
How Business can Address the Climate Crisis

Presentation prepared by BSR

The Climate Crisis: What GPs Need to Know and Do

2023



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Global Team of Sustainability Experts

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Areas of Expertise



Climate Change



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Women's Empowerment



Supply Chain Sustainability

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The Imperative to Act

The Paris Agreement Defines a Climate-resilient World

The Paris Agreement is the first climate treaty to require action by rich and poor countries alike. It was completed in 2015 after a decade of negotiation.

It defines our collective vision for a climate-resilient world through three global goals.



Temperature Goal

- The temperature goal is to hold warming “well below 2°C” and to “pursue efforts” to reach 1.5°C



Emissions Reduction Goal

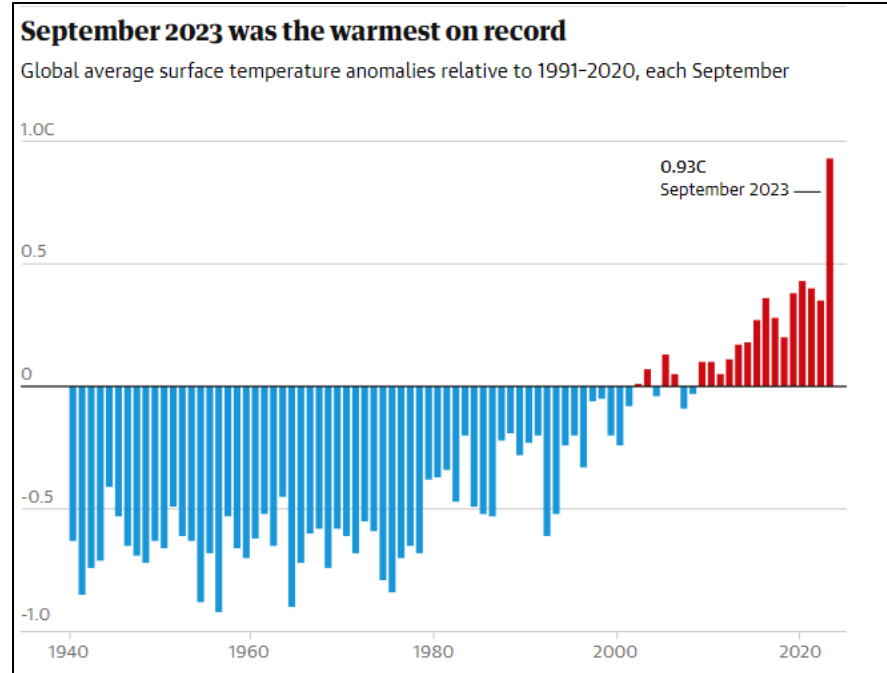
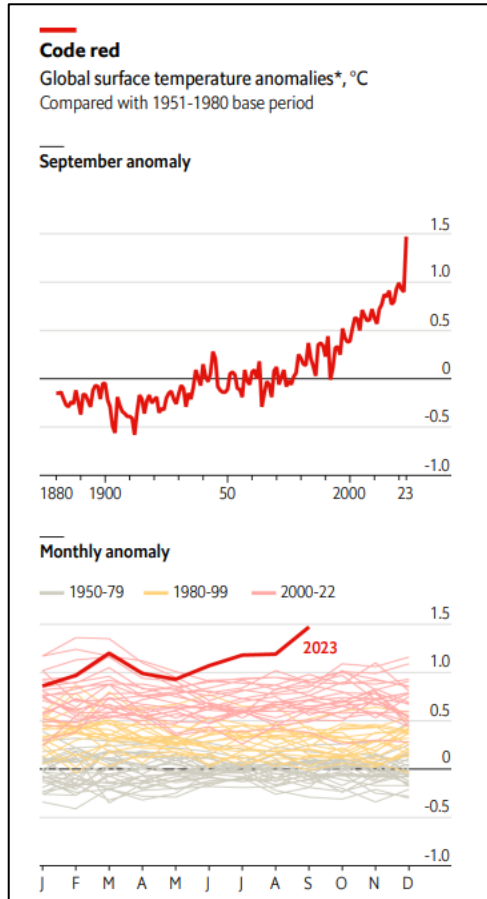
- Limiting warming to any level requires reaching net-zero emissions.
- The Paris Agreement targets net zero “in the second half of this century”.
- Reaching 1.5°C requires net zero by 2050.



Resilience Goal

- Climate impacts are here and now.
- The Paris Agreement established a global goal to strengthen resilience and reduce vulnerability to climate impacts.

CODE RED – Unprecedented Temperatures



- September was the hottest on record. Average absolute air temperature was “an astonishing 0.5°C warmer than the previous record.”
- “It is more than 99% likely that [2023] will be the warmest year since its records began in 1850.”

‘Gobsmackingly bananas’: scientists stunned by planet’s record September heat

Data sources: NASA Goddard Institute for Space Studies (L); Copernicus/ERA5 (R)

Image sources: <https://www.economist.com/graphic-detail/2023/10/13/2023-looks-set-to-be-a-watershed-year-for-the-climate> (L);

<https://www.theguardian.com/environment/2023/oct/05/gobsmackingly-bananas-scientists-stunned-by-planets-record-september-heat> (R)

Climate Risks to Business: The Failure to Act on Climate Change “Dominates the Next Decade”

Global Risks Report 2023

Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”



Source: World Economic Forum, Global Risks Perception Survey 2022-2023

- “Climate and environmental risks are the core focus of global risks perceptions over the next decade – and are the risks for which we are seen to be the **least prepared...**”
- “...the burdens on natural ecosystems will grow given their still undervalued role in the global economy and overall planetary health. **Nature loss and climate change are intrinsically interlinked – a failure in one sphere will cascade into the other.** Without significant policy change or investment, the interplay between climate change impacts, biodiversity loss, food security and natural resource consumption will accelerate ecosystem collapse, threaten food supplies and livelihoods...”

<https://www.weforum.org/reports/global-risks-report-2023/digest/>

By 2025 (COP30) Companies must Deliver, not Commit

Paris-aligned company commitments over the last 7 years are impressive, but they alone will not keep the Paris goals within reach.

1.5°C value chain emission reductions

Net zero business transformation

Integration into risk management

Climate justice

Beyond value chain mitigation

- **Companies in every industry** will need to deliver Paris-aligned emissions reductions across their value chains. Scope 3 emissions will continue to pose particular measurement and implementation challenges.
- Companies will need to undertake business **transformation towards net-zero** value chains, harnessing functions outside sustainability and operations. Business models will be impacted.
- Companies will **need to conduct climate scenario analysis** to prepare for inevitable future disruption; and **integrate climate risks into their risk management processes.**
- Climate action must be delivered in a just and equitable way. The only feasible transition away from fossil fuels will be a **just transition**, which protects workers and communities.
- Companies can increase their impact by reducing emissions beyond their own value chain, with social and environmental integrity, through credits and other forms of climate investment.

