JULY 2024 BUSINESS

CORPORATE LOW-CARBON TRANSITION PLANNING: FACT SHEET

C2ES CENTER FOR CLIMATE AND ENERGY SOLUTIONS

Nicholas Franco, Naila Karamally

Thousands of companies have set ambitious, interim 2030 carbon reduction goals and pledged net-zero emissions by 2050. Yet, some stakeholders are skeptical, suggesting corporate net-zero goals are no more than greenwashing. The United Nations High Level Expert Group (HLEG) report Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions emphasized that net-zero commitments should deliver significant near- and medium-term emissions reductions, which are based on an implementation plan that is: science-based, transparent, verifiable, and that aligns actions and investments with net-zero commitments.

With this project and the accompanying report, the Center for Climate and Energy Solutions (C2ES) aims to support and accelerate the development of low-carbon transition plans that align with the objectives of the Paris Agreement among companies in real-economy industry sectors. To this end, it was important to understand:

1. the existing guidance landscape for target setting, planning, and credibility, as well as broader stakeholder requirements for transition planning
2. the current state of corporate transition planning.

Research began with an analysis of transition planning guidance focused on real-economy companies from non-governmental organizations (NGOs), governments, and quasi-governmental organizations that focused on identifying commonalities and unique requirements. To gain additional insight into the state of transition planning, C2ES conducted structured interviews with 14 real-economy sector companies spanning 12 industries (**Table 1**).

Table 1: Real-Economy Sectors Interviewed

Basic Materials	Communication Services	Consumer Cyclical
Energy	Industrials	Technology
Utilities		

RECOMMENDATIONS

The interviews and research resulted in report recommendations that fall into three broad categories. The first category offers recommendations to **enhance the planning process.** The second category focuses on recommendations to **enhance transparency**, with proposed actions for companies and their stakeholders; the interviews made clear there is a gulf between transparency practices and expectations. The third category offers suggestions to **shift the focus from planning to measuring and communicating performance**.

More from C2ES on Corporate Low-Carbon Transition Planning

Corporate Low-Carbon Transition Planning: Best Practices & Recommendations to Support Credible Action
https://www.c2es.org/document/corporate-low-carbon-transition-planning-best-practices-recommendations-to-support-credible-action/

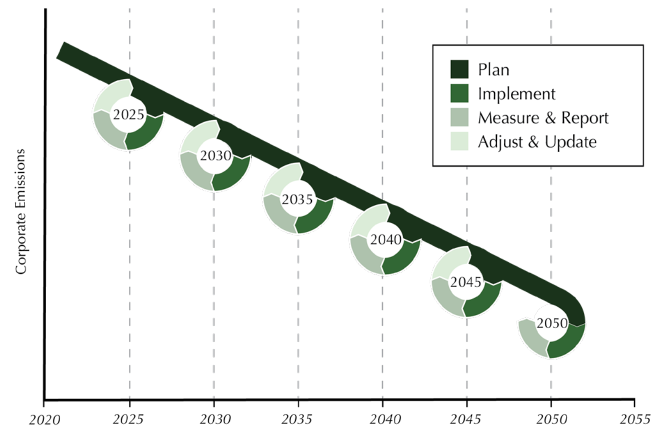
Corporate Low-Carbon Transitions Webpage
https://www.c2es.org/corporate-low-carbon-transition-planning/

ENHANCING PLANNING

Fully Specified Short-Term and Long-Term Targets

Recommendation: To the extent companies are setting their own net-zero targets, we recommend that companies follow the target-setting guidance outlined in IFRS S2: Climate Related Disclosures, and specifically, the guidance on setting Climate-related targets beginning at paragraph 33. Alternatively, Section 4.4. Metrics and Targets, of the GFANZ guidance: Expectations for Real-economy Transition plans provide guidance on how to fully specify targets and their accompanying metrics.

Figure 1: Iterative Transition Planning Cycle



More Interim Targets

Recommendation: To ensure transparency and the ability for stakeholders to assess whether companies are on track to meeting long-term targets, we recommend that companies follow ISO Net Zero Guidelines and set interim targets every 2–5 years (Figure 1). More frequent interim targets also enable companies to more clearly demonstrate how strategies are being adjusted to reflect changes in technology and policy, among other things.

Converge Transition Planning Guidance

Interview findings made it clear that the crowded and evolving transition planning guidance landscape is creating confusion, which may be slowing corporate action.

Recommendation: NGOs and standard-setting bodies should seek opportunities to converge transition planning guidance to create certainty and reduce confusion.

Recommendation: To the greatest extent possible NGOs should seek to use existing guidance to inform real-economy sector companies about the development and content of credible transition plans. Only when there is a gap should the development of new guidance be considered.

ENHANCING TRANSPARENCY

Transition Plan Content Index

To increase transparency, it is important for companies to make the components of their transition plan explicit and accessible when they are not part of a stand-alone plan (i.e., when they are placed in other sustainability reporting documents).

Recommendation: Companies should use a transition plan context index when their transition plan elements are presented in a document that does not exclusively focus on the transition plan.

Creating an Environment that Encourages Greater Corporate Transparency

Interviews revealed a wide gulf between the level of transparency called for in transition planning guidance and what companies are willing and comfortable disclosing. Bridging this gap will require movement on the part of companies and their stakeholders regarding the iterative nature of the planning process, and that credibility is a function of performance, not planning.

Recommendation: Companies and stakeholders (e.g., NGOs, standard setters) should be clear that real credibility will be measured by how a company performs in terms of absolute emissions reductions and performance toward their net-zero targets.

FIGURE 2: Dimensions of Net-Zero Transition Credibility

PERCEIVED CREDIBILITY	**REAL CREDIBILITY**	**INTERNAL**	Planning	Targets
				Plans
				Governance
			PERFORMANCE	**PROGRESS**
				TRANSPARENCY
		EXTERNAL	Historical Context	Sector
				Company
			Current Context	Science Aligned
				Proportionate
				Transparent

ENHANCING PERFORMANCE

During our evaluation of company transition plans and guidance frameworks, we observed a significant gap in guidance and expectations on what constitutes credible levels of performance. Significantly, many company transition plans focused on the act of planning, rather than on their performance against their plans.

We mapped key elements from several different organization's guidance and frameworks including Exponential Roadmap, TPT, GFANZ, IIGCC, CA100+, Planet Tracker, and UN Integrity Matters on a continuum that sought to classify these elements into five categories: developing, aligning, credible, leading, and exceeding.

- **Aligning** activities included steps that underpin a robust plan like emissions disclosure for Scopes 1, 2 and relevant Scope 3 categories; target setting; and public commitments.
- A **credible** plan seeks to deliver on targets with a dedicated strategy that demonstrates emissions reductions and regularly discloses plan shortcomings, uncertainties, and updates.
- **Leading** plans demonstrate enhanced ambition with achievement of targets ahead of stated ambition.
- **Exceeding** plans go a step further and seek to set and achieve emission reduction targets beyond the company's value chain within society.

Recommendation: Criteria for development of a transition performance continuum (as opposed to planning) should be developed to serve as a guide for assessing the credibility of climate action that is a result of transition planning. As companies move from planning to execution it will be increasingly important to have clarity on the levels of performance required for implementation of decarbonization goals to be deemed credible.

3100 CLARENDON BLVD. SUITE 800 ARLINGTON, VA 22201 703-516-4146 **C2ES.ORG**