



SCIENCE  
BASED  
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

# TAKING THE TEMPERATURE ASSESSING AND SCALING-UP CLIMATE AMBITION IN THE G7 BUSINESS SECTOR

JUNE 2021

DEVELOPED BY



United Nations  
Global Compact

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*A Science Based Targets initiative Report by the United Nations Global Compact and CDP*

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# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY

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The world's nations agreed in Paris in 2015 that averting the worst impacts of climate change calls for temperature rise to be held to 1.5°C above pre-industrial levels. That means cutting greenhouse gas emissions in half by 2030 and reaching net-zero emissions by 2050. To get there, countries and companies must step up their actions to meet the Paris Agreement's goals, as a dramatic mitigation gap still remains despite recent announcements and pledges.

This new report from the Science Based Targets initiative (SBTi) prepared by the United Nations Global Compact and CDP, takes stock of corporate climate ambition in the Group of Seven (G7), an intergovernmental organization consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

The report assesses the temperature ratings of the leading equity indexes of these countries' markets. Analysis is based on emissions-reduction target data submitted by companies to CDP and the SBTi. It focuses on midterm, rather than long-term targets, given the urgency to halve emissions by 2030. The report frames science-based target setting as the solution to bridge the ambition gap, outlining four levers to unlock breakthrough climate mitigation action through science-based targets.

Stock indexes serve as benchmarks to understand market trends and performance. If leading country indexes are unaligned with climate goals, so too will be all the capital passively invested in them. When companies listed in an index move toward more ambitious action, this market shift has the potential to influence the wider economy.

Yet with the current level of corporate climate ambition, all leading market indexes of the G7 economies are on temperature pathways that remain far from aligning with the climate goals set in Paris.

## **No index scorecard reaches down to 2.0°C, much less the 1.5°C that is so urgently needed.**

Indexes score worse when all emissions scopes are taken into account, showing there is a particular ambition gap surrounding scope 3, the corporate emissions stemming from their value chains. Across all indexes, more than three quarters of companies are missing in action from setting the most ambitious target — aligning with 1.5°C to reach net zero by 2050.

A huge mitigation potential can be unlocked. Indexes with a higher share of emissions covered by science-based targets have better overall temperature ratings. The increasing use of science-based target setting, especially in the heaviest emitting sectors, has the potential to move entire country indexes towards Paris alignment.

Science-based targets are the near-term, breakthrough mitigation measures the corporate sector needs to reach the Paris goals. All actors working together to mainstream science-based target setting can unlock exponential mitigation potential in all sectors and regions.

Governments, financial institutions and investors need to leverage their regulatory power and influence to incentivize the adoption of science-based targets across all industries. Corporate actors with validated targets need to double down on climate advocacy and implement measures that trigger cascading ambition by addressing the indirect emissions that occur in their value chains and engaging with suppliers.

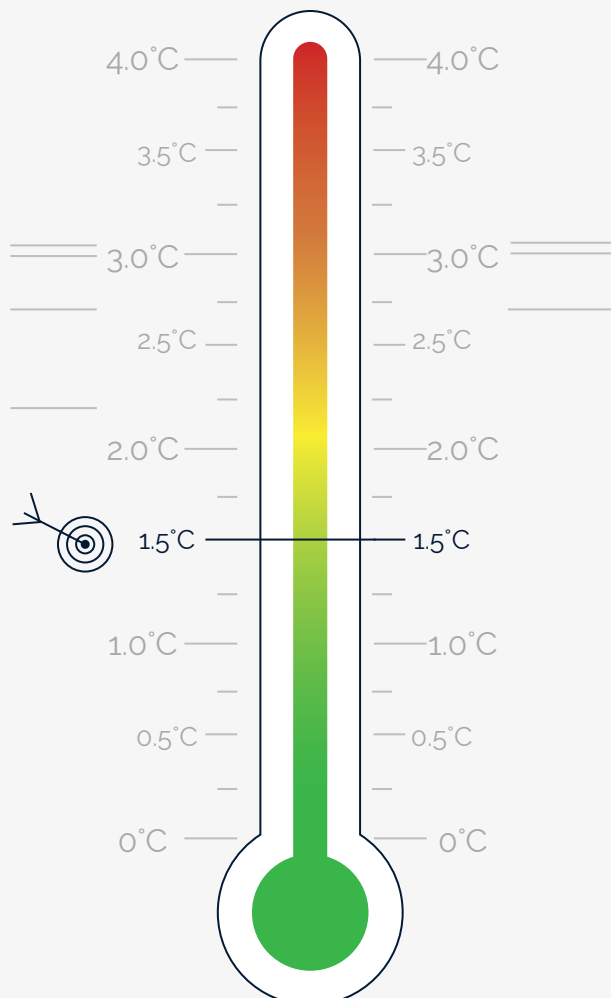
Businesses and Governments must work together to harness the “ambition loop”— a positive feedback loop where private sector and Government climate action reinforce each other. They must also address the negative corporate lobbying holding back ambition and slowing down the transformation to a fossil-free world.

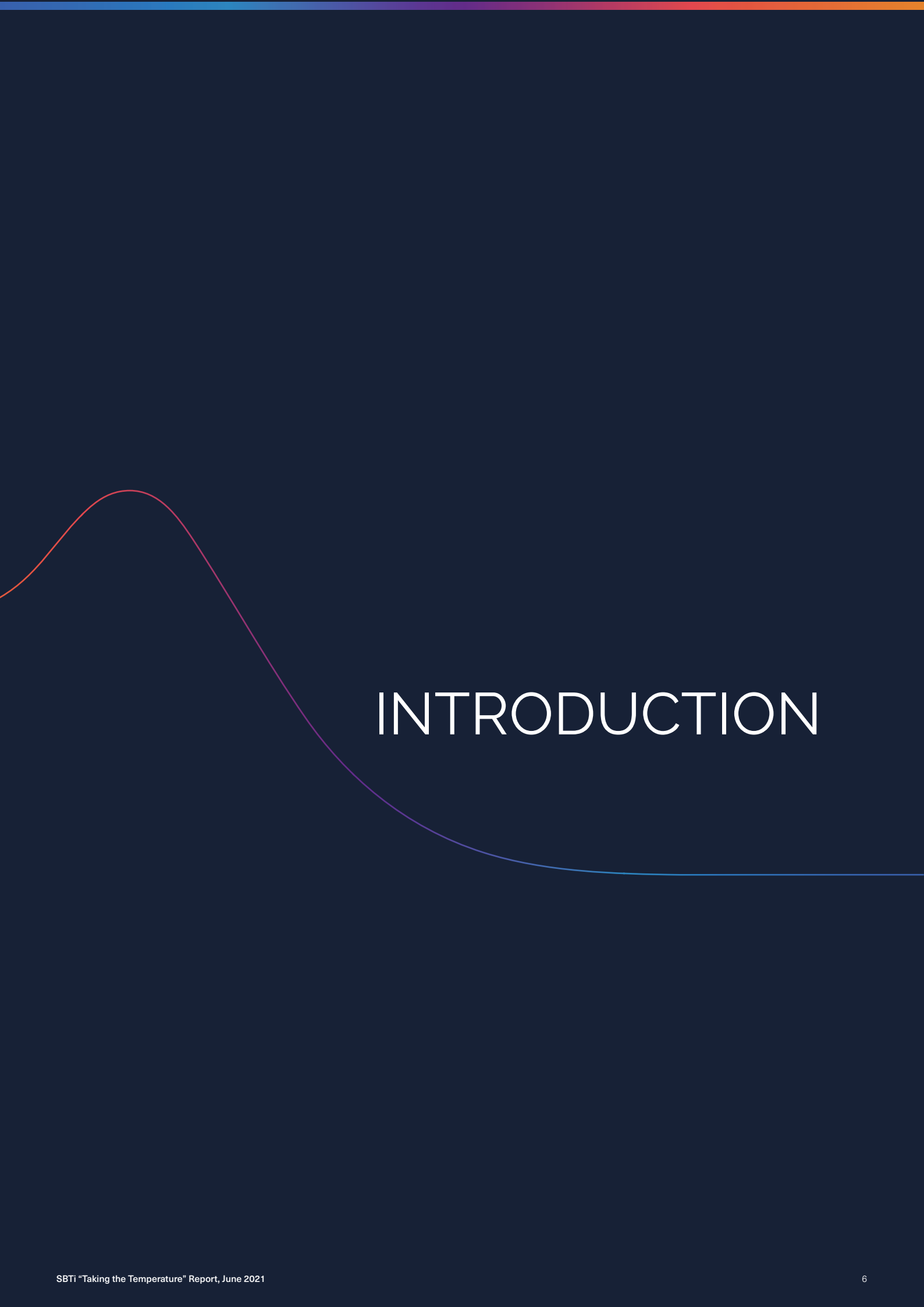
COMPANIES WITH **SCIENCE-BASED TARGETS** ARE ALREADY CUTTING EMISSIONS AT SCALE — ALL BUSINESSES MUST NOW ALIGN WITH SCIENCE AND **JOIN THE RACE TO ZERO VIA THE BUSINESS AMBITION FOR 1.5°C CAMPAIGN.**