Two Major Frameworks on a Company's Relationship with Climate

A company's impact on the climate is addressed by the Paris Agreement. Reducing companies' emissions helps us all avoid unmanageable climate risks.

The climate's impact on a company is addressed by the Taskforce on Climate-related Financial Disclosures. All companies will need to manage unavoidable climate risks.

The Paris Agreement

Defines a climate-resilient world through a global temperature goal and emissions reduction goal.



Taskforce on Climate-related Financial Disclosures

Framework for companies to disclose climate-related risks. By extension, it defines key actions for companies to manage these risks.



Climate Disclosures are Being Mandated Across the Globe

Companies that align with the Paris Agreement will get ahead of inbound regulation.



- The **UK SDR** is intended to create an integrated and streamlined framework that brings together sustainability-related reporting requirements (including climate) under one roof for corporates and financial institutions. Final statement due EOY.
- For accounting periods from January 2022, **listed issuers** in scope of the UK Financial Conduct Authority's (FCA) **climate-related disclosure rules are expected to describe their plans for transitioning to a low-carbon economy.**
- August 2023: the FCA signaled its intention to consult on **transition plan disclosures by listed companies in line with the TPT Disclosure Framework**, alongside its consultation on implementing UK-endorsed ISSB Standards. These new requirements are anticipated to come into force for accounting periods from January 2025. **The first reporting would begin from 2026.**



- EU regulation comprises the **Sustainable Finance Disclosure Regulation (SFDR); Corporate Sustainability Reporting Directive (CSRD); and EU Green Taxonomy Regulation.** The SFDR applies at asset manager level and product/fund level. The final CSRD entered into force on **January 5, 2023.**
- The European Commission adopted the **European Sustainability Reporting Standards (ESRS)** as a delegated act of the CSRD, and this act details the components of a corporate **climate transition plan.**
- All large* European companies and those **listed on the EU-regulated markets, including EU subsidiaries of non-EU parent companies** will have to apply the new rules for the first time in the **2024 financial year, for reports published in 2025.** CSRD requires a third-party assurance and external auditing (limited assurance).



- The US Securities and Exchange Commission (US SEC) developed a proposed rule, **The Enhancement and Standardization of Climate-Related Disclosures for Investors**, in early 2022 (this proposal has not yet been finalised by the SEC and is therefore subject to change).
- Under the proposed rule, **companies with a US listing** would present climate-related financial metrics as well as a discussion of climate-related impacts on financial estimates and assumptions in a footnote to the audited financial statements.
- Registrants that have adopted a climate transition plan as part of its climate-related risk management strategy would be required to disclose a description of the plan under the proposed rule. The proposed SEC requirements do not mandate exactly what should be disclosed about the plan.



- SGX mandates climate related disclosures based on **TCFD recommendations for issuers in 5 industries** from FY2024 and **proposes** mandatory climate reporting mirroring ISSB for all **listed issuers and large non-listed companies** from FY2025.
- The Monetary Authority of Singapore (MAS) issued a set of **consultation papers proposing Guidelines on transition planning by banks, insurers and asset managers** to enable the global transition to a net zero economy. Comments welcome by 18 Dec 2023.
- The Guidelines on Transition Planning set out MAS' supervisory expectations for **financial institutions to have a sound transition planning process to enable effective climate change mitigation and adaptation measures by their customers and investee companies** in the global transition to a net zero economy and the expected physical effects of climate change.

<https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT-Summary-Recommendations.pdf>

[The TPT Disclosure Framework in the Global Landscape - Transition Taskforce](#)

* over EUR 20 million in total assets, a net turnover of EUR 40 million and/or 250+ employees

02

The Task Force on Climate-related Financial Disclosures (TCFD)

Testing Business Strategy through Scenario Analysis

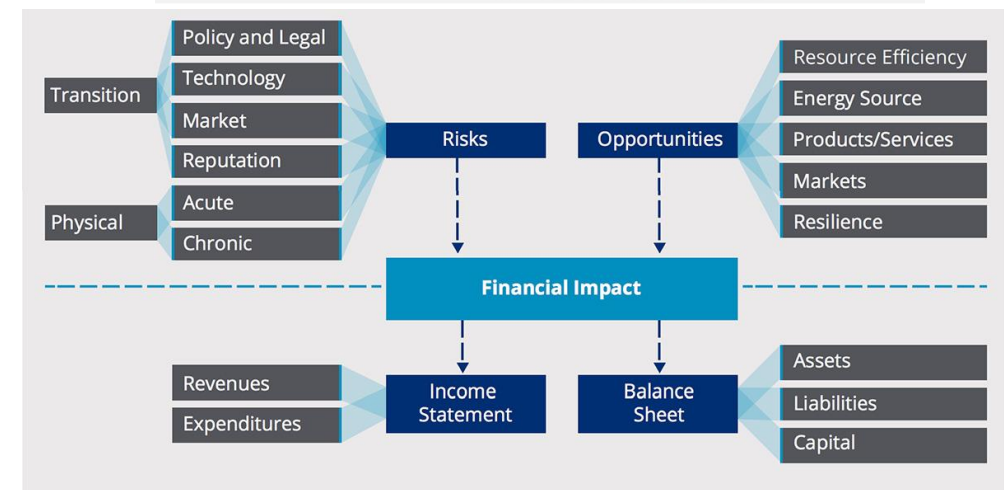
The Taskforce on Climate-Related Financial Disclosures Helps Companies to Understand their Climate Risk

The TCFD Recommendations have become a *de facto* standard for climate risk management

What are they?

- They provide guidance on how to disclose **decision-useful, consistent, comparable, reliable, clear and efficient information** on climate-related risks and opportunities, to investors, lenders, and underwriters.
- The recommendations are **for disclosures in mainstream financial filings** although disclosures typically occur in the sustainability report, a specialized climate report, or the annual report.
- The recommendations themselves span four pillars: **governance, strategy, risk management, and metrics and targets.**

Core Elements of Recommended Climate-Related Financial Disclosures



The TCFD Recommends Climate-related Scenario Analysis

The Task Force on Climate-related Financial Disclosures (TCFD) recommends that companies should undertake **climate scenario analysis** to disclose the “resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.”

The Recommendations specify that disclosure of this analysis will assist investors, underwriters, insurers and other stakeholders to better understand:

- the degree of **robustness of the organization’s strategy and financial plans** under different plausible future states of the world;
- how the organization may be positioning itself to **take advantage of opportunities** and plans to **mitigate or adapt to climate-related risks**; and
- how the organization is challenging itself to **think strategically** about longer-term climate related risks and opportunities.

Figure 4
Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Opportunities and Challenges with TCFD's Recommended Scenario Analysis

The TCFD recommendations bring climate risk management center stage within the private sector. Unfortunately, the TCFD does not specify how to implement the recommendations, leaving uncertainty and room for interpretation, which is particularly problematic for one recommendation: **using scenario analyses** to assess climate-related risks and opportunities.

