



Fair Transition Unit

THE END OF GREENWASHING?

**DRIVING DECARBONISATION
IN THE REAL ECONOMY**

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ABOUT IPPR'S FAIR TRANSITION UNIT

IPPR's **Fair Transition Unit (FTU)** was established in June 2022 as a new landmark initiative to carry forward the work of IPPR's cross-party Environmental Justice Commission and award-winning work on environmental breakdown.

The FTU's mission is 'to accelerate progress in reducing emissions and restoring nature and secure a fairer, more just and thriving society'. To realise this mission, the FTU delivers projects, programmes and support to others focused on securing a fair transition to net zero and the restoration of nature.

The Environmental Justice Commission drew on views and recommendations from citizens from across the country in a way that has genuinely shaped policy thinking and had tangible policy and media impact. Building on this legacy, the FTU puts the public at the heart of its work through extensive public deliberation.

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SUMMARY

At COP26 in Glasgow, Rishi Sunak announced new requirements for stock market listed businesses and financial firms to publish net zero plans. In these, businesses must set out how they plan to adapt and decarbonise for a net zero economy. However, since this announcement government has made little progress on the regulatory framework and has yet to put this commitment into legislation.

The government has appointed two advisory groups that are developing the details of proposals. The first - the Green Technical Advisory Group - is tasked with advising on developing a taxonomy that helps investors distinguish between 'green' and 'non-green' activities.

More pertinent to this paper is the Transition Plan Taskforce – which has set out its gold standard for what net zero plans should look like. Currently, transition plans are envisaged as a financial risk-related disclosure. However, their content is not just important to businesses and investors but will be a vital source of information for government and regulators.

In this paper, we set out how the state and private firms can work together to ensure transition plans are a tool for reducing emissions in the real economy - using the Science-Based Targets initiative (SBTi) as a gold-standard practice.

Key findings

- Ahead of transition plans being mandatory for all UK-listed companies, just 739 UK firms have even signed up to the gold-standard SBTi. 551 of these have over 250 employees, of which only 363 are developing their targets, meaning that just 2.5 per cent of UK large companies have science-based targets in place. Only 42 companies in the FTSE 100 have near-term targets.
- Different metrics for measuring the same 'green' credentials come to vastly different conclusions, which is further impacted by environmental, social and governance (ESG) ratings that cover more than just environment. This emphasises the need for clarity and comparability of firms' sustainability.
- Without comparability there could be perverse incentives for investors to divest from high emissions firms like steel to remove them from their portfolio, rather than help steward them through an evidenced path to decarbonise. With science-based targets, investors can aggregate individual targets of firms they invest in to determine the overall alignment and importantly direction of their portfolio.
- Even under SBTi there are issues with comparability. In the FTSE100 Target years for initial reductions range from 2023 to 2036, while the baseline of emissions ranges from 1991-2020.

Recommendations

To support the private sector, the government should establish an Office for Climate and Environment Targets (OCET). Given the technical complexities in guidance and variation between sectors and countries, the transition plan process should be led by a newly established UK Office for Climate and Environment Targets. It would be tasked with developing consistent transition pathways across the UK economy. This would avoid the dizzying array of approaches produced by initiatives, task forces, consultancies, and industry groups. This would be replaced by a technically informed and rigorous approach through a statutory Office for Climate and Environment Targets, ending the proliferation of conflicting third-party advice.

The UK should take global leadership, driving consistency and ambition in transition plans to make them applicable to the real economy. Current plans will see asset managers, regulated asset owners and UK listed companies publish plans, but there is a strong rationale to widen that to non-listed companies and smaller organisations (with support) to ensure emissions are captured cross the economy.

The OCET would support sectors and firms in setting ambitious plans and support public policy and individuals in assessing environmental progress. To ensure these are supportive of the UK's transition they will need three components.

1. **Consistent timelines:** There should be uniform baseline years and target dates for targets, to make reductions comparable, supported by sectoral pathways established by the regulator.
2. **Continual progress:** Companies' targets must be in line with sectoral reduction pathways and provide ongoing information on the progress against them. This is needed so that markets, policy makers, or the public can investigate and understand each company's progress – and ensure that combined those targets are meeting the UK's carbon budget.
3. **Beyond climate:** There should be targets for reducing companies' wider environmental impacts, such as biodiversity or resource use.

This will allow for a more fruitful partnership between the state and the private sector. Through the CCC, OCET, and others the government will provide pathways, guidance, and support in transition planning. It will set expectations on the private sector to publish clear, consistent, and ambitious plans. The state can then use those plans to inform industrial policy, unblocking issues in the transition such as skill provision or the cost of technology, in turn allowing companies to be even more ambitious.

To prevent greenwashing, transition plans should govern whether companies can genuinely call themselves 'green' or 'net zero'. While the expected UK green taxonomy will inform what investments are green, it is the content and quality of transition plans which will inform whether companies are. The regulator should eventually blacklist companies that after remedial action fail to meet three criteria, and those that fail to publish a transition plan at all every three years.

- Their transition plan does not include a uniform baseline, are not in line with sectoral reduction plans, and they don't include wider environmental impacts.
- The regulator deems the plan to be incompatible with the government's net zero target or two-degree Celsius level of global warming.
- The company has made three years of no progress against the targets set out in their transition plan unless there are clear extenuating circumstances.

The blacklist would be publicly available, helping the public to identify unsustainable companies and sending a powerful signal to investors. Blacklisting would also prevent companies entering government contracts, including procurement, or benefitting from higher rate 'green' tax incentives.

1. CONTEXT

At the Glasgow Climate Summit in 2021, then-chancellor Rishi Sunak announced a requirement for a range of firms including those listed on the London Stock Exchange, as well as regulated asset managers and owners, to set out net-zero aligned plans by 2023, as part of a commitment for the UK to become a net-zero aligned financial centre (HMT 2021).

