



Mind the Science, Mind the Gap

Stakeholder Consultation Workshops

May 16, 2014 London, UK / May 22, 2014 Washington DC, USA

Summary of feedback

The present summary offers a succinct compilation of the comments, questions and opinions that were raised during the Stakeholder Consultation Workshops held in May 2014. This consultation process constitutes a critical part of the Mind the Science, Mind the Gap initiative aiming to include the voice of companies and other stakeholders in the development of a science-based approach to target setting to reduce greenhouse gas emissions. Two workshops were organized under the same format seeking to present to stakeholders the work on the methodology conducted so far and to open the floor for discussion and feedback. The structure of this document runs as follows: 1) summary of main conclusions and points that need further discussion on the Mind the Science methodology and goal setting guidance document; 2) summary of the feedback gathered during the break-out sessions and; 3) provides an overview of the discussion on barriers and enabling solutions identified by workshop participants.

Generally Agreed-upon Conclusions

- Companies need a strong business case to promote internally a science-based approach to target-setting and get buy-in.
- The 'guidance document' should include a detailed how-to description of the methodology implementation, as well as case studies to demonstrate applicability.
- Indirect emissions are important (Scope 2 and 3) and should be included in this methodology, provided a clear method to incorporate them is in place.
- The use of a sector-specific decarbonization pathway is valuable when available.

Points where more discussion is needed

1. The allocation of companies' carbon budget by sector needs to aggregate to a total budget that aligns with climate science.

2. The combined approach of using physical units and value added as metrics needs to be further developed. As it stands now, it can produce uneven results across sectors.
3. The methodology should include the agriculture sector, if possible. Workshop participants questioned why it was not accounted for in this methodology.
4. A methodology to include Scope 3 emissions would be very useful, but it could be extremely complex and difficult to address.
5. The methodology currently covers less than two-thirds of greenhouse gas emissions—is it feasible to expand the methodology to cover more sectors and companies?

Break-Out Sessions

Indirect Emissions

- What are indirect emissions? While direct emissions result from on-site fossil fuel use (Scope 1), indirect emissions cover companies' broader Scope 2 (electricity, heat, and steam use) and Scope 3 (upstream and downstream) activities. One company's Scope 3 emissions are another company's Scope 1 emissions, and vice versa.
- Current targets are generally based on Scope 1 and 2 emissions, often in sum. Based on materiality assessment, some companies track Scope 3 emissions if control of those emissions is deemed feasible and verifiable. Comprehensive Scope 3 accounting is data-intensive: companies use process data or input-output analysis to estimate Scope 3 emissions, though results retain some uncertainty.
- Given that indirect emissions occur at sources owned or controlled by other entities, companies are sometimes hesitant to include them in their internal targets.
- Scope 1, Scope 2, and Scope 3 are mutually exclusive for a reporting company. However, double counting across companies is inherent when looking at Scope 3 emissions.
- Upstream emissions categories are more easily estimated using readily available secondary data sources rather than a few downstream data sources which need to be modelled, such as use of sold products.
- In its Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011), the GHG Protocol identified 15 categories of Scope 3 emissions. Many companies that track Scope 3 emissions currently look at business travel and employee commuting, though these sources are not necessarily the most significant categories. The materiality of Scope 3 emissions categories varies by company.
- Multiple accepted methods are available for Scope 2 accounting as described by GHG Protocol. Beyond absolute amounts of purchased energy (e.g., kWh per month), emissions impacts are estimated using market-based and location-based methods. Scope 2 emissions serve as an indicator of companies' production efficiency as well as the carbon-intensiveness of their energy suppliers.
- One challenge of Scope 2 accounting is that some emissions reductions can be independently achieved through policy; companies are sometimes uneasy with this "shared responsibility" and lack of clear leverage.
- In many cases it is not possible to have a Scope 3 target due to data limitations which make it challenging to create a baseline inventory.
- Should there be one single Scope 3 target per company? Feedback was "No, each Scope 3 category should have its own target", and companies should focus on the categories that are most material and controllable.

- One application of Scope 3 emissions accounting is for companies to set Scope 1 and Scope 2 targets for their suppliers. Some companies have already integrated Scope 3 accounting into their supply chain programs.
- Companies need to be able to consider factors beyond projected sales/production, when modelling a reduction target. There are many variables that will drive future emissions such as demand reductions in an economic downturn.
- Guidance should address:
 - If you have no data, what can you do with Scope 3?
 - Address data quality issues;
 - Explain how businesses can include their suppliers, and how to capture and quantify this impact.
- Scope 3 - one solution will not fit all; there is significant variation between categories and within categories between different companies;

Allocation

- First Assumption: Economy growing at the same time as emissions are reduced.
- There are 3 potential approaches to allocation:
 - Absolute emission reduction
 - Intensity approach – Same decarbonization pathway for all sectors (financial indicators).
 - Intensity approach – Sector-specific decarbonization pathways when possible (physical indicators).

