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State of transition 2020: Over 80% of companies remain off track for a 2°C world

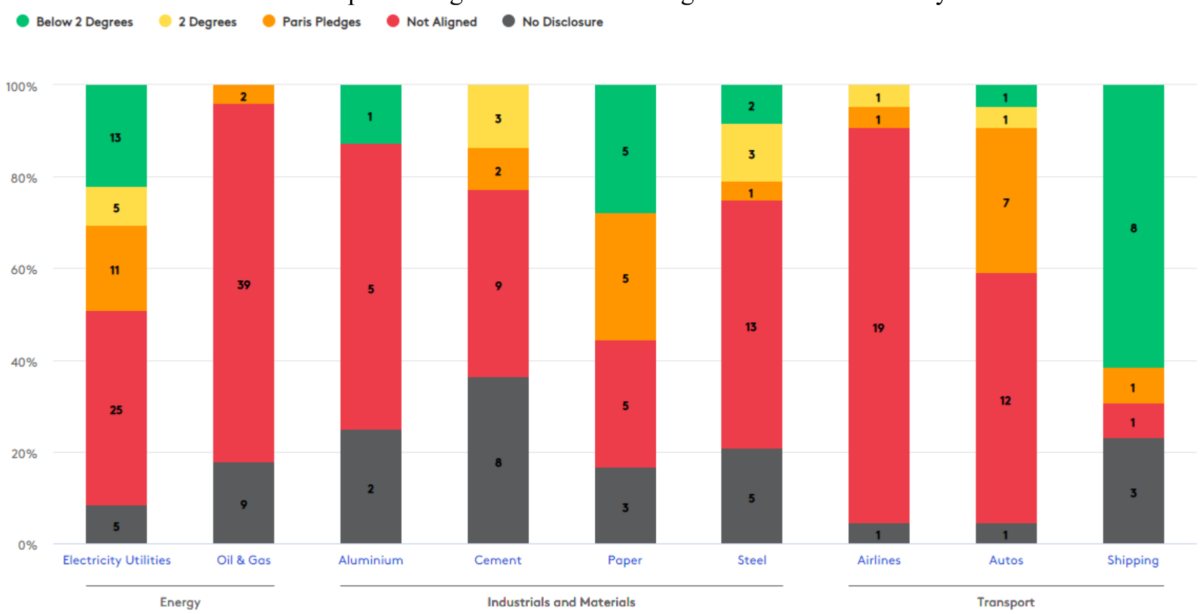
Flagship annual review from Transition Pathway Initiative (TPI) finds scant evidence of corporate climate progress

- More than **80%** of the highest-emitting listed companies remain off track for a 2°C world. Results "raise a red flag for COP26"
- **29%** of companies have improved their governance of climate-related risks, but **9%** have regressed in the past year
- Across all sectors, average emissions intensity is falling by **1.9%** annually
- Study finds wide gulf between current rates of emissions reduction and company targets in the steel and cement sectors

(20 March 2020, London) The Transition Pathway Initiative's annual State of Transition report assesses 238 energy, industrial and transport companies on their projected emissions intensity or 'Carbon Performance'. It finds that 43 companies (18%) have emissions trajectories in line with limiting climate change to 2°C – a slight improvement on 16% aligned with this benchmark last year. Daimler and Shree Cement are among the companies to have come into alignment since last year.

The State of Transition report is the investment community's most prominent gauge on whether the global economy is on track to fulfil the goals of the Paris Agreement. It finds that the transition is well under way in some sectors such as shipping, paper and electric utilities, while oil & gas and airlines lag significantly behind in carbon performance.

Number of companies aligned with the Paris Agreement benchmarks by sector



Loretta Minghella, First Church Estates Commissioner, Church Commissioners for England, said:

"TPI's results show that 4 in 5 high-emitting companies remain wide of the mark in their climate performance and that will worry the markets. Most of the world's largest investors have accepted climate change as a material financial risk, yet today's results show companies are not responding with the ambition and pace required.

These results raise a red flag for COP26 in November, when the aspirations set out in the Paris agreement are due to be turned into tougher national commitments, and we can expect to see more capital flow away from those companies failing to align with a 2℃ pathway."

Faith Ward, co-chair of TPI and Chief Responsible Investment Officer at Brunel Pension Partnership, said:

"The IEA has warned that, while carbon emissions will likely decline this year, in the medium term the coronavirus outbreak could slow down the low carbon transition, as green investments are put on hold by cash-strapped governments and businesses. It is therefore of deep concern that so few companies were on the right path before the virus struck. Investors must use their influence to ensure that climate commitments are not discarded in the face of financial pressures."

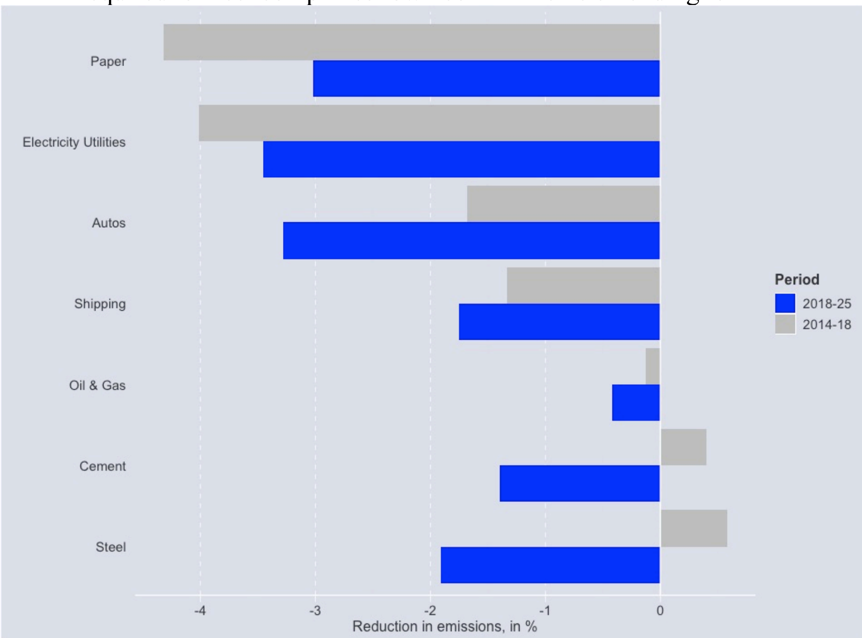
Are companies on track to hit their targets?