To prevent greenwashing, the chancellor created a taskforce to provide guidance for what these transition plans should look like. The Transition Plan taskforce (TPT) released its 'gold standard' for best practice and required content in transition plans in November 2022 (TPT 2022).

Broadly, gold standard transitions plans should include the following.

- High-level ambitions to mitigate, manage, and respond to climate change. This should include a series of targets, across scope 1, 2, and 3 emissions.
- Short, medium, and long-term actions to achieve those ambitions.
- Governance and accountability mechanisms to underpin those actions.

While the TPT expects greenhouse gas reduction targets, it does not set out what adequate or minimum targets should be. This is in keeping with the then-chancellor's initial statement expecting the market to decide whether plans are sufficient, not regulators (Plummer and Timmins 2021).

TPT's guidance is intended to inform future regulation in the UK. The government's plan is to introduce legislation for these standards alongside broader sustainability disclosure requirements for financial institutions to report on the climate-related risks of their assets. This builds on the now mandatory Taskforce for Climate-related Financial Disclosure (TCFD) risk assessments (HMT 2021b). The finalised advice is also expected to be used by the Financial Conduct Authority as part of their strengthened disclosure plans.

These disclosure requirements will be underpinned by a new UK Green Taxonomy. The aim of the taxonomy is to define and improve the understanding of what can and cannot be called a 'green' investment. Advice on its content has also been outsourced to another technical working group, the Green Taxonomy Advisory Group (GTAG). GTAG issued their initial advice in October 2022 on how to develop the taxonomy (GTAG 2022).

However, government has increasingly cooled on the idea of a mandatory UK taxonomy, missing a legal deadline to update aspects of the EU taxonomy for use in the UK (HoC 2022). The Green Finance Strategy update, planned to set a roadmap for implementation of the taxonomy, transition plans and disclosures, was expected in Autumn 2022 but was only recently released on 30 March 2023 (HM Government 2022, 2023).

There are concerns from business that this may signal a policy change, and potential weakening of the taxonomy to a voluntary code. This is supported by government's recent release of the 'Edinburgh reforms' which refer only to a review of ESG (environmental, social and governance) regulation and not a legally binding taxonomy (HMT 2022).

2. WHAT DOES NET ZERO LOOK LIKE FOR CORPORATES

THE SCIENCE-BASED TARGETS INITIATIVE

The Science-Based Targets initiative (SBTi) offers companies a measurable and scientific-based method to produce targets aligned with the Paris Agreement and the transition to a net-zero economy. TPT's gold standard for transition plans recommends using SBTi to inform target-setting in UK transition plans.

The process of developing a target has five stages that range from the initial commitment to the disclosing of the annual emissions. Targets approved by SBTi should bring the company in alignment with limiting global warming to at least 2°C above pre-industrial levels and push further to 1.5°C.

Climate risk to firms comes from both the physical risk of climate change, such as flooding, and from the transition as policy change affects how business operates. There is also a third risk of litigation against companies failing to act.

Adopting science-based targets benefits companies by helping avoid these risks, such as avoiding stranded assets, increasing credibility with stakeholders, and positioning the company to get ahead of, and better adapt to, evolving public policy.

WHAT IS THE STATE OF ADOPTION OF THESE TARGETS?

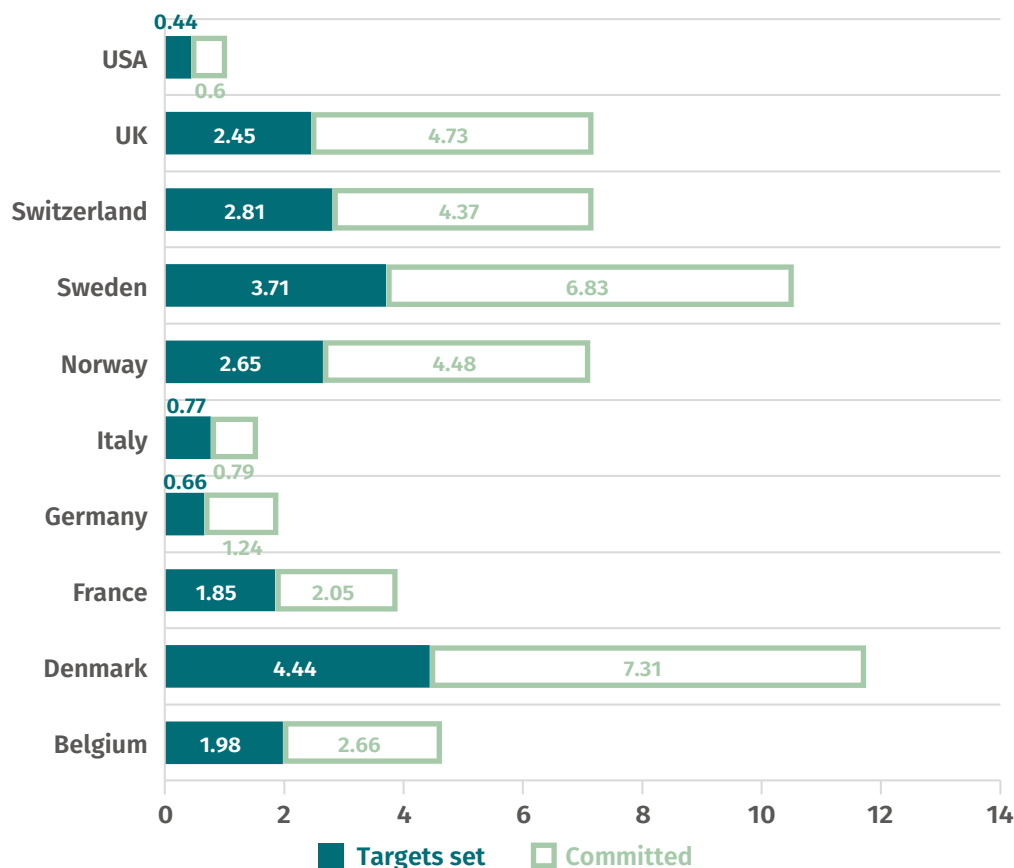
Globally, of the companies that have committed to the initiative, half are in the process of setting their targets; the other half have already set them. In the UK as of January 2023, 739 firms are part of the Science-Based Targets initiative.

