

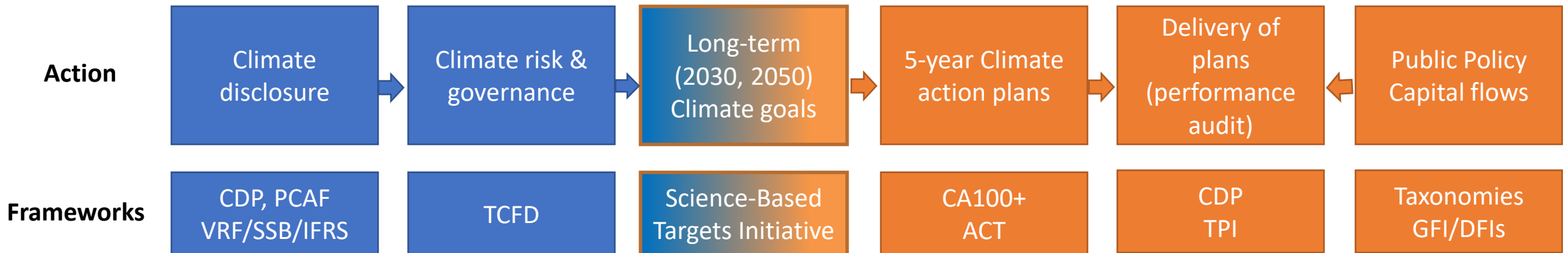
# Essential components of a corporate climate action plan






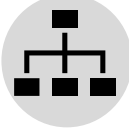




July 21

# Essential components of a climate action plan

- Emissions must be reduced 50% by 2030 <sup>[1]</sup>
- Emissions disclosure alone is inadequate
- Targets without a plan are inadequate
- A long-term target (beyond 10 years) without a short-term plan (5 years) is inadequate
- It is imperative governments make 5 year climate action plans mandatory as Spain has done



# Essential components of a climate action plan

-  Short-term targets required: 5 year and 5-10 year plan\*
-  Average absolute Scope 1-3 emissions reduction of 7-8% pa to 2030
-  Phase out fossil fuel use and production, no financing of new supply
-  Executive compensation, strategy and lobbying aligned with plan\*
-  Necessary capex commitments\*
-  End deforestation, credible use of offsetting only if strictly necessary
-  Independent auditing of emissions\*
-  Annual performance reporting to shareholders

\* Indicator included in CA100+ net-zero company benchmark:

<https://www.climateaction100.org/progress/net-zero-company-benchmark/>

# Companies lack credible climate action plans

- Companies responsible for at least 35% of emissions
- Less than 1% of companies have a climate action plan
- Existing climate action plans vary in their credibility and quality

| Electric Utility companies   |  |
|------------------------------|--|
| Top scoring transition plans | Poor scoring transition plans          |
| Iberdrola SA                 | Saudi Electricity                      |
| Vattenfall Group             | China Three Gorges Corp                |
| CLP Holdings Limited         | Comisión Federal de Electricidad (CFE) |
| Ørsted                       | NextEra Energy, Inc                    |

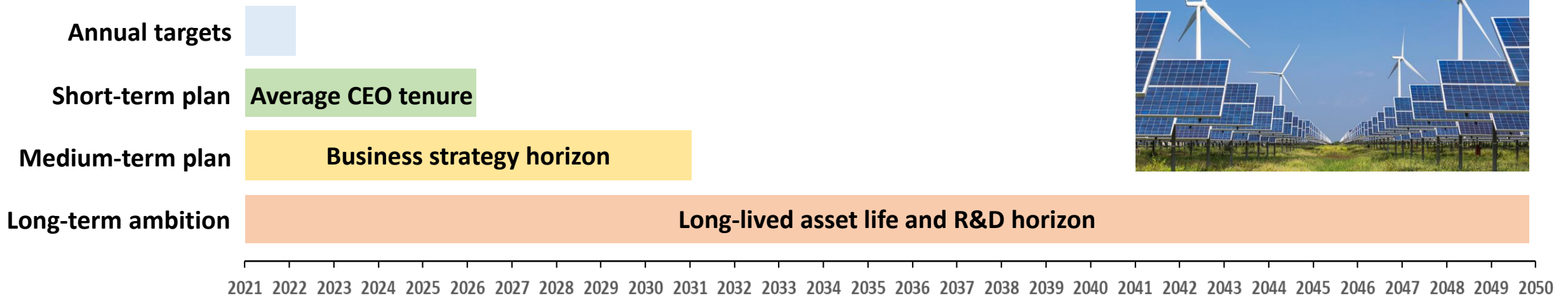
CDP (2020) EU Transition Plan Scoring

| Auto companies               |                                  |
|------------------------------|----------------------------------|
| Top scoring transition plans | Poor scoring transition plans    |
| Volkswagen                   | Great Wall Motor Company         |
| Subaru                       | BYD                              |
| Groupe PSA                   | Anhui Jianghuai Automobile Group |
| Mahindra & Mahindra          | Guangzhou Automobile Group       |

