

### In a crisis everyone needs to pull together

- In a crisis everyone needs to pull together - climate change is no exception.
- The planet's carbon budget is finite and it is running out fast.
- Some people say green companies are the answer. They're right, the world does need more green companies to help meet the Paris goals.
- But that's not enough. They are too few and mostly too small to have impact at the scale and pace we need.
- And we can't possibly create and grow enough new green companies fast enough to solve the climate crisis.

### We need to support green and greening companies

- So we'll need everyone to help - including companies at the heart of the energy system.
- Because around 70% of global emissions come from energy consumption across industry, transport and the energy sector itself. These sectors need to be transformed.
- That's why we need to support greening companies - companies that are not low carbon today, but have the ambition to become lower carbon.
- Companies who know that the world wants change, recognise the opportunity, and are working to deliver on it.
- Companies with the scale and capabilities to help make the energy system greener, rapidly.

### How to support greening companies

- To support greening companies we need to make them part of conversations, policies, and investment plans for a cleaner, low carbon future - it must be an inclusive, not exclusive approach.
- We should use policies - like carbon pricing - to reward greening and disadvantage companies that don't work towards lower carbon.
- And investors should consider both the positive climate benefits and sustainable long-term value that greening companies can offer as part of a balanced portfolio.
- In return for that support we should expect greening companies to be transparent, and demonstrate relentless effort and progress towards delivery of their aims and targets

### The world needs as many greening companies as possible

- Companies - like countries - all have different starting points and they can't all move at the same speed.
- But we need as many of them as possible moving in the same direction - making contributions to global decarbonisation.
- Because ultimately the world needs as many greening companies as possible, chasing emissions down.
- Only then can the world transform at the scale and pace it needs to achieve the Paris goals.

### The long version

In a crisis everyone needs to pull together

In a crisis everyone needs to pull together - climate change is no exception.

The planet's carbon budget is finite and it is running out fast. To get to Paris, global emissions need to fall much faster.

- According to the IPCC the world needs to cut emissions by 7.6% every year between 2020 and 2030 to be on track to limit warming to 1.5°C<sup>i</sup>.
- That's more than the estimated 5.8% drop experienced in 2020 as much of the world locked down to tackle COVID<sup>ii</sup> - repeated every year over the decade.
- And all without bringing the global economy to a standstill.

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But that's not enough. They are too few and mostly too small to have impact at the scale and pace we need.

And we can't possibly create and grow enough new green companies fast enough to solve the climate crisis.

- Take renewables, the fastest growing source of energy in history.
- Total renewable energy consumption has grown by 300% globally over the last 10 years.
- But it still only accounts for 5% of total global energy demand today.

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- The World Resources Institute<sup>iii</sup> puts that figure at 73%, including generation of electricity and heat (30%), transport (16%), manufacturing and construction (12%), buildings (6%) and fugitive emissions (6%).
- The remaining 30% is largely made up of emissions from agriculture (12%), land use, land use change and forestry (7%), direct emissions from industrial processes (6%) and landfill (2%).

**That's why we need to support greening companies - companies that are not low carbon today, but have the ambition to become lower carbon.**

- We should remember that many of the world's low carbon companies didn't start off that way. Companies like Ørsted have spent years greening themselves, supported by government and society.

**Companies who know that the world wants change, recognise the opportunity, and are working to deliver on it.**

**Companies with the scale and capabilities to help make the energy system greener, rapidly.**

- The market in electric vehicles demonstrates why we need both green companies and greening companies to be in action:
  - Look at Tesla - what they're doing is amazing.
  - They sold nearly half-a-million EVs last year<sup>iv</sup>. The challenge is, that's less than 1% of 73 million cars sold every year.<sup>v</sup>
  - Toyota, VW and Renault Nissan sell close to 30 million vehicles each year<sup>viii</sup>.
  - So if we're going to transition - we need Tesla - but we need more than Tesla - we need those existing companies to transition.
  - They've got the installed infrastructure; the market knowledge; the capability.
  - And thankfully that's what's happening.