- 151 of UK SBTi sign-ups are small or medium Enterprises (SMEs), ie those under 250 employees, and will therefore not be captured by the incoming legislation on mandatory transition plans. Every one of these 151 SMEs has targets set.
- 551 are large companies, ie those which have over 250 employees. Of these, only 188 (34 per cent) have targets set. According to government data there are 7,675 companies in the UK (BEIS 2022). That means that ahead of mandatory transition plans only 2.5 per cent of UK large companies already have a science-based set of targets.
- The remaining 37 are financial institutions, of which less than a third have targets set.

Figure 2.1 presents coverage of SBTis in selected European countries and the US. Scandinavian countries are outstripping the UK, notably Denmark (4.4 per cent) and Sweden (3.7 per cent). If the UK government wants to meet its ambition to be the 'world's first net zero financial centre' it will need to address this. However, the UK is ahead of similar-sized economies like France (1.85 per cent) and Germany (0.7 per cent).

FIGURE 2.1: SCANDINAVIA HAS STRONGER COVERAGE OF SBTi'S THAN OTHER EUROPEAN ECONOMIES

Share of business with science-based targets in selected countries



Source: Authors' analysis of SBTi (no date) and Eurostat (2022)

THE ADOPTION OF SUCH TARGETS VARIES WIDELY BY SECTOR

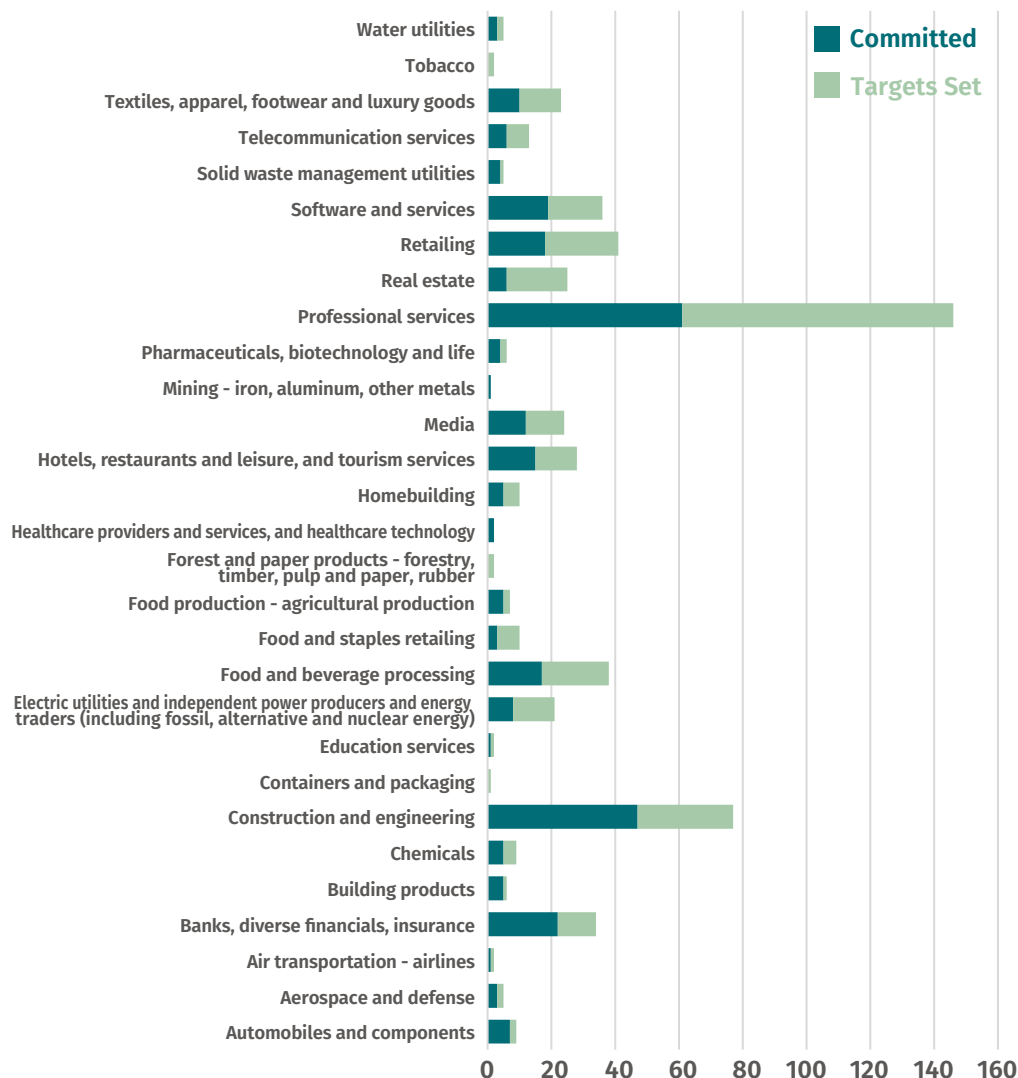
Globally, those sectors moving at the quickest pace in adopting SBTi's tend to be less energy-intensive sectors, this includes professional services, and food and beverage processing. But these are not the sectors that produce most emissions (figure 2.2).

Unsurprisingly in the UK there is a greater dominance of services, with retail and software having relatively high coverage. The UK has no firms with SBTi targets set in some of the highest emitting sectors, notably food production and forestry, and only one airline. UK coverage is unreflective of its stock exchange, which is explored more below.

Financial firms are a special case, as they provide funding for firms across sectors. One of their most important contributions are their 'financed emissions' – ie, the emissions of firms they support both in the UK and abroad through the money they provide to them. Because of this, UK financial institutions are responsible for almost twice the UK's annual net emissions (WWF and Greenpeace 2021). Of the banks and other financial institutions in the FTSE100 only two have set near-term SBTi targets, NatWest and Schroders. A further six have committed to set short-term targets. Many more, including two of the three largest UK banks – Barclays and Lloyds – haven't.

