TWELVE KEY STEPS FOR COMPANIES DELIVERING NET-ZERO EMISSIONS

Best Practice Guide to turn Net-Zero Emissions Targets into Climate Action Plans

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The Spanish Green Growth Group (Grupo Español para el Crecimiento Verde - GECV) was created to foster the collaboration between the private and public sectors to tackle the different environmental challenges together. The GEVC groups over 50 companies -making up most of the IBEX- as well as SMEs and innovative start-ups.
TWELVE KEY STEPS FOR COMPANIES DELIVERING NET-ZERO EMISSIONS

(Based on the GEVC document Guiding Principles to Develop Long Term Climate Strategies)

The Spanish Green Growth Group presents this guide to meet its objective of «Contributing to the generation and diffusion of the necessary knowledge to enable sustainable development». This guide was drafted by the GECV Climate Policy working group with the support of its members and under the guidance of Climate Strategy & Partners.
One of the critical elements required to meet climate targets is to develop coherent long-term Climate Action Plans aligned with the Paris Agreement’s objectives and considering the UN Sustainable Development Goals.

Climate Action Plans should target net-zero greenhouse gas emissions by, or before, 2050 and clearly demonstrate how companies’ and financial institutions’ business models are compatible with a climate neutral economy.\(^1\) Climate Action Plans should be consistent\(^2\) with the following elements that we consider best practices:

Maximize certainty for investors and society by including short, medium and long term\(^3\) quantitative\(^4\) targets (reviewed periodically at least every 5 years\(^5\)) for the reduction of GHG emissions, based on science (“Science-Based Targets”),\(^6\) and aligned with the 1.5\(^7\) goal.\(^7\) These targets should cover Scopes 1, 2 and 3\(^8\) of the entire organization’s emissions (taking into account the 15 categories from the GHG Protocol that are material and relevant for the organization) and have as a final goal the neutrality of GHG emissions by 2050, or before\(^9\). The use of offsets, emissions credits or an excessive reliance on negative emissions technologies (carbon capture, utilization and storage) should be limited.\(^10\)

\(^1\) Blackrock Investment Stewardship (2021a) requires companies to disclose a plan that shows how their business model will be compatible with a low carbon economy (p. 4).

\(^2\) The degree of alignment will be different based on the organisation’s size and the materiality of its activities’ environmental impact.

\(^3\) Climate Action 100+ (2021, indicators 2-4), ACT initiative (2021), IIGCC (2021a), which recommends evaluating these targets within different time frames (p. 16), Blackrock Investment Stewardship (p. 4), Climate Bonds Initiative (2021, p. 4).

\(^4\) Transition Pathway Initiative, 2019, Q7 y 13, p. 11-12.

\(^5\) According to the Spanish Ley de Cambio Climático y Transición Energética, disposición final duodécima (2021).

\(^6\) ACT initiative (2021), IIGCC (2021a), which recommends SBTs as the methodology to align and evaluate assets (p. 13 and 16).

\(^7\) Business Ambition for 1.5ºC pledge (promoted by the Science Based Targets initiative), following the example of more than 400 participant companies, IIGCC (2021a), Climate Action 100+ (2021, indicators 1-4).

\(^8\) Climate Action 100+ (2021, indicators 1-4), IIGCC (2021a), recommending to evaluate companies based on their targets for all 3 scopes (p. 16), IIGCC (2021b), recommending that banks focus on their Scope 3 indirect emissions (p. 5), UNEP FI (2021, p. 5), Climate Bonds Initiative (2021, p. 12).

\(^9\) Climate Action 100+ (2021, indicators 1-4), IIGCC (2021a), which recommends evaluating companies based on their net zero targets for 2050 (p. 16).

\(^10\) Rogelj et al. (2021), IIGCC (2021b), which recommends that banks have this target for 2050 (p. 5), UNEP FI (2021, p. 8).
Develop **decarbonisation roadmaps**, for each relevant sector for the company/financial institution considering its materiality, that identify and describe the actions that will be carried out to successfully deliver the stated reduction targets. These **short, medium and long term actions should be realistic and relevant**. They should not pose a significant harm to biodiversity, circular economy, water and marine resources and pollution (strategies on these matters can be annexed to the climate plan over time), and should enable the organisation to quantify the results of its efforts within a given timeframe.

These sector roadmaps should include **quantitative financial projections and financial viability assessments** of the overall Climate Action Plan by including, for instance, cost estimates, thus showing how the organisation’s business model is compatible with an emissions-neutral economy aligned with the Paris Agreement and enabling a just transition. For EU Taxonomy eligible sectors, the sector roadmaps should describe how the organisation’s business model and its products or services are aligned with the EU Taxonomy, how they avoid environmental harm, and cease products, services and/or practices that cause significant harm.
Financial institutions should align with sector-specific reduction targets, prioritizing high-emitting sectors in accordance with the international standards (such as TCFD and UNEP FI), and develop realistic decarbonisation roadmaps to successfully address the reduction targets over a minimum horizon of 10 years. These sector roadmaps should include policies to limit financing towards activities not aligned with the EU Taxonomy and eliminate financing of activities that jeopardize the fulfilment of the Paris Agreement objectives, with milestones in the short and medium term. Finally, the plan will include objectives to increase green finance and investments aligned with the EU Taxonomy as a complement to, and not a substitute for, the emissions reduction targets.

The Climate Action Plan will also include the following key elements per relevant sector for the company/financial institution: A description of the analysis and management of climate risks (physical and transition risks) and opportunities created by acting on climate change, an analysis of climate scenarios based on international standards (NGFS, IPCC and IEA), carbon pricing mechanisms (both a shadow carbon price and an internal carbon tax) that cover the entire organisation and its activities; measures for the future allocation of capital expenditure (CapEx) coherent with the organisation's decarbonisation pathway towards the 1.5º goal and aligned with the EU Taxonomy, as well as the methodologies used to develop such measures and key performance indicators, and principles to advance sustainable finance objectives.

