COUNTDOWN TO COP
FINANCING AND FUELLING THE FUTURE

WATSON FARLEY & WILLIAMS

FINANCING THE ROAD TO NET ZERO: BONUS EPISODE

Host: Ben Churchill

Hello and welcome to Watson Farley & Williams' 'Countdown to COP: Financing and Fuelling the Future' podcast series.

I'm Ben Churchill, Global Sustainability Lead at Watson Farley & Williams and I'm delighted to be guest hosting this bonus episode of the podcast and interviewing Mhairi Main Garcia who has expertly led us through the series so far.

Mhairi is a corporate and commercial lawyer specialising in project development in M&A in the energy and infrastructure sectors working across the Middle East and North Africa.

She focusses in particular on the energy transition, conventional power and water projects, wastewater and hydrogen, renewables including solar and wind, waste to energy, energy efficiency and sustainability. As well as upstream oil and gas, transportation and social infrastructure.

Mhairi is a member of the board and vice chair of the Clean Energy Council, a non-profit organisation providing a forum for both private and public sector organisations participating in the clean energy sector across the MENA region.

So, welcome to your own podcast, Mhairi.

Guest: Mhairi Main Garcia

And thank you Ben for hosting today.

Host: Ben Churchill

So, I thought what we'd try and do is to get your key takeaways from the series so far and think about financing and fuelling the future from a policy, business and an individual perspective. How does that sound?

Guest: Mhairi Main Garcia

It sounds good, but really where to start? We've gone through a lot of content in the podcast series with so many great insights from each of the guests. The series has really highlighted that the energy transition is a journey and depending on who you are, where you are, and the sector that you're in, that journey will have many different paths but ultimately all aiming to arrive at the same goal: net zero by 2050. That journey has many challenges and depending on the path that you're taking, it may differ. However, there were, I would say, nonetheless a number of common themes throughout the series so far. And these have included the need for funding for research, development and implementation of green energy sources, energy efficient technologies and sustainable infrastructure.

They've also included the importance of policy and regulation and not only that it's stable but it's also fit for purpose. And finally, the need for collaboration and partnerships.

Host: Ben Churchill

Thank you. And I guess, based on that, it might make sense to start with the policy piece and one of the clear themes of the series, as you said, was the need for effective regulation that works for each sector and this is particularly relevant now we're on the eve of COP28, and that would be a key part of the process. I'm interested in your views on how businesses can best inform that policy development. Or, on the flip side, how governments make sure that when they're developing regulation that the rules of the game will work practically for businesses.

Guest: Mhairi Main Garcia

Thank you, Ben.

I believe businesses can play a vital role in informing policy development and ensuring that government regulations are both practical and effective and there are several ways they can do this but let me just highlight a few.

Firstly, simply by engaging in dialogue with governments, with policymakers and with industry associations, businesses can provide input on proposed regulations and share real-life practical insights. They can participate in public consultations and really use that process to have their voices heard, to share their concerns and offer recommendations. Businesses can share their views on the economic, technological and sector-specific implications of proposed legislation.

Secondly, through engaging with other stakeholders and by that I mean other private sector companies, non-profits, academic institutions and so on; by engaging with them to present a really joined-up approach and policy recommendations and to present a collective voice.

Thirdly, businesses can provide policymakers with data, with research and case studies to help policymakers make informed decisions and design effective laws and regulations. They can offer technical expertise to help policymakers understand the practical implications of different regulatory measures. And that in turn can assist in demonstrating the feasibility and the benefits of net zero strategies.

And lastly, information sharing. For example, businesses can share reports on emissions reductions and progress towards net zero and that can help governments assess the effectiveness of policies and, if need be, make adjustments.

So, by actively participating in the policy development processes, businesses can help shape regulations that are both practical for their operations and effective in achieving net zero. Collaboration, transparency and a commitment to sustainability are all key to this effort.

