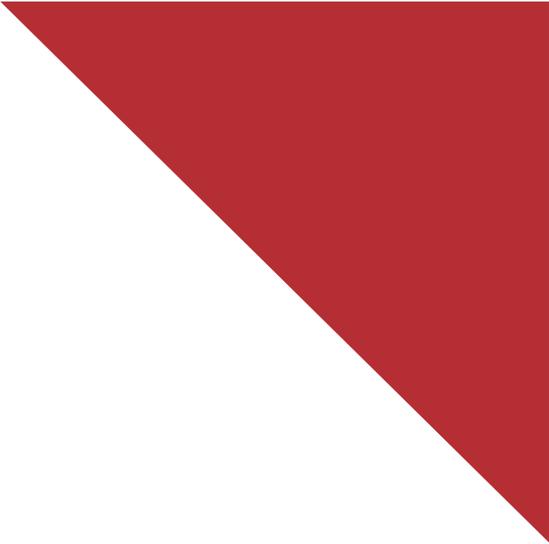

CDP Policy Briefing

Corporate Ambition & Action on Climate Change

AMBITION & ACTION



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Executive Summary

Much is being done by companies to mitigate climate change, with many companies setting emissions reduction targets and taking action to tackle climate change both in their own operations and in their supply chain. The evidence shows that on the whole taking action on climate change benefits companies financially and certainly does not harm their profitability. But there is room for improvement.

For example, not all companies are setting targets and only a few corporate emissions reduction targets demonstrate the level of ambition needed to set us on a 2°C pathway required to mitigate the worst effects of climate change. Considerable reductions in greenhouse gas emissions could be achieved if companies were to take stronger action, particularly if long-term science-based emissions reduction targets become the norm.

Corporate ambition and action on climate change is crucial. Companies therefore have an important role to play in any global deal on climate change and helping to achieve the reductions in greenhouse gas emissions required to limit the rise in global temperature to below 2°C. There is a lot that policymakers should do to help facilitate greater corporate ambition and action on climate change.

Policy Recommendations

Policymakers should:

- ▶ **Establish a long-term enabling environment by agreeing a global deal on climate change with long-term goals to reduce greenhouse gas emissions, providing the certainty businesses and investors need.**
- ▶ **Recognise the importance of a range of actors, such as companies in the Paris Agreement and encourage use of the UNFCCC's NAZCA portal to record corporate commitments on climate action.**
- ▶ **Develop national policies that incentivise the implementation of cost effective carbon reduction and energy efficiency measures. This will help to facilitate greater corporate action on climate change.**
- ▶ **Create financial mechanisms to drive investment in low carbon innovation, such as setting a global price on carbon. This will help to create a level playing field and avoid leakage.**
- ▶ **Promote greater corporate accountability, introducing requirements that companies should disclose material climate change information in mainstream annual reports.**

Introduction

By the end of this year, at the UN climate negotiations, countries are expected to agree a new international agreement on climate change that will enter into force in 2020. Countries clearly have a leading role in securing and implementing a global deal. However, non-state actors, such as business also play an important part. Their willingness to act can help to strengthen and enhance the commitments made by countries. It also provides an opportunity to catalyse these commitments into action, helping to achieve the reduction in greenhouse gas emissions required to limit the rise in global temperature to below 2°C.

This policy briefing assesses the current landscape of how companies are tackling the climate challenge and highlights the growing body of evidence showing that taking action on climate change does not harm financial performance. It demonstrates the significant potential impact of greater corporate ambition and action on climate change. It shows how business can play a vital role in global decarbonization. It concludes with a series of recommendations for policymakers to help catalyze the transition to a low-carbon economy and drive greater corporate ambition and action on climate change.

CDP was commissioned by the New Climate Economy (NCE) to analyse data and evidence on corporate ambition and action on climate change. NCE worked with CDP, because CDP holds a unique collection of primary corporate climate change data from over 5,000 companies based in more than 80 countries.¹ CDP co-authored the NCE working paper on business and investors, from which the section on business and investors in NCE's 2015 report was drawn. CDP acts on behalf of 822 investor signatories representing US\$95 trillion in assets and 75 major multi-national corporations and government procurement departments.

