Corporate Climate Leadership

Guidelines for Best Practice Climate Action in the Paris Agreement Era

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Executive Summary

With the ambition of the Paris Agreement set at 'well below 2 degrees' temperature rise but country commitments that lead to 3-4 degrees, bolder climate action is needed from non-state actors, with a growing focus on the business sector. At the same time, the new rules taking shape for the Paris Agreement mean that corporate climate action must evolve for a new era.

Gold Standard, CDP and WWF are working toward building a consensus on how companies can navigate the prevalent climate initiatives to elevate their climate strategies from carbon management to climate stewardship within the context of the Paris Agreement. The benchmark for corporate climate leadership proposed in this paper recommends reducing emissions within corporate boundaries according to Science Based Targets and applying the principle of 'common but differentiated responsibility' to contribute finance to accelerate the global transition to a zero-carbon resilient economy.

The Paris Agreement Calls for a New Paradigm

The Paris Agreement, adopted in December 2015 with entry into force in November 2016, sets the new ambition and framework for limiting the effects of climate change to ensure a safe operating space for life on earth. Several characteristics captured in Figure 1 mark a distinct shift from the Kyoto regime.

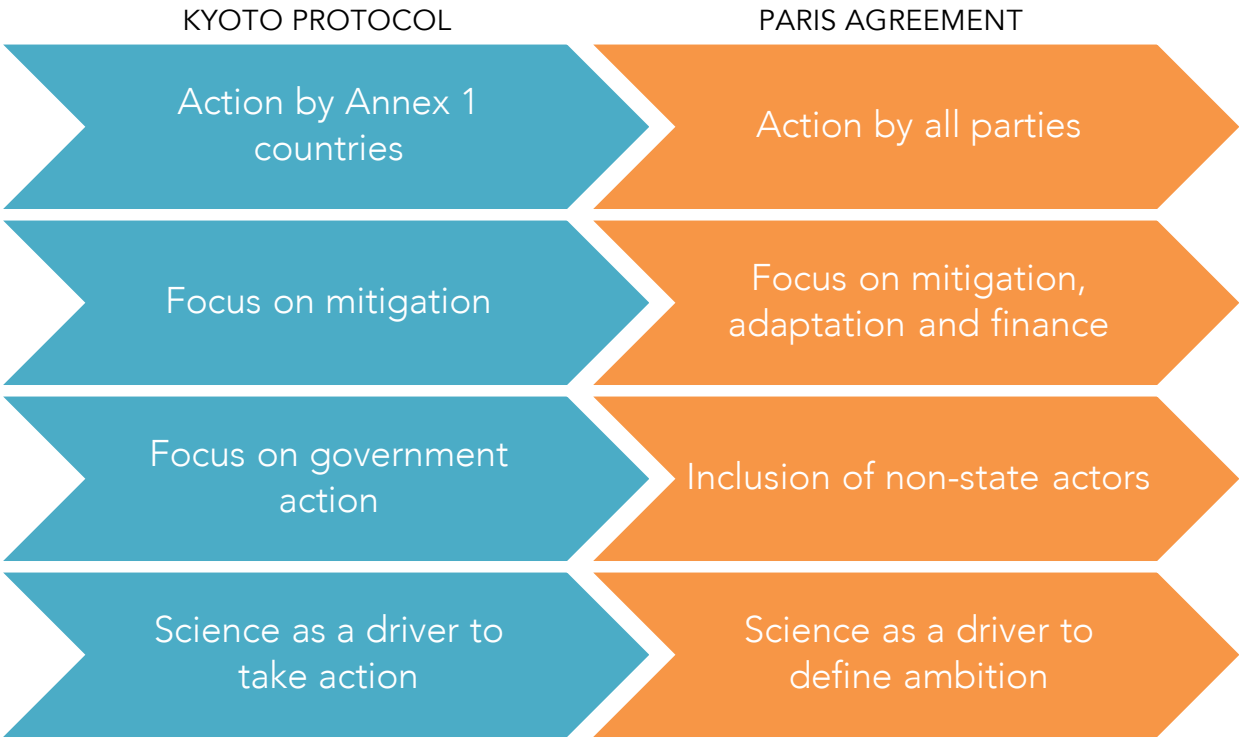

Figure 1. Characteristics of the Kyoto Protocol versus the Paris Agreement

The level of ambition set by the Paris Agreement requires the business sector to take swift action – in mitigating greenhouse gas (GHG) emissions according to science to stay within the global carbon budget – but also in supporting developing countries' transition to low-carbon development. Said differently, moving from carbon management to climate stewardship. There are several reasons for this urgency for greater ambition.