FIGURE 2.2: IN THE UK PROFESSIONAL SERVICES LEADS THE PACK IN TERMS OF THE ADOPTION OF SCIENCE-BASED TARGETS

Sectors more advanced in the adoption of science-based targets



Source: Authors' analysis of SBTi (no date)

BOX 2.1: GREENWASHING

Currently there is a large range of climate metrics aimed at helping investors to invest in climate-friendly projects. However, several observers have expressed concern that metrics that purportedly are measuring the same 'green' credentials come to vastly different conclusions. This can be further obscured by singular environmental, social and governance (ESG) ratings that also include ratings for social impacts and quality of governance, with different weightings.

The reason often being that very different metrics are used for assessing sustainability, with the result being a lack of clarity and comparability. We argue that using science-based targets as the core differentiator will help address this shortcoming.

THE WIDE ADOPTION OF SCIENCE-BASED TARGETS IS KEY FOR FINANCIAL FIRMS

Without clear and comparable net zero targets in all other sectors financial firms cannot determine how sustainable they are (see box 2.1). This could create a perverse incentive where financial firms simply divest from high emissions firms like steel to remove them from their portfolio, rather than help steward them through an evidenced path to decarbonise. With science-based targets, investors ranging from pension funds to asset managers can aggregate individual targets of firms they invest in to determine the overall alignment and importantly direction of their portfolio.

3. USING TARGETS TO DRIVE CHANGE

Next to the need for wider adoption, ambitious net zero targets need to drive actual change in UK emissions, supporting consumer choice, and policymaking.

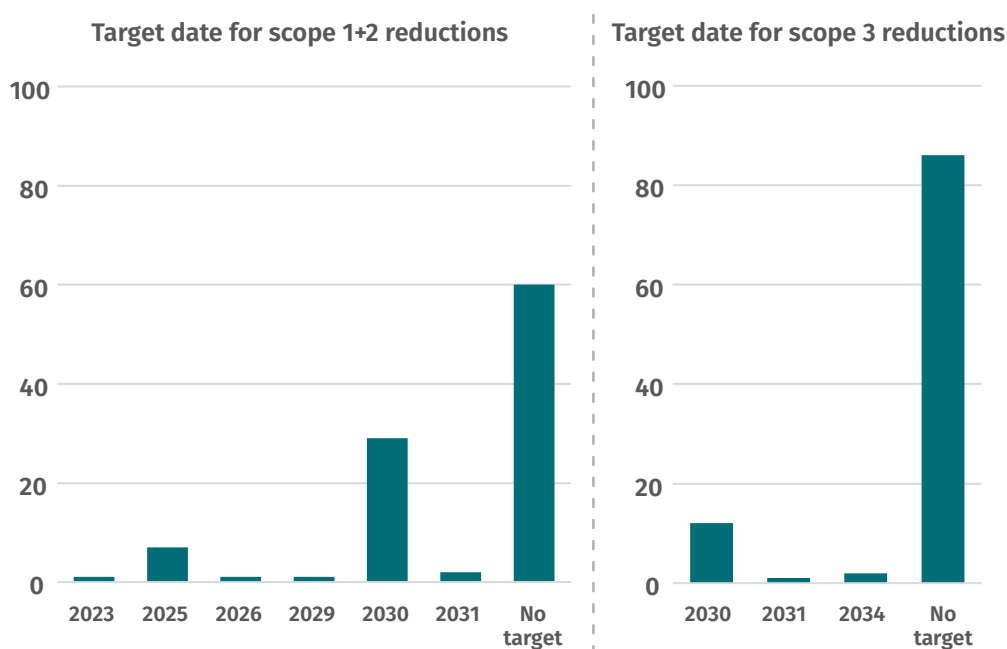
CONSISTENT TIMELINES

Without common timeframes for firms’ net zero targets, comparison between them is difficult. The time frame of science-based targets approved by SBTi is set between five and 15 years. Companies that are not under the SBTi but have established a climate target for net zero by 2050 are not considered science based. While SBTis at a minimum reach net zero by 2050, companies need nearer-term targets to ensure they’re on track to meet them.

But even if companies do set near term targets, a multitude of approaches makes comparison hard. Figure 3.1 shows that firms use a wide array of targets. The base years chosen also vary. A plurality of FTSE 100 companies with targets have a 2019 base year, but some stretch back further – National Grid’s baseline is 1991. There is also variance between calendar years and financial years.

FIGURE 3.1: THE TARGET YEARS OF FTSE EMISSION REDUCTION PLANS SPAN ALMOST A DECADE

Target years for scope one, two and three emissions for FTSE 100 firms signed up to SBTi



Source: Authors’ analysis of SBTi data (2023). Where targets are financial year-based the latter year is taken

There is a clear need for active regulation to bring consistency. As former Governor of the Bank of England, Mark Carney (now co-chair of GFANZ and UN Special Envoy on Climate Action), has stated, financial institutions suffer from a ‘tragedy of horizons’ (Carney 2015). This is when most financial institutions incorporate risk into their modelling using historical data, and often only project three years in the future. Climate change is both unprecedented and most likely to manifest in the medium term, which could lead businesses to underestimate the required speed of emissions reductions in their transition plans.

While central banks like the Bank of England have a role to inform risk analysis through climate stress testing, for example the BoE’s Climate Biennial Exploratory Scenario (CBES) (BoE 2022), they will not oversee transition plans. Regulators will need to work with the private sector to ensure consistent baselines and targets are informed by economy wide analysis like CBES.

TARGET AMBITION AND PROGRESS

The level of ambition in each firm should add up to the UK’s carbon budget.

Transition plans are a business-level representation of a national goal, to reach net zero by 2050 with a 68 per cent reduction by 2030. Individual plans should have sufficient ambition to ensure those targets are met. This depends on both the overall reduction and its timing.