#### **How to support greening companies**

**To support greening companies we need to make them part of the conversation.**

- We can't exclude companies that wish to become lower carbon because they aren't already there, the approach needs to be inclusive.
- The world tried a similar approach to countries through the Kyoto Protocol. It didn't work - pushing countries away, instead of binding them in.
- That's the lesson of the Paris Agreement - the need to be inclusive, to back all companies who genuinely want to change and to help them do so.
  - Many people were sceptical about countries ratifying the Paris Agreement regardless of their starting point or stated ambition.
  - But today - under Paris - major emitters are ratcheting up their commitments to net zero, including Japan, China, and the US.



- And while net zero was barely a recognised concept when the agreement was signed, two-thirds of global GDP is now covered by countries with net zero ambitions, when you include the Biden administration.

**We should use policies - like carbon pricing - to reward and encourage greening companies, not to shut them out.**

- Take the EU Sustainable Finance Taxonomy. It needs to include and recognise the contribution gas, CCUS, biofuels and blue hydrogen can make to accelerate the transition.
- One survey suggested that only 2% of German companies' activities by revenue met the green standards of the first version of the taxonomy.
- That's not going to get more companies - with their resources and expertise - committed to greening their activities. The pursuit of 'perfect' is shutting out 'good' and 'better'.

**And investors should consider both the positive climate benefits and sustainable long-term value that greening companies can offer as part of a balanced portfolio.**

- Because for a greening company, along with carbon risk comes low carbon opportunity.
- Look at energy companies. According to IRENA \$110 trillion of investment will be required by 2050 to transform the energy system<sup>viii</sup>.
- That is a huge business opportunity, and also a huge opportunity in terms of market valuation.
- Because greening companies will create value as they shift cashflows from hydrocarbons to lower carbon businesses that attract higher market valuations.
- Investors should:
  - Recognise that there is a competitive value proposition in greening.
  - Include greening companies in a balanced portfolio.
  - Recognise that continued investment can help to accelerate the world's progress towards the Paris goals.

**And society can also support greening companies:**

- By pressing for an accelerated transition, whilst understanding what is feasible;
- And by understanding that there cannot be a single standard or single pathway to net zero.

- In their work the IPCC - the authoritative source on the evolving science of climate change - refer to many hundreds of model scenarios all of which they believe can achieve the Paris goals.
- And as many pathways as there are, there are ways for companies to contribute.
- Some can do more and go faster than others; but there can be the expectation that everyone should make as much of a contribution as they believe they can;
- By recognising and supporting the full range of contributions that companies can make - through technology development, policy advocacy, collaboration with their customers, and shifting their investment - contributions that won't necessarily show up fully in the kind of measures that are currently being applied to greening companies.

**But support should not be unconditional. In return, greening companies need to:**

- Set an ambition to get to net zero;
- Provide a timeline with interim aims and targets that set a realistic path to get there;
- Disclose a credible business plan that can achieve their targets and aims, while remaining a successful business; and
- Contribute where they can to a just transition using their links into communities as employers, suppliers and retailers.

**And companies that are not greening should pay a price.**

- Policymakers and regulators should introduce policies that disadvantage carbon-intensive activities and forms of energy like a meaningful carbon price.
- Investors should engage, and where they feel that a company is no longer a fit for their own portfolio and ambitions, they should exercise their right to divest and be clear why.
- And as the low carbon transition continues, companies will give consumers more affordable and lower carbon choices - they will increasingly be able to vote with their wallets.

**Greening companies also need to be transparent and demonstrate relentless effort and progress towards delivery of their aims and targets.**

- There need to be consistent disclosure standards so that companies' progress can be monitored and compared.
  - They need to set goals, aims and targets; drive and disclose progress against those targets.

