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Transition Plan Taskforce

ShareAction response to Call for Evidence on A Sector-Neutral Framework for private sector transition plans

Introduction to the TPT

1. Do you agree with the proposed definition of a transition plan? If not, why, and what alternative definition would you suggest?

We agree that a key goal of the TPT should be to develop and improve market understanding of what good practice transition plans look like. However, we are concerned that the current definition is overly cautious and lacking in detail. In particular, the definition should:

- Focus on the destination, as well as the journey: Transition plans are intended to help companies, investors, sectors and the broader economy to transition to net-zero by 2050 on a 1.5C pathway. Yet the first mention of this objective doesn't appear until much later in the document. This should be made explicit in the definition.
- Reference capital: Transition plans require capital, yet recent research suggests that companies are not allocating transition capital in their capex budgets, nor investors providing it at sufficient scale. The definition should therefore be clear that a transition plan should set out how it will be funded.
- Incorporate a corrective action plan: Even where a company has a strong transition plan, should they veer off course the plan becomes redundant unless they have identified at the outset what levers they intend to pull to course correct. This is an essential facet of any long-term plan and should be embedded within the definition.
- Go beyond climate-related risks to the entity that is developing and implementing the plan to focus also on that entity's impacts on climate change: the current definition focuses on mitigating climate risk and disclosing information in line with the TCFD (Taskforce on Climate Related Financial Disclosures). Whilst this is essential it is insufficient on its own. The definition of a transition plan should make it clear that both companies and financial institutions need to minimise the impacts arising from their decisions as well as the risks to themselves associated with climate change and the transition.

We note the definition of a transition plan proposed by GFANZ and find it to be stronger.

GFANZ defines a net-zero transition plan as a set of goals, actions, and accountability mechanisms to align an organization's business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reductions in line with achieving global net zero. For GFANZ members, a transition plan must be consistent with achieving net zero by 2050, at the latest, in line with global efforts to limit warming to 1.5 degrees C, above preindustrial levels, with low or no overshoot. A financial institution's net-zero transition plan should represent the strategic alignment of its core business and look beyond its own risk profile to support the net-zero transition in the real economy.

The definition adopted by the TPT should, in addition, highlight the need for plans to consider a company's risks from biodiversity loss and the relationship between climate and nature related risks, dependencies and impacts. Furthermore, the definition of a transition plan should signal the need for plans to explicitly consider an entity's stakeholders' interests and the need for a just transition.

We propose the following definition be adopted by the TPT:

A transition plan sets out how an organisation will align with a pathway to net-zero GHG emissions that delivers real-economy emissions reductions, giving due consideration to nature related risks, dependencies and impacts. It should set out a) targets the organisation is using to mitigate climate risks and impacts b) interim milestones c) actionable steps the organisation commits to take to hit those targets, including a corrective action plan d) an assessment of how the plan will be funded, including how capital will be accessed. A transition plan's targets, including GHG reduction targets, should be informed by the need for global net zero emissions by 2050 at the latest and should be guided by the latest global consensus on climate science (as set out by the IPCC). Plans should set out how an organisation considers the interests and role of key stakeholders in the execution of its low carbon transition.

2. From your perspective, who are the key users of transition plans?

We see a variety of users of transition plans:

- **Employees** must understand their company's transition plan since these plans will be implemented month by month by a company's people. Effective communication of transition plans will aid effective implementation and may also support talent acquisition and retention right across the business[1].
- **Corporate boards** will develop and use transition plans in the context of their wider corporate strategy. A comprehensive understanding of the business' strategy to transition to net-zero should underpin broader operational and financial decision making of a company's board.
- **Investors** need to understand companies' transition plans to aid capital allocation decisions, to support climate stewardship of investee companies, and to inform their own transition plans.
- **Lenders** will need to understand companies' transition plans as part of due diligence in order to estimate ability to repay debt and interest charges and to inform their own transition plans.
- **Policy makers** including the UK Government and financial regulators will utilise transition plans to better understand how quickly and effectively specific sectors and the whole economy are transitioning to net-zero, which will support better policy making and regulatory interventions. While transition plans are being introduced on a comply or explain basis initially, as clear standards emerge policy makers will need to embed these standards into the broader sustainability reporting regime.
- **Corporate customers** will decide whether to enter into a contract with a business on a variety of factors, including potentially its strategy to transition to net-zero. Customers that doubt a company's resilience over the long-term due to an unrealistic or unambitious transition plan may choose to enter into business with a competitor.
- **Ratings agencies** will need to understand how well-equipped a business is to adapt to a transitioning economy in order to assess its likelihood of defaulting.

