Changing Climate – who are the true “climate champions”? 

By Gabriela Herculano, CEO of iClima Earth Founder of the iClima Global Decarbonisation Enablers UCITS ETF (CLMA)

The Paris Agreement signed by the world’s nations in 2015 to combat climate change aims to keep the increase in the global average temperature to below 2 °C above pre-industrial levels, and 1.5 °C if possible.

The Agreement has helped to drive an increasing focus globally on assessing climate change risks, the impacts of business operations on the environment and how greenhouse gas (GHG) emissions are disclosed.

Several international initiatives by the financial industry have all helped accelerate the transition to a low carbon world, rewarding companies that cut emissions while urging them to be more transparent about their impacts on the environment.

**New methods are needed to measure emission cuts**

Any shift to a low-carbon world requires new approaches and innovations by companies that help change societal behaviour, as well as new ways of measuring climate impacts.

Unfortunately, many companies are not yet adequately disclosing their ‘carbon footprints and there are very few that have attempted to quantify their emissions. Without proper measurements on the emission side it is hard to track progress. This is one of the reasons we focus on CO2e avoidance, the other side of the coin.

iClima’s approach is to help investors identify those companies actively “doing more good” rather than those just “doing less bad” and provide investment products that focus on companies enabling CO2e avoidance.

But how much CO2e avoidance could such solutions deliver?

**Defining ‘Avoidance’**

‘Avoided emissions’ are reductions brought about by products or services that provide the same or similar functions as existing products - but with significantly less GHG emissions.¹

They can be expressed in a formula as the difference between GHG emissions from a business-as-usual (BAU) baseline scenario and GHG emissions from a climate change solution scenario:

\[
\text{Net Avoided Emissions} = (\text{BAU baseline emissions}) - (\text{solutions-enabled emissions})
\]

For example, a company that switches electricity supplier from a fossil fuel-based provider to one that sources power from renewable resources such as solar or wind projects would achieve net avoided emissions virtually equivalent to the CO2 emitted by its former supplier to generate its energy.

**The focus is on suppliers**

At iClima Earth we focus on the suppliers of the solutions. This is not just because we think these companies can do well financially, given they sell what the world needs to fight climate change and are seeing increasing demand for their products, but also because more capital needs to be channelled to the companies in these key segments. By shedding the spotlight

¹ Source: (Avoided Emissions Framework, 2019)
on these climate champions, we hope that more capital will be directed to much needed Research and Development

**Fig 1: Annual reductions needed in global CO2 emissions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions in GtCO2e</th>
<th>%</th>
<th>Annual GtCO2e</th>
<th>Cumulative GtCO2e</th>
<th>Cumulative %</th>
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<tbody>
<tr>
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<td>0</td>
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<td>0%</td>
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<td>2.1</td>
<td>30.6</td>
<td>54.6%</td>
</tr>
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</table>

**Different Focus yielding different results**

We have developed a fact-based, data driven methodology to vet the companies that have potential to contribute towards the goal of decarbonising the planet.

We started by looking at the 100 most substantive, technologically viable, existing solutions that can decarbonise the planet as listed by the incredible Project Drawdown, a non-profit organisation dedicated to reducing GHGs in the atmosphere.

We applied our own screening rules to make 360-degree assessments of the environmental impacts of companies and developed a unique equity benchmark, the iClima Global Decarbonisation Enablers Index.

We have spent over 15 months quantifying the CO2e avoidance that each company in our Index can generate from annual sales. Key for us is the comparison of what the companies in our index can potentially avoid in CO2e emissions in 2021 to the amount of CO2e that needs to be avoided in the year. Because as figure 1 shows, the world is facing a serious challenge.

Our iClima Global Decarbonisation Enablers Index is currently comprised of 151 companies. The products and services they represent fall within five categories (Green Energy, Green Transportation, Sustainable Products, Enabling Solutions and Water & Waste Improvements). We estimate they will contribute to more than 0.6 gigatons of the new and recurring CO2e avoidance in 2021.

**Better measurements for a better future**

The time has come for the world to quantify CO2e avoidance, and we hope to contribute to this task by providing our own framework of potential CO2e avoidance and by providing our index as benchmark and investable solution for investors. We are stepping on the shoulders of the great minds behind Project Drawdown and other thought leaders and we hope that CO2e avoided emissions will become a widely used metric in the battle against global warming.
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About the Authors

iClima Earth is a London-based Green FinTech. iClima wants to redefine climate change investments, motivated by the concept that the best way to reduce CO2 in the atmosphere is by not emitting in the first place. The firm develops investment research and equity indices based on this laser principle.

Gabriela Herculano is the co-Founder & CEO of iClima Earth. She started her career in equity research, covering the Latin American electric utility sector at Lehman Brothers. Later she moved to the buy side where she worked on greenfield project finance and M&A at energy developer AES Corporation and as an Executive Director at GE Capital's Energy Financial Services team in London. Gaby has an MBA from Wharton in 2002.

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