CDP (2020) Auto Transition Plan Scoring

# ⌚ Short-term targets are essential

- ❑ A short-term (5 year) climate plan with annual targets is essential
- ❑ In addition a 5-10 year plan is needed for capex
- ❑ 2040 and 2050 goals by themselves are too long-term to have accountability and can be used for greenwashing





# Necessary top-down emissions reduction targets

- ❑ Targets must be [science-based and aligned with a 1.5 degree outcome](#)
- ❑ Emissions must be reduced 50% by 2030 <sup>[1]</sup>
- ❑ Absolute emissions targets are essential. After allowing for industry growth emissions must still decline.
- ❑ Absolute emissions need to be reduced at an average rate of 7% every year until 2030, varying by sector <sup>[2]</sup>





# Minimum emission reductions by sector

| Sector         | Indicator           | Baseline               | 2030 target | Reductions pa to 2030 | Source  |
|----------------|---------------------|------------------------|-------------|-----------------------|---|
| Utilities      | Scopes 1-3          | 19.4 Gt CO2e (2019/21) | 9.1 Gt CO2e | 10%*                  | UTS <a href="#">One Earth Climate Model</a> (supported by UNEP and Net Zero Asset Owners Alliance)  |
| Industry       | Cement Scope 1+2    | 2.2 Gt CO2e (2019/21)  | 1.5 Gt CO2e | 5%*                   |   |
|                | Steel Scope 1+2     | 4.9 Gt CO2e (2019/21)  | 2.3 Gt CO2e | 10%*                  |   |
| Land transport | Scope 1 + 2         | 7.3 Gt CO2e (2019/21)  | 2.5 Gt CO2e | 15%*                  |   |
| Buildings      | Change in emissions | 2.9 Gt CO2e (2019/21)  | 1.2 Gt CO2e | 12%*                  | IRENA 2021 <a href="#">World Energy Transitions Outlook</a>   |
| Coal           | Coal production     | 14.5 Gt CO2 (2020)     | 3.1 Gt CO2  | 8-14%                 | <a href="#">Carbon Brief (2020)</a> . Emission reductions in line with the P1 scenario, from the IPCC special report on 1.5C with no CCS. |
| Oil            | Oil production      | 12.5 Gt CO2 (2020)     | 7.1 Gt CO2  | 6%                    |   |
| Gas            | Gas production      | 7.7 Gt CO2 (2020)      | 4.6 Gt CO2  | 5%                    |   |
| F-gases        | Change in emissions | 100% (2019)            | 34%         | 9%                    | The Committee on Climate Change (2020). Sixth Carbon Budget (for UK only)   |

- Emissions reduction targets are absolute annual reductions (not intensity), which are net of any growth

*\*Refer to Annex 1 for an overview of how these values have been derived*

# Scope of emissions coverage

- Scope 1, 2 and 3 emissions coverage is essential for disclosure, targets and plan



## Scope 3

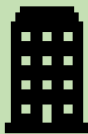
Indirect emissions (not owned) in the value chain of the company

