

Decoding UAE's Law on the Reduction of Climate Change Effects



FOREWORD

Globally, governments at all levels are increasingly taking responsibility for enacting legislation and policy frameworks that aim to manage the impact of climate change. This demonstrates the role of countries in acting as key players to ensure that geographies manage the greenhouse gas (GHG) emissions they emit into the atmosphere, in alignment with the Paris Agreement. These laws are usually cascaded to industry and sectoral levels such that companies (public and private), especially in critical sectors, are mandated to manage their emissions.

The recently concluded COP29 in Baku, Azerbaijan, focused on the call to nations and other relevant stakeholders to drastically reduce GHG emissions and protect lives and livelihoods from the worsening impacts of climate change. This was reflected through formal negotiations and pledges made by nations to reduce the effects of climate change.

Taking cues from other developed nations, the UAE is now emerging as a global leader in sustainability and the fight against climate change, making the nation a role model of progress in the region and beyond. It has established Decree-Laws, policies, commitments, and guidance in the sustainability space covering specific sectors, exchanges, and the economy.

The Federal Decree-Law No. (11) of 2024 On the Reduction of Climate Change Effects is an example of the UAE's unwavering stance in the fight against climate change. The Decree-Law requires all entities in the UAE, including Freezones, to measure, track, and manage their carbon emissions in alignment with the UAE Net Zero 2050, National Determined Contributions (NDCs), and the Paris Agreement.

Our perspective is intended to serve as a valuable resource for companies operating in the UAE, helping them understand and comply with the new Decree-Law.

We sincerely hope you find the enclosed insights useful.

We will be happy to participate in any discussions required to clarify our views, which are enclosed in the attached publication. We look forward to hearing from you.

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BACKGROUND

On 28 August 2024, Federal Law No. (11) of 2024, On the Reduction of Climate Change Effects, was issued by His Highness Sheikh Mohammed bin Zayed Al Nahyan, President of the United Arab Emirates, after reviewing the Constitution and Federal Law No. (1) of 1972, Concerning the Competences of Ministries and the Powers of Ministers, as amended, and Federal Decree-Law No. (31) of 2021, Promulgating the Penal Code, as amended, and based on the proposal submitted by the Minister of Climate Change and Environment and Cabinet's approval.

The Decree-Law requires companies to reduce carbon emissions to achieve carbon neutrality. It mandates companies to implement measures, initiatives, and technologies to reduce their carbon emissions while meeting sectoral and national targets for carbon neutrality that would be set, reviewed, and updated periodically by the competent authority.

Objectives of the Decree-Law

Mitigation

Manage emissions within the UAE to effectively contribute to global efforts to mitigate climate change impacts and achieve carbon neutrality.

Adaptation

Enhance the ability of ecosystems, economic sectors, and society to adapt to climate change impacts.

Innovation

Promote innovation, research and development, modern technology, private sector involvement, and international cooperation to support mitigation and adaptation efforts.

Data Sharing

Facilitate data exchange on emissions and climate change impacts at the national level and promote regional and international knowledge sharing.

Sustainable Development

Align national and local strategies for mitigation and adaptation, improving the UAE's position in global competitiveness indices and supporting sustainable development, green and circular economies, and economic diversification efforts.

The law states the responsibilities of the Ministry in coordination with the entity concerned and the competent authority regarding the National Pathway to Climate Neutrality, Measurement, Reporting, and Verification, Climate Change Adaptation Plans, Climate Data and Science, Establishment of Climate Action Boards or Committees, Incentives and Carbon Offsetting Mechanisms, International Cooperation Mechanisms, Nationally Determined Contributions (NDCs), and International Reports.

Specifically, the law requires adequate measurement, reporting, and verification of emissions and emission reduction strategies developed by in-scope companies to support national commitments to carbon neutrality and align with global best practices.



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TO WHOM DOES THIS LAW APPLY?

The law applies to all UAE public and private legal persons and individual enterprises whose operations or activities release GHG emissions into the atmosphere, including Free Zones.

TRANSITION AND EFFECTIVE DATE

The law will be effective from May 30, 2025.

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WHAT ARE THE REQUIREMENTS OF THE LAW FOR COMPANIES?

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The Federal Decree-Law No. (11) of 2024 On the Reduction of Climate Change Effects requires companies to measure emissions emitted from their activities regularly, prepare emissions inventory, and submit periodic reports according to the standards specified by the Ministry or the competent authority, as the case may be, and take measures to reduce such emissions in accordance with the resolutions issued by the Ministry after coordination with the competent authorities and entities concerned.

Companies are to submit data on emissions activities, current emission reduction measures, planned future reduction measures, and expected reduction results in accordance with the forms approved by the Ministry.

