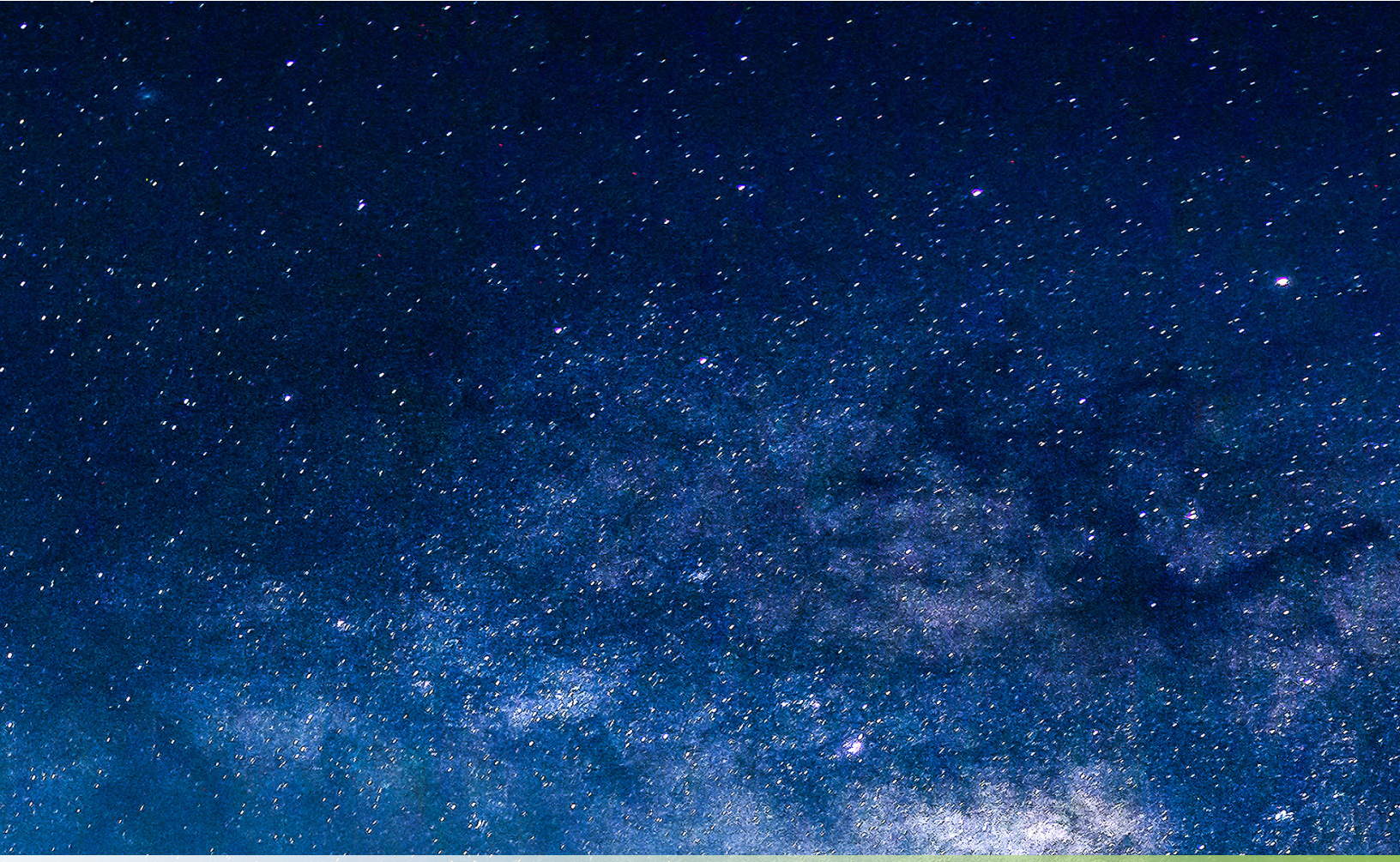

Ceres

INVESTOR GUIDE TO CORPORATE GREENHOUSE GAS COMMITMENTS

October 2021

About Ceres

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. Through our powerful networks and global collaborations of investors, companies and nonprofits, we drive action and inspire equitable market-based and policy solutions throughout the economy to build a just and sustainable future. The Ceres Investor Network on Climate Risk and Sustainability includes over 180 institutional investors, managing more than $30 trillion in assets, advancing leading investment practices, corporate engagement strategies, and key policy and regulatory solutions. For more information, follow @CeresNews.

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ABOUT THIS GUIDE

This guide serves as a resource for investors evaluating corporate greenhouse gas (GHG) commitments and engaging with corporations to increase their climate action ambition. The often confusing array of corporate commitment options can make it challenging to accurately determine how ambitious a company is in its approach to climate action. This guide will define terms, highlight key questions, and provide clarity around these topics so investors feel confident engaging with and assessing corporate climate and clean energy ambition.

This guide is organized into three sections:

- Background on corporate commitments: what they are and why we need more ambition
- Call to action: what investors can do to drive corporate ambition
- Commitment and Issue area fact sheets: which can serve as resources for investors on different commitment types, including key commitment facts to look for, questions to use in probing commitments, and what to do next

Corporate Climate Commitments: What they are and why we need them

The climate is in crisis. As the recent code red warning of the world's leading scientists' makes clear, without immediate, large-scale GHG emissions reductions, the goals set by the Paris Agreement of limiting global warming to 1.5 degrees Celsius will be out of reach. During the next decade, we have to cut emissions by half. Every actor within the economy—companies, investors, policy makers, and regulators—must raise their ambitions and match that ambition with transparent action.

Businesses, in particular, must take bold actions that remove GHG emissions from their value chains in order to meet the goals of the Paris Agreement, and implement a business strategy to thrive in a fair and just decarbonized economy that supports an equitable transition for affected communities and workers. Companies have a critical role to play not simply because they are significant emitters of GHG emissions, but also because they are driving the new business models, the breakthrough technologies, and the government ambition needed to make this future a reality.

Several initiatives exist to support companies in this role. The United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero campaign urges companies, cities, and other non-state actors to send a strong signal of support for bold climate action ahead of COP 26 by pledging to reach net zero emissions by 2050. Additionally, the Race to Zero pledge requires companies to "set an interim target to achieve in the next decade, which reflects maximum effort toward or beyond a fair share of the 50% global reduction in CO2 by 2030." Another key initiative, the Science Based Targets Initiative (SBTi), provides companies with a path to reducing emissions in alignment with the Paris Agreement goals, and recruits companies to set goals in line with the latest climate science.

