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Marketing Communication

SustainaWeekly

How will the ECB green its bond holdings?

- **Economics Theme: The ECB announced it will direct reinvestments under its corporate bond programme based on climate criteria. We expect reinvestments to be tilted towards companies with pathways that align with Paris. The tilt could have important implications given that up to 40% of upcoming redemptions are from carbon-intensive companies.**

- **Strategy Theme: We analyse the ambition and progress related to scope 1 & 2 emissions of the largest banks in Germany, France, Belgium, the Netherlands and the UK. Overall, banks are on track to achieving targets. However, there are differences in terms of the degree of ambition of the targets, while our analysis does not include scope 3 due to data constraints.**

- **Policy & Regulation (1): The ECB published results of climate stress test last week. It showed progress has been made, but a lot of work by banks is still needed. Banks have relatively large exposure to carbon-intensive industries, while many lack longer-term strategies of how to deal with this.**

- **Policy & Regulation (2): The Council of Ministers agreed a joint position on the 'Fit for 55' package. Most of the key elements proposed by the Commission last year remain intact. Negotiations with Parliament are now the next step, but the largest political groups have reached positions that are generally somewhat more ambitious than the Council.**

- **ESG in figures: In a regular section of our weekly, we present a chart book on some of the key indicators for ESG financing and the energy transition.**

In our last edition of the SustainaWeekly before the summer break, we start off by assessing how the ECB will act to green its portfolio of corporate bonds, following a recent announcement of its broad framework. We think it will underweight rather than exclude companies that are not following a path consistent with the Paris Agreement at this stage. We go on to present an analysis of the banking sector's progress in scope 1 & 2 emission reduction and then review the results of the ECB's climate stress tests and the recent agreement by the Council of Ministers on the Fit for 55 package. Enjoy the read and, as always, let us know if you have any feedback!

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A significant part of ECB reinvestments come from carbon intensive companies

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- **The ECB has announced it will direct reinvestments under its Corporate Sector Purchase Programme (CSPP) towards more climate friendly companies**
- **Although no quantitative criteria has been disclosed yet, the idea is to "decarbonise holdings on a path aligned with the goals of the Paris Agreement"**
- **Hence, one could expect the reinvestments to be tilted towards companies with decarbonization paths that align with the Paris Agreement**
- **We have therefore looked at issuers' Sustainalytics risk rating carbon scores, which incorporate also a more forward-looking view on carbon emissions…**
- **…and conclude that around 40% of the upcoming redemptions are from high carbon intensive companies**
- **The ECB has also announced that the bonds issued by companies with a high carbon footprint and used as collateral will be subject to higher haircuts**
- **In the long-term, the ECB will also only accept as collateral the bonds and credit claims that come from companies and debtors that comply with the Corporate Sustainability Reporting Directive (CSRD)**

Last week, the ECB announced that it would start to consider climate change indicators into the Eurosystem's monetary policy framework (see here). The goal is to reduce financial risk related to climate change in its balance sheet, to encourage transparency, and to support the green transition of the economy. This change in approach will be applied to the ECB's Corporate Sector Purchase Programme (CSPP), its collateral framework and climate-related disclosure requirements for collateral, as well as its risk assessment and management. Regarding the CSPP, the ECB has also disclosed that the volume of purchases would still be exclusively determined by monetary policy. The announcement would mark the end to the ECB's "no discrimination" policy, which previously explicitly determined that the eligibility criteria would not "not discriminate on the basis of the economic activity of the issuers".

While the ECB has not yet disclosed a quantitative framework of what indicators it would use to assess the "climate-friendly" performance of companies, further details are expected to be published before October this year, when the measures are expected to start being applicable. Additionally, it remains unclear exactly how the 'tilt' of ECB holdings towards issuers with better climate performance will be executed in practice. It could be that, at first instance, this will be translated into the ECB being underweight in carbon intensive companies and overweight in climate friendly ones, moving therefore away from the current market weighting that it assigns to companies. One could however expect that, at a later stage, the ECB will actively exclude carbon intensive companies from their purchase programmes. The gradual shift would allow for companies to in the meantime work on enhanced reporting standards, and improve carbon emissions reduction strategies. This would align with Isobel Schnabel's statement last week, where she mentions that the ECB wants to "give all companies an incentive to become greener" and they want "to make sure that over time they remain part of the [ECB's] portfolios".

Furthermore, the ECB also disclosed it will start publishing climate-related information on its corporate bond holdings regularly as of the first quarter of 2023. Below we have highlighted a few key take-aways.

"Greening" the CSPP holdings

Although no details have been given on how the underlying companies will be assessed, the ECB has announced that it aims to "gradually decarbonise its corporate bond holdings on a path aligned with the goals of the Paris Agreement". Hence, one could assume that this would imply re-directing reinvestments towards companies that have a decarbonization strategy aligned with the Paris Agreement. This would imply that the ECB will not *per se* exclude carbon intensive companies, but will on the other hand provide an extra incentive to companies to have a clear transition towards a Paris Agreement aligned world. The universe of companies is however, at this moment not very big in that case. For that assessment, we look at the

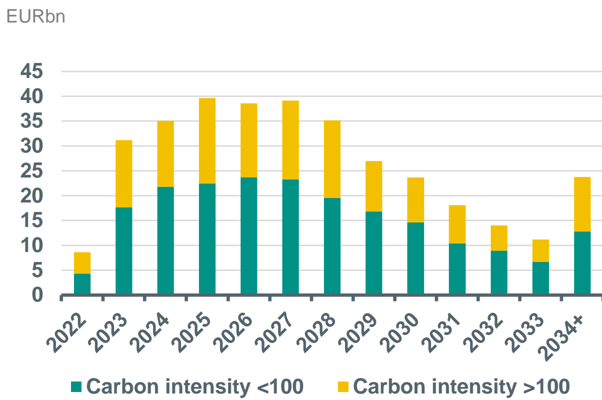
companies that have committed to the Science-Based Targets initiative (SBTi), a non-profit organization that (among others) validates whether targets of companies are science-based and aligned with the goals of the Paris Agreement (see our previous piece on the SBTi here). There are currently 3,336 entities that have committed to the SBTi, but only 46% of these already have a Paris Agreement-aligned target. Looking at the holdings universe of the ECB, we also estimate this to be only around 40% of current holdings. However, we find it unlikely that the ECB would rely on an external entity to conduct their assessments.

