

## CDP EUROPE'S COMMENT ON

### EU climate ambition for 2030 and for the design of certain climate and energy policies of the European Green Deal

#### Key policy recommendations

- ▼ **Increase the EU's 2030 target for greenhouse gas emission reductions to at least 55% compared to 1990 levels.** The EU 2030 climate target must be a minimum of 55% reductions from a 1990 baseline to remain in line with the 2050 climate neutrality goal. To align with a 1.5C trajectory the EU must reach climate neutrality well before 2050, requiring a higher level of ambition for the 2030 target. A 2030 target of 60-65% reductions is closer to the required 1.5C emission reduction trajectory for the EU.
- ▼ **Encourage companies to set ambitious Science Based Targets in line with the 1.5C pathway.** Having targets that are grounded in science is critical to ensure the impact of companies' actions. Companies who have set SBTs are already contributing to an increased EU climate ambition of 50-55%. However, based on insights from the Science Based Targets Initiative a -55% target will only bring the EU in line with a well below 2C target, requiring more rapid reductions post 2030 to align with 1.5C ambition. 60-65% reduction 2030 target will show the EU is prepared to show global climate leadership by requiring rapid emissions reductions aligned with 1.5C ambition in the critical period to 2030.

#### Background

CDP welcomes the European Commission's initiative and proposal to cut in greenhouse gas emissions of at least 50% to 55% for 2030 from 1990 levels, rather than at least 40% currently, including an amendment to the recently proposed European Climate Law.

One of the key messages of the [IPCC's Special Report on Global Warming of 1.5°C](#), published in 2018, is that we are already seeing the consequences of 1°C of global warming through more extreme weather, rising sea levels and diminishing Arctic sea ice, among other changes. The report is stressing the high importance of limiting global warming to 1.5°C compared with 2°C. The report is sending a strong message of urgency for global climate action, but it is also giving a reason for optimism: we can still meet the 1.5°C goal if the world acts swiftly and decisively, halving global emissions by 2030 and reaching net-zero emissions by the middle of the century.

## Science is the way forward

There is a gap between our current emissions path and the one we need to be on. At the Paris Agreement national governments came up with emission reduction plans which help to close the gap but not entirely. The private sector must act now to help close the emissions gap and lead the transition to a low-carbon economy. Climate scientists have found that total future emissions must stay below a trillion metric tonnes carbon dioxide to have a likely chance to limiting global warming to well-below 2°C. Companies can help prevent the worst impacts of climate change by aligning their emissions reductions targets with the global carbon budget. This is called a science-based target (SBT).

The Science Based Targets initiative (SBTi) champions science-based target setting as a powerful way of boosting companies' competitive advantage in the transition to the low-carbon economy. It is a collaboration between CDP, World Resources Institute (WRI), the World Wide Fund for Nature (WWF), and the United Nations Global Compact (UNGC) and one of the We Mean Business Coalition commitments. The initiative defines and promotes best practice in science-based target setting, offers resources and guidance to reduce barriers to adoption, and independently assesses and approves companies' targets.

Targets adopted by companies to reduce GHG emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.

CDP considers the SBTi as the authority on setting and assessing targets in line with climate science and is committed to contribute to the SBTi's vision that SBT setting will become standard business practice. Companies are very strongly encouraged to have their targets officially validated by the SBTi to obtain their target Leadership points. The CDP questionnaire is a critical component of two strategic pillars of the initiative – institutionalising the adoption of science-based emission reduction targets and creating a critical mass of companies with SBTs.

## Business Ambition for 1.5°C

Companies are urged to aim for the highest level of ambition in their targets setting. The SBTi encourages companies to join the Business Ambition for 1.5°C Call to Action by signing the [Business Ambition for 1.5°C Commitment Letter](#) that indicates their intention to align emissions reduction targets to 1.5°C. For companies not currently committed to the SBTi, the Business Ambition for 1.5°C Commitment Letter constitutes as their commitment to develop and submit emissions reduction targets aligned with the SBTi criteria.

So far, [222 companies](#) globally (129 of which are European) representing over \$3.6 trillion in market cap, have responded to the open letter and signed the *Business Ambition for 1.5°C* commitment.