What Race to Zero and SBTi both recognize is that the first step towards developing bold corporate strategies and actions to address climate change is to establish ambitious goals and targets. Businesses use targets and goals for sales, revenue, market share, and other business priorities to drive planning and operations. They should do the same when it comes to climate. Creating clear and comprehensive climate goals provides a framework for prioritizing actions and making decisions that move companies towards meeting those goals. The following table identifies common types of corporate commitments used to reduce a company's greenhouse gas emissions and climate impacts.

Type of Commitment	Common Definitions	Applicable to	Example Commitments, Initiatives, and Guides (not exhaustive)
Energy Efficiency	Companies set targets to increase energy efficiency of their industrial operations, transport, or buildings. Companies usually achieve these goals by optimizing processes or upgrading equipment.	Companies across different sectors, particularly companies with buildings, machinery, or fleets.	Climate Group EP 100 Member Commitments Table
Electrification (including vehicle electrification)	Companies set targets to achieve electrification or substitute electricity as the primary energy source across their vehicle fleet, buildings, and other areas of operation.	Companies across different sectors, particularly companies with large fleets, buildings, or industrial processes that rely on fossil fuels.	Climate Group EV 100 Members, CEVA
Renewable Energy	Companies set targets to procure or operate using renewable electricity (solar, wind, low impact hydropower, biomass, geothermal (EPA)). Targets can also be set to support suppliers and customers in procuring and operating with renewable electricity.	Companies across different sectors, but particularly companies with large scope 2 emissions, that procure products that require a lot of electricity to create or that sell products that require electricity during use (scope 3).	We Mean Business Coalition RE100, REBA, WRI Report on Actions Large Energy Buyers Can Take to Transform and Decarbonize the Grid, Ceres Report on Practices for Just, Sustainable and Equitable Development of Clean Energy
GHG Reduction Goals	Companies set targets to reduce greenhouse gas emissions. These commitments can be for a specific source of emission (for a product line, for example), for a company's operations (scope 1 and 2), or across a company's entire value chain, covering scopes 1, 2, and 3.	Companies across different sectors.	GHG Protocol

Type of Commitment	Common Definitions	Applicable to	Example Commitments, Initiatives, and Guides (not exhaustive)
Science-Based Targets through the Science Based Target Initiative	Science-based targets (SBT) set through SBTi are the gold standard for GHG reduction goals. SBTi provides a pathway for companies to set GHG reduction goals "in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C." Companies that set SBTs follow the most recent SBTi criteria. Current criteria requires emission abatement goals over the next 5 - 15 years and across scope 1, 2, and 3 emission sources when relevant. Companies cannot use carbon credits to meet a SBT. Starting in July 2022, all SBTs submitted to SBTi for verification will need to align with a 1.5°C pathway.	Companies across different sectors, including financial institutions. SBTi continues to expand the sector-specific pathways companies can use to set a Science-Based Target SBT (known as sectoral decarbonization approach), but all companies can use the Absolute Emissions Contraction approach to set an SBT.	Science Based Targets Initiative (SBTi)
Net Zero Commitments	A commitment to reduce emissions to net zero, typically by 2050 or earlier, which involves reducing emissions as far as technologically or economically feasible and then buying carbon removal credits to balance out the remaining residual emissions to zero. To date there has not been a consistent definition of net zero, however the forthcoming SBTi Net Zero Criteria will require that net zero commitments include scope 1, 2, and 3 emissions and significantly limit the use of carbon removal credits. Sometimes companies set net zero or carbon neutral commitments for one product or product line. See the fact sheet for how net zero and carbon neutral commitments can vary.	Companies across different sectors, including financial institutions	Business Ambition for 1.5,. Climate Action 100+ Net Zero Company Benchmark, SBTi Net Zero Criteria, The Climate Pledge, Paris Aligned Investment Initiative

Beyond these goals, investors and other stakeholders are increasingly asking companies to publicly disclose a decarbonization strategy and transition plan, and to include a focus on a just and equitable transition. These are emerging areas in corporate climate commitments that we discuss in more detail in Section 3: Commitment and Issue Area Fact Sheets.

The commitments defined above represent different levels of climate action ambition. Figure 1 illustrates how these commitments correlate to an **Ambition Spectrum**, showing how different types of commitments move a company closer towards robust goals and transition strategies.