¹ CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information.

What are companies doing to tackle climate change?

Over the last decade many companies across the world have begun to take significant action to tackle climate change, which has resulted in significantly lower greenhouse gas emissions than would otherwise have been the case.²

Setting greenhouse gas emissions reduction targets

70% of the 2,345 companies reporting climate information to CDP in 2014 set either an intensity or an absolute target with almost 400 companies setting both. Some of these companies (26 companies) are already setting ambitious long-term targets in line with science - with 2050 (or longer) as the target year.

However, many targets are not ambitious enough to reach the requirements of a 2°C pathway. Furthermore, the majority of targets are due to expire shortly – either in or before 2020. In summary, most existing corporate emissions reduction targets are insufficiently long-term or not ambitious enough to be in line with a 2°C scenario.

Implementing carbon reduction and energy efficiency measures in company's direct operations

59% of companies reporting to CDP in 2014 implemented initiatives that reduced their emissions. This was a result of companies implementing over 90,000 energy and carbon reduction projects saving over 700 million tonnes of CO₂e. The average savings per project was 7,778 tonnes of CO₂e. The number of companies reporting emissions reductions³ has increased by 70% since 2011.

Further savings are anticipated, with companies disclosing that an additional 67,000 projects are in the implementation phase, potentially saving 447 million tonnes of CO₂e⁴ – comparable to the emissions of the UK in 2013.⁵ 21,000 projects are still under investigation and could, if implemented, save up to a further 151 million tonnes of CO₂e - equivalent to a quarter of France's emissions in 2013.⁶

Case Study

Anglo American Platinum (South Africa)

Anglo American Platinum Ltd is the world's leading primary producer of Platinum Group Metals, operating across the entire value chain. It is a business unit of Anglo American Plc, which manages mining and process activities based in South Africa. Its 2014 revenue is calculated at US\$5.1 billion.

By setting emissions reduction targets, it has been able to decrease its emissions significantly, with emissions falling by 10% per unit of total revenue in 2014 compared to 2013. In sum, direct emissions and emissions from energy use declined by 9.6% to 5.36 Mt CO₂e between 2013 and 2014.

Anglo American Platinum has achieved these emissions reductions by completing more than 40 energy-efficiency projects since 2010, resulting in energy savings of 315,603 GJ in 2014. The cost savings from these projects are estimated at US\$38 million.

² The statistics showcased in this section are based on analysis of CDP data, which is self-reported data from companies that participate in CDP's climate change program. While some companies have disclosed to CDP since 2000, most of the analysis is based on 2014 data, which includes 2,345 responding companies.

³ This is due to emissions reduction activities.

⁴ New CDP analysis 2015 on self-reported data from the climate change program.

⁵ Figures rounded to the nearest billion. PBL Netherlands EAA and ECJRC, 2014. TRENDS IN GLOBAL CO₂ EMISSIONS: 2014 Report. 23.

⁶ Comparisons based on US EPA Greenhouse Gas Equivalencies Calculator. Available at: <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>.

Reducing greenhouse gas emissions in the supply chain

Companies increasingly recognise that climate change presents a material risk to their supply chains, which, in turn, poses a risk to their businesses. There is also often an opportunity for companies to significantly reduce greenhouse gas emissions in their supply chain. Around 75 global corporations and organizations are collaborating with their suppliers through CDP's supply chain program to better understand the impacts of climate change on their supply chains and to reduce greenhouse gas emissions.⁷

Setting an internal price on carbon

More than 100 companies have reported to CDP that they use an internal price on carbon to drive investment in low carbon innovation. Statoil, a Norwegian oil and gas company, has applied one of the most advanced internal price on carbon schemes at US\$50-75 per tonne of CO₂e.⁸ It has done this under the assumption that the global CO₂ price will increase towards 2040. There are a number of countries where companies are using an internal price on carbon. These are: Australia; Brazil; Canada; Denmark; France; Germany; Hungary; India; Ireland; Italy; Japan; the Netherlands; New Zealand; Norway; Portugal; Singapore; South Africa; Spain; Switzerland; Taiwan; UK; and USA.