## INDEX TEMPERATURE SCORECARD

*Temperature rating methodology applied to market indexes in G7 countries, taking into account emissions from companies' own operations and across their value chains (scopes 1, 2 and 3).  
As of 30 April 2021*





# INTRODUCTION

# INTRODUCTION

*The Make-or-Break Year to Tackle the Climate Emergency*

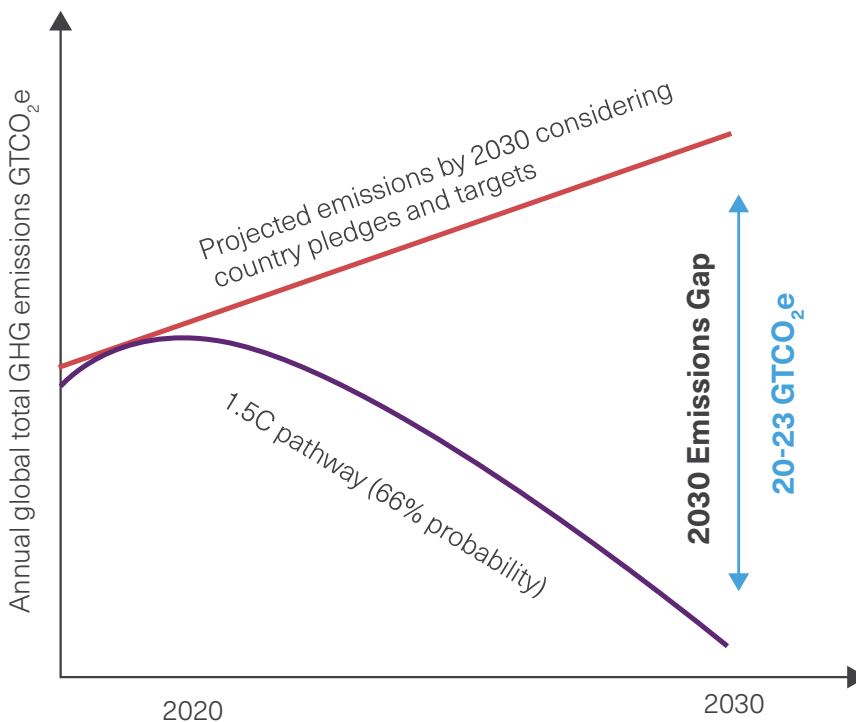
Climate science is crystal clear that to hold off some of the worst climate impacts and avoid irreversible damage to societies, economies and the planet, temperature rise must be held to 1.5°C above pre-industrial levels. This requires short-term action and long-term strategies to halve greenhouse gas (GHG) emissions by 2030 and reach net-zero emissions by 2050.

An increasing number of companies are stepping up and pledging to respond to the challenges of climate change. Responsible for almost half of global GDP, G7 countries have recently committed to deeper cuts in emissions over the next decade, through enhanced Nationally Determined Contributions (NDCs) that align with their net-zero commitments. The environmental ministers of the G7 countries have explicitly called for businesses and investors to set science-based, net-zero targets.<sup>1</sup>

However, a dramatic gap in ambition remains when it comes to 2030 targets set by corporations and countries. Recent analysis shows a significant difference — a gap of 20 gigatons to 23 gigatons of carbon dioxide (GtCO<sub>2</sub>e)<sup>2</sup> — between the level of GHG emissions expected in 2030, under current policies and country commitments, and where they should be to limit global warming to 1.5°C.

## THE 2030 EMISSIONS GAP

Adapted from latest [Climate Action Tracker](#) analysis



<sup>1</sup> G7 Climate and Environment Ministers' Meeting, May 2021: Communiqué; ; <https://www.g7uk.org/g7-climate-and-environment-ministers-communique/>  
<sup>2</sup> Carbon dioxide equivalent (CO<sub>2</sub>e) provides a common scale for measuring the warming effect of different greenhouse gases.

## LIMITING WARMING TO 1.5°C CAN STILL BE ACHIEVED IF THE WORLD ACTS SWIFTLY AND DECISIVELY. BUSINESS HAS A KEY ROLE TO PLAY IN THIS TRANSFORMATION.

The private sector has a critical responsibility in the transformation to a sustainable, zero-carbon, climate-resilient economy. No solution to the climate crisis exists without businesses taking credible steps to decarbonize, being accountable for their impact on the environment and harnessing their power to transform the global economy.

### ABOUT THIS REPORT

This report takes stock of 2030 climate ambition for the corporate sector in G7 countries and gauges the gap remaining to reach the 1.5°C goal of the Paris Agreement. To do so, it measures the climate ambition for companies listed in the leading equity indexes across G7 countries.

Corporate ambition is determined by assessing companies' potential future emissions trends, based on their emission-reduction target data submitted to the CDP and to the Science Based Targets initiative (SBTi). The analysis focuses only on mid-term targets — GHG reduction targets for the target years between 2025 and 2035 — given the urgency to halve emissions by 2030.

Targets are considered "science-based" if they are in line with what climate science deems necessary to meet the Paris Agreement's goals and limit warming to 1.5°C.

At the SBTi, targets are validated by a panel of experts and each company's targets are translated into a Paris-aligned temperature rating (2°C, well-below 2°C, 1.5°C). Led by the SBTi in partnership with the United Nations Global Compact and the We Mean Business coalition, the [Business Ambition for 1.5°C campaign](#) invites corporate leaders to set net-zero, science-based, emissions-reduction targets aligned with a 1.5°C future.

Companies are also adopting emissions-reduction targets outside the framework of the SBTi. Through its annual disclosure process, CDP collects data on these targets each year.

Based on the information on targets disclosed by companies, CDP assesses the ambition of the targets.<sup>3</sup> The methodology discerns between science-based targets and other public targets.

<sup>3</sup> When corporations report to CDP, they must disclose the scopes covered by their target : direct (Scope 1) ; indirect (Scope 2) ; and value chain emissions (Scope 3)) ; boundary coverage (which percentage of emissions is covered by the target) ; and timeframe of the targets, in order to assess the ambition of targets. While targets are often reported publicly in other forms, as in annual sustainability reports, this information is typically insufficient as the full breadth of supporting information on scope, boundary coverage and timeframe is often not disclosed. The CDP target database represents the most comprehensive source of non-verified target information. Learn more [here](#).



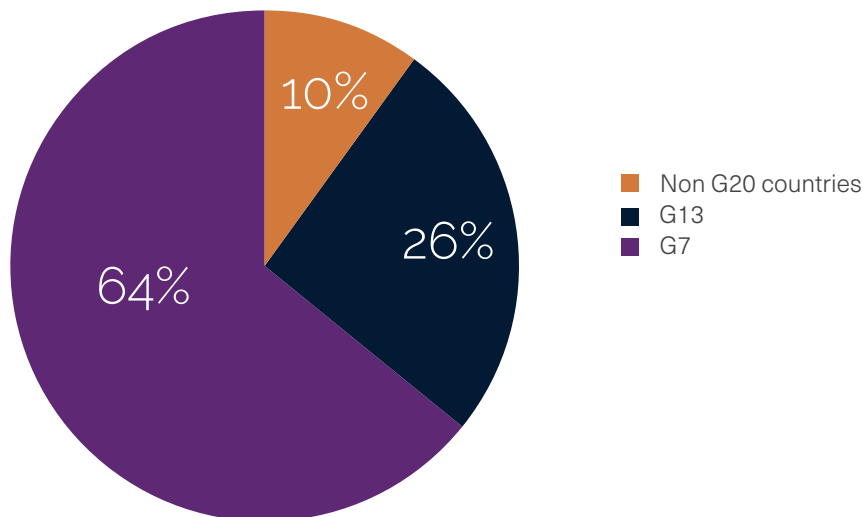
Each company can be assigned a temperature rating depending on the type of target disclosed:

<b>SCIENCE-BASED TARGETS (SBTs)</b>	If the company has an approved science-based target, the temperature classifications of the company is taken directly from the SBTi.
<b>PUBLICLY DISCLOSED TARGETS VIA CDP</b>	If the company does not have an approved science-based target, but has disclosed a target to CDP, the ambition of the target is translated to a temperature rating via the CDP-WWF temperature rating methodology. <sup>4</sup> This method uses a warming function, built on Intergovernmental Panel on Climate Change (IPCC) scenarios, that enables the translation of corporate targets into temperature ratings across sectors, target types and time frames. <sup>5</sup>
<b>NO VALID TARGETS</b>	If the company does not have an approved science-based target or any other target disclosed through CDP that fulfils certain minimum criteria*, the company is given a default temperature rating of 3.2°C <sup>6</sup> . This rating is based on 2100 warming <a href="#">projections</a> based on current country pledges (66 per cent probability).