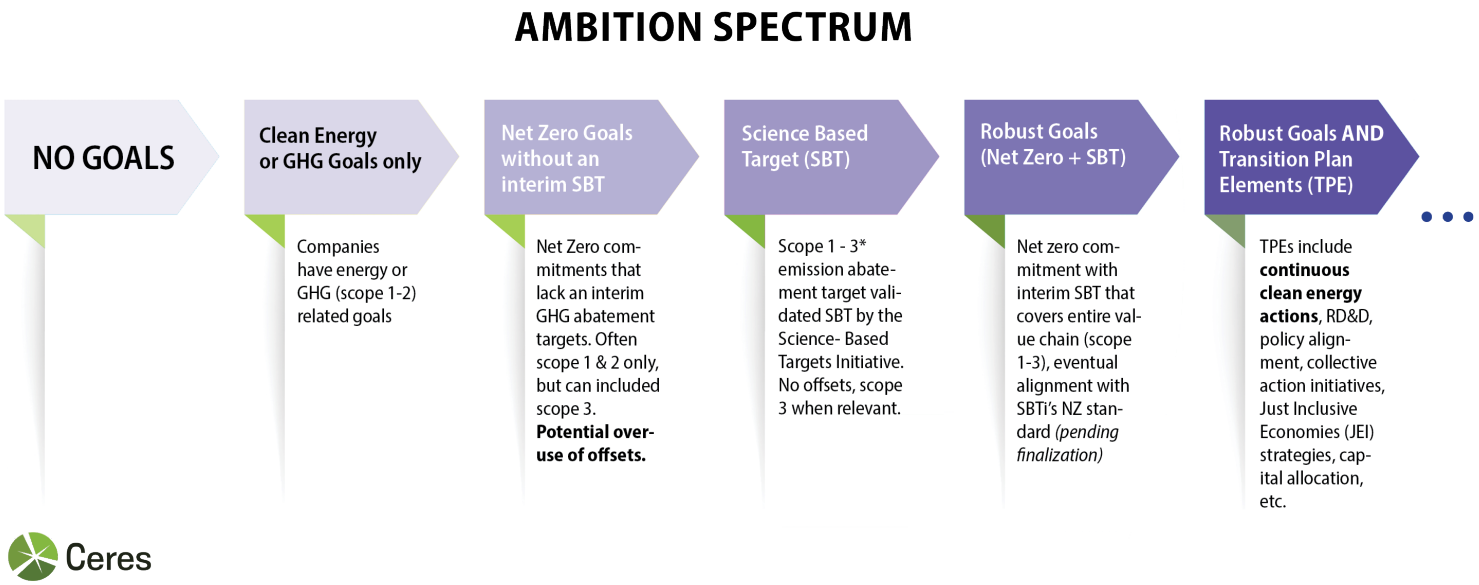

Figure 1: Ambition Spectrum (Ceres)

The Ambition Spectrum provides an example of a path that can be useful when taking stock of a company's commitments. However, this is a rapidly evolving spectrum. For example, prior to 2015, Science-Based Targets did not exist and now over 1,700 companies have committed to them through the SBTi, including nearly one-fifth of the global Fortune 500. While in previous years investors may have started slowly and asked companies first to set clean energy goals around efficiency or renewable energy procurement, because of the urgency of the climate crisis, investors are now engaging with companies to move more quickly towards the more ambitious end of this spectrum.

Different Approaches to Corporate Climate Ambition

Companies can take different approaches to achieving robust climate commitments than what is illustrated in the Ambition Spectrum. For example, some companies choose not to set targets through SBTi, but have strong goals that could be considered equivalent to a science-aligned target. Additionally, there are some cases where the current SBTi sector guidance, while providing the most appropriate scientifically valid methodology, does not result in the most ambitious goals. For example, auto manufacturers can set a 1.5°C SBT for scope 1 and 2, but can only set a well-below 2°C scope 3 target through SBTi under the current guidance given data limitations in the International Energy Agency scenarios that underpin their methodology. We use Science-Based Targets (uppercase to indicate targets verified by SBTi) in this analysis because we are not able to individually review and evaluate companies goals like the SBTi target-setting criteria and verification process. However, before engaging with any individual company, it is best practice to conduct additional research on its goals and actions to determine the best ambition pathway.

Why we need to push for more ambition

Companies have been making progress in setting corporate climate commitments, especially in the last few years. Some 20% of the world's' 2,000 largest publicly traded companies representing $14 trillion in sales have made net zero commitments, according to a March 2021 report by researchers at the Energy and Climate Intelligence Unit and Oxford Net Zero. The SBTi has also experienced substantial growth, with 31 companies joining SBTi monthly between November 2019-October 2020—more than double the average rate from 2015 to 2019.

While this progress is positive and encouraging, the majority of large U.S. companies still either haven't set climate goals or haven't set science-based goals. In fact, 40% of the largest U.S. companies from the Fortune 500 lack any climate goals, and of the 60% that do have goals, only one in four are Science-Based Targets, according to The World Wildlife Fund (WWF)'s most recent Power Forward 4.0 report.

At Ceres, we launched Ambition 2030, an initiative working to decarbonize six of the highest emitting sectors, in recognition that ambitious action of a few hundred companies is not enough to avert the most catastrophic impacts of climate change. An assessment of 637 U.S. companies from the S&P 500 and other businesses in high emitting sectors that Ceres did in partnership with sustainability consultant Guidehouse confirmed that a significant number of companies do not have robust climate goals, defined in our analysis as net zero goals with interim SBTs. Further, according to our data, which complements Power Forward 4.0, even fewer companies have robust climate goals and public disclosure of their transition plan elements, defined in our analysis as climate policy engagement, research development and investment in technological solutions, and contributions to a just and inclusive economy. Additional transition plan elements that companies should be striving towards, such as capital allocation alignment, responsible lobbying practices, and climate governance, were not addressed in the scope of this research but are also critical for company transition plans.

Call to Action: How investors drive climate commitments

Investors play a pivotal role in driving corporate climate action. The systemic risks to our financial systems due to climate change are clear and provide a strong incentive for investors to incorporate this risk in investment decisions. This risk is why Climate Action 100+, the world's largest investor climate initiative representing more than $55 trillion in assets, is engaged in pushing the biggest corporate emitters in the world to transform their business models.

Due to the recognition of the systemic risks of the climate crisis, investors have achieved historic success in pushing for climate-related commitments from the world's largest corporations, including Chevron, General Electric, and Budge. During the 2020-2021 proxy season, investors, including many in Ceres' Investor Network, withdrew 70 shareholder proposals in exchange for GHG commitments before these proposals even came to vote. Among the climate-related shareholder resolutions that went to a vote, 14 received majority backing, more than double last year's volume.

