

## Picking up the pace: Tracking corporate action on climate change

### CDP's second stock-take of the corporate response to the Paris Agreement finds companies increasingly taking the steps needed to prepare for the low-carbon transition.

The Paris Agreement has provided an unmistakable signal that the transition to a low-carbon global economy is firmly underway. It has given impetus to those companies that had already begun addressing their climate impacts, and has led many others to begin planning in earnest.

In this, CDP's second assessment of the corporate response to Paris, we find growing action by companies to decarbonize their businesses.

More leading companies are embedding low-carbon goals in their long-term business plans and are setting targets aligned with climate science. These targets are driven from the very top of organizations, as climate change becomes a mainstream boardroom topic, while the low-carbon transition is driving innovation and encouraging companies to develop new tools to deliver change.

Current targets take sample companies 31% of the way to being consistent with keeping global warming below 2 degrees, up from 25% in 2016. Positive momentum, however, many companies are yet to publicly respond at all to the threat posed by climate change.

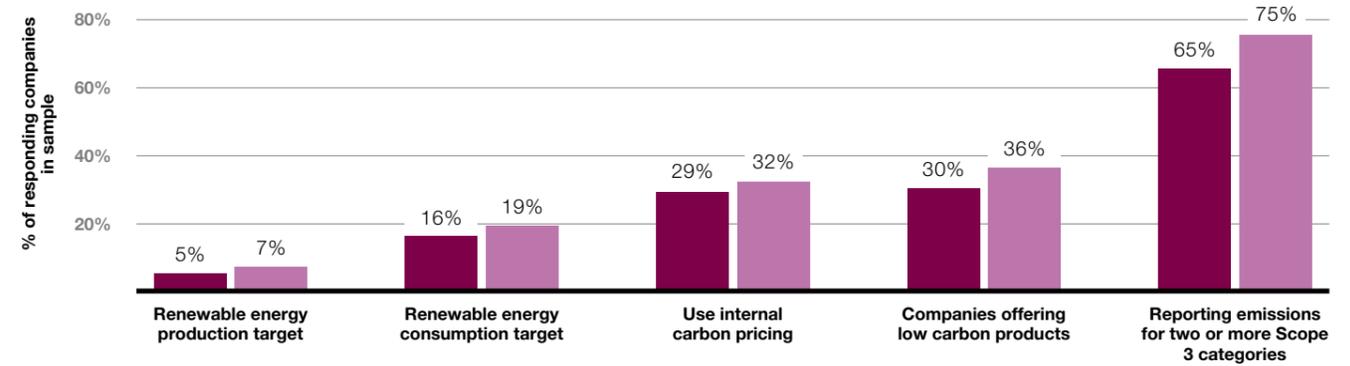
#### Tracking progress on corporate climate action

CDP provides the essential first step for the business response to environmental challenges. It operates the leading global platform to measure environmental disclosure, insight and action, based on corporate information requested on behalf of more than 800 investors, responsible for assets of over US\$100 trillion. In total, more than 6,300 companies disclose environmental data through CDP.

Last year, CDP selected a global sample of 1,839 companies to track the corporate response to the Paris Agreement. This sample is representative of the global economy, although it is weighted towards higher emitters and bigger companies. Each year to 2020, we will analyze the disclosures from this 'High impact' sample, to assess the progress they are making towards the low-carbon transition.

This year, 1,073 companies from the sample responded to the request for climate disclosure from CDP, representing 12% of total global greenhouse gas emissions (GHGs), and 47% of global market capitalization.

Figure 2: High impact sample trends



#### More ambitious targets

Spurred by the Paris Agreement, more companies are setting emissions reduction targets, and these targets are increasingly long-term. Within the High impact sample, 89% of responding companies reported emissions reduction targets in 2017, up from 85% last year. More than two-thirds of those are setting targets to at least 2020 and a fifth are mapping out sustainability actions to 2030 and beyond, up from 55% and 14%, respectively, last year.

The number of companies in the sample that have committed to the **Science Based Targets** initiative (meaning their target is, or will be, in line with the level of decarbonisation required to keep global temperature increase below 2 degrees Celsius) has increased by 61% since 2016, from 94 to **151** companies (making up **14%** of the overall sample, compared to 9% last year). An additional 30% – 317 companies – plan to commit to an SBT within two years. These targets provide frameworks within which companies can plan for the reductions needed to meet the goals of the Paris Agreement.