Near-Term Action Needed

Countries' Nationally Determined Contributions (NDCs) to the Paris Agreement focus on long-term trajectories, but science tells us that short-term emissions reductions are critical to have any real chance to limit warming 'well below 2°C'. Experts say that global emissions must peak by 2020 and then rapidly decline. This means that we urgently need to enhance the level of ambition in the near term.

NDC Ambition Gap

Even with every country meeting their targets, total emissions committed in NDCs fail to meet the global carbon budget, and in fact are estimated to allow temperature to rise at least 3°C, according to the 2016 UNEP Emissions Gap Report.

Finance Gap

Furthermore, NDCs are not fully funded, with the largest gaps in developing countries where low-carbon development and climate adaptation needs are greatest. Current contributions for climate resilience fall woefully short of the many billions needed. Beyond the ethical argument, failures of climate adaptation pose risks to business with markets and supply chain activity in vulnerable regions.

Limited Action Across Corporate Value Chains

While Science Based Targets offers decarbonisation pathways for many sectors, corporates with Scope 3 emissions greater than 40% of total footprint lack clear guidance on target setting. However, these complex systems include important sources of GHG emissions like agriculture, extraction, logistics, employee travel and consumer use.

A New Benchmark in Corporate Climate Leadership

The private sector can help accelerate global decarbonisation by securing much needed pre-2020 emissions reductions as well as helping to fill the climate finance gap and serving as an advocate for more ambitious climate action. Climate leadership in the era of the Paris Agreement means that a company not only scales up efforts to reduce its own GHG emissions in line with science, but also contributes to helping meet the world's most pressing climate challenges according to respective capabilities and responsibility.

Gold Standard, CDP and WWF are proposing a new benchmark on how to structure climate leadership strategies amidst the major corporate climate initiatives (See Figure 2), built on four key pillars.

