

Case study n°6

Beyond Carbon Accounting: Development and Application of a Framework to Assess Companies' Low-Carbon Transition

Countries: United Kingdom & France

Level: Subnational

SDG Addressed: SDG 13 – Climate Action



Summary

The case study starts from the assumption that identifying and measuring the extent to which companies are effectively enacting a low-carbon transition is challenging. For example, many commitments are announced by the companies, yet it is rather difficult to understand how meaningful they are. Along the same lines, there is lack of data to track these climate action commitments, as well as overall shortage of verification on the compliance. Combined, these two factors lead to a credibility issue on corporate climate action.

This case study aims at showing how the framework and methodologies developed under the Assessing Low-Carbon Transition (ACT) project – itself built upon standards – can contribute to developing a series of indicators building on innovative concepts. These include, among others, carbon budgets, science-based targets, as well as embedded carbon or asset level data. The ultimate goal is delivering a rating system that benchmarks companies against a well-below 2°C trajectory.

Background

As core economic agents, businesses play a fundamental role in the low-carbon transition. For a company, transitioning to a low-carbon economy is a complex undertaking, posing risks as well as offering opportunities. Even in the presence of

policy incentives, there needs to be a clear will and leadership to address this ambitious challenge.

Over the past fifteen years, carbon accounting has become a must for organizations mindful of the climate impact of their activities. Indeed, many of them voluntarily disclose their Greenhouse Gas (GHG) emissions and management practices by responding each year to CDP's (formerly the Carbon Disclosure Project) questionnaire or reporting to other voluntary/ mandatory schemes.

In parallel, new concepts, needs and tools have appeared, with a view to reversing the trend of continuously growing emissions. These feature science-based targets, carbon management systems, carbon pricing, and new metrics for investors. While carbon reporting remains a crucial first step, it is time to move beyond it and understand which companies are concretely progressing towards a 2°C pathway. In this context, the amount of early action done in the short-term will be a prominently determining factor with regard to the costs of the transition in the long-term.

The question is: can companies be trusted on the commitments they make to climate action? Assessing Low-Carbon Transition (ACT) methodologies contributes to creating a necessary accountability layer on the present willingness and ability of companies to engage themselves to a low-carbon future.

Strategy

The ACT framework and methodologies are themselves a standard, which in turn builds on standards. First and foremost, ACT framework and methodologies were developed following the emergent standard ISO 14080:2018 “Greenhouse Gas Management and related Activities – Framework and Principles for Methodologies on Climate Actions,” which provides a framework to identify, assess and revise methodologies, as well as for their development and management.

Beyond that, ACT builds on ISO 14064-1:2006 on GHG management; ISO 14064-3:2006 on validation and verification GHG assertions; the GHG Protocol; the Sectoral Decarbonization Approach (an emerging method on setting science-based targets); the GHG Protocol Scope 3 standard; and CDP disclosures - a de facto standard for corporate climate reporting.

Results and Impact

What makes this case study peculiar is that it does not rely on a single standard, but on a family of standards. In order to drive the type of change required for the low-carbon transition to succeed, an entire system of standards needs to be put in place. They are interdependent and will create a new standard infrastructure from which trust will be built for a new economy.

ACT demonstrated that, despite the individual importance of each of the standards related to GHG measurement, management, reporting and verification, an accountability layer is necessary to create the transparency and trust on companies when they claim to be contributing to a low-carbon transition as well as to the path towards a well-below 2°C world.

Challenges and Lessons Learned

Despite building on several existing standards, there are further areas that would benefit from standardization – and the fact that there are no standards for them is a challenge in itself. To name a few of those areas: (i) science-based target setting; (ii) asset-level data; (iii) embedded emissions (and their calculation); (iv) disclosure of data related to climate relevant R&D; (v) disclosures around business model and business model change; (vi) the concept of transition plan. In fact, it could be observed that carbon management and transition management is a fast evolving field, and there are many different concepts constantly appearing that need to be standardized.

Potential for Replication

The concrete experience is replicable in other locations and contexts. Indeed, ACT methodologies allow for the assessment to be made against global transition scenarios or country-specific scenarios. In 2016, the ACT pilot project used the global scenarios developed by the International Energy Agency (IEA) to make company assessments. However, in the French Road Test, country-specific scenarios developed by the French Environment and Energy Management Agency in a multi-stakeholder process were used as main reference. In the future, ACT plans to be applied in Brazil and Mexico, using local scenarios developed for the industry of these countries.