

CDP EUROPE'S COMMENT ON THE EUROPEAN COMMISSION'S ROADMAP ON THE EUROPEAN CLIMATE LAW

European climate law – achieving climate neutrality by 2050

Background

CDP welcomes the Commission's Roadmap for putting forward a European climate law to set the framework for Europe's economy and society to become climate-neutral by 2050. As governments failed to make significant progress towards agreeing the outstanding elements of the Paris Agreement's architecture at COP25, the world needs a climate champion to show the direction of change and the power of collective work. Putting a legal framework for achieving climate neutrality by 2050 in Europe will set a high standard for global action.

Europe is already home to some of the world's strongest policy frameworks on emissions, water security, clean energy, and energy efficiency. By 2045, Sweden aims to have net zero emissions of greenhouse gases into the atmosphere and should thereafter achieve negative emissions, the Finnish government agreed on a carbon-neutrality target by 2035, and Spain plans to use only renewable electricity by 2050. But with higher ambitions comes higher expectations. Ambition is not uniform across the continent, and rhetoric does not always match up with the reality. Despite ambitious commitments on climate change and clean energy, Germany has reported stagnating emission levels over the last years, is set to miss its 2020 goals, and plans to phase out coal only by 2038.

The goal for climate neutrality by 2050 is crucial in order to achieve the long-term goal to keep the global temperature increase to well below 2°C above pre-industrial levels and to pursue efforts to keep it to below 1.5°C. However, the window to keep the world within 1.5°C of warming is rapidly closing and to deliver on this goal we need strong interim targets for 2030, with at least a 55% reduction in GHG emissions, compared with 1990 levels, as well as more ambitious targets for renewable energy and energy efficiency. New research by the [UN Environment Programme](#) showed that we must reduce emissions by 7.6% every year until 2030 for that target to remain within reach.

Point 1

A European Climate Law will enshrine the EU objective of climate neutrality by 2050 in legislation. It will help to transform the way EU policies are made and will set the long-term direction of travel.

High quality environmental disclosure across the EU is a necessary first step in the transition towards a climate neutral and resilient economy. It is key to understand where actual market implementation of public policy objectives stands and what gaps remain. This is reflected in

CDP's mission over the past two decades to put high-quality, universal disclosure at the centre of meaningful corporate, investor and policy action on climate change, water security and deforestation.

Therefore, EU's Climate Law Roadmap, as well as the Commission announcement to support the creation of European standards for non-financial reporting on environmental and social issues, comes at the start of a 'super decade' for climate and environmental action. It is a significant sign of the detail needed from policymakers to deliver progress. To meet the necessary emissions cuts by 2030, the global economy must decarbonize at the rate of nearly 7.6% per year. Getting more of the right data to investors will make or break this challenge.

CDP provides the evidence showing what over 2.300 European companies are doing in light of environmental policy objectives, and whether business models are aligned with a well below 2 degree warming limit. CDP's disclosure platform gives important insight into the performance of many of Europe's largest corporates, showing the important role they are playing in driving forward environmental action on climate change, protecting forests, and water stewardship.

Moreover, transparency is the basis to put effective accountability in place. Voluntary disclosure of companies to their investors through the CDP system puts into practice a mechanism of accountability. The European Commission needs to be explicit on the point of accountability and verification when drafting the Climate Law proposal. It is crucial that all stakeholders understand the specifics of the Law and its processes to avoid misleading or incorrect information being reported.

The comparable data that CDP collects through voluntary annual disclosure produces insights about climate-related risks, opportunities and barriers for action that could inform all policymaking in competition and economics portfolios. For example, in 2018 a group of 200 of the world's largest companies reporting to CDP, including 75 of the biggest companies by market capitalization in Europe, identified collectively nearly €1 trillion in climate risks, including over €250 billion of stranded asset value at risk. The same companies identified €1.9 trillion in opportunities, covering areas like green infrastructure projects, new green investment and financial products, and renewable energy. Companies also report their direct low carbon capital investments to CDP, and their expenditure on emissions reductions initiatives alongside the CO₂ savings that will result, giving data on the cost of CO₂ abatement across industries and different low carbon investments.

Point 2

A European Climate Law will contribute to the implementation of the Paris Agreement on climate change, including its long-term goal to keep the global temperature increase to well below 2°C above pre-industrial levels and to pursue efforts to keep it to below 1.5°C. It will support the efforts of the EU to set its 2050 climate objective in line with scientific findings of the International Panel on Climate Change (IPCC).