The TPT recommends using either the Greenhouse Gas protocol or the SBTi’s Absolute Contraction Approach (ACA). SBTi’s ACA is applicable to all sectors and ensures a company reduces its emission simply in line with the global emissions reductions needed.

Underlying such a reduction target is a climate change mitigation scenario – and a carbon budget. The carbon budget, the amount of carbon able to be emitted to limit warming to 1.5°C, is split up between firms, including an estimate of their future market share.¹

BOX 3.1: COMPARING TARGETS OF TWO ENERGY SECTOR FIRMS

In this box, we compare the targets of two UK power sector firms, SSE (SSE 2022) and Centrica (Centrica 2021).

SSE is an energy company based in the UK focused on regulated electricity networks and renewables and is the UK’s largest generator of renewable energy. Centrica is an international energy service focused on making energy more sustainable. Both companies have implemented targets to reduce their emissions, but SSE’s are approved as science-based by SBTi. Both companies disclose their emissions through disclosure insight action and are classified by Climate Disclosure Project as leaders in the way towards a more sustainable future. Centrica achieves a higher score than SSE.

Table 3.1 shows the climate reduction targets of both companies as they disclose them in their sustainability reports. We do not include targets for increasing spending, or implementation of green technologies which are often used to obscure the need to also reduce emissions.

¹ Until recently, those targets had to be at least in line with the levels of decarbonisation necessary to keep global warming well-below 2°C target, but in July SBTi raised their climate ambition bar to 1.5°C. From July 2022, SBTi will only approve science-based targets aligned with this new criterion.

TABLE 3.1 SSE HAS CLEAR SCIENCE-BASED CLIMATE REDUCTION TARGETS IN THE NEAR TERM, COMPARED TO CENTRICA'S SINGULAR FUTURE TARGET

SSE targets	Centrica targets
1. Reduce the carbon intensity of electricity generation (scope 1 emissions) by 80 per cent per gram of CO2 per kWh by 2030, from 2017/18 base year.	1. Be a net zero business by 2045 (40 per cent carbon reduction by 2034).
2. Reduce absolute scope 1 and 2 GHG emissions by 72.5 per cent by 2030 from a 2017/18 base year.	2. Reduce property emissions by 50 per cent by 2030.
3. Reduce absolute GHG emissions from use of products sold by 50 per cent by 2034 from a 2017/18 base year.	
4. Engage with 50 per cent of suppliers by spend to set an SBT by 2024.	

Source: Authors' analysis

The difference of clarity and specificity between both targets is noticeable. A note specifies that Centrica's target includes 'scope 1 (direct) and 2 (indirect) greenhouse gas emissions based on operator boundary and normalised for acquisitions and divestments against a 2019 baseline, with target aligned to the Paris Accord and based on science'.

Scope 3 emissions are key, and Centrica's scope 3 emissions correspond to more than 99 per cent of emissions out of the firms' total emissions. By comparison, SSE's science-based targets specifically refer to the scope or the activity - as in the case of target 3 that tackles a scope 3 downstream activity - the base year, and the target year, as well as the kind of reduction (intensity or absolute).

AMBITION IN FSTE 100 FIRMS

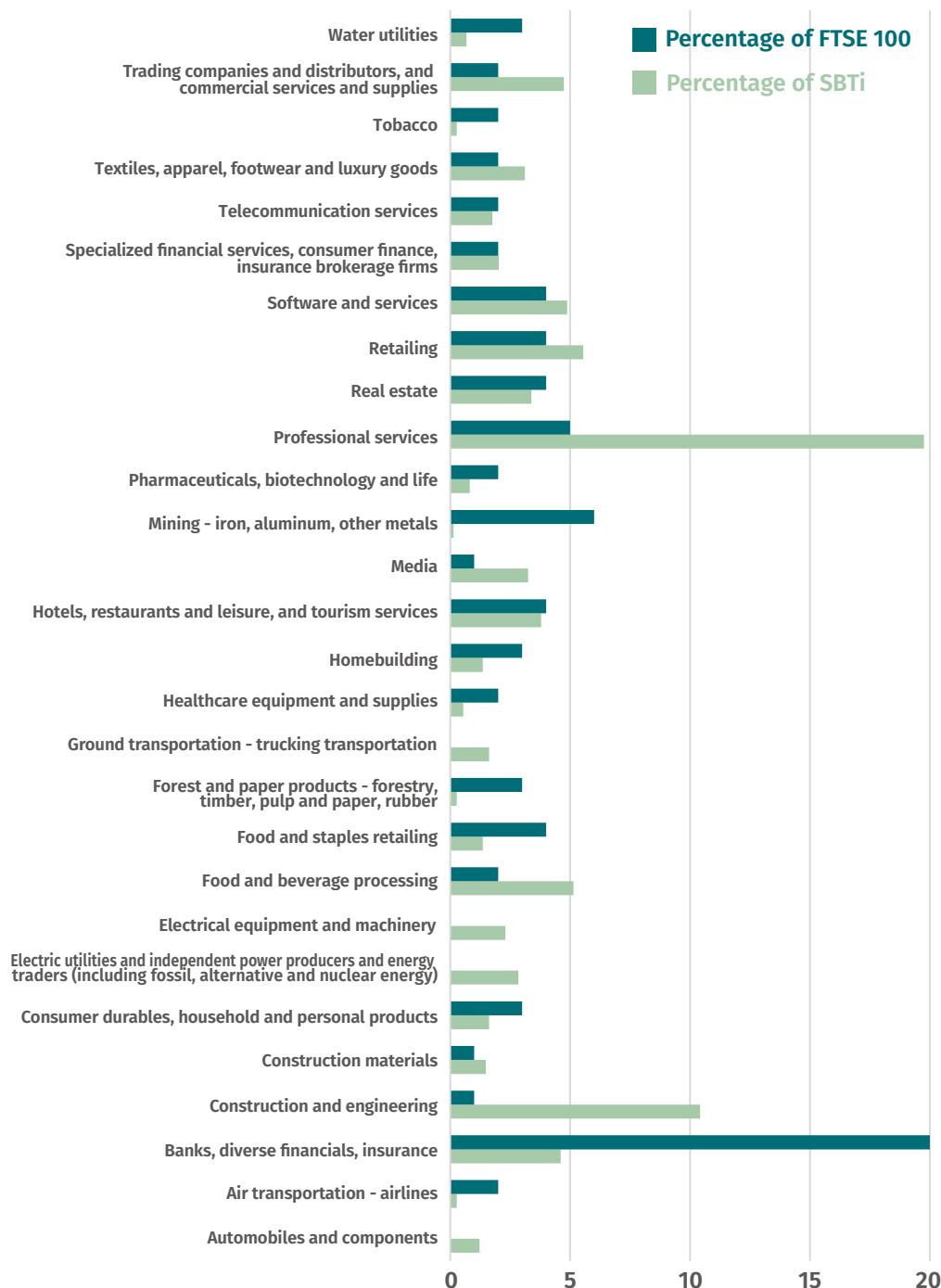
Net zero targets vary widely in their ambition. Looking at the FTSE 100 indicates the spread of targets across not only emissions scopes, but pace of reductions.

