

SABIC leads the way in ESG reporting and delivery in the Middle East



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Introduction

Saudi Basic Industries Corporation (SABIC) is one of the world's leading chemicals companies, headquartered in Riyadh, Saudi Arabia. Manufacturing on a global scale, SABIC produces chemicals, high-performance plastics, agri-nutrients and metals. It has significant research resources, with innovation hubs in five key regions – the US, Europe, the Middle East, South-East Asia and North-East Asia. SABIC operates in more than 50 countries and has in excess of 31,000 employees worldwide.

For this case study, we interviewed: Frank Kuijpers, General Manager for Corporate Sustainability, based in the Netherlands; Ashok Menon, Director for Sustainability Strategy and Circular Economy for Asia-Pacific, based in India; and Emma Simo, Senior Manager for ESG and Investor Relations, based in Spain.

Key takeaways

- SABIC's ESG priorities are derived from a solid materiality assessment conducted every three to five years, in which climate and the circular economy emerge as central topics, together with health and safety, energy efficiency, sustainable innovation, and governance and integrity.
- Given the centrality of fossil fuels as a feedstock for the material and chemical industries, circularity offers a way to cut emissions during the transition to a lower-carbon economy. The company has a target to deliver 200 kilotons of renewable and recycled feedstock by 2025.
- Regulation is a key factor driving ESG reporting. SABIC believes standardization is the most important task in the ESG space today, given the complexity of dealing with different emerging regulatory initiatives, such as the EU's new sustainability standards and taxonomy.
- Reporting on Scope 3 emissions is hampered by the challenge of acquiring reliable primary data from both upstream and downstream sources. Downstream is more challenging because of the complexity of SABIC's wide diversity of product applications.
- SABIC, which is viewed as the leader in sustainability reporting in the Middle East, has created an ESG reporting steering committee to guide its disclosure process and help the company integrate its sustainability reporting with its annual report.
- The company has unveiled a strategy to become carbon neutral by 2050, with an interim target of a 20% reduction in Scope 1 and 2 emissions by 2030, compared with 2018.
- Reporting against the Forum's Stakeholder Capitalism Metrics has increased the value of transparency within the company, leading to conversations and progress on difficult issues.
- SABIC's CEO, who has been a firm supporter of more extensive ESG reporting, emphasizes the importance of each company function owning its ESG disclosures.

Rationale for reporting: help stakeholders and regulators prioritize climate and circularity

“ Our entire downstream group of customers are making pledges around how much circularity is in their products and they are looking into their Scope 3, which partially is our Scope 1 and 2.

Frank Kuijpers, General Manager for Corporate Sustainability, SABIC

SABIC recently won the Best ESG award from the Saudi Exchange and Middle East Investor Relations Association (MEIRA). The company, which is majority-owned by Saudi Aramco – one of the world’s largest companies – has carved out an impressive reputation for sustainability both in the region and within the global oil and gas industry, particularly in terms of its actions to improve water consumption and health and safety, and its support for Saudi SMEs seeking to diversify into new industry sectors.

Although SABIC has been reporting on ESG issues since 2011, it has sharpened its focus in the past two years by identifying gaps in its data gathering and reporting. Two priorities have stood out in terms of reporting: climate and the circular economy. “Both have huge challenges for companies like ours but also opportunities at the same time,” says Kuijpers, who adds: “Our whole industry has to go through a radical transformation in terms of creating solutions for our customers, as we did over the past decades, while reducing our carbon footprint and increasing the circularity of our business.”

Forum’s metrics help SABIC lead transition towards a new energy economy

Kuijpers sees SABIC as at the forefront of this process: “As a company we are looking at how we can work with other value-chain leaders to build a new economy that will exist 10 or 20 years from today.” Reporting against ESG metrics, including the Forum’s SCMs is “helping a lot here”, he adds.