Feedback:

- **Metrics:** A key concept is to use value-added. For some organizations, the best way to express value added is using financial indicators. For others, it is more practical to express value-added using specific indicators (e.g. for a university, the value-added is the number of students graduated from the university, for companies producing commodities it is common to use physical indicators to express the value-added of the company). It's challenging to find a common metric that is a good fit for all sectors (and countries), therefore having different metrics (i.e. financial and physical) may be a necessary complexity.
- **Use of value-added:** The use of value-added is welcome for its simplicity. Some of the challenges that need to be addressed for target setting include: (a) companies having different understanding of value-added. In this regard, it has been suggested to use gross profit (i.e. production costs – material costs) as a proxy for value-added; (b) companies having to disclose projections of value-added to justify the adequacy of their targets. This could have implications for investors and agencies such as the Securities and Exchange Commission; (c) companies may tend to underestimate growth which will impact their target setting process; (d) value-added may not be as directly related to the generation of emissions as physical indicators.
- **Averaged vs. sector-specific decarbonization pathways:** It might be needed to have both. However, it is critical to make sure that a mixed approach delivers results that are consistent with a 2°C carbon budget. Also, the methodology should clearly indicate which approach should be used by sector. Otherwise, a cement company may use a value-added approach and get a different allocation than a company in the same sector using a physical indicator.
- **Other issues:** It was discussed that regardless of the method, we should avoid penalizing early movers and make sure that allocation is fair (across sectors and

within sectors). Also, there was a discussion about the role of offsets in meeting science-based targets. This will be discussed in the guidance.

- Early movers should benefit from their previous actions to reduce emissions.

What should the 'Guidance' include?

During this break-out group, participants contributed feedback on a draft outline of the guidance document which will be developed to support companies in setting and implementing science-based targets.

- Companies at the U.S. workshop requested that the guidance be as prescriptive as possible. One standard on how to set a science-based target would make it easier to sell internally an ambitious approach to goal setting.
- Guidance needs to provide a strong business case for setting science based targets in order to get internal buy-in. Guidance should include recommendations on how to talk about the business case in business language in order for companies to sell the targets to senior management. Guidance should include case studies that demonstrate the financial benefits of science based targets.
- Guidance should provide the definition of a science based GHG reduction target.
- Guidance should link the goal setting process to IPCC and current climate science.
- Guidance should explain IPCC 2 degree scenarios and concept of allocation.
- Guidance should include an overview of existing science based target setting methods.
- Case studies are essential to gain confidence and enable benchmarking.
- Must provide guidance on how to set interim goals to make a 2050 target more realistic and feasible. Many companies do not plan for more than 3-5 years into the future.
- Provide permission for companies to not meet a target so they are not averse to setting ambitious targets.
- Level of complexity is too high, guidance needs to simplify the process of setting a science based target.
- Recommend or require a base year and goal years.
- Provide guidance on how targets can be created for a consortium of companies.
- Provide guidance on how to address offsets.

Barriers and solutions for science based target setting

The following barriers and solutions were identified and shared by workshop participants in a small-group brainstorming session.

Barriers	Solutions
1. Risk aversion – uncertainty of appetite	Leadership – e.g. In the Electric utilities sector a few companies needed to set science based targets – then others will follow
2. Uncertainty on return of investment	Investors should ask the right questions – increased understanding of what needs to be done
3. Lack of buy-in from and understanding of executive board	CDP requirements More engagement with NGOs and regulators in industry – alignment needed

4. Lack of time, resource, knowledge and expertise internally	Make use of sector organizations for specific science based targets
5. Short termism of stock markets	Improve dialogue with long term investors (pension funds)
6. Lack of drivers, demand, expectations of science based targets	Need for regulation – price on carbon, mandatory reporting to create demand/driver
7. Disconnect between science and corporations (IPCC and corporations)	Integrated reporting – financial, natural and social capital Standardized approach to turn scientific knowledge into accessible guidelines
8. Lack of rewards	Bring in more financial incentives (for ex. CRCs) – an example of corporate supply chain initiatives and building in incentives Recognition through improved reputation
9. Potential pushback to get company buy-in, especially for diverse companies in multiple sectors	Champions in the organizations
10. Lack of financial and other incentives	Starting to solve the capital problem – efficiency as a service; creating financial certainty; reduce bottom line expenses and emissions; overcoming return on investment hurdles by framing investments as expense reductions (for ex. Citi case study)
11. Early movers are not rewarded for their historic reductions	Make use of sector organizations for specific science based targets
12. No current/clear definition of science-based targets	Local level – increased awareness, education
13. Practice is still nascent, unrefined	Improve dialogue with long term investors (pension funds)

Next Steps

- Based on workshop feedback, Mind the Science methodology/tool and guidance outline will be revised
- Mind the Science goal setting methodology and tool will be finalized in Fall, 2014
- A draft of the Goal Setting Guidance will be released for public comment in Fall 2014
- Mind The Science Goal Setting Guidance will be published in early 2015