Case Study

Braskem (Brazil)

Braskem is a Brazilian petrochemical company headquartered in São Paulo, Brazil. Founded in August 2002, it is the largest petrochemical company in Latin America and a world leader in producing plastics from renewable resources. The company operates in Brazil, the USA and Germany; and serves customers in over 70 countries. Braskem recorded a turnover of \$22 billion in 2013.

Since 2012, Braskem has asked its suppliers to disclose their environmental information in order to better quantify risks in its supply chain. It has a supply chain emissions reduction target of 6%, compared to 2012 levels. The company also aims to pinpoint areas of its operations where greater gains in environmental efficiency are feasible.

Between 2008 and 2012 Braskem reduced the intensity of its greenhouse gas emissions by 13% (418,000 tonnes CO₂e). The regular monitoring and evaluation of risks allows the company to anticipate relevant climate change impacts. As a consequence, Braskem evaluates the availability of fuel, feedstock and energy in the medium and long-term and monitors the establishment of emissions reduction targets by their suppliers.

Implications for policymakers

So what does this mean for policymakers?

- ▼ Policymakers need to help raise the level of corporate ambition on climate change and encourage more companies to set ambitious long-term emissions reduction targets in line with science by supporting collaborative initiatives in this area.
- ▼ Many companies are already acting on climate change both in their direct operations and in their supply chains. National governments should encourage use of the UNFCCC's Non-State Actor Zone for Climate Action (NAZCA) portal to record corporate commitments on climate action.
- ▼ A number of companies are using an internal price on carbon to drive low carbon investment, with many expecting policymakers to regulate on carbon pricing in due course. A global approach to carbon pricing is needed in order to create a level playing field and avoid leakage.

⁷ CDP Supply Chain program. Available at: <https://www.cdp.net/en-US/Programmes/Pages/Become-a-supply-chain-member.aspx#members>.

⁸ Statoil, 2014. Statoil steps up advocacy on carbon pricing and methane reduction efforts. Available at: http://www.statoil.com/en/NewsAndMedia/News/2014/Pages/23Sep_UN_Climate_summit.aspx.

The financial case for climate action

Many companies are taking action on climate change because it makes sense financially and they can benefit from substantial cost savings. The total cost savings reported by 5,000 companies to CDP in 2014 were US\$53 billion.

Investments in emissions reduction activities yields high returns

Across the world and in many sectors and businesses, companies are disclosing that they are making considerable investments in carbon reduction and energy efficiency measures. A We Mean Business report found that companies reporting to CDP have invested more than US\$170 billion in low carbon projects. Almost 1,450 companies reported savings of just over 420 million tonnes of CO₂e between 2012 and 2013.⁹

Leadership increases returns

There is a growing body of evidence that suggests that taking action on climate change does not harm a company's performance and may be correlated to strong financial performance. For example, analysis conducted in 2014 showed that CDP's Climate Performance Leadership Index - an index based on companies that lead the way globally in terms of action to mitigate climate change - outperformed the Bloomberg World Index by 9.6% between 2010 and 2014.¹⁰

Figure 1: Companies taking action on climate change are outperforming the market



Source: CDP (2014) The A List: The CDP Climate Performance Leadership Index 2014.¹¹

Implications for policymakers

So what does this mean for policymakers?

Companies are investing significant sums in emissions reduction activities, because they make sense financially and deliver high rates of return. Policymakers should encourage this by providing a stronger enabling environment, developing national policies that incentivise the implementation of cost effective carbon reduction and energy efficiency measures.

Many companies that are taking strong climate action are not seeing their peers outperform them. Rather they are enjoying financial benefits from doing so. Policymakers should encourage companies to report material environmental information in their mainstream annual reports and disclose information on emissions reduction activities, particularly the cost and CO₂ savings from doing so.

⁹ We Mean Business, 2014. The Climate has Changed. 23.

