Submission to the UNFCCC First Global Stocktake

Context

"We need pledges to be implemented. We need commitments to turn concrete. We need actions to be verified. We need to bridge the deep and real credibility gap".

- *Antonio Guterres, Secretary-General of the UN General Assembly, COP26 (11/11/2021)*

Since 2017 and COP22, the Marrakech Partnership on Global Climate Action (MPGCA), launched by the two High Level Climate Champions, Hakima El Haité and Laurence Tubiana has brought together different stakeholders from key sectors to promote and share climate action, and raise ambitions. The aim is to strengthen collaboration between government and non-state actors to accelerate mitigation and adaptation actions.

Today, the Race to Zero mobilisation campaign serves this purpose. Initiated by the High-Level Climate Champions Nigel Topping and Gonzalo Muñoz prior to COP26, Race to Zero listed, as of September 2022, 8,307 companies, 1,136 cities, 1,125 educational institutions, 595 financial institutions, 67 regions and 65 healthcare institutions aiming for carbon neutrality in 2050 (UNFCCC, 2023). All of these actors cover 25% of global CO2 emissions and 50% of GDP. By establishing "minimum criteria" for participation in the campaign, Race to Zero aims to act as an "umbrella" initiative that encompasses many independent initiatives for non-state actors' commitment to carbon neutrality.

Although progress from States is at the forefront of expectations during the Global Stocktake, non-state actors should not be left out. The Secretary-General of the United Nations General Assembly, Antonio Guterres, who convened in March 2022 a High-Level Panel of Experts on Net Zero Emissions Commitments by Non-State Entities, which delivered its report during the COP27 made clear recommendations specifically to promote the better integrity of corporate net zero commitments (HLEG, 2022). Both the World Benchmarking Alliance (WBA) and Climate Chance are playing their part in this collective effort[1]:

- WBA by providing private sector accountability through operationalizing industry low carbon transition assessments into publicly available benchmarks, using the ACT framework[2]

[1] Find out more about WBA and Climate Chance in the **Annex**.

[2] Formally launched at COP21, ACT Initiative provides a corporate climate accountability framework with sectoral methodologies to assess companies decarbonisation strategies and transition plans with Paris Agreement goals. It is part of the MPGCA Portal: https://climateaction.unfccc.int/Initiatives?id=133 See also https://actinitiative.org/

- Climate Chance, through its Global Observatory of Climate Action, with the annual publication of its Global Synthesis Report on Climate Action since 2018.

Climate Chance and WBA provide the following **five key recommendations** for the GST to deliver on its mandate:

1. Parties should improve reporting and tracking of data on climate action from non-state actors in the context of the Global Stocktake

2. Parties should move from a logic of engagement with non-state actors to a logic of joint responsibility/accountability

3. Parties should work to align non-state actors' actions and transition plans with sectoral and national decarbonisation strategies

4. Parties should create a conducive policy and regulatory environment to drive the alignment of non-state actors activities with the Paris Agreement

5. Equity, just transition and nature should be central to the GST with guidance to support non-state actor implementation

Policy Recommendations for the GST Third Technical Dialogue

In this submission, Climate Chance and the World Benchmarking Alliance (WBA) provide policy recommendations to inform the third technical dialogue of the Global Stocktake (GST). The recommendations aim to equip the SBI and SBSTA chairs and COP Presidencies to raise climate ambition from Parties, increase international cooperation and strengthen the implementation of pledges to meet the Paris Agreement goals. **In particular, the GST should build the bridge between the pledges of governments and non-state actors to improve the accountability and evaluation of non-state actors in their contributions to the Paris Agreement.**

1. *Parties should improve reporting and tracking of data on climate action from non-state actors in the context of the Global Stocktake*

Climate Chance and the World Benchmarking Alliance welcome and encourage initiatives aiming to standardise and harmonise data reporting practises useful for understanding, monitoring and evaluating corporate and local government climate action. Data is the raw material of any credible assessment work, and the quality, access and homogeneity of data is essential to any large-scale comparison and aggregation of results.

While there have been improvements in the reporting and tracking of data on climate action from companies, the disclosure of Scope 3 emissions, which account on average for 75% of a company's emissions, remains problematic. Insights from WBA's oil and gas benchmark show that only 33% of the 100 oil and gas companies report their scope 3 emissions, which account for approximately 80% of their total emissions. Similarly, WBA's transport benchmark, which assesses 90 keystone transport companies in the rail, aviation, multi-modal and shipping industries shows that only 19% of the companies emission reduction targets cover Scope 1, 2 and 3 emissions. WBA's financial system benchmark further reveals a significant lack of disclosure in the level of financing provided to climate solutions and fossil fuels.

