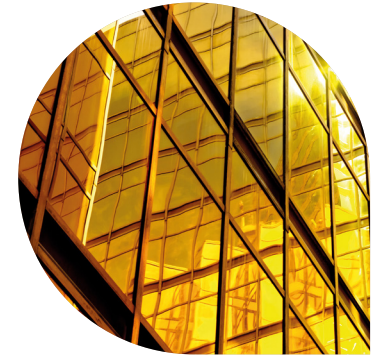


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## ESG Legal Outlook 2023 — Middle East

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# ESG Legal Outlook 2023 – Middle East

As the UAE gears up to host the 28th edition of the climate conference this year, the Middle East's climate credentials are in sharp focus. We take a look at the key trends that are dominating the ESG and climate transition space.

## Introduction

In the last few years, the risks presented by climate change have become more urgent, and coupled with a global pandemic, the call for action at all levels is resounding. With the UAE set to host the climate conference this year, there is a renewed focus on the Middle East to show leadership and initiative on effectively tackling issues of climate change.

We continue to see the Middle East countries commit to promising targets in line with global expectations, but the key question is how these pledges will be put into action in the coming decade. Strategic investments in the renewable sector and sustainable finance, coupled with stringent regulatory measures will play a critical role in realising net zero targets.



# 01 Net zero and energy transition

## Net zero – Pledges and Targets

The year began amidst geopolitical hostilities and increasing energy demands, requiring the Gulf states to reaffirm their targets to achieve net zero carbon emissions.

The UAE reaffirmed its net zero commitment with an aim of increasing the share of clean energy projects to fifty percent of its overall energy mix by 2050. It also went one step further by releasing the National Net Zero by 2050 Pathway that sets the timeframe and identifies mechanisms for achieving its targets. Saudi Arabia had committed to a net zero target of 2060, with its sovereign wealth fund, Public Investment Fund, targeting carbon neutrality by 2050, the same goal that was adopted last year by its national oil company, Saudi Aramco. Egypt updated its nationally determined contributions in July 2022, setting quantified goals for reducing emissions by 2030, but these were conditional on getting significant funding from international sponsors. Kuwait was not far behind with its commitment to becoming carbon neutral in the oil and gas sector by 2050, and in the whole country a decade after that. Bahrain maintained its commitment to cut emissions by 30 percent by 2035 and reach its net-zero emission target by 2060.

## Energy transition

A flurry of activity in the energy sector was an encouraging outcome of COP27 that concluded in Egypt at the end of last year.

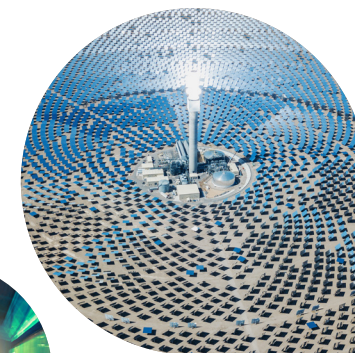
Green hydrogen seemed to take centre stage, together with greater investment in renewables projects and carbon capture and storage technology. A total of forty-six green hydrogen projects are already underway in the Middle East and Africa, with Oman (11 projects), the United Arab Emirates (9 projects) and Egypt (7 projects) leading the way.

Saudi Arabia followed the trend and indicated its intention to become the leading exporter of hydrogen in the world during the 2030s, while stepping up its climate action efforts focussing on circular carbon economy and technological developments to achieve energy efficiency.

Egypt, as the host of the climate conference, signed eight framework agreements to develop green hydrogen and ammonia projects, with its sovereign fund and the European Bank of Reconstruction and Development (EBRD) backing its low carbon hydrogen strategy. In the renewables sector, Egypt entered into an agreement with the UAE to develop a 10GW onshore wind project in Egypt, set to be one of the largest wind farms in the world. It also signed an MoU for a second 10GW wind farm with Saudi Arabia and another for 3GW with France and Japan.

The Middle East is recognised as one of the most vulnerable regions in the world with only 1 percent of the earth's total renewable water sources and is the most water-stressed region in the world. The biggest direct impacts of climate change on the Middle East will be felt in terms of water supply and food security. In this respect, we saw some promising developments come out of COP27 spearheaded by the UAE:

- > Along with Jordan and Israel, the UAE committed to advancing clean energy and sustainable water desalination projects as a part of the catchy titled, Project Prosperity.
- > The Agriculture Innovation Mission for Climate (AIM), a global initiative led by the UAE and the US with other governmental and non-governmental partners announced commitments to increase investment in climate smart agriculture and food system innovation to enhance food security.
- > The UAE signed a US\$100bn agreement with the United States with the goal of adding 100 gigawatts of renewable energy globally by 2035. The Partnership for Accelerating Clean Energy (PACE) aims to raise up to US\$100bn in financing for clean energy projects (in the US, the UAE and emerging markets) between now and 2035.