¹⁰ Comparing a CDP index against a mainstream index entails differences in index size, sector weighting and regional allocation and this comparison has not been risk-weighted to capture these factors.

¹¹ CDP, 2014. The A List.

Science-based corporate emissions reduction targets

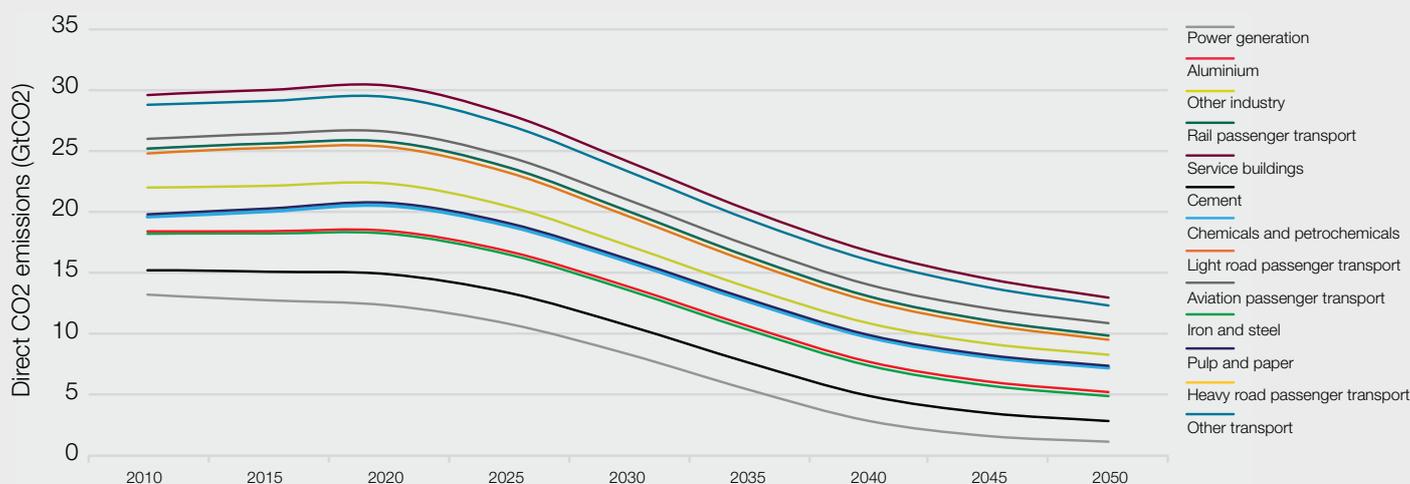
A growing number of companies have understood the risks posed by climate change and are demonstrating leadership by setting science-based greenhouse gas emissions reduction targets, which can be defined as a corporate emissions reduction target that is aligned with the level of decarbonization required to limit warming to below 2°C. Currently over 40 companies have pledged to set long-term, science-based greenhouse gas emissions reduction targets, including Nissan, a Japanese car manufacturer, and Wipro, an Indian IT company.

Companies such as L'Oréal, a French cosmetics company, and NRG Energy Inc, a US power company are setting science-based emissions reduction targets because it is in their interest to do so. It enhances corporate reputation, stimulates ambition and encourages innovation, helping companies to create and penetrate new markets and climate smart opportunities. It is also compatible with strong financial returns. Research by We

Mean Business suggests that companies that set targets aligned with science and achieved reductions in their emissions intensity outperformed their peers in achieving a better financial return on low-carbon investment.¹²

There are various different methodologies available to companies to help them set a science-based target. One method has been developed by CDP, the World Resources Institute and WWF working with the UN Global Compact. The Science-based Target Initiative have developed sector pathways, outlining what is expected of companies according to their sector.¹³ The methodology and approach is based on the 2°C scenario developed by the International Energy Agency (IEA)¹⁴, which sets out a carbon budget of 1.055 Gigatonnes of CO₂ until 2050. The graph below provides a breakdown of the emissions reductions that need to be achieved from 2011 to 2050 for each industry sector to ensure we stay on a 2°C pathway.