- Customers
- Supply chains



## Scope 2

Indirect emissions (owned) from generation of purchased energy



## Scope 1

Direct emissions from company owned and controlled resources



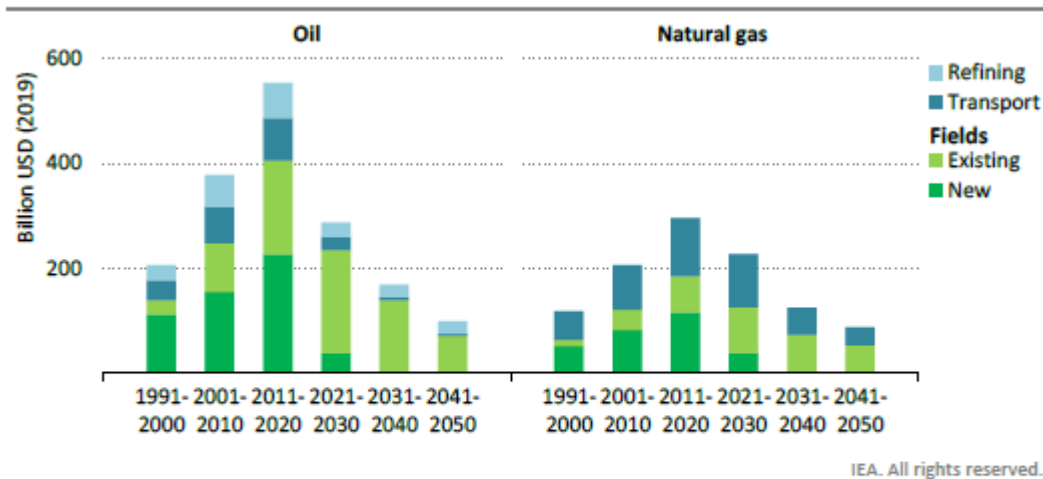




# Fossil fuel phase out is necessary

- ❑ IEA Net-zero 2050 scenario states no new expansion of fossil fuel production capacity
- ❑ No expansion of coal fired power - phase out in OECD by 2030, global by 2040
- ❑ Gas generally as bad as coal due to methane, IEA sets phase out 2035 in OECD, no financing for expansion
- ❑ Asset divestment should avoid transfer to private equity or national oil companies

Figure 3.4 ▶ Investment in oil and natural gas supply in the NZE



IEA. All rights reserved.

Once fields under development start production, all upstream oil and gas investment is spent on maintaining production at existing fields

Note: Investment in new fields in the 2021-2030 period is for projects that are already under construction or have been approved.

| Energy type | Global absolute reductions (%pa to 2030)     |
|-------------|--|
| Coal        | 14%  |
| Oil         | 6%   |
| Gas         | 5% (vs industry expectations of 2.5% growth) |

[Carbon Brief \(2020\)](#). Emission reductions in line with the P1 scenario, from the IPCC special report on 1.5C with no CCS.



# Aligning executive compensation

- ❑ Substantial proportion of total compensation (inc. deferred) e.g. +/- 20%
- ❑ Clear, simple KPIs e.g. emissions reduction specific to sector and company
- ❑ Incentivise long-term investment to ensure continued decarbonisation beyond CEO tenure and avoid short-termism
- ❑ Significant ESG alignment already but limited to annual pay and mainly linked to qualitative goals<sup>[19]</sup> :

| Region | % major companies with short-term ESG incentives | % major companies with long-term ESG incentives |
|--------|--|---|
| Europe | 63%  | 15%   |
| US     | 51%  | 3%  |
| Canada | 68%  | 2%  |



# Banks, stock exchanges, insurers

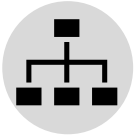
- Announce phase out of fossil fuel financing including gas, starting with coal by 2030 for OECD and 2040 for the rest of world
- Banks must disclose the absolute emissions of their loan book and financing arrangement based on actual data
- Reduce and end financing to all clients not cutting emissions in line with sector targets
- Financed emissions must fall at 7%pa to 2030 in absolute terms (50% reduction)

# Essential components of a corporate climate action plan

- ❑ **Change fundamental business processes** to reduce company carbon footprint
  - ❑ Steel companies Nucor and Gerdau have business models predominately based on scrap-based steelmaking <sup>[3]</sup>
- ❑ **Introduce efficient energy management into buildings & factories**
  - ❑ Steel companies Hyundai Steel and SSAB have highly efficient BF-BOF plants and a mix of EAF/BF-BOF steelmaking routes <sup>[3]</sup>
- ❑ **Source low carbon energy** through additional renewable generation or power purchase agreements
  - ❑ National Grid has reduced direct emissions by 70% from 1990 to 2020 and Scottish Power generates 100% renewable electricity in the UK <sup>[4]</sup>
- ❑ **Decarbonise transport fleets**, e.g. through electric vehicles, rail
  - ❑ Royal HaskoningDHV have updated their service contract policies to specify use of EVs, and 60% of their corporate vehicles have been converted to EV <sup>[5]</sup>