# 02 Sustainable and green finance and growth of carbon markets

## Sustainable and green finance

A critical piece of the energy transition puzzle is adequate funding to ensure that net zero targets are in fact implemented within the stated timeframe. Significant funding commitments were promised at COP27 to enable this – the Middle East Green Initiative will see Saudi Arabia commit US\$2.5bn over the course of the next ten years; and the Arab Coordination Group, an alliance comprised of regional development funds, pledged to provide up to US\$24bn in finances by the year 2030 in a bid to combat climate change. These commitments follow in the steps of the UAE's sustainable finance framework released in 2021 which reaffirmed the nation's commitment to the growth of sustainable financing and investment in the UAE.

Sustainable finance transactions have also been on the rise with Bahrain's state oil company, The Oil and Gas Holding Company B.S.C (noga) holding refinancing a US\$2.2bn sustainability-linked corporate finance facility last year. Saudi National Bank, Saudi Arabia's largest commercial bank issued US\$750m in its debut sustainable sukuk

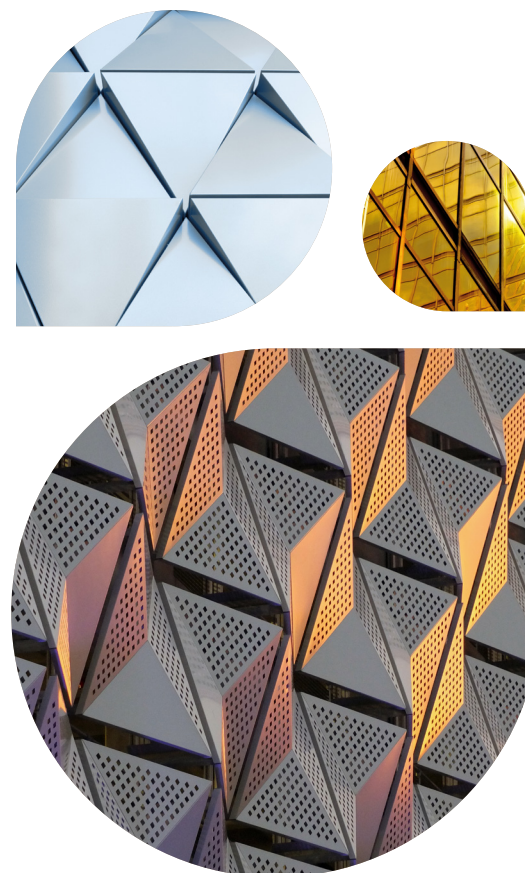
bonds and Dubai's Emirates NBD raised the Gulf region's first sustainability linked loan last year to the tune of US\$1.75bn. The Public Investment Fund, Saudi Arabia's sovereign wealth fund, issued three tranches of green bonds in the aggregate principal amount of US\$3bn in October 2022, while Abu Dhabi's sovereign wealth fund Mubadala has set up a standalone ESG unit.

Private sector sustainable finance transactions have also been on the rise with UAE retail giant, Majid Al Futtaim raising US\$1.5bn in sustainability linked loan in 2021. Similarly, Etihad Airlines' US\$1.2bn sustainability linked ESG loan was seen a landmark transaction in the global aviation industry. The Commercial International Bank, Egypt's leading private sector bank, also launched a green bond programme that supports financing of sustainable projects.

There will continue to be focus on sustainability-linked products as both the public and private sector seek opportunities to finance energy transition in the region.

## Growth of carbon markets

The development of voluntary carbon markets and carbon trading mechanism in the Middle East will be one to look out for this year. The UAE's Securities and Commodities Authority announced its collaboration with the Ministry of Climate Change and Environment and other stakeholders to develop a carbon-trading mechanism. Last year, the Abu Dhabi Global Market announced its plans to set up the "world's fully integrated" carbon-trading exchange and clearing house in Abu Dhabi. This announcement followed the establishment in October 2022 of a voluntary carbon credits exchange by Saudi Arabia's Public Investment Fund and the Saudi Tadawul Group, with carbon credits tradeable on the exchange being Corsia-compliant and Verra-registered.