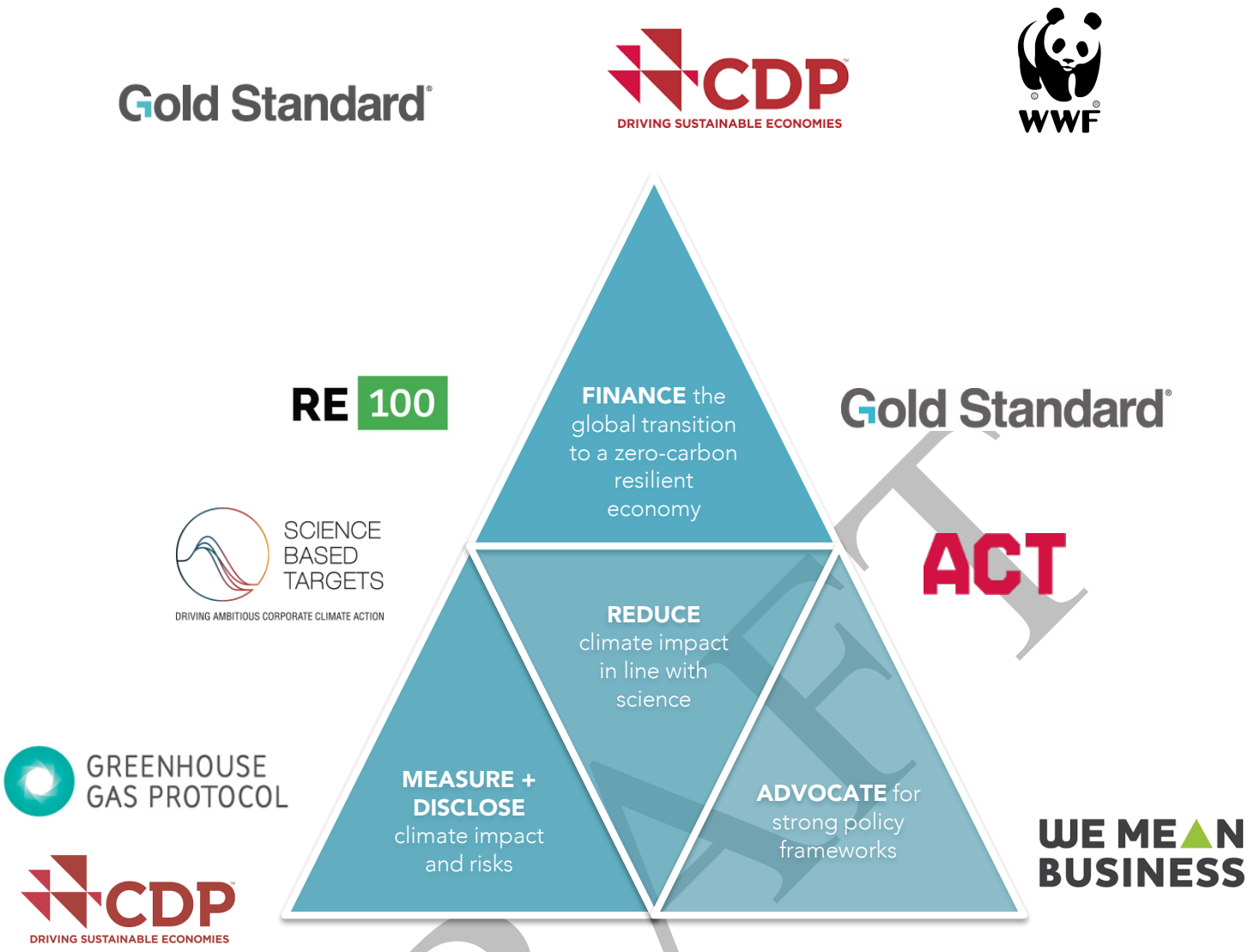

Figure 2. New benchmark for best practice corporate climate action

PILLAR 1 - Measure + Disclose

1. Conduct complete GHG accounting per the GHG Protocol with third party verification.
2. Transparently report full scope 1-3 emissions.
3. Implement an internal or "shadow" price on carbon high enough to materially affect investment decisions (Guidance: Use the social cost of carbon).
4. Internalise the environmental and social costs of GHG emissions by implementing a carbon fee to support the investment in renewables and climate protection projects and incentivise further emission reductions.

PILLAR 2 - Reduce Climate Impact in Line with Science

1. Adopt a Science Based Target.
2. Define a transition plan to your company, designing and thinking through your own company transition scenario to a low-carbon economy.

3. Start to implement your transition plan and get it assessed by an Assessing low-Carbon Transition (ACT) methodology to ensure strategic planning and investment decisions are aligned with the low-carbon transition.

PILLAR 3 - Finance the Transition to a Zero-Carbon Resilient Economy

1. Based on the internalised costs of your GHG emissions, make a commitment to finance the transition to a zero-carbon resilient economy.
2. Fulfill these commitments by using one or several options:
    a. **Finance emissions reductions** by purchasing Verified Emissions Reductions ('carbon credits') or through Certified Statements of Emission Reductions (in development at Gold Standard) that meet eligibility criteria for environmental integrity and social value.
    b. **Introduce CO2 reduction or adaptation interventions within your value chain** both upstream and downstream to help build stakeholder relationships and to support suppliers and customers in their reduction efforts.
    c. **Contribute to a new fund** that will allow collective action for the above options, supporting both mitigation and adaptation activities (to be developed).
    d. **Purchase, fund or build renewable energy,** actively contributing to changing the energy system.

Note: For those companies for whom Scope 3 represents more than 40% of footprint, recommendations are simply to set 'an ambitious target.' Until such guidance becomes available, a commitment to climate finance becomes even more critical. Refer to the 'Defining a climate finance commitment' guidelines for recommendations on how to formulate such a commitment.

PILLAR 4 - Advocate

1. Influence market or policy developments by promoting your vision, solutions and achievements.
2. Inspire constituents to also take strong climate action through initiatives like employee or consumer engagement programs, which can also lower your own GHG footprint.
3. Begin educating your investors, employees, and customers about climate impacts and your climate strategy.

Table: Best Practice Overview for Managing a Full GHG Footprint

Note that in this table "Finance Emission Reductions" refers to purchasing eligible carbon credits, financing emission reductions within a value chain (sometimes called "insetting"), or financing emission reductions through new mechanisms in development, Certified Statements of Emission Reductions.