And briefly to address the flip side of your question - how governments can ensure that the rules of the game, I think you called it, how the rules of the game will work in practice for businesses. Again, there are a number of things that governments can do, but I believe the focus must be on collaboration and dialogue. Balancing the need for environmental sustainability with the practical considerations of businesses really requires ongoing dialogue and a commitment to finding common ground.

So, all in all, in terms of development of policies and regulations, I would say the focus needs to be on collaboration, transparency and driving forward a shared vision for a sustainable future.

Host: Ben Churchill

I totally agree and I think that piece around businesses contributing to sector-based solutions and thought leadership is really key, something of course we at Watson Farley & Williams are really committed to doing. For example, in the maritime space through our sustainability imperative series.

So, let's say then that we get the right regulation in place for a certain industry, there’s then that risk for businesses around safeguarding against future changes? So, we know that when you take into account the supply chain complexities involved in enabling the net zero transition, companies are often operating on longer timescales than governmental policies which are at risk of changing radically under new administrations.

What in your view, Mhairi, is the solution for businesses in terms of handling that political uncertainty?

Guest: Mhairi Main Garcia

Indeed, political uncertainty and uncertainty generally could and can be a barrier to implementation and so the transparency and collaboration that we talked about is absolutely essential. But looking at what businesses themselves can do, navigating political uncertainty really requires businesses to adopt flexible strategies. It also requires them to diversify their supply chains and to build resilient systems to help them weather the storm of political changes.

Contractually, depending on the jurisdiction and the type of project, but particularly in government procured projects, businesses may also be able to rely on contractual change in law relief and stabilisation clauses in the contracts. These types of clauses can help mitigate the impact of unexpected regulatory changes offering a level of stability and potentially even provide compensation in case of adverse regulatory changes.

And finally, another mitigant is political risk insurance which may be available again depending on the jurisdiction and the type of project.

Host: Ben Churchill

Thank you. And one of the themes in your response there was I suppose finance which cuts across a number of the areas that you mentioned and will obviously be a recurring theme at COP and has been mentioned a lot in our podcast series.

Can you sum up some of the main challenges around financing the transition to a net zero economy?

Guest: Mhairi Main Garcia

Thanks, Ben. And indeed, it was a recurring theme. Financing the transition to a net zero economy, as we've discussed during the series, it can't really have a universal approach and it will very much depend on the sector and on the jurisdiction. However, there are some challenges, as you've mentioned, in common irrespective of the sector and jurisdiction. So, let's look at those challenges.

Firstly, policy and regulatory uncertainty and I've touched on that already, given the rapid evolution of climate related policies and regulations, it can be and is challenging to plan and allocate capital effectively and also the lack of regulation or changing regulation can and will create bankability issues. Lenders like certainty.

And still on the theme of uncertainty, technological uncertainty. Many of the technologies needed for a net zero transition such as large-scale energy storage or carbon capture are still in the development phase, making it difficult to assess their long-term viability and costs.

And talking of costs, the upfront capital costs of transitioning, including investments in renewable energy, energy efficient infrastructure, carbon capture technologies and so on, the costs can be substantial.

At the same time, investors may be uncertain about the returns on these investments, especially where new technologies are concerned. Smaller developers and indeed less developed economies may struggle to access the necessary capital for sustainable investments limiting their ability to contribute to the net zero transition.

There is also an increased significance placed by banks on ESG, but companies often face challenges in measuring and reporting their carbon emissions and other ESG metrics accurately.

So, addressing these challenges, will require a combination of innovative financing mechanisms, clear and stable policies, public private collaboration and yes, there's that word again collaboration, and a focus on ESG and investment decision-making.

Host: Ben Churchill

Thank you, that makes a lot of sense. And I suppose we've talked quite a bit about, that need for effective regulation to drive progress. I'm also interested in your views on the role of voluntary corporate disclosures and target setting in driving the progress that we need.