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[1] https://www.ey.com/en_us/financial-services/how-financial-institutions-can-attract-and-retain-talent-with-esg-initiatives

3. From your perspective, what are the key use cases for transition plans?

We see three key use cases for transition plans:

- **Evolving corporate strategy:** The introduction of transition plans will push climate change to the top of corporate boards' agendas. A business' approach to climate issues will now be at the heart of its operations, requiring directors and executives to develop Paris-aligned business models. In addition, we would expect one board director to have overall responsibility for the implementation of the transition plan as an additional accountability measure. This could have a potentially transformative effect on the way the whole economy considers and reacts to climate change and transitions to net-zero.
- **Strengthening investor stewardship:** Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Investors will play a dual role following the introduction of new rules: Many will be in scope of the new rules and so be required to develop their own transition plans. Additionally, responsible investors will make allocation decisions based on companies' ability and ambition to transition to net-zero, while those acting as responsible stewards of capital will engage with investee companies to encourage more robust and transparent plans.
- **Bolstering the regulatory regime that underpins UK financial services:** In November the Chancellor outlined the UK's intention to become the world's first net-zero financial centre. A fundamental aspect of this objective is understanding how effectively the financial services sector is transitioning to net-zero. Transition plans will enable policy makers to measure and manage that transition and incorporate the plans into regulation across the whole investment chain.
- **Having regard to broader stakeholders:** Section 172 of the Companies Act 2006 requires board directors to have regard to a broad range of stakeholders such as suppliers, customers, the community, the environment, and employees (although we think "workforce" is a more appropriate term"). This group is extremely likely, directly or indirectly, to be impacted by the implementation of transition plans and s.172 provides a good foundation of stakeholders for TPT to incorporate and build from. Where the entity publishing a plan is an investor, such as a pension scheme, the list of stakeholders should be expanded to include current and future beneficiaries of the scheme.
- **Setting global norms**: While the TPT's work will focus on providing recommendations to UK regulatory processes, it will also aim to provide a leading example for the development of other jurisdictions' national standards and for the development of international standards and norms.
- **Providing capital to finance the low-carbon transition:** Clear and public transition plans will allow financial institutions to decide how to best to mobilise and allocate their capital to finance corporates most willing and able to deliver the green transition. Those that do not have transition plans might face higher costs of financial products and services (e.g.

higher costs of capital) as well as constraints on access to financial products and services (e.g. constrained insurance capacity). They can also foster a race to the top, as transparency on transition plans might give corporates confidence that they are not acting alone and provide clarity on the direction a specific sector is heading towards.

4. How should the TPT select which sectors to develop tailored transition plan templates for? Following that logic, what financial sub-sectors and real economy sectors should the TPT prioritise? In what order should these be addressed?

Nearly three quarters of global emissions are linked to energy. A transition to net zero across all sectors is heavily dependent on the switch to renewable energy. Across sectors, current processes need to be electrified to achieve their decarbonisation in line with 1.5C pathways (e.g. heat pumps, EVs (Electric Vehicle), industrial production), and fossil fuels/feedstocks required in production (such as for steel and chemicals) need to be replaced with alternatives, such as renewable hydrogen. The utility sector therefore has a critical role to play to enable a system-wide decarbonisation – it needs to massively scale up renewable energy supply, grid capacity and infrastructure. Due to its systemically critical role in eliminating energy-related emissions and enabling emissions-free processes (electrification and fuel switching) across industries, the utility sector should be a priority focus for the TPT.

Further, for corporate sectors, transition plans for companies that are positioned in the downstream part of the value-chain to some degree depend on actions taken further upstream, including some visibility on practical, technical and regulatory aspects of implementation by their suppliers. That would suggest prioritising templates for carbon-heavy upstream segments of the economy.

In particular, the chemical industry should be a key focus area for the TPT. Ninety-five percent of all manufactured products contain chemicals – to decarbonise virtually all manufactured products, chemicals need to become emissions-neutral. Despite its pervasiveness and high emissions - nearly 6% of all global GHG (Greenhouse Gas) emissions stem from the chemical industry - the sector has received little scrutiny on its transition plans. ShareAction has developed a first-of-a-kind standard on climate for chemical producers, which is being picked up by NGOs across the board such as SBTi (Science Based Targets Initiative) and CBI (Climate Bonds Initiative). This work could be incorporated into the development of tailored transition plan templates under TPT to ensure chemical decarbonisation is picked up in time for economy-wide net zero by 2050.