Companies should contribute to reducing their emissions to achieve climate neutrality. This shall be achieved by applying one or more of the following means.

-  Improving energy efficiency
-  Using clean energy sources
-  Enhancing and protecting natural carbon sinks
-  Carbon capture, use, and storage (CCUS)
-  Using alternatives to saturated fluorocarbons
-  Carbon offsetting
-  Implementing integrated waste management
-  Utilizing other technologies in line with global or local best practices or as determined by the relevant authority/ authorities

Additionally, companies must maintain records of their measured emission quantities for a period of five years from the date of each analysis. During this time, employees of the Ministry and competent authorities acting as judicial officers must be granted access to these records.

Companies that violate the requirements of this Decree-Law shall be punished by a fine of not less than (AED 50,000) fifty thousand dirhams or about (USD 14,000) and not more than (AED 2,000,000) two million dirhams or about (USD 57,000) and shall be doubled in case of repeating the same action within a period not exceeding (2) two years from the date of the final judgment of conviction.



ROLES AND RESPONSIBILITIES OF RELEVANT ENTITIES

The Ministry, in coordination with the Entity Concerned and the Competent Authority, plays a pivotal role in addressing climate change through several key areas. It is responsible for climate change mitigation by identifying technologies for climate neutrality and setting controls and standards. The Ministry also proposes emission reduction targets, formulates sector-specific plans, and establishes systems for measurement, reporting, and verification. It oversees climate change adaptation by developing plans for various sectors, such as infrastructure and health, while promoting regional and international collaboration in climate science. Additionally, it supports carbon offsetting and emissions trading mechanisms, and manages the National Carbon Credit Registry. The

Ministry is tasked with approving, reviewing, and ensuring compliance with National Determined Contributions (NDCs) and preparing international reports as per obligations.

The Competent Authority and Entity Concerned are responsible for providing necessary data to the Ministry for climate change adaptation plans, international reports, and climate data science. They verify emission data accuracy, ensure adherence to reporting standards, and foster international cooperation to enhance the country's climate resilience and mitigation efforts. Together, these entities work to align national strategies with international climate goals and obligations.

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UNIQUUS' PERSPECTIVE

The UAE continues to lead the GCC region in the sustainability agenda through diplomacy, policymaking, and investment. A significant milestone was hosting COP28 in Dubai, marking the conclusion of the first 'global stock-take' of climate change efforts under the Paris Agreement.

Key Outcomes from COP28

- **The UAE Consensus:** Parties agreed to transition away from fossil fuels, triple renewables, and double energy efficiency by 2025.
- **Emirates Framework for Global Climate Resilience:** Focuses on accelerating climate change adaptation actions with involvement from all stakeholders.

Strategies, Policies, and Regulations Post-COP28

Several new strategies and regulations have emerged, including:

- **Law No. (11) of 2024:** Establishing the Dubai Environment and Climate Change Authority.
- **Cabinet Resolution No. (67) of 2024:** Concerning the National Register for Carbon Credits.
- **UAE Council for Climate Action:** Setting an Action Plan for 2024.

Federal Decree-Law No. (11) of 2024 on Climate Change Effects

This law reinforces the UAE's commitment to achieving net zero emissions by 2050, aligning with the Paris Agreement's goal to limit global temperature rise to 1.5°C. It mandates the management of GHG emissions through energy efficiency, clean energy, carbon offsetting, and carbon capture, use, and storage (CCUS).

Compliance for Companies

Companies must:

- Accurately account for GHG emissions (Scope 1, 2, & 3).
- Develop emission reduction strategies with science-based target setting aligned with national and sectoral commitments.

UAE's Nationally Determined Contributions (NDCs)

In July 2023, the UAE updated its NDC, targeting a 40% reduction in carbon emissions by 2030, up from its previous 31% goal. Companies should align their efforts to measure, track, and reduce emissions in line with these national targets.

We strongly believe the new legislation supports a regulatory framework for CCUS deployment and fosters public-private collaboration. Companies across sectors should align with the national agenda to meet NDCs and contribute to the UAE's climate neutrality goal.

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HOW CAN COMPANIES PREPARE FOR THE LAW?

Companies must comply with the law from 30 May 2025; however, they can begin aligning their organization today with several preparatory steps. We can assist public and private entities in the UAE in taking preparatory measures to ensure full compliance with the law, especially in the Infrastructure, Energy, Environment, Health, and Insurance sectors.

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Uniquis recommends that companies engage with their internal and external stakeholders to inform them of the emergence of this new law and its applicability. This entails setting the context and establishing the benefits of compliance with the law. Industry leaders should take the lead in sensitizing their employees and investors to the importance and urgency of adhering to this law.

