



RECOMMENDATIONS FOR A CONSISTENT EU
REGULATORY FRAMEWORK ON

CORPORATE SUSTAINABILITY TARGETS AND TRANSITION PLANS

Authors

Antoine Pugliese,
Sustainable Finance Expert,
WWF France,
apugliese@wwf.fr
Mobile +33 6 02 09 92 44

Sebastien Godinot,
Senior Economist,
WWF European Policy Office,
sgodinot@wwf.eu
Mobile +32 489 461 314

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Vanessa Balmer, Leonie Ederli-Fickinger, Philippe Diaz, Jochen Krimphoff, Matthias Kopp (WWF Germany), Margaret Kuhlown, Elisa Vacherand (WWF International), Donald Linderyd (WWF Sweden), Alison Midgley, Jon Dennis (WWF UK), Inès Abbas, Camille Maury, Henry Eviston, Vedran Kordic, Romain Laugier (WWF European Policy Office)



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EXECUTIVE SUMMARY

This briefing provides analysis and issues recommendations for an EU regulatory framework that sets harmonised rules on corporate sustainability targets and transition plans. More specifically, given its objectives and expertise, WWF focuses primarily on environmental issues as part of a broader sustainability approach.

Concretely, WWF recommends that the EU build a consistent regulatory framework requiring corporate climate and environmental science-based targets and implementing transition plans, to ensure that companies meaningfully contribute to the EU Strategy for Financing the Transition to a Sustainable Economy¹, the European Green Deal, and EU environmental goals. **Companies’ targets and transition plans are essential to ensure that their business model becomes compatible, in a timely way, with a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement (Section 1). The plans are necessary to give real clarity to corporate transitions and ‘transition finance’. Today, there is a huge opportunity to embed them consistently into the EU regulatory framework, given that several relevant regulations are currently being negotiated.**

The transition of the economy, and the transition finance that is needed to help achieve it, are not yet clear enough². The OECD provides the following definition: *“Transition finance focuses on the dynamic process of becoming sustainable, rather than providing a point-in-time assessment of what is already sustainable, to provide solutions for a whole-of-economy decarbonisation, and to decarbonise the most polluting and hard-to-abate industries today.”*³It therefore applies not only to green activities but to ‘greening’ activities: with such a large scope, **defining the trajectory and speed of the transition is critical. At corporate level, this mainly relies on targets and transition plans.**

Many initiatives have started to frame corporate climate and nature targets and transition plans: we provide ten examples (Section 2). However, they face several limitations in terms of lack of scale, of speed, and of quality checks (Section 3). This briefing thus recommends that the EU designs a complete and consistent EU regulatory framework on corporate climate and environmental targets and transition plans, to help achieve EU climate and environmental goals, reduce the

risks of a disorderly transition and avoid transition-washing (Section 4).

Targets and transition plans should not be a simple pledge or procedure of information that may or may not deliver operational outcomes. Companies should be accountable for the implementation of their plan and the achievement of their targets. This is why supervision of these targets and transition plans is necessary, with competent authorities being mandated to assess their robustness by using sectoral decarbonisation pathways as benchmarks (Section 5).

We propose three layers to ensure a consistent EU regulatory framework on corporate targets and transition plans:

- **First layer: Disclosure policy setting the granular, comparable template for targets and transition plans (Corporate Sustainability Reporting Directive and forthcoming European Sustainability Reporting Standards).** The CSRD and ESRS should form the EU’s cornerstone to define corporate targets and transition plans;

- **Second layer: Consistency of the EU policy mix, fixing the CSRD ‘comply or explain’ flaw.** Several other relevant laws should build on CSRD and ESRS and refer to them, while improving CSRD by requiring companies to set targets and transition plans at corporate level, rather than simply disclose them. These laws could also require the verification of targets and plans to bring more robustness. In a complementary way, the EU Taxonomy and other files such as EU Emission Trading System (ETS) and Industrial Emissions Directive (IED) should strengthen targets and transition plans at activity level and site level with further granularity.

- **Third layer: Supervision.** It is crucial to assess the credibility of targets and transition plans.

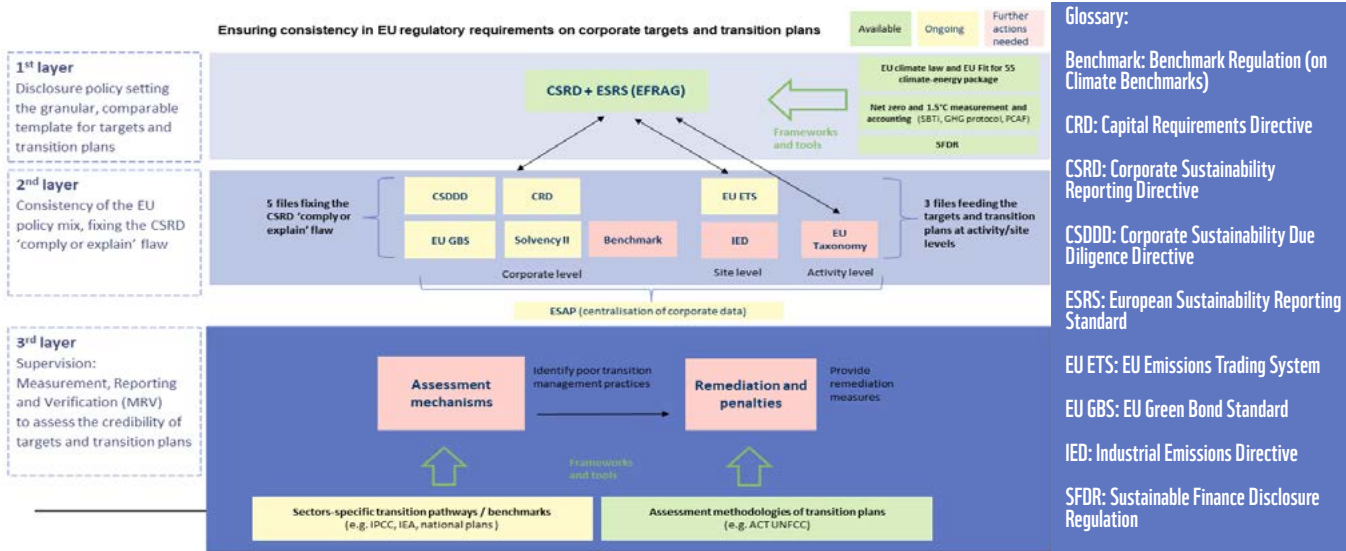


Figure 1: Ensuring consistency in EU regulatory requirements on corporate targets and transition plans

To achieve this EU framework, we recommend the five following steps:

- Step 1: Ensure mandatory standardised disclosure of targets and transition plans;
- Step 2: Articulate site-level, economic activity-level and company-level targets and transition plans;
- Step 3: Build EU 1.5°C sectoral decarbonisation pathways as benchmarks;
- Step 4: Assess the consistency of targets and transition plans;
- Step 5: Ensure remediation and penalties where necessary.

Policy-wise, we make five recommendations to EU policy-makers to ensure consistency:

- A mandatory requirement for the establishment of corporate targets and transition plans in the CSDDD, CRD, Solvency II, EU Green Bond Standard (GBS), and the Benchmark Regulation, with an explicit reference both to the CSRD and, when available, to the ESRS E1 and E4 templates in order to ensure comparable, consistent, granular transition plans and avoid duplication. As long as ESRS E1 and E4 are not legally available, the five laws mentioned above should integrate the key elements of the draft EFRAG ESRS E1 and E4 for transition plans, which are summarised in Section 1.5. These laws could also require the verification of targets and plans by an independent third party (as proposed by the European Parliament for the EU GBS).
- A requirement for supervision of these targets and transition plans by the competent authorities, in each of the above-mentioned EU laws (as proposed by the Commission to some extent in the CRD).
- A requirement for remediation and penalties for companies which do not comply, in each of the above-mentioned laws.

¹ https://finance.ec.europa.eu/publications/strategy-financing-transition-sustainable-economy_en.

² For more see EgG (2022), *Achieving a transition finance framework in the EU*.

³ <https://www.oecd-ilibrary.org/sites/702bf065-en/index.html?itemId=/content/component/702bf065-en>.

⁴ Methodology standardisation may be provided by the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC).

INTRODUCTION

This briefing aims to promote a consistent EU regulatory framework on corporate climate and nature targets and transition plans. We raise in particular the issues of the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Capital Requirement Regulation and Directive and Solvency II, the EU Green Bond Standard, the Benchmark Regulation and the EU Taxonomy. The objective is to identify which EU regulations or directives are integrating or should integrate requirements related to corporate climate and nature targets and transition plans, and how to articulate them adequately to ensure a consistent EU regulatory framework.

WWF recommends that the establishment, disclosure and supervision of corporate targets and transition plans be mandatory and that the European Commission, Parliament and Council integrate such requirements in relevant legislative proposals, in order to create a consistent EU regulatory framework on corporate targets and transition plans. This would increase the contribution of companies to the achievement of the EU Strategy for Financing the Transition to a Sustainable Economy⁵, the EU Green Deal and EU environmental goals, while managing transition risks.

The briefing is structured in five parts:

- **Effectiveness:** Mandatory corporate science-based targets and transition plans are a must to achieve EU sustainability objectives
- **Feasibility:** Several robust market precedents
- **Necessity:** The limitations of existing initiatives
- **Concreteness:** Overview of the necessary EU regulatory changes
- **Monitoring:** Building an EU supervisory framework for corporate targets and transition plans.