From there, the temperature rating of each company can be weighted in terms of its emissions, relative to those of an overall group.

This report uses the example of G7 countries as most companies disclosing information about their emissions-reduction targets are based in a G7 country. Of all corporate GHG targets disclosed to CDP in 2020, 64 per cent of targets are set by companies headquartered in G7 countries, 26 per cent set by companies in other G20 countries, and 10 per cent disclosed by companies headquartered outside the G20.

## DISTRIBUTION OF DISCLOSED COMPANY TARGETS PER COUNTRY



- 4 This temperature rating analysis uses mid-term targets (GHG-reduction targets for target years between 2025 and 2035). To be included in the analysis, these targets must be forward-looking, meaning that they have not already been achieved, and must be sufficiently disclosed with corresponding information on target ambition, timeframe, scope coverage and boundary coverage within scopes.
- 5 The Intergovernmental Panel on Climate Change (IPCC) is a United Nations body tasked with providing policymakers with the latest assessment of the science related to climate change. According to the latest IPCC report, to limit global warming to 1.5°C above pre-industrial levels and avoid the most catastrophic impacts of climate change, the world must halve CO2 emissions by around 2030 and reach net-zero CO2 emissions by mid-century.
- 6 Only mid-term public targets disclosed through CDP, with target years between 2025-2035, with complete disclosure on scope, ambition, and boundary coverage are considered valid and included in this assessment.

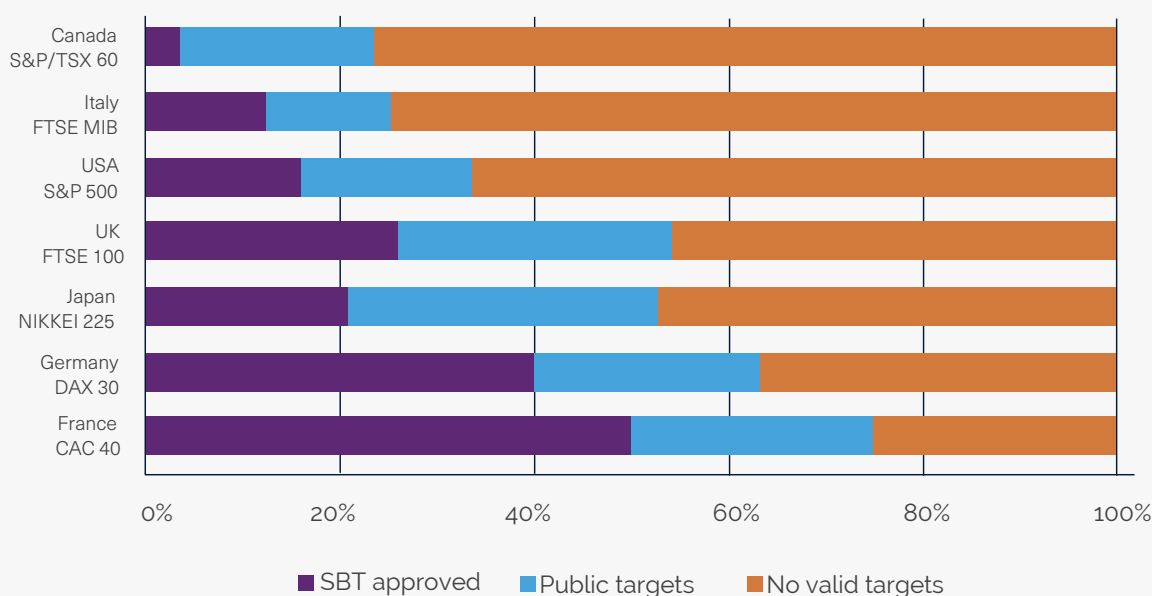
This report looks specifically at seven leading equity indexes of the G7, also referred to as stock market indexes.<sup>7</sup> Composed of stocks of the most significant companies listed on a country's largest exchange, the indexes serve as benchmarks to understand market trends and performance.

**As long as leading country indexes are unaligned with climate goals, so will all the capital passively invested in them. But when companies listed in an index move toward more ambitious action, the market shift has the potential to influence the wider economy.**

Despite the undeniable momentum in corporate climate action among listed companies in the G7 indexes, significant gaps remain. Overall, only 38 per cent of listed companies in G7 indexes disclose public targets. Of these targets, just 50 per cent have been validated to be in line with the level of ambition required to deliver on the Paris Agreement's goals.

Within G7 countries, the rates of target disclosure vary. Across all the major indexes that were assessed, less than 50 per cent of companies have approved science-based targets. In many indexes, the rate of target disclosure remains low.

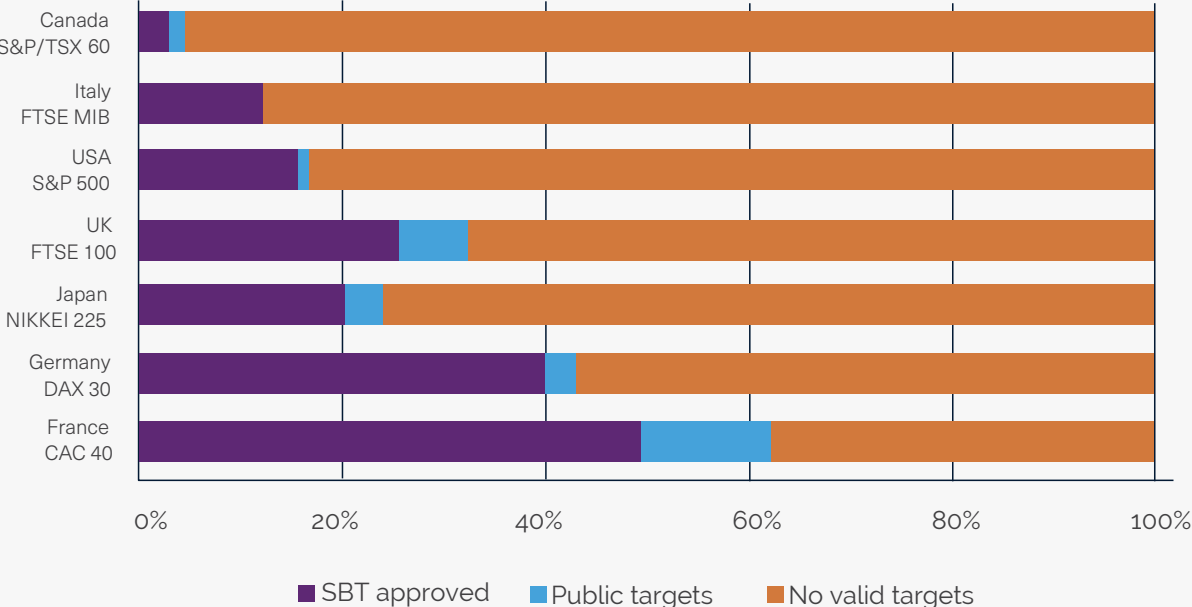
## G7 INDEXES TARGET DISCLOSURE RATES (SCOPES 1+2)



<sup>7</sup> Equity index composition as of 1 March 2021.