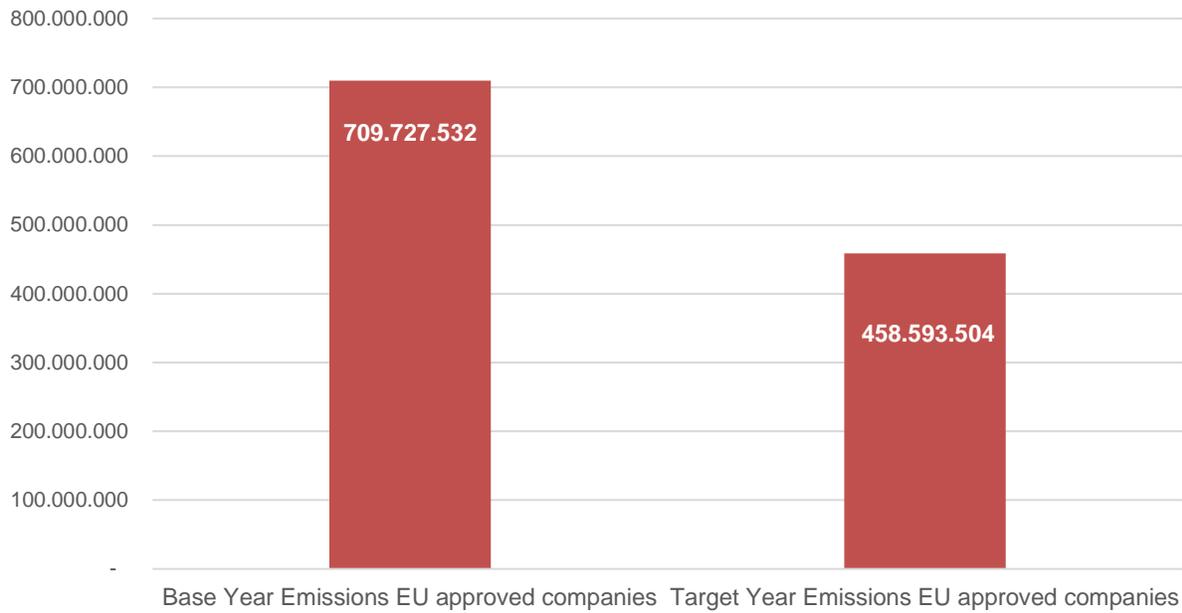
## What do science-based target tell us about 2030 GHG emission reduction?

Central to the SBTi mission is ensuring that companies have the tools they need to set targets in line with climate science, recognising that the science itself is nuanced and dynamic. With its [guidelines](#) and technical support the SBTi provide companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas (GHG) emissions.