# Essential components of a corporate climate action plan

- ❑ **Commit R&D for necessary future technologies**, ensure no further investment in capital assets that will be stranded subsequently
  - ❑ Cement companies such as Heidelberg and LafargeHolcim are accelerating investment in CCS and low-carbon products <sup>[3]</sup>
- ❑ **Decarbonise supply chains** and help customers lower their carbon intensity
  - ❑ National Grid commits to reducing Scope 3 emissions for electricity and gas sold to customers by 20% for 2030 <sup>[4]</sup>, and they set a target of engaging 80% of their suppliers to respond to CDPs supply chain programme by 2020, which they surpassed in 2019 <sup>[6]</sup>
- ❑ **Align all lobbying** with regulation which drives the decarbonisation of the industry
  - ❑ Iberdrola has joined relevant pledges (e.g. the Business Ambition 1.5°C declaration) and has advocated for an ambitious approach to fully decarbonize the energy sector by 2050 <sup>[6]</sup>
- ❑ **Minimal use of high quality carbon offsets** only alongside full decarbonisation



# What should investors do?

- ❑ Asset owners need to formally evaluate the ESG policies and actions of their asset managers:
  - ❑ <https://shareaction.org/research-resources/point-of-no-returns/>
  - ❑ <https://www.majorityaction.us/asset-manager-report-2020>
- ❑ Monitor emissions at both the portfolio and underlying holdings level of their asset managers:
  - ❑ <https://financemap.org/index.html>
  - ❑ <https://www.cdp.net/en/investor/climetrics>
- ❑ Decarbonisation of underlying holdings needed is necessary to avoid greenwashing achieved by divestment
- ❑ Support the mandatory disclosure of emissions and climate action plans
- ❑ Hire activist ESG funds managers and invest in clean technology funds

# Sector pathway – Steel

- ❑ Breakthrough technologies could significantly alter the emissions trajectory of global steelmaking if they are commercialised <sup>[3]</sup>
- ❑ Best in class companies have aligned their targets with the IEA's 2DS scenario and have a roadmap on how to reach their targeted emissions savings <sup>[3]</sup>
- ❑ Industry must seize opportunities of the circular and functional economy (through recycling materials in new products and CCS) <sup>[7]</sup>
- ❑ Steel transition pathways should focus on: <sup>[8]</sup>
  - ❑ Bringing zero carbon steel production technologies to market by 2030
  - ❑ Accelerating the growth of scrap-based production
  - ❑ Ensure no new high-carbon assets are built after 2030



# Sector case studies – Steel

## Top performing companies

### **SSAB** [3]

- ✓ Focused on two clearly defined innovation strategies: fossil-free steelmaking via the HYBRIT project and replacing existing Blast Furnaces with Electric Arc Furnaces
- ✓ Guarantee of Origin to supply 50% of its electricity from renewable sources
- ✓ Most ambitious emissions reduction goal of carbon neutrality by 2045 across all operations

### **MSSPL** [6]

- ✓ First metals company to have an approved science-based target (to reduce scope 1, 2 & 3 emissions by 35% per ton from 2016-2030)
- ✓ Short term commitments, including reducing scope 1 and scope 2 emissions from 2013 to 2022 by 41% and 47% respectively
- ✓ Progress towards targets - scope 1 and scope 2 emissions were reduced by 26% and 14% respectively from 2013-2018

## Poor performing companies

### **US Steel Corporation** [3]

- × Highest energy intensity at 28 GJ/tonne
- × Only reports on Scope 1 emissions and has above average emissions intensity
- × Limited implementation on innovative technologies
- × No evidence of using scenario analysis, an internal carbon price, or climate-related remuneration



# Sector pathway – Cement

- ❑ Companies supplying cities with ambitious decarbonisation targets are more at risk than plants close to cities without decarbonisation ambitions <sup>[3]</sup>
- ❑ Ambitious companies have set targets with intensities below the level required for the cement sector to align with the IEA's 2DS scenario <sup>[3]</sup>
- ❑ Cement transition pathways should focus on: <sup>[8]</sup>
  - ❑ Facilitating use of waste and by-products and enabling the industry to work together to implement circular economy strategies
  - ❑ Developing CCUS infrastructure and delivering enabling policy frameworks which make decarbonisation an investable proposition
  - ❑ Driving the demand for sustainable building materials

# Sector case studies – Cement

## Top performing companies

### **Cementos Argos** <sup>[3]</sup>

- ✓ Greatest emission reduction targets, with the highest annual emission intensity reduction implied, and is currently performing best relative to this
- ✓ Best board level climate management and executive remuneration, being the only company to incentivise long-term climate risk management through compensation

## Poor performing companies

### **Asia Cement** <sup>[3]</sup>

- × Highest clinker ratio and Scope 1 emissions intensity, and the weakest net debt/EBITDA
- × Lowest use of alternative materials and fuel, and the lowest level of R&D expenditure
- × No internal carbon pricing, largest gap to IEA 2-degrees, and limited link between remuneration and climate risk

