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# Investor Briefing



Why shareholders  
should support the  
2024 resolution on  
scope 3 emissions at  
Yara International  
**ShareAction»**

# Executive Summary

## Resolution

- **Key ask:** This resolution calls on Yara International, one of the world's largest ammonia and fertiliser companies, to commit to publishing science-based targets to reduce its scope 3 emissions over the short, medium, and long term, in line with the ambition to limit global temperature rise to 1.5C.
- **Target coverage:** Targets should require reductions in absolute emissions and should cover upstream as well as downstream emissions, including category 1 (purchased goods and services) and category 11 (use of sold products).
- **Timeline:** Yara should publish new scope 3 targets by the time of its 2025 AGM.

## Key Points

- **Scope 3 emissions are material:** Yara's scope 3 emissions account for 75 per cent of its total emissions<sup>1</sup>. 60 per cent of Yara's total emissions lie in its downstream value chain, while 15 per cent lie upstream<sup>2</sup>.
- **Yara lacks ambitious, comprehensive scope 3 targets:** Yara has not set any medium- or long-term scope 3 targets. Yara does have a near-term absolute scope 3 target, but the target does not cover material upstream emissions, and will achieve only a modest reduction in downstream emissions by 2030<sup>3</sup>. The company also has an intensity-based target covering a portion of its upstream emissions; however, the target is set to expire in 2025 and, according to the company's own disclosures, will not result in any absolute scope 3 emissions reductions<sup>4</sup>.
- **Investors expect chemical companies to set comprehensive scope 3 targets:** Climate Action 100+ investors expect chemical companies to commit to net-zero emissions across all scopes, and to set short-, medium- and long-term targets, covering purchased goods and services and use of sold products<sup>5</sup>. The Institutional Investors Group on Climate Change investor statement on the chemical sector says companies are expected to target scope 3 emissions, including 'all relevant upstream and downstream emissions, including feedstock procurement and end-of-life emissions'<sup>6</sup>.

- **Yara has not publicly disclosed a timeline for updating its targets:** Yara has publicly stated its commitment to setting science-based climate targets<sup>7</sup>, including a target covering upstream scope 3 emissions<sup>8</sup>, but has not published any details about the timeline on which it would do so.
- **There is growing demand for low-carbon products:** Food manufacturers are increasingly making commitments to slash their value-chain emissions by 2030 and reach net-zero by 2050. At the same time, new markets for emissions-free ammonia are growing<sup>9</sup>. Yara should prepare now to reduce its scope 3 emissions in order to meet future demand for low-carbon fertiliser and ammonia products.
- **Challenges Yara faces in quantifying upstream emissions are surmountable:** While collecting high-quality upstream data and reducing upstream emissions pose challenges, recent commitments from chemical-sector peers demonstrate that these obstacles can be overcome. BASF has recently committed to net-zero scope 3, category 1 emissions by 2050, and set a near-term target for 2030<sup>10</sup>. So far, BASF has validated primary data from suppliers covering 25 per cent of its category 1 emissions and has contacted suppliers covering 70 per cent<sup>11</sup>.
- **Yara risks damaging its reputation:** While commitments from fertiliser companies lag behind those in the broader chemical sector, Yara has positioned itself publicly as a leader in the fertiliser sector's climate transition. It has the opportunity to confirm that reputation by driving the sector's action on scope 3 emissions.
- **Yara risks undermining its transition to net-zero:** In the absence of comprehensive targets to reduce scope 3 emissions, Yara could make investments in assets which will prolong its dependence on fossil fuels and make its transition more challenging in the long term. These include its planned investments in new fossil gas-based 'blue' ammonia assets in the US. Though these assets will be equipped with carbon capture to reduce direct emissions, upstream emissions associated with the extraction and processing of fossil gas fuels and raw materials will remain.
- **Two years of engagement have seen little progress:** A working group of concerned investors, convened by ShareAction, has engaged regularly with Yara on scope 3 target-setting since late 2021. However, Yara still has not publicly released details on its timeline or strategy for setting comprehensive targets. Time is short: there are only six years left for Yara to take ambitious action on its emissions in this crucial decade for addressing climate change.
- **SBTi chemical sector guidance will be published this year:** The Science

Based Targets initiative's guidance on chemical sector target-setting will be published in the second half of 2024<sup>12</sup>. Publication of the guidance provides a timely opportunity for Yara to affirm its commitment to a 1.5C-aligned transition.

