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Net Zero, Decarbonization & the Regulatory Landscape
Energy Efficiency in Manufacturing Conference

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What is Net Zero?

Photographer: Chung Sung-Jun/Getty Images AsiaPac


PARIS
CLIMATE
AGREEMENT

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016.

Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."


NET
ZERO

Net Zero

Net zero means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere by oceans and forests, for instance.

Net zero is reached when a business has eliminated all the carbon emissions it could and then compensated the remaining emissions with beyond value chain mitigation.

The net zero process starts with calculating emissions across Scope 1, 2, and 3, setting science-based targets, developing decarbonisation pathways until 2030, and gradually moving towards long-term carbon capture, storage, and sequestration for those emissions which cannot be reduced.

Source: Science Based Targets Initiative (SBTi)

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Other Wording

Carbon Neutral is a theoretical state achieved via the “offsetting” or “compensating” of residual emissions with projects beyond the company’s own value chain. However, this may hide and distract from real decarbonisation, where emissions are cut within the company’s operations. The Science Based Targets initiative’s Net-Zero Standard clearly states: “SBTi does not validate carbon neutrality claims.”

Climate Positive means going a step further than Carbon Neutral, by saving MORE greenhouse gas emissions than you are generating

Decarbonisation is the process of removing or reducing all man-made carbon emissions, with the goal to eliminate them altogether - reaching net zero emissions

Net Zero and Decarbonisation

A global imperative for governments, businesses and society because it plays a crucial role to limit the worst effects of climate change. While many companies declared becoming carbon-neutral by 2050, recent estimates suggest we are not on track to meet the Paris targets - more must be achieved, and at a greater speed.