Corporate GHG emissions are separated into three broad categories: Scope 1 are direct emissions from a company’s operations; Scope 2 are indirect emissions from purchased energy sources; and Scope 3 are value chain emissions. Companies setting science-based targets must set ambitious targets, including for their value chain emissions if these emissions sources are significant. However, outside the SBTi, few companies are publicly reporting a target aimed at reducing their value chain emissions. Looking at all relevant emissions scopes together, target disclosure rates are considerably lower compared to frameworks covering only scopes 1 and 2.

### G7 INDEXES TARGET DISCLOSURE RATES (SCOPES 1+2+3)



PART I

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# TAKING STOCK OF CLIMATE AMBITION AT THE CORPORATE LEVEL: A G7 EQUITY INDEX TEMPERATURE RATING

## PART I

# TAKING STOCK OF CLIMATE AMBITION AT THE CORPORATE LEVEL: A G7 EQUITY INDEX TEMPERATURE RATING

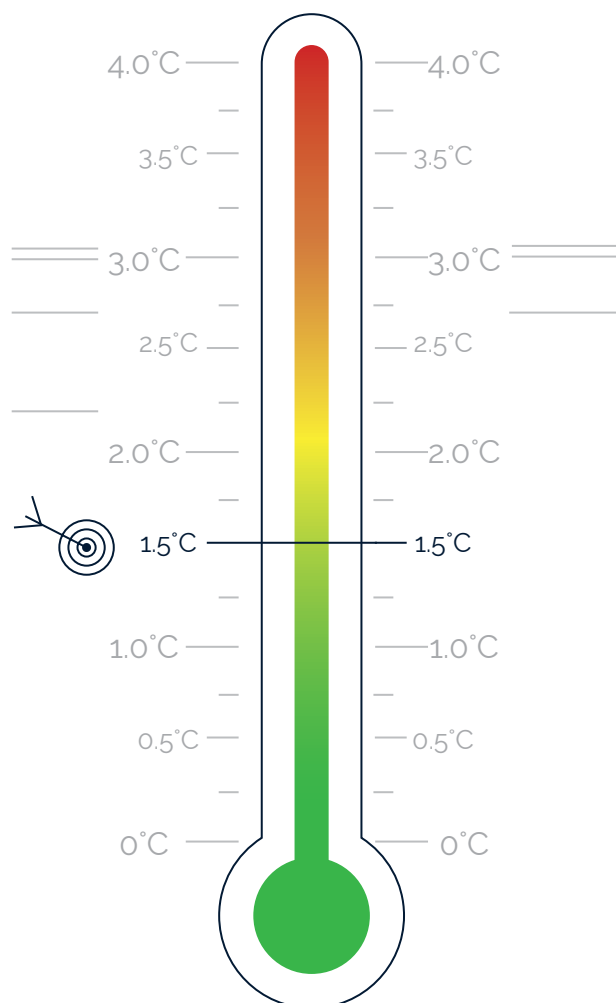
Today, more and more businesses are seeing opportunities in the zero-carbon economy. Corporate GHG emissions reduction targets have gone mainstream, mostly in G7 countries.

**Unfortunately, with the current level of corporate climate ambition, all of the G7 market indexes fall short, far from aligning with the Paris Agreement's climate goals.** No index scorecard reached down to 2.0°C, much less the 1.5°C that is so critically needed.



### INDEX TEMPERATURE SCORECARD

*Temperature-rating methodology applied to market indexes in G7 countries, taking into account emissions from companies' own operations and across their value chains (scopes 1+2+3), as of 30 April 2021.*

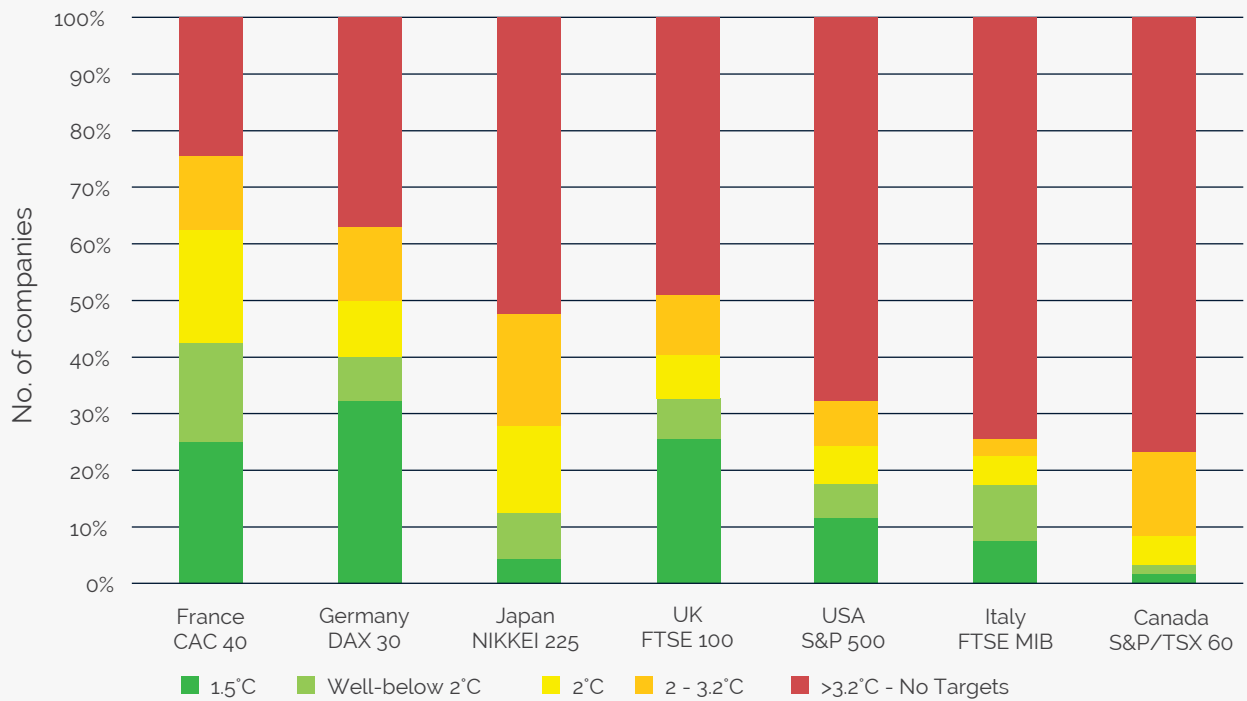


When looking at the percentage of companies falling into different temperature ranges, there is an important variability between indexes:

On France's CAC 40, Germany's DAX 30, Japan's Nikkei 225 and the UK's FTSE 100, 50 per cent or more companies score below 3°C. But on the US' S&P 500, Italy's FTSE MIB and Canada's SPTSX 60, more than 70 percent of companies score above 3°C.



## INDEX COMPANIES TEMPERATURE SCORES (SCOPES 1+2) *As of 30 April 2021.*



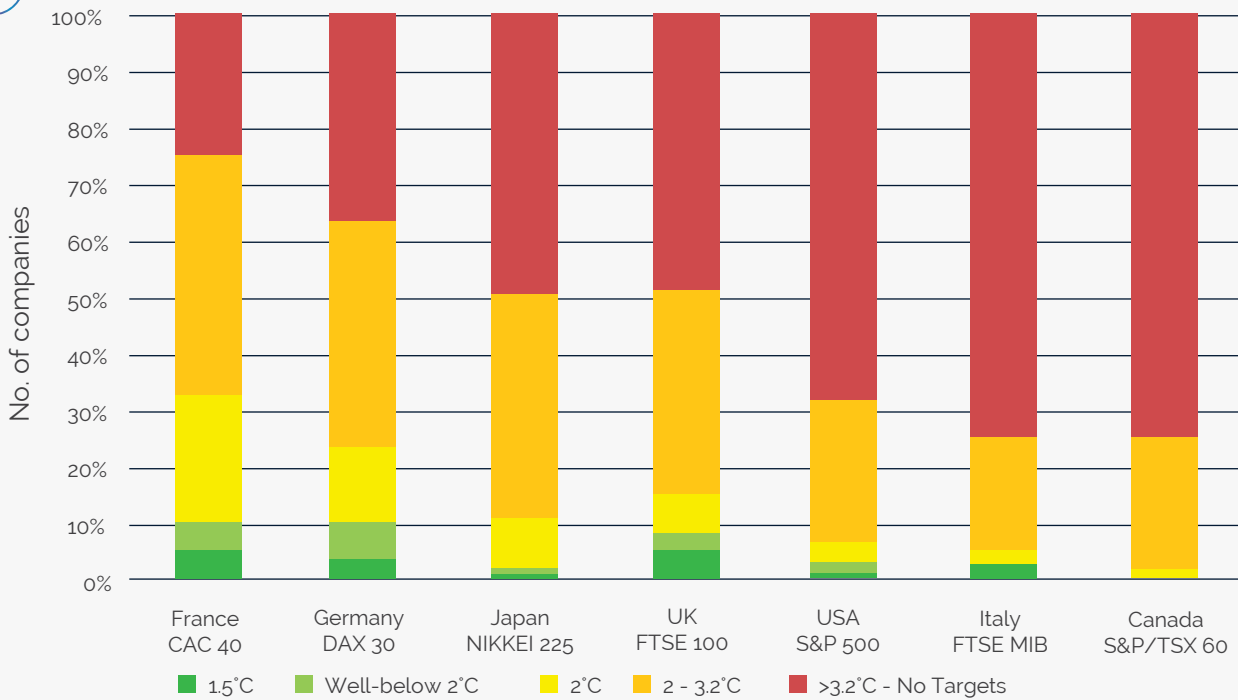
Indexes score worse when all emissions scopes are taken into account. For the majority of companies, the largest sources of emissions lie upstream and/or downstream of their core operations (scope 3). More companies have been setting ambitious targets for emissions coming from their own direct operations (scopes 1+2 emissions), but when considering the entire value chain, all indexes report less than 30 per cent of their companies with targets at or below 2°C.