With a potential shift towards TCFD-aligned mandatory disclosure, aligning with TCFD recommendations will be crucial, **yet many struggle to undertake appropriate climate scenario analyses**. The causes behind this include:

Poor understanding of climate risks

- Few companies have assessed transition risks using the TCFD typology and even fewer understand the interlinkages of climate risk and people, including the social and societal risks (i.e., climate impacts can compound other crises with compound risk).

No specified methodology

- The TCFD recommendations do not themselves specify a method for scenario analysis or integration of climate risks into a company's risk management system (i.e., Enterprise Risk Management).

Lack of precedent

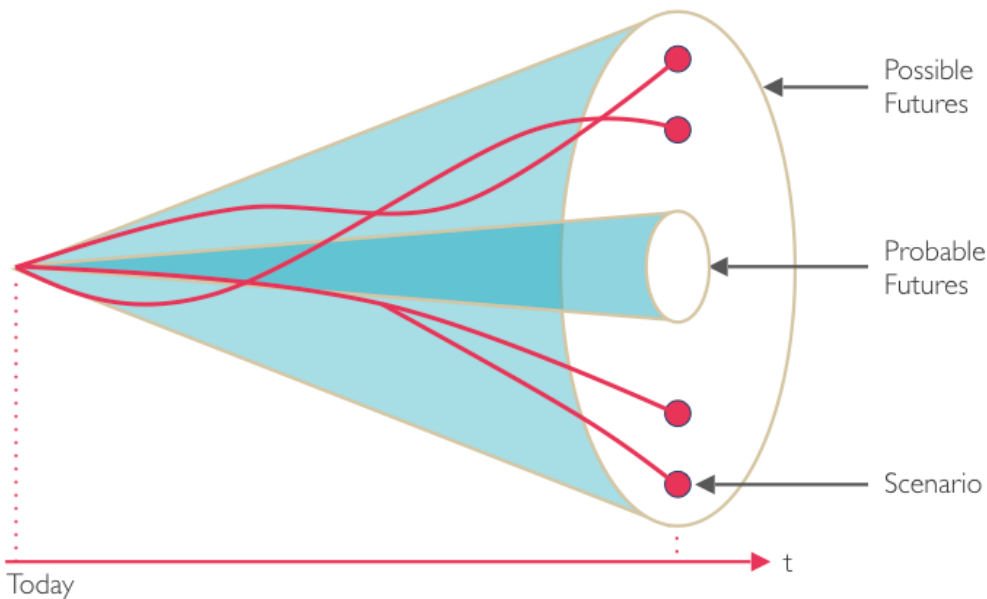
- Initially, the few companies who have carried out climate scenario analysis were largely oil and gas majors focused on the transition risk to their portfolio of assets.
- More recently, companies from other sectors have conducted this analysis, but it has proven to be time and resource intensive, discouraging others to join in.

What are Scenarios

Scenarios are a tool to allow us to explore uncertain futures and make wiser decisions in the present.

Too often, we respond to future uncertainty with **denial** (oversimplification or false confidence) or **paralysis** (planning for everything or wait and see) or **confirmation bias** (interpreting data to fit our preconceived beliefs). This can blind us to reality and make it impossible to act.

Scenario analysis can enable business leaders to hold uncertainty, hedge risk, embrace strategic agility, and not lose sight of the long term.



- **Scenarios are not predictions** about a single “most likely” future. They describe a set of plausible hypothetical futures.
- **Scenarios correct against cognitive biases.** Good scenarios challenge assumptions and help us identify blind spots in our thinking.
- **Scenarios allow us to stress test strategy.** Resilient strategic ideas are those that work across most or all scenarios.

The Case for Climate Scenario Analysis

Climate scenarios analysis can help organizations:



1. Identify and assess **climate-related risks and opportunities** and stress-test **business strategies** against plausible futures.



2. Enhance **strategic conversations** by challenging business-as-usual assumptions and considering novel, disruptive developments.



3. Promote **collaboration among internal stakeholders** through shared discussion of key drivers reshaping the external operating environment.



4. Create more **robust business strategies and financial planning** by identifying management actions that are robust across a wide range of plausible climate futures.



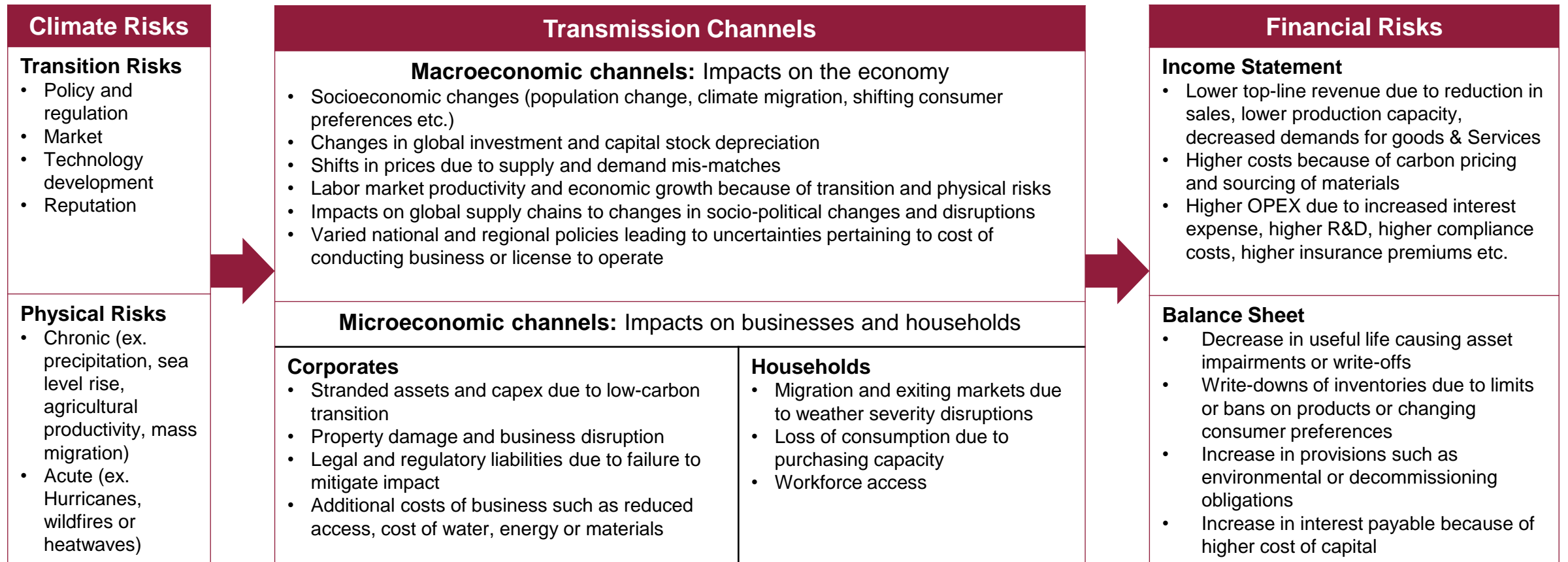
5. Improve **strategic agility by establishing indicators to monitor the changing business environment** and rehearsing responses to disruption in advance.