Guest: Mhairi Main Garcia

So voluntary disclosures and target setting, I believe, are really powerful tools for driving forward the energy transition. And here's how:

Through investor confidence, setting clear targets and reporting, builds trust and can signal a business' commitment to sustainability and that in turn can attract investors.

Through accountability, for example when companies voluntarily disclose their greenhouse gas emissions and set targets to reduce them, they can become more accountable for their environmental impact.

Through risk management, voluntary disclosures allow businesses to identify and manage climate related risks and adapt to changing regulations and market dynamics but, at the same time, reducing exposure to potential financial and reputational risks.

Through regulatory compliance by voluntarily disclosing emissions and setting targets companies can align with evolving environmental regulations more readily and avoid potential compliance issues going forward.

And finally, through reputation. Companies that lead in sustainability efforts often enjoy a positive reputation.

So, in my view, these are the main ways that voluntary disclosure can drive forward the energy transition. There are of course others such as supply chain engagement and encouraging innovation and, I'll mention it again, collaboration. Working together on common goals will in my view, undoubtedly accelerate progress towards net zero.

Host: Ben Churchill

That’s really interesting and many of those drivers informed our own choice at Watson Farley & Williams to set global science-based targets which have been approved by the SBTi and which we’re sharing publicly today, actually. We wanted of course to get ahead of that emerging regulation but, we also saw target setting as an opportunity to get the firm focussed on collaboration, innovation and accountability to help meet our carbon reduction objectives.

And reflecting on that collaboration word a bit more. I know we've mentioned it already in a couple of the previous questions because it is such a such a fundamental point. And that partnership working is of course key to our corporate sustainability approach at Watson Farley & Williams. So, whether that's getting specialist support to inform our carbon reduction plan, providing our own skills and expertise to support charities and NGOs in our communities or, as I mentioned, working together across teams internally to help reach our goals. So, this theme keeps coming up and came through really strongly across all of the episodes of the podcast.

I wondered how you would sum up the importance of collaborative working to drive the transition?

Guest: Mhairi Main Garcia

That's right, so indeed collaboration really is a recurring theme. And on so many levels, collaboration can be a driver to propel forward the energy transition. There are many reasons, I'll highlight a few.

Firstly, let's look at collaboration between private and public sectors. As I've already mentioned, public and private sectors must work together to align policies and regulations and that's really fundamental in my opinion. The exchange of knowledge and best practices between the public and private sectors will enhance the overall understanding of the challenges and also of the opportunities associated with the energy transition.

Secondly, let's look at collaboration between private sector stakeholders. That allows for the pooling of resources, expertise and investments enabling more significant and impactful initiatives and enabling the development of new technologies, all of which can contribute towards net zero.

Thirdly, international collaboration. Achieving net zero is a global challenge that transcends borders. International collaboration is fundamental. International collaboration between governments, private sector entities and non-governmental organisations is essential to drive climate change on a global scale.

And lastly, I think collaboration with local communities and stakeholders is also important for societal acceptance of the energy transition and its consequences.

Host: Ben Churchill

Thank you, that's really interesting. So, we talk a lot understandably about climate risk but one of the themes that did come through in the series was around the opportunities available for companies who take this agenda seriously and I wondered what your thoughts were on that?

Guest: Mhairi Main Garcia

That's right, so undoubtedly while climate risk is a critical concern, I believe there are also significant opportunities for companies to embrace the climate agenda. For example, there are opportunities for companies to invest in clean technologies and sustainable practices, there are opportunities to become industry leaders and be at the forefront of innovation and, there's an opportunity to create new markets and set the standards for others to follow.

Another opportunity relates to reputation and brand enhancement. We are seeing that consumers are increasingly favouring environmentally responsible businesses. And it's not just consumers, investors and banks may also favour companies which take the energy transition seriously. Companies committed to sustainability often find it easier to access green financing and to attract socially responsible investors.