The FTSE 100 has developed a reputation recently as a 'dinosaur market' for its dominance by traditional sectors including construction and mining, and relatively few innovative companies in tech or services which tend to have stronger environmental targets. This is a problem both for decarbonisation and economic growth.

- Forty-two FTSE firms have near term targets. The vast majority of these are compatible with a 1.5°C world, five are for either 2°C, or well below 2°C.
- A fifth of the FTSE are the financial sector, but only 4.6 per cent of UK SBTi sign-ups are financial institutions. There are six mining companies in the FTSE100, not one has a SBTi plan (figure 3.3).

FIGURE 3.3: THE COVERAGE OF SCIENCE-BASED TRANSITION PLANS ACROSS SECTORS DOES NOT REFLECT THE MAKEUP OF THE FTSE100

Percentage of total SBTi sign-ups by sector, compared to percentage of the FTSE100



Source: Authors' calculations of SBTi and London Stock Exchange

Reducing emissions means both reducing the impact of a business' operations, known as scope 1 and scope 2 emissions, and those from up and down its supply chain, known as scope 3. This is the difference say between using less, or greener, energy to heat your office, and knowing what energy those firms that supply goods or materials to you, or that you sell yours to, use.

Ambition in the SBTi across scopes varies. This could be because of the make-up of an organisation's emissions between each scope, the total volume of emissions, or the solutions available to reduce them.

Scope 1 and 2 reductions range from 25 per cent to 100 per cent with a mean reduction of 57 per cent, as in figure 3.1 nearly all of these are by 2030. Some firms are further ahead, for example Burberry is planning to reduce its scope 1 and 2 emissions 95 per cent by 2023.

Scope 3 targets are harder to track, both for companies and for those from the outside. In part this is because a scope 3 target could mean crossing sectors, as products are sold between differing firms. SBTi allows for a range of different scope 3 targets, while SMEs (under 250 employees) are exempt but must commit to at least tracking the data.

In practice this leads to a range of accredited targets. For example, many property developers, like Barratt, Persimmon or Taylor Wimpey have intensity-based targets. Their carbon per floorspace will fall but their total floorspace can still rise. Similarly, Next has one based on its emissions per pound of turnover.

Others have targets that relate just to purchased goods, rather than sold ones. SBTi also allows for targets based on supplier or customer engagement, ie getting those you buy from or sell to to also adopt SBTi's.

The gold standard is a reduction of absolute scope 3 emissions. Those that do have absolute scope 3 targets still show a range of reductions from 13.5 per cent (Croda) to over 67 per cent (JD Sports). But absolute scope 3 reductions can also be achieved by setting a range of targets. AstraZeneca have different targets for bought and sold products, or transport – all of which are ambitious.

AMBITION IN FINANCED EMISSIONS

We analysed banks in the FSTE 100, looking to the approaches that they have taken and their plans to reduce their financed emissions including investment.

There are five banks which address their financed emissions in different ways. As mentioned above, several banks are SBTi accredited including NatWest, HSBC, St James Place and Standard Chartered.

As well as long-term net zero targets, Barclays and Lloyds instead have specific targets for some portfolio sectors. Barclays has set near-term and medium-term targets for the financed emissions of their power, cement, and steel portfolios, and are developing an overall financed emissions reductions pathway in line with the Paris Agreement (Barclays no date). Similarly, Lloyds has set an intensity reduction target for the power sector, alongside monetary targets for green products (Lloyds no date).

Several financial institutions have pointed to the need for harmonised standards to align these efforts. The Task Force for Climate-Related Financial Disclosures (TCFD) recently has made some useful progress on how financed emissions could be disclosed and how ambition (ie alignment with climate goals) could be calculated. They propose three different alignment tools: binary target measurement, benchmarks divergence models, and implied temperature rise models (TCFD 2021). The first is most aligned with the approach we outline in this paper.

But given several complexities involved, our proposed Office for Climate and Environmental Targets (OCET) would be best placed to establish a clear standardised process that would make it possible to compare approaches, targets, and disclosure of financed emissions. This is something also requested by financial sector firms.