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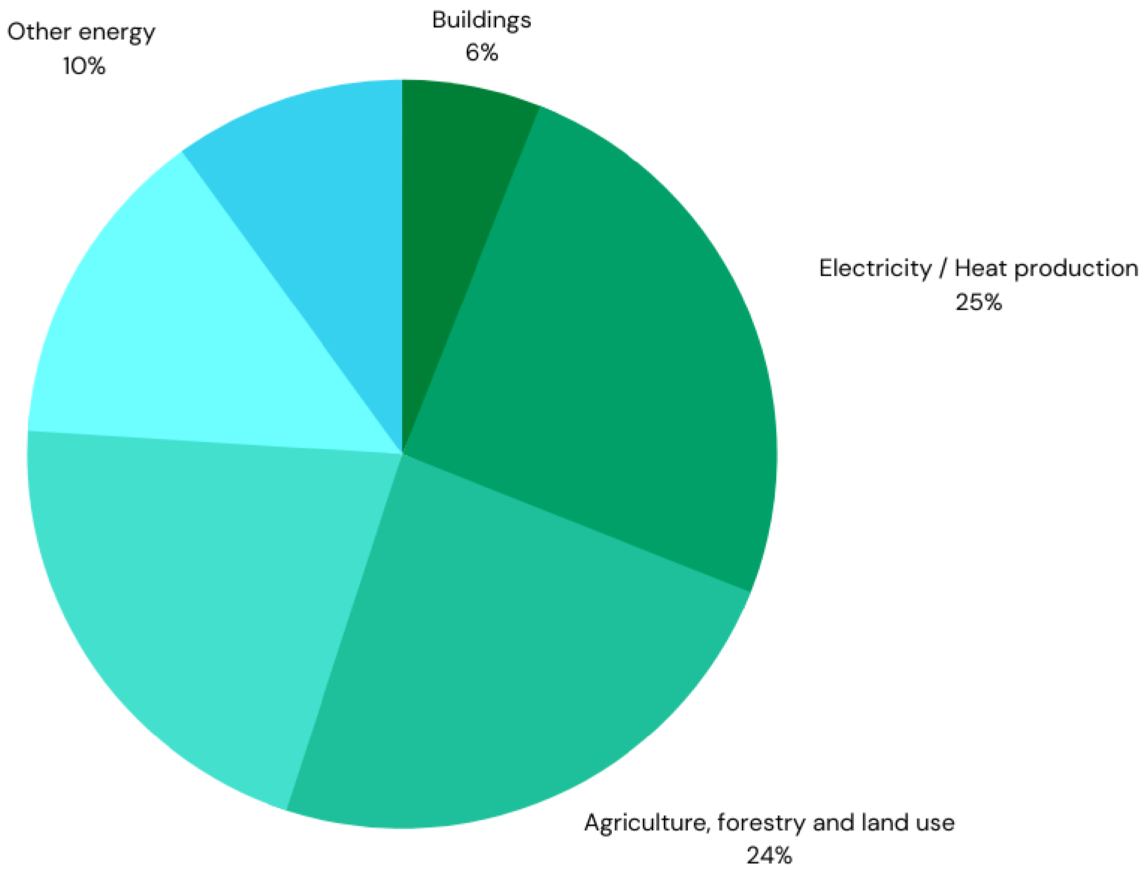
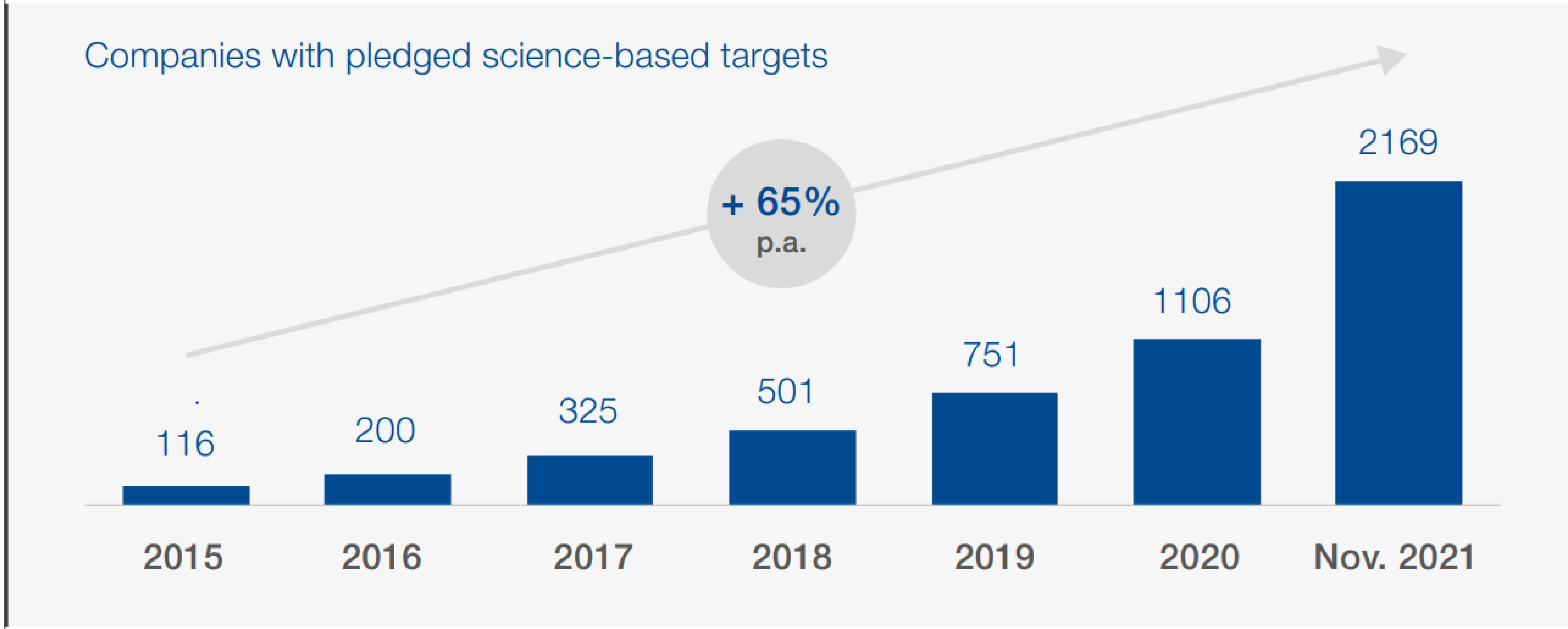
GLOBAL CO2 EMISSIONS PER SECTOR



Global CO2 Emissions per sector
Source: IPCC (2014) & EEA (2018)

FIGURE 2

Corporate commitments are growing exponentially[4,5]



Note: ~$24T revenues (~30% global GDP) covered with science-based targets

Data as of 19 November 2021; cumulative view, includes companies committed and with targets set.

