

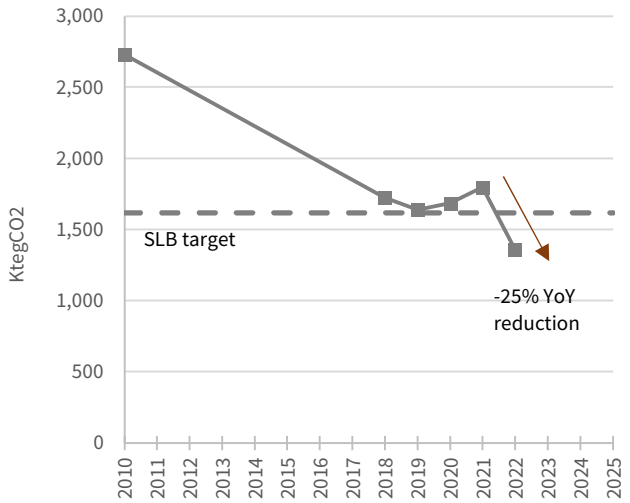
Nobian SLB: a lot of hot air?

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Nobian (ticker NOHOLB), a privately-owned European chemical company, has just released its 2022 sustainability report.[1] Showing a significant drop in emissions, the company has avoided paying a coupon step up to its Sustainability-Linked Bond (SLB) bondholders. However, it is unclear how this emissions reduction has been achieved.

Nobian's report includes 2022 KPI data relevant for NOHOLB €3.625 26s (ISIN XS2358383466). The SLB includes two KPIs with targets at the end of 2022: Scope 1 + 2 absolute emissions, and percentage of energy from renewable sources. We commented earlier this year that, based on historic data, the first seemed hard to achieve.[2]

Figure 1. Nobian Scope 1 + Scope 2 emissions. Source: Nobian, AFII.



Emissions have reportedly reduced by 25% year-on-year (see Figure 1), far in excess of the targeted -4% in two years. Detailed analysis of the sustainability report suggests possible creative emissions accounting with regards to steam generated from Municipal Waste Incineration (MWI). This leads us to the following best practice recommendations:

- **Emissions reporting needs to be complete.** If MWI is used to reduce Scope 2 emissions without a corresponding reclassification into Scope 3, **this represents a carbon footprint arbitrage.**[3]
- **SLBs referencing only Scope 1 + 2 emissions are exposed to reclassification risk.** Baseline restatements should protect from policy changes, but if Scope 3 emissions are not included from the outset, investors are at risk from such inventive business changes.
- **Where GHG accounting guidance is unclear,** as it the case with MWI, care should be taken to ensure emissions reporting considers the ultimate usage of that data. **Auditors should take a conservative approach to classification, especially when there are associated SLBs referencing that data.**

[1] "Sustainability Report 2022", Nobian, 11 May 2023.
[2] Please see case study in "SLB triggers: What next if Nobian or PPC miss their targets?", AFII, 28 Feb 2023.
[3] For an example of shifting operational emissions to financed emissions to achieve an SLB target, see "Sembcorp: 'Carbon footprint arbitrage of a lifetime'", AFII, 6 Nov 2022.

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Breakdown of emissions reduction

Figure 1 shows Nobian's Scope 1 + 2 emissions,[4] including the recently released figures, alongside the SLB target. Direct emissions have reduced -25% YoY, compared with the SLB target of -4% since 2020.

Looking into the detail, the reduction is driven by Scope 2 emissions (see Table 1), which have reduced over 40% year-on-year.

Table 1. Nobian emissions. Source: Nobian

KtegCO2	2020	2021	2022
Scope 1	714	792	778
Scope 2	972	1,006	576
Scope 3	1,221	1,437	1,269
Total Scope 1 + 2	1,686	1,798	1,354
Total	2,907	3,235	2,623

Nobian offers a limited commentary in its 2022 report:

"The considerable reduction in Scope 2 emissions is mainly due to the amount of contracted renewable energy, in line with our targets, combined with lower demand from electrolysis plants."

Total electricity consumption reduced 3.8%, and percentage renewable energy increased 0.2% YoY;[1] it is hard to see how these adjustments deliver the 40% reduction reported.

Municipal Waste Incineration

Municipal Waste Incineration (MWI) is the burning of waste to generate energy. It has been proffered as a greener alternative to landfill, and facilities are proliferating in many parts of Europe.

Questions are growing around the purported emissions reductions of such schemes,[5] with concerns raised around ancillary health impacts. It is now acknowledged that these incinerators lock communities into waste generation as a means of producing fuel.[6]

Comparing the 2022 report to that of 2021, we observe new information in Nobian's reporting, citing MWI as an alternative to fossil fuels:

"The use of steam from municipal waste incineration plays an important transitional role in our goal to become climate neutral."