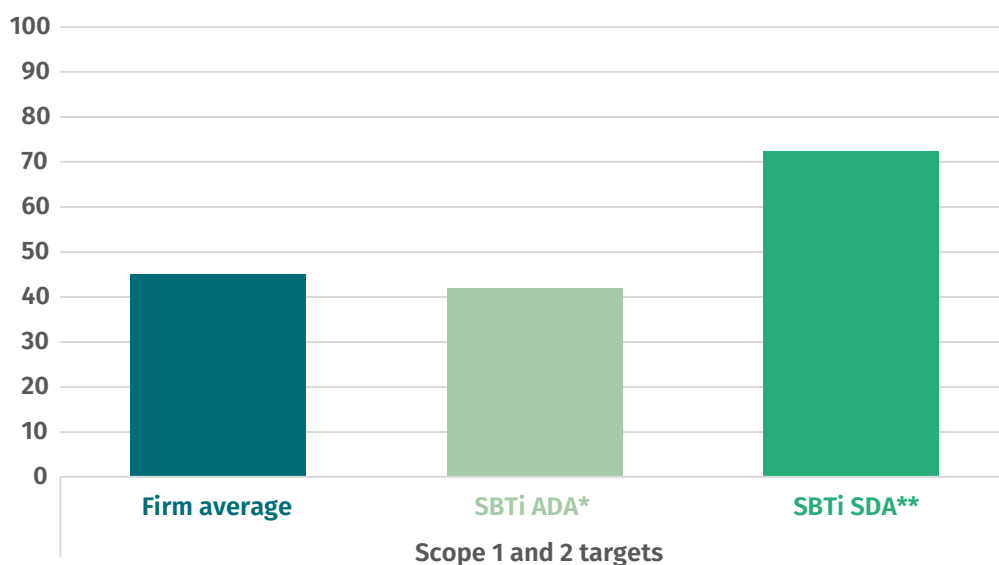
The most efficient approach to net zero targets should consider sectoral differences. The development of cheap, low-carbon technology differs across sectors. For example, in the electricity sector, wind and solar energy is readily available (albeit with difficulties related to the grid). A fast transition is both possible and should be expected from firms in this sector. On the other hand, in sectors like cement affordable clean technologies are not as readily available, so an ambitious transition may focus more on technology investments in the short term with greater reductions in the medium term.

To address this SBTi has developed the sectoral decarbonisation approach (SDA). It allows different sectors to have varying degrees and types of transitions. What this means in practice can be seen in figure 3.3. It shows the target average of the power firms analysed compared to the science-based targets recommended by SBTi. Both SBTi targets follow a 1.5°C scenario. But sector-sensitive SDA requires the power sector to reduce more quickly compared to the absolute decarbonisation approach (ADA). Under the sector-sensitive approach power firms' targets are not ambitious enough to be in line with the 1.5°C scenario.

This is before translating global decarbonisation approaches to the UK – where arguably there are expectations of faster decarbonisation, especially in power, than in other countries. As with other complex regulation, an Office for Climate and Environmental Targets, potentially in collaboration with the Committee for Climate Change (CCC), would be best placed to lead the process of setting a UK sectoral approach, consistent with the UK's carbon budget. The regulator would then support the private sector to translate sectoral pathways into individual transition plans.

FIGURE 3.3: AVERAGE POWER COMPANY 2030 CLIMATE REDUCTION TARGETS SHOULD BE MORE AMBITIOUS

Average reduction targets for power firms 2030 targets versus SBTi 2030 targets (%)



Source: IPPR analysis 2021

Notes: The data used in the production of the firms' average was found in the company reports and/or CDP climate change questionnaire that the company submitted. A series of assumptions had to be made in the production of the SBTi model.

- SBTi Target ADA*: 1.5°C science-based reduction target established following an Absolute Contraction approach.
- SBTi Target SDA**: 1.5°C science-based reduction target established following a Sectoral Decarbonisation approach for Power

ENVIRONMENTAL TARGETS GO BEYOND EMISSIONS

It is essential for firms to develop targets aimed at addressing the impact businesses have on the wider environment. Emissions are not the only way in which businesses affect the environment. Many businesses are reliant on a healthy environment. There are those that are directly dependent on nature – such as agriculture, fishing, mining, and tourism – which generate 15 per cent of GDP (Herweijer, Mariam and Evison 2020). Many more have exposure through their supply chain - 74 per cent of the FTSE 100 has high-dependency on natural capital (Natural Capital Finance 2019).

The risks to business are threefold - physical such as flooding, transition, where policy change such as banning deforested products affect business models, and liability, where companies can be sued for environmental damage.

Yet, there is no prevailing approach for nature targets. Unlike emissions, there is no one simple metric that would allow the impact on nature to be tracked. Businesses don't yet know how to measure nature, let alone transition away from environmentally damaging behaviours. Most government-led frameworks for green investing, like taxonomies, neglect nature-related aspects (WWF 2022). As the Dasgupta review points out there is a similar 'horizon' challenge to climate, with risks not aligning with business cycles (Dasgupta 2021). There are multiple underlying risks.

- Land/water/sea use and change, including quality and volume.
- Resource exploitation.
- Pollution (beyond greenhouse gas emissions).
- Biodiversity loss or invasive species and other.

Beyond emissions, various industries can have high impacts on key nature resources. To ensure businesses are truly sustainable, targets for these need to be developed too. Individual investors want providers to consider nature in investment decisions (UNEP and PRI 2019).

SBTi has made a start on this, drawing on target methodologies developed by Carbon Disclosure Project – eg on forests there could be a target on committing on zero deforestation by a target year. However, these are predominately related to the decarbonisation of land-based sectors, or the use of nature-based solutions in emissions reductions. The Taskforce on Nature-Related Financial Disclosures is also developing nature metrics, but only in relation to financial risk and disclosure, not transition business models. Internationally the International Sustainability Standards Board will update its sustainability disclosures in 2023 to include biodiversity (IFRS 2022). GTAG has also launched a working group this spring to cover the development of metrics for environmental sectors like agriculture (GFI 2023).

One way to bring environmental impacts and emissions closer together is through embodied emissions and circularity. Keeping materials in use for longer through reuse, recycling, etc, can reduce both scope 3 emissions and resource extraction. Transition planning should include reporting on circularity and embodied carbon.

There is a risk that establishing broader targets for nature will take even longer to develop than emissions targets (on which there has been only glacial progress over the last five years). As with climate, the regulator will also need to know the current baseline to be able to assess improvements. The state of nature should sit with a CCC equivalent, as IPPR's Environmental Justice Commission previously recommended.

4.