6. **Meet disclosure requirements** and requests from investors and other stakeholders for information on climate-related risks and opportunities, and resilience of its business strategy.

Maximizing the Value of Scenario Analysis

The risks uncovered through climate scenarios impact a company financial performance through economic transmission channels. Understanding these transmission channels enable companies perform deeper financial analysis to quantify the impact of climate related risks and implement the TCFD recommendations.



Approaching Scenario Analysis

Scenarios have long been used by business and government to improve decision-making under conditions of uncertainty: rather than basing decisions on single-point forecasts, companies consider a set of plausible alternative futures to shape more adaptive and resilient strategies.

In carrying out climate scenario analysis:

- Approach scenario analysis primarily **as an opportunity to improve strategic resilience**.
- **Consider a broad range of climate risks and opportunities**, including the physical and transition risks in the TCFD typology.
- **Use scenarios tailored to the business and leverage data from diverse sources**, to avoid the risk of a single source being inevitably inaccurate.

The IFRS Foundation's International Sustainability Standards Board (ISSB) unanimously confirmed that companies will be **required to use climate-related scenario analysis** to report on climate resilience and to identify climate-related risks and opportunities to support their disclosures.

As of 2024, ISSB will take over responsibility for monitoring progress of companies' climate-related disclosures from the TCFD. ISSB is now considered the primary authority on climate-related disclosures

Leveraging the NGFS

Benefits of the NGFS Scenario Framework

A range of third-party climate scenarios are publicly available. Most of these are narrowly focused, explore only transition or physical risks, and are based on assumptions not always relevant for the business community. BSR chose the Network for Greening the Financial System (NGFS) scenarios as the foundation for this set of climate scenarios for several reasons:



The scenarios were derived from multiple **reputable climate models** by the Potsdam Institute for Climate Impact Research, the University of Maryland, and the International Institute for Applied System Analysis, among others.

They were developed with reference to the TCFD recommendations and are suitable for all sectors, not just finance, to undertake climate scenario analysis in line with the recommendations.

They integrate **both physical and transition risks into the same set**, with shared assumptions and parameters.

They are accompanied by **substantial supporting documentation** and are regularly updated.

The NGFS approach allows for **the exploration of a broad range of temperature pathways as well as different assumptions** that better reflect the uncertainty of future conditions, and guards against model bias.

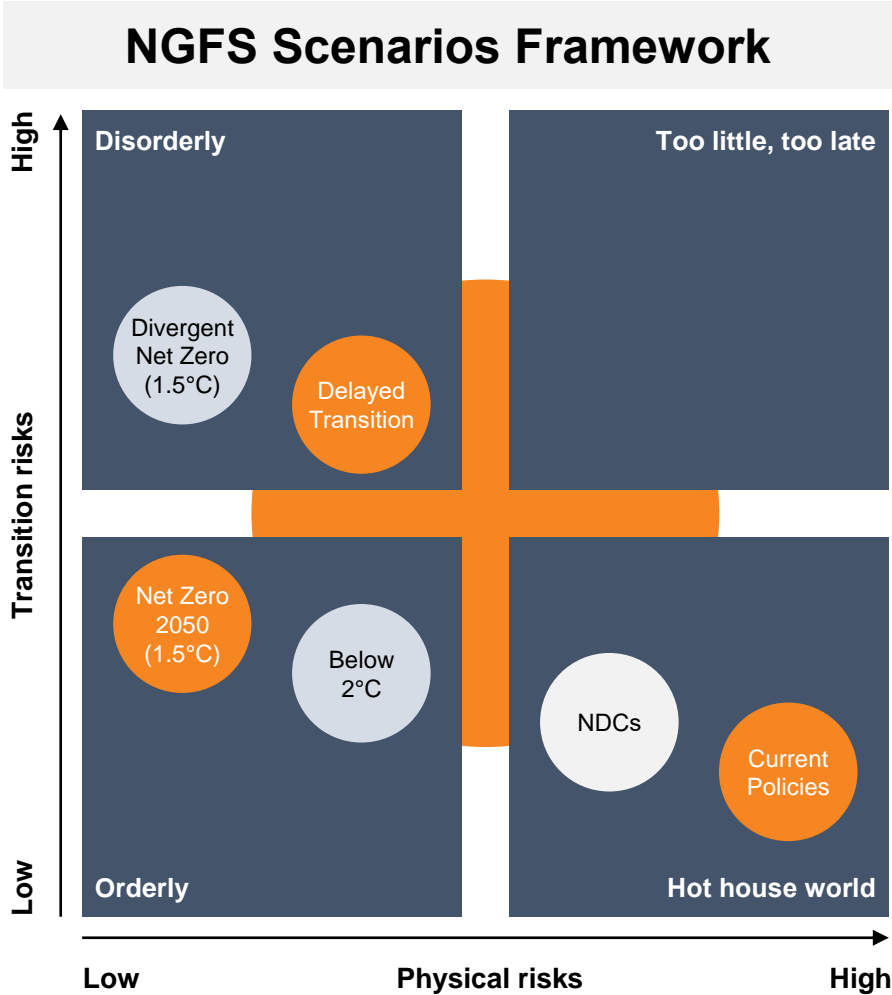
Scenario analysis results using the NGFS framework represent **aggregate sectors and markets** and can be a guide to assess individual company risks.

NGFS Scenario Framework

The NGFS scenarios were developed to provide a common starting point for analyzing climate risks to the economy and financial system. They represent a global, harmonized set of transition pathways, physical climate impacts, and economic indicators. The framework describes three types of climate scenarios:

- **Disorderly** scenarios explore higher transition risk due to policies being delayed or divergent across countries and sectors. Carbon prices are typically higher for a given temperature outcome.
- **Orderly** scenarios assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.
- **Hot house world** scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded leading to severe physical risks and irreversible impacts like sea-level rise.

BSR has extended the narratives of one of each type of scenario: **Net Zero 2050**, **Delayed Transition**, and **Current Policies**. It has also highlighted **business-relevant data points** from the NGFS datasets that help quantify the physical and transition risks in each scenario.



NGFS Assumptions & Characteristics



	Current Policies	Net Zero 2050	Delayed Transition
Physical Risk	High physical risks	Low physical risks	Medium physical risks
Transition Risk	Low transition risks	Medium transition risks	High transition risks
Policy Ambition	3°C+	1.5°C	1.8°C
Policy Reaction	None—continuation of 2020 policies	Immediate and smooth	Delayed
Technology Change	Slow	Fast	Slow then fast
Carbon Dioxide Removal	Low use	Medium use	Low use
Regional Policy Variation	Low	Medium	High

Scenario descriptions based on the [NGFS scenarios framework](#) as well as data from [NGFS Climate Impact Explorer](#) and [NGFS IIASA Scenario Explorer](#).