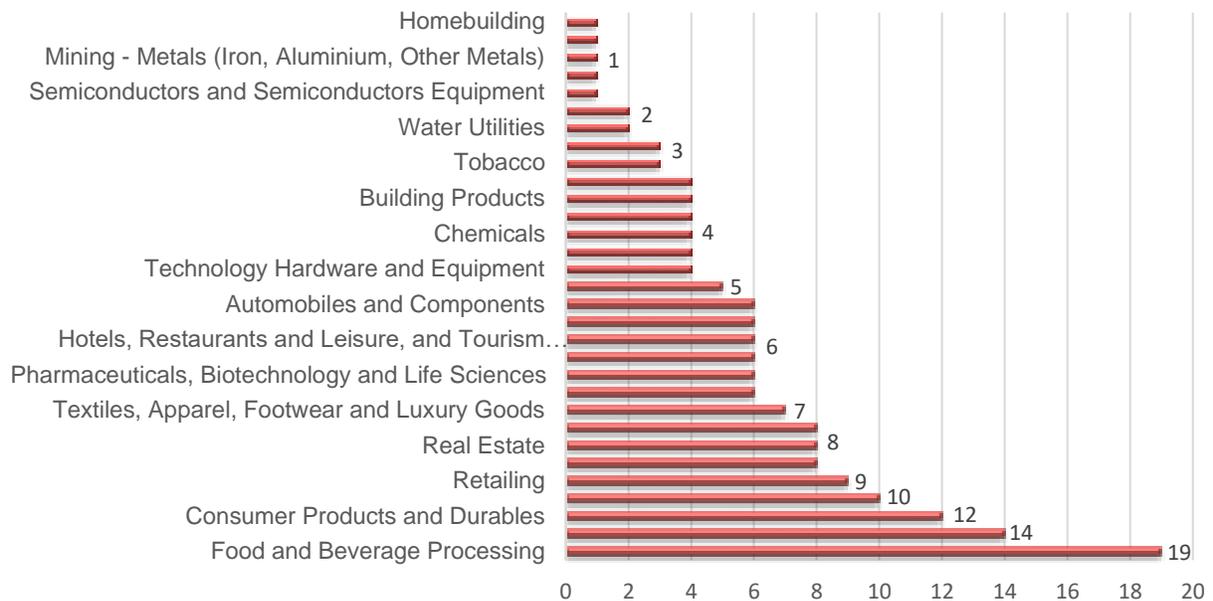
With its new paper "[Foundations of Science-based Target Setting](#)" the SBTi develops SBT setting methods that are transparent, robust, and actionable and describes the SBTi's framework for developing target-setting methods that are in line with climate science. In this paper the SBTi has clarified that a 50% absolute emissions reduction by 2030, equivalent to approx. 4.2% annual reductions per year over the 12-year period from 2018-2030 is necessary to meet a 1.5C temperature pathway. The SBTi uses linear reductions between 2018 and 2030 of 4.2% per year which means that the companies who have set SBTs are already contributing to an increased EU climate ambition of 50-55%. These reduction rates are based on the latest climate science (IPCC Special report on 1.5C) and may change over time to reflect the latest research. However, based on insights from the Science Based Targets Initiative a -55% target will only bring the EU in line with a well below 2C target, requiring more rapid reductions post 2030 to align with 1.5C ambition. 60-65% reduction 2030 target will show the EU is prepared to show global climate leadership by requiring rapid emissions reductions aligned with 1.5C ambition in the critical period to 2030.

Setting a science-based target means companies adhere to the SBTi criteria, which require them to disclose a full GHG emissions inventory (Scope 1, 2 and 3 GHG emissions) along with detailed target information and to set ambitious medium-term targets that lead to absolute emissions reductions. The SBTi shows a relatively strong adoption of SBTs by European companies compared to their global peers: 428 companies headquartered in Europe (out of the 879 total) have joined the SBTi by [June 2020](#), of which 175 have already had their targets approved by the initiative. **If all 175 companies achieve their targets this will result in 250 million tonnes of GHG emission reduction.** This clearly shows the potential and scale of setting SBTs and demonstrate that the adoption of science-based emission reduction targets is creating a critical mass of companies.

### European companies can achieve 250 million tonnes of reduction if they meet their SBTs



### Approved European SBTs by sector



There is a strong SBTs adoption in Europe. Out of the 175 European companies which have their SBTs approved, **70 have established ambitious targets in line with a 50% reduction by 2030** (see some of these companies listed below). These companies alone would achieve 188 million tonnes of GHG savings.

Company name	Country HQ	Sector (GRI)
Verbund AG	Austria	Electric Utilities and IPPs and Energy Traders
AB InBev	Belgium	Food and Beverage Processing
Lundbeck A/S	Denmark	Pharmaceuticals, Biotechnology and Life Sciences
Metsä Board Corporation	Finland	Forest and Paper Products
ENGIE	France	Electric Utilities and IPPs and Energy Traders
Mercedes-Benz AG	Germany	Automobiles and Components
Accenture PLC	Ireland	Professional Services
Enel SpA	Italy	Electric Utilities and IPPs and Energy Traders
PostNL	Netherlands	Air Freight Transportation and Logistics
Orkla ASA	Norway	Food and Beverage Processing
EDP - Energias de Portugal	Portugal	Electric Utilities and IPPs and Energy Traders
Acciona S.A.	Spain	Electric Utilities and IPPs and Energy Traders
Scania CV	Sweden	Electrical Equipment and Machinery
Novartis	Switzerland	Pharmaceuticals, Biotechnology and Life Sciences
Multiplex Construction Europe	United Kingdom	Construction and Engineering