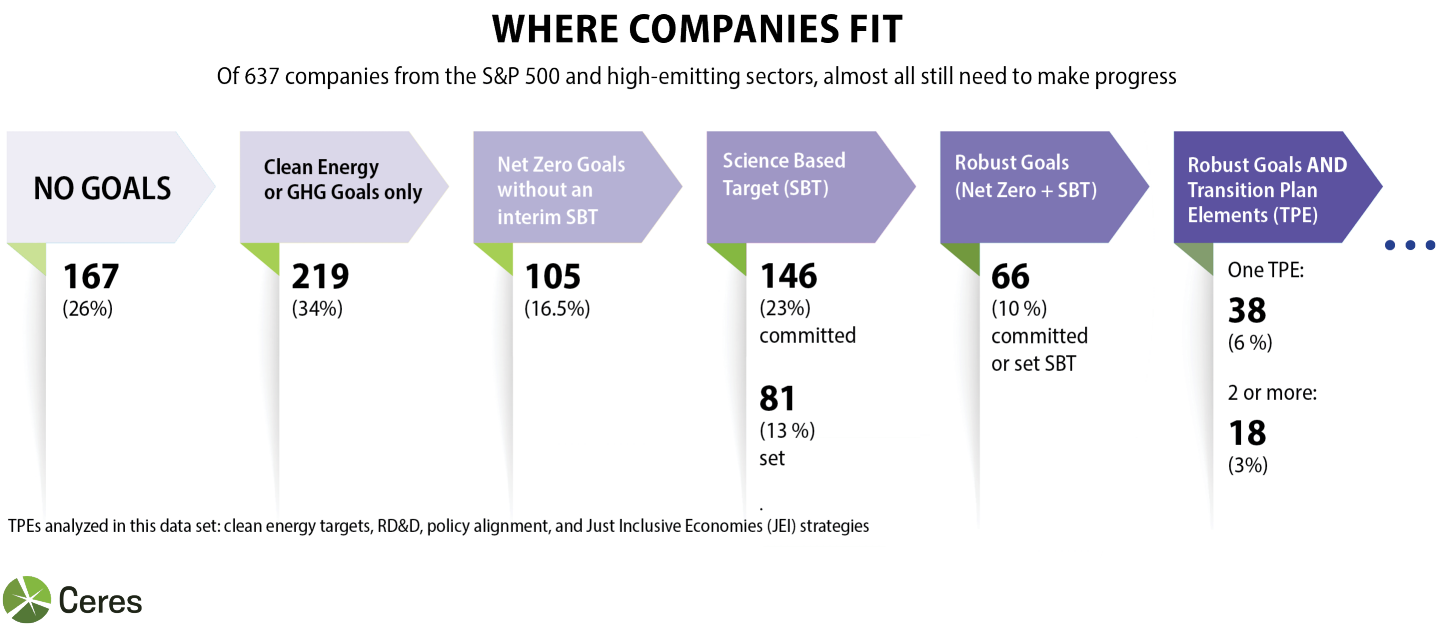

Figure 2: Where companies fit on Ambition Spectrum (Ceres)

Investor Tactics to Drive Action

Multiple tactics are available to investors seeking to engage targeted companies. One method is through dialogue, with investors engaging with a company to advance environmental, social, and corporate governance (ESG) issues. Dialogues take many forms, including bilateral dialogues between the company and one investor, dialogues involving multiple investors, and dialogues that bring investors together alongside ESG issue experts.

Should direct outreach fail, investors can turn to shareholder resolutions, or proposals, to advance ESG issues. Resolutions allow shareholders to submit recommendations for action to a company and its board of directors. In many cases, shareholder proposals are voluntarily withdrawn by investors in return for commitments addressing ESG issue areas. In some cases, a shareholder proposal may lead to a proxy vote, allowing all shareholders to vote on a proposal.

Other tactics available to shareholders to move companies include elevating and promoting the ESG commitments of corporate peers, using the media to raise public pressure against a given company or sector, and distributing sign-on statements or letters. Each year, new tactics emerge. For example in 2021, the impact investment group Engine No 1 successfully used the shareholder process to appoint three new members to the board of ExxonMobile.

Given the urgent need for more ambitious corporate climate action, investors must understand and have the confidence to engage companies on corporate climate commitments. Decarbonization of the global economy starts with strong and robust corporate clean energy and climate goals, which companies use to create transition plans that determine how companies will achieve their goals. As they are crafting these transition plans, companies will also need to take into account considerations such as responsible policy advocacy, capital allocation, carbon credits, support for worker transitions, community engagement, and supply chain management that indicate proof of legitimate implementation to reach sustainability goals.

Investors play a leading role in holding companies accountable by ensuring that they are taking the necessary steps to develop these interim milestones and that the company is acknowledging its responsibility to deliver a just and equitable transition for workers and affected communities. Investors also benefit from understanding how a company's current and proposed commitments align with the Ambition Spectrum and the degree to which a company's climate action ambition addresses climate risk in an investor's portfolio.

The remainder of this guide provides fact sheets investors can utilize to support dialogue, resolutions, or additional engagement tactics with companies on the following topics:

- Clean Energy Goals
- GHG Reduction Goals and Science-Based Targets
- Net Zero and Carbon Neutrality Goals; Carbon Credits
- Scope 3; Transition Plans
- Just and Inclusive Economies

These fact sheets include additional detail on these specific topic areas, red flags investors should look for in how companies deal with these issues, questions they can use to probe commitments, and recommendations for the next steps a company should take to advance through the Ambition Spectrum. These guides are not exhaustive, but can provide a starting point for additional investor research. As best practices for each of these areas evolve, Ceres will continue to provide guidance to support investors in this important work.

CLEAN ENERGY GOALS

HIGHLIGHTS

- Clean energy goals include goals to reduce energy use, improve **energy efficiency**, increase **renewable energy** use, development, and procurement, and **electrify fleets**, **buildings and industrial processes** that currently rely on fossil fuel combustion.
- Clean energy goals have historically been considered first steps for companies that are beginning their climate action journey, but they are important and necessary long-term implementation strategies for companies with robust climate goals.
- Clean energy goals are particularly important for companies that use fuel and electricity to manufacture goods, require a lot of electricity to run their services (tech companies), sell products that use energy in their use phase, have large vehicle fleets or are vehicle manufacturers, or own or operate buildings.

RED FLAGS

- Companies with clean energy goals that do not fully disclose scope 1, 2, and 3 emissions or have overarching climate goals covering all three scopes.
- Companies with intensity targets that may not be ambitious enough to outpace the businesses' expected growth and result in absolute emission reductions. Intensity targets refer to targets that are based on a per unit output - for example, increasing energy efficiency by 50% per computer sold.
- Companies with 100% renewable energy goals or claims that do not include disclosure how the businesses will meet or plan to meet those targets. They may be purchasing unbundled Renewable Energy Credits (RECs), which are difficult to trace back to a specific project and therefore do not always contribute to additional renewable capacity on the grid. Further, companies should be moving toward matching their renewable energy purchases with energy use hourly, instead of the current standard practice of matching annual use.
- Companies with Science-Based Targets or net zero goals that do not disclose a decarbonization strategy and have transition plans that do not include clean energy goals. This is particularly problematic for companies that produce or use vehicle fleets (EV goals), operate buildings (electrification and efficiency goals), or use large amounts of electricity in their operations (renewable energy goals).
- Companies with clean energy goals that do not recognize the key role of policy advocacy and support for robust federal, state, and municipal clean energy and climate policies.