For companies that have set emissions targets to 2025 or beyond, the study compared those targets with current rates of emissions intensity reduction to establish whether they are on track.

Electric utilities and paper companies with 2025 targets are reducing their emissions intensity by approximately 4% per year. Continuing on the same pathway would more than deliver companies' 2025 targets.

But oil and gas companies with 2025 targets are not currently reducing emissions intensity fast enough to meet their targets. For steel and cement companies with 2025 targets, current emissions intensity is actually rising, casting serious doubt over whether their targets can be met.

Actual reduction of emissions intensity compared with rate
required to meet companies' own commitments extending to 2025



Professor Simon Dietz, research lead for TPI and Professor of Environmental Policy at the LSE's Grantham Research Institute on Climate Change and the Environment, said:

"Our analysis shows that, not only have relatively few companies set emissions targets aligned with the Paris Agreement goals, not all of the companies that have done so are actually on track to meet those targets. Particularly in the cement, oil and gas and steel sectors, few companies are reducing their emissions fast enough to deliver their targets. In some cases, companies with targets actually saw their emissions intensity go up in recent years. This shows that investors must not only look at what targets companies have set, but also at what those companies are doing on the ground and in the boardroom to deliver them."

Management Quality: almost 40% of companies unprepared for the transition

The report also assesses 332 companies on their 'Management Quality', or governance of climate-related risks, on a scale of Level 0 (unaware) – Level 4 (strategic assessment). It found that 38% of companies are on Levels 0 – 2, including the likes of **DowDuPont** and **Rosneft**. TPI describes companies at these levels as "unprepared for the transition".

At the other end of the scale 62% of companies are now on Levels 3 - 4, up from 54% a year ago. Seven companies, including **E.On, Unilever, BHP Billiton** and **Equinor**, satisfy all 19 indicators of management quality and are classed as 4* companies.

Of the 268 companies for which TPI has trend data, 165 (62%) have stayed on the same level as their last assessment, 79 (29%) have moved up at least one level, and 24 (9%) have moved down at least one level.

For example:

- **BMW** and **JSW Steel** moved up from Level 3 to Level 4 as a result of nominating a board member with explicit oversight of the company's climate policy
- **International Paper** moved down from Level 4 to level 3 as their operational emissions are no longer verified by a third party
- **Lukoil** moved down from Level 3 to Level 2 as they no longer disclose their operational emissions

Jonathan Bailey, Head of ESG Investing at Neuberger Berman, said:

"We are pleased to see that 79 of the 332 companies assessed by TPI have improved their management of greenhouse gas emissions and the low-carbon transition in the last twelve months. Yet despite leadership by some, the majority of companies have not yet aligned their business models with a 2℃ transition scenario. At Neuberger Berman we incorporate transition readiness into our proprietary ESG ratings because we believe it is material to the financial performance of companies and will continue to engage companies on the topic."

Other findings include:

- **56%** of companies disclose support for international climate efforts such as the Paris Agreement, but only **40%** have incorporated climate change risks and opportunities in their strategy
- **31%** of companies disclose an internal price of carbon
- **26%** disclose climate scenario planning, as recommended by TCFD
- **36%** of European companies are aligned with 2°C or below, compared with **16%** of North American companies, **10%** of Japanese companies, **5%** of Chinese companies and **0%** of Russian or African companies

Notes to editors

- The 2020 State of Transition report is available on request

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Methodology:

- The research for this report was carried out for TPI by the Grantham Research Institute on Climate Change and the Environment and the London School of Economics

- Management Quality covers companies' governance of greenhouse gas emissions and the risks and opportunities arising from the low-carbon transition, using 19 indicators to map companies onto five levels: from Level 0 – Level 4. The list of indicators is available in the report.

- Carbon Performance assessment involves quantitative benchmarking of companies' emissions pathways against three benchmark scenarios related to the 2015 UN Paris Agreement. These are:

1. ***Paris Pledges***, consistent with emissions reductions pledged by countries as part of the Paris Agreement (i.e. NDCs).
2. ***2 Degrees****,* consistent with the overall aim of the Paris Agreement, albeit at the low end of the range of ambition
3. ***Below 2 Degrees***, consistent with a more ambitious interpretation of the Paris Agreement's overall aim

- Both of these assessments are based on company disclosures, provided by FTSE Russell.

- The data presented in this report were originally published on the TPI Tool between mid-2019 and early 2020. The next annual update of the entire TPI database will be carried out in stages over the remainder of 2020.

About TPI:

Established in 2017, the Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. It is backed by over 60 investors with over $18 trillion of combined assets under management or assets under advice. The list of TPI members is available here. For more information: www.transitionpathwayinitiative.org