The [SBTi progress report](#), from December 2019, shows that the pace at which companies join the initiative has doubled over the past 18 months, with 352 companies, (19 per month), joining between April 2018 and October 2019, compared to 334 companies, (9 per month), in the previous 36 months between April 2015 and March 2018. The growing momentum is even more pronounced in the number of companies that have had their targets approved by the SBTi, driven by companies turning their commitments into approved targets. In the 18 months between April 2018 and October 2019, the targets of 195 companies were approved, compared to 90 in the three years before. This clearly emphasises that companies now have more knowledge and resources, as well as stronger push from investors and governments to set targets which will **help the European economy reach 55% GHG reduction target by 2030**.

Companies that have set SBTs will make significant contributions to global and European climate goals:

- ▼ Approved SBTs cover 752 million tonnes CO<sub>2</sub>e of annual scope 1 and 2 emissions, equivalent to the annual emissions of 193 coal fired power plants. European companies represent 440 million tonnes.

- ▼ When all scope 1 and 2 targets are met, annual emissions will have been reduced by 35% from the base year, or 265 million tonnes CO<sub>2</sub>e, equivalent to shutting down 68 coal fired power plants. For Europe, this represents 157 million tonnes of CO<sub>2</sub>e (equivalent to 40 coal fired power plants).
- ▼ Meeting all scope 1 and 2 targets will drive up to \$18 billion of investment into mitigation activities – 11 billion for European companies.
- ▼ Ambitious scope 3 targets approved by the SBTi cover 3.9 billion tonnes CO<sub>2</sub>e, equivalent to the annual emissions of over 828 million cars. For Europe, this represents 2.3 billion tonnes CO<sub>2</sub>e (480 million cars).
- ▼ Meeting all targets approved by the SBTi will drive up to 90 TWh of annual renewable electricity generation, enough to power 11 million households. For Europe this represents 52 TWh in annual renewable electricity, equivalent to the power required by 6.4 million households.

## Case studies in Europe

The strength of the SBTi in Europe means that European companies can already draw on many existing best-practice examples and expertise to help them along this important path. Moreover, public scrutiny on high impact companies' transition planning is set to increase.

Among the companies who have set SBTs there are a handful that have already met their goals and are looking to renew them. Enel, Ingersoll Rand and Telefónica were early signatories, and set targets for 2020. They have already delivered direct emission reductions in the real economy and are now building on their success and setting new goals for 2030 and beyond.

Enel is a multinational energy company, headquartered in Italy and one of the world's leading integrated electricity and gas operators. It works in 34 countries, generating energy with a managed capacity of more than 89 GW, and selling gas and distributing electricity to over 70 million end users via a network spanning approximately 2.2 million km.

- ▼ Old Target: Reduce GHG emissions per kWh by 25% by 2020 from a 2007 base, reaching a GHG emission value lower than 350g/kWh by 2020.
- ▼ New Targets: Reduce scope 1 GHG emission by 70% per kWh by 2030, from a 2017 base. Reduce absolute scope 3 GHG emissions for the use of sold products by 16% by 2030 from a 2017 base.

There are some sectors in which reducing emissions is particularly challenging due to the nature of the product or service, or the production processes involved. These include heavy industry like steel, cement, or chemicals. It is critical that progress is made in these sectors, as they contribute significantly to total greenhouse gas emissions globally. By deciding to implement science-based targets, the companies are setting an important example, and demonstrating that with innovation and vision, even the most carbon-intensive industries can make progress towards being part of a new low-carbon future.

In April 2019, six months after the IPCC's report came out, the Science Based Targets initiative launched new resources to allow companies to align their scope 1 and 2 targets with either a 'well-below 2°C pathway' or a '1.5°C pathway', the two levels of ambition called for in the Paris Agreement. Electrolux, Microsoft and Viña Concha y Toro are among the companies that have aligned their scope 1 and 2 targets with a goal of limiting warming to 1.5°C – the highest level of ambition. Electrolux is a multinational home appliance manufacturer headquartered in Sweden.

