KEYNOTE INTERVIEW

Navigating the fast-moving ESG space

Foresight and deep sector expertise are key when investing in a long-term asset class like infra, say Crédit Agricole CIB's Matthew Norman and Tanguy Claquin

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Q Have you seen a shift in focus on ESG in recent months?

Tanguy Claquin: ESG was already an important topic among our clients prior to the pandemic. But now it's an absolute priority. That shift has been driven by several factors. First, covid-19 has laid bare the speed at which the economy can be disrupted. This was a health crisis, but in many ways it exposed how a climate crisis could have similar effects. So, there's a heightened sense of urgency.

Second, the regulatory framework around sustainable finance is moving very fast. In Europe, there is the EU taxonomy, which means every asset is classified according to its contribution to environmental objectives. But we're also starting to see similar regulation emerge in other jurisdictions, including the US, where the SEC is looking closely at ESG disclosure, and in several large jurisdictions in Asia, such as Japan and China.

So, the combination of the pandemic and regulatory pressure means ESG is now at the top of the agenda for corporates, investors and banks.

Matthew Norman: This has clear connotations from an infrastructure perspective, due to the very long-term nature of the asset class and the essentiality of the services being provided – not just to customers, but more generally to communities and society at large. That means that both ESG risks and opportunities are more prominent in infrastructure than in other sectors. Taken in conjunction with the pandemic and the regulatory backdrop, the discussions we're having with infrastructure clients have evolved significantly over the past 12 to 18 months.

Q What challenges is that growing emphasis on ESG creating for the infrastructure industry?

MN: There are two key challenges. One is the speed at which regulation changes and the other is how to measure ESG work.

LPs and GPs are making investments over a long-term horizon. Trying to manage those investments in a fast-moving environment when it comes to government policy and regulation around ESG is challenging. Navigating long-term government commitments and short-term policies, which are not always aligned, is challenging. We've seen that across the transportation, real estate and energy sectors, for example.

Understanding and measurement of ESG is increasingly important to investors and their stakeholders, and it has led to a proliferation of frameworks. But those frameworks remain inconsistent, and there is still uncertainty around interpretations of outcomes and how those can be measured and benchmarked.

TC: Following up on how to measure ESG, another challenge is this issue of data availability. Not all assets have the data we require around social and environmental impact when lending. We need training and education within the finance community to remedy that.

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>
> **TANGUY CLAQUIN**

Q How has the banking sector built its capabilities to address emerging ESG demands?

TC: Most banks have had ESG teams in place for some time, but Crédit Agricole CIB was doing this already back in 2010, when it became one of the first banks to start structuring green bonds for our clients. Today, we're embedding ESG data into our systems, so that we can steer our portfolios towards a better alignment with the Paris agreement, which is a commitment the bank has made.

This has meant changing the way the bank works and investing heavily in training and data. All while being spurred on by climate change demands and the associated regulation.

Q What are clients looking for when choosing a partner for infrastructure investment in a sustainable future?

MN: Due to uncertainty around regulation and policy direction, clients are looking for partners they can rely on over the long term. They are looking for partners that are committed to working through any challenges that emerge along the way and that have a depth of experience in the asset class. Crédit Agricole CIB has been heavily involved in the infrastructure sector for a very long

Greening the UK's gas pipeline

In March 2020, Crédit Agricole CIB acted as bookrunner on Cadent's inaugural transition bond. Cadent Gas is one of four companies that own and operate the eight gas distribution networks in the UK.

Cadent is currently undertaking a replacement of its existing iron pipeline network with new plastic piping, in order to reduce leakage and to pave the way for increased hydrogen usage in the UK.

The issue comes under Cadent's recently established Transition Bond Framework, which lays out eligible uses of proceeds (that is, retrofit of gas distribution networks, renewable energy, clean transportation, energy efficiency buildings) with 100 percent of the proceeds from the sale of this bond to be used for the mains replacement project. "We have been working with Cadent for many years which led us to act as a bookrunner on their inaugural transition bond," explains Matthew Norman.