Source: Net Zero Tracker; Science Based Targets initiative (SBTi)

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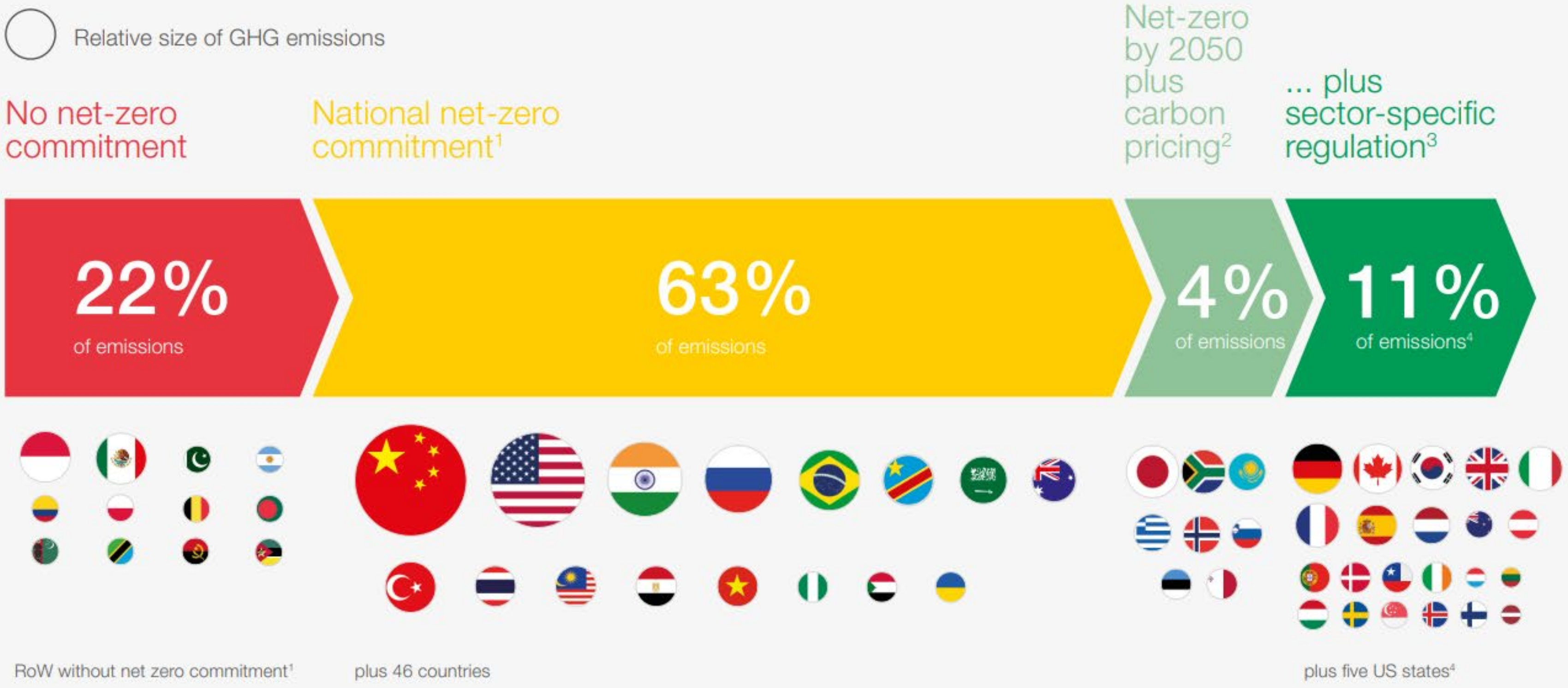
FIGURE 4 | Many countries still have a commitment-regulation gap[8,9,10,11,12,13,14,15]



Note: 1. National commitments independent of target that are considered sincere (either in law, in policy document, officially declared or achieved); 2. Emissions trading scheme or carbon tax in place; 3. At least one regulatory instrument per sector: energy, agriculture, transport and industry; 4. Including emissions of five US states (California, Maine, New York, Virginia, Connecticut).