There are also opportunities for reducing operational expenses and cost savings, for example by introducing energy efficiency programmes or waste reduction measures.

Finally, attracting talent, graduates are often drawn to companies with strong sustainability values. I believe that companies that understand and harness these opportunities, opportunities for growth, opportunities for competitiveness, opportunities for resilience will be well positioned for success in a changing world.

Host: Ben Churchill

And taking that focus on opportunities one step further I guess, so a lot of the conversation in this space is rightly around the cost of action and who should pay. An interesting dimension to that discussion is the cost of inaction, which is something we talk about at Watson Farley & Williams in terms of the business case for sustainability.

I was wondering whether you think businesses are pricing in costs relating to the impact of climate change globally under say a two/two point five degrees warming scenario and, if so, are they seeing the opportunities inherent in taking action?

Guest: Mhairi Main Garcia

Thanks, Ben. I'm glad you've raised this question. The concept of the cost of inaction is indeed an important one and it's often an under discussed aspect of the broader sustainability and net zero discussions. I think the cost of inaction for the environment is obvious. But in addition to that, there's a real cost of inaction for businesses and if businesses don't act they risk being left behind.

Many businesses are starting to recognise the potential finance risks associated with global warming and the cost of inaction. They're seeing the opportunities and they're taking action now. They're investing in clean technologies, sustainable practices and renewable energy sources to reduce operational costs, enhance brand reputation and also to tap into growing markets for green products and services. We've also seen clients incorporating climate related financial modelling into their strategic planning, looking at the potential costs related to climate change. Companies are working towards securing more resilient supply chains to mitigate the potential disruptions caused by climate related events. And some businesses are exploring insurance products and liability strategies to protect themselves from climate related risks and potential litigation related to environmental and climate related issues.

So, whilst there are upfront costs associated with the sustainability initiatives, many businesses are now, I believe, seeing the long-term benefits and opportunities and mitigating risks, improving operational efficiencies and really positioning themselves as leaders in the changing world.

Host: Ben Churchill

So we've talked a lot about the opportunities and incentives in there for businesses to act and many of course take the opportunity to then communicate about the steps they're taking. Often as we've mentioned previously in part for reputational gain it's probably fair to say, there is however a lot of talk about greenwashing and legal challenges to green claims being made by companies.

I'm interested in how you view the scrutiny of companies and the impact it will have on progress towards the net zero transition.

Guest: Mhairi Main Garcia

Thanks, Ben. Look, I agree that greenwashing is certainly not the answer, but equally green hushing is not the solution as we need the conversation to take place and we need businesses to be transparent in their progress in the transition. Having said that, I do firmly believe that companies need to be authentic in their sustainability efforts.

So what does that mean? It means scrutiny is a good thing. Scrutiny and indeed legal challenges can lead to greater accountability. And businesses will be more cautious about making unsubstantiated or exaggerated claims about their transition efforts. And that same scrutiny can also lead to greater consumer trust as well as stimulating competition in the market.

Companies that genuinely embrace the sustainable practices and reduce their environmental footprint are more likely to gain a competitive advantage.

And then there's the investors, investors are increasingly focussed on ESG factors and scrutiny may prompt them to assess a company's true commitment to sustainability more thoroughly, potentially influencing their investment decisions.

Finally, public pressure can drive businesses to take more meaningful and transparent actions towards net zero.

Companies facing scrutiny need to take positive steps such as investing in genuine sustainability efforts. Not only to avoid legal challenges but also to avoid reputational damage. They can also enhance the reliability and transparency of their sustainability data and their disclosures to withstand scrutiny.

And that can ultimately contribute to better decision-making and good corporate governance. So, while scrutiny and legal challenges may expose instances of greenwashing, they can also foster a more transparent and accountable business environment and that in turn can drive progress towards net zero.

Host: Ben Churchill

Thank you, I totally agree with that and those principles around action and transparency are really fundamental to our own sustainability programme at the firm.