Hence, we have split the CSPP holdings into (i) low-carbon emitting companies and (ii) companies with low carbon (intensity) scores, as assessed by Sustainalytics. Carbon intensity scores take into account not only current absolute carbon emissions, but also historical decarbonization trends, carbon reduction programmes in place, etc. For the carbon emissions, we have also looked at carbon intensity indicators, which is the scope 1 and 2 emissions of a company divided by their total revenues. This gives us an idea of emissions per 1 million euros of revenues. The idea of this exercise is to assess how much of the reinvestments of the ECB would be re-directed to more climate-friendly entities. Holdings held by the ECB have been estimated using a market-based approach, where ECB holdings per sector replicate the ones under the total eligible universe.

As depicted in the charts below, we see maturities peaking in 2025-2027. Looking at carbon intensive companies, until 2027, around 34% of all redemptions refer to securities of entities with emissions higher than 100 tonnes of CO2eq / USD million of revenues. Looking at carbon scores, this figure is even higher: 40% of the upcoming redemptions refer to companies with carbon scores above 10. This implies either medium, high or severe carbon risk, according to Sustainalytics methodology. After 2027, 37-37% of all redemptions would refer to carbon intensive companies. Overall, therefore, the ECB would have to reinvest EUR 140-150bn (around 40% of its existing holdings and around EUR 11bn per year until 2034), into more climate friendly companies. A sizeable amount considering that in 2021 total net supply from CSPP eligible securities was around EUR 80bn. Nevertheless, this figure could potentially be even higher should the ECB apply stricter criteria.

Around 40% of ECB holdings refers to high-carbon emitting companies (1)

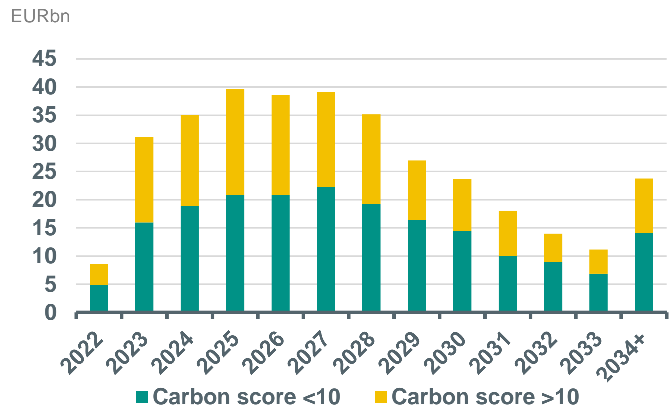
EURbn



Source: Bloomberg, ECB, ABN AMRO Group Economics. Note: carbon intensity calculated by dividing scope 1 and 2 GHG emissions by total revenues

Around 40% of ECB holdings refers to high-carbon emitting companies (2)

EURbn



Source: Bloomberg, ECB, Sustainalytics, ABN AMRO Group Economics. Note: carbon scores below 10 refer to negligible and low carbon risk, as per Sustainalytics methodology.

We note again that the ECB has made it explicit that the 'tilt' of the programme will at first instance be done through reinvestments, as net purchases have also ceased as of July 2022. Nevertheless, one can expect the new framework to also apply to net purchases if the ECB were to decide to be active in the corporate bond market again. The ECB reinforced that the volume of corporate bond purchases will continue to be solely determined by monetary policy, which is therefore independent of the climate performance of companies. We have previously shown that the ECB net purchases tend to increase the spread difference between eligible and non-eligible CSPP bonds. Hence, one could expect that the ECB's new climate-friendly policy would also in the long-term increase spread difference amongst bonds within the current eligible universe, with a positive spread impact on less carbon-intensive companies.

More climate-friendly collateral

The ECB has announced that it would limit the share of bond assets issued by high-carbon intensive companies that can be pledged as collateral when borrowing from the Eurosystem. At first, this would be only valid to non-financial companies. This measure is expected to become effective before the end of 2024, but the ECB has already disclosed that it will, as of this year, start to consider climate change risks when reviewing haircuts for bonds used as collateral. That would imply that the bonds of more carbon-intensive companies would be subject to higher haircuts and ECB borrowers with exposure to these companies will therefore need to post more collateral.

Furthermore, the ECB has disclosed that it would only accept collateral from companies and debtors that comply with the Corporate Sustainability Reporting Directive (CSRD). This measure would only come into place once the directive is fully implemented, expected to be only in 2026. As covered bonds and asset backed securities do not currently fall under the CSRD, but represent around 10% of the Asset Purchase Programme (APP), the ECB has disclosed it would act as a catalyst and engage closely with relevant authorities to ensure a better and harmonised disclosure of climate-related data. Hence, it remains “to be seen” how the ECB will deal with this data / reporting limitation.

Incorporating climate into risk assessment frameworks

As rating agencies are currently not very transparent on how and to what extend climate-related risks are incorporated into their assessments, the ECB has announced that it is now in close dialogue with relevant authorities on how to improve that. The goal is to increase the incorporation of climate risks into credit ratings and the transparency of rating agencies on their disclosure requirements with regards to climate risks. The ECB expects these new standards to come into force by the end of 2024.

North-western European banks make good progress in reducing GHG emissions but ambitions vary

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- **Sustainability has become a key focus of banks**
- **We analyse the ambition and progress related to scope 1 & 2 greenhouse gas emissions of the largest banks in Germany, France, Belgium, the Netherlands and the UK**
- **Overall, banks are making good progress on reducing their scope 1 & 2 emissions and are well on track of achieving their emission reduction targets**
- **However, there are differences in terms of the degree of ambition of the targets**
- **Barclays seems to be most ambitious on balance-sheet-adjusted emission targets, while KBC and Commerzbank come out as least ambitious**
- **Our study also shows that there is room for improvement on measurement and data availability, which would improve comparability**

This piece is a summary of a more extensive note to be published soon under our ESG Strategist series.

Introduction

Sustainability has become one of the key focus areas for banks in recent years, with many banks joining different climate-related alliances (such as the Net Zero Banking Alliance, Climate Neutral Now (see here) or the Paris Pledge for Action (see here)). Additionally, governments and central banks are driving banks to become more sustainable by increasingly incorporating ESG metrics in their business models. Last week, the ECB announced, for instance, the results of a climate stress test (see here), while it also indicated that it will take further steps to incorporate sustainability in their monetary policy operations (see here). Over time, an increasing number of banks have set sustainability targets, while disclosing progress in a transparent manner. In this note, we take a look at the largest banks in Germany, France, Belgium, the Netherlands and the UK, focusing on scopes 1 and 2 greenhouse gas emissions (in line with convention, we exclude our own bank). How ambitious are different banks and how much progress have they made so far?