	STEP 1	STEP 2
SCOPE 1		
	Reduce emissions according to Science Based Targets Commit to RE 100 for electricity: • Produce renewable electricity from own on-site and off-site facilities • Procure renewable electricity through green electricity contracts, Power Purchase Agreements, market instruments (e.g., RECs)	Finance Emission Reductions for all residual emissions *Guidance: Select renewable energy or energy efficiency projects*
SCOPE 2		
		When market instruments are necessary to meet targets, choose those that contribute to new renewable capacity
SCOPE 3		
Upstream production:	Switch to low-carbon suppliers; Work with suppliers to incentivise their emission reductions and to commit to Science Based Targets, as possible; Introduce certified supply chain reduction projects, including pre-competitive collective action with shared suppliers	Share responsibility for residual emissions with suppliers to Finance Emission Reductions *Guidance: Focus on Emission Reductions projects that have strong adaptation/resilience components, especially for agricultural activities*
Upstream deforestation from land use change:	Commit to Net Zero Deforestation across operations and supply chain	Where land use change does occur, finance reforestation projects elsewhere in equivalent hectares or tons of CO2 sequestration
Up/downstream logistics:	Choose low-carbon logistics providers that rank highly on Smart Freight Leadership from GLEC to reduce	Share responsibility for residual emissions with logistics providers to Finance Emission Reductions
Employee travel + commuting:	Introduce policy that incentivises use of public transport for community	Finance Emission Reductions for all residual emissions;

	and limits travel that is not mission-critical	Introduce employee engagement programs to increase awareness
Product use + end of life:	Dedicate R&D efforts to increase energy efficiency of product design for use and end of life treatment	Offer offsetting programs to customers and fill the gap for what they don't; Introduce carbon neutral products and services as well as other customer engagement approaches to increase awareness
Investments:	[THESE GUIDELINES TO BE DEVELOPED IN SUBSEQUENT STAGE]	
Waste management:	Pursue circular economy models for cost savings and reduced waste	Finance Emission Reductions to account for residual emissions

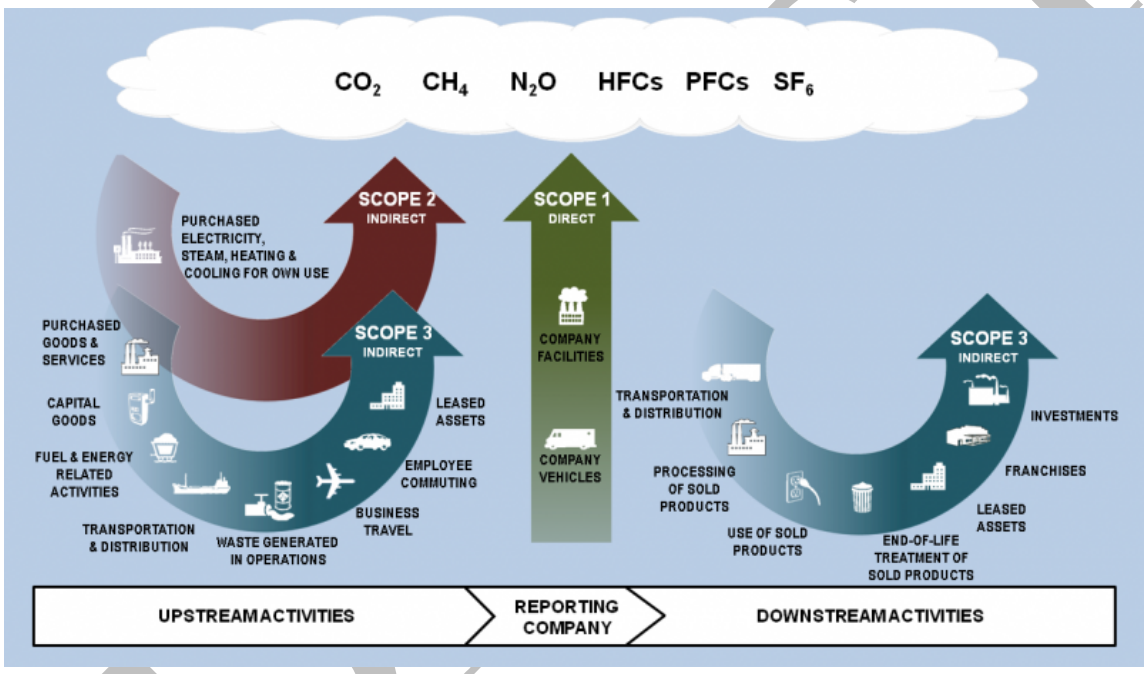

Figure 3. Sources of Scope 1, 2 and 3 emissions

Because a full Scope 1-3 footprint features overlap among companies and their suppliers, partners and customers, a tailored approach featuring shared responsibility and recognition for financing low-carbon interventions is appropriate.