QUESTIONS TO ASK

- If a company does not have overarching climate goals, ask what percentage of total value chain emissions (scope 1, 2, and 3) do these goals cover. Similarly, if a company has intensity-based targets, ask how they will contribute to overall absolute greenhouse gas reductions or if they are rooted in climate science.
- For companies with an overarching climate goal, and that have large energy or vehicle footprints, ask them to set more detailed clean energy targets to improve transparency around the strategy they have set to meet their goals.
- Ask how companies plan to engage in policy advocacy and probe companies' policy advocacy that undercut their own climate goals. For example, companies with renewable energy goals will benefit from strong clean energy policies.
- All targets should be time bound. If they are not, ask for more details on timeline and near-term milestones the company is planning to use to meet its goal.
- If a company has a renewable target (or claims to already have met its renewable goals), ask how much the target is relying on unbundled RECs, and whether it is considering how to move towards 24/7 renewable electricity use.

INVESTOR PUSH

- Given the urgency of the climate crisis, investors should push companies to adopt comprehensive climate goals that include clean energy targets.
- Companies with robust climate goals should consider clean energy goals as a key implementation lever, and investors should look for clean energy goals in a company's transition plan or decarbonization strategy.
- Once they have clean energy goals, investors should push companies to consider how policy engagement can support existing clean energy goals, particularly around renewable energy procurement and fleet electrification. Joining initiatives like RE100, The Renewable Energy Buyers Alliance, and The Corporate Electric Vehicle Alliance are good options for companies with renewable energy and fleet electrification goals.
- Building sector electrification and energy efficiency is a key challenge for communities looking to meet their own climate goals. Companies that are making progress in these areas should consider how they can support underrepresented and under-resourced communities through hiring practices, training programs, and knowledge sharing. For example, a company upgrading a building in downtown Boston to be zero emissions might look to benefit underrepresented groups in communities further afield like Lynn, Roxbury, or Brockton that could be hired to provide skilled labor for the project and then take those skills back to their own communities.
- In addition to pushing companies to ensure their renewable energy efforts add more clean energy to the grid and match energy use hourly instead of annually, investors should encourage companies looking to develop or invest in renewable energy projects to prioritize local, inclusive, and prevailing wage hiring standards. They should also encourage companies to seek to partner with communities to identify co-benefits from the new developments, such as knowledge sharing and accessibility, training, and other value streams from the projects. Project Labor Agreements (PLAs) and Community Workforce Agreements (CWAs) are two effective vehicles that can be used to drive strong job quality standards and increase inclusivity of low-income workers.

GHG REDUCTION GOALS AND SCIENCE-BASED TARGETS

HIGHLIGHTS

- Since the early 2000s, the GHG Protocol has provided guidance for companies to measure, disclose, and set targets around a company's scope 1, 2, and 3 greenhouse gas emissions.
- GHG reduction goals should cover all greenhouse gases - carbon dioxide (CO2), methane (CH4), fluorinated refrigerants (HFCs, SF6, PFCs, NF3), and nitrous oxide (N2O).
- GHG reduction goals should cover all of a company's value chain and business units under their operational or financial control. However, in practice goals vary significantly, and range from being specific to one scope or a company's operations,or comprehensive across a company's full value chain.
- Like clean energy goals, GHG reduction goals can be absolute (percentage total reduction in emissions) or intensity based (percentage reduction in emissions per unit output).
- Science-Based Targets (SBTs) are a specific type of GHG reduction goal. Companies set SBTs by following the Science Based Target Inititiave's (SBTi) criteria, which they update regularly to increase ambition. The SBTi also verifies targets to ensure they align with the criteria. Currently the SBTi criteria defines SBTs as emission abatement goals set over the next 5 - 15 years to align with the Paris Agreement goals of reducing emissions well below 2°C, and ideally 1.5°C. Starting in July 2022, SBTi will only verify new SBTs aligned with 1.5°C. Companies are required to include scope 3 emissions in their SBTs when emissions account for more than 40% of a company's total scope 1, 2, and 3 emissions. Companies can not use carbon credits offsetting to meet a SBT. More information, including the most recent criteria and tools for setting SBTs, is available on the SBTi website.

RED FLAGS

- Companies setting GHG reduction goals that do not include their full operations, value chain, or relevant GHG emissions. This is particularly challenging when companies have complicated ownership structures and may set goals for only specific businesses, product lines, or brands.
- Companies setting GHG reduction goals that are intensity based and do not disclose the equivalent amount of absolute emission reductions they should achieve if they meet their goal. This is particularly important for companies with past or current intensity goals they are on target to meet, but that are also reporting increased absolute emissions on an annual basis.
- Companies that provide no details on how they plan to meet their goals or do not regularly disclose emissions across all scopes, therefore making it difficult for investors and other stakeholders to track progress. This is particularly important for companies that have set goals in the past that they have not met.
- Companies without a SBT that do not disclose how they plan to use carbon credits to offset emissions. See fact sheet on Carbon Credits.

GHG REDUCTION GOALS AND SCIENCE-BASED TARGETS *continued*

QUESTIONS TO ASK

- Ask for details on how comprehensive a company's goals are: do they include all their operations and business units, do they include scope 3, do they include all relevant GHG emissions? For example, if you know a company could have significant methane or refrigerant emissions but do not see those included, you should ask about those specific sources.
- If they haven't set a SBT, ask why. If it is because they do not know how to calculate scope 3, see the fact sheet on scope 3 emissions.
- If they have an intensity target, ask for more information on growth assumptions and push for disclosure of the equivalent absolute reductions.
- Does the company plan to disclose progress towards its goals and actions taken to meet those goals?
- How will the company evolve its business strategy to minimize risks and capitalize on opportunities associated with a low carbon transition?

INVESTOR PUSH

- Companies need to align their scope 1,2, and 3 emissions with the Paris Agreement and a 1.5°C scenario, which will require continuous ratcheting up of ambition. Any GHG reduction goal is a good starting point, but all companies should be setting more aggressive and comprehensive goals. A SBT aligned with 1.5 °C is a good option for most companies, but look to sector guidance, peer companies, and other scenarios to determine what is the next most ambitious goal for a given company.
- Companies should be disclosing a credible transition plan that describes how they will meet their GHG reduction goals, and they should be reporting annually on their progress.
- Companies should be engaging in policy advocacy that at a minimum aligns with their own GHG goals, but ideally that pushes for strong state and federal action towards a just and inclusive decarbonized economy.