HeidelbergCement is a German multinational building materials company headquartered in Heidelberg, Germany. It is a DAX corporation and is one of the largest building materials companies in the world.

- ▼ Targets: Reduce scope 1 GHG emissions by 15% per tonne of cementitious materials by 2030 from a 2016 base year (includes biogenic emissions and removals associated with the use of bioenergy). Reduce scope 2 GHG emissions by 65% per tonne of cementitious materials within the same timeframe.

Thyssenkrupp AG is a German multinational conglomerate with focus on industrial engineering and steel production. The company is based in Duisburg and Essen and employs over 160,000 people in 78 countries. It is one of Europe's largest steel producers.

- ▼ Targets: Reduce absolute scope 1 and 2 GHG emissions by 30% by 2030 from a 2018 base year. Reduce absolute scope 3 GHG emissions by 16% by 2030 from a 2017 base year.

## Innovation

For companies, having science-based targets is driving innovation, increased efficiency and investment in new technology.

- ▼ 63% of companies say science-based targets drive innovation. The transition to a low-carbon economy will catalyse the development of new technologies and operational practices. The companies that set ambitious targets now will lead innovation and transformation tomorrow.
- ▼ 55% of companies have gained competitive advantage from science-based targets. Setting ambitious targets now ensures a lean, efficient, and durable company in a future where resources become increasingly more expensive – particularly resources derived from fossil fuels. Rising prices of raw materials can mean the difference between profit and loss.

## Doubling down: Europe's low-carbon investment opportunity

CDP Europe's new report, [Doubling Down](#), finds that 882 European companies made €124 billion of new low-carbon investments in 2019. Of this, 93% was reported by companies in the high-emitting **materials, energy and transport sectors**, which together accounted for 84% of scope 1 and 2 emissions. Below are the top 10 companies ranked by their scope 1 and 2 emissions with their associated low-carbon investments. For the EU to meet its net-zero target by 2050, the economy must rapidly decarbonize and the private sector must play its role and set ambitious SBTs which could help secure more low-carbon investments.

Rank	Company name	Total carbon emissions* MtCO <sub>2</sub> e	Low-carbon investments € millions, 2019
1	ArcelorMittal	188	246
2	ENEL SpA	96	135
3	HeidelbergCementAG	84	4
4	Royal Dutch Shell	82	162
5	ENGIE	69	182
6	Total	44	271
7	Eni SpA	44	78
8	A.P. Moller -Maersk	39	893
9	CRH Plc	38	0.01
10	Endesa	32	4

▼ Materials
 ▼ Energy
 ▼ Transport

## SBTs and the Financial Sector

The SBTi will also be applicable to the financial sector. Financial markets have been particularly proactive in adopting SBTs, and verification by the SBTi, as decision-making guidance. One example is corporate debt markets, where corporates are seeing significant financial rewards for delivering science-based climate action. The Italian power utility [Enel issued a bond linked to it meeting its SBTi approved target](#), potentially yielding tens of millions of Euros savings on its cost of capital over the lifetime of the bond. Similarly, Finnish ICT company [Nokia recently signed a \\$1.5 billion revolving credit facility](#) with the pricing mechanism linked to it meeting its SBTi approved target.

The investor community is waking up to the risks that climate change brings to financial markets – and their portfolios. Catalysed by the recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#), investors are setting clear expectations for companies to understand and plan for the risks and opportunities a changing climate and changing markets

bring. A key strategy for investors looking to manage climate related financial risks in their portfolios is to ensure the companies they invest in are mitigating climate change. A prominent investor coalition working towards this is [Climate Action 100+](#), bringing together over 370 global investors with more than \$35 trillion in assets under management. The coalition is engaging 160 focus companies deemed particularly important for decarbonisation of the economic system, and accounting for over 80% of corporate GHG emissions, on improving climate governance, disclosure, and action. The number of companies approved by the SBTi is [an important progress indicator used by the coalition](#).