For instance, looking at France's CAC 40, if only emissions from a company's own operations (Scopes 1+2) are considered, more than 40 per cent of companies in the index would align with 1.5°C, or well below 2°C. When including value chain emissions in the analysis, this drops to 10 per cent.



### INDEX COMPANIES TEMPERATURE SCORES (SCOPES 1+2+3)

As of 30 April 2021



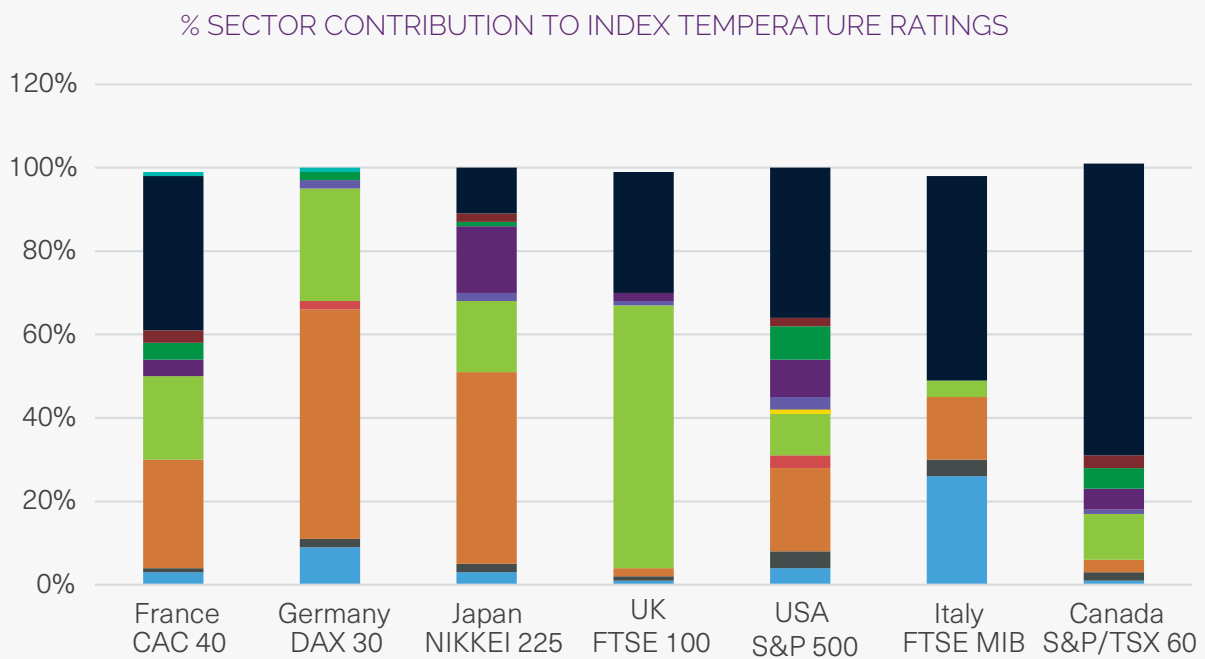
Disaggregated analysis reveals the contribution of each sector to the overall index temperature rating, showing which sectors are most responsible for pushing temperature scores in the wrong direction.

Contributing sectors to the final temperature rating are spread across 12 key categories: apparel, biotechnology healthcare and pharmaceuticals, fossil fuels, food beverage and agriculture, hospitality, infrastructure, manufacturing, materials, power generation, retail, services and transportation services.



## SECTOR CONTRIBUTION TO INDEX TEMPERATURE SCORES BASED ON EMISSIONS

*As of 30 April 2021*





The key sectors contributing to most emissions in each index vary significantly and reflect the different economies:

- **France's CAC 40** emissions are dominated by fossil fuels, manufacturing and materials production.
- **Germany's DAX 30** emissions come primarily from manufacturing and materials' industrial footprint.
- **Japan's Nikkei 225** is a more varied index, but dominated by manufacturing, followed by materials, retail and fossil fuels.
- **The UK's FTSE 100** has emissions concentrated in materials, followed by fossil fuels
- **The US' S&P 500** is another varied index but dominated by emissions from fossil fuels, followed by manufacturing, materials and retail.
- **Italy's FTSE MIB** sees its emissions most concentrated in fossil fuels and infrastructure, followed by manufacturing.
- **Canada's SP/TSX 60** is the index most dominated by fossil fuels, followed to a lesser extent by materials. These two sectors alone account for nearly 70 per cent of the index temperature rating.

The analysis shows which sectors need to prioritize setting science-based targets to achieve index temperature ratings aligned with the 1.5°C Paris goal. It also clearly shows that fossil fuel-dependency continues to impede the transformation to a 1.5°C future. This echoes the International Energy Agency's new [roadmap](#) to net-zero emissions by 2050, which urges all new oil, methane gas and coal exploration projects and investments to stop now.



PART II

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# THE ROLE OF SCIENCE-BASED TARGET SETTING IN CLOSING THE AMBITION GAP



## PART II

# THE ROLE OF SCIENCE-BASED TARGET SETTING IN CLOSING THE AMBITION GAP

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The current level of corporate climate ambition within G7 market indexes is strikingly insufficient. This is because many companies have yet to set targets, and the targets already set are not equal in ambition. While there is a growing trend towards long-term target setting and net-zero pledges, most targets lack the credibility and grounding in science needed to meet the Paris Agreement's goals.

Many targets might sound ambitious, but are actually not leading to Paris-aligned emissions reductions. [Research](#) from the NewClimate Institute revealed that only 8 per cent of companies with net-zero targets have interim targets. Long-term promises are empty if not backed up by near-term plans to cut down emissions in absolute terms. Public reporting that lends transparency and accountability, while allowing for aggregation of efforts, is also crucial.

### AT THE SCIENCE-BASED TARGETS INITIATIVE, TARGETS ARE CONSIDERED CREDIBLE AND AMBITIOUS ENOUGH IF THEY ARE:

- **Science-based:** in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.
- **Comprehensive:** covering the most relevant sources of emissions. For a target to be officially validated by the SBTi, companies whose scope 3 emissions cover more than 40 per cent of their total emissions need to set scope 3 targets.
- **Actionable:** aligned with long-term goals, **and** leading to action in the short term. To address this challenge, the SBTi is developing a science-based standard for companies to set net-zero targets in line with a 1.5°C future.
- **Transparent:** publicly available with regular reporting on progress.
- **Independently assessed:** verified and validated by a set of external, independent experts.

**Short-term action paired with long-term plans that are aligned with climate science is what the world needs and exactly what science-based targets deliver on.**

**NET-ZERO, 1.5°C-ALIGNED SCIENCE-BASED TARGETS** ARE ULTIMATELY TO BUSINESSES, WHAT NATIONALLY DETERMINED CONTRIBUTIONS (NDCs) ARE TO COUNTRIES. **THEY ARE "BUSINESS NDCS"**

By setting science-based targets, companies upgrade their climate plans in the short term, similar to when countries enhance their 2030 national climate plans, or NDCs, to the Paris Agreement. Companies also embed the longer-term goal to achieve net-zero emissions by 2050 into their business models, mirroring the long-term decarbonization strategies countries are advancing to back up their net-zero, 2050 vision.