It requires good data and methods to measure a bank's carbon footprint and, consequently, its progress in reducing carbon emissions. The widely adopted Greenhouse Gas Protocol (GHG Protocol, see here) classifies an organization's carbon emissions into three scopes. Scope 1 & 2 are mandatory to report, whereas scope 3 is currently still voluntary and also the most complex to report. For banks, scope 3 emissions could include scope 1 and 2 emissions from companies included in its lending portfolio, for which data might not be available (yet). Given that, we focus in this note on scope 1 & 2 emissions, while of course recognizing that scope 3 emissions are by far the largest.

Scope 1 emissions are direct emissions from an organization's assets and controlled resources. In other words, these are emissions released into the atmosphere as a direct result of an organization's operating activities. Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. This can include the consumption of: electricity, steam, heat and cooling. Scope 2 emissions can be measured using two different methods, the location-based method and the market-based method. The location-based method reflects the average emission intensity of grids on which energy consumption occurs, while the market-based method reflects emissions from electricity that organizations have purposefully chosen (see more here). This therefore includes incorporating emission factors from contractual instruments, which can include green power purchases and allows for carbon offsets.

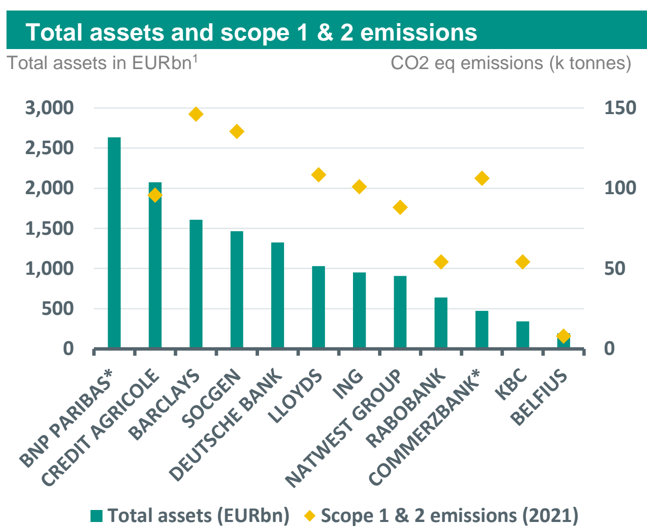
Scope 1 & 2 emissions from different perspectives

Reporting on scope 1 & 2 emissions are mandatory, according to the GHG Protocol, which makes it a suitable tool to analyse the targets set out by banks and reduction progress they made in recent years. In the graph shown below left, we have ranked the banks based on their total assets and show the corresponding scope 1 & 2 emissions. Obviously, it is the case that larger banks emit more carbon, resulting in higher scope 1 & 2 emissions.

The next step is to get to a like-for-like comparison between the targets set by banks and the progress they have made. As banks are free to choose their own base year as well as target year for their CO2 reduction targets, we have ‘rebased’ relative scope 1 & 2 emission target years of individual banks to 2025. Furthermore, we have also recalculated those targets to the same baseline year, being 2018. This allows us to more easily compare targets, as they now refer to the same target as well as baseline year (assuming a linear relationship). Unfortunately, some banks could not be included in the analysis due to the lack of specific targets or missing data (this was the case for Deutsche Bank, BNP Paribas, and DZ Hyp).

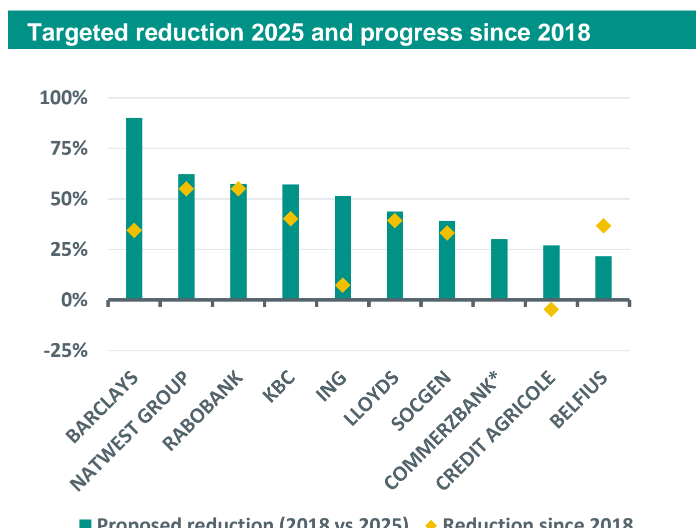
In the graph below right, we ranked the emission reduction targets set out by the banks from most ambitious to the least ambitious. Although Barclays is ranked as most ambitious, it is important to note that Barclays’ target is based on a market-based approach, which allows for carbon offsetting procedures, ultimately reducing scope 2 emissions (and therefore blurring the real effort that it needs to take to reduce CO2 emissions). The other banks have set location-based targets. As such, Barclays’ figures seems to overstate its ambitions based on a location-based method.

Total assets and scope 1 & 2 emissions



Source: Bloomberg, ABN AMRO
1) UK bank’s total assets have been converted to EUR with a EUR/GBP cross as of 1st of July 2022 (0.86165)
* Scope 1 & 2 emissions are from year 2020