1. EFFECTIVENESS: MANDATORY CORPORATE SCIENCE-BASED TARGETS AND TRANSITION PLANS ARE A MUST TO ACHIEVE EU SUSTAINABILITY OBJECTIVES

1.1. The ground of corporate targets and transition plans

Climate strategies, plans or actions towards reducing companies’ emissions have existed since climate change is material for companies. Companies’ climate action has risen, especially when GHG accounting methodology appeared, such as in 2001 with the GHG protocol and ISO 14064 in 2006. Following this, sectoral pathways have been developed, such as the ICAO 2009 roadmap for aviation. At COP 2015, climate change pledges and actions have started to expand, and the first climate transition plan methodology appears aligned with the Paris Agreement⁶ under the UNFCCC agenda. Targets and transition plans are gradually emerging in many international and regional initiatives, industry commitments and sustainability financial standards.

Despite these numerous initiatives, **there is currently no EU harmonised legal concept of what corporate climate and nature targets and transition plans are and what they should cover** to ensure that the information provided enables market participants, investors, and regulators to properly assess the level of ambition and the credibility of a company’s strategy toward climate change and nature. Without such a harmonised framework, comparability and assessment are limited, and risks of transition-washing⁷ will undermine our ability to achieve EU

climate and environmental goals. Nowadays, there are many initiatives, standards, and guidelines such as ACT initiative⁸, UNEP FI⁹, TCFD¹⁰, EFRAG¹¹, ISSB, SEC, CBI¹²) that are generally used or will be used for producing sustainability reports and climate-related information. These initiatives discuss the concept of a corporate target and/or a transition plan, and recognise that it is one of the most important components of companies’ climate strategy (ECB 2021 communication¹³).

Therefore, it is important to determine explicitly what credible targets and transition plans are and how they should be assessed and used by stakeholders. A shared vocabulary is helpful to ensure a rigorous and robust development of sustainability financial information regarding climate targets and transition plans (Tangen, 2005¹⁴ and Tarquinio and Posadas, 2020¹⁵). The lack of a common understanding of targets and transition plans may produce confusion and opacity in contradiction with the transparency aimed by the CSRD¹⁶. In addition, a fragmentation in people’s understanding risks increasing costs and reporting burden, undermining the achievement of EU objectives, and leading to the fragmentation of the EU market. So far, WWF has analysed 18 initiatives discussing the concept of targets and transition plans (see Annex 1) and, based on this landscape of initiatives, developed an initial view of the five principles present in best practice corporate climate transition plans (see Annex 2).

⁵ https://finance.ec.europa.eu/publications/strategy-financing-transition-sustainable-economy_en.

⁶ <https://actinitiative.org/>

⁷ Companies claiming to transition their operations in alignment with EU environmental goals (e.g. net zero emissions by 2050) but not doing it in practice or not in a timely manner .

⁸ <https://actinitiative.org/>.

⁹ <https://www.unepfi.org/publications/banking-publications/practical-approaches-to-applying-the-eu-taxonomy-to-bank-lending/>

¹⁰ <https://www.fsb-tcfd.org/webinar-proposed-guidance-on-climate-related-metrics-targets-and-transition-plans/>

¹¹ <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Cover%20note%20for%20Batch%201%20WPs.pdf>

¹² <https://www.climatebonds.net/principles-transition>

¹³ <https://www.ecb.europa.eu/press/kev/date/2021/html/ecb.sp211020-03fa70983.en.html>

¹⁴ Tangen, S. (2005), “Demystifying productivity and performance”, International Journal of Productivity and Performance Management, Vol. 54 No. 1, pp. 34-46.

¹⁵ Lara Tarquinio, Stefania Carolina Posadas (2020) Exploring the term “non-financial information”: an academics’ view.

¹⁶ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

1.2. The utmost importance of science-based environmental targets

An important starting point for any sustainability transition plan is to set sustainability targets in accordance with a safe operating space for humanity. As we know, crossing certain biophysical thresholds known as planetary boundaries¹⁷ could have disastrous consequences for humanity. A transition plan toward a state that does not consider scientific targets is unlikely to achieve an adequate transition.

For climate change, the IPCC Special Report on Global Warming of 1.5°C stresses that limiting global warming to 1.5°C requires rapid and far-reaching transitions in land, energy, industry, buildings, transport, and cities. Global net human-caused emissions of carbon dioxide (CO₂) need to fall by about 45% from 2010 levels by 2030, reaching net zero around 2050. According to the IPCC, transition means “*the process of changing from one state or condition to another in a given period*”¹⁸. In the report, the state or condition is the limitation of temperature rise to 1.5°C. This transition can be in individuals, firms, cities, regions, and nations, and can be based on incremental or transformational change. In this context, the word ‘transition’ is inextricably linked with the 1.5°C-aligned emission reduction goal. The CSRD also explicitly requires a corporate plan to ensure that the company’s business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. **Therefore, corporate climate targets and transition plans should be aligned with the limiting of global warming to 1.5°C.**

For nature, the First Draft of the Post-2020 Global Biodiversity Framework (2021) states: “*By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people*” and “*to take urgent action across society to conserve and sustainably use biodiversity and ensure the fair and equitable sharing of benefits from the use of genetics resources, to put biodiversity on a path to recovery by 2030 for the benefit of planet and people*”¹⁹. **As a consequence, biodiversity and ecosystem targets are no net loss by 2030, net gain from 2030, and full recovery by 2050**²⁰.

1.3. Mandatory science-based targets and transition plans are a win-win

As described in the EY study on directors’ duties commissioned by the European Commission, “*In*

absence of EU intervention, the adoption, disclosure and implementation of a forward-looking sustainability strategy, encompassing measurable sustainability targets, will remain a voluntary practice. Therefore, the current situation, whereby only certain companies voluntarily commit themselves to greater sustainability by adopting a sustainability strategy with science-based targets and KPIs aligned with global goals, while the majority do not, will not substantially change”.

Requiring corporate targets and transition plans is critical to contribute to the achievement of EU sustainability goals:

- It is positive for companies to adopt targets and transition plans, as it enables market participants to assess the credibility of organisations’ commitments related to climate change and nature. More generally, setting a corporate target and a transition plan helps relevant stakeholders to understand the natural, human and financial resources needed by the company to timely achieve its transition.

- Corporate targets and transition plans are a suitable tool to enable all proactive companies to attract financing for their own transition, beyond those issuing debt labelled as green, transition, or sustainability-linked. They substantially clarify transition finance.**

- Several existing initiatives create robust precedents to build on (see Section 2); however, voluntary initiatives won’t be able to deliver in a timely manner: they lack scale, speed and quality, and can’t deal with laggards (see Section 3).

- A framework is needed that enables stakeholders, notably financial institutions and policy makers, to assess the integrity of corporate targets and transition plans, irrespective of the sector and jurisdiction. As a consequence, mandatory reporting on targets and transition plans is necessary but not sufficient as these plans need to be assessed to allow a judgement on their quality and credibility.

Mandatory corporate targets and transition plans are, therefore, a win-win for companies, governments, societies, and our planet.

1.4. The need to ensure consistency in EU regulatory requirements on corporate targets and transition plans

The figure below represents how corporate targets and transition plans could be integrated and articulated into the relevant EU regulations, creating a consistent EU

regulatory framework. As explained above, it is important to determine explicitly what robust targets and transition plans are. A shared EU vocabulary is necessary to ensure a rigorous development of targets and transition plans. The lack of common understanding and consistency of targets and transition plans in different EU regulations would risk producing gaps and/or duplication, create confusion and unnecessary burden, and slow down corporate transitions and related transition finance at a moment we need to accelerate them to avoid a disorderly transition.

We, therefore, propose three layers to ensure a consistent EU regulatory framework on corporate targets and transition plans:

- First layer: Disclosure policy setting the granular, comparable template for targets and transition plans (CSRD and forthcoming ESRS):**

CSRD and ESRS should form the EU cornerstone to define corporate targets and transition plans for four reasons:

- They bring a clear double materiality approach and include all sustainability issues, making them fully appropriate to be referred to in any other file that focuses on financial materiality, or environmental and social materiality, or both;
- Their scope includes both non-financial and financial companies, hence can appropriately be referred to in files focusing either on non-financial companies, or financial companies, or both. It should be noted that transition plans’ disclosure requirements for financial institutions and for non-financial companies should be tailored to each sector’s specific role. We expect that this is what the ESRS, with forthcoming sector-specific standards, will ensure;
- Content-wise the ESRS, building on EFRAG technical work, will provide the necessary level of granularity to properly structure and specify targets and transition plans, articulate the links between them, and ensure their meaningfulness and comparability across comparable companies;
- Time-wise, the CSRD is already finalised and the first Delegated Act establishing the ESRS will be published by the Commission by 30 June 2023²¹, so they are quite timely for all other relevant files still under negotiation.

- Second layer: Consistency of the EU policy mix, fixing the CSRD ‘comply or explain’ flaw**

The most appropriate way forward to set a consistent EU regulatory framework on corporate targets and transition plans is to build on the CSRD and ESRS and refer to it in other files.