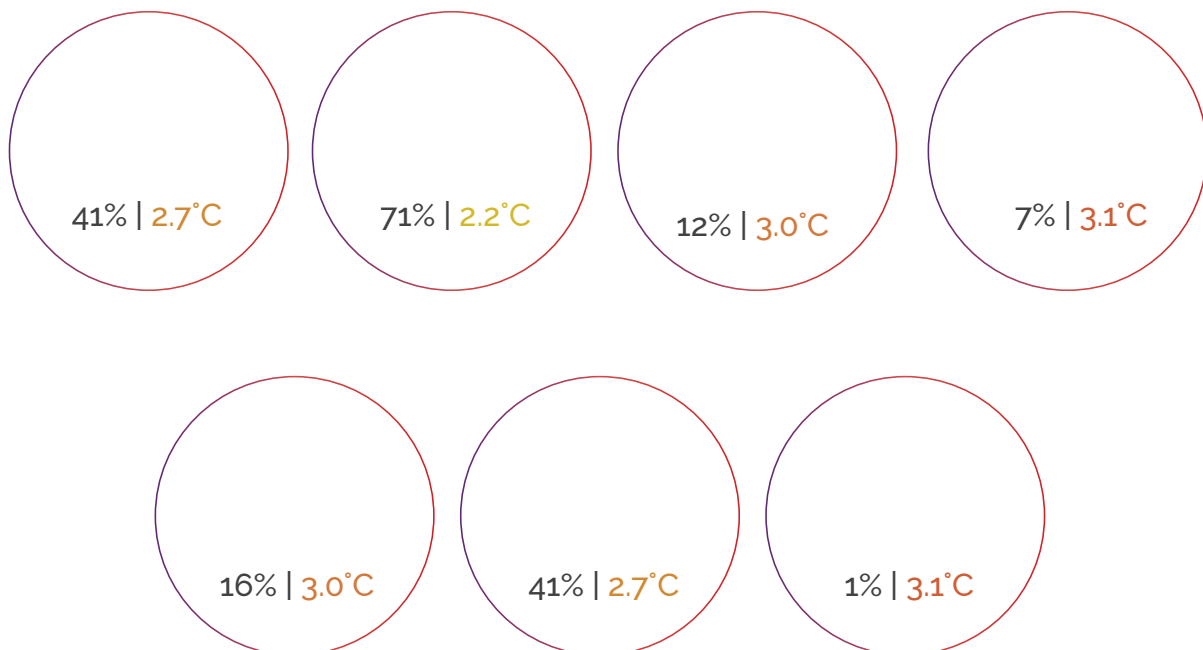
And it works. The latest [SBTi Progress report](#) has shown how companies setting science-based targets are delivering large scale and measurable emissions reductions that far outstrip those in the wider global economy. Companies in the SBTi have reduced their Scope 1 and 2 emissions by 25 per cent over the last five years, while overall global emissions from energy and industrial processes have increased.

**Indexes with a higher share of emissions covered by science-based targets ultimately result in a lower overall temperature rating.** For example, more than 70 per cent of emissions generated by companies in the German DAX 30 are currently covered by science-based targets. This is the highest percentage when compared to other indexes, explaining how DAX scores the best temperature rating of 2.2°C.



## EMISSIONS COVERED BY SCIENCE-BASED TARGETS AND INDEX TEMPERATURE SCORES

*As of 30 April 2021*

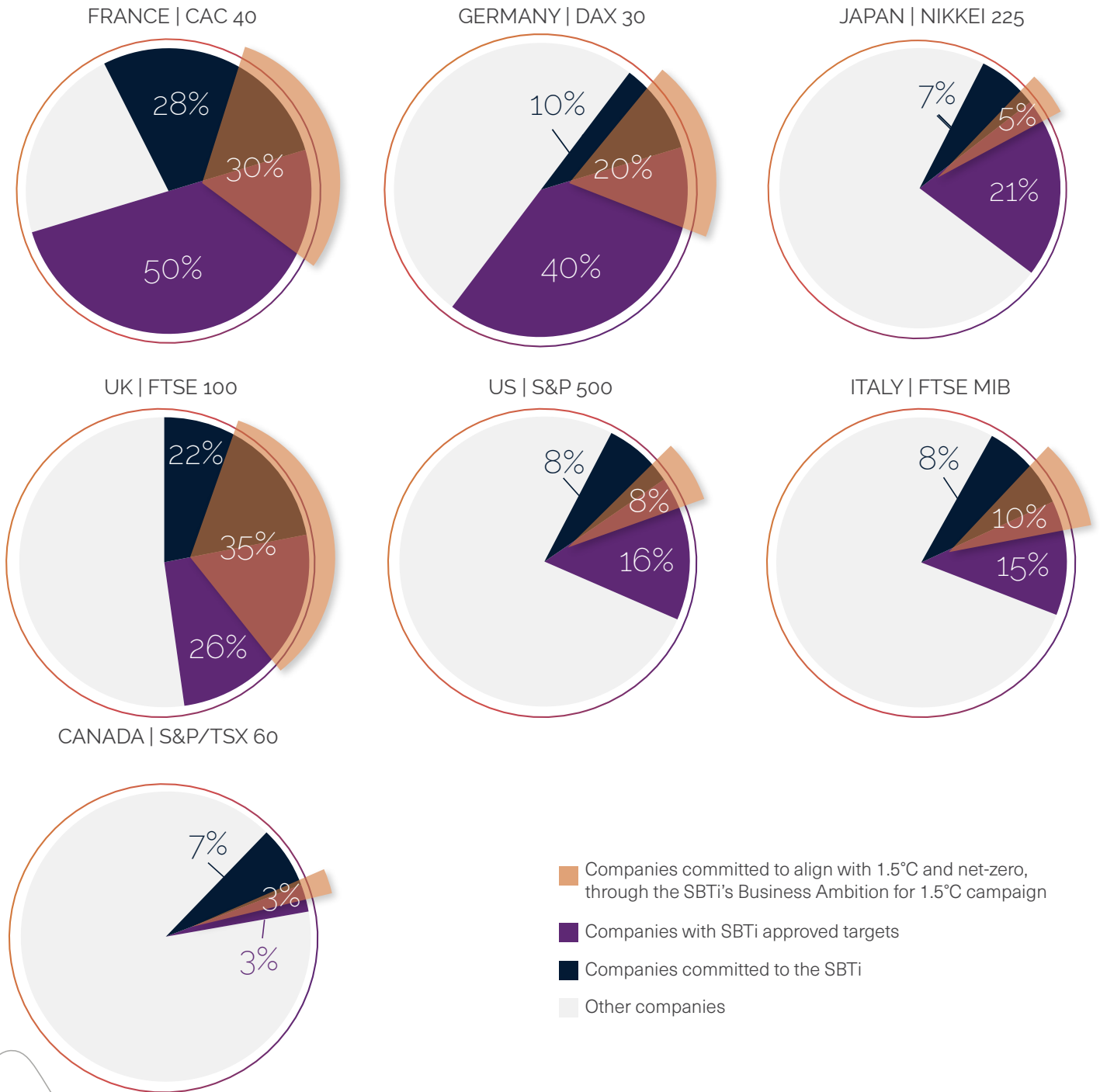


**THE GOOD NEWS:** MORE AND MORE COMPANIES IN G7 INDEXES AND THE OVERALL ECONOMIES ARE SETTING SCIENCE-BASED TARGETS.

Across indexes, many companies have yet to set science-based targets, but have committed to do so and signed onto the Business Ambition for 1.5°C campaign. This signals a potential for improved temperature scores in the near future.

**SCIENCE-BASED TARGETS COMMITMENT AND BUSINESS AMBITION FOR 1.5°C CAMPAIGN UPTAKE**

*As of 30 April 2021*



Yet, across all indexes, more than three quarters of companies are missing in action regarding the most ambitious target — aligning with 1.5°C to reach net zero by 2050.

There is a huge potential to increase science-based target uptake to close the current mitigation gap, especially in the sectors with the heaviest emissions.