## Yara must set targets to reduce the impact of its ammonia and fertiliser products on climate change

With every fraction of a degree of global warming, the consequences to the planet and the people who live in it grow. Even moderate temperature rises of more than 1.5C above pre-industrial levels will significantly worsen the impacts of climate change, increasing the frequency and severity of extreme weather events, driving sea level rise, and contributing to the rapid loss of the world's last remaining intact ecosystems. Passing 1.5C of warming also increases the risk of breaching tipping points that threaten non-linear and potentially irreversible changes<sup>13</sup>.

Breaching the 1.5C limit would also have consequences for the global financial system. Higher levels of warming will negatively affect the risk-return of financial assets, as indicated by projections for global GDP loss<sup>14</sup>, and it is increasingly understood that climate scenarios are under-pricing the financial risk that investors face<sup>15</sup>. Aligning investment with the goal of keeping temperature rise below 1.5C is fundamental to responsible investment<sup>16</sup> and necessary to maintain a stable economy and a safe, liveable climate.

The global chemical sector is the third-largest industrial greenhouse gas emitter, releasing 6.6 per cent of global greenhouse gas emissions per year<sup>17</sup>, and the largest industrial final energy consumer, accounting for 14 per cent of global oil demand and 8 per cent of fossil gas demand per year<sup>18</sup>.

The production of ammonia is the single largest contributor to chemical sector emissions, by a large margin, according to the IEA<sup>19</sup>, generating 0.8 per cent of global greenhouse gas emissions<sup>20</sup>. The majority of ammonia goes into producing synthetic fertilisers, which have even larger global warming impacts, emitting nitrous oxide, a greenhouse gas 265 times more potent than CO<sub>2</sub><sup>21</sup>, when applied to fields. A recent study places the total planet-warming impact of the production and use of nitrogen fertilisers at 5 per cent of total greenhouse gas emissions – similar in scale to steel (7 per cent), cement (6 per cent), and plastics (4 per cent)<sup>22</sup>.

Ammonia will play an important role in the net-zero economy as an energy carrier, and fertilisers are crucial to feeding the global population. But the production and use of these products needs to occur within planetary boundaries.

Ammonia production must move away from raw materials based on fossil gas to eliminate both direct emissions and upstream emissions associated with gas extraction and processing. And global use of nitrogen fertilisers must be reduced and redistributed to remain within climate and ecological limits<sup>23</sup>. As well as damaging the climate, over-use of synthetic fertilisers is a major

driver of water pollution, contributing to eutrophication, algal blooms, oxygen depletion, and dead zones in waterways<sup>24</sup>. A recent study has suggested that, worldwide, nitrogen application rates exceed planetary boundaries by a factor of two to three – and exceed the amount required to feed the global population by a factor of two<sup>25</sup>. Demand for nitrogen fertilisers can and must be cut to minimise their impacts on climate and ecosystem health.

As one of the world's largest ammonia and fertiliser producers, Yara makes a significant contribution to global pollution from these products, both in its direct operations and, even more acutely, in its upstream and downstream value chains.

## Scope 3 emissions account for three quarters of Yara's climate impact

'Scope 3' emissions account for the majority of Yara's climate impact. Scope 3 covers emissions that occur upstream and downstream of a company in its value chain, as an indirect consequence of its business activities.

Yara's scope 3 emissions amount to 46.9 million tonnes of CO<sub>2</sub> equivalent per year<sup>26</sup> – around 75 per cent of the company's total greenhouse gas footprint, and comparable to the annual emissions of around 12 coal-fired power plants<sup>27</sup>. Around 56 per cent of the company's emissions arise when its fertilisers are applied to agricultural fields<sup>28</sup>. Another 12.4 per cent are generated in Yara's upstream value chain, particularly during the extraction, transportation, and processing of fossil fuels and other fossil-based raw materials used in Yara's processes<sup>29</sup>.