Targeted reduction 2025 and progress since 2018

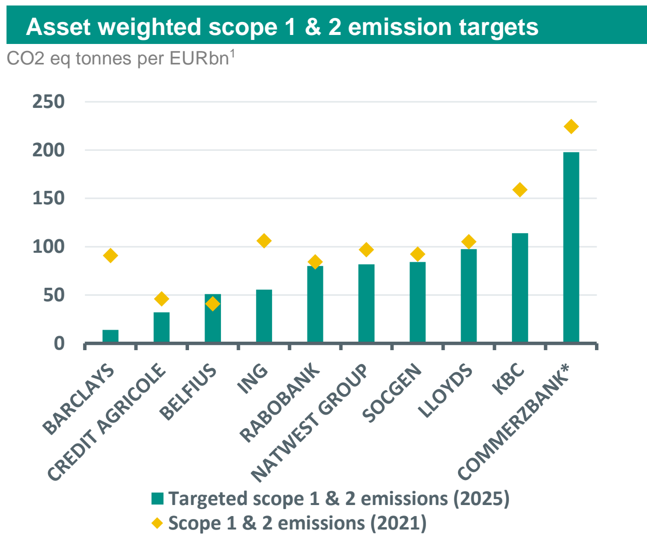


Source: Bloomberg, ABN AMRO

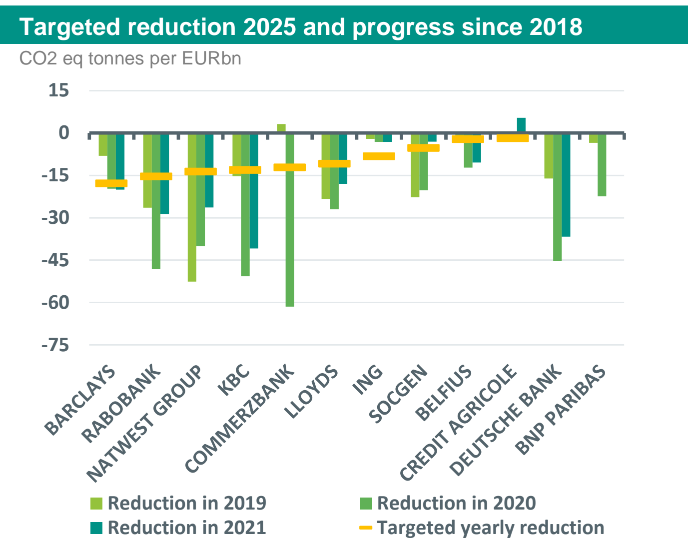
Next to Barclays, NatWest and Rabobank rank second and third most ambitious, respectively. NatWest Rabobank set a target to reduce their scope 1 and 2 emissions by 62% and 57% respectively. On top of that, both banks are well on their way to reaching that target before 2025. In contrast, Credit Agricole’s latest scope 1 & 2 emissions report showed that they are currently not on track to meet their target, with emissions actually having increased since 2018. Based on our analysis, Belfius Bank has also more modest ambitions than the other banks on a relative basis.

Meanwhile, there were some other data issues, hence our results need to be read with care. ING stopped reporting their location-based scope 2 emissions from 2018 onwards. To correct for this, we made the assumption that differences between location-based and market-based emissions are a constant figure per year, as per historical trend. We therefore estimated the delta between their reported market-based and location-based data for the years 2016 and 2017 and assumed this amount to be equal going forward. Adding this amount to the reported market-based scope 2 emissions gives us therefore a figure under the location-based approach. Furthermore, Commerzbank did not have their 2021 emission figures available yet, as these are expected to be published by August this year. Credit Agricole targets a 46.2% reduction of absolute emissions linked to energy consumption (scope 1 & 2) between 2019 and 2030. For the analysis we converted this in a 27% target for 2025 and started with 2018 as the base year.

Furthermore, we also calculated scope 1 & 2 emission targets taking into account the size of banks' balance sheets. This results in scope 1 & 2 emissions in tonnes per EUR 1bn in assets. In the graph below left, we show the rebalanced 2025 targets using the same methodology as explained previously but now additionally divided by the banks total assets in 2021. Commerzbank and KBC are ranked the lowest, meaning that they currently have the least ambitious targets using this methodology. Barclays again ranks as the most ambitious banks, which is in line with what we concluded in the previous exercise. However, for Credit Agricole and Belfius the picture has changed for the better, as they score relatively well when their emissions are calculated per EUR 1 bn of assets. Furthermore, we can observe Belfius has already reached their target of reduction in carbon footprint by 2025, which could also imply that either their decarbonization strategy has yield better-than-expected results, or that they initially did not set an ambitious target.



Source: Bloomberg, ABN AMRO
1) UK bank's total assets have been converted to EUR with a EUR/GBP cross as of 1st of July 2022 (0.86165)
* Commerzbank's reported scope 1 & 2 emissions are from year 2020



Source: Bloomberg, ABN AMRO, no targets available for DB and BNP Paribas

Finally, we had a look at the reduction in scope 1 & 2 emissions from banks in recent years, shown above right. Additionally, we show the targeted yearly reduction for banks needed to align with the previously calculated 2025 targets (as depicted in the chart above left). The banks are ranked on how ambitious their targeted yearly reduction is. The picture gives a sense of whether banks are moving in the right direction in order to reduce CO2 emissions. Bear in mind though, that many banks had lower emissions due to the Covid-19 pandemic through 2020 and 2021. Generally, we observe banks have been reducing their scope 1 & 2 emissions more than required to reach their reduction targets. Furthermore, we can observe that Deutsche Bank is making good progress in reducing their operational scope 1 & 2, while BNP Paribas did show a reduction in emissions in 2020 but unfortunately there is no data for 2021 available, as we previously noted.

Conclusion

Banks are making good progress to reduce scope 1 & 2 emissions in line with the targets they have set for themselves. However, there is a wide variety in the levels of ambition when it comes to targets for reducing scope 1 & 2 emissions. Our analysis shows that Barclays has the most ambitious target, while Commerzbank and KBC seem to have the least ambitious. Furthermore, we see room for improvement in data provision, as there is still flexibility in reporting methodologies, timelines of reporting, availability of time series, as well as scope of target setting. This would further improve transparency and comparability in banks' sustainable data disclosures. Looking forward, we think it is likely that banks will reset ESG targets, as both regulators and investors will demand more ambitious targets and transparent disclosures in order to reach the net-zero targets by 2050.

ECB's climate stress test a new milestone

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- **ECB published results of climate stress test last week**
- **It showed progress has been made, but a lot of work by banks is still needed**
- **40% of banks have climate stress tests in place**
- **EUR 70bn of losses estimated in short-term stress scenario, which is likely an underestimation**
- **Reliable data is key impediment, which should not come as a surprise**
- **Banks have relatively large exposure to carbon-intensive industries, while many lack longer-term strategies of how to deal with this**
- **Exercise was new milestone to identify efforts needed for banks to be able to conduct comparable and comprehensive climate stress test**

Last week, the ECB published the results of its 2022 climate stress test (CST, see here) which covered 104 financial institutions. Assessing the impact of climate risk on bank balance sheets has become one of ECB's strategic priorities and the results of the CST will be a qualitative and indirect input for the annual Supervisory Review and Evaluation Process (SREP) of the supervised institutions.

The CST consisted of three modules. The first was about banks' climate stress test progress and capabilities, while the second was related to sensitivity of banks' income to transition risk and exposures to carbon-intensive industries. The third addressed banks' capacity to produce climate stress test projections. The third module. was based on a bottom-up approach, for which 41 banks were involved.

