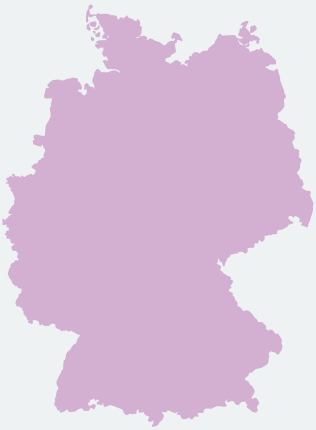
Using Business Data to Drive Informed Policymaking on Energy and Climate

Germany / EU Executive Summary

April 2023

Key findings and recommendations from the Ambition Loop Project by the We Mean Business Coalition and CDP, in partnership with Stiftung KlimaWirtschaft and adelphi in Germany[1].

There is a need for a systematic approach to align business ambition, action, and accountability with ambitious policymaking: building a system to provide policymakers with reliable evidence from the real economy to translate Nationally Determined Contributions (NDCs) into effective policy and regulation.



1. The research entailed results of data analysis of CDP 2021 Climate Change questionnaire from 585 companies, representing 81% of German market capitalization; SBTi; RE100; and CDP's Full GHG Emissions Data Set of 1,130 companies. Consultations with leading businesses from the industrial, transport, and energy sectors were carried out to give depth to pinpoint key policies to incentivise companies to take even bolder steps in their transition. This research wouldn't be possible without the generous funding from the IKEA Foundation through We Mean Business Coalition for the Ambition Loop Project.

What climate ambition and actions are companies taking to transition towards a 1.5°C economy in Germany?

Only

55

companies have committed to setting SBTs covering the period until 2050.

Just

29%

of companies currently set any valid Scope 3 emission reduction target.

Only

1%

of companies' plans cover all indicators of a credible transition plan.

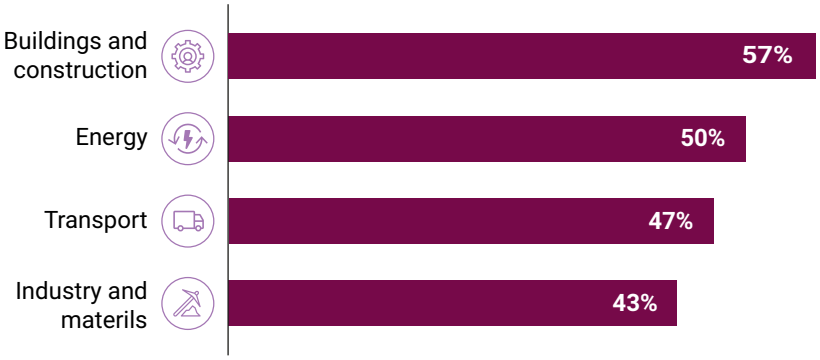
Corporate disclosure is the norm and science-based targets are rising. Although there is broad support for target setting, the combined ambition is below 1.5°C.

There has been exponential growth in science-based target (SBT) setting. As of the end of 2022, just over 100 companies have approved SBTs, with over 113 having committed to setting near-term SBTs covering the next 5-10 years, and 55 have committed to setting these in line with the SBTi's Net Zero Standard covering the period until 2050.

Overall the ambition of corporate climate targets in Germany is not high enough. If disclosing companies, representing 81% of the German market, delivered against their mid-term targets, they would on average decarbonise at a rate consistent with a rise in global temperatures of 2.1°C for Scope 1 and 2 and 2.2°C for Scope 1, 2, and 3 by 2100. Just 29% of companies currently set any valid Scope 3 emission reduction target.

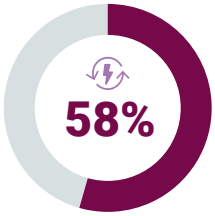
Leading companies are paving the way in the implementation of credible climate transition plans, but there is a long way to go in translating disclosure and targets into action.

42% of companies disclosing through CDP report that climate-related risks and opportunities have influenced their organization's strategy and/or financial planning and they have developed a climate transition plan. However, only 1% of companies' plans cover all indicators of a credible transition plan[2]. Sectors covered in this phase have higher shares of plans: building sector (57%), energy (50%), transport (47%), and materials (43%). Leading companies interviewed report to have a clear transition plan backed up by substantial investment budgets and clear reduction measures in the short- and medium-term.