- And those targets should set out an escalating path of ambition over time.

**But there needs to be simplification around disclosure - companies are spending too much time and energy trying to analyse metrics rather than reducing emissions.**

- Simplification doesn't mean forcing everyone into a single standard.
- For example, SBTi is an important and valuable tool that companies can use to set out targets that support Paris consistent strategies.
- But it is not the only one. Science tells us there are many ways for the world to get to Paris. And many ways for companies to contribute.
- So we need to find a balance in reporting tools that can recognise the breadth of contributions without overwhelming companies.
- TCFD helps, but finding the right metrics is a challenge.
  - For example - one of bp's aims is to have developed 50GW of net renewable generating capacity by 2030 - an aim that clearly supports the Paris goals.
  - Our strategy is about developing renewables, not holding them. We may want to develop, sell, harvest and reinvest.
  - But the most commonly used GHG metrics don't recognise the value of cycling cash in and out of projects to build more renewables capacity.
  - Because developing renewables does not reduce the Company's Scope 1, 2 or 3 emissions, unless we choose to sell the power generated by those renewables.
  - But where we choose instead to sell those assets, that contribution won't be captured by greenhouse gas emission metrics at all - even where we reinvest the capital to develop more low carbon generation.
  - Yet these are the metrics on which most methodologies base their assessments of whether a company is "Paris-aligned" or not.

**The world needs as many greening companies as possible**

**Companies - like countries - all have different starting points and they can't all move at the same speed.**

**But we need as many of them as possible moving in the same direction - making contributions to global net zero.**

- For some people, asking companies seen as the polluters to help transform industry, transport and energy may be counterintuitive.

- It may even be unpalatable to those who believe that the way forward is to put them out of business.
- But companies at the heart of the energy system need to be included. Because that's where you can have impact at scale and pace.
- And if companies are cut out - just because, like most of the world, they still produce or depend on fossil fuels - they are going to be pushed to own as much as they can of a shrinking market.
- Instead of making whatever contribution they can to moving the world towards lower carbon.

**Because ultimately the world needs as many greening companies as possible, chasing emissions down.**

- The world needs a massive, unprecedented and sustained shift in energy demand and supply, away from fossil fuels and towards low carbon to get us to net zero.
- That is only feasible if we encourage, support and reward greening companies in moving away from fossil fuels and scaling low carbon, in the same way we do for green companies.
- And do it in a way that is scientifically viable, as well as working from a business and social perspective so people aren't left behind.

**It will take leadership. In each sector, some companies are going to have to go first - greening their businesses and showing that it can be done.**

- If they fail, few will follow.
- But if they succeed it will be clear that greening is a winning strategy.

**Only then can the world transform at the scale and pace it needs to achieve the Paris goals.**

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<sup>i</sup> <https://www.unenvironment.org/news-and-stories/press-release/cut-global-emissions-76-percent-every-year-next-decade-meet-15degc>

<sup>ii</sup> <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>

<sup>iii</sup> <https://www.wri.org/blog/2020/02/greenhouse-gas-emissions-by-country-sector>

<sup>iv</sup> <https://ir.tesla.com/press-release/tesla-q4-2020-vehicle-production-deliveries>

<sup>v</sup> <https://www.iea.org/data-and-statistics/charts/global-car-sales-by-key-markets-2005-2020>

<sup>vi</sup> <https://investor.gm.com/news-releases/news-release-details/gm-2020-sales-far-outperform-us-industry-fourth-quarter-and>

<sup>vii</sup> <https://www.focus2move.com/world-car-group-ranking/>

<sup>viii</sup> [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Sep/IRENA\\_Transforming\\_2019\\_Summary.pdf?la=en&hash=DEB5162D7863B214F70ABB9B7849B250CF258DCE](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Sep/IRENA_Transforming_2019_Summary.pdf?la=en&hash=DEB5162D7863B214F70ABB9B7849B250CF258DCE)