However, five other files are critical to fixing the ‘comply or explain’ flaw of the CSRD by requiring companies to set targets and plans at corporate level, not only to disclose them: CSDDD, CRD, Solvency II, the EU-GBS and the

Benchmark Regulation (on Climate Benchmarks). These files could also require the verification of targets and plans by an independent third party to bring more robustness.

In a complementary way, where relevant, the EU Taxonomy should feed targets and transition plans at activity level with further granularity, and the EU ETS and IED should feed targets and transition plans at site level. Once the EU ETS and IED reviews are over, and then once the Taxonomy Regulation is revised in favour of an extended taxonomy, the ESRS should be updated accordingly to ensure consistency.

- Third layer: Supervision**

Measurement, Reporting and Verification (MRV) are crucial to assess the credibility of targets and transition plans.

See more details on each legislative file in Section 4, and on supervision in Section 5.

¹⁷ <https://www.stockholmresilience.org/research/planetary-boundaries.html>.

¹⁸ <https://www.ipcc.ch/sr15/chapter/glossary/>.

¹⁹ <https://www.cbd.int/doc/c/abb5/591f/2e46096d3f0330b08ce87a45/wg2020-03-03-en.pdf>. WWF has more ambitious short-term demands: no net loss by 2025, net gain from 2030 compared to a 2020 baseline, full recovery by 2050.

²⁰ https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E4.pdf.

²¹ Article 29b (1) CSRD. The second Delegated Act (for sector-specific issues notably) will be published by 30 June 2024.

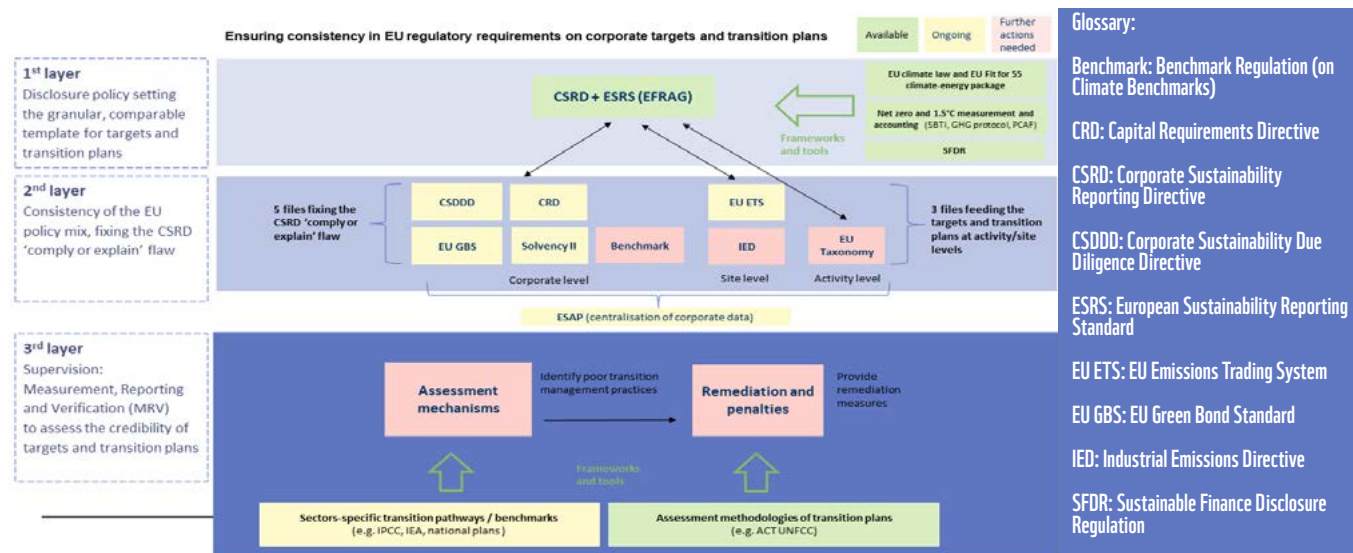


Figure 1: Ensuring consistency in EU regulatory requirements on corporate targets and transition plans

1.5. EU corporate climate transition plans

A specification of the requirements is also crucial for effective enforcement and to ensure the needed comparability among peer companies, together with a clear mandate for supervisory authorities to assess the plans and monitor their enforcement. The criteria should be coherent with the criteria defined in the CSRD and the EU draft reporting standards proposed by EFRAG (which WWF is a member of). The [Draft ESRS E1: Climate change](#) paragraph 15 defines the following elements:

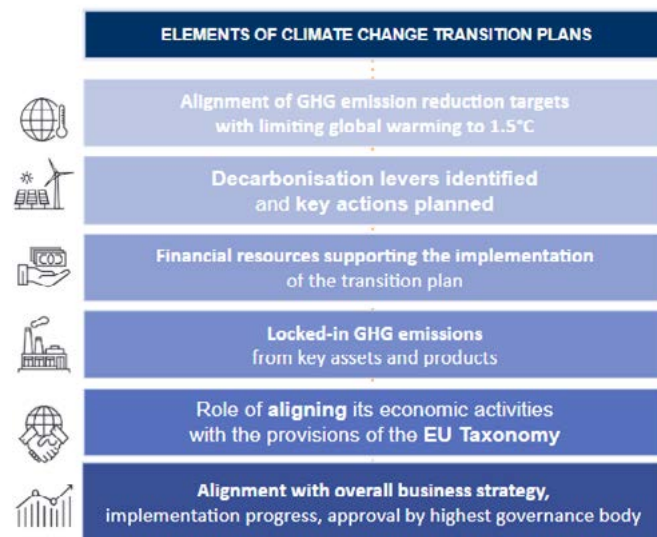


Figure 2: ESRS E1 climate transition plans (Draft)

WWF is fully supportive of the EFRAG draft ESRS E1 disclosure on transition plans. WWF has analysed 18 frameworks discussing transition plans requirements (see Annex 1) and found that the draft ESRS E1 from EFRAG is well aligned with five principles present in best practice corporate climate transition plans, that WWF develops in Annex 2.

1.6. EU corporate nature and biodiversity transition plans

It is crucial that aside from climate targets and transition plans, companies develop nature and biodiversity targets and plans in line with the targets of no net biodiversity loss by 2030, net gain after 2030 and full recovery of ecosystems by 2050 (see section 2.2).

There are several reasons why climate and nature should be tackled in tandem:

- Nature loss and climate change drive each other – For example, the food, land-use and agriculture sectors account for 23% of global greenhouse gas emissions. There are many nature and climate issues that are interconnected and cannot be addressed separately.
- Mitigation without guardrails can harm nature. For example, mining for critical minerals to support the energy transition will increase threats to key biodiversity areas.
- Nature is a significant carbon sink. For example, it is estimated that 27% of anthropogenic carbon emissions may be absorbed by nature. Conservation, restoration and investing in nature-based solutions are the most cost-effective means of mitigating climate change.
- Nature supports adaptation and resilience. Conservation and restoration of biodiversity can improve resilience to the impacts of climatic change. For example, the restoration of mangrove forests protects the coastline from extreme weather events.
- Integrated thinking improves decision-making and facilitates coherent, cost-effective solutions. For example, agroforestry sequesters carbon as well as improves productivity.

The criteria should be coherent with those defined in the CSRD and the EU draft reporting standards proposed by EFRAG. The [Draft ESRS E4: Climate change](#) defines the following elements:

- The company should disclose its plan to ensure that its business model and strategy are compatible with the transition to achieve no net biodiversity loss by 2030, net gain from 2030 and full recovery by 2050.
- The principle to be followed under this disclosure requirement is to provide an understanding of the transition plan of the company and its compatibility with the preservation and restoration of biodiversity and ecosystems in line with the Post-2020 Global Biodiversity Framework and the EU Biodiversity Strategy for 2030²².
- The company should disclose its plans for its own operations and throughout its upstream and downstream value chain.
- The company should disclose whether the administrative, management and supervisory bodies have approved the transition plan.
- If the company cannot disclose the above required information, because it has not adopted a transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050, it should disclose this to be

²² Companies should adopt a stewardship approach to nature and biodiversity, in the first instance seeking to avoid and prevent harm to nature from the transition plan and business activities, in line with the Do No Significant Harm requirement of the EU Taxonomy, and setting goals to restore and regenerate degraded, vulnerable, or high-value ecosystems as priority. Companies can seek to take transformative action to influence the transition to nature positive outside of current value chains. See <https://sciencebasedtargetsnetwork.org/how-it-works/what-are-sbts/our-action-framework/>.

2. FEASIBILITY: SEVERAL ROBUST MARKET PRECEDENTS

The good news is that market precedents enable the establishment of an EU regulatory framework for corporate targets and transition plans. Markets are providing or developing methodologies available for companies and financial institutions. Most initiatives are currently focused on climate change, but others are getting quickly developed as well, in particular on biodiversity and freshwater.

2.1 The climate Science-Based Target initiative (SBTi)

The Science-Based target initiative was founded by CDP, WRI and WWF in 2015, and is supported by the UN Global Compact and the We Mean Business Coalition. It provides target-setting methodologies that can be used by companies (and financial institutions) to set tailored near and long-term science-based climate targets. To date, **more than 3700 companies set or committed to set targets through the initiative across 45 sectors in around 80 countries globally**. Targets outline how companies or financial institutions will reduce their emissions over the next 5-10 years²³. The framework was updated in 2020-2021 and now enables companies to choose a 1.5°C pathway or a well below 2°C pathway; it also requires companies to include Scope 3 emissions in their target setting when their scope 3 emissions represent 40% or more of the total company emissions²⁴. The targets are validated by an independent committee.