Source: Net Zero Tracker; Climate Watch; ICOS, Ren21, Past Coal Alliance, ICCT, World Bank; Governments' websites; BCG analysis

The Basics of the EU Green Deal

EU Green Deal

Fit for 55

Energy Efficiency Directive
(EU/2023/1791)

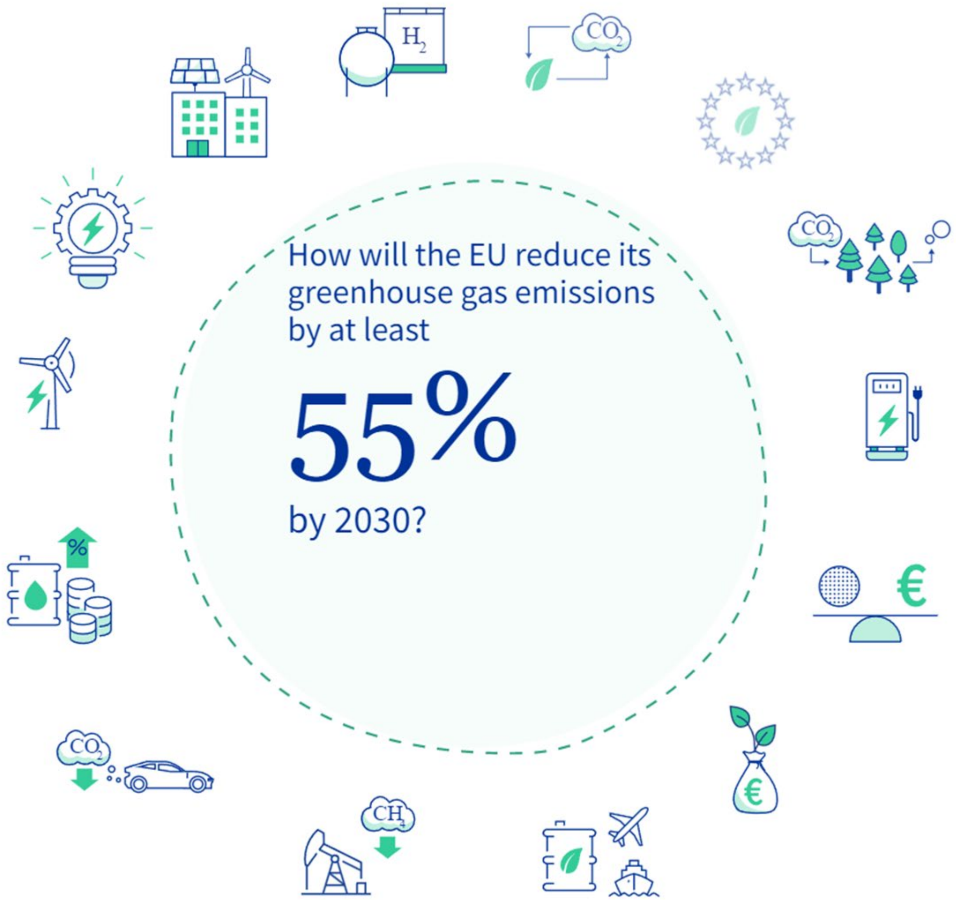
EU Climate Law

CSRD/CSDDD/Green Claims Directive

New Commission Q4 2024

Fit for 55

Fit for 55 refers to the EU's target of reducing net greenhouse gas emissions by at least 55% by 2030. The proposed package aims to bring EU legislation in line with the 2030 goal.



Energy Efficiency Directive

The revised Energy Efficiency Directive (EU/2023/1791) significantly raises the EU's ambition on energy efficiency – it entered into force in October 2023.

It establishes 'energy efficiency first' as a fundamental principle of EU energy policy, giving it legal-standing for the first time. In practical terms, this means that energy efficiency must be considered by EU countries in all relevant policy and major investment decisions taken in the energy and non-energy sectors.

The 2023 revised directive raises the EU energy efficiency target, making it binding for EU countries to collectively ensure an additional 11.7% reduction in energy consumption by 2030

CSRD - Corporate Sustainability Reporting Directive

EU rules require large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment.

On 5 January 2023, CSRD entered into force. It modernises and strengthens the rules concerning the social and environmental information that companies have to report. A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability. Some non-EU companies will also have to report if they generate over EUR 150 million on the EU market.