Almost [all sectors](#) can set science-based emissions reduction targets through the SBTi. A new methodology is being developed for companies that extract fossil fuels to set science-based targets. Until then, the SBTi is unable to validate targets for companies in the oil and gas sector.

TO **UNLOCK EXPONENTIAL MITIGATION POTENTIAL** AND SPUR THE TRANSFORMATION OF G7 ECONOMIES, COMPANIES IN THE SECTORS WITH THE HEAVIEST EMISSIONS IN EACH INDEX NEED TO SET [1.5°C ALIGNED SCIENCE-BASED TARGETS](#) AND JOIN THE [RACE TO ZERO](#) VIA THE **BUSINESS AMBITION FOR 1.5°C CAMPAIGN** TO DELIVER [SECTORAL BREAKTHROUGHS](#).



PART III

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FOUR LEVERS  
TO UNLOCK  
BREAKTHROUGH  
CLIMATE ACTION  
THROUGH  
SCIENCE-BASED  
TARGETS



## PART III

# FOUR LEVERS TO UNLOCK BREAKTHROUGH CLIMATE ACTION THROUGH SCIENCE-BASED TARGETS

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Science-based targets are already driving system-wide change and GHG-emission reductions in the real economy, in G7 countries and beyond. There is a huge mitigation potential to be unlocked. When heavy emitters set science-based, emissions-reduction targets, this would shift entire country indexes towards alignment with a 1.5°C future, lighting the way for the rest of the economy to follow.

The SBTi now counts more than 1,400 committed companies from 60 countries, representing 20 per cent of total global market capitalization. In several countries, at least 20 per cent of companies with a substantial impact on global emissions are now part of the initiative. This creates a critical mass that can trigger a domino effect in those markets.

### WHAT IS NEEDED TO **UNLOCK BREAKTHROUGH CLIMATE ACTION** AND CREATE A CASCADING EFFECT OF COMPANIES SETTING AMBITIOUS TARGETS?



#### SCIENCE-BASED TARGET SETTING FOR FINANCIAL INSTITUTIONS

The finance sector is key to unlocking the systemic change needed to reach net-zero. A [recent CDP analysis](#) showed so-called portfolio emissions<sup>1</sup> in the finance sector were more than 700 times larger than operational emissions.

There is growing awareness among financial actors of the material risks posed by a changing climate, and the vital role financial institutions can play in redirecting capital to green solutions and technologies. Financial institutions need to align their portfolios with a net-zero world.

Financial institutions can now set science-based targets and align their lending and investment activities with the Paris Agreement through the [SBTi's Financial Sector](#) Framework and its target setting tool for Temperature Scoring and Portfolio Coverage methods. More than 80 financial institutions — banks, investors, insurance companies, pension funds and others — have publicly committed to set emissions reduction targets through the SBTi. Financial actors now need to use the methodology to set credible short and mid-term targets to deliver exponential impact for the climate.

<sup>1</sup> Portfolio emissions, or "financed emissions", are emissions from the investing and lending activities of financial institutions, in contrast to emissions from a company's own operations.



Setting portfolio-level, science-based targets influences financial institutions' strategic security selection and allocation decisions. This has the potential to create a cascading effect in all sectors of the economy by shifting investment flows and engaging with underlying assets.<sup>2</sup> Financial institutions also need to address scope 3 emissions by using their leverage as shareholders to prod corporate managers to set more ambitious targets that reduce their companies' impact on the climate. Especially in hard-to-abate sectors, mobilizing investors to incentivize the adoption of science-based targets will be key to encourage industries that are lagging behind on climate ambition.



## EXPANDING SCIENCE-BASED TARGETS THROUGH SUPPLY CHAIN ENGAGEMENT AND PUBLIC PROCUREMENT

Another potential key booster for corporate action lies in supply chain engagement and addressing scope 3 emissions. Companies with credible, science-based targets need to tackle emissions in their value chain by engaging with suppliers. Large companies focusing on emission reductions in their supply chains send strong demand signals for low-carbon innovation and technologies to developers of these solutions.

For a target to be officially validated by the SBTi, companies whose scope 3 emissions cover more than 40 per cent of their total emissions need to set scope 3 targets. The SBTi has developed a [scope 3 guidance](#) to showcase the most effective options for addressing these emissions.

One way to incentivize supply chain partners to align with a 1.5°C future is for companies to include climate goals, such as science-based target setting, in procurement contracts. This can be done as a pre-competitive requirement or as a negotiated term of the contract. Companies also can actively work with suppliers to help them reduce their own emissions. That way, scope 3 emissions reduction efforts by one company can lead to emissions reductions in other companies' operations, cascading ambition throughout the economy.



## SCALING-UP ACCESS TO CAPITAL FOR SETTING AND IMPLEMENTING SCIENCE-BASED TARGETS

Science-based targets are increasingly used as a benchmark for investments to help assess carbon risks and ensure disclosures for climate action. Companies with validated science-based targets are making a strong statement about their future and can then tap the market for investors to finance their strategies.

This pushes the sustainable debt capital market toward financing the transformation the world needs. In response to expanding demand for sustainable investment tools, momentum has shifted toward embedding science-based targets into sustainability linked bonds and banking facilities. An example is linking lines of credit to SBTi-verified targets.

<sup>2</sup> In October 2020, 137 financial institutions have requested 1800 most emitting companies to set a science-based target via the [CDP SBT Campaign](#).

More and more indexes identifying companies that demonstrate the best Environmental, Social and Governance (ESG) practices are also being launched. Rewarding science-based target setting in the assessment of environmental ('E') practices could unlock additional mitigation potential. So would embedding science-based target setting in relevant climate financial market standards. This could include reporting on climate-related financial risks through the Task Force on Climate-related Financial Disclosures (TCFD), efforts to mobilize bond markets for climate change solutions through the Climate Bonds initiative, or Green Taxonomy frameworks classifying environmentally sustainable activities to orient investment.



## AMBITIOUS COUNTRY COMMITMENTS AND ROBUST POLICY FRAMEWORKS

To fully decarbonize the global economy and build a truly resilient and sustainable future, regions, businesses and Governments must work together to harness the Ambition Loop — a positive feedback loop in which private sector and Government climate action reinforce each other. When companies listed in an index move toward more ambitious action, they create a shift that can influence the real economy beyond indexes and send strong market signals to policymakers.

### **By setting more ambitious NDCs, Governments in turn send strong signals to companies and investors, encouraging them to ramp up their climate action.**

A predictable regulatory environment is crucial to accelerate the trend for businesses and markets to shift gears towards a 1.5°C future. NDCs, long-term strategies and climate policy roadmaps need to be in line with limiting warming to 1.5°C. They must also be backed up by well-designed regulatory and taxation frameworks, which provide incentives, fair rules and a level playing field for all corporate actors. Government investments in renewable energies and a just transition are crucial to help businesses achieve their targets. In turn, companies need to play their part by investing in renewables and energy efficiency, and contribute to a just transition to support climate plans.

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In a time when countries need to come up with enhanced NDCs and concrete implementation plans, Governments can use science-based target-setting as a tool to increase their climate policies and ambition in the lead up to COP26 and beyond. Governments can use their regulatory power to incentivize the adoption of science-based targets across all industries. For example, the Government of Finland took a resolution in April 2020 explicitly citing the UN Global Compact and the Science Based Targets initiative as Corporate Social Responsibility frameworks with which companies should comply.<sup>3</sup> More recently, the US Government issued an executive order encouraging the requirement for major federal suppliers to set science-based targets.<sup>4</sup>

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3 Corporate social responsibility and sustainability, Section 3, Government Resolution on the State Ownership Policy, April 2020 ; <https://valtioneuvosto.fi/documents/10616/1221497/Periaatep%C3%A4%C3%A4t%C3%B6s+engl+final+2020.pdf/6cf1bd04-05ad-da4b-0c94-728ea043bde7/Periaatep%C3%A4%C3%A4t%C3%B6s+engl+final+2020.pdf?t=1587737886000>

4 Executive Order on Climate-Related Financial Risk, May 2021. <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/>

**Ambitious corporate leaders need to double down on climate policy advocacy.**<sup>5</sup> Strong signals from business to Government in support of ambitious climate policy can catalyze more ambitious climate goals at the country level. Negative corporate lobbying by a powerful minority of private actors, especially the fossil fuel industry, is a long standing barrier to the Ambition Loop. G7 Governments and companies need to tackle irresponsible policy engagement that is holding back climate ambition.