The number of companies in SBTi is skyrocketing, and so are the emissions reductions in turn. On average, between 2015 and 2020, companies with approved targets reduced combined scope 1 and 2 emissions by 29%. 2020 saw a year-on-year reduction in scope 1 and 2 emissions of 12%. In absolute terms, the difference between 2015 and 2020 emissions reductions is 419 MtCO₂e, equivalent to 130% of the United Kingdom’s total emissions in 2020.

²³ The corporate standard (all sectors except finance) requires targets to be 5-10 years. The standard for financial institutions depends on the method used: for scope 3 engagement methods (portfolio coverage and temperature rating) targets should be up to 5 years; for scope 3 SDA and scope 1 and 2 targets they should be 5-15 years.

²⁴ In addition, all companies involved in the sale or distribution of fossil fuels must set scope 3 targets for the use of sold products, irrespective of the share of these emissions compared to the total scope 1, 2, and 3 emissions of the company.

²⁵ <https://sciencebasedtargets.org/about-us/sbti> and <https://sciencebasedtargetsnetwork.org/why-set-sbts-for-nature/>

²⁶ <https://sciencebasedtargetsnetwork.org/science-based-targets-for-companies/guidance/> and <https://sciencebasedtargetsnetwork.org/resources/sbti-public-consultation-2022/>.

2.2. The Science-Based Target Network (SBTN)²⁵

The SBTN builds on the momentum of the Science-Based Targets initiative (SBTi). It is a large network of 60 organisations globally – including WWF - developing methods and resources for science-based targets (SBTs) for nature for companies. SBTN is structured in five areas: freshwater, land, biodiversity, ocean, and climate (for the climate mitigation issue, SBTN relies on SBTi: see section above).

SBTN’s initial guidance for business is already available²⁶. In early 2023, this guidance will form the basis of SBTN’s first release of Science-Based Targets for nature, which will include initial corporate target-setting methodologies on freshwater and on land. SBTN aims to have the world’s major companies to adopt science-based targets for water, land, ocean and biodiversity by 2025.

2.3. The Taskforce on Climate-related Financial Disclosure (TCFD)

Since 2017, the Taskforce has sought to clarify issues raised by organisations in their implementation of the TCFD recommendations and provide additional supporting guidance and other information where appropriate. To address recent developments and feedback from users,

preparers, and others, this document provides additional guidance for preparers regarding disclosures of climate-related metrics and targets and **key information from transition plans**. The Taskforce also modified certain aspects of its 2017 Implementing the Recommendations of the Taskforce on Climate-related Financial Disclosures (2017 annexe) to provide additional guidance on disclosing metrics, **targets and transition plan information in line with the TCFD recommendations**. It should be noted, however, that the TCFD focuses only on climate-related financial risks, which only cover one part of the EU double materiality approach for corporate reporting and must therefore be completed.

2.4. The Taskforce on Nature-related Financial Disclosures (TNFD)

To further define transition pathways to a nature-positive economy, the TNFD will look to the Global Biodiversity Framework of the Convention on Biological Diversity (CBD), including specific targets agreed upon: they could form the basis of **development of scenarios and targets enabling nature-positive transition plans**²⁷. The Taskforce will also look towards the development of goals and objectives for nature and biodiversity within national and local policies, which will set the level of ambition and context for targets set by companies and financial institutions. The implications of these policy frameworks will be considered in subsequent beta versions of the TNFD framework, particularly in relation to metrics, targets and scenarios.

2.5. The Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ has published a set of frameworks²⁸, tools and other resources to support financial institutions’ efforts to finance and enable the whole-economy transition to net zero emissions, including a corporate transition plan standard in September 2022²⁹.

GFANZ frameworks and tools have been developed to translate net-zero emission commitments from financial institutions into action. In those documents, financial institutions are recommended to develop a “*net-zero transition plan*” that articulates their transition goals, the specific actions they will take, and the accountability

²⁷ <https://framework.tnfd.global/wp-content/uploads/2022/06/TNFD-Full-Report-Mar-2022-Beta-v0-1.pdf>.

²⁸ https://assets.bbbhub.io/company/sites/63/2022/06/GFANZ_Towards-a-Global-Baseline-for-Net-Zero-Transition-Planning_June2022.pdf.

²⁹ <https://www.gfanzero.com/press/gfan-releases-report-to-provide-blueprint-for-real-economy-transition-plans/>.

³⁰ <https://sustainablefutures.linklaters.com/post/102hqvd/gfan-and-un-race-to-zero-announce-transition-plan-guidance-and-membership-criter#:::text=The%20RTZ%20announced%20an%20update.achieve%20net%20zero%20by%202050>

³¹ <https://www.climatebonds.net/files/files/Transition%20Finance/Transition-Finance-for-Transforming-Companies-6-Sept-2022.pdf>.

³² <https://g2osfwg.org/wp-content/uploads/2022/10/2022-G20-Sustainable-Finance-Report-2.pdf>.

³³ <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>.

mechanisms they will implement to ensure their plans are credible. Financial institutions’ transition plans should finance activities that lead to reductions in emissions and support the global economy’s transition to net zero. Similarly, the UN Race to Zero (RtZ) published transition plan guidance³⁰.

2.6. The Climate Bond Initiative (CBI)

As recalled by the CBI³¹, beyond the green label, a variety of other use-of-proceed bonds have emerged in recent years. These include the explicitly labelled “**Transition Bonds**”. By the end of H1 2022, 53 Transition use-of-proceed Bonds have been issued, with issuance dominated by issuers from Japan and China, following the launch of Transition Finance programmes in these countries for hard-to-abate sectors.

Given the increasing attraction of Sustainability-Linked Bonds and corporate net zero targets, to issuers, investors and underwriters alike, Climate Bonds is expanding its certification to **encompass the certification of credibly transitioning entities** in order to support market developments.

2.7. The G20 Sustainable Finance Working Group

The G20 Sustainable Finance Working Group has developed a set of high-level principles for transition finance in their latest report³². It states that transition finance must be part of credible, time-bound and target-based plans that show which investments are necessary for the transition towards climate neutrality, as opposed to those that would adversely impact the transition.

2.8. The IFRS Climate-related Disclosures

The International Sustainability Standards Board³³ (ISSB) is proposing in draft form a range of disclosures about an entity’s transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity’s strategy and decision-making, **including its transition plans. This includes information about how it plans to**

achieve any climate-related targets that it has set. Like the TCFD, the IFRS only covers climate-related financial risks, one part only of the EU double materiality approach

2.9. The US Securities and Exchange Commission (SEC)

The last proposal on climate-related information from the US Securities and Exchange Commission (SEC)³⁴ recognised that the **adoption of a transition plan to mitigate or adapt to climate-related risks might be an important part of a registrant’s climate-related risk management strategy**, particularly if it operates in a jurisdiction that has made commitments under the Paris Agreement to reduce its GHG emissions (i.e 193 countries out of 197 globally). Many commenters recommended that the SEC require disclosure regarding a registrant’s transition plan, stating that such disclosure would help investors evaluate whether a registrant has an effective **strategy to achieve its short-, medium-, or long-term climate-related targets or goals**³⁵.

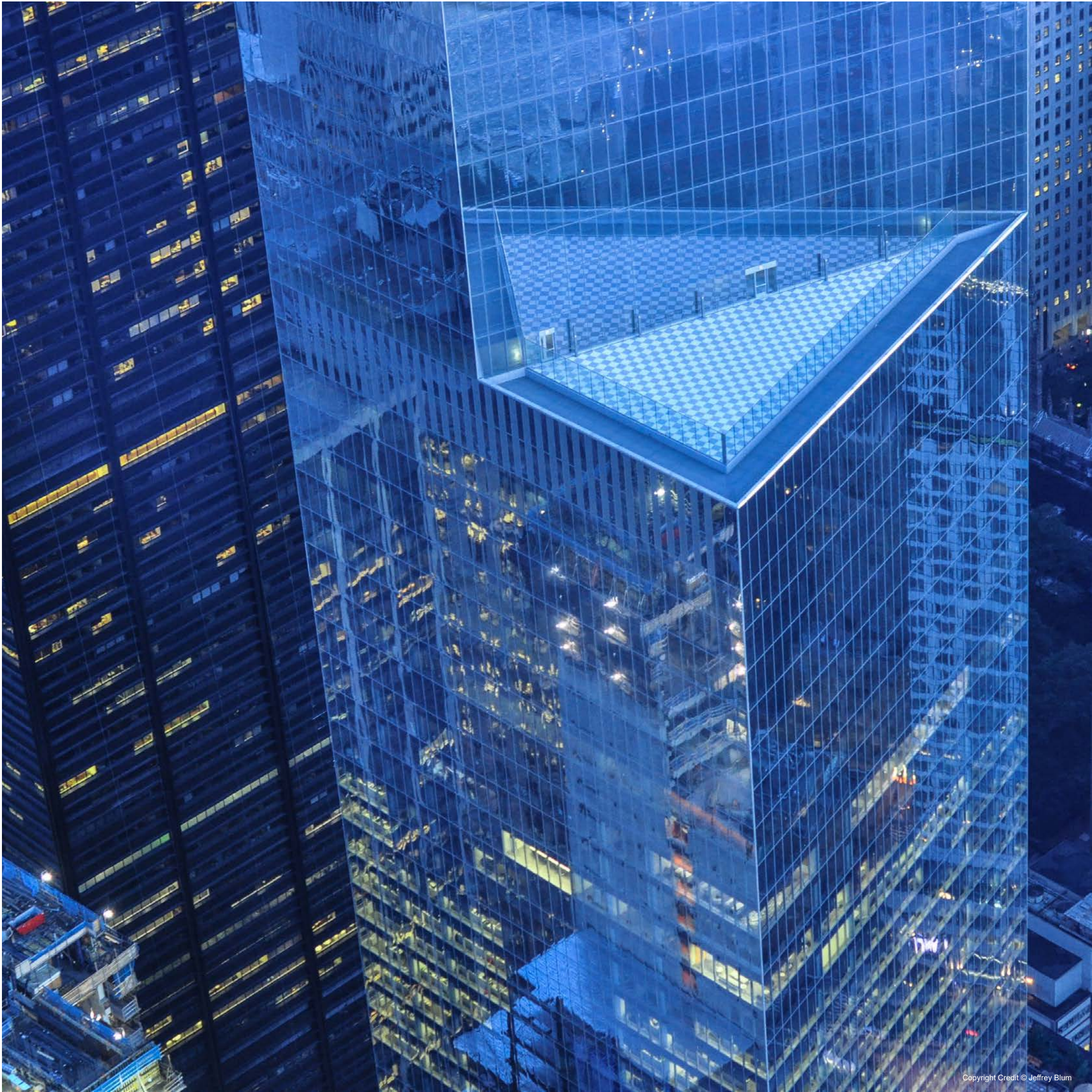
2.10. The UK Transition Plan Taskforce (TPT)