# Yara International Emissions (2022)

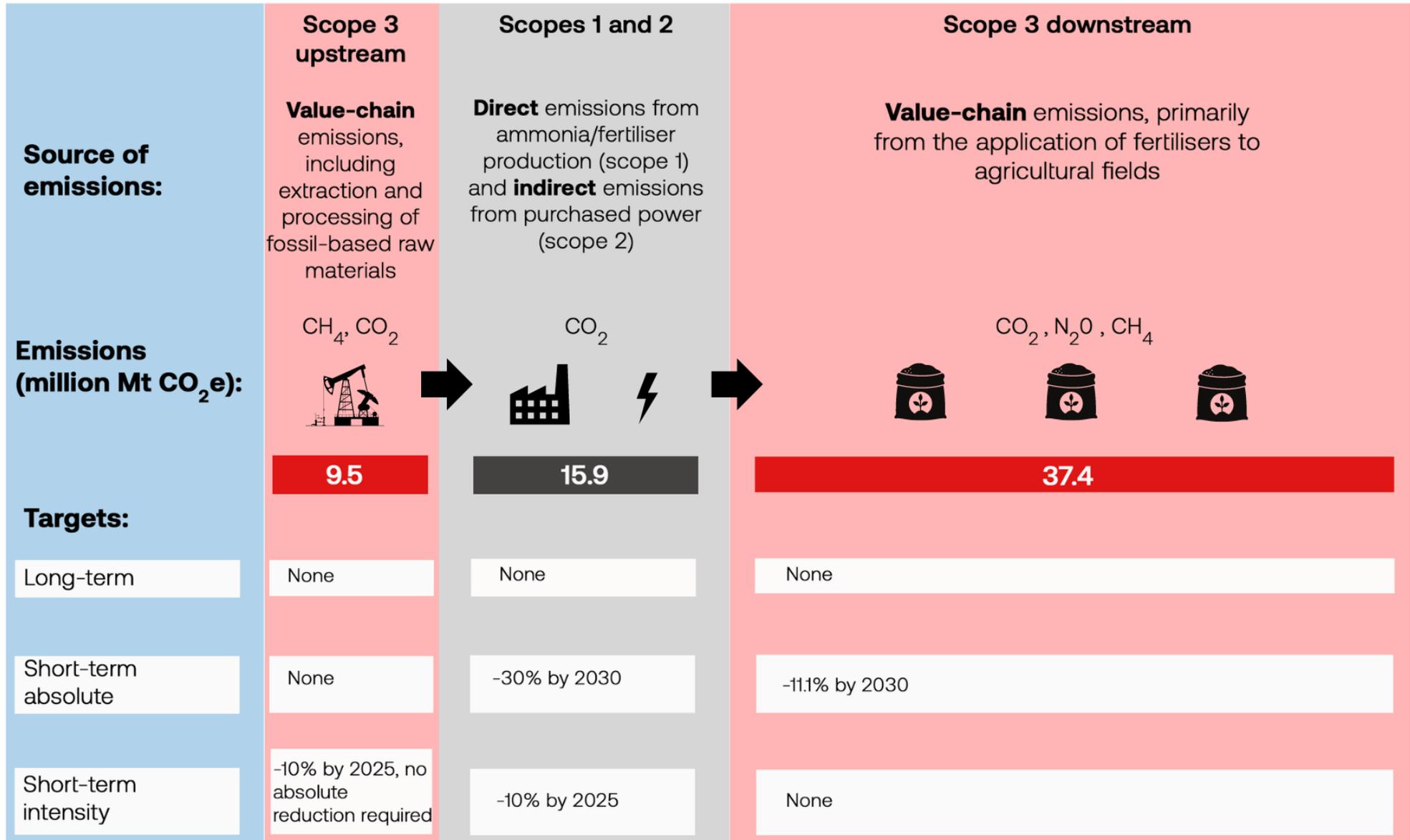


Figure 1. Yara’s value-chain emissions (2022). Data sourced from CDP (2023), Yara International ASA - Climate Change 2022

Yara has taken important steps to begin addressing its scope 1 and 2 footprints, including by sourcing increasing amounts of renewable energy and by piloting fossil-free ammonia and fertilisers. But its strategy for addressing emissions in its supply chains remains unclear.

