



Quick Brief

A news update from the NBI on its programmes, business leadership and issues on sustainable development.

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Science Based Targets (SBTs)

This Quick Brief originates from National Business Initiative (NBI) and We Mean Business (WMB) workshops held in Cape Town and Johannesburg, hosted by WWF-SA, in April 2018. Steve Nicholls of the NBI and Rebekah Hughes of the Science-Based Targets Initiative (SBTI) presented on the Initiative and the Sectoral Decarbonisation Approach, which is one of the approved methodologies to set a long-term science-based carbon reduction target. Amy Garlick from Promethium Carbon then elaborated on a developing country methodology they are working on with the NBI called the Equity Method, which will shortly be put forward for approval.

The key message arising from these workshops is that for companies in most sectors, setting a Science Based Target (SBT) is NOT a complicated task. By using the resources available from the SBTI website and existing company data submitted to CDP, companies will be able to set their targets easily.

The difficulty lies in getting this target approved within your business, as well as the plan together with the capex to implement it.

Approximately 60% of Greenhouse Gas (GHG) emissions arise from business activities. Hence, if we are to achieve the ambitions of the Paris Agreement, which is ratified by 147 countries, to stay within a two degree average temperature increase above pre-industrial levels, it is critical that businesses play a central role in setting ambitious long-term targets and then achieving them.

Globally almost 400 companies, including some of the largest companies in the world such as AB InBev, Apple, Microsoft, NRG Energy, Safaricom, Vodaphone, Unilever and Walmart have committed to setting a SBT. In South Africa 11 companies have thus far publicly committed to setting a SBT (Emira Property Fund Ltd, Exxaro Resources Ltd, Growthpoint Properties,

Mediclinic Southern Africa, Netcare Limited, Pick n Pay Stores Ltd, The Spar Group Limited, Tiger Brands, Tongaat Hulett Ltd, Virgin Active South Africa (Pty) Limited and Woolworths Holdings Ltd).

Setting a SBT will give you the following strategic benefits:

- The ability to engage more effectively with government, ensuring the most efficient policy framework and supporting them in ratcheting up climate ambition;
- An understanding of your competitiveness and risks in a global climate policy regime, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations;
- The ability to act sufficiently early, with an appropriate degree of ambition, to protect and enhance your market position;
- An understanding of what is required and the ability to develop sound business cases for lower carbon technologies; and
- Stimulate innovate thinking to capitalise on different business models.

From the discussions with companies present it emerged that a prevalent hurdle to committing to a SBT is support at the company board level. A clear understanding by the board of the risks of climate change (financial, physical and regulatory), at a company level as well as a broader societal level is vital. Furthermore, strong business cases that make financial sense are needed, to motivate for capex to implement lower carbon technologies. Setting an internal carbon price to help make material decisions will be a key enabler in ensuring sound business cases for certain projects, to drive down direct emissions.

A critical aide in these conversations with boards is thinking of Science Based Targets, graphically represented, as a competitiveness curve. In a global climate regime that includes carbon pricing, trade protectionism, consumer and investor pressure and inevitable changes driven by innovation and the 4th Industrial Revolution it is important to consider your company's relationship to the global and sector standards. This standard which can be represented by the sector or country curves produces by a Science Based Targets methodology. Over time any meaningful distance above the target curve will see companies become less and less competitive.

Another key component of reductions is emissions in the power generation sector. The draft Integrated Resource Plan (IRP) update points to a lower carbon footprint in the future through a greater use of renewables and nuclear energy. By more companies setting an SBT the NBI can assist member companies through collective action to discuss with government the least cost energy mix that will achieve the carbon reductions required by science.

There are six methodologies currently approved by the SBTi. The sectoral decarbonisation approach is a methodology developed by the SBTi; it takes a sectoral approach whereby a company within a sector must be aligned to the sectoral intensity decarbonisation curve by 2050. An assumption made in the SDA methodology is that it intrinsically accounts for regional differences regarding level of activity and carbon intensity but not explicitly in relation to historical responsibility. A user-friendly Excel tool has been developed to calculate the emission reduction trajectory for scope 1 and scope 2 emissions.

The Equity Method, currently in development, takes a geographical approach. Using publicly available data, the global carbon budget is apportioned to countries based on various criteria including country emissions. Therefore, using this methodology a country like the USA will have a higher decarbonisation rate than South Africa; consequently the companies there will have steeper targets.

Setting a Science Based Target is the first step in the journey to a low carbon economy. We encourage you to set a target aligned with science. This will motivate you and your organisation and unite you to a global support community. It is a critical task – the most important strategic thing you can do all year.

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