NET ZERO AND CARBON NEUTRALITY GOALS

HIGHLIGHTS

- To have the best chance of limiting global warming to 1.5°C, the IPCC reports that global CO2 emissions must reach net zero by 2050.
- Net zero generally refers to reducing emissions to as near to zero as possible and then balancing any residual emissions by the equivalent carbon removals that sequester emissions from the atmosphere. In practice, net zero goals vary in terms of the emissions covered and many refer to only scope 1 and 2, or may include all three scopes.
- Carbon neutral and net zero are sometimes considered interchangeable, or carbon neutral can be focused more on the balancing of emissions and less on emission reductions. In the latter example, carbon neutral pledges rely on carbon credits to offset emissions.
- There is currently no standard use of the term net zero or carbon neutral, so companies using these terms may have very different goals. However, SBTi is releasing new criteria on setting net zero targets that will provide some needed clarity around net zero claims.
- Additionally, Ceres published a guide for investors on the role of natural climate solutions (NCS) in corporate climate commitments. For companies using or planning to use carbon credits to meet a carbon neutral or net zero goal, this guide provides guardrails on the appropriate use of NCS to ensure that companies use carbon credits in a way that raises the ambition of their climate commitments. Also see additional fact sheet on carbon credits.

RED FLAGS

- Companies that set a carbon neutral or net zero goal and do not provide enough detail on what scopes are included, or do not include interim GHG reduction targets.
- Companies that set a carbon neutral or net zero goal and do not disclose how carbon credits will be used to offset emissions. An overreliance on carbon credits can exacerbate the systemic risk of climate change, expose companies to material business risks, and could become a financial burden in the future. In addition, companies that rely heavily on carbon credits continue to produce emissions that actively harm vulnerable surrounding communities and pose a significant risk to public health and the local environment, including other businesses, schools, and natural assets.
- Companies that do not disclose enough information to demonstrate they are making progress towards their short-, medium- and long term net zero or carbon neutral goal.

QUESTIONS TO ASK

- If a company has a net zero or carbon neutral goal without relevant details, investors should ask:
  - What interim goals has the company set to ensure it is making decisions now that will support its longer term neutrality goals ?
  - How is the company aligning investment, capital allocation, and policy advocacy with its net zero goal ?
  - Does a company's net zero or carbon neutrality goal include scope 3?
  - Does the company's net zero goal align with the forthcoming SBTi net zero criteria?
  - Will a company use carbon credits to achieve its net zero goals, and what risks does that create ? What additional details can the company disclose about the carbon credits it is using?

INVESTOR PUSH

- A net zero or carbon neutral commitment that relies on carbon credits or omits scope 3 targets should be bolstered. Investors should push for interim GHG goals and ideally, SBTs to drive real and immediate emission reductions in the company's value chain.

- Once finalized, investors should recommend that companies adopt an SBTi-aligned net zero target that requires a near term SBT, accounts for all relevant scope 3 emissions, and avoids reliance on carbon credits.

- Companies that have robust SBTs and net zero targets should consider joining collaborative initiatives to demonstrate leadership, pilot innovation, send a strong signal to policy makers, and help to drive action in their value chain. Examples include The Climate Pledge, Business Ambition for 1.5, Supply Chain Leaders for 1.5, Ceres BICEP network, and the SME Climate Hub for small and medium enterprises.

CARBON CREDITS

HIGHLIGHTS

- In the most general terms, carbon credits represent an amount of emissions reduced or removed from the atmosphere due to a specific project or activity (for example, reforestation). These credits can be sold to an individual or company to offset emissions they can not reduce themselves.
- Companies may use carbon credits to offset emissions that they can't readily abate in their value chain. These unabateable residual emissions are most common among companies in the heavy industry (including steel, cement, chemicals, and aviation) or food sectors.
- Offsetting is controversial because there are concerns that companies will use carbon credits to offset their GHG impact and mask a lack of real commitment to decarbonization.
- Carbon credits should only be used to raise the ambition of climate commitments, not to replace efforts to decarbonize and reduce emissions throughout the value chain, direct scope 1 emissions and indirect scope 2 and 3 emissions wherever possible.
- Companies do not always disclose how they currently use or plan to use carbon credits to meet their GHG or net zero and carbon neutrality goals, nor do they disclose important details about the credits that would allow an investor or stakeholder to understand whether the credit is providing credible climate change mitigation and social and environmental benefits.
- Offsetting has also been criticized by environmental justice advocates for allowing companies to continue to pollute locally. Carbon credits can only be used to offset the company's GHG emissions footprint or to raise the ambition of its climate commitment. Carbon credits do not offset a company's pollution impact. Despite their reliance on carbon credits, companies should make efforts to alleviate the environmental burdens of their business-as-usual operations in frontline communities while also prioritizing decarbonization efforts.

RED FLAGS

- A company's climate strategy is relying too much on purchasing carbon credits and does not include goals for real emission reductions in its value chain, or a company has not clearly disclosed how much of its strategy relies on carbon credits.
- A company has not disclosed any details about the carbon credits to allow stakeholders to understand whether it is providing credible climate mitigation and social and environmental benefits.

QUESTIONS TO ASK

- Has the company set targets to reduce all value chain emissions, other than those that are truly hard to abate, and will it only be using credits to address those residual emissions?
- Are companies only using credits to raise the ambition of their climate commitments?
- Are the carbon credits certified by a GHG crediting program? Who is the supplier of credits? What GHG projects are the credits from?
- Has the company conducted additional due diligence to ensure that it is sourcing high-quality credits?
- If the company is buying carbon credits from NCS projects, does the project provide social and environmental benefits?
- How much is the company planning to spend on credits? Does it use an internal price on carbon? If so, what price and how was it determined? What assumptions has the company made in estimating the future price of carbon credits?

NEXT STEPS

- At this point in the climate crisis, companies must focus on their own emission reductions in order to ensure progress aligned with both the most recent IPCC guidance and the U.S. NDC. If a company's strategy relies on credits, it needs to be pushed to set a SBT and identify real decarbonization opportunities that reduce the emissions in its value chain. Refer to the Ceres' Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors for guidance on appropriately using natural climate solutions and ensuring climate commitments are aligned with 1.5°C.