# Sector pathway – Transport

- ❑ Policy-makers must support a faster update of cleaner alternatives in road transport on climate, competitiveness, and health grounds <sup>[7]</sup>
- ❑ Aviation transition pathways need to demonstrate commitments to shift investment into production and delivery of sustainable aviation fuel (SAF) technologies <sup>[8]</sup>
- ❑ Shipping transition pathways must enable commercially viable zero emission vessels to enter the global fleet by 2030 <sup>[8]</sup>
- ❑ Given the fragmented freight market, short term (2025-2030) commitments to net zero trucking will require sector agreement between a critical mass of manufacturers, buyers, infrastructure and finance players <sup>[8]</sup>
- ❑ Transportation transition pathways should focus on: <sup>[9]</sup>
  - ❑ Creating more efficient and electrified assets
  - ❑ Managing energy demand through optimisation and modal shifts
  - ❑ Closing the innovation gap through fuel switching where electrification is not possible



# Sector case studies – Transport

## Top performing companies

### **Go-Ahead Group** <sup>[4]</sup>

- ✓ Aiming to operate a net zero bus fleet by 2035
- ✓ Launched the first fully electric bus fleet in 2020

### **Nissan Motor Co.** <sup>[4]</sup>

- ✓ Committed to carbon neutrality across operations and the life cycle of their products by 2050
- ✓ Over the past year they have supplied 9/10 of the largest fleets in the UK with Evs

### **Volkswagen** <sup>[10]</sup>

- ✓ Low carbon transition plan sets short term targets (2025-2030) for upstream, production, and in-use emissions
- ✓ The transition plan details €33 billion capital allocation by 2024 towards fleet electrification

## Poor performing companies

### **Honda** <sup>[10]</sup>

- × Scenarios and transition planning is aligned with the Japan NDC which is inadequate to reach 2 degrees

### **Renault** <sup>[10]</sup>

- × The transition plan only includes targets up until 2022, and lacks detail around the specific plans

# Sector pathway – Power

- ❑ Solar and wind deployment rates need to double or triple within the EU to meet 2030 targets <sup>[7]</sup>
- ❑ Coal phase-out later than 2030 makes it impossible to cut EU emissions in line with the Paris Agreement <sup>[7]</sup>
- ❑ EU gas demand needs to be cut in half by 2030 (compared to 2019 levels), so all new investment in gas infrastructure needs to be minimised <sup>[7]</sup>
- ❑ Remuneration policies are key to steer oil and gas companies on a low-carbon transition rewarding zero carbon capacity additions <sup>[12]</sup>

# Sector case studies – Power

## Top performing companies

### **Eni** <sup>[13]</sup>

- ✓ Corporate ambition includes absolute emissions covering all activities (incl. scope 3)

### **Occidental** <sup>[13]</sup>

- ✓ The first large North American company with scope 3 emissions in their target

### **EDF Group** <sup>[4]</sup>

- ✓ 2020 carbon intensity from generation was 5 times lower than the EU average
- ✓ Over 90% of their investments contribute to decarbonisation of electricity

### **Iberdrola** <sup>[6]</sup>

- ✓ Approved SBT to reduce absolute scope 1, 2 & 3 emissions by 43% from 2017-2030
- ✓ Committed to being carbon neutral in Europe by 2030 and globally by 2050.
- ✓ 17 coal and oil plants have been closed since 2001 and 68% of installed capacity is emission free

### **Ørsted** <sup>[14]</sup>

- ✓ Committed to reduce emissions intensity from energy production by 96% from 2006-2023.
- ✓ Aim to stop using coal at all power stations by 2023, having already divesting their upstream oil and gas business

### **EDP Renováveis** <sup>[15]</sup>

- ✓ 92% reduction in core GHG emissions from 2014-2019 (44% reduction aligned with revenue growth)

## Poor performing companies

### **ExxonMobil** <sup>[13]</sup>

- × New climate goal only covers upstream operational emissions, with a 15-20% reduction to 2050

### **Chevron and ConocoPhillips** <sup>[13]</sup>

- × Only cover scope 1 and 2 emissions

### **EU companies (e.g. BP, Repsol, Eni, Shell and Total)** <sup>[12] [13]</sup>

- × Still incentivising executives to grow oil and gas volumes despite net zero targets
- × Nearly all company goals are heavily resilient on unproven technologies