EUR 70bn loss from climate risk in short-term scenario

The results of the third module revealed that banks would suffer around EUR 70bn of losses in short-term disorderly scenario. This scenario included a sharp and abrupt increase in the price of carbon emissions (reflecting transition risks) as well as drought and heat scenarios (reflecting physical risks). Reported losses (EUR 53bn) were mainly related to transition risk, with the remainder (EUR 17bn) being related to physical risk. However, the ECB indicated that the estimated losses likely underestimated the real risks, as the scenario was still relatively benign, while data availability and modelling capacity, and the number of banks in scope were also an issue. Needless to say, the impact on different banks depends largely on the geographical location, and that of their lending activities.

Data biggest impediment in climate stress frameworks

The key conclusions related to the first module were that banks have made good progress, but where there is still a lot of room for improvement. Indeed, 60% of the 104 financial institutions reported that climate risk had not yet been included in stress test frameworks (although this also means that 40% does). The biggest issue is data availability, as financial institutions need to rely on counterparty data as input for stress tests. As a result, banks rely heavily on proxies for counterparties GHG emissions, which results in large disparity in reported scope 3 GHG emission per counterparty.

Looking forward, banks need time, better data and more staff to enhance, or start setting up, stress test frameworks. More than half of the number of banks noted they need at around 1-3years for implementing such frameworks for physical as well as transition risks, with around one third of respondents indicating this can be done within one year.

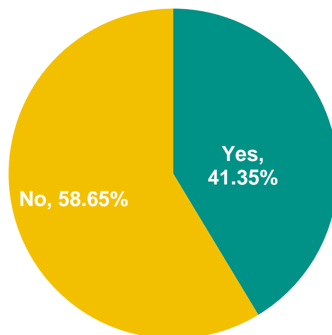
Large exposure to carbon-intensive sectors

The second module revealed that banks have relatively large exposures to carbon-intensive sectors. More than 60% of interest income was derived from loans to corporates belonging to the 22 most carbon-intensive industries, although there were some differences between banks' business models. Development banks/promotional lenders were most exposed (see chart below right). Interesting to note is that these 22 industries account for 54% of the EU economy, implying that they have a relatively large weight in bank interest income. A further breakdown of the sectors shows that 21% of bank revenues stems from industries with high GHG emissions, with G-SIBS, universal banks and investment banks having largest exposures.

The ECB also asked banks to estimate losses related to their long-term strategies towards the 22 most emitting industries under an orderly scenario, a disorderly scenario and a hot house world. As expected, losses will be less in an orderly scenario, while they also rise in 2040/50 versus 2030 in a disorderly/hot house scenario. Despite the loss indications, many banks did not yet have clear (longer-term) strategies in place related to their activities under the different transition paths.

Is climate risk currently included in the institution's stress test framework?

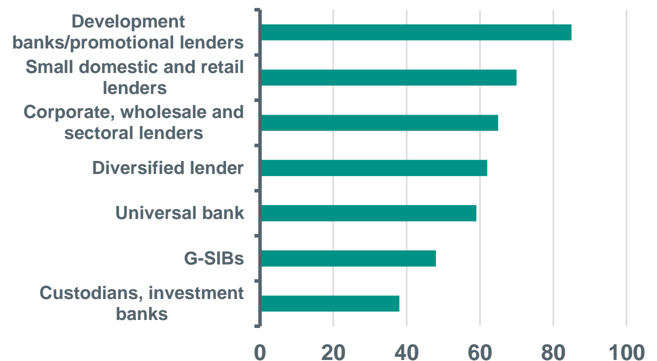
% share of total respondents



Source: ECB

Interest income from 22 carbon-intensive industries

% share of total non-financial corporate interest income



Source: ECB, ABN AMRO.

Overall, the CST was meant as a learning exercise, which showed that banks are still in the early stages of incorporating climate risks in their business models, either being from a strategic, lending, or stress test perspective. Although this might be a disappointing conclusion, it should not come a complete surprise, given that good data is key in this respect, while banks also need to rely heavily on information from the (corporate) clients. Furthermore, methodologies in measuring GHG emission are also still developing, while regulation about what can be gathered as sustainable lending is still young (and also developing). As such, we see the CST as a new milestone to discover what needs to be done in order for banks to be able to conduct comparable and comprehensive climate stress tests as well as to incorporate climate risks in to their risk management and business strategies. The ECB has indeed indicated that it has provided individual banks with detailed feedback, while it will also provide best practices towards the end of 2022.

Ministers agree Fit 55 package

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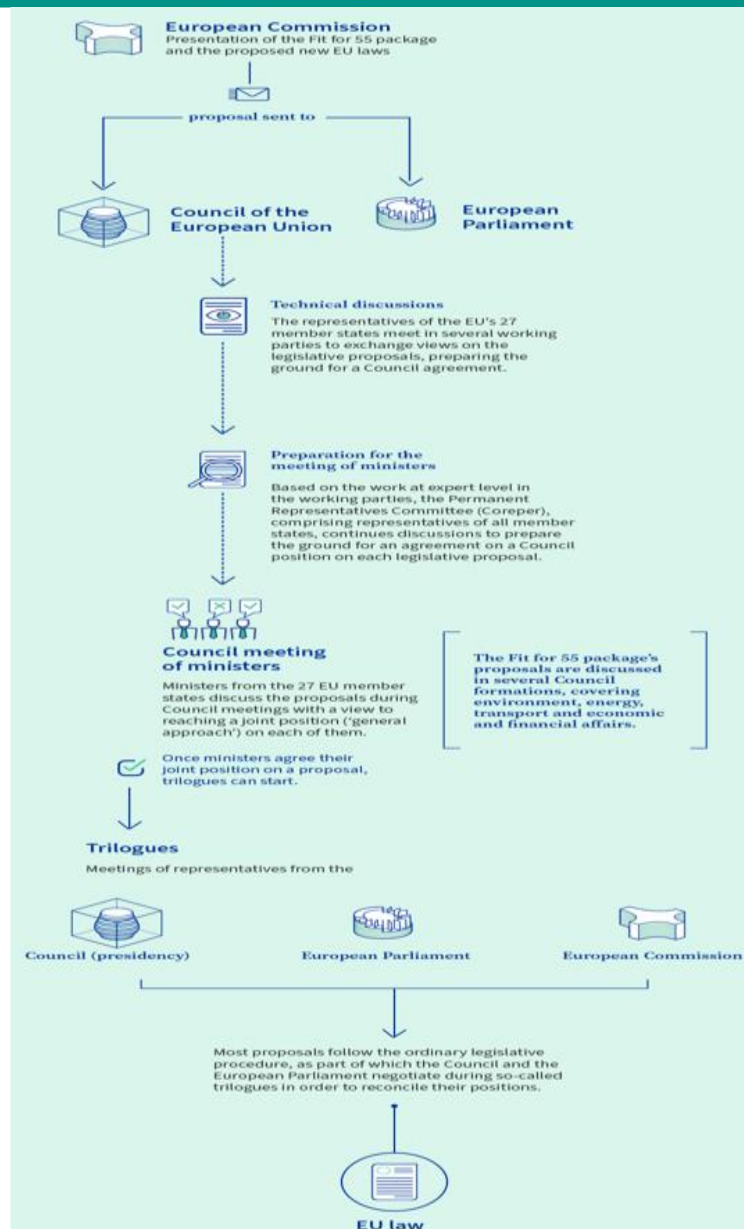
- **The Council of Ministers agreed a joint position on the ‘Fit for 55’ package, with negotiations with parliament now the next step before it is passed into law**
- **Most of the key elements proposed by the Commission last year remain intact**