Despite the fact that scope 3 emissions drive three quarters of its climate impact, Yara does not have comprehensive short- or long-term targets covering these emissions. The company has made no long-term commitment to reduce emissions in its value chain. Its absolute short-term target, meanwhile, omits key upstream emissions, which account for 15 per cent of total emissions<sup>30</sup>.

The company does have a near-term downstream scope 3 target, to reduce emissions from the use of nitrogen fertilisers by 11.1 per cent by 2030, but this is a very modest target<sup>31</sup>. Such limited reductions would make it challenging to achieve the long-term decline in fertiliser use-phase emissions envisioned by recent ambitious pathways, such as the 2022 study co-published by the International Fertilizer Association and SystemIQ, and sponsored in part by Yara<sup>32</sup>. This study found that use-phase emissions can be reduced by 70 per cent by 2050 (from a 2050 baseline) to align with a 1.5C trajectory<sup>33</sup>. This would imply a 23 per cent reduction in use-phase emissions by 2030 (if emissions fall in a linear fashion), which is more than double the current target.

Yara also has an intensity target, set to expire next year, which covers a portion of its upstream scope 3 emissions. The target aims to reduce the intensity of its scope 1 and 2 emissions, as well as scope 3 emissions from third-party purchased ammonia (part of scope 3, category 1), by 10 per cent by 2025 on a 2018 baseline<sup>34</sup>. According to the company's own disclosures, the intensity target is not expected to achieve any absolute reductions in scope 3 emissions<sup>35</sup>.

Yara has told us that it is committed to setting 1.5C-aligned targets across all scopes, but has not publicly set out a clear timeline for doing so. Time is short: there is no time to delay action in this crucial decade for addressing climate change. Yara must set comprehensive targets, and take action to reduce emissions across its whole value chain, as soon as possible.

## Yara's customers are cutting emissions – Yara will be expected to do the same

Momentum is building across the agricultural sector to reduce its significant contribution to climate change. Major food manufacturers have released ambitious targets to cut their emissions across all scopes by 2030 and reach net-zero by 2050 or before. Nestlé has committed to reduce forestry, land, and agriculture-related scope 3 emissions by 50 per cent by 2030<sup>36</sup>. Danone and PepsiCo have also made ambitious scope 3 commitments<sup>37</sup>. Several companies are already launching projects to develop low-carbon fertilisers themselves, in an attempt to directly address emissions in their supply chain<sup>38</sup>.

As these companies take action to reduce their scope 3 footprints, farmers and food producers who use Yara's products will increasingly look to Yara to set similar targets and to provide products which can help mitigate their emissions. Without a coherent scope 3 strategy in place, Yara could lose its share in these premium markets as demand for low-carbon products increases in the next few years.

## Markets for low-emissions ammonia are growing

Markets for green ammonia are beginning to emerge and will grow rapidly over the next few decades, driven by demand for ammonia as a transport fuel and source of energy system flexibility. This represents a significant growth opportunity for Yara, and Yara has already taken steps to capture these markets early, including by investing in pilot plants in Norway and Australia. Value-chain targets will provide an important incentive for Yara to continue to expand its investment in these opportunities, ensuring its long-term competitiveness.

## Proposed investments could materially increase upstream emissions

A significant proportion of Yara's emissions – around 12 per cent – are upstream emissions associated with raw materials for Yara's production processes (scope 3, category 1)<sup>39</sup>. A little more than a quarter of these category 1 emissions are released during the extraction, processing, and transportation of fossil gas used directly as a raw material for Yara's products, while at least another 45 per cent are associated with other fossil gas-based raw materials, such as ammonia purchased from third parties<sup>40</sup>.