Three Scenarios Are:



Current Policies

Only currently implemented policies (as of 2020) were preserved. Absent ambitious government or business action, emissions are on track to reach at least 3.3°C of warming by 2100.



Net Zero 2050

The transition to a net-zero economy required drastic and coordinated global action, particularly in the 2020s. The cost of action was high but warming peaks at 1.6°C in 2050 then declines to 1.5°C by 2100.



Delayed Transition

After a decade of inaction, a set of uncoordinated and stringent policies were adopted in the 2030s to rapidly halt greenhouse gas (GHG) emissions. This approach came at high social and economic costs but ultimately held warming to a peak of 1.8°C by 2050 and 1.7°C by 2100.

While each scenario features increasing physical risks from climate change over the next 15 years, those diverge significantly thereafter-- with radically different outcomes over the long term. Ambitious climate action is able to moderate physical risk over time. However, the scenarios also make clear that delayed action significantly increases both physical and transition risks for business and society.

This document provides the extended narratives, along with more information on climate scenarios, their role in sustainability reporting, and how to best use them.

How to Use These Scenarios

Use the scenario set to test your strategy, challenge assumptions, uncover blind spots, and identify additional actions to address climate-related risks and opportunities. Resilient strategic ideas are those that work across most or all scenarios.



Taking each scenario in turn, ask:

- If this scenario were to transpire, **what would be the impacts on our business?**
- **What new challenges and opportunities would be created**, and are we prepared for these?
- **Are there any strategic moves** that we can make that would position the business to thrive across all the scenarios?



Be sure to **give equal consideration** to all three scenarios rather than trying to choose “the most likely” scenario. History is full of unlikely scenarios causing great disruption. Scenario analysis provides an important opportunity to ask “what if” questions.



Discuss the scenarios among a diverse group of internal stakeholders because no individual expert has a complete view of the emerging future.



Consider drawing from the NGFS data sets to add additional data and further contextualize and tailor the scenario narratives to your organization and industry.



Given that the scenarios take a global view, **consider the specific policy changes in your region** that may impact your operating context, and explore the regional data available in the NGFS datasets.

BSR can help your organization use these scenarios in a variety of ways, including informing strategy processes; conducting a TCFD-aligned scenario analysis, stress-testing plans, assessments, and targets; and designing more transformative and foresightful industry collaborations. For more information, please contact Ameer Azim (aazim@bsr.org) or Eileen Gallagher (egallagher@bsr.org).

03

Transitioning to a Net-zero Economy

Emergence of “Net-zero Targets” and Impact on Corporate Climate Action

Paris Agreement
(2015)

IPCC Report (2018)

Company
Commitments En
Force (2019 –
Present)

Race to Zero (2020)

SBTi Net Zero
Standard (2021-now)

Article 4.1 (Emissions Reduction)

“In order to achieve the long-term temperature goal set out in Article 2, Parties aim to

reach **global peaking** of greenhouse gas emissions **as soon as possible...**

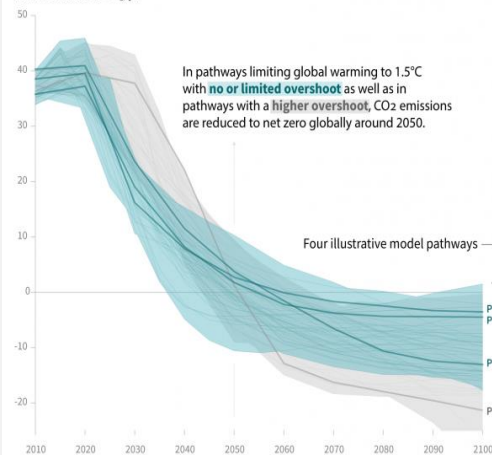
and to undertake **rapid reductions** thereafter in accordance with best available science,

so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases [**net zero global emissions**] in the **second half of this century.**”

Source: [UNFCCC](https://unfccc.int/)

Special Report: Global Warming of 1.5°C

Global total net CO₂ emissions
Billion tonnes of CO₂/yr



Source: [IPCC](https://www.ipcc.ch/)

Examples:

BUSINESS AMBITION FOR 1.5°C

June 13, 2019



January 16, 2020

Unilever is investing \$1.1 billion in a new climate fund—and hopes to reach net zero emissions by 2059

The goal is to hit the benchmarks set by the Paris Climate Agreement far earlier than the 2050 deadline.

June 15, 2020



- Coalition of net zero initiatives representing 454 cities, 23 regions, 1,397 businesses, 74 investors, and 569 universities that have joined 120 countries in the Climate Ambition Alliance and commit to achieving **net zero carbon emissions by 2050 at the latest**
- Collectively, members cover almost 25% of global CO₂ emissions and over 50% GDP

Source: [UNFCCC](https://unfccc.int/)



- SBTi launched a process to develop the first **science-based global standard for corporate net-zero targets**
- The final net-zero framework, including **target-setting guidance and target validation criteria**, was released in 2021.

Source: [SBTi](https://www.sbt.com/)

Summary | Key Features of Net Zero Targets

Emerging thinking, such as the [SBTi Net Zero Standard](#), the [Oxford Principles for Net Zero Aligned Carbon Offsetting](#), as well as new corporate initiatives are setting the foundation of best practices for net-zero strategies and implementation.

Net zero as a science-based ambition

Net zero targets are the baseline for corporates to align to the Paris Agreement goals. To be credible, they need **first and foremost to be grounded in science-based decarbonization**. But net zero targets go well beyond—they are a North Star to transform the business.

Key features of a net zero target

When setting net zero targets, companies will need to consider different features:

- **Boundary:** What level of coverage of GHG scopes? Clearly, **there is no net zero ambition without Scope 3**. The Scope 3 boundary might vary for different companies.
- **Timeframe:** Net zero is an end goal, with the Paris Agreement requiring a “**2050 or earlier**” timeline and is also a pathway.
- **Underlying level of decarbonization:** Solid net zero targets build on **science-based decarbonization**. Clarifying the intended level of decarbonization underlying net zero targets is paramount.

Net Zero | The Current SBTi Net Zero Definition*

Organizations need to fully decarbonize and achieve net zero by **2050 or sooner**. Achieving an end-state of net zero before 2050 is encouraged if **grounded in science-based decarbonization**.



A net zero target is a commitment to reach an **end state of no impact on the climate from greenhouse gas (GHG) emissions**

Underlying criteria

Achieving a scale of **value chain emissions reductions** consistent with the depth of abatement in pathways that limit warming to **1.5°C** with no or low overshoot

1.5°C value chain decarbonization



Neutralizing the impact of any source of **residual emissions** that is unfeasible to eliminate by **permanently removing** an equivalent volume of atmospheric CO₂.