"Retrofitting of such infrastructure can have a massive impact on the reduction of greenhouse gas emissions, which makes it a necessary investment for the energy transition," adds Tanguy Claquin.

time. It's in our DNA from both a financing and advisory perspective.

At the same time, clients are also looking for partners that have invested heavily in ESG and sustainability-linked themes over a long period of time. As Tanguy said, Crédit Agricole CIB was at the forefront of the development of green and sustainable finance, and we have a proven track record. We're also one of the founding partners of the Equator Principles, dating back to the early 2000s. We've been focusing on ESG-related topics for a long time and we have dedicated teams, which continue on this journey, alongside our clients.

It's important to have an open and honest dialogue about where risks and uncertainties lie in a rapidly changing landscape. We're very well placed to do that.

TC: Clients want to work with organisations that are as committed to ESG as they themselves are. We have demonstrated that by being first movers in the market. We have people in our business that have dedicated their whole careers to sustainability.

Q How do you expect the ESG outlook to evolve?

TC: There is a big debate happening at a European level at the moment, which I believe will eventually extend to all jurisdictions, and that is the extent to which social and environmental themes should be combined. The next stage of the EU taxonomy will involve a social taxonomy. As part of the consultation, the question being asked is should the social and environmental remain separate or be merged?

Infrastructure is interesting from this perspective, because most investments do, in fact, tick both boxes. There is always a social component because the infrastructure is there to serve communities. The question is how to strike the right balance between the two sets of criteria, because it's important not to cut corners on either.

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> **MATTHEW NORMAN**

Q What investment opportunities will emerge as a result of sustainability themes?

MN: The energy transition is a critical theme running through many of the world's largest economies. Over the past 15 years, we've observed a natural development of renewable businesses, which have led to investment opportunities. Now, we're looking ahead to see what the next phase of the energy transition will bring. Electric vehicles will be a huge component of this and will involve massive investment in primary infrastructure, such as EV charging ports.

Another exciting area is hydrogen. As a bank, that is an area where we've been leading the charge. Crédit Agricole sits on the Hydrogen Council. We've set up a hydrogen task force and we have a dedicated team working on hydrogen opportunities. That team has already secured a number of proprietary transactions, the first of which are now moving through to close.

Corporate and industrial players are still dominating those fields today. But, given the capital constraints of those players and the scale of the capex intensity of these emerging sectors, such as hydrogen and EV infrastructure, it will undoubtedly become necessary to mobilise financial investors.

As these markets mature and the performance track record is observed, these assets will become available for traditional M&A activity, which may be better suited for traditional LPs.

Overall, integration of ESG assessment into either investment strategies/funds or companies should enable infrastructure investors to improve resilience and sustainability and thus create value, for example by lowering the cost of capital.

Q Finally, what will it take to successfully navigate the ESG landscape?

TC: There are multiple different regulations coming through and so you need to have a partner to help navigate that complex landscape – a partner that has the dedicated resources required to understand that regulation and to distil the most important points as they pertain to individual clients. You also need a partner that understands emerging technologies in order to provide you with the right tools to finance those projects.

MN: Deep sector expertise is very important. ESG risks vary significantly from subsector to subsector and from asset to asset.

And with a dramatically accelerated pace of change, it's vital to work with an organisation that understands each industry in depth to aid in navigating a moving landscape.

After all, just look back a couple of decades to see how radically things can change. My involvement in the energy and infrastructure sectors dates back 20 years.

In that timeframe, perception around coal and coal infrastructure, for example, has been completely upended. Deep sectoral expertise is a pre-requisite in the current environment. ■

Matthew Norman is global head of infrastructure and Tanguy Claquin is global head of sustainable banking at Crédit Agricole CIB

Source for Tanguy Claquin photograph: Ludovic Le Couster@AFP