Adopting such a target, as Anglo-Dutch consumer goods giant **Unilever Plc** did in 2016, has helped provide the context within which its longer-term targets are set, stating that "having a Science Based Target gives us all a common framework to work towards emissions reductions in line with the 2-degree scenario."

To deliver against their targets, companies are increasingly turning to clean energy, cutting

emissions while simultaneously increasing their energy security and reducing their exposure to fluctuating energy prices. Almost a fifth (19%) of respondents have set a **renewable energy consumption target**, while 7% have set a **renewable energy production target**.

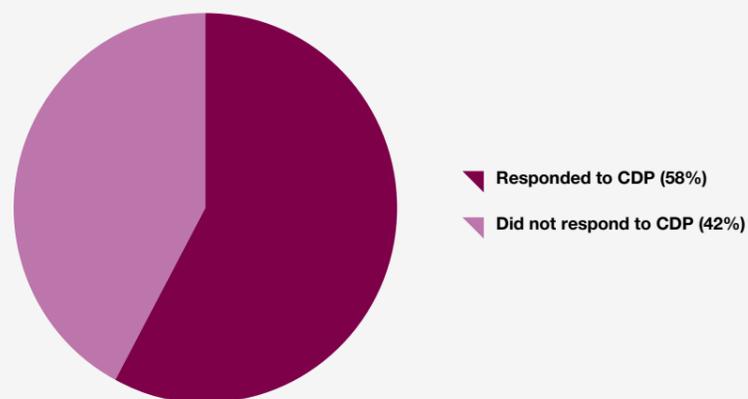
**Akzo Nobel N.V.** has committed to source 100% of its energy from renewables by 2050, a pledge that not only will help the company deliver its emissions reduction targets, but also create new low-carbon business lines. "People are starting to think about new business models that are possible when we have access to large volumes of renewable energy," says André Veneman, the Dutch chemicals giant's head of sustainability.

#### Climate change in the boardroom and beyond

Without doubt, climate change is now an issue at the very top of corporate decision-making: 97% of responding companies within our sample report that **climate change is integrated into their business strategy**. Almost all respondents (98%) report that responsibility for climate change rests with the board, a board-level individual, or a committee appointed by the board.

Crucially, companies are engaging with key stakeholders: policymakers, suppliers and customers. Almost all (96%) respondents **engage with policymakers** on climate issues to encourage mitigation or adaptation (a 10% increase from 2016). Three quarters report emissions data from two or more categories of scope 3 emissions, that is, emissions produced by suppliers or customers.

Figure 1: 2017 High impact sample disclosure rate



For example, **BT Plc.** has set a target for reducing emissions in its supply chain to 29% below 2016/17 levels by 2030. Not all suppliers consider climate change a priority, but those that engage with BT on the issue are likely to win more business from the UK telecoms firm, as well as put themselves in a strong position to respond to similar requests from other customers, says BT's head of sustainable business policy Gabrielle Ginér.

### Embracing the tools for change

The High impact stock-take shows that the transition to a low-carbon economy is driving innovation as companies develop and embrace new tools for change.

97% of companies report active **emissions reduction initiatives** in the reporting year, up from 92% in 2016. Three-quarters of companies now report that their **products and services** directly enable third parties to avoid GHG emissions, up from 64% in 2016.

For example, Swedish construction group **Skanska AB** is developing and constructing buildings and infrastructure that enable their users to reduce and avoid GHG emissions, in both construction and operation. It built Solallén, Sweden's first zero-energy neighbourhood, which generates more energy than it uses, saving both carbon and energy costs.

As documented in a recent CDP report, **internal carbon pricing** has emerged as an important mechanism to help companies manage risks and

capitalize on emerging opportunities; in the last year, the number of companies using internal carbon pricing has increased from 29% to 32% of the sample. A further 18% plan to implement a **price of carbon** in the next two years.

**Akzo Nobel** has set two carbon prices, a higher one to inform its environmental profit and loss calculation, and another set at the level needed to drive the global transition to zero-net emissions. That latter €50/tonne price is used to assess the company's investment decisions – and has forced its planners back to rethink proposed carbon-intensive investments.