The UK Transition Plan Taskforce (TPT) was launched by HM Treasury “*to develop a gold standard for climate transition plans*”³⁶. The TPT has a two-year mandate, and the Financial Conduct Authority (FCA) will be actively involved and draw on its findings to strengthen disclosure rules. It is bringing together leaders from industry, academia and regulators, and will coordinate with international efforts. The Secretariat is being provided by the UK Centre for Greening Finance and Investment (CGFI) and by E3G. WWF UK is a member of the TPT.

³⁴ <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>

³⁵ See, e.g., letters from As You Sow; BlackRock; Clean Yield Asset Management; Climate Advisers; Climate Governance Initiative; Fiends of the Earth et al; Institute for Governance and Sustainable Development; Miller/Howard Investments; Trillium Asset Management; and World Benchmarking Alliance

³⁶ <https://transitiontaskforce.net/>.



3. NECESSITY: THE LIMITATIONS OF EXISTING INITIATIVES

While some voluntary initiatives are robust and relevant, they, however, remain very insufficient to match the sustainability challenges we face, for two reasons: first, they remain too limited in scale and speed to match the challenges we face. Second, they usually do not require a quality check in the form of an independent assessment of the targets and transition plans.

3.1 Lack of scale and speed: too few companies

According to a CDP study³⁷, in 2021, financial services, power, and fossil fuel sectors were those with the highest rates of climate transition plan disclosure, with 5% of organisations in each sector reporting to all the key CDP climate transition plan indicators. In contrast, the transportation services (0.3%) and apparel (0.2%) industries had the lowest disclosure rates for these key indicators (see the figure below). This remains very insufficient to match the sustainability challenges we face. To mainstream such approaches, **EU institutions should set up a consistent regulatory framework on corporate targets and transition plans.**

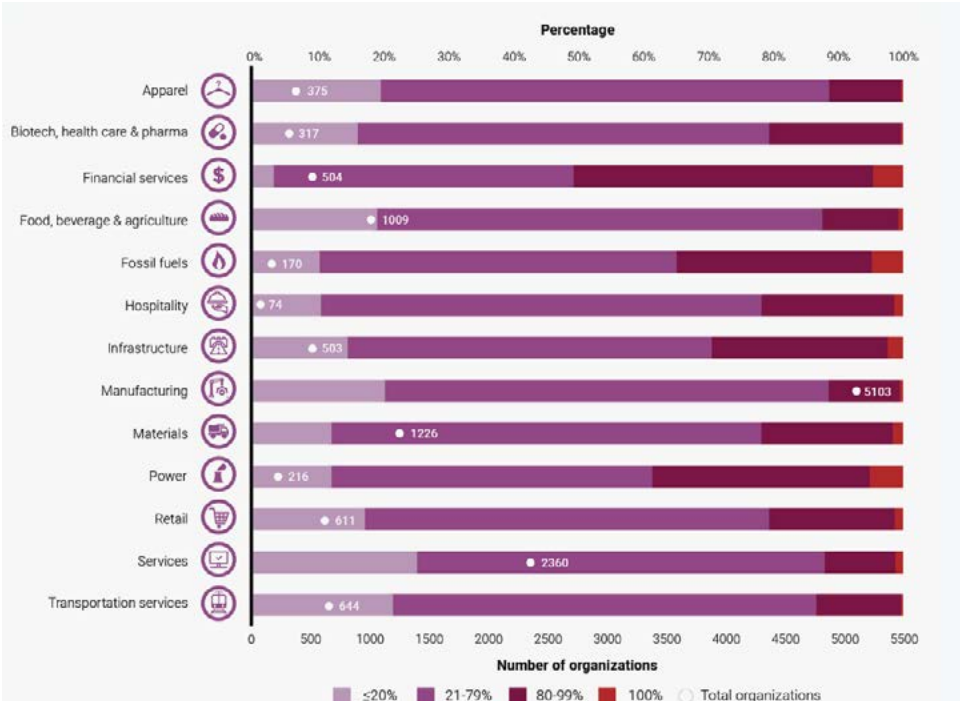


Figure 3: Disclosure of corporate climate transition plans by sector (CDP, 2021)

3.2 Lack of quality check: Most initiatives are not requiring independent assessments of targets and transition plans

Importantly, targets and transition plans are robust only if they are consistent with targets which themselves are science-based and aligned with sectoral pathways. But as problematic as the lack of scale is the lack of quality and credibility checks of corporate targets and transition plans due to the absence of enforcement mechanisms. The most developed corporate environmental transition plans are climate-focused, so we focus on them hereafter:

The CDP 2022 analysis on climate transition plans acknowledges that few companies disclose all the key climate transition plan indicators³⁸.

It is quite problematic to not know if these targets and transition plans disclosures are robust and reliable enough: it may be the case that they have a too low level of ambition and are not Paris Agreement-aligned, or do not rely on credible means for their achievement. Said differently, there is a **substantial risk of greenwashing** if the quality of such targets and plans is not assessed in an independent way. Greenwashing puts at risk the contribution of the market participants to the achievement of EU environmental goals and misleads stakeholders: it must be avoided.

Policies, therefore, need to adopt a holistic approach to create a regulatory framework conducive to corporate readiness for transitioning to a net-zero carbon, sustainable economy:

- They need to require companies and financial institutions to set targets and transition plans;
- The level of ambition of the corporate climate targets should be analysed against a science-based zero-carbon benchmark that is relevant for the company;
- The actions that the company effectively takes in its transition plan to achieve the target should be assessed as well, to check the likeliness of achieving the targets.

³⁷ <https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans>.

³⁸ <https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans>.

4. CONCRETENESS: OVERVIEW OF THE NECESSARY EU REGULATORY CHANGES

4.1. The relevant EU regulations to ensure a consistent EU framework on corporate targets and transition plans

Existing EU texts on targets and transition plans at corporate level	
Texts	Summary of the text
Corporate Sustainability Reporting Directive (CSRD), Articles 19a and 29a	<p>“Article 19 (a):</p> <p>2. The information referred to in paragraph 1 shall contain: (...)</p> <p>(iii) the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law), and where relevant, the exposure of the undertaking to coal, oil and gas-related activities; (...)</p> <p>(b) a description of the time-bound targets related to sustainability matters set by the undertaking, including where appropriate absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a specification of whether the undertaking’s targets related to environmental matters are based on conclusive scientific evidence;”</p>
CSRD, Level 2: EFRAG draft ESRS E1 and E4	<p>- Disclosure Requirement E1-1 (climate change) – Transition plan for climate change mitigation³⁹;</p> <p>- Disclosure Requirement E4-1 (biodiversity) – Transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050⁴⁰.</p>
EU Taxonomy, Article 8	<p>CSRD recital 26:</p> <p>“Information disclosed in accordance with Article 8 of Regulation (EU) 2020/852 about the amount of Capex or Opex associated with activities aligned with the Taxonomy could support financial and investment plans related to these transition plans where appropriate”⁴¹.</p>
Benchmark Regulation	<p>“Article 19b. Requirements for EU Climate Transition Benchmarks:</p> <p>Administrators of EU Climate Transition Benchmarks shall select, weight, or exclude underlying assets issued by companies that follow a decarbonisation trajectory by 31 December 2022, in accordance with the following requirements:</p> <p>(i) the companies disclose measurable carbon emission reduction targets to be achieved within specific timeframes;</p> <p>(ii) the companies disclose a reduction in carbon emissions which is disaggregated down to the level of relevant operating subsidiaries;</p> <p>(iii) the companies disclose annual information on progress made towards those targets; (...).”</p> <p>Article 54. Review:</p> <p>“4. By 31 December 2022, the Commission shall review the minimum standards for EU Climate Transition Benchmarks and for EU Paris-aligned Benchmarks in order to ensure that the selection of the underlying assets is coherent with environmentally sustainable investments as defined in a Union-wide framework.”⁴²</p>

39 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E1.pdf.