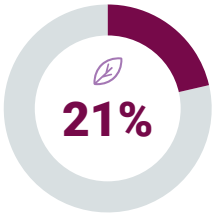


2. Based on the 24 indicators in the CDP questionnaire relating to a credible climate transition plan, which have subsequently been revised to 21 indicators this year. CDP Transition Plan indicators: Technical Briefing, https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/101/original/CDP_technical_note_-_Climate_transition_plans.pdf?1643994309.

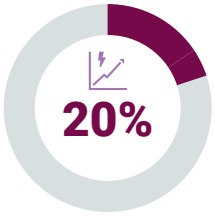
There is high reporting on energy, with companies having a high renewable energy (RE) share compared to G7. However, there remain significant challenges to decarbonization, with few companies currently setting energy-related targets.



58% of German companies report details of their energy consumption through CDP;



however, only 21% report targets to increase low-carbon energy consumption or production.



Conversely, companies report a RE share of 20% of total energy, higher than the average reporting by G7 companies (15%).

Companies interviewed emphasize the critical role of RE and electrification of their production technologies in the transition but highlight major insecurities in terms of availability and cost of RE sources. In some cases, this has led to companies establishing their own programs to develop RE but highlight difficulties in scaling up / replication due to high investment costs.

What policy changes would support further action, focusing on the most critical ones for companies?

Competitive energy prices (ie electricity and gas) are a basic requirement for the transition and economic survival of businesses.

The German Government has guaranteed prices for companies in the short-term as part of their gas and electricity price brakes. Pre-existing high energy prices are seen as a central obstacle to the transition and further investments - a constant and separate industrial electricity price across sectors would help to counterbalance this. However, the energy sector promotes a differentiated, more market-oriented view, warning against intervening too quickly in the electricity market design.

Public permitting procedures need rapid and fundamental accelerations.

The structural acceleration of national permitting procedures for renewable energy and its infrastructure (wind, solar, hydrogen), but also for industrial plants and vehicle charging infrastructure, is a key burden for the transition. The proposal in the RED-IV-Directive/ REPowerEU Plan to create go-to areas for wind energy plants is highly welcomed to speed up the permitting process. Moreover, public authorities are perceived to be understaffed, resulting in overcomplex and slow procedures. Participation processes are necessary and important to create social and business acceptance and counteract the perception of their current ineffective design.

A European answer to the US IRA is needed.

The US Inflation Reduction Act (IRA) is a key driver for climate action and a strong lever for domestic investment. Similar measures need to be designed to incentivize investments into technologies and strengthen EU competitiveness. Policymakers should focus on supporting the decarbonization of basic raw materials production through transparent supply chains, as well as other technologies such as solar and wind power, heat pumps, and others essential for the transition to net-zero.

Existing funding processes need to be more flexible and accessible.

There is a broad need for initial funding, but only until the low carbon business models and technologies are self-sustaining. Existing funding instruments such as the EU Innovation Fund, IPCEI or even Carbon Contracts for Difference (CCfDs) are good in principle, but funding processes are perceived as slow, complex, and inflexible and do not provide the necessary incentives in the EU and Germany (eg lack of OpEx funding seven instruments; for other sectors next to chemicals and steel).

Increase demand for green products by changing the market design.

Creating demand for green products remains a challenge for many companies as there is a limited willingness by customers to pay extra for green products, product labelling entails uncertainty, and ambiguous definitions (eg climate neutrality, green hydrogen) hinder an increase in demand. Including environmental criteria in public procurement regulations and practices, building on the EU Green Public Procurement Criteria, which includes energy and transport, would encourage greater demand.

There are also calls for credible standards for low carbon products and circularity building on the EU Circular Economy Action Plan. A green product feature should also be made visible through specific and solid labels, coherent with international standards (eg for green fuels in the transport sector or for the use of green steel in cars).

A rapid run-up of energy and transport-related infrastructure (eg power grids, hydrogen pipelines, fuel and charging infrastructure, and rail freight transport) is crucial towards decarbonization efforts.

A collaborative and coordinated push from the public sector, but also private investment, in infrastructure (eg electric vehicle charging infrastructure regulation in the Energy Performance of Buildings Directive) is necessary to promote acceleration beyond policies currently in place. For example, current proposals in the EU Gas Package are not conducive to building much-needed hydrogen infrastructure as quickly as necessary because they are too small-scale and contain too strict unbundling requirements.

About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth half of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP to find out more.

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