Yara's current growth plans include new, fossil-based 'blue' ammonia assets which threaten to increase the company's category 1 emissions. Blue ammonia is ammonia produced from fossil gas, where emissions directly released during the production process are captured. The blue ammonia production process does not, however, resolve indirect, upstream emissions from raw material extraction. In March 2023, Yara announced that it is planning to invest in two new blue ammonia facilities on the Gulf Coast of the US<sup>41</sup>. Because its scope 3 targets do not include upstream emissions from fossil gas raw materials, Yara does not currently have public targets in place to mitigate rising emissions from these plants' gas consumption.

Yara's proposed blue hydrogen investments could also lock in long-term dependence on fossil fuels, creating a risk of asset stranding as global fossil gas demand falls and making Yara's transition to non-fossil alternatives more challenging in the future<sup>42</sup>.

## Many of Yara's peers are setting scope 3 targets, demonstrating that data challenges are surmountable

Lack of high-quality emissions data from upstream supply chains is often cited as a key challenge for companies looking to set scope 3 targets<sup>43</sup>.

Despite these challenges, several of Yara's chemical sector peers have begun setting targets covering upstream emissions. BASF – another large European chemical company and major ammonia producer – has recently published a target to reduce the intensity of its scope 3, category 1 emissions by 15 per cent by 2030<sup>44</sup>. To set this target, BASF has validated primary data from suppliers covering 25 per cent of its category 1 emissions and has contacted suppliers covering 70 per cent<sup>45</sup>.

BASF faces similar challenges to Yara in quantifying and reducing upstream emissions. If BASF can set a target, there is no reason why Yara cannot.

While commitments from fertiliser companies lag behind those in the broader chemical sector, Yara has positioned itself as a leader in the fertiliser sector's climate transition in the last few years and has the opportunity to confirm that reputation by driving action on scope 3 emissions. If it does not do so, it risks falling behind.

## Investor climate initiatives require chemical companies to set comprehensive scope 3 targets

The expectation that chemical companies set comprehensive, 1.5C-aligned scope 3 targets is standard among investor climate initiatives. Climate Action 100+ investors require that chemical companies commit to net-zero emissions across all scopes and set short-, medium- and long-term targets, covering purchased goods and services and use of sold products<sup>46</sup>. The Institutional Investors Group on Climate Change investor statement on the chemical sector says companies must target scope 3 emissions, including 'all relevant upstream and downstream emissions, including feedstock procurement and end-of-life emissions'<sup>47</sup>.

## Two years of engagement with Yara have not yielded significant progress on the scope 3 issue

ShareAction's investor working group has met with Yara three times since 2021. Over that period, despite pressure from investors, the company has not made public details about its

strategy for setting additional scope 3 targets nor about its plans to do so in the near future.

## **With SBTi guidance on chemical sector target-setting to be published later this year, there is no reason for Yara to delay setting a target**

The SBTi will release its guidance for chemical sector target-setting in the second half of 2024. The publication of the guidance provides a timely opportunity for Yara to affirm its commitment to a 1.5C-aligned transition across its value chain by setting ambitious, comprehensive scope 3 targets.

## **It is in the company's best interest to set comprehensive emissions reduction targets; this resolution endorses Yara to do so**

By setting comprehensive, science-based scope 3 targets, Yara can reduce reputational and commercial risks to its business, capture emerging markets for low-carbon products, and ensure a smooth transition to net-zero. Yara has publicly stated its commitment to setting science-based climate targets<sup>49</sup>, including a target covering upstream scope 3 emissions<sup>50</sup>. This resolution supports Yara to follow through on its commitment.

# Supplementary note on voting in Norway

## The recent implementation of SRD-II in Norway removes barriers for international shareholders to vote at Norwegian companies

Shareblocking has previously been a major obstacle for international shareholders attempting to vote at Norwegian companies' AGMs. Following the expansion of the EU's Shareholder Rights Directive (SRD-II) to the European Economic Area last year, proxy voting in EEA countries including Norway now follows the same processes as in the rest of the EU.

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50. Ibid., p. 30.

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Belgian organisation number:  
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## ShareAction»

ShareAction is a registered charity working globally to define the highest standards for responsible investment and to drive change until these standards are adopted worldwide. Our vision is a world where the financial system serves our planet and its people.