40 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E4.pdf

41 <https://www.consilium.europa.eu/media/57644/st0835-xv22.pdf> (page 21).

42 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016R1011..>

Texts under negotiation paving the way for the introduction of targets and transition plans at corporate level	
Texts	Summary of the text
Corporate Sustainability Due Diligence Directive (CSDDD)	<p>“Article 15 Combating climate change:</p> <p>1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company’s operations.</p> <p>2. Member States shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company’s operations, the company includes emission reduction objectives in its plan.”</p> <p>-> Please see the specific briefing of WWF and other organisations on this Article.</p>
Capital Requirement Directive (CRD)	<p>Article 76 (2) – subparagraph 2:</p> <p>“Member States shall ensure that the management body develops specific plans and quantifiable targets to monitor and address the risks arising in the short, medium and long-term from the misalignment of the business model and strategy of the institutions, with the relevant Union policy objectives or broader transition trends towards a sustainable economy in relation to environmental, social and governance factors.”</p> <p>Article 87 a (4)</p> <p>“4. Competent authorities shall assess and monitor developments of institutions’ practices concerning their environmental, social and governance strategy and risk management, including the plans to be prepared in accordance with Article 76, as well as the progress made and the risks to adapt their business models to the relevant policy objectives of the Union or broader transition trends towards a sustainable economy, taking into account sustainability related product offering, transition finance policies, related loan origination policies, and environmental, social and governance related targets and limits.”</p>
Solvency II	<p>Parliament amendment:</p> <p>“Article 44a Transition plan:</p> <p>1. In order to demonstrate alignment with the Green Deal and the objective of carbon neutrality by 2050 at the latest as established in Regulation (EU) 2021/1119(European Climate Law),insurance and reinsurance undertakings in scope of Directive (EU)2021/0104 (COD) [CSRD Directive] shall develop and adopt a transition plan by no later than [1 year after the date of the application of the Directive].</p> <p>2. The plan shall be approved by the administrative, management or supervisory body of the insurance or reinsurance undertaking. The plan shall be reviewed at least every 2 years.</p> <p>3. The plan shall be subject to the disclosure obligations referred to in article 19aand article 29a of the Directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.”</p>
EU Green Bond Standard regulation (EU GBS)	<p>Parliament’s position:</p> <p>“Article 7b - Transition plans:</p> <p>1. Before issuing a European green bond or a sustainability-linked bond, issuers of such bonds that are subject to an obligation to create transition plans pursuant to Article 19a(2a) or Article 29a(2a) of Directive 2013/34/EU [as amended by the CSRD] shall be required to have received a positive opinion by an auditor on the alignment of the transition plan with the objective to achieve climate neutrality by 2050 at the latest, as set out in Regulation (EU) 2021/1119.”</p>
EU Taxonomy	<p>Report of the EU Platform on sustainable finance recommending an extended taxonomy⁴³, that the Commission should build on to issue its own report.</p>
Text under negotiation paving the way for the introduction of targets and transition plans at site level	
EU Emissions Trading System (EU ETS)	<p>Parliament’s position⁴⁴:</p> <p>“Article 10a (1) – subparagraph 2a</p> <p>In addition to the requirements set out in the third subparagraph of this paragraph, by 1 July 2025, operators in sectors or subsectors eligible for free allocation of allowances pursuant to Articles 10a and 10b shall establish a decarbonisation plan for each of their installations for its activities covered by this Directive. That plan shall be consistent with the climate-neutrality objective set out in Article 2(1) of Regulation (EU) 2021/1119 and any relevant sectoral roadmaps prepared in accordance with Article 10 of that Regulation and shall set out (...)”</p>
Industrial Emissions Directive (IED)	<p>“Article 27d Transformation towards a clean, circular and climate neutral industry:</p> <p>1. Member States shall require that by 30 June 2030 the operator includes in its environmental management system referred to in Article 14a a transformation plan for each installation carrying out any activity listed in points 1, 2, 3, 4, 6.1 a, and 6.1 b of Annex I. The transformation plan shall contain information on how the installation will transform itself during the 2030-2050 period in order to contribute to the emergence of a sustainable, clean, circular and climate-neutral economy by 2050, using the format referred to in paragraph 4.”</p> <p>2. Member States shall require that, as part of the review of the permit conditions pursuant to Article 21(3) following the publication of decisions on BAT conclusions after 1 January 2030, the operator includes in its environmental management system referred to in Article 14a a transformation plan for each installation carrying out any activity listed in Annex I that is not referred to in paragraph 1. The transformation plan shall contain information on how the installation will transform itself during the 2030-2050 period in order to contribute to the emergence of a sustainable, clean, circular and climate-neutral economy by 2050, using the format referred to in paragraph 4. (...)</p> <p>4. The Commission shall by 30 June 2028, adopt an implementing act establishing the format for the transformation plans. This implementing act shall be adopted in accordance with the examination procedure referred to in Article 75(2).’</p>

43 https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

44 The Commission also tabled a form of conditionality in ETS, but which is much weaker than the Parliament’s one.

4.2. The articulation of corporate targets and transition plans with the EU extended environmental taxonomy

The EU Platform on Sustainable Finance, a permanent expert group of the Commission, was mandated by the Commission to issue a report on the extended taxonomy. Its final report on the issue was published in March 2022: ‘[The Extended Environmental Taxonomy: Final Report on Taxonomy extension options supporting a sustainable transition](#)’.

The report’s summary states: “**The Platform considers the balance of arguments to be in favour of an extended environmental Taxonomy**, which would introduce greater transparency and clarity for investors and ensure market practices are aligned across the EU. **In fact, the current Taxonomy already defines different performance levels and allows financial market participants and institutions to apply them voluntarily. However, it does not clearly label these levels or make them easily applicable by markets and other financial actors.**”

The Platform is recommending extending the Taxonomy framework to classify activities in 3+1 categories, as shown in the figure below:

- “**Unsustainable performance requiring an urgent transition to avoid significant harm:** These are activities that need to be improved urgently and could qualify for Taxonomy-recognised investment as part of a transition plan to avoid their current significantly harmful performance and move to intermediate performance levels.
- **Intermediate (or Amber) performance:** These are activities that operate between significantly harmful and substantial contribution performance levels and could qualify for Taxonomy-recognised investment as part of an intermediate/amber transition plan under which they

continue to improve to stay out of significantly harmful performance.

- **Unsustainable, significantly harmful performance where urgent, managed exit/decommissioning is required:** These are activities that cannot be improved to avoid significant harm and will therefore remain always significantly harmful (ASH) and should be prioritised for Taxonomy-recognised transition investment as part of a decommissioning plan with a Just Transition effort.

- **Low environmental impact (LEnvI) activities:** These are activities that do not have a significant environmental impact and should not be regarded as either red, amber or green. (...) This classification should also encourage ‘LEnvI enterprises’ to access green Taxonomy-aligned finance for their green investments and expenditures.”

The extended Taxonomy is critical to accelerate a comprehensive transition of the economy and substantially clarify what transition finance is, as the environmental Taxonomy, while necessary, is too niche. The extended Taxonomy will yield the major benefit of clarifying the different transition steps towards full sustainability in a given economic sector, which will unavoidably include and incentivise many more companies than a green Taxonomy alone. More specifically, two elements will be clarified and accelerated with an extended taxonomy: (1) the intermediate transition from the red to the amber category, where it is not feasible to immediately transition to the green category; (2) the end of capex for new harmful assets and the gradual decommissioning of existing harmful assets in the case they cannot be retrofitted to become green in a timely way.

Using the extended Taxonomy to inform corporate targets and transition plans

A major added value of the EU Taxonomy is that it brings more granularity (including thresholds), at economic activity level, than the CSRD or other EU disclosure regulations. In addition, its criteria must be science-based, according to the Taxonomy Regulation (Article 19)⁴⁵.

The EU Taxonomy will provide information on those activities of the company that are taxonomy-aligned or not, for the sectors covered by Taxonomy criteria. This information is important for the company to create its entity-level transition plan: it can decide, for example, to direct its new investments only into activities that are compliant with the taxonomy’s criteria (the Taxonomy thus influences the company’s Capital Expenditure plan). The company could also use the Taxonomy to assess its existing investments and to outline how and when those which are not aligned with the Taxonomy will become so and how it will decommission those activities which cannot be aligned with the Taxonomy. **The Platform also recommends using ‘activity-specific intermediate capex plan’⁴⁶** in order for the company to explain how an activity-specific investment plan will qualify for intermediate/amber capex.

The EU Taxonomy can also be used by the company to set targets, to e.g. increase its green Taxonomy alignment or decrease its Taxonomy misalignment/its exposure to the harmful category of the Taxonomy by a given year.

For WWF, the extended Taxonomy can and should become a critical tool for companies to clarify their transition at the granular activity level.