The Role of Suppliers

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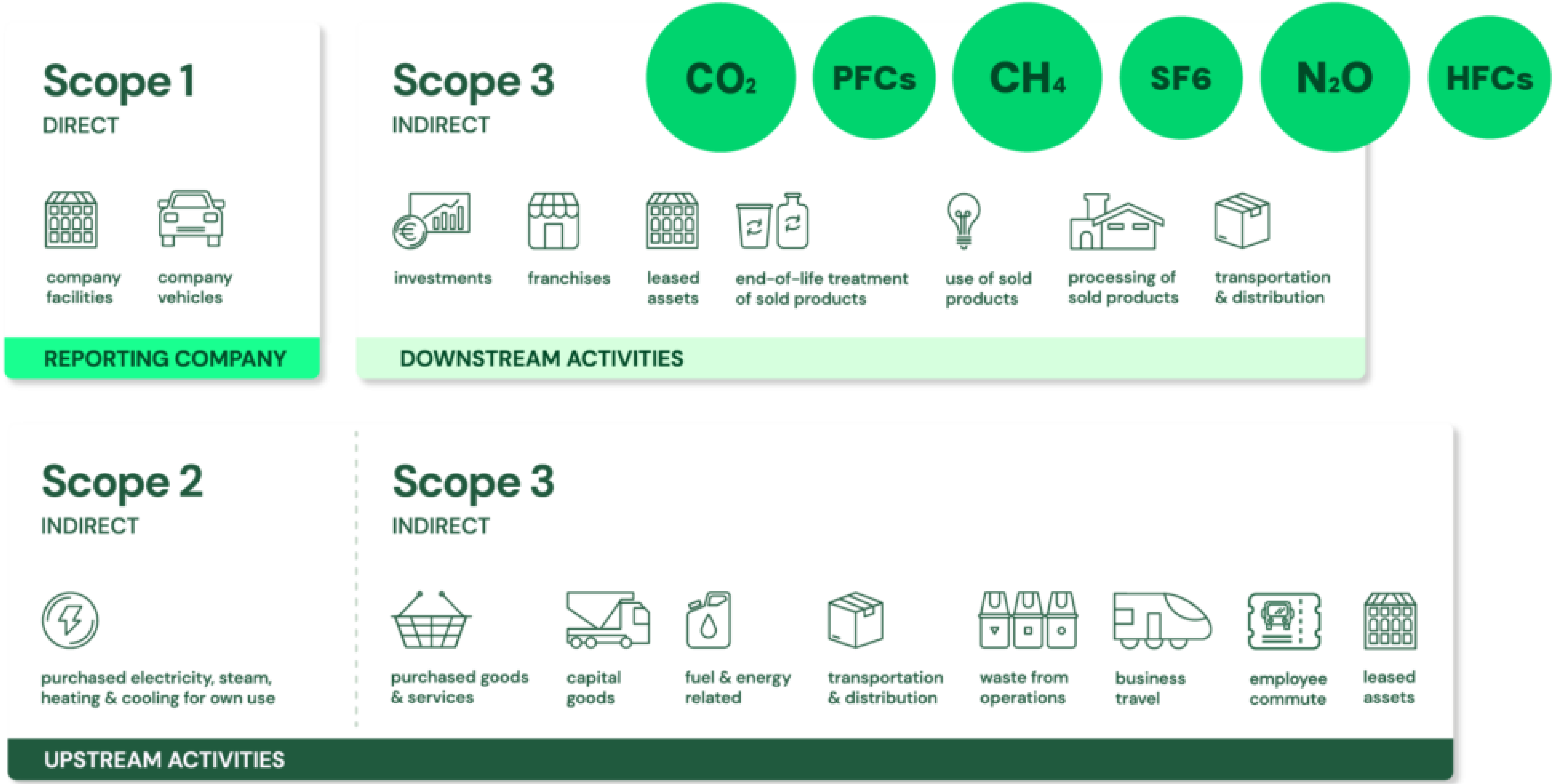
The role of suppliers within the net-zero journey

For most industries, 92% of a company's emissions come from scope 3 (indirect emissions), meaning the majority of a business' carbon footprint lies in its wider value chain. This includes the carbon emissions from raw materials, transportation and delivering products to consumers. These emissions, known as scope 3 emissions, are all indirect emissions - not included in scope 2 - that occur in the value chain of the reporting company, including both upstream and downstream emissions.

*Scope 1, 2 and 3 emissions have been defined by the GHG protocol.

*CSRD will require listed companies to report their Scope 3 emissions by 2025 and in the US, the SEC will require this if the information is material to investors.

The role of suppliers within the net-zero journey



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Thank you!

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