I thought it'd be interesting at this point to think a bit more about how progress or lack of progress on the net zero transition can directly affect people's lives now and in the future and how businesses should be considering this. So, probably worth framing that in terms of the just transition concept. So, in some of the conversations in the podcast series there seemed to be somewhat of a tension between pursuing the needed action to limit catastrophic climate change and then the need to offer energy security in the shorter term.

There's then that further dimension around global inequality and ensuring a just transition for communities still heavily reliant on fossil fuels with a focus on this as part of the COP28 thematic programme. What are your views on this aspect of the transition and how do we manage these competing aims in the short term?

Guest: Mhairi Main Garcia

I think as things currently stand there is a tension between the need to limit climate change and the goal of providing energy security, as well as addressing more broadly global inequality and ensuring a just transition. And balancing these competing challenges requires careful planning and a multi-faceted approach. Addressing these challenges and the competing nature of them is a very complex task. It requires a combination of strategic planning, innovative solutions, international cooperation and yes, there's that word again or collaboration, and a commitment to equity and social justice. But balancing these challenges is also crucial for creating a sustainable and an inclusive future.

Host: Ben Churchill

And then sort of moving that conversation on from the impact on individuals to the impact of individuals and one of my jobs here at Watson Farley & Williams is to keep our people engaged with sustainability, to harness their skills and expertise to help address some of the key environmental challenges facing the planet.

How do you view the impact that individuals or, actionists, I think they're being termed as at COP, can have when working voluntarily to help address climate change?

Guest: Mhairi Main Garcia

In my view, individuals or actionists, as they've been termed, can really have a significant impact. Their collective actions contribute to a groundswell of positive change. They can demonstrate the power of the grassroots and they can bring to light grassroots initiatives, addressing key environmental challenges. They can also help by providing accessible and understandable information about environmental issues and increase awareness about those issues promoting community involvement, promoting educational initiatives and youth involvement, sharing ideas and collaborating on projects. By fostering a sense of responsibility, by providing platforms for collaboration and by encouraging innovation, individuals - or actionists - can be powerful catalysts for change in the global fight against climate change and the drive towards net zero.

Host: Ben Churchill

Thank you. And I think our time is almost up. I'm sure we could talk about this topic for a very long time but thank you for a fascinating conversation, Mhairi and to wrap up I'm going to try and zoom back out and ask you to reflect on those core themes that have cut across the series so far.

So, the ‘Countdown to COP’ podcast series is centred on the firm’s different sectors from renewables and oil and gas to aviation and maritime to mining, infrastructure and transport.

It's clear that a “one size fits all” approach isn't possible here. So, can you sum up these differences and the implications for the drive towards net zero?

Guest: Mhairi Main Garcia

Thank you, Ben and thanks for a great conversation. Indeed I think we could talk for a lot longer on each of these issues.

In relation to this question, that's correct, throughout the series we have indeed looked at different sectors which the firm services and the challenges around achieving net zero in each of those. It's very clear that achieving net zero is more feasible in some sectors than others due to differences in technology, economics and the very nature of emissions. So, we have sectors where it's easier to achieve net zero such as renewables, infrastructure and transport. But we also have sectors where it's a greater challenge including the oil and gas sector, mining, aviation and shipping.

I think it's important to note that even the sectors that may not fully achieve net zero in themselves, those sectors can still make a significant contribution by reducing emissions and implementing offsetting measures.

The key in my view is to implement a combination of reducing emissions, innovation and sustainable practices across all sectors to work towards global net zero emissions.

Host: Ben Churchill

Many thanks, Mhairi. And, of course to you, the listeners. Please do get in touch with your feedback or if you have any questions about the subjects we've discussed today or over the course of the series.

To listen or view the transcripts of all of the episodes of this COP 28 series, please visit wfw.com.

Thank you for joining.