The Platform recommends a first voluntary step to test the extended Taxonomy framework⁴⁷. Once this is done, the Platform recommends a revision of the Taxonomy Regulation to properly integrate the extended Taxonomy. At this stage, it will be relevant to update the ESRS to ensure consistency with the revised Taxonomy framework.

WWF is developing a specific briefing on the EU extended environmental Taxonomy that will be published at the beginning of 2023.

4.3. Five steps to build a complete EU framework on corporate targets and transition plans

To build a complete EU framework on corporate targets and transition plans, we recommend the five following steps:

Step 1	Ensure mandatory standardised disclosure of targets and transition plans
Step 2	Articulate site-level, economic activity-level and company-level targets and transition plans
Step 3	Build EU 1.5°C sectoral decarbonisation pathways as benchmarks
Step 4	Assess the consistency of targets and transition plans
Step 5	Ensure remediation and penalties where necessary

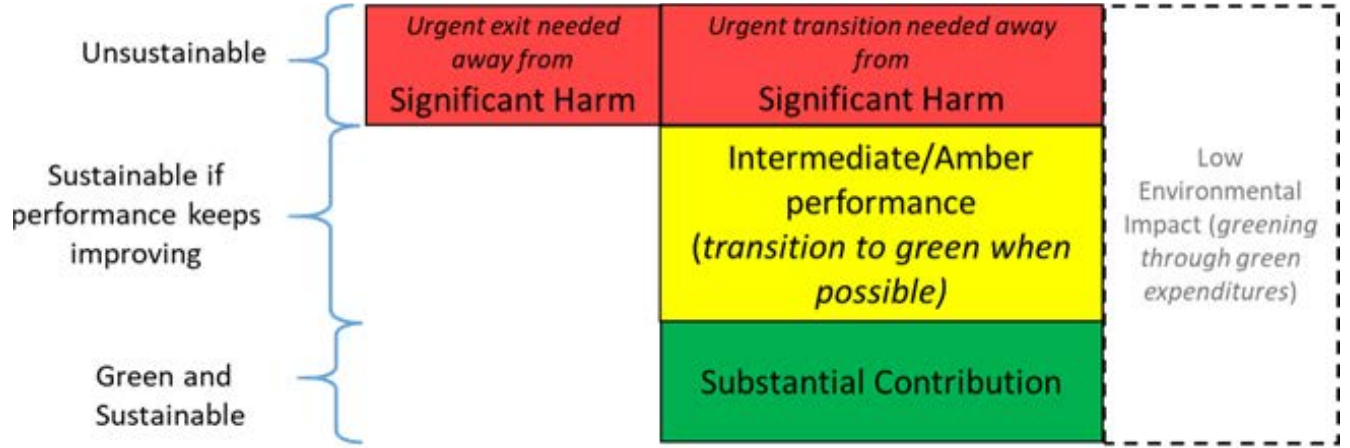
Step 1. Ensure mandatory standardised disclosure of targets and transition plans

As seen in Section 1.4 above, the CSRD empowers the Commission to adopt Delegated Acts creating the ESRS, which is a major opportunity to establish a granular, comparable template for corporate targets and transition plans. **Such standardisation is crucial for several reasons:** to ensure a level playing field for companies, provide comparability across comparable companies, bring legal certainty to companies for easing their compliance with several EU laws related to targets and plans, reduce administrative burden and costs of reporting, and avoid the fragmentation of the EU single market. These reasons are made very clear in the CSRD itself in the Recital 14⁴⁸.

However, the CSRD suffers a major flaw: its ‘comply or explain’ clause. If a given company has no target or transition plan to disclose yet, it is allowed to merely explain why it does not have such a plan. There is no requirement for the company to set up a plan and publish it⁴⁹. In fact, a number of companies have recently told WWF that CSRD is ‘voluntary’. **This flaw can and should be fixed with the other above-mentioned EU laws (CSDDD, CRD, Solvency II, EU GBS and Benchmark), requiring companies to set targets and transition plans.** While they have different scopes and objectives, we consider that the requirement to set targets and transition plans as structured in the CSRD and ESRS is relevant in each of them, to ensure consistency. Once such targets and plans are set,

⁴⁵ However, this requirement is unfortunately not met for specific, politically-sensitive sectors like gas-fired plants and nuclear power plants, which worryingly weakens the credibility of the whole framework. This must be urgently fixed. See <https://www.wwf.eu/77581466/EU-Taxonomy-Environmental-groups-start-legal-action-against-sustainable-gas-classification>.
⁴⁶ Section 5.7 of the Platform’s report.
⁴⁷ Recommendation 7 of the Platform’s report.
⁴⁸ “(14) The growing gap between users’ information needs and the current reporting practices of undertakings makes it more likely that individual Member States will introduce increasingly divergent national rules or standards. Different reporting requirements in different Member States would create additional costs and complexity for undertakings operating across borders and therefore undermine the single market, and would undermine the right of establishment and the free movement of capital across the Union. Those different reporting requirements also make reported information less comparable across borders, undermining the capital markets union.”
⁴⁹ CSRD recital (26): (about undertakings) “They should also be required to disclose any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable economy and with the objectives of limiting global warming to 1,5 °C in line with the Paris Agreement and achieving climate neutrality by 2050 (...)”. We underline.

Figure 4. Simplified graphic showing how the extended environmental Taxonomy fits across the whole economy



companies will then be required to publish them under the CSRD, fixing ‘comply or explain’ flaw.

Specifically, the Benchmark Regulation itself is not currently under review, but the Commission is required to review the minimum standards for EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks by the end of this year: this is another opportunity to align these minimum standards with the CSRD and ESRS in order to ensure consistency.

These files could also require the verification of targets and plans by an independent third party to bring more robustness. Indeed, this is already the case with the EU GBS, in which the Parliament requires verified transition plans.

Step 2. Articulate site-level, economic activity-level and company-level targets and transition plans

As required by the CSRD, a corporate-level approach is needed. However, the EU Taxonomy sets sustainability criteria at the economic activity level. This means that activities performed by a company, or a specific investment, could be fully aligned with the climate Taxonomy while the investing company’s overall business model is not in line with the climate objective. This was clearly recognised by the Bank for International Settlements (BIS) in October 2021: *“Signalling environmental benefits of business activities at the project level does not necessarily imply a similar signal at the entity level”*⁵⁰. Notably, this is particularly important for green bonds, which until now focus on specific projects and ignore the overarching corporate level: a company can issue green bonds but still become more environmentally harmful if the bulk of its capex remains focused on harmful activities - typically a fossil fuel company issuing 10% of its capex for renewables and 90% for fossil fuels, and putting capex in new fossil fuel projects inconsistently with the IEA 1.5°C scenario. **The company-level approach should therefore be integrated in the EU Green Bond Standard regulation, as required by the Parliament**⁵¹.

On the positive side, the EU Taxonomy will bring further granularity to the targets and transition plans (see Section 4.2 above). Similarly, other EU files are under review and may or will require targets and transition plans at site level: they include EU ETS and IED. They should feed targets and transition plans at site level with further granularity as well. Once the EU ETS and IED reviews are over, and then once the Taxonomy Regulation is revised to create an extended Taxonomy framework, the ESRS should be updated accordingly to ensure consistency.

Additionally, it should be added that once the Steps 1 and 2 are achieved, it will become important to review SFDR to improve consistency, and to improve as well the reliability and comparability of ESG ratings from ESG rating providers (clarifying data sources among other issues).Step 3. Build EU

1.5°C sectoral decarbonisation pathways⁵² to set benchmarks

Step 3. Build EU 1.5°C sectoral decarbonisation pathways to set benchmarks

The Commission should build EU 1.5° decarbonisation pathways for the relevant sectors (and geographies if relevant), so that companies have a clear benchmark against which to define their own targets and transition plans and competent authorities can use them for their monitoring. The climate law provides two useful elements for that purpose:

- The European Scientific Advisory Board on Climate Change should provide technical advice to the Commission, to ensure that the sectoral pathways are science-based;

- The Commission is also mandated to engage with economic sectors to prepare indicative sectoral pathways. This is relevant to ensure that the pathways will be truly responding to companies’ needs, given the complexity of certain sectors to decarbonise in a timely way.

The sectoral pathways should be aligned with the 1.5° goal by 2100 (net-zero emissions by 2050 at the latest) and build on scenarios that are science-based and whose minimum requirements have been defined by recognised international organisations, scientists or public authorities (e.g. the IPCC or the International Energy Agency). Such pathways should not include overshoot by 2050 (i.e. only build on scenarios ‘with no or limited overshoot’), have a limited reliance on negative emissions, and should propose disaggregated sectoral and regional scenarios that can be used if deemed more relevant than a global scenario. The pathways should be as granular as possible, indicating GHG reductions per sector but also, wherever feasible, an overview of technologies that should be developed (i.e. technology roadmaps) and the estimated amount of investments needed in said sectors/ technologies.

Importantly, the Commission should update the 2018 ‘Clean Planet for all Europeans’ long-term strategy⁵³, **which sets out decarbonisation pathways to climate neutrality by 2050**. This document was a milestone and contains eight different scenarios for reducing emissions in several sectors. But it is now outdated with the increase of the 2030 climate and energy targets, the Fit for 55 packages and the higher ambition tabled in RePowerEU. The Commission plans to update it in 2024, at the same time as proposing a 2040 climate target and an indicative GHG emissions budget for 2030-2050. Given the urgency to deliver the improved EU climate and energy targets by 2030, it would be more relevant to update it in 2023. In addition, it should be ensured that pathways are provided for all relevant high-carbon sectors in a sufficiently granular way⁵⁴, otherwise, it will have to be complemented, which risks creating delays.