Any company still lobbying their Government to slow the transformation to a fossil-free world needs to immediately cease these activities. All businesses must also address misalignments between their own climate advocacy and their trade groups and industry associations. Corporate leaders need to make sure their investments and advocacy spendings are going to the actors that are pushing for Paris-aligned policies, not those slowing down progress.

5 Guide for Responsible Corporate Engagement in Climate Policy, A Caring for Climate report, 2013 ; [https://d306pr3pise04h.cloudfront.net/docs/issues\\_doc%2Fenvironment%2Fclimate%2FGuide\\_Responsible\\_Corporate\\_Engagement\\_Climate\\_Policy.pdf](https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Fenvironment%2Fclimate%2FGuide_Responsible_Corporate_Engagement_Climate_Policy.pdf)



## THE PATH AHEAD

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Science-based targets are the near-term, breakthrough mitigation measures the world needs to reach the Paris climate goals. Governments, financial institutions and investors can leverage their regulatory power and influence to incentivize the adoption of science-based targets across all industries. Corporate actors which already have a science-based target set can trigger cascading ambition by addressing their scope 3 emissions and working with their suppliers. All actors working together to mainstream science-based target setting can unlock the exponential mitigation potential the world so urgently needs to keep the 1.5°C goal within reach, in all sectors and geographies.

Companies with science-based targets are already cutting emissions at scale — all businesses must now align with science and join the Race to Zero via the Business Ambition for 1.5°C campaign.

**“We urge businesses and investors to join the Race to Zero, align their portfolios with the goals of the Paris Agreement and set science-based net-zero targets of 2050 at the latest.”**

*G7 Climate and Environment Ministers, May 2021.*

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Patrons: Iberdrola S.A., AstraZeneca

Participants: Accenture, ARM Holdings, Baker Hughes Company, Bayer AG, Biogen, Bristol-Myers Squibb, Charoen Pokphand Group, China Petroleum and Chemical Corporation - Sinopec, Colgate Palmolive Company, Danone, Enel, Essity Aktiebolag, Global Green Chemicals, Global Impact Initiative, Impossible Foods, Jayco Interface Technology, LEO Pharma, McCormick & Company, Moody's Corporation, Nestlé, Novozymes, Ørsted, PJSC PhosAgro, PTT Global Chemical Public Company Limited, ROCKWOOL International A/S, Safaricom, Schneider Electric SE, SUMITOMO CHEMICAL, Unilever, UPM Kymmene, VELUX Group, Walgreens Boots Alliance.

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As of 30 April 2021, dataset is available in the appendix [here](#)

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# SNAPSHOTS OF CORPORATE CLIMATE ACTION

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*Companies look for inspiration among their peers, in their country and industry on how to take their climate ambition to the next level. Recognizing and promoting good sustainability practices aimed at decarbonization, NDC enhancement, and supply chain engagement is at the core of the work of the ["Action Platform on Climate Ambition."](#) The following section gives examples of best practices and inspiration from Action Platform companies that are part of the SBTi's Business Ambition for 1.5°C campaign.*

## JUST TRANSITION

**Iberdrola:** The transition towards a fully decarbonized economy will negatively impact certain regions and sectors that are highly dependent on fossil fuels in the short term. Yet, "no one should be left disadvantaged by necessary climate action," said United Nations Secretary-General Antonio Guterres during the Climate Action Summit held at United Nations headquarters in 2019. Iberdrola has joined the Business Pledge for Just Transition and Decent Green Jobs. Companies use this pledge to demonstrate their commitment to four key labour standards across their global businesses as they transition to a zero-carbon economy. The standards are: social dialogue with workers and their unions; workers rights, including International Labour Organization core labour standards and occupational health and safety standards; social protections, including pension and health insurance; and wage guarantees. In Spain, the Government is developing a just transition strategy to support the phase-out of coal, using a collaborative approach among public administration officials, unions and companies. In the last 20 years, Iberdrola has closed all its coal and fuel-oil plants and signed local agreements to protect the employment of impacted workers. Iberdrola has been working closely with local authorities, communities and unions to transition employees into new jobs and transform their skills while revitalizing local industries.

A just transition not only implies social dialogue and labour rights. It also includes crucial investments for the most impacted communities, including funds for reskilling and upskilling. Iberdrola is helping to finance the Just Transition, including more than €120 million invested in the last 20 years in renewables, smart networks and energy storage. Iberdrola is now accelerating its investments with €75 billion by 2025 to create more jobs and stimulate the economy. In 2020, Iberdrola awarded record purchases of €14 billion, supporting the creation of 400,000 jobs globally through its supply chain, adding close to 4,000 people to its own workforce, and dedicating 53 hours of training per employee (four times the European average). The company also invested nearly €360 million in innovation.

## GREENING BUSINESS MODELS AND SUPPLY CHAINS

**AstraZeneca:** Launched at the World Economic Forum in January 2020, Ambition Zero Carbon is AstraZeneca's \$1 billion commitment to achieving zero-carbon emissions from its global operations by 2025 and creating a carbon-negative value chain by 2030. By 2025, AstraZeneca will double its energy productivity; use 100 per cent renewable energy for power and heat ; eliminate F-gas emissions from its sites ; launch next-generation respiratory inhalers to treat asthma and chronic obstructive pulmonary disease with near-zero climate impact propellants ; and plant 50 million trees under the AZ Forest programme. To become carbon negative across its entire value chain by 2030, AstraZeneca will "design in" carbon neutrality across its organization and use the latest science to actively engage its supply chain to reduce emissions.

The delivery of Ambition Zero Carbon is not just about engineering and responsible sourcing. It will rely on scientific innovation, re-imagining healthcare in a low-carbon society, changing working methods and developing new partnerships and relationships across the company's value chain. The choices being made today will shape the company's 2030 environmental footprint. These choices will encompass the building blocks for innovative medicines that are still in development, digital innovation, the choice of reactants and processes used to make medicines, the types of devices and diagnostics accompanying products, and the sustainability credentials of the company's strategic partners. AstraZeneca will advocate for change within the pharmaceutical sector and beyond. Its supply chain will need to set science-based targets with a clear path to net-zero emissions. The company embraces the opportunities that the transition to a low-carbon economy can bring to patients, healthcare and society. AstraZeneca is using a systems approach to identify how it can deliver improved standards of care, with better patient and societal outcomes and a lower environmental impact, than through established healthcare pathways.

**Ørsted:** The company's vision is a world run entirely on green energy. Ørsted demonstrates that change is possible. Over a decade, Ørsted transformed itself from being a largely fossil fuel company into a major renewable energy company by aligning its business with science, setting ambitious targets and implementing them.

## ENABLING REGULATORY AND POLICY ENVIRONMENT : FOSTERING AMBITION LOOPS

**Enel:** Governments can create effective incentives for low-carbon investment by creating a stable and credible long-term decarbonisation vision and investment framework, built on appropriate policies. More ambitious, harmonized and synergic climate and energy policies are needed to provide companies with crucial long-term signals and guidance."

**Nestlé:** Ambitious NDCs enshrined in law would help its company decarbonize faster if they focus on supply chain transformation in agriculture. Like many food and beverage companies, the vast majority of the company's carbon footprint is located in its Tier 3 supply chain. That means farmers need support in transitioning to more sustainable ways of producing food.



**UPM Kymmene:** With regard to NDCs, UPM promotes expanded recognition of product substitution and its role in decarbonizing various industries. UPM advocates strongly for an increased role for climate positive, advanced biomaterials in replacing fossil products with renewable raw materials, without compromising biodiversity. Substitution impact should be more strongly recognized in global, regional and national climate policies.

**Novozymes:** To harness the potential of all stakeholders to enhance NDCs, some countries have created partnership and consultation frameworks. For example, Novozymes has been involved in the Climate Partnership for Life Science & Biotech, one of 13 climate partnerships put forward by the Danish Government. The partnerships will provide recommendations on how each industrial sector can contribute to the Danish target of a 70 per cent GHG-emission reduction by 2030. Through this partnership, Novozymes has advocated for the many solutions biotechnology offers to mitigate climate change.

## RESPONSIBLE POLICY ENGAGEMENT AND CORPORATE ADVOCACY

**Unilever :** The company has taken a proactive approach to address advocacy misalignments by sending open letters to its industry associations. Unilever asks for confirmation of the associations' climate positions and activities to ensure they are not conflicting with the 1.5°C ambition of the company.




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