At the end of last month, the EU took another step forward on the way to passing the ‘Fit for 55’ package into law. The package was presented by the European Commission (EC) on 14 July 2021, and following technical discussions, the Council has adopted its negotiating positions (general approaches) on the legislative proposals. The next step is trialogues between the EC, Council and the European Parliament, in order to reconcile their positions. Once agreement is reached, the compromise texts will be formally adopted by the Council and the Parliament before becoming law (see chart below).

Decision making process for Fit 55 package



Source: European Commission

The agreements on the Fit 55 package do contain some differences with what was proposed by the EC last year, though most of the key elements remain intact. We set out below the key elements, as well as some of the modifications:

- **EU emissions trading system (ETS)**: The ambition of a 61% of emissions reductions by 2030 in the sectors covered remains in place, as do the one-off reduction of the overall emissions ceiling and the annual reduction rate of the cap by 4.2% per year (see our note on the changes to the ETS here).

- **Carbon Border Adjustment Mechanism (CBAM):** Agreement to end free allowances for the sectors concerned by the CBAM over a ten-year period between 2026 and 2035. However, the Council accepted a slower reduction at the beginning and an accelerated rate of reduction at the end of the period. A general approach to the overall CBAM proposal had been agreed in March, but the phase out of free allowances was an outstanding issue (see our notes on CBAM here and here).

- **Maritime shipping within the scope of ETS:** The Council agreed with the EC proposal to include maritime shipping in the ETS, with a phase-in period where shipping companies would surrender allowances for only a portion of their verified emissions (gradually rising to 100% from 2027). The Council agreed to redistribute 3.5% of the ceiling of the auctioned allowances to those member states heavily dependent on the sector.

- **New ETS for the buildings and road transport:** The Council agreed to create a separate ETS for the buildings and road transport sectors, focused on the distributors that supply fuels for those sectors. However, the kick-off for the auctioning and surrender obligations will be delayed by a year (auctioning of allowances from 2027 and surrender from 2028).

- **Social Climate Fund:** The Council agreed to establish a Social Climate Fund to support vulnerable households, micro-enterprises and transport users, over the period 2027-2032, to coincide with the new ETS. However, the amount of EUR 59bn, falls short of the EUR 72bn proposed by the Commission.

- **Effort Sharing Regulation (ESR):** The Council agreed to an emissions reduction target of 40% compared to 2005, for the sectors not covered by the ETS (domestic maritime transport, agriculture, waste and small industries; buildings and road transport will be covered under both the new ETS and the ESR).

- **Land use land-use change and forestry (LULUCF):** The Council confirmed an overall objective of 310 Mt CO_2 equivalent of net greenhouse gas removals in the LULUCF sector in 2030, which is an increase of around 15% compared to currently. Net removals from this sector are part of the EU's overall 2030 target.

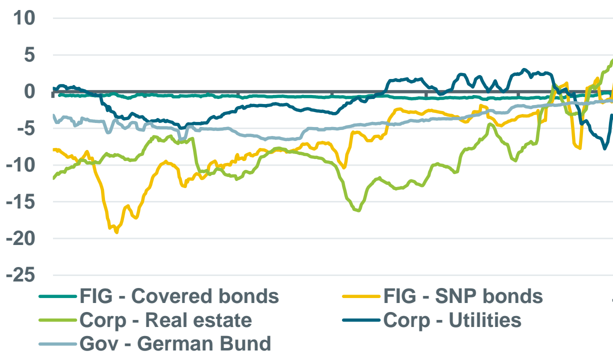
- **Emission standards for cars and vans:** The Council agreed to a reduction of CO_2 emissions for new cars and vans of 100% by 2035, and 55% for cars and 50% for vans, by 2030.

On some parts of the Fit for 55 package, the European Parliament's largest political groups have reached positions that are generally somewhat more ambitious than the joint position of the Council. For instance, they are proposing a faster reduction of ETS allowances that would lead to a 63% reduction in emissions by 2030. In addition, the phase out of free allowances for sectors covered by CBAM is faster, over a five year period between 2027 and 2032. Furthermore, the new ETS is proposed to start a year earlier than the Commission's proposals rather than a year later. This means the trialogues will unlikely lead to a watering down of the positions set out above.

ESG in figures

ABN AMRO Secondary Greenium Indicator

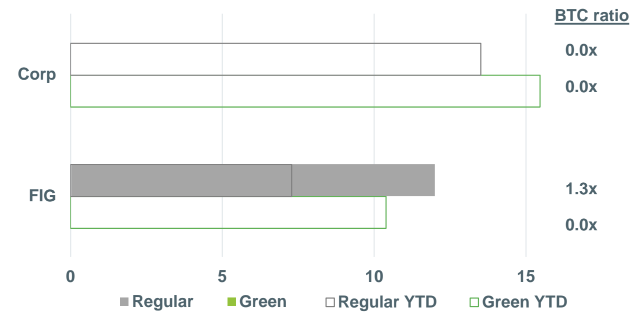
Delta (green I-spread – regular I-spread)



Note: Secondary Greenium indicator for Corp and FIG considers at least five pairs of bonds from the same issuer and same maturity year (except for Corp real estate, where only 3 pairs were identified). German Bund takes into account the 2030s and 2031s green and regular bonds. Delta refers to the 5-day moving average between green and regular I-spread. Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO Weekly Primary Greenium Indicator

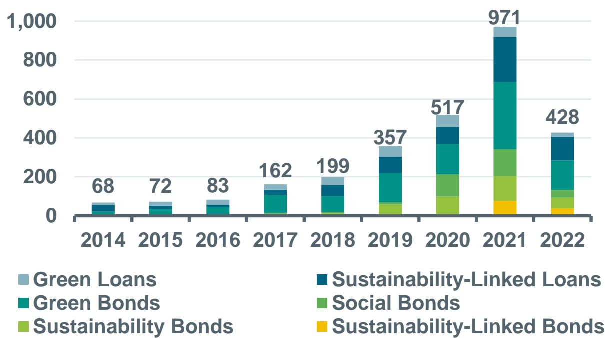
NIP in bps



Note: Data until 08-07-22. BTC = Bid-to-cover orderbook ratio. Source: Bloomberg, ABN AMRO Group Economics.