As for **local governments**, The Global Covenant of Mayors for Climate & Energy (GCoM), the world's largest alliance for city climate leadership, established the Common Reporting Framework (CRF) as soon as 2018 to streamline local government measurement and reporting procedures and ensure robust climate action planning, implementation, and monitoring across three pillars: mitigation, adaptation, and energy access and poverty. The CRF applies to the two official reporting platforms that feed the GCoM; the "CDP-ICLEI Unified Reporting System" and the "My Covenant" platform. In 2021, 1,224 cities contributed to the annual reporting on the CDP platform, up from 308 in 2015.

Yet, many challenges remain, including that of the harmonisation of the methodologies used by cities to account their emissions. Other challenges were analysed in Climate Chance's Global Synthesis Reports on local climate action. For instance:

- The **"under-reporting issue".** Some studies using ground sensors and satellite observations to measure emissions in the atmosphere have pinpointed discrepancies with data reported by cities using statistical methodologies, sometimes leading to underreporting from the local governments. For instance, results of a recent study that compared voluntary GHG emissions inventories from 48 of the 100 highest emitting cities in the U.S with national public databases found that surveyed cities underestimated their fossil fuel related CO2 emissions by 18.3% (Gurney et al., 2021).

- The **"boundary issue".** "*Cities are home to 50% of world's population but comprise only approximately 3% of land mass, which means they have to outsource a large number of emissions to outside the city boundary*" (Chen et al., 2019). Territorial approaches thus fall short of reflecting emissions embodied in imported goods and services. For instance, in 2019, a C40 report found that consumption-based emissions from nearly 94 of the world's biggest cities already represent 10% of global GHG emissions (4.5 GtCO2e), whilst their total production-based emissions in 2017 are estimated at 2.9 GtCO2e. These emissions are mostly hidden in territorial GHG

inventories since 85% of the emissions associated with goods and services consumed in C40 cities are generated outside city boundaries (C40, 2019).

- The "**time-lag issue**". Analysis from the EU's Joint Research Centre shows that cities committed to the European Covenant of Mayors' 2020 targets of reducing emissions by 20% in 2020 from their baseline have nearly reached their targets (19.5% in average). This includes 40% of EU-27 cities signatories having presented their monitoring emission inventory who reached or overshot the target. However, the average latest monitoring emissions inventory was produced in 2014, which underlines the time gap between reporting practices and policy making (Rivas, S. et al., 2022).

2. Parties should move from a logic of engagement with non-state actors to a logic of joint responsibility/accountability

While an increasing number of stakeholders have acknowledged the need for companies to develop transition plans, gaps remain to assess the credibility of such plans and crucially their implementation. Currently, less than one third of the world's largest publicly-listed companies with net zero targets, meet minimum standards of integrity. In most cases, targets for such companies lack detail in terms of the scope of emissions covered, the review of progress, the use of carbon credits (and offsets) and the transition plan itself. Further, CDP estimates that less than one in 200 companies have credible climate transition plans. The Assessing Low Carbon initiative (ACT) methodology, which is fully integrated into WBA's climate and energy benchmarks, is one way to evaluate the credibility of company transition plans. ACT evaluates the transparency, credibility and consistency of company transition plans along various key dimensions including how climate and social challenges are embedded within the governance structure of the company, how the company's past, present and future climate performance is aligned with its carbon budget and how it engages with suppliers, trade associations and public authorities on these issues.

Overall, WBA's climate and energy benchmarks, which currently cover 270 companies, show that companies are off track in aligning with 1.5C and developing credible transition plans. This includes companies' level of investments in low carbon technologies, how they respect their carbon budget, how they develop a low carbon business model and how they engage with suppliers and customers on these issues. For instance, WBA's automotive benchmark shows that the level of low-carbon vehicle sales at 7% is nearly 60% lower than what it should be by 2030 to align with 1.5C. Similarly, 98% of the electric utility companies assessed in WBA's electric utility benchmark are expected to exceed their carbon budgets by 2035. WBA's financial system benchmark further shows that of the 400 financial institutions assessed, only 37% have disclosed long-term net-zero targets. Of these commitments only 2% have been translated into interim targets applied across the institution's financing activities, of which only 1% are backed by scientific evidence.

Developing robust climate transition plans for companies is particularly important as it is one of the key factors, along with having comparable corporate disclosures of climate data, that increases the availability of transition finance (OECD, 2022). As such, companies that do not develop such plans are likely to face higher costs of capital, reputational risks and difficulties in accessing transition finance (GFANZ, 2022).

Despite the creation of the MPGCA, the Races to Zero to drive private sector and local governments' climate ambition and the updated Race to Zero criteria there is still no formal accountability mechanism for non-state actors within the UNFCCC. Such an accountability mechanism is needed to track the robustness of climate pledges and the progress made by non-state-actors over time and to ensure climate commitments from non-state actors are credible.