Figure 2: Sector decarbonisation pathways for the 2°C scenario



Source: Science-based targets (2014) The Sectoral Decarbonization Approach (SDA): Methodology for setting corporate emission reduction targets in line with climate science.

Scaling up mitigation: the potential that could be achieved through science-based targets

There is huge potential to mitigate climate change and deliver substantial reductions in greenhouse gas emissions through the use of science-based targets. Analysis (using IEA data) reveals that the emissions reductions that could be achieved if all companies were to adopt long-term science-based targets is 644 Gigatonnes of CO₂¹⁵ - over eighteen times the world's total emissions in 2013.¹⁶

CDP has calculated that if the largest 500 listed companies in the world set long-term science-based emissions reduction targets and implemented action plans now to reduce emissions up to 2030 this would lead to emissions savings of up to 13.272 Gigatonnes of CO₂e (versus business as usual) – equivalent to two and a half times the USA's emissions in 2013.¹⁷

¹² We Mean Business, 2014. The Climate has Changed.

¹³ CDP, WRI, WWF and UN Global Compact (UNGC), Science-based targets initiative, 2014, Methodology for setting corporate emissions reduction targets in line with climate science: The sectoral decarbonisation approach (SDA). Available at: http://www.sciencebasedtargets.org/wp-content/uploads/2014/09/The_Sectoral_Decarbonization_Approach.pdf.

¹⁴ IEA 2014. Energy Technology Perspectives 2014 Outlook. Available at: <http://www.iea.org/etp/etp2014/>.

¹⁵ This gap analysis involved CDP comparing the projected emissions from 2010 – 2050 for the 2°C scenario with the 6°C scenario (business as usual) as set out by the IEA. Data available at: <http://www.iea.org/etp/explore/>.

¹⁶ Comparison based on data in PBL NEAA & EC JRC, 2014. Trends in Global CO₂ Emissions. 23.

¹⁷ Comparison based on data in PBL NEAA & EC JRC, 2014. Trends in Global CO₂ Emissions. 23.

Case Study

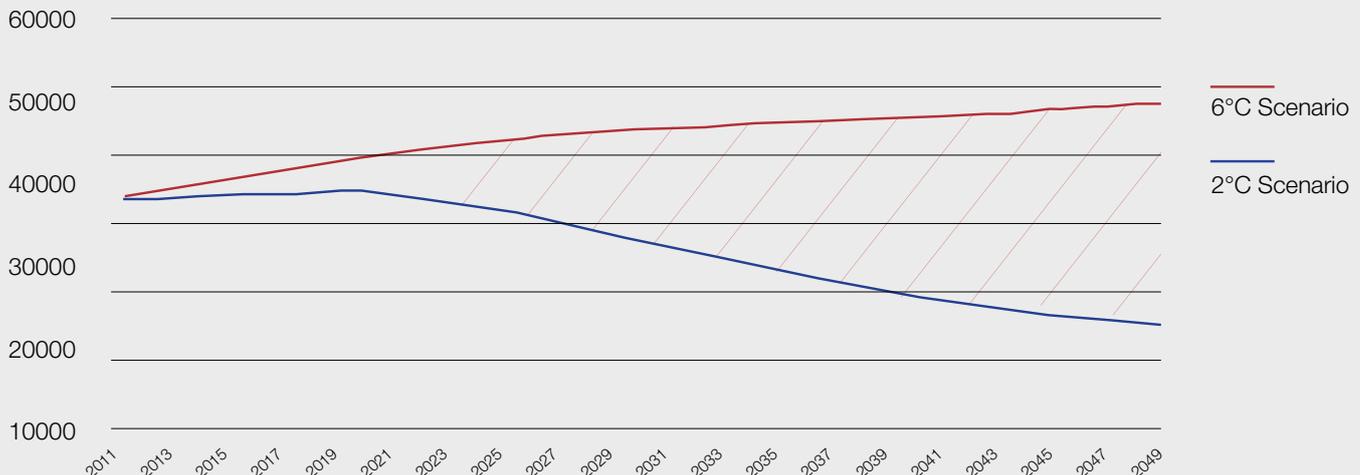
NRG Energy, Inc (USA)

NRG Energy, Inc. is a Fortune 250 power and energy company in the United States. NRG owns and operates power generation facilities; trades in energy, capacity and related products; trades fuel and transportation services; and directly sells energy / services to retail customers. It reported US\$15.9 billion of total revenue in 2014 and currently serves nearly 3 million retail customers.