Below is our guide for companies preparing for the Federal Decree-Law No. (11) on the Reduction of Climate Change Effects:

GHG Inventorization

Companies should develop GHG inventory (Scopes 1, 2, and 3) using the best global methodologies and in formats that can ensure comparability. Companies should establish a framework for measuring and reducing carbon emissions in line with UAE NDCs. Companies can integrate cutting-edge technology with dashboards for monitoring carbon emissions for effective reporting and monitoring. Technology tools, whether internally developed or identified through third-party providers, such as Uniquis' ESG UniVerse, can assist with processes, such as tracking and reporting of social and environmental due diligence outcomes, supplier engagement, and outreach, calculating GHG emissions to track progress against climate transition targets, and more.

Climate Risk Assessment

Companies can develop a heat map to identify their activities or assets exposed to climate physical (acute and chronic) and transition (policy & legal, technology, market, reputational) risks. Companies should assess their activities based on key metrics, including CO2 critical assets, real estate (residential and commercial), collateral in critical areas, etc. Establishing strategies for effectively managing climate risk using tools, including climate scenarios and stress testing models, is imperative. This will give a strategic view of the risks and impact of climate change on the company across various time horizons, facilitating strategic planning and decision-making. Through climate risk assessment, companies can establish a climate risk appetite framework at a granular level, including sector, industry, and geography-wise, with objective and measurable metrics. The climate risk appetite framework establishes the amount and type of climate risk the company will take to meet its strategic objectives.

Decarbonization Strategy and Target Setting

Companies should identify carbon offsetting and reduction solutions in accordance with legal requirements and best market practices by creating a framework for science-based targets essential for transitioning to net zero, based on the Science Based Targets Initiative (SBTi). These targets provide businesses with specific goals for reducing their greenhouse gas (GHG) emissions to mitigate the most severe effects of climate change, demonstrating a high level of commitment to decarbonization. Developing a decarbonization strategy with metrics and key performance indicators (KPIs) for regular monitoring ensures continuous compliance with predefined targets aligned with the UAE Net Zero 2050 goal and other global or sector-specific net zero initiatives.

Decarbonization Implementation

Companies can develop a comprehensive implementation roadmap that lays out a clear action plan on the pathways and milestones needed to achieve their decarbonization targets. The company-specific vision and strategy, in alignment with national or industry best practices, should inform the decarbonization implementation roadmap.

Companies in the UAE can align their decarbonization implementation roadmap with the UAE Industrial Decarbonization Roadmap, which is structured in three phases: Phase 1 (by 2030): Aim to achieve a 5% reduction in emissions; Phase 2 (by 2040): Aim to achieve a 63% reduction in emissions, and Phase 3 (by 2050): Aims to achieve a 93% reduction in emissions. The UAE Industrial Decarbonization Roadmap focuses on heavy-emitting manufacturing sectors such as cement, iron, steel, and aluminum; however, other sectors should follow suit.

Net Zero Disclosure and Reporting

Companies should develop new net zero reports or align their existing ESG report with additional requirements for the net zero transition. This should incorporate a robust disclosure of the company's emissions-related activities, current emission reduction measures, planned future reduction measures, and expected results of the reduction. Companies can also develop a net zero communication strategy based on areas channeled toward net zero transition. Technology tools such as Uniqus' ESG UniVerse can be leveraged to assist with comprehensive net zero reporting that is aligned to meet stakeholders' expectations, including regulators and government. Through robust and transparent reporting, companies can showcase their net zero efforts, including a commitment to set science-based targets, progress on reducing GHG emissions, establishing a structured decarbonization strategy, and including climate change considerations into policies and procedures.

Training and Capacity Building

Companies should conduct training and capacity-building sessions for senior management and relevant employees on the new law, its impact on business, and its opportunities for the company. This requires building the capacity of relevant stakeholders on the need for carbon neutrality with company- and sector-specific case studies. Companies can also conduct training on the UAE's commitment to net zero, including UAE Net Zero 2050, UAE third NDCs, Abu Dhabi Climate Change Strategy, National Climate Change Plan of the UAE, CBUAE Principles for effective management of climate-related financial risks, Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX) expectations for reporting carbon emissions, and the country's position in carbon emissions globally.

Leveraging Technology

Companies should incorporate the access and use of technology in data collection, analysis, and reporting of GHG emissions. Technology will ensure the accuracy, efficiency, and effectiveness of emissions data.

CONCLUSION

To summarize, the enactment of this Decree-Law buttresses the severity and urgency of the need for companies to engage with all their stakeholders to reduce carbon emissions. This serves as a wake-up call for companies to put policies, processes, systems, and strategies in place to fight against climate change. With the best available tools and technologies, companies can collect, analyze, and disclose carbon emissions data in a consumer-friendly manner, thereby gaining a reputational advantage over peers in adherence to the Decree-Law.

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