Transition planning between corporate sectors and financial sectors are inter-linked. Ultimately, financial institutions’ transition plans are an aggregation of the transition plans of the companies they allocate capital to. Therefore, financial sector transition plans that run ahead of corporate transition plans could lack authenticity.

However, corporate transition plans will depend on the financial sectors to mobilise the significant quantum of capital required. The financial sector also has an important role to play in catalysing corporate transition plans through engagement and stewardship and by establishing conditions for corporates to access financing. It would be difficult for the financial sector to effectively fill these roles (mobilising capital and forcefully stewarding) without the solid foundations of their own transition plans. Therefore, we believe corporate sector and financial sector transition planning templates should be broadly contiguous (rather than one before the other).

Within the financial sector, the focus should be on where capital can be mobilised most easily, at scale. Many asset managers approximate to universal owners, with a focus on the larger (listed) corporates (who will most likely lead the transition). That means they should have a powerful incentive to facilitate corporate transition to protect their broader portfolios. For this reason, we believe asset managers and asset owners should be prioritised. Other segments of the financial systems may focus on smaller companies (SMEs) or being more selective about the parts of the economy they invest in, and therefore may be less able or likely to mobilise capital quickly, at scale. The insurance sector also has a critical – possibly overlooked – role to play in facilitating transition with their inherently long-term risk under-writing, under-pinning capital investments.

5. Given the mandate set out in the TPT's Terms of Reference, to what extent, and how, should the TPT consider issues beyond a firm's contribution to an economy-wide decarbonisation? Why?

The TPT should consider how Just Transition considerations could be included in corporate and investor transition plans. In the case of fossil fuel companies, transition plans could include information of how their workforce is set to change, and what measures will be put in place to ensure this is fair (i.e. retraining programmes for oil rig engineers). Companies could report on how they are engaging in dialogue with their unions, broader workforce, local government and communities in preparation for the transition. As stated in the Just Transition Centre report[1], in the context of emissions reductions and just transition, topics for discussion during a social dialogue can include:

- Forecasting and finding ways to maximise the positive impacts of company-level climate action on workers and communities, as well as minimising its negative impacts
- Forecasting skills needs and employment opportunities at different levels, and designing appropriate skills training services
- Locally, to design and deliver policies and actions that help to create new industries, jobs and social services provisions for workers and communities
- Locally and nationally, developing and advocating for government policies that support just transition, particularly for vulnerable workers and communities, and drive job creation, decent work, development and poverty eradication.

We also agree with WWF that transition plans should include targets and safeguards to do no significant harm to nature and factor in social concerns. TPT should report require entities to report on their material impact of nature as well as their efforts to do no harm. WWF cites various existing initiatives such as TNFD, the GRI's nature standards, and SBTN (Science Based Target for Nature) Initial Guidance for Business which could be adopted to streamline reporting requirements.

[1] https://bteam.org/assets/reports/Just-Transition-A-Business-Guide.pdf

6. Which of these issues are 'must-haves' that need to be addressed in all transition plans, and which are 'desirable', which add depth or breadth but are not central to a transition plan?
N/A

7. Do you envisage any tensions between entity-level decarbonisation and economywide decarbonisation goals? If so, can you provide examples and any suggestions as to how the UK TPT may address these in its guidance.
One sector which may see tensions is oil and gas. O&G companies are often herdlike and individual companies are unlikely to risk phasing down production at the expense of losing profits to rivals. Unless the sector is required to scale-down production by policy makers, it is hard to see individual companies doing so. In a recent briefing on fossil fuel financing, we flag mixed signals from government both pledging ambitious emission reduction targets while simultaneously supporting new oil and gas fields.[1] This not only undermines the work of the TPT and our ability to reach net-zero by 2050 but erodes trust in the ability of the UK to be a global leader in tackling climate change. TPT should engage with BEIS, HMT and Number 10 to encourage ministers to put an end to new oil & gas projects immediately. [1] https://api.shareaction.org/resources/reports/Fossil-Fuel-Financing-PolicyBriefing.pdf

8. What other financial or non-financial, mandatory or voluntary frameworks and processes are you aware of that the TPT should consider as it proceeds?
The OECD is developing valuable guidance on transition finance that we have seen and fed into. This will be non-mandatory. Elia.Trippell@oecd.org is a contact point for that work. We referenced above the GFANZ work on Transition Plans.