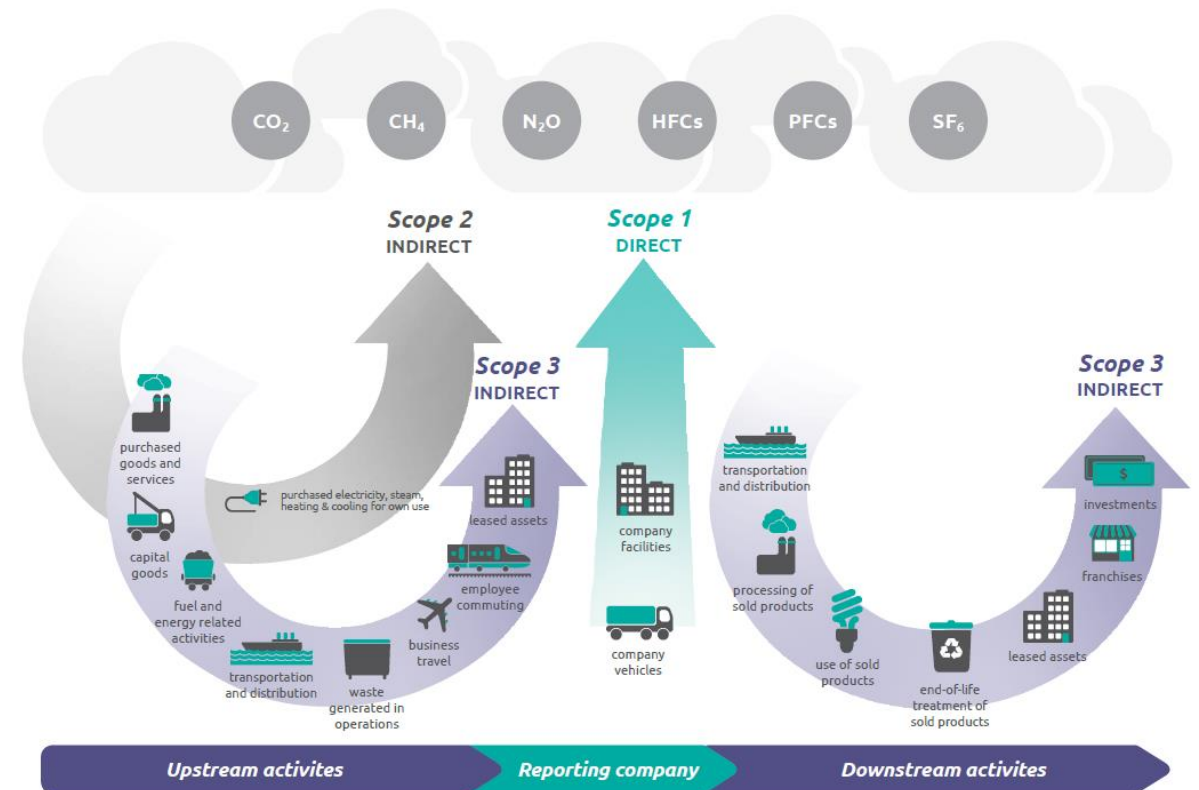
Use of Removals for end-point neutralization

- Companies should also consider investments in climate solutions as part of their strategies
- Avoided emissions are not counted here

The Scope of a Net Zero Goal Builds Upon GHG Accounting Scopes

Science-based decarbonization of all emissions scopes is the underlying objective of a robust net zero goal.

Emissions Source	Definition	Examples
Scope 1	Direct emissions from operations	Operations facilities, company vehicles
Scope 2	Indirect upstream emissions from energy use	Purchased electricity, heating/cooling, steam
Scope 3	Indirect upstream and downstream emissions from company value chain	<p>Upstream: Purchased goods and services, business travel, employee commuting, transportation and distribution</p> <p>Downstream: Use of sold products, end-of-life treatment of sold products, transportation and distribution</p>



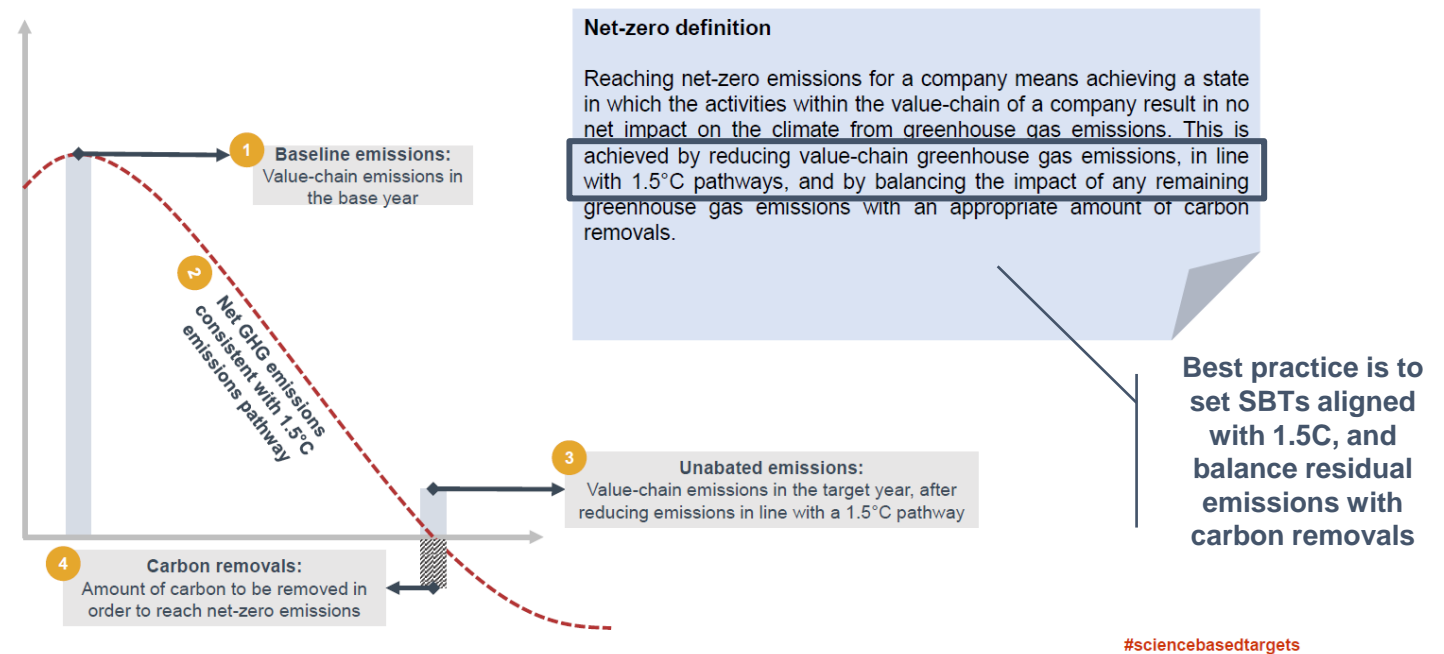
Source: www.ghgprotocol.org

Timeline for a Net Zero Goal

Companies need to fully decarbonize and achieve net zero by **2050 or sooner**. Achieving an end-state of net zero before that is encouraged, but **only if grounded in science-based decarbonization**. It is vital that companies clarify the **intended level of decarbonization** underlying net zero targets, and the intermediate steps towards the end goal.