NRG announced its long-term sustainability goal in November 2014. It aims to reduce absolute CO₂ emissions by 50% by 2030 and 90% by 2050. This means that NRG's emissions reduction targets are aligned with the work of the science-based targets initiative. In fact, NRG's 2025 intensity reduction targets go further, as it is slightly more ambitious than the sector decarbonisation pathway for the Power Generation sector.

NRG is planning to meet these targets by 1) adding renewables, particularly solar to its generation mix; 2) acquiring or developing cleaner gas plants; 3) developing carbon capture and sequestration; 4) investing in environmental controls and other improvements in the coal plants that meet the necessary criteria, while retiring the least efficient ones; and 5) operating plants safely and efficiently to reduce emissions.

Figure 3: Emission trajectories for 2°C and 6°C scenario



Source: IEA (2014) Energy Technology Perspectives (ETP) outlook for 2°C and 6°C scenario (with CCS)

Implications for policymakers

So what does this mean for policymakers?

- ▾ Considerable reductions in greenhouse gas emissions could be achieved if companies were to take stronger action, particularly if long-term science-based emissions reduction targets become the norm. This is where governments must step in.
- ▾ There is a clear role that policymakers can play in driving companies to set science-based targets. For example, governments should create certainty and provide a signal to business by setting ambitious long-term emissions reduction goals at a national level.

Conclusion & Recommendations

Conclusion: Greater corporate ambition and action on climate change is required

The scientific evidence is overwhelming and the case for bold and urgent action to tackle climate change is stronger than ever. We need greater ambition and action from countries and a range of actors, including business, to ensure we keep the rise in global temperature to below 2°C. Many companies are already taking action on climate change and investing in a climate-resilient future. The adoption of a robust global deal on climate change now needs to build on the strong and substantive progress made by the international business community. The scale of the opportunity is huge.

Policy Recommendations

Policymakers can help to facilitate greater ambition and action on climate change by agreeing a global deal on climate change with long-term goals to reduce emissions and policies to drive investment and decarbonisation. At an international level, national governments should recognise the importance of range of actors, such as companies, in the Paris Agreement; and encourage use of the UNFCCC's NAZCA portal to record corporate commitments on climate action. They should also provide a stronger enabling environment, developing national policies that incentivise implementation of cost effective carbon reduction and energy efficiency measures (including setting a meaningful price on carbon) and greater corporate accountability (including requirements that companies should include material climate change information in mainstream annual reports).

Role for Business

Companies need to set long-term science-based greenhouse gas emissions reduction targets and implement action plans to reduce emissions to help ensure we keep the rise in global temperature to below 2°C. In order to achieve the targets, businesses need to make year-on-year emissions reductions by implementing carbon reduction and energy efficiency measures. This could involve engaging with their supply chain to reduce greenhouse emissions; using an internal price on carbon to drive investment into low carbon innovation; investing in renewable energy; avoiding deforestation in supply chains; creating more sustainable business models; and developing climate smart products and services. Given corporate accountability is an essential foundation underpinning greater corporate ambition and action on climate change, it is important that companies disclose their targets publicly and report on their performance on an annual basis.

Role for Investors

Investors have a critical role to play to support and encourage greater climate accountability, ambition and action in the companies they invest in. An important first step for investors is to assess and measure the carbon exposure / carbon intensity of their investments and portfolios. This can then inform their engagement with investee companies and they can seek to reduce the carbon intensity of their portfolios by engaging with companies that pose the most risk and present the best opportunities. Some investors may want to go further and divest from those companies with the greatest risk. Investors should also look to ensure that sustainability is integrated throughout the entire investment value chain. For example, they could encourage stock exchanges and regulators to develop listing rules on corporate climate change reporting.

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