The Sector-Neutral Framework

9. Where would you prefer for companies to disclose information on their transition plans? Please explain your reasoning, including on how the suggested location relates to the intended audience
Information on transition plans should be disclosed in a company's strategic report. The Strategic report already includes various disclosures relating to environmental disclosures and is where a company includes information about its strategy, business model, risks and key performance indicators and metrics. The Companies Act 2006 already requires a Strategic Report to contain information on Governance, Strategy, Risk Management and Metrics and Targets as part of TCFD-reporting. Given this, the Strategic Report is well-suited to include information on a company's

transition plan. However, we recognise that Strategic Reports are increasingly dense with information that some investors (and other stakeholders) may find hard to distil material information from. We therefore suggest periodic "investor-friendly" presentations of transition plans in addition to inclusion in the Strategic Report.

10. How prescriptive should the Sector-Neutral Framework be, recognising the need to balance flexibility in how firms disclose transition plans with more prescriptive templates that seek to facilitate comparability of firms' transition plans?
Those designing the sector-neutral framework should not shy away from some necessary prescription. Companies and their investors will be helped not hindered in taking effective action to manage climate risks and impacts if they can meaningfully compare transition plans, particularly within sectors. This requires that plans follow a relatively closely prescribed format set out in the sector-neutral framework. The EU's Non-Financial Reporting Directive is, at the present time, being replaced by the Corporate Sustainability Reporting Directive. A key reason that NFRD didn't last the test of time is that it was insufficiently prescriptive about companies' sustainability reporting, thus rendering much of the reporting produced by companies unusable in practice by investors. Given the urgency of the climate crisis, we need transition plans to be useful to their diverse users as rapidly as possible. This suggests erring on the side of more rather than less prescription to enable comparability.

11. Should the TPT seek to standardise the data and metrics used to communicate ambition and measure progress in transition plans? If so, what are the standards for data and metrics that you would recommend including in the Sector-Neutral Framework and in supplementary sectoral guidance?
N/A

12. Question for small and medium-sized enterprises: what specific challenges do you foresee for SMEs seeking to prepare or use transition plans? How can the guidance and framework prepared by the TPT address these concerns?

N/A

13. Question for preparers only: if your firm does not already disclose information of the type outlined in this Call for Evidence, what are the reasons for that? For example, are there concerns about legal or possible market risks arising from disclosure? How could the work planned by the TPT address these concerns?
N/A

14. Transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. How can the guidance developed by the TPT balance the need to minimise costs whilst encouraging companies to develop strategies to maximise benefits for all?
The TPT should seek to highlight areas where short and long-term costs can be reduced or avoided while maximising benefits for all, including case studies where possible. For example, scaling up green investments can displace energy sources that are most costly and polluting while creating employment opportunities in a sector where it is otherwise set to decline, also minimising costs associated with physical impacts of climate change. Investments in energy efficiency can also contribute to increasing productivity and living standards while minimising costs.

15. Do you agree with the proposed principles? Why or why not?
We believe the proposed principles are a good starting point; but should be strengthened. For example: Principle 1: Whilst we recognise that companies' pathways to 1.5°C will differ according to their geographical footprints and sectors, we believe that all companies must have an end goal of 1.5°C. We think the Transition Plan Taskforce should make clear that companies *must* align their activities with the 1.5°C temperature goal of the Paris agreement. We support the focus on making sure that commitments are made across the organisation, and that no material exceptions are made. Principle 2: We appreciate the focus on 'concrete actions' that 'emphasise the near term'.

We would suggest strengthening this sentence by (1) listing some of the actions that companies would be expected to take (for example committing to halve emissions by 2030, phasing out from coal by specific dates, etc.) and (2) by making it clear that these actions must lead to real world impact. In practice, this means that actions must lead to measurable absolute reductions in emissions and that gross emission reductions must be prioritised over 'net' emission reductions. Companies must do everything they can to reduce their emissions in absolute terms instead of relying on offsets.

We would recommend using a similar timeframe as Race to Zero, which encourages members to outline actions they will take immediately (i.e. less than a year), in the next 2-3 years, and by 2030. We would also encourage the Taskforce to provide further details on what clear governance mechanisms are being envisioned. We would suggest that at least the following actions be taken by companies:

- Make at least one director directly responsible for the development and implementation of the transition plan;
- Incentivise the executive board and employees across the organisation to work towards the successful implementation of the transition plan.

Principle 3: We support the request that companies regularly report on progress. We believe that these progress updates should be included in the Annual Report, as it will ensure that these are audited by third parties. We would also recommend that companies describe the assumptions, uncertainties, and challenges the organization faces in successfully executing their transition plan.