HIGHLIGHTS

- Scope 3 emissions are the result of activities from indirect emissions that occur within a company's value chain as a result of its operations, including upstream and downstream activities. The GHG Protocol identifies 15 categories that make up a company's scope 3 inventory.
- For most sectors, scope 3 emissions are larger than scope 1 and 2.
- Understanding climate risk and opportunity across a company's full value chain is necessary to ensure adequate consideration and focus on the types of business model changes a company needs to address climate and thrive in a decarbonized economy.
- Data collection for scope 3 emissions can be challenging and most scope 3 data has significant uncertainties. However, the urgency of climate change requires companies to move forward on actions that can reduce scope 3 emissions based on screening-level data in parallel with improving data quality to better track progress. Many scope 3 emission hot spots and reduction opportunities can be identified through screening-level assessment; GHG Protocol offers a free evaluator tool.
- Examples of how companies can achieve scope 3 emission reductions include engaging and collaborating with a company's suppliers or customers to support their decarbonization strategy, encouraging or requiring suppliers to set their own SBTs, working to reduce the life cycle emissions and impacts of the products and services they provide, transitioning to new products and services that have reduced impacts or greater climate benefits, shifting marketing expenditures towards lower impact products, and advocating for policies that impact emissions across a company's value chain.

RED FLAGS

- Companies have not calculated and disclosed scope 3 emissions and therefore do not have a complete picture of their climate risks and opportunities.
- Companies have set net zero or GHG reduction goals that do not include scope 3 and therefore do not know if decisions they are making to reduce scope 1 or 2 emissions may be creating additional scope 3 emissions.

QUESTIONS TO ASK

- When discussing a company's GHG reduction or net zero goals, confirm whether all relevant scope 3 emissions have been included. If not, ask for a timeline as to when the company plans to incorporate these emissions into its inventory, goals, and climate strategy.
- If a company questions its ability to calculate scope 3 emissions, has whether it has completed a screening assessment of its emissions using spend data, which can be a first pass to identify what sources are material. You can also ask a company to explain how having more data certainty would influence what type of goals it might set or actions it would take. For example, it would be very difficult for a lawn mower retailer to know with any accuracy how often a customer mows their lawn. However, average use data is more than sufficient to show how the company can reduce scope 3 emissions by selling more electric mowers. When possible, come prepared with examples of similar companies that have managed to estimate and disclose their scope 3 emissions.

NEXT STEPS

- Companies with scope 3 targets, particularly those that will require supplier or customer engagement or innovation along the value chain, can consider joining collaborative initiatives that help to meet those goals. Examples include Supply Chain Leaders 1.5 °C, The Climate Pledge, and Supplier LoCT.
- Once companies have comprehensive short-, medium-, and long-term GHG reduction goals and net zero targets that include all emission scopes, they should be disclosing decarbonization strategies and transition plans.

TRANSITION PLANS

HIGHLIGHTS

- Clear emission disclosure and robust GHG reduction goals aligned with 1.5°C must be the foundational pieces of an ambitious corporate climate plan. However, goals must lead to action, and investors and other stakeholders want tangible plans and evidence of progress against a company's goals. Transition plans have emerged as a key disclosure to provide this.

- What makes a "good" transition plan and what elements are required to meet investors' needs are still being determined and will evolve over time. "Say on Climate" notes that the Climate Action 100 + Net Zero Benchmark can provide a framework for assessing plans, and the TCFD sought public comment on its Proposed Guidance on Climate-related Metrics, Targets and Transition Plans in July of 2021. Ceres will provide more guidance and examples of transition strategies and plans over the next year.

- Ceres anticipates that strong transition plans will first include a decarbonization strategy, laying out what specific investments, projects, and actions a company will take to meet its goals. These need to focus on the most relevant emissions sources and will vary by sector and company. Climate Action 100 + has begun providing sector guidance for companies to identify how they can meet the requirements of the net zero benchmark decarbonization strategy indicator. The decarbonization strategy must clearly identify the set of actions the company will implement to achieve its targets (such as phasing out carbon intensive products or assets, developing or deploying low carbon technologies, decarbonizing supply chains or using carbon credits). The measures need to be concrete and specific to the company's operations.

- To move from a strategy to evidence of implementation and progress, companies must provide sub-goals, timelines, and metrics against their strategy elements and commit to disclosing this information annually to stakeholders. For example, a company with a SBT may determine that its strategy to reduce scope 2 emissions involves investing in Power Purchase Agreements (PPAs) to secure bundled power and RECS. To provide evidence of progress, the company should also specify how many PPAs it anticipates signing by a given year and report progress against that metric in its annual report.

- Additionally, there are many other transition plan elements that are important beyond specific strategies and metrics related to emission reduction goals. These include capital allocation alignment, executive remuneration schemes that incorporate climate change performance elements, responsible policy engagement, and ensuring that strategies to meet climate goals are done so in the way that aligns with an equitable, just transition (see additional fact sheet on this topic). For some transition plan elements, the most meaningful metrics and milestones to track progress still need to be determined. Priority transition plan elements may differ across sectors.

INVESTOR ENGAGEMENT STRATEGY

- This is an emerging area of corporate climate disclosure. Investors can start by explaining to companies why this information is important to their own risk and opportunity evaluations, and how we see this as an evolving practice. Learning from leading companies about the internal strategies, implementation plans and metrics they use to track these elements can help to build a public disclosure framework.

- Investors should ensure companies have robust goals and disclosure before or in addition to engaging with companies on transition plans. Transition plans built on weak goals or that rely heavily on offsetting will not provide the ambition needed to meet our global climate goals. See fact sheet on GHG Reduction Goals and Science- Based Targets for more information on robust GHG goals.

- The transition to net zero will impact workers, and it is imperative that companies understand the effects their transition will have and commit to retrain and support workers as they transition into green economy jobs. Primarily with companies in carbon-intensive industries, plant and asset retirements can significantly reduce the economic activity in a community, so efforts should be made to prioritize these areas for new development. Investors should press companies on their plans to address this.

A JUST AND EQUITABLE TRANSITION

HIGHLIGHTS

- A just and equitable transition addresses the way to move from an "extractive economy to a regenerative economy," as well as "redress past harms and create new relationships of power for the future through reparations" (Climate Justice Alliance Principles).
- To meaningfully do this, companies must "Engage stakeholders; Protect and efficiently use natural resources; Adopt responsible contracting policies; Provide meaningful local economic benefits; Ensure compliance and monitoring," and more (Ceres Practices). This requires active solicitation, consideration, and incorporation of input recommended by affected stakeholders, particularly frontline community members and workers.
- Working towards a just and equitable transition applies to all companies across each sector. Examples of established frameworks include The Climate Justice Alliance Principles, The Principles of Environmental Justice, Jemez Principles for Democratic Organizing, and The Just Transition Alliance Principles.