THE END OF GREENWASHING

CONTINUOUS ACCOUNTABILITY FOR ACTUAL DECARBONISATION

Although the SBTi gives businesses the structure to develop their targets and ensures that they are Paris Agreement-aligned, the process of disclosure raises questions about accountability and how effective the current process is in driving change.

The Transition Plan Taskforce recommends robust periodic reporting with board level accountability for progress, with transition plans published at the latest every three years. Meanwhile, SBTi is a voluntary initiative so the accountability process is currently limited, and it depends only on the company losing credibility for non-achieving the target. What happens if the progress is small compared to the previous year or if there is no progress at all in the achievement of the targets?

While the disclosure of plans is binding, the level of progress required is not making transition plans less effective than they need to be to meet our net zero goals.

To work with businesses to develop plans, and ensure they add-up to the national net zero target, the government should establish an Office for Climate and Environmental Targets. It would be tasked with developing guidance for different sectors. This would avoid the dizzying array of approaches produced by initiatives, task forces, consultancies, and industry groups. The cottage industry of climate target advice has failed and needs to be replaced by more technically informed and rigorous.

The OCET should play the following role.

- 1. Define what it means for company targets to be aligned with the government's net zero strategy.** The SBTi approach does not do this, as it is built on the International Energy Agency models, which have only regional pathways, not country level. Granular UK scenarios are produced by the Committee for Climate Change (CCC) and would provide the basis for OCET.
- 2. Regularly reviewing climate and environment targets and progress against them.** Sector granularity for many energy-intensive sectors is still under development by SBTi. As several financial institutions have stressed, there is an urgent need for the reporting of financed emissions to be standardised. Building on the TCFD's work, the OCET should develop and regularly update financial sector transition pathways as a priority, given their weight in the UK economy. However, this should be in conjunction or supported by the CCC. This should lead to sectoral pathways, ordered by their contribution to emissions.
- 3. The development of nature targets is in its infancy. To make rapid progress a concerted push will be needed. This will best be led by a well-funded OCET.**

In our proposal the OCET would not have the role of enforcing stringency of climate and environment targets. Rather its focus would be to ensure clear guidance is produced. The market and other relevant bodies (such as the FCA, ARGAs and audit firms who deal with company disclosures) would take the role of ensuring this guidance is adhered to.

USING TRANSITION PLANS IN POLICY AND THE REAL WORLD

Blacklisting to avoid greenwashing

With a new regulator ensuring consistency and comparability of transition plans, they should form the basis of whether companies can genuinely call themselves green. Transition plans will therefore form the counter part to the incoming green taxonomy. The taxonomy will determine what industries, investments, or technologies are green, transition plans will inform whether individual companies are. Transition plans should therefore be publicly available, helping to inform consumer choices.

However, with this public record there will also be pressure on the regulator to act where plans are insufficient for companies and therefore the country to reach net zero. While the regulator will be working in partnership with the private sector to develop plans, there should be negative consequences for those that fail to reach the appropriate standard, after any warnings or remedial action.

- No transition plan has been published at all.
- The transition plan does not include the uniform baselines set out above, are not in line with the sectoral reduction plans published by the regulator, and don't include wider environmental impacts.
- The regulator deems the plan to be incompatible with the government's net zero target or 2°C of global heating.
- A company has made three years of no progress against the targets set out in their transition plan, with no accepted reason for delay.

Those companies would be blacklisted by the regulator in a public statement acting as a powerful incentive to maintain progress. Blacklisting would preclude companies from entering government contracts or benefitting from higher rate 'green' tax incentives we've set out elsewhere (Alvis and Murphy 2022). This would not stop the company from operating or consumers choosing to use the company.

Blacklisting has precedent. The Financial Conduct Authority already blacklists unregulated financial companies, and those putting consumers at financial risk. The UK also blacklists individuals from being company directors if they don't meet legal responsibilities. Abroad, South Korea for example reduced subsidies and recriminated private firms that failed to meet export targets (Rodrik 2014), whilst the implementation of the US CHIPS Act, provides many conditions that must be met to receive government funding (Tankersley and Swanson 2023).

Underpinning industrial policy

Transition plans set not only targets but lay out how companies will reach them. This highlights bottlenecks and barriers that policy will need to unblock through an active industrial policy. There are a range of issues government may understand better from transition plans.

- **Emissions across the economy.** Transition plans and sustainability disclosures will be a vital data point in both current emissions and emissions reductions at a firm-level. Expanding the coverage of transition plans, notably to smaller (with support) and non-listed companies will ensure a better understanding of emissions across the economy. However further work will be needed to correct for double counting, as for example a large business and its investor report. This will allow government to intervene in the areas with the most stubborn emissions.
- **The availability and cost of technologies.** As we describe above the transition in the power sector, where low-carbon energy is widely available, has progressed faster than heavy industry. Transition plans will show where firms are struggling to reach interim targets, as say a cost-effective alternative to cement production is not available. This may direct government to lowering

the cost of certain technologies or making financing available in those sectors. Related, where supply chains are proving a barrier to either finished green technologies, or their constituent parts, government can use that information to inform trade and security strategy.

- **Regulatory barriers.** New regulation is vital to develop the markets required for decarbonisation. Mandatory transition plans themselves are an example of this, but as important for firms is sectoral regulation. For example, the Zero Emissions Vehicle mandate provides certainty to automobile manufacturers and investors, yet there is a lack of similar certainty in home heating. Transition plans should inform where greater regulatory action is needed to sure up markets, or conversely where regulations such as Ofgem’s current process to connect to the grid, is slowing efforts.
- **Skill and workforce provision.** Transition plans should include sections on how companies will develop the workforce required for them to decarbonise. This will include both retraining and hiring. However, many companies are already struggling to hire (Alvis et al 2022), whilst the public is uncertain about the reality of ‘green jobs’ (Public First 2021). Transition plans will indicate whether government needs to support training in new areas, provide finance for training, or perhaps open new skill-based migration routes.

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