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18 UNEP FI, 2021, p. 7.
19 IIGCC (2021b, p. 5), UNEP FI (2021, p. 8).
22 IIGCC (2021b), which recommends that banks establish financing objectives in the short and medium term (p. 5).
23 IIGCC, 2021b, p. 5.
24 IIGCC (2021b, p. 6), which mentions the EU Taxonomy as an example of a good standard.
25 Avoiding green finance as a compensation mechanism for Scope 3 emissions pursuant to the IIGCC guide with investors' expectations for banks (2021b, p. 5).
26 IIGCC (2021a), which recommends evaluating companies based on such analysis (p. 17), Transition Pathway Initiative (2019, Q12 p. 11), Blackrock’s Global Principles in force since January 2021 (2021b, p. 9), Spanish Ley de Cambio Climático y Transición Energética (2021, art. 32), Blackrock Investment Stewardship (2021a) requires that companies have policies and action plans to manage the transition risks and opportunities (p. 1), EFRAG (2021, p. 15).
29 Climate Action 100+ (2021, indicator 6), IIGCC (2021a), which recommends that companies are evaluated based on the capital allocation (p. 16), Blackrock Investment Stewardship (2021a) requires companies to adjust their capital allocation to treat the identified risks and opportunities (p. 4), Climate Bonds Initiative (2021, p. 12 y 16).
Create a **transparent and inclusive** process to develop, implement, inform, disclose and review the Climate Action Plan. The plan should describe the methodology used for its development and implementation, with the subsequent dissemination of this methodology as an essential step. The plan should also disclose the significant climate information and assumptions that have been taken into consideration in this process following the practices established by SASB, TCFD, GRI, CDP and the European Commission Guidelines, in accordance with the Spanish Código de Comercio recommendations (for Spanish entities), and especially including all the Scopes of emissions (1, 2 and 3), double materiality perspective, and the identified key performance indicators.

Develop **regular assessments** of the Climate Action Plan, with upward revisions that reflect the latest climate science and technological advances. Evaluations should be based on quantitative key performance indicators. Financial institutions will implement protocols to monitor and report annually their portfolios’ alignment with their reduction targets, climate scenarios, and their trajectories analysed (including those towards 1.5°C) using science-based methodologies, such as PACTA and SDA.
Climate Action Plans must include goals and actions for climate adaptation\textsuperscript{41} based on the principles to develop National Adaptation Plans\textsuperscript{42} and the content of the EU Taxonomy delegated act on climate adaptation. In this, as in everything, a broad base approach will be taken that covers all relevant sectors for the organization’s activities, addressing economic, social and environmental problems promoting a just transition to a decarbonized economy together with the corresponding appropriate legislative reforms.

All public affairs activities and public-private partnerships must be grounded in the Climate Action Plan and aligned with the Paris Agreement. Of particular importance is that the organization’s advocacy position and its direct and indirect advocacy activities, including its participation in trade associations, are aligned with its emissions reduction targets. The Plan must transparently identify and disclose all such advocacy positions and activities as well as include regular evaluations of these\textsuperscript{43}.

Recognize that climate change is a risk for the entire economy and for the industrial and financial sectors, and in particular for vulnerable groups. The Climate Action Plan must include an analysis of the impact of the organization’s transition towards a carbon neutral model on its workers and relevant communities in order to ensure a just transition\textsuperscript{44}.

\textsuperscript{41} EFRAG, 2021, pág. 31.
\textsuperscript{42} Communication from the Commission — Forging a climate-resilient Europe — the new EU Strategy on Adaptation to Climate Change.
\textsuperscript{43} Climate Action 100+ (2021, indicator 7), IIGCC (2021a), which recommends evaluating companies based on their advocacy policies (p. 17), Transition Pathway Initiative (2019, Q10, 11 y 19, p. 11), IIGCC (2021b, p. 6).
\textsuperscript{44} Climate Action 100+ (2021, indicator 9 - currently in development until 2021), IIGCC (2021a), which recommends evaluating companies based on a just transition analysis (p. 17), IIGCC (2021b), which recommends that banks integrate this perspective into their policies (p. 5).
The Climate Action Plan must be approved by the company’s principal governing body, which will also guarantee and monitor its proper development and implementation, with one of its members specifically responsible for the organization’s climate actions. It is also recommended that a subcommittee is established to support the Plan’s oversight in detail. In addition, the remuneration of the indicated body must be linked to the performance and achievement of the Plan’s emissions reduction targets.

Publish the Climate Action Plan and submit it to a vote at the annual shareholders’ meeting to ensure shareholder support for the Plan.

This document is a consensus document drafted by the members of the Spanish Group for Green Growth (Grupo Español para el Crecimiento Verde – GECV) based on the commitments and experiences of the different companies that are part of the GECV’s climate policy subgroup and whose names appear attached to the text. All the points of view and opinions expressed in it have been agreed upon by the participants during the preparation of the document. This consensus does not necessarily reflect, in its entirety, the opinion of each member of the GECV but is a consensus agreed by the indicated members.

The best practices mentioned in the document show the agreed intentions of the GECV and its members but do not necessarily reflect their current practices. Special reference is made to small and medium-sized companies that are members of the GECV, which, although they show their support for this document, can act according to their resources and materiality in the context of their business. GECV acknowledges the team from Climate Strategy for managing this project.
Sources

This document includes the following references:


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