For the EU to achieve its 2030 and 2050 climate targets, it will be fundamental to maintain an accurate picture of GHG emissions by European companies. Even more important will be to understand how corporate GHG emissions are likely to evolve in the medium to long-term. A

key component in this regard is to have information on corporate GHG absolute emissions targets.

The Science Based Targets initiative (SBTi), a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI), and the World Wide Fund for Nature (WWF), was launched in 2015 to promote the wide-spread adoption of science-based targets (SBTs). SBTs are corporate GHG reduction targets that are aligned with the goals set out in the Paris Agreement. Up to date the [SBTi has officially approved 321 targets](#) of which 158 are set by European companies, which clearly puts Europe on the forefront of company action taken in response to the climate crisis. SBTs cover approximately 500 million tons CO₂e of annual scope 1 and 2 emissions from European companies. When all these scope 1 and 2 targets are met, annual emissions will have been reduced by 170 million tons CO₂e. Moreover, 57 of the 90 companies with approved 1.5C targets are also European. In addition, European corporates account for almost half of the entire CDP A List on climate change, recognizing top performers globally.

The enforcement of a European Climate Law will give companies obligation and incentives to set more ambitious targets and thus contribute to the climate neutrality efforts of each member state in the European Union.

Point 3

A European Climate Law will also ensure that all EU policies contribute to the climate-neutrality objective and that all sectors play their part.

The European Commission should set clear key performance indicators (KPIs) and methodologies for measuring the impact of the Climate Law towards achieving the goal of climate neutrality. Attention should be given to KPIs related to the detailed disclosure of a company's current GHG emissions inventory broken down by scope 1, 2 and 3, as well as its future looking GHG emissions target. This would include:

- ▼ Direct GHG emissions from sources owned or controlled by the company (Scope 1, in metric tons CO₂e).
- ▼ Indirect GHG emissions from the generation of acquired and consumed electricity, steam, heat, or cooling (collectively referred to as "electricity") (Scope 2, in metric tons CO₂e).
- ▼ All indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (Scope 3, in metric tons CO₂e).

Giving the European Commission's announcement to update the green public procurement rules, it is crucial to base any new policies on public procurement on corporate disclosure throughout the global supply chains. Looking at the 2018/19 CDP data we can draw up the numbers of:

- ▼ European companies requesting their suppliers to disclose their environmental information - 51 members of the Supply Chain program are headquartered in Europe (including L'Oréal, BMW and Unilever), covering the three themes: Climate Change, Water security and Forests. In 2019, these 51 companies requested 4.198 companies across 84 countries to respond to CDP questionnaires, from SMEs to international companies, among which 2.310 disclosed to their clients through CDP.
- ▼ European companies requested to disclose their own environmental information - Globally as part of the Supply Chain program, 2.286 companies headquartered in Europe received a request from one or several of our 125 global supply chain members in 2019. As part of them, 1.690 companies disclosed to their clients through CDP, among which 628 disclosed also publicly.
- ▼ In 2019, 563 metric tons of CO₂e were cut by global suppliers. This represents a cost savings of €20,2 billion.

CDP believes that mandatory disclosure of KPIs will lead to more complete and accurate data on corporate GHG emissions and emissions targets. With further innovation currently under way, it will soon be possible to translate this data into medium and long-term temperature trajectories. This will enable companies, financial markets, policymakers and other stakeholders to better measure their expected degree of future alignment with the latest science and international and EU climate goals, and to continuously monitor their progress.

Regarding this very important element, the French Environment and Energy Management Agency (ADEME) and CDP have combined their expertise to develop the [ACT methodology - Assessing low Carbon Transition initiative](#). ACT takes a holistic view of a company's operational impacts and dependencies, as well as of its supply chain. The goal is to drive corporate action and put them on a below 2°C compatible pathway. The [first publicly available report](#) focuses on the auto industry and features 25 of the largest auto manufacturers. The benchmark shows, however, that none of the companies are on track to meet the goal set by the Paris Agreement.

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For further information

Mirjam Wolfrum
Director Policy Engagement
+32 2 880 04 37
mirjam.wolfrum@cdp.net

CDP Europe
EU Transparency Register No.: 050269010212-72
c/o Finance Watch
Rue Ducale 67 b3, 1000 Brussels, Belgium



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