16. Are there any principles that you would add to the list above? Why?

We recommend adding the following Principles:

(1) **Transition plans must be grounded in science**: Transition plans must be based on the latest available science and use 1.5°C scenarios that rely on low or no overshoot across their climate strategies. (For example, a bank using the IEA (International Energy Agency) Net-Zero Emissions Scenario as a basis for their sectoral targets would be expected to do the same for their sectoral policies. They should have the precautionary principle at their core: Climate impacts, due to tipping points, are inherently uncertain and scenario analysis also contains significant uncertainties. Moreover, the probability of a certain emissions reduction pathway resulting in the stated temperature target is commonly only 50 per cent (e.g. the IEA Net-Zero Emissions scenario). ShareAction recommends institutions going faster than climate scenarios suggest and allowing for an additional buffer. Furthermore, it is worth emphasising that whilst the IPCC calls for a halving of emissions by 2030, this is a global average and corporates operating in OECD countries will need to reduce their emissions faster than those operating in non-OECD countries.

(2) **Intended actions to achieve net-zero do no significant harm to nature:** We support WWF's recommendation for the inclusion of a principle that states achieving net-zero should come at the expense of nature considerations for the following reasons:
   - <u>The loss of nature drives climate change:</u> The destruction of natural ecosystems accounts for an estimated 23% of net anthropogenic greenhouse gas emissions each year (IPCC, 2022) – meeting the Paris Agreement goals is contingent on

reducing these emissions, as underlined by the Glasgow Leaders' Declaration on Forests and Land Use (COP26, 2021)

- Nature is a significant carbon sink and store: Nature has the potential to absorb up to a third of annual anthropogenic greenhouse gas emissions (IPCC AR6, Mitigation of Climate Change, 2021).
- The inclusion of nature de-risks transition plans: Taking a narrow approach to climate solutions can increase the risk of unintended consequences. For example, planting monocultures of trees are more prone to disease and only grow in a narrow climatic envelope 17 versus mixed forests (Levia et al., 2020), creating delivery risks for entities that invest in monocultures via carbon markets
- Nature has an important role to play in adaptation & resilience: Natural ecosystems are a cost-effective approach to improving resilience to the impacts of climate change (IPBES, 2019; GCA, 2021), especially when biodiversity is incorporated into policy plans (Seddon et al., 2020)
- Climate mitigation actions can drive nature loss: As substitutes for a fossil-fuel powered economy are developed and scaled, new green transition technologies and systems can degrade the natural environment, constraining the net emissions impact of the transition. For example, extracting minerals from high-conservation value forest ecosystems in central Africa to supply the raw materials for Electric Vehicle batteries (World Bank, 2019), or clearing high conservation value forest in South-east Asia for monocultures of palm oil to supply growing biofuel markets (Rainforest Foundation, 2020)

17. Which of these principles would you regard as 'must-haves' or as 'desirable'?

We strongly believe that all these principles are must-haves. A good transition plan must be aligned with 1.5°C and lead to near-term science-based and concrete actions being taken. Furthermore, transparency and regular reporting are important for stakeholder buy in and to monitor progress.

18. Principle 1 notes that a transition plan should cover the whole organisation. There may be challenges for internationally active firms in meeting Principle 1, given that different jurisdictions will have different economy-wide transition pathways. How can the TPT design its standard and guidance in a way that accommodates credible transition plans consistent with the broader strategy of a firm, but reflects differences between approaches taken in different jurisdictions?

Through the Transition Plan Taskforce (TPT), the UK government has a unique opportunity to set a global standard for what a good transition plan looks like that other countries can coalesce around. British companies with global operations will, by implementing the guidelines issues by the TPT across their operations, contribute to exporting good practices abroad and raising standards across the globe.

However, as indicated in our answer to question 15, we recognise that companies' pathways to 1.5°C will differ according to their geographical footprints and sectors. For example, OECD countries must phase out thermal coal a decade earlier than non-OECD countries (2030 vs 2040, respectively).

There are however universal truths that apply to all companies, regardless of their geographical footprints and sectors. This includes the need to align their business activities with the 1.5°C goal, and the incompatibility of new oil and gas fields and coal plants with net-zero by 2050.

19. Do you agree with the proposed elements? Why or why not?
N/A

20. Are there any elements that you would add to the list below? Why?
N/A

21. Which of these elements would you regard as 'must-haves' or as 'desirable' for credible transition plans? In which instances should an entity assess materiality to determine whether an element is considered must-have and/or what level of disclosure detail is required?
N/A

22. Are there elements where you see substantial barriers to implementation? If so, which ones and why? Are you able to suggest alternatives which are both credible and practical?
N/A