Net Zero Target Year	Intended Impact
2030	At the current global trajectory, it is estimated that the world will reach 1.5°C as early as 2030. A 2030 net zero target is more ambitious and aligns with the commitment to accelerate global GHG reductions to reach a 1.5°C trajectory that will lead to net zero by the year 2050.
2050	1.5°C requires halving global CO ₂ emissions from 2010 levels and reaching net zero by 2050. A 2050 net zero target aligns with the targets set in the Paris Agreement in 2015.

Towards net-zero | Updated definition



Graph Source: [Towards a Science-based Approach to Climate Neutrality in the Corporate Sector. Discussion paper, Draft Version 1.0, August 2019.](#)

What is Considered Residual Emissions?

The SBTi defines several key terms related to residual emissions and neutralization in their guidance document.

- **Residual Emission:** Emissions sources that remain unabated in a specific year of a mitigation scenario. Long-term SBTs are consistent with the level of residual emissions in the year of global or sector net-zero in 1.5°C-aligned mitigation pathways with low or no overshoot.

Other important terms:

- **Neutralization:** Measures that companies take to **remove carbon from the atmosphere and permanently store it** to counterbalance the impact of emissions that remain unabated [residuals].
- **Removals:** Measures that companies take to **remove carbon from the atmosphere and permanently store it** within or beyond the value chain.
- **Beyond value chain mitigation (BVCM):** Mitigation **action or investments that fall outside a company's value chain**. This includes activities outside of a company's value chain that avoid or reduce greenhouse gas emissions, or that remove and store greenhouse gases from the atmosphere.

What Does it Mean for an Offset to be Credible?

There is no SBTi standard on credibility for offsets. The [SBTi](#) states: “The **use of carbon credits must not be counted as emission reductions** toward the progress of companies’ near-term science-based targets. Carbon credits may only be an option for neutralizing residual emissions or to finance additional climate mitigation beyond their science-based emission reduction targets”.

[EDF](#), for [BASCS](#), used the Taskforce on Scaling Voluntary Carbon Markets ([TSVCM](#)) guidance to define a quality carbon offset along the following key dimensions:

Additional	Permanent	Monitored, Reported and Verified	Leakage Accounted for and Minimized	Does No Net Harm
<p>Offsets must be “additional beyond GHG emission reductions or removals that would otherwise occur without revenue from credits” (TSVCM)</p>	<p>Offsets should represent carbon reductions or removals that are durable and protected over time. Oxford principles note that the timeframe for removals should be long (e.g. storing CO2 in geological reservoirs or mineralizing carbon into stable forms).</p>	<p>Accurate, transparent, and credible accounting is also critical for carbon offset quality. Offsets should be associated with a recognized and credible standard-setting body that has robust and transparent governance. Offsets should also be validated or verified by an accredited, third-party entity</p>	<p>In some cases, activities that reduce or remove emissions can have other impacts, potentially increasing emissions elsewhere, known as leakage. Offset programs should rigorously monitor and mitigate leakage.</p>	<p>Offsets must not create unintended negative environmental or social impacts. At a minimum, offsets should do no net harm, and include impact assessments, stakeholder consultations, and grievance mechanisms.</p>

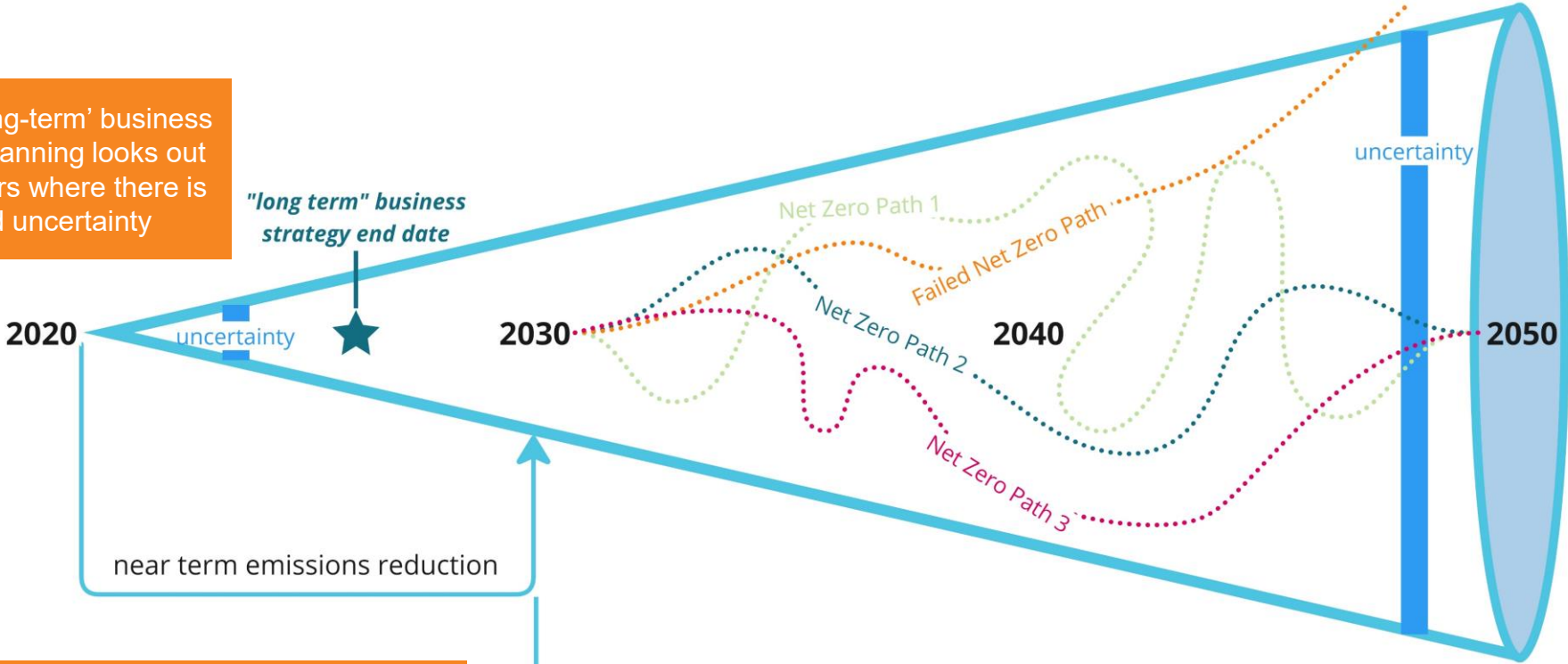
Planning with a 10-, 20-, 30-year horizon is challenging

Many companies are not yet taking decisive action due to the long-term uncertainty facing businesses in the path to net zero. Companies seek and desire a clear roadmap to get to net zero, but long-term uncertainty limits clear action plans.