Sustainable debt market overview

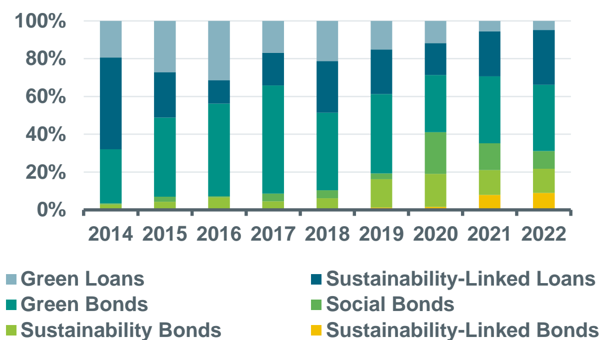
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of sustainable debt by type

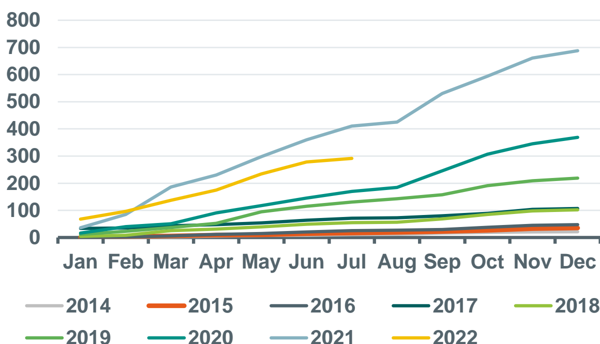
% of total



Source: Bloomberg, ABN AMRO Group Economics

YTD ESG bond issuance

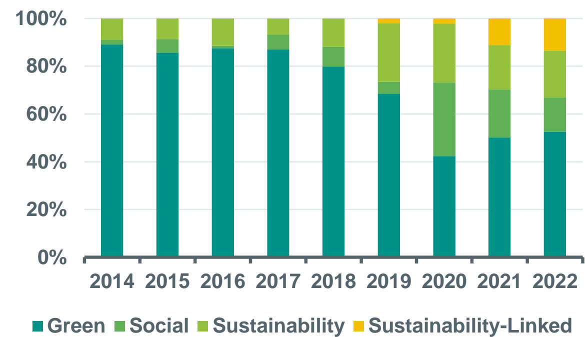
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of ESG bond issuance by type

% of total

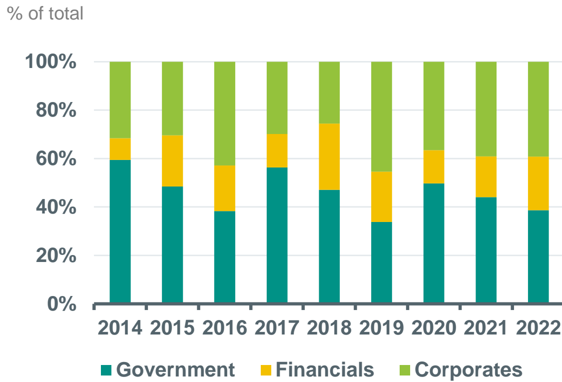


Source: Bloomberg, ABN AMRO Group Economics

Figures hereby presented take into account only issuances larger than EUR 250m and in the following currencies: EUR, USD and GBP.

Breakdown of ESG bond issuance by sector

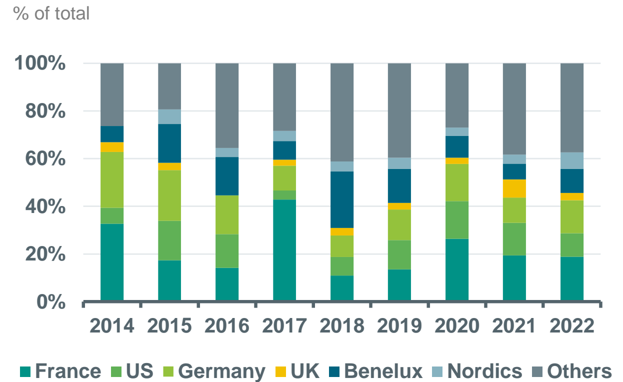
% of total



Source: Bloomberg, ABN AMRO Group Economics

Breakdown of ESG bond issuance by country

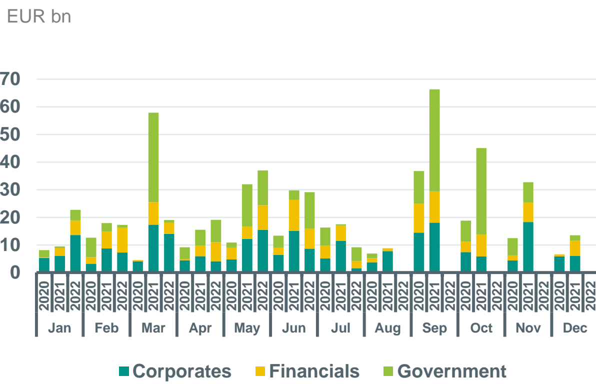
% of total



Source: Bloomberg, ABN AMRO Group Economics

Monthly Green Bonds issuance by sector

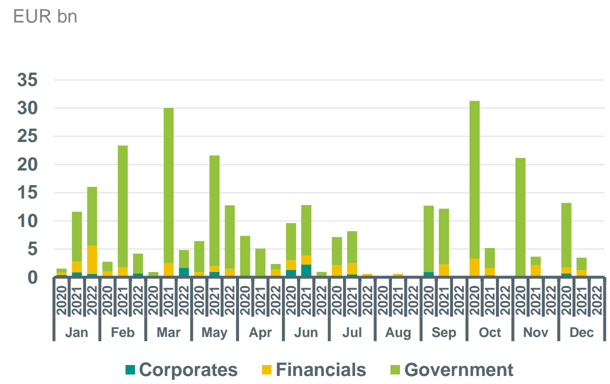
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Social Bonds issuance by sector