For a business, setting SBTs is a powerful way to demonstrate to investors that they are reducing their exposure to transition risks. Likewise, investors want to understand their portfolios' exposure to these risks are limited – and they are therefore setting their own goals of aligning their portfolios with the Paris Goals. A notable effort in this direction is the [Net Zero Asset Owner Alliance](#), which brings together asset owners with more than \$2 trillion in assets that committed to “transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures” and explicitly highlights collaboration with the SBTi as to enable implementation of this commitment. The [first portfolios built completely around SBTi companies](#) are emerging.

## **SBTs and regulators**

Finally, regulators are increasingly turning to the SBTi as a powerful tool to catalyse private sector action. Notably, the Japanese Ministry of Environment has set itself a goal of 100 Japanese companies with approved SBTs by 2020. As of 1<sup>st</sup> June 2020, 72 Japanese companies have approved SBTs. In some instances there are first signs of [ambition loop](#) – positive feedback loops in which bold government policies and private sector leadership reinforce each other, and together take climate action to the next level.

## **The Paris Agreement and IPCC report as catalysts**

For each company setting SBTs and contributing to the decarbonisation of the economy, the UN climate change agreement reached in Paris in 2015 and the 2018 IPCC report on keeping warming below 1.5°C were catalysts for more ambitious action. Leading companies agree that their efforts must be complemented by stronger action from governments to drive the unprecedentedly rapid transformation needed.

This is an opportunity for the EU to create the next catalyst by setting the rules for ambitious 2030 climate targets ([at least 55% reduction of GHG emissions](#)). And having targets that are grounded in science is critical to ensure the impact of companies' actions.

In the public consultation on the European Climate pact, the Commission makes a clear reference to the SBT and the 1.5 campaign. Moreover, at the UN Forum on Business and Human Rights 2020, EU Commissioner for Justice Didier Reynders explicitly called to businesses to set Science-Based Targets.

## Nest steps for SBTi

The SBTi continues to improve its guidance to companies and develops new mythologies to be applicable to sectors currently not covered by the framework.

- ▼ SMEs – a growing number of large companies are setting ambitious climate targets, many of which include ‘Scope 3’ emissions – those emissions produced across companies’ value chains. Purchasers are requiring suppliers to deliver the same goods or services with lower associated emissions and are expecting them to match their climate ambitions. Therefore, the SBTi is introducing a [new, streamlined target-setting route for small and medium-sized companies](#). Under the new approach, SMEs will be required to commit to measure and reduce these emissions, without a strict requirement to set quantified targets.
- ▼ CDP Temperature rating – Translating corporate ambition into long-term temperature outcomes – a credible scientific standard (temperature scoring protocol) will enable investors to score portfolios against temperature goals (1.5-4°C). This protocol will allow investors to assess the ambition of current public targets to better drive engagement efforts and encourage more companies to set SBTs. The project is due to start in the second half of 2020.

## Companies supporting increased EU climate targets

Companies in various sectors have already sent open letters and urged the European Commission to increase the 2030 climate targets to at least 55%:

- ▼ [Leading European Energy companies](#) support the call for the European Union to increase its greenhouse gas reduction target for 2030 to at least 55% reduction on 1990 levels.
- ▼ [Raising European climate ambition for 2030](#) – a position paper by the Corporate Leaders Group.

## Additional studies on increased EU climate targets:

- ▼ [CAN Europe calls for an increase of the EU's 2030](#) climate target to at least 65%.
- ▼ [“Our house is on fire – time for the EU to step up”](#) – report by Greenpeace
- ▼ [Increasing the EU's 2030 emissions reduction target](#) - How to cut EU GHG emissions by 55% or 65% by 2030 – report by Climact
- ▼ [Make the European Green Deal Real](#) – Combining Climate Neutrality and Economic Recovery – report by DIW Berlin (German Institute for Economic Research)
- ▼ [Building a Paris Agreement Compatible \(PAC\) energy scenario](#) – CAN Europe/EEB technical summary of key elements

## About CDP Europe

CDP Europe is part of the global CDP system, that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US\$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Globally, over 8.400 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2019, including more than 2.100 European companies representing approximately 76% of the European market capitalization. This is in addition to the over 950 cities, states and regions globally who disclosed – including more than 215 in Europe – making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition.

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