Typical 'long-term' business strategy planning looks out only 5 years where there is limited uncertainty

"long term" business strategy end date



Companies are focusing efforts on near term emissions reduction. Long-term net-zero planning requires not only near-term action, but strategically thinking about the company vision and business model



Net-zero requires companies to act on a *much* longer-term horizon, where uncertainty is high and potential pathways of action are many



How can companies take clear action today to enable achievement of a net zero goal, in face of long-term ambiguity and uncertainty? What does net-zero mean for a company business strategy, governance, model?

What are the Key Features of a Good Net-zero Strategy?

A net-zero strategy should support the business vision. Though the specifics may differ from company to company, a well-designed net-zero strategy:

Is centered at the core of business strategy and purpose

Is designed in the context of current and emerging societal challenges, and ensures climate justice

Is appropriately positioned vis-a-vis peers and competitors

Delivers emissions reduction as a part of a company's Climate Transition Action Plan

Allocates and mobilizes appropriate resources

Measures and communicates performance

The Gap Between Climate Targets and Action

Companies are showing growing ambition in setting climate targets, yet a significant gap exists between targets and progress against those targets. Climate transition plans outline the actions a company intends to take in the short-, medium- and long-term to achieve its climate targets.

In 2022, more than a third of the world's 2,000 largest companies had goals to reach net zero emissions by 2050 or sooner...

...however, 65% of those with such goals exclude details, such as emissions scopes covered, and how they plan to meet their goals.

The Science Based Target initiative's (SBTi) 2022 progress report shows exponential growth in corporate target setting...

...yet only 46% of companies are reporting progress on those targets.

While it is important that companies make long-term goals and targets to reduce emissions...

...they must create and implement plans, including near-term action, to put them on a credible path to achieve those goals.

A growing number of stakeholders, including investor groups, are calling on companies to set and disclose their **climate transition plans** to show clarity on how they are moving from target setting to taking action to achieve those targets, in line with a 1.5°C pathway.

The UN Secretary General’s High Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities

In March 2022, The UN Secretary General, António Guterres, established a HLEG to develop stronger and clearer emissions pledges by businesses, investors, cities, and regions. At COP27, the HLEG released its [final report](#) with **ten recommendations** for non-state entities, which include creating a transition plan.

Ten Recommendations

1. Announcing a Net Zero Pledge
2. Setting Net Zero Targets
3. Using Voluntary Credits
4. Creating a Transition Plan
5. Phasing out of Fossil Fuels and Scaling Up Renewable Energy
6. Aligning Lobbying and Advocacy
7. People and Nature in the Just Transition
8. Increasing Transparency and Accountability
9. Investing in Just Transitions
10. Accelerating the Road to Regulation

Recommendation 4: Creating a Transition Plan

- “Non-state actors must publicly disclose **comprehensive and actionable net zero transition plans which indicate actions that will be undertaken to meet all targets**, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition.
- Transition plans should be **updated every five years** and progress should be **reported annually.**”

“We must have zero tolerance for net-zero greenwashing”
- UN Secretary General, António Guterres, at COP27

Climate Transition Plans are Key to Delivering on Commitments

Investor groups have issued expectations for company climate transition plans and incoming regulation will require their disclosure. However, few companies have implemented and / or disclosed credible climate transition plans.

Several organizations that have developed **frameworks and guidance** for developing and disclosing transition plans:



The UK-commissioned TPT developed a draft [Disclosure Framework](#) and [Implementation Guidance](#), which it intends will serve as the transition plan “gold standard”



Its [Expectations for Real Economy Transition Plans](#) highlights the investor perspective



Its [Guidance on Metrics, Targets, and Transition Plans](#) includes characteristics of “effective transition plans”



Published a [landscape assessment and consolidated guidance](#)



Released a [Technical Note](#) on reporting on climate transition plans

among others...



A recent [CDP report](#) revealed, that of 18,600 reporters, 21.5% disclosed that they had a climate transition plan, but **only 0.4% demonstrated best practice** by disclosing against all 21 indicators of a credible plan.

Five Criticisms of Net Zero (and How to Avoid Them)

Diverts Attention from Immediate Action

- Net-zero commitments divert attention from immediate abatement, effectively licensing short-term emissions. That is why firms should also **set and deliver an interim emissions reductions target following a 1.5°C trajectory**, such as a 4.2% reduction target in line with global average trajectories

Widens Inequity

- Net-zero commitments, which are typically based on a company's fair share of global net zero carbon dioxide by 2050, should not be inequitable as between developed and developing countries. For investments that sit largely in developed countries, investors should **aim to achieve net zero ahead of 2050**.

Relies on Removals

- Because removals can be used to net out emissions in the target year, it diverts attention from immediate climate investments that are needed to keep 1.5°C within reach. Firms should not merely abate emissions in their portfolios but seek **real economy carbon reductions** and **invest in climate solutions**.

Leads to Greenwashing

- Net-zero commitments may greenwash business-as-usual action. Net zero implementation must **demonstrate business transformation across all functions**, including the investment team, operations, risk, and legal with a clear climate action plan by leadership

Perpetuates Race & Class Injustice

- Net Zero can perpetuate climate and environmental injustice among BIPOC communities. To prevent this, **firms should prioritize BIPOC and low wealth communities** by: purchasing renewable electricity from companies with a track record of increasing energy access, selecting carbon credits that benefit BIPOC communities, and investing in low-carbon products and services that improve the equitable distribution of benefits of the net zero economy.

Considerations for PE Firms

Across different public frameworks, several common points emerge for firms to make initial progress.

1. Measure and increase **PC adoption of the [SBTi Net Zero Standard](#)**, which includes short-term SBTs.
2. Measure and increase adoption of [Sectoral Decarbonization Approach \(SDA\) pathways](#) in covered industries.
3. Encourage **decarbonization** among portfolio companies, given the climate crisis and market indicators.
4. Measure and develop a plan to increase to invest in companies that contribute to tackling the climate crisis / innovative business models that stay within [planetary boundaries](#).
5. Set **parameters on high-carbon industries**, especially coal, tar sands, and other fossil fuels.
6. Adopt a **stewardship/engagement strategy for non-control assets**.
7. Advance integration of climate into **diligence** and pre-investment process.
8. Continue to increase **disclosure** of climate risk, targets, and [climate transition plans](#)—monitor for frameworks, best practice and regulation.
9. Include consideration of **social factors** (e.g. [climate justice, just transition](#)) into climate transition plans.

Thank You

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