# Sector pathway – Land use

- ❑ Policy-makers need to explore pathways for reducing land use emissions, while considering changes in farming and co-benefits for biodiversity <sup>[7]</sup>
- ❑ There will be trade-offs between changing demand for agricultural products (e.g. meat consumption, demand for liquid biofuels) and increased agricultural efficiency (e.g. land sharing and crop rotation improving land requirement per unit produced) <sup>[7]</sup>
- ❑ Land use transition pathways focus on: <sup>[16]</sup>
  - ❑ Changing farming practices
  - ❑ Reducing food waste
  - ❑ Changing diets



# Sector case studies – Land use

## Top performing companies

### **Tesco** <sup>[4]</sup>

- ✓ Committed to reduce 2030 supply chain carbon emissions by 35% across food and manufacturing and by 15% for agriculture

### **Danone** <sup>[6]</sup>

- ✓ Committed to become carbon neutral across its value chain by 2050, reaching peak emissions before 2025
- ✓ Aiming to reduce scope 1, 2 and 3 emissions intensity by 50% from 2015-2030

### **Unilever** <sup>[6]</sup>

- ✓ Goal of zero net deforestation by 2020 for palm, soy, paper and board, and beef

## Poor performing companies

### **Sumitomo Forestry Co.** <sup>[17]</sup>

- × Committed to reduce scope 1 & 2 emissions by 21% from 2017-2030
- × Committed to reduce scope 3 emissions by 16% from 2017-2030
- × Insufficient progress against their targets (-14% for scope 1 & 2 emissions and -30% for scope 3 emissions)





# Sector pathway & case studies – Buildings

- ❑ Residential and non-residential renovation rates will need to double or triple within the EU to meet 2030 emission targets, and these renovations will need to be carried out more thoroughly <sup>[7]</sup>

## Top performing companies

### **Barratt Developments** <sup>[4]</sup>

- ✓ Their 2040 net zero has been approved by the SBTi and aligns with a 1.5 degree future
- ✓ Committed to buying 100% of operational electricity from renewable sources by 2025
- ✓ Working with suppliers to build zero carbon homes from 2030

### **Mace Group** <sup>[18]</sup>

- ✓ Set a goal of 100% renewable electricity by 2022, with an interim target of 75% by 2020

### **Landsec** <sup>[17]</sup>

- ✓ Set a target in line with 1.5 degrees which includes scope 3 emissions
- ✓ Progress towards targets – 83% reduction in core GHG emissions from 2014-2019 (31% reduction aligned with revenue growth)

## Poor performing companies

### **NH Hotel Group** <sup>[17]</sup>

- × Insufficient progress against their targets (-111% for scope 1 & 2 emissions and -36% for scope 3 emissions)

# Annex 1: Benchmark calculations

- Annual emission reduction rates were estimated using Compound Annual Growth Rate (CAGR) calculations. This provided an estimation of the average annualised percentage reduction required for emissions to decrease as required from the baseline year to 2030.
- Adjustments to 2019 modelling baselines were adjusted to 2021 start year using IEA forecasts of post-Covid bounce-back.

# Annex 2: References

- [1] IPCC (2018) 2010 baseline
- [2] UNEP (2021)
- [3] Industry Tracker (2021) Steel & Cement
- [4] University of Cambridge Institute for Sustainable Leadership (2021) UK business and policy leadership for net zero
- [5] Climate Group EV100 (2021) Progress and insights report
- [6] We Mean Business (2019) Insights
- [7] Climact (2020) Increasing the EU's 2030 emissions reduction target
- [8] Mission Possible Partnership (2021) Action Areas
- [9] Environmental Defence Fund (2020) Pathways to Net Zero
- [10] CDP (2021) Transition Plan Analysis
- [11] ECF (2019) Towards fossil-free energy in 2050
- [12] Carbon Tracker Initiative (2020) Groundhog Pay: How executive incentives trap companies in a loop of fossil growth
- [13] Carbon Tracker Initiative (2021) Absolute Impact 2021
- [14] Science Based Targets (2021) Companies taking action: case studies
- [15] Financial Times (2021) Europe's Climate Leaders 2021
- [16] Climate Action Tracker (2019) Transformation points
- [17] Science Based Targets (2021) From ambition to impact: How companies are reducing emissions at scale with science-based targets
- [18] RE100 (2020) Growing renewable power: companies seizing leadership opportunities
- [19] <https://www.willistowerswatson.com/-/media/WTW/Insights/2021/04/ESG-and-Executive-Compensation-Report-2021.pdf?modified=20210419083740>