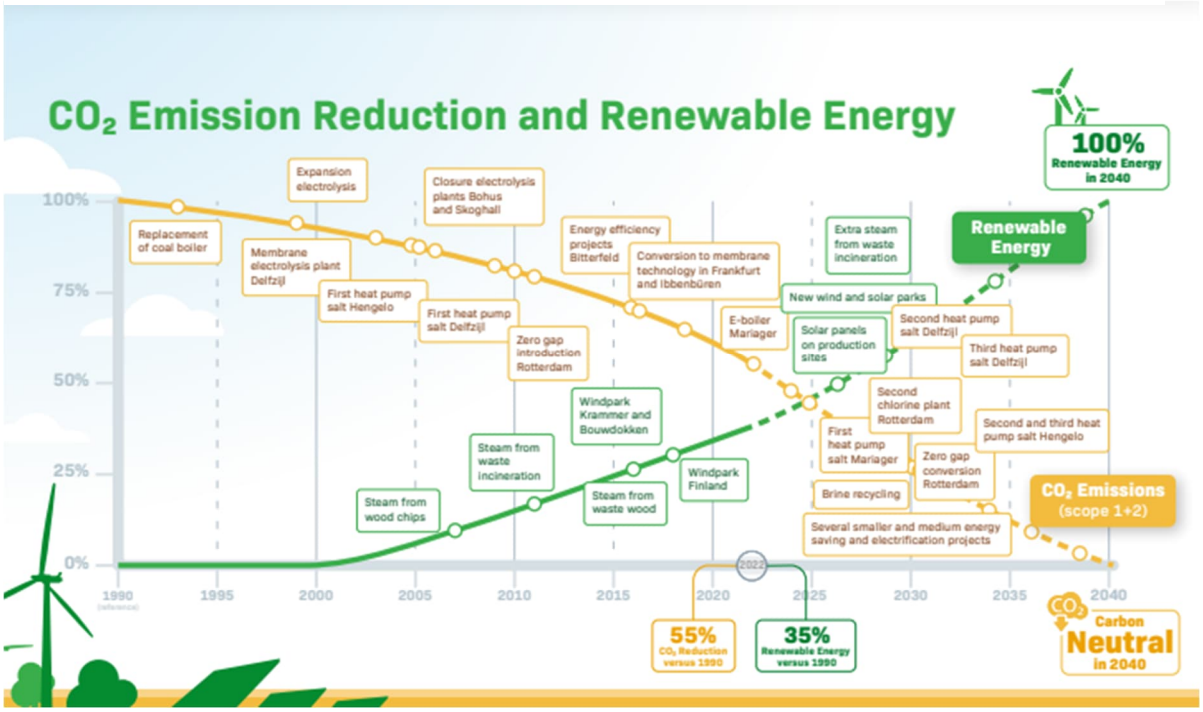
Figure 2 overleaf shows Nobian's qualitative emissions reduction strategy. MWI is featured as a source of renewable energy (around 2011), but not as a method of emissions reduction going forward.

[4] There are inconsistencies in Nobian's reporting. As such we have made adjustments to compare figures between documents. 2020/21/22 figures are from the 2022 sustainability report. 2010/18/19 figures are extrapolated using changes from sustainability linked financing framework applied to the 2020 baseline number.

[5] "In Europe, a Backlash Is Growing Over Incinerating Garbage", Yale Environment 360, 1 Apr 2021.

[6] "Is It Time To Stop Burning Our Garbage", Bloomberg, 23 May 2022.

Figure 2: CO_2 emissions reduction infographic. Source: Nobian Sustainability Report 2022.



Nobian does share this information on its reporting of MWI emissions:

"There is no conclusive guidance from the greenhouse gas protocol whether and/or how to include Scope 2 MWI steam emissions. The most concrete guidance is from the widely used LCA methodology, EN 15804+A2, a standard often used for Environmental Product Declaration (EPD). It follows the polluter pays principle (PPP), meaning CO_2 emissions are carried by [the] waste generator and thus ***do not need to be included in the carbon footprint of the steam itself****. In line with this guidance, Scope 2 MWI steam emissions are not included in the company's Scope 2 emissions."*

This section is clear that emissions from MWI are not included in Scope 2 emissions. The report gives no details on the proportion of steam generated by MWI, or any YoY changes. Without further data it is impossible to quantify the impact of this means of energy production on YoY emissions changes.

If MWI is assessed as producing zero Scope 2 emissions, this may explain the major drop in this year's report. However, we would expect to see these emissions accounted for in Scope 3, which we note that Nobian has begun reporting. Guidance is given on 15 categories of Scope 3 emissions reporting, including category 3, "Fuel and energy related activities":

"Extraction, production and transportation of fuels and energy purchased or acquired, not already accounted for in Scope 1 or Scope 2."

On this basis, MWI would be included in Scope 3, yet Table 1 does not show a commensurate increase in Scope 3 emissions to suggest such a pure reclassification has occurred.

We also observe that Nobian itself states that the renewable energy content of MWI steam is below 100%, i.e., the company admits that this is not an emissions-free source of energy:

"The renewable energy content of steam from [MWI] is calculated based on the biogenic share of the waste as set annually by Rijkswaterstaat (54% in 2022)."

It seems inconsistent to report zero emissions for an energy source classified as 46% non-renewable.

In conclusion, it appears that some creative carbon accounting has played a role in Nobian's SLB target being achieved.

While MWI does potentially offer more sustainable energy generation than pure fossil fuels, it is not, as Nobian itself acknowledges, emissions free.

Shifting emissions from Scope 2 to 3 to achieve an SLB target is a strategic application of the accounting rules. This could result in an **under inclusion of emissions leading to skewed target reporting to investors.**

Removing rather than accounting for emissions represents a **carbon footprint arbitrage** that compromises the realisation of true carbon neutrality. These outcomes are not aligned with SLB investors' objectives and unhelpful to the development of a credible sustainable finance market.

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