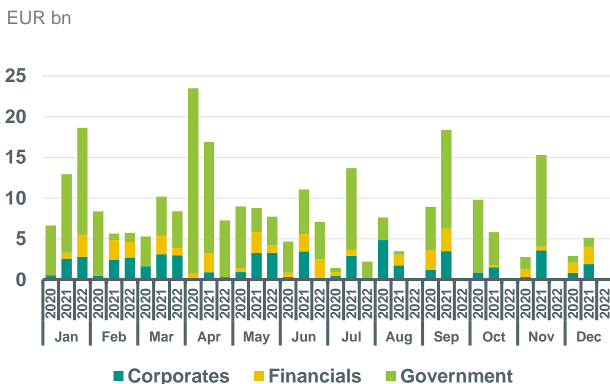
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Sustainability Bonds issuance by sector

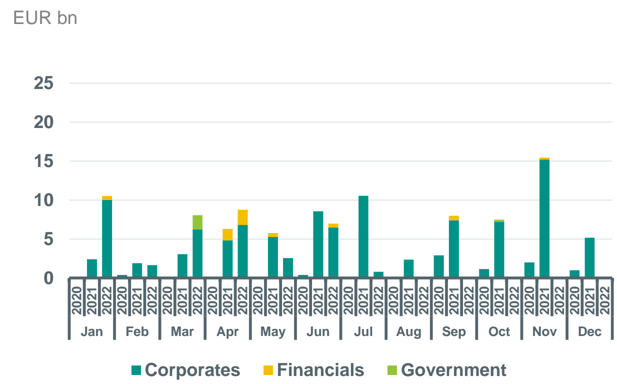
EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Monthly Sust.-Linked Bonds issuance by sector

EUR bn



Source: Bloomberg, ABN AMRO Group Economics

Figures hereby presented take into account only issuances larger than EUR 250m and in the following currencies: EUR, USD and GBP.

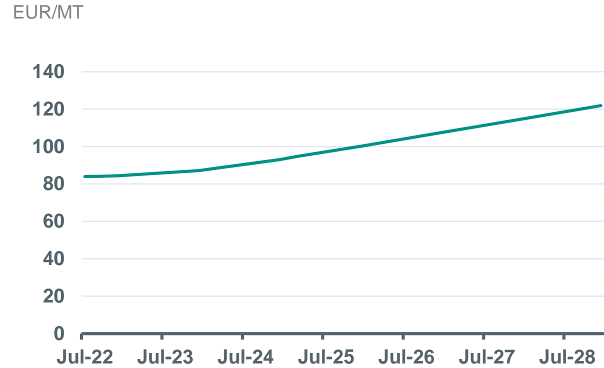
Carbon contract current prices (EU Allowance)

EUR/MT

Source: Bloomberg, ABN AMRO Group Economics

Carbon contract future prices (EU Allowance)

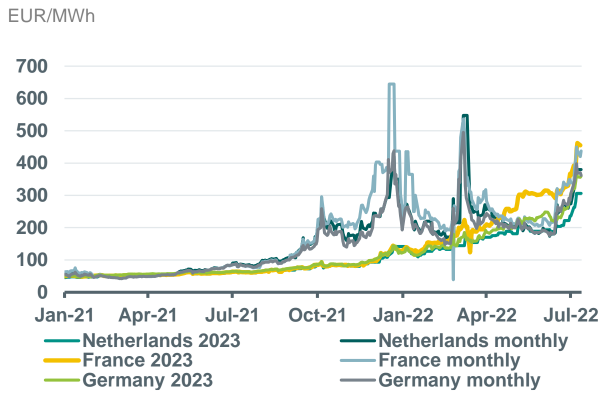
EUR/MT



Source: Bloomberg, ABN AMRO Group Economics

Electricity power prices (monthly & cal+1 contracts)

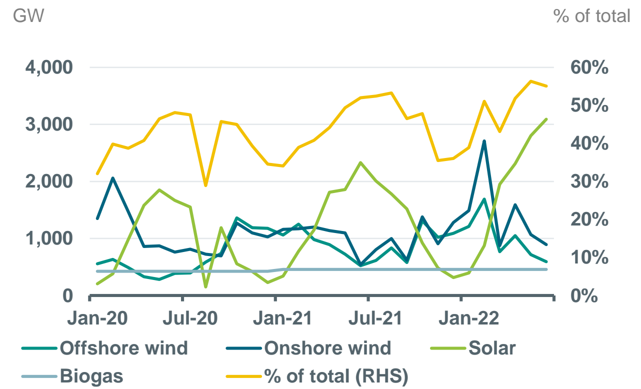
EUR/MWh



Source: Bloomberg, ABN AMRO Group Economics. Note: 2023 contracts refer to cal+1

Electricity generation from renewable sources (NL)

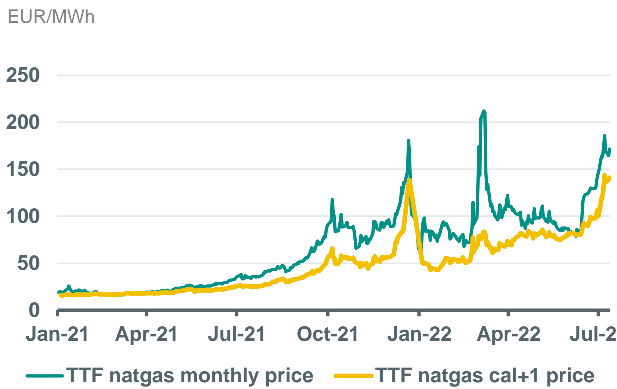
GW % of total



Source: Energieopwek (Klimaat-akkoord), ABN AMRO Group Economics

TTF Natgas prices

EUR/MWh



Source: Bloomberg, ABN AMRO Group Economics

Transition Commodities Price Index

Index (Jan. 2018=100)

Note: Average price trend of 'transition' commodities, such as: corn, sugar, aluminium, copper, nickel, zinc, cobalt, lead, lithium, manganese, gallium, indium, tellurium, steel, steel scrap, chromium, vanadium, molybdenum, silver and titanium. Source: Refinitiv, ABN AMRO Group Economics

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