RED FLAGS

- A company's transition plan does not include ways to provide training and other support services for workers affected by the transition of products and services a company will provide.
- A company includes new 'green' jobs in its climate plan, but those jobs are lower-quality, temporary, or low-wage jobs that may lack benefits.
- A company's transition plan does not include ways to work with impacted community members and governmental bodies affected by the transition of products and services a company will provide to offer employment opportunities, other community benefits or revitalize devastated or abandoned areas.
- A company continues to rely heavily on carbon credits to offset its emissions, which allows for continued emissions that further exacerbate environmental harm and climate risk, perpetuating the cycle where the disproportionate effects of climate change continue falling harder on communities of color and low-income communities.
- Companies are making transition plans without making diversity, equity, and inclusion key issues at the planning table, and do not have a system for meaningfully including impacted community members and workers in the decision-making process.

QUESTIONS TO ASK

- Is there a formalized structure for community members to participate in the decision-making process? How accessible is the process to all people, especially those who would be most impacted environmentally and health-wise, and how much influence does their input have in final decisions?
- Does the company take into account the historical implications of combined, incremental emissions over time (also known as cumulative impacts) when making siting decisions? Are they conducting racial and gender analyses before making final decisions?
- What is the demographic and economic class of communities most burdened by environmental harm? Are the benefits and costs of a company's operation being evenly distributed across all communities? Has the company collaboratively created and articulated the benefits impacted communities should expect through formal agreement?
- Has the company identified its most vulnerable workers? What retraining services and assistance programs will be available to help facilitate a fair transition for all workers, particularly in carbon intensive industries like coal mining? Has the company collaboratively created and articulated the services and other support that vulnerable workers should expect through formal agreement?

NEXT STEPS

- Safeguarding a just and equitable zero carbon transition requires a radical transformation from the business-as-usual approach. Systemic change is needed at a fundamental level, from affirming the rights of frontline workers for a safe and healthy work environment to prioritizing community co-empowerment. Community co-empowerment is described by Veronica Garibay, co-founder and co-director of the Leadership Counsel for Justice and Accountability, as a framework that defines communities by their assets instead of their deficits, acknowledges their irreplaceable value, recognizes their participation as compulsory, and engages them as equal partners with equitable power. A just future will only be met by a cultural and economic transformation that prioritizes the collective health and well-being of people over the individual.
- Companies should uphold processes that ensure democratic self-determination. By listening and allowing all people to participate in the decisions that impact their lives, a company can begin to foster a just and equitable transition built on shared power and respect for people and the planet. It is critical that companies are genuinely seeking input from communities and partnering with them to identify ways forward that co-benefit fenceline communities, frontline workers, and the company.
- Companies should diversify company workforces and hire DEI professionals to craft equity plans that chart a way forward. Embracing diversity, equity, and inclusion (DEI) across a company's staff, from the entry level to the C-suite, is vital to companies gaining new perspectives and understandings about the challenges that people of color, immigrants, and low-income populations are presently facing within their communities, as well as new innovative approaches to model in their business strategies. Having dedicated DEI professionals on staff is invaluable for companies to begin undertaking the work of preparing for a just and equitable transition from the inside out.
- Companies intending to contribute to a just and equitable future should first acknowledge their historical impact. Businesses should consider how their operation has adversely impacted people of color, immigrants, low-income people, and other marginalized demographics and partner with communities to identify ways to rebuild cities and rural areas in balance with nature, remediate environmental damage and its effects on public health, and restore relationships with the surrounding population.

Appendix: Data Analysis

This outlines how we analyzed the company data for the overall Ambition Spectrum alignment:

1. The dataset comprises the S&P 500 index and the 20 largest emitting (scope 1 + scope 2) companies from the 14 largest emitting industries. According to data obtained from the Institutional Shareholder Services (ISS), the 14 largest emitting industries in no particular order are Electric Utilities, Oil, Gas & Consumable Fuels, Chemicals, Multi-Utilities, Airlines, Metal & Mining, Independent Power & Renewable Electricity Producers, Diversified Financial Services, Commercial Services & Supplies, Food Products, Containers & Packaging, Food & Staples Retailing, Road & Rail, and Hotels, Restaurants & Leisure.

2. No Goal
Companies that do not have clean energy (renewable energy [RE], energy efficiency [EE], electric vehicle [EV], Electrification), greenhouse gas (GHG) goals, net zero goals, or Science-Based Targets (SBTs). Transition plan elements (TPEs) beyond clean energy goals not analyzed, (for example, a company with a Y on a TPE but no goals will still be in the No Goal bucket.)

3. Clean Energy and GHG Goals Only
Companies that have EE goals, electrification goals, RE goals, EV goals, or GHG goals that are not net zero or SBTs.

4. Net Zero Goals without an interim SBT
Companies that have net zero goals (operational or value chain) that do not have SBTs (may have other clean energy and GHG goals).

5. SBTs
Companies that have committed or set SBTs through the Science Based Target Initiative, but that do not have net zero goals (may have other clean energy and GHG goals). While we recognize that some companies may set science-aligned goals outside of SBTi, we did not have the capacity to analyze those separately and they are considered GHG goals in this data set. Companies have two years after committing to an SBT to set their target.

6. Robust Goals: Net Zero and SBTs
Companies that have committed or set SBTs and have a net zero goal (either operational or value chain). Over time, this category will likely align with the SBTi Net Zero Criteria set to be published in October 2021.

7. Robust Goals and Transition Plan Elements (TPEs)
Companies with net zero and SBTs that, based on screening of their publicly disclosed sustainability information, include 1 or 2 TPEs. For this analysis, we consider the following TPEs:

TPE	Analysis Criteria
Clean Energy	The company has clean energy targets to support their overarching net zero and SBTs
Policy Engagement	Company makes reference to engaging in climate policy
Policy Alignment/strategies to support a Just and Inclusive Economy	Company makes reference to terms like climate justice, environmental justice, environmental racism, just transition, equitable, and inclusive as it relates to climate
Research, Development and/or Investment in Tech Solutions	Company makes reference to research, development, and/or investment in clean technologies. Examples include EV components, batteries, green hydrogen, and carbon capture.