy announcements and stories similar to the likes of this one. While there are some promising initial signs on this front and it is encouraging that those businesses are beginning to move, we think they are still at a very early stage and the plans outlined thus far **do not drive change quickly enough for us to see them as serious improvers at this stage**, while we also note they are still supporting [plenty of activity aimed at slowing the transition](#) (Unearthed, 2020).

On the carbon price front, the EU ETS has in the past couple of years begun to show how these can be effective, and Berenberg’s Utilities Equity Research team sees its impact increasing. However, we do believe they need to be used in **combination with regulation** rather than being the only mechanism driving the transition.

[No, Wind Farms Aren’t the Main Cause of the Texas Blackouts](#)
(The NY Times)

A number of **US politicians and political commentators have blamed the failure of wind turbines for the blackouts that have hit Texas** this week and have used this to **advance their defence of fossil fuels**, while arguing against renewable energy sources and the Green New Deal.

Although some wind turbines’ blades did freeze in place, wind power is estimated to contribute just c.7% of the state’s energy capacity at this time of year. **The majority of the power lost was caused by a reduction in natural gas supply** due to pipelines freezing, while production of coal and nuclear power also dropped.

A similar situation has occurred in Kansas, which does rely more heavily on wind turbines but where the biggest issue has also been the hit to natural gas supply. A state representative from Kansas, Brandon Woodard, argued this should serve as a wake up a call, saying “**this is why we have to have the conversations about being resilient to address changing patterns in the climate.**”

Berenberg view

The terrible situation in Texas demonstrates the **need to increase investment in climate change adaptation**. As [another article](#) (The Texas Tribune) on the blackouts highlights,



BERENBERG UK ESG REVIEW

wind turbines and natural gas plants can be ‘winterised’ to operate at very low temperatures but many power generators in Texas are not set up for that. As such, once the immediate focus of ensuring people’s safety and bringing energy supply back on board is complete, **we expect to see investment into improving the resilience of all types of energy supply** in the state.

On an adjacent topic, this type of event will add to the conversation surrounding renewable energy sources being intermittent and what type of back up energy source should be used to enable constant supply and decarbonisation.

Unfortunately, this weather event has led to some politicians and commentators again denouncing global warming. For those that are interested, here is an [excellent article \(Heated, 2021\)](#) explaining why the freezing conditions in Texas are related to climate change.

Encouragingly though, the US President’s focus on tackling climate change has not been affected, with a White House press spokesperson reiterating the administration’s commitment to **building resilient and sustainable infrastructure, creating a clean energy economy and reaching net zero emissions by 2050**.

In his first few days in office, President Biden has already re-joined the Paris Agreement, [cancelled the development of a major oil pipeline \(BBC, 2021\)](#) and halted fossil fuel exploration on federal land. While we think that passing environmental legislation will take time, we believe the **change in tone from this government has sent a signal to businesses**, which will cause US corporates to raise their sustainability efforts during 2021.

IMPORTANT INFORMATION

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