As recommended by the UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, as a minimum, non-state actors should report on progress made towards commitments in a standardised, open format and via public platforms that feed into the UNFCCC Global Climate Action Portal (HLEG, 2022). **A new accountability mechanism for non-state actors could include both coordinated support to improve reporting frameworks, and penalties for non-action** (such as being ineligible to participate in the Race to Zero or Race to Resilience until such reporting is completed). Such an accountability mechanism is critical to assess the progress of non-state actors on their climate commitments and the credibility of corporate transition plans.

3. Parties should work to align non-state actors' actions and transition plans with sectoral and national decarbonisation strategies

While the focus of the GST is currently on actions from States Parties to the Paris Agreement, **a coherent accountability framework is needed which encompasses both State and non-state actor perspectives**. In practice, this means ensuring transition plans from companies are well aligned with sectoral decarbonisation pathways and country NDCs that take into account equity principles and country specificities (including common but differentiated responsibilities). Considering NDCs are still far from limiting global warming below 1.5°C (UNFCCC, 2022), this alignment must be coupled with an increase in the climate ambition of NDCs. While some countries and regions have sectoral roadmaps, and made the link with their NDCs, there is still a need to better connect such efforts with the assessment of transition plans of companies. As the GST will inform the revision of updated NDCs in 2025, this is also an opportunity to better integrate the need to align such NDCs with sectoral pathways and company transition plans.[3] Doing so is also a way to assess the contribution of non-state actors to NDC targets, guide investor decision-making and leverage additional transition finance. Aligning sectoral and national decarbonisation pathways with companies transition plan is finally an effective way to identify the regulations that are barriers or enablers to decarbonisation and just transition.

4. Parties should create a conducive policy and regulatory environment to drive the alignment of non-state actors activities with the Paris Agreement

Parties should use the full range of available tools to support an enabling regulatory and fiscal policy environment that will in turn incentivise and constraint non-state actors to implement more ambitious climate policies. The GST can support increased international cooperation and capacity building on such topics. The development of green taxonomies, the reform of environmentally harmful subsidies (including fossil fuel subsidies), the adoption and increase of carbon pricing and carbon contracts for difference and the implementation of do no

[3] The ACT-DDP project is one example of a project which sought to create such connections between sectoral and company decarbonisation pathways in Brazil and Mexico.

significant harm principles for investments all play an important role to define what green activities are, what types of public support are available and what mechanisms will be put in place for non-compliance.

Parties should also push for mandatory and global climate disclosures and standards as they are a key way to guide investments and ensure a level playing field between non-state actors. Currently, most of the ESG and climate reporting frameworks, standards and disclosure initiatives - except for the European Sustainability Reporting Standards (ESRS) under development at the EU level - tend to have an exclusive focus on financial rather than impact materiality for their sustainability reporting. Hence, most of the accountability landscape today predominantly expects non-state actors to disclose their emission inventory and transition plans, in order to foresee potential climate-related risks to their business activity and to financial stability.

However, little attention has been paid to the integrity of transition plans, and less attention still to scrutinise their implementation and expect non-state actors to disclose their degree of impact on the wider environment and society. As such, mandatory and global climate disclosures and standards with a double materiality view are needed on climate, nature and just transition. The adoption at COP15 of the Global Biodiversity Framework and target 15 for businesses to regularly disclose their risks, dependencies and impacts on biodiversity marks an important step forward. Bridges created between the IFRS Foundation and the Global Reporting Initiative are of common interest in this perspective. The recent announcement by the International Sustainability Standards Board (ISSB) to better integrate nature related risks and just transition and move beyond a sole financial materiality view is encouraging in this regard.

5. Equity, just transition and nature should be central to the GST with guidance to support non-state actor implementation

The concept of just transition has gained traction, including through a multitude of platforms and initiatives such as the Just Transition Declaration announced at COP26 and the Just Energy Transition Partnerships (JETPs). At the domestic level, more than 19 countries have established just transition roadmaps. Similarly 38% of countries reference just transition in their updated NDCs and 56% in their long term strategies. While the depth of commitments in country plans vary, a bigger gap still remains to translate these initiatives into actions at the level of non-state actors. WBA's just transition assessments show that the level of readiness for companies remains low and particularly in sectors where the discussion around just transition is only beginning such as transport. Evidence from WBA's just transition assessment of 90 keystone transport companies for example shows that none have transition plans in place that include time-bound targets to mitigate the social impacts of the just transition on workers, affected communities, and business relationships.