Step 4. Assess the consistency of targets and transition plans

As already mentioned, the mandatory targets and transition plans must be standardised adequately to enable meaningful comparability assessments with the sectoral pathways (i.e. the benchmarks) and the targets and transition plans from peer companies: this is critical for many stakeholders including investors. The draft EFRAG ESRS E1 and E4 provide clear criteria and KPIs that help to identify ‘transition-washing’. Targets and transition plans must not be a simple pledge or procedure of information that may or may not deliver operational outcomes. Companies should be accountable for the achievement of their targets and plans.

This is why supervisors need to ascertain whether targets and transition plans from supervised companies are consistent with EU climate and environmental objectives, in particular net zero emissions by 2050 at the latest and if climate-related financial risks are identified, assessed and mitigated adequately. Measurement, Reporting and Verification (MRV) to assess the credibility of targets and transition plans must be ensured. Therefore, assessment methodologies such as the ACT initiative⁵⁵ need to be set up to assess the various components of a transition plan, the consistency of the transition plan with the target, and the level of the corporate’s transition preparedness and commitment.

Step 5. Ensure remediation and penalties where necessary⁵⁶

According to the OECD, the implementation of environmental policies requires a strict and concerted action guided by the principle of *“trust and check”* to ensure effective and efficient protection of human health and the environment. To this end, supervisors should be empowered to use a recognised dynamic approach to assess corporate targets and transition plans, in a regulatory framework that requires remediation and penalties in case a given company fails to deliver. Harmonisation and minimum standards are needed for sanctions to ensure a level playing field for all relevant companies: sanctions could be framed as a percentage of turnover.

4.4. Entry into application timeline

Under the CSRD, the first Delegated Act creating the ESRS must be adopted by the Commission by the end of June 2023, and the second one by the end of June 2024 for sector-specific issues and SMEs.

For the other files mentioned in this report, it is expected that:

- EU GBS will be finalised by the end of 2022;
- CSDDD, CRD, Solvency II will be finalised in the course of 2023, as well as the revision of the Benchmark Regulation’s Delegated Act.

The CSDDD, CRD, Solvency II, EU GBS, and Benchmark Regulation requirements to set corporate targets and transition plans need, to be consistent, that the ESRS is publicly available. This will already be the case by the end of June 2023 for large companies, and by the end of June 2024 for SMEs. **Furthermore, it is logical that the requirement to set targets and plans comes before the requirement to publish them.**

This makes the following timeline for the requirement to set targets and transition plans possible:

- Entry into application in **2024** for regulations (EU GBS, Benchmark Regulation);
- Entry into application in **2025** for directives given the transposition delay (CSDDD, CRD, Solvency II).

4.5. Five policy recommendations to ensure consistency across EU regulations on corporate targets and transition plans

Building on the previous sections, we recommend EU policy-makers to integrate the following five policy elements:

- A mandatory requirement for the establishment of corporate targets and transition plans in the CSDDD, CRD, Solvency II, EU Green Bond Standard (GBS), and the Benchmark Regulation, with an explicit reference both to the CSRD and, when available, to the ESRS E1 and E4 templates in order to ensure comparable, consistent, granular transition plans and avoid duplication. As long as ESRS E1 and E4 are not legally available, the five laws mentioned above should integrate the key elements of the draft EFRAG ESRS E1 and E4 for transition plans, which are summarised in Section 1.5. These laws could also require the verification of targets and plans by an independent third party (as proposed by the European Parliament for the EU GBS).
- A requirement for supervision of these targets and transition plans by the competent authorities, in each of the above-mentioned EU laws (as proposed by the Commission to some extent in the CRD).

⁵⁰ <https://www.bis.org/publ/bppdf/bispap118.htm>.

⁵¹ For more on this issue, please see the WWF briefing ‘Recommendations for the trilogue on the EU Green Bond Standard regulation’, October 2022.

⁵² <https://bibliothique.ademe.fr/changement-climatique-et-energie/5185-sectoral-transition-plan-for-the-french-cement-industry.html>.

⁵³ https://climate.ec.europa.eu/en-action/climate-strategies-targets/2050-long-term-strategy_en.

⁵⁴ Sectoral examples: the ACT initiative is focusing on the following sectors: agriculture, aluminium, automotive, cement, chemicals, electricity utilities, glass, oil & gas, pulp & paper, retail trade, steel, transport. The Transition Pathway Initiative

is focusing on the following ones: airlines, aluminium, automotive, cement, chemicals, coal mining, consumer goods, diversified mining, electricity utilities, oil & gas, oil & gas distribution, other industrials, paper, services, shipping, steel.

⁵⁵ <https://actinitiative.org/>.

⁵⁶ <https://www.oecd.org/env/outreach/34499651.pdf>.

- A requirement for remediation and penalties for companies which do not comply, in each of the above-mentioned laws.
- Complementarily, the development of an extended environmental Taxonomy as recommended by the EU Platform on Sustainable Finance to create new categories (green, amber, red) and help companies shape their entire transition at a granular activity level where it is taxonomy-relevant. This should then be integrated into a revised ESRS in a few years.
- In parallel, the Commission should build EU 1.5° decarbonisation pathways for the relevant sectors, with technical advice from the European Scientific Advisory

⁵⁷ Methodology standardisation may be provided by the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC).

Board on Climate Change, amongst others, in order to help companies set targets and transition plans and enable competent authorities to assess the robustness of the targets and transition plans of supervised companies.⁵⁷

5. MONITORING: BUILDING AN EU SUPERVISORY FRAMEWORK FOR CORPORATE TARGETS AND TRANSITION PLANS

5.1. A supervision process should be put in place

National environmental protection supervision and control has become essential to regulate the environmental behaviour of enterprises, and ensure that environmental obligations are complied with by companies.

A clear and common understanding of these requirements is crucial to ensure:

- consistent and fair implementation and application;
- appropriate levels of verification in terms of quality and extent;
- proportionate verification costs.

The annual procedure of monitoring, reporting and verification (MRV) together with the associated processes in the EU carbon market, known as the ETS compliance cycle, is a good example of supervision of climate obligations for companies in the ETS scope. We use this model in the figure below to recommend a similar cycle for corporate targets and transition plans.

Figure 5 shows the main elements we recommend for the compliance cycle on corporate transition plans. On the right side of the picture describes the “main cycle”:

1. The company produces the transition plan;
2. After the first reporting year, the company submits the verified transition plan to the competent authority;
3. The competent authority assesses if the transition plan of the company is compliant with the ESRS and is aligned with the sectoral pathway (the benchmark), using a sectoral methodology such as the ACT initiative;
4. The verified emission reduction should be centralised through the European Single Access Point (ESAP) to annually assess the credibility of the transition plan and committed annual GHG reductions. In the case of GHG reduction failure, non-compliance with the ESRS or misalignment with the sectoral pathway, the competent authorities should require remediation, impose financial penalties and, if necessary, ultimately remove the right to operate.

Thereafter, the monitoring goes on, as shown in the chart. More precisely, the verified GHG emission reduction monitoring continues without any stop at the end of the year, while the transition plans should be regularly updated. The resulting data must be sufficiently robust to create trust in the reliability of the compliance cycle. This is why companies must ensure that their transition plans comply with the ESRS, and the competent authorities need to use sectoral pathways as benchmarks in sectoral methodologies.

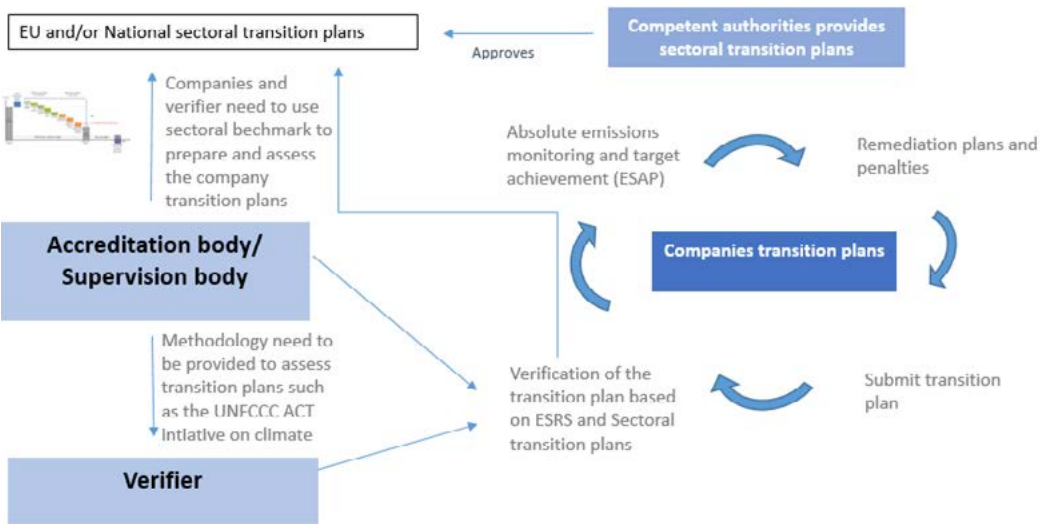