# 03 ESG regulation and disclosure requirements

## ESG regulation and disclosure requirements

Mandatory ESG reporting is already underway in the UAE where public joint stock companies listed on the Abu Dhabi Securities Exchange or Dubai Financial Market are required to publish an annual sustainability report aligned with Global Reporting Initiative standards. In addition, Dubai Financial Market and Abu Dhabi Securities exchange have issued their ESG reporting guides, under which companies are required to report sustainability indicators against the Sustainable Development Goals.

Similarly, the Bahrain Bourse, Qatar Stock Exchange and the Saudi Exchange (Tadawul) has put in place its own set of ESG disclosures guidelines encouraging listed companies to report on their sustainable practices. Egypt has followed suit recommending companies listed on the Egyptian Stock Exchange to provide disclosures based on certain sustainability and climate change markers.

In a move towards more stringent reporting, the Abu Dhabi Global Market (ADGM), in November 2022, published a consultation paper that provides for mandatory ESG reporting for AGDM-incorporated companies as well as fund and assets managers meeting certain turnover / assets under management thresholds, respectively, with “comply or explain” regime applying to ADGM entities not meeting these thresholds. The consultation paper is not prescriptive as to the ESG standard companies are obliged to report against – the menu of options mentioned includes TCFD and ISBB or another standard, provided that the chosen standard is a global standard. These regulatory requirements have been crucial in bringing ESG to the forefront of corporate governance.

Another promising step came from the Dubai’s Financial Services Authority (DFSA) earlier this year where it confirmed its intention to strengthen regulatory frameworks to govern aspects such as disclosures and to develop an ‘ESG taxonomy’. The focus will be to introduce requirements for regulated

firms in three areas: embedding ESG considerations in corporate governance and risk management; corporate ESG disclosures and reporting; and the potential UAE ESG taxonomy. It will also consider improvement in existing guidance on ESG ratings, and ESG bonds and sukuk. The announcement is regarded as a significant move in strengthening existing disclosure requirements in the region.



# 04 What's next on the ESG Agenda

## What's next on the ESG Agenda

The year began on a sombre tone as Sultan al-Jaber, chief executive of state-owned Abu Dhabi National Oil Company and the new president of COP28 noted that the world was “way off track” to meet its climate goals and was “playing catch-up”. The call for global action to tackle the climate change crisis requires each stakeholder to collaborate with a view to achieving meaningful milestones in the sustainability space.

While countries are looking to put in place more stringent measures in the form of mandatory disclosures for sustainability reporting, there is a general lack of consistency in ESG ratings. The ADGM and DFSA initiatives in this regard are seen as a step in the right direction where development of accurate and reliable methods of estimating ESG performance will assist in creating products and services that meet investor demands, while ensuring that the sustainability agenda is embedded in an organisation's strategy and operations. Businesses will also benefit from a comprehensive and harmonised framework with detailed policies and implementation plans that reflect how the net zero targets are to be achieved and ensure the risk of greenwashing is tackled effectively.

COP28 is being pitched as a ‘practical COP’ and one of ‘action’ – it will be interesting to see how the Middle East takes up the challenge in the next few months towards a just energy transition with the sustainability agenda taking centre stage and calling all stakeholders to consider, review and incorporate it in their journey to net zero.



# ESG key resources



Linklaters' ESG experience and capabilities



In conversation with the ESG team – media hub



For updates on regulatory developments and key ESG issues around the world, subscribe to:

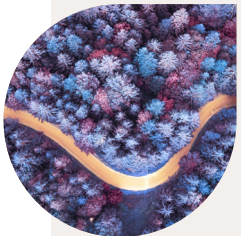
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Sustainable Finance Survival Guide



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ESG Legal Outlook 2023 – Global Themes

# Contacts

We welcome the opportunity to discuss our publication with you and to hear your thoughts and feedback.



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## Linklaters ESG Team

### Our global ESG team

We would also welcome the opportunity to discuss how we can support your organisation on its ESG and net zero journey. Our global, multidisciplinary ESG team is at the forefront of supporting clients on all aspects of climate change, human rights and other ESG matters. We have a strong appreciation of the opportunities and challenges arising out of the growing focus on sustainability and are perfectly positioned to support businesses in meeting their net zero and ESG goals.

### Meet our global team



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