Scotland: from a Climate-SDG nexus to Just Transition planning

The Scottish government has a long history of connecting economic growth with social and environmental targets which has led to full integration of just transition in the low carbon

transition for the country. Back in 2007, Scotland adopted the National Performance Framework (NPF), a comprehensive strategy to make Scotland "*a more successful country with opportunities for all to flourish through increased wellbeing*". The NPF sets out eleven targets with indicators to measure the country's development through more than just GDP. The 4th NPF was just adopted on February 13th 2023. Later in February 2020, Scotland published its Environment Strategy, to set out the overall framework for environmental and climate action. A section of the strategy analyses the links between this vision and both the NPF and the SDGs. Convened in 2019, a Just Transition Commission composed of civil society experts, delivered its final report in March 2021 with just transition indicators mentioned as an important way to track progress on advancing just transition goals. In response, the Scottish government created a National Just Transition Planning Framework, and entitled a new Commission to advance work to design a Plan. A second Commission convened in early 2022 to provide advice to the Scottish Government in developing sectoral and regional just transition plans. The Commission will now provide regular annual reports to assess the progress of these plans.

Source: Climate Chance, 2022

In light of the new UNFCCC just transition workstream that was announced at COP27, the GST should support better public-private collaboration on the topic of just transition with guidance from governments to inform company action plans. The better monitoring and reporting of progress made through indicators is one way to inform this. Currently very few governments refer to just transition indicators, except Scotland as part of its just transition commission (**see text box above**). Tracking just transition progress is important to increase the transparency and credibility of commitments made. The GST can further support Parties to widen the scope of just transition to sectors such as transport, land-use and nature protection and construction.

In addition, while the climate crisis cannot be addressed without considering the impacts on nature, companies are often insufficiently considering these impacts in their strategies. WBA's 2022 Nature Benchmark, assessing 400 companies, showed that while 50% of these companies have set targets to reduce GHG emissions, only 5% of companies have carried out a science-based assessment looking at how their operations and business model have an impact on nature and biodiversity. The recent Global Biodiversity Framework asks governments to require large companies to assess and disclose their impacts on nature, and the recent International Sustainability Standards Board announcement also demonstrates the broad recognition that considering climate without looking at nature would be incomplete. We highly recommend the Parties to take a holistic approach to the GST, including equity, just transition and nature elements of the low carbon transition.

Annex

About Climate Chance

The Climate Chance Association is working to create an environment conducive to action for decision-makers, the media and citizens, and to promote the convergence of the three agendas of climate, biodiversity and desertification.

To that end, Climate Chance follows three paths of action:

- Uniting actors in multi actor coalitions and yearly Summits
- Analysing action with the Global Observatory of Climate Action
- Sharing information through the Portal of action

About the Global Observatory of Climate Action

To succeed in the transition necessary to achieve global climate goals, we believe in inspiring by example: decision-makers need not only projections and scenarios to anticipate the future, but tangible and factual data to understand the present.

In order to identify trends in action that deliver concrete results for local actors, the Global Climate Action Observatory relies on an international network of expertise to collect and analyse data and publications that make it possible to understand the story of actions behind the figures.

Every year, the Observatory edits the Global Synthesis Report on Climate Action by Sectors: a unique report, which provides an overview of climate action implemented by non-State actors in order to identify trends, signals and initiatives which make the difference in the main emission sectors: energy, transport, buildings, industries, waste and land use.

Other GSR on climate action from local governments, on climate finance and on adaptation provide other approaches. Case studies on public policies from countries, subnational and local governments focus on actions delivering results.

About the World Benchmarking Alliance

The World Benchmarking Alliance (WBA) was launched in 2018 because we believed that there needs to be real change in the way that business impact is measured to boost motivation and stimulate action for a sustainable future for everyone.

WBA identified seven transformations that need to take place to put society and the worldwide economy on a more sustainable path to achieve the SDGs. To turn these transformations into action, WBA develops in close collaboration with the Alliance a series of benchmarks assessing 2,000 of the world's most influential companies, ranking and measuring them on their contributions to the SDGs.

About WBA's Climate and Energy Benchmarks

WBA's climate and energy benchmarks, (automotive, electric utilities, oil and gas, transport), (building benchmark forthcoming) use the Assessing low Carbon Transition (ACT) initiative's methodologies that assess how companies' emission reduction commitments, targets, and transition plans align with a 1.5C scenario. WBA further assesses these companies on their human rights, decent work, and just transition commitments.

About WBA's Financial System Benchmark

WBA released at COP27 its financial system transformation benchmark that assesses how the world's largest 400 global financial institutions are respecting planetary boundaries, committing to net-zero, and integrating human rights due diligence and social issues across their governance and financing activities.

About WBA's Nature Benchmark

WBA launched its first 2022 Nature Benchmark at COP15, assessing 400 of the world's most influential companies on their contributions to a nature positive future. An additional 380 companies will be assessed by the end of this year. We hope our benchmark insights can provide a useful feedback loop for policymakers globally on where companies stand in relation to the GBF goals and targets, supporting monitoring and accountability mechanisms.