



# 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 originated from a speech given by the NBI Head of Environment, Steve Nicholls, at a UNEP-FI regional (Africa and the Middle East) roundtable held in November 2017. Nicholls says that he repeated one thing to NBI member companies all of last year: **“Setting a Science Based Target (SBT) is the most important strategic thing you will do”**. And here’s why:

**A global economic and low carbon economic transition is underway. The Paris Agreement requires signatories - all the countries in the world barring the US - to implement domestic legislation driving lower carbon economies. Even in the US a third of the US economy has independently committed to implementing the Paris Agreement. While the collective ambition of the countries of the world is inadequate, the Paris Agreement has mechanisms in place to ratchet up ambition over time. The progressive impact of the Paris Agreement driving individual countries to set local legislation reigning in carbon emissions (more stringently over time) should not be underestimated. We should also not underestimate how countries will integrate the progressiveness of responses into trade.**

One should also carefully consider the role of non-state actors. The business community in particular is independently driving a low carbon transition through commitment led demand and through the activity of the finance community. The National Business Initiative (NBI) is the local partner of a global coalition called We Mean Business (WMB). WMB asks companies to make commitments within their action framework. These commitments include things like doubling your energy efficiency, using 100% renewable energy, using an internal price on carbon and setting a SBT. As each company makes a commitment it increases demand for goods and services that help them meet their goals and drive down global emissions. So far over 600 of the planet's biggest companies have committed to over 1000 actions, including over 300 to setting a SBT. These companies represent 15.5 trillion US\$ and include AB InBev, Apple, Microsoft, Safaricom, Tiger Brands, Vodaphone, Unilever and Walmart

to name but a few. WMB uses these commitments and other data to help drive government level ambition through the COP processes at the end of each year.

Which brings us to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD is the Financial Stability Board (of the G20) task force that is developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. This bunch of accountants and bankers ask financial and other institutions to disclose climate change risk consequences in their financial disclosures. That's how important this risk is - it's a financial risk meaning we have to quantify it and write it down for everyone to see, bringing a level of rigor previously not often applied to climate change. The quantification of these physical and policy risks will change investment behaviour, which, when combined with the other transition factors mentioned above (policy and business demand), will further enhance the scale and pace of the low carbon transition.

The most logical way to ensure that you transform your business and begin the quantification of climate change risk is through setting a SBT. A well implemented SBT will effectively produce an emissions trajectory for your company showing the level of emissions you will need to be at each year out to at least 2035 (this target date is optional, subject to some rules).

One should also think of your carbon intensity over time relative to your sector as a measure of competitiveness. In a global climate regime, particularly one that includes a price on carbon, if you decarbonise at a rate slower than your sector you will be less competitive (potentially uncompetitive).

The NBI recommends using a SBT method that is sector driven (specifically in the South African context we recommend the sectoral decarbonisation approach). The International Energy Agency (IEA) has done an assessment of sectoral shares of emissions over time required to meet a below 2 degree world. The line for your sector therefore provides the competitiveness baseline for your sector. It also gives you a sense of how quickly you need to reduce your emissions, which is quicker than one expect, and how much you must reduce them by, which is more than one expects. In addition to helping you understand competitiveness an SBT helps you maintain your competitiveness.

Setting a SBT gives you the chance to unlock the ingenuity, innovation and enthusiasm of your staff by publicly setting a target that has appropriate ambition. Furthermore, having a strong sense of your sectoral responsibility will enable collaboration and enhance the effectiveness of your engagement with government.

Setting a SBT applies to all sectors even those with minimal direct exposure. For example the financial sector has more work to do than other sectors. The opportunity is to understand your climate risk exposure through tracking the competitiveness of the companies in debt and equity portfolios. As a simple illustration you would want the individual SBT curve for each company in your portfolio to be below or close to the sector competitiveness line.

Initially setting a SBT will be a nerve-racking experience. You will not know how it is possible to achieve. But here is the key to all this: an SBT is not a moon-shot! It is not a nice to have. It is something we must achieve to create a globally sustainable, competitive economy.

Having set a SBT you will quickly come to a few conclusions:

- You must drive down direct emissions.
- You cannot achieve these targets alone and must start working with civil society, labour and other businesses to achieve them.
- You will have to start working with government on the enabling environment, not the least of which is implementing an effective carbon price and engaging to ensure a least cost energy mix.

You cannot implement a SBT without considering scenarios (which brings us back to the recommendations of the TCFD, which include a recommendation to use scenarios). The NBI has done some of this work and has developed a set of Socio-Economic-Scenarios, which we have applied to energy sector pathways. One of our conclusions is that the energy mix is not dependent on the underlying numbers but is a complex mix of drivers embedded in socio-economics and politics. Therefore, in order to

meet your SBT and maintain competitiveness, you will find yourself engaging government far more intensely to argue for particular options and arguing for accelerated implementation. Fortunately, having set a SBT, you will be managing that engagement with excellent information.

Once set, 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 in a global climate policy regime.
- The ability to act sufficiently early, with an appropriate degree of ambition, to protect and enhance your market position.

Setting a SBT is the first step in this journey. We encourage you to do so. We encourage you to make a commitment through the We Mean Business framework and the Science Based Target Initiative (SBTI), a partnership between CDP, WRI, WWF and the UNGC. This will motivate you and your organisation and plug you into a global support community. It is a critical task – the most important strategic thing you can do this year.

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## Business Action for Sustainable Growth

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