To be effective, internal carbon pricing should operate along four dimensions:

- ▼ Width, encompassing as wide emissions coverage as possible;
- ▼ Height, providing a sufficiently high carbon price to drive the necessary action;
- ▼ Depth, relating to the influence carbon pricing has on the business decisions of the company and its value chain; and
- ▼ Time, ensuring that the carbon pricing approach evolves over time.

### Leveraging collaboration

Companies are increasingly collaborating with each other, and with various levels of government, to develop new climate-focused business models.

**Nissan Motor Company Ltd.**, for example, is working with competitors to develop fast electric charging infrastructure, and with municipalities to conduct wide-scale trials of electric vehicles. *"The auto industry must go beyond producing and selling zero-emission vehicles to help put the necessary infrastructure in place to ensure that the vehicles are economical to use. No company can achieve this on its own,"* says its chief sustainability officer Hitoshi Kawaguchi.

Municipalities, too, are pioneering ambitious collaboration projects to tap technology that can help reduce emissions. **San Diego's Smart City** project is bringing together technology and telecoms giants, academic researchers, and its local cleantech sector. *"When you're creating a market as complex as smart cities, you have to accept that no-one can do this on their own; you have to form an ecosystem and alliances,"* says Austin Ashe, general manager of the intelligent cities unit of **GE** subsidiary **Current**, which is a project partner.

### The importance of corporate disclosure

Disclosure of environmental risks and impacts is a critical first step for insight and action on climate change. There has been a steady increase in the **completeness** of submissions from disclosing

companies. Nine out of ten (89%) of submissions were in the most 'complete' quartile this year, compared with 31% in 2010, suggesting that companies are increasingly recognizing the value of comprehensive disclosure through CDP.

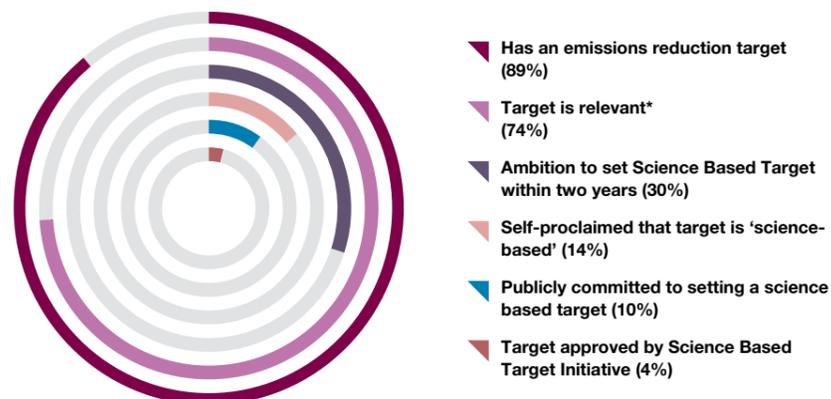
A growing number of companies also recognize the importance of **verifying the accuracy of their disclosures**. Last year, less than half (49%) of responding companies in the sample reported that at least 70% of their direct **Scope 1** emissions data was independently verified; this figure jumped to more than two thirds of companies (68%) in 2017. Respondents reporting that at least 70% of their data relating to **Scope 2** emissions (associated with electricity generated from third-parties) was independently verified also rose, to 64% from 46%.

### More to be done

This progress notwithstanding, a large number of companies still ignore the request from their investors for financially material climate data. Just over 40% of companies in our High impact sample failed to disclose.

Similarly, while the number of companies with science based targets is growing, the majority of responding companies have yet to commit to emissions reduction goals that are equal to the climate threat we face. Setting long-term targets can help ensure that corporate strategy is aligned with decarbonization, and can drive the innovation needed to transform the global economy away from fossil fuels.

Figure 3: High impact sample - target setting



\* target covers at least 80% of company emissions

### Keeping score

In addition to this year's analysis of the High Impact sample, CDP continues to assess and score the companies that disclose through our platform. The scores show increase corporate transparency around climate, water and forests, with a third more companies reporting now than in 2013.

The CDP A List 2017 recognizes those businesses that are leading in terms of environmental performance, with over 150 companies acknowledged as pioneers. Of these, 54 have signed up to the Science Based Targets initiative, and two – **L'Oreal** and **Unilever** – have achieved A's across all three areas of environmental disclosure.

To view the full 2017 analysis: *Picking up the pace: Tracking corporate action on climate change*, please visit [www.cdp.net](http://www.cdp.net)