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Corporate climate action: Motivation and effectiveness

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Net zero: Can we get there as a society?
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Corporate climate action

① **What?**

② **Why?**

③ **How?**

What? "Voluntary" corporate climate action

Net zero targets

Pre-2019: Slow beginnings
- Nestlé, Repsol, Qantas, ThyssenKrupp, Vale, …

2020: Announcement wave
- 100s of companies (banks, energy, mining, airlines, …)

Details vary widely by firm
- Net zero by 2050 or before?
  - Interim targets?
- Scope 3 emissions? (suppliers & customers)

⇒ *Full alignment with 1.5C?*

Apple vs Shell

Apple (July 2020)

2020: Corporate carbon neutrality

2030: Net zero carbon footprint*
- 75% own (product redesign, recycling)
- 25% "innovative carbon removal"

Shell (April 2020)

Net zero business by 2050 or sooner**
- "Aim to reduce carbon intensity of products … by 65% to 2050, … in pace with society"
- Balanced with GHG removal using "technology and nature"

* Source: Apple news release, 21 July 2020
** Source: Shell news release, 16 April 2020

Why? Demand and supply

Demand

ESG (Environmental, social & governance) + investor pressure

- Mark Carney 2015 BoE speech
- Task Force on Climate-related Financial Disclosures (TCFD)
- Climate Action 100+ investor coalition

⇒ *Companies seeking to retain "investability" in green-minded international capital markets*

Supply

Since 2010: Cost drop ~80+% across key renewable technologies (solar, wind, also energy storage)

⇒ *Deep emissions cuts now look much more feasible*

⇒ *Companies decarbonizing Scope 2 (power) at ≈ zero cost*

⇒ *Net zero on Scope 1 + 3 emissions much harder…*

Consumer pressure and willingness-to-pay

Demand: Consumer pressure applies to ESG and sustainability
Supply: Willingness-to-pay for "green" makes it easier to supply

How? New organizational tools

Internal carbon pricing

Over 1,400 companies now use an internal carbon price*

- Risk management
  - Anticipate future CO_2 regulation
- Sustainability strategy

Swiss Re: From 2021, \$100/tCO_2 internal levy (\$200 by 2030)**

- CO_2 price in EU emissions trading system: ~\$30/tCO_2

⇒ *Internal CO_2 prices often above government-led prices*

* Source: World Bank (2020)
** Source: Swiss Re news release 15 September 2020

Executive pay

41% of 371 global companies incorporate "climate change performance" in executive pay*

- Details vary widely by company

CEO bonus at European oil & gas companies (BP, Shell, Total)**

- 11% climate performance
- 25% ESG performance

⇒ *Increasing Paris-alignment of management incentives*

* Source: Transition Pathways Initiative (November 2020)
** Source: Ritz (2020a) based on 2019 CEO incentive plans

How? Divestiture of carbon-heavy assets

Ørsted: Danish power company widely hailed for transformation from oil & gas into offshore wind

Low-carbon corporate transformation: Impacts?

⇒ *Market value of "green" players overtaking fossil incumbents**

- Shareholders ✓
- Employees ✓
- Climate ✓

Any other considerations?**

- 2017: Ørsted sold its upstream oil & gas business to INEOS…

⇒ *Global climate benefit of corporate transformation not easy to quantify*

* Source: Financial Times, 6 October 2020

** Source: Ritz (2020b) for Cambridge Zero

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