SABIC’s stakeholders are on the move when it comes to sustainability. “Our entire downstream group of customers – starting with the large OEMs [original equipment manufacturers] – are making pledges around how much circularity is in their products,” says Kuijpers: “They are looking into their Scope 3, which partially is our Scope 1 and 2.” Investors are also putting more effort into helping the industry move towards carbon neutrality and a circular value chain. Kuijpers refers to the court case relating to Shell’s carbon emissions and shareholder pressure regarding Exxon’s strategy on climate change: “We do expect that to come more and more,” he says.

The company is very conscious of the tightening net of regulation. “We definitely find the EU taxonomy challenging,” says Emma Simo: “It’s very complex, there is no guidance and there is a lot of uncertainty – it’s difficult to see how organizations will be able to adapt their organizational structures to truly comply.” SABIC is closely monitoring regulatory developments globally and looking for ways to engage early in the process to ensure frameworks are inclusive for all stakeholders and for different regions, both developed and developing.

“TCFD is becoming mandatory in many countries,” says Ashok Menon. SABIC is able to report against about two-thirds of TCFD’s requirements and is working to plug the gaps regarding risk-assessing all its products and infrastructure. One key change in the past three years has been the need to conduct modelling with a 1.5°C climate warming threshold rather than a 2°C scenario.

Another major focus for the company relates to reporting Scope 3 emissions: “The challenge is in how you get to the level of primary data that is reliable enough to share,” says Menon. SABIC is among the first global chemicals companies to report assured Scope 3 emissions since 2020.

Solutions: SABIC commits to carbon neutrality and publishes human rights programme online

“ In the Middle East, we are viewed as the leader in sustainability reporting. Our revised carbon emissions targets reflect how the business has evolved since our first set of targets in 2010. We expect pressure on SABIC and the other players in the industry to keep stretching the targets over time.

Frank Kuijpers

For SABIC, the SCMs offer an important process for addressing some of the challenges of ESG reporting. “We’ve used the Forum’s metrics as a way to report as closely as possible to the future ISSB,” says Simo, referring to the International Sustainability Standards Board of the IFRS Foundation, which is formulating a new global sustainability standard with input from the World Economic Forum and global standard-setters.

Although SABIC produces a dedicated sustainability report, its 2021 annual report includes a mapping of the Forum’s metrics against those of GRI. To deliver this reporting, “we are building a very strong structure internally,” says Simo. This includes the creation of an ESG reporting steering committee with representatives from corporate affairs, human resources, investor relations and corporate sustainability. This fits with SABIC’s structure, where board oversight is provided through the risk and sustainability board committee and the executive management led by the vice-chairman and the CEO.

SABIC targets carbon neutrality by 2050

In 2021, the company unveiled its Carbon Neutrality Roadmap, which identifies five pathways to carbon neutrality by 2050:

1. Reliability
2. Energy efficiency and improvements
3. Renewable energy and electrification
4. Carbon capture
5. Green/blue hydrogen

SABIC’s interim goal is a 20% reduction in Scope 1 and 2 emissions by 2030 (compared to 2018). This is pretty much on a par with global chemicals players. Kuijpers cautions that the company still has to be very careful with some of its disclosures. “External stakeholders will push for higher reduction targets,” he admits, “but it is clear that this goal reflects how the business has evolved since its first set of targets in 2010.”

Last year, Saudi Arabia – one of the world’s leading oil and gas producers – unveiled the Saudi Green Initiative, which commits the country to carbon neutrality by 2060. This remarkable commitment – along with the kingdom’s efforts to diversify beyond oil by 2030 and its recent acceleration of economic and social reforms – reflects a belief that sustainability and environmental focus are central to the country’s agenda to remain competitive.

“In the Middle East,” says Kuijpers, “we are viewed as the leader in sustainability reporting.” This reporting has to be seen in the context of the industry and the region. “For instance, the Gulf Cooperation Council (GCC) region has grown relevant not only through its role in reinforcing the world’s energy security, but also through its support for economic and social development. It’s becoming more and more important to make sure that we can at least maintain the level of well-being that we arrived at, at a global scale,” says Kuijpers, adding: “If tomorrow you did not have fossil as a feedstock for materials and chemicals, then we would fall back to where we were in the 1950s. I’m not sure whether we want that.”

This is why circularity is such an important part of SABIC’s carbon neutrality strategy. In its 2021 annual report, the company reports on its “TRUCIRCLE™” initiative, which will soon be able to deliver more than 20 kilotons of certified circular and renewable feedstock a year. The company’s target is to deliver 200 kilotons of renewable and recycled feedstock by 2025.

Last year, SABIC became the first company in the industry to launch a certified circular polycarbonate, produced by recycling post-consumer mixed plastic, reducing the need for incineration and landfills. And at the beginning of 2021, the company began constructing the world’s first commercial unit for advanced recycling.

SABIC’s leading role in promoting human rights

SABIC is committed to respecting human rights in accordance with the spirit of the following frameworks:

- UN Guiding Principles on Business and Human Rights
- International Labour Organization’s Declaration on Fundamental Principles and Rights at Work
- Principles of the UN Global Compact

SABIC's human rights obligations are enshrined in its code of ethics, presided over by the executive committee, which embraces a culture of respect and includes policies on freedom of expression and fair employment practices that prohibit illegal discrimination. The company has grievance procedures to ensure that all employees, contractors and suppliers are able to raise concerns about human rights without fear of retaliation. And the company reports externally in line with the California Transparency in Supply Chains Act and the UK's Modern Slavery Act.

In July 2022, SABIC became the first company in Saudi Arabia to publish progress on its human rights programme online.

“ We are very proud we have been able to push forwards on publishing our human rights programme online. We believe we bring value to the region in showing others an example they can follow.

Emma Simo, Senior Manager for ESG and Investor Relations, SABIC

Impact, learning and advice

The power of transparency

A key outcome of the process SABIC has created to report against the Forum's metrics is an increase in the value of transparency within the company. This has required “a lot of internal awareness-raising,” says Simo. Previously, some company members queried why they had to report on, for example, hazardous products or sensitive areas. But they have come to realize that embracing a transparent reporting process for these issues – without at first necessarily setting targets – forces the company to have conversations about, and make progress on, difficult issues.

“ It's better to be in control of your own disclosures than to have others talk about your performance.

Frank Kuijpers

Each company function must own its disclosures

As part of this internal hearts and minds campaign, SABIC's CEO emphasized the importance of each company function owning its ESG disclosures, implementing a true bottom-up approach to secure full support from the entire organization. “We can come up with a proposal, we can come up with the education around it,” says Kuijpers, referring to his corporate sustainability function, “but we cannot own the disclosure itself.”

“ Our aspiration is to get non-financial information to the same level as financial data. To do that we need to enhance our data quality and credibility through automation and data assurance.

Ashok Menon, Director for Sustainability Strategy and Circular Economy for Asia-Pacific, SABIC

Added value of the Forum's Stakeholder Capitalism Metrics

For Kuijpers, an important area of added value for the Forum's metrics is standardization – something he describes as “the most challenging topic in this domain of ESG”. What the Forum's process in creating the metrics clearly showed is that there is no harmonized way of having even 21 core metrics accepted as a global way of reporting.

Kuijpers indicates his frustration at spending a decade or more reporting against similar ESG disclosures that are not comparable because they use different protocols to capture the data. For him, creating a set of comparable ESG metrics is a critical area to address. “It may not be the Forum in charge of standardization,” he says, “but if the IFRS Foundation starts with the Forum's work and broadens it out to a global standard, that would be a big step forward.”

“ The Stakeholder Capitalism Metrics have been the kick-start of how we can get a more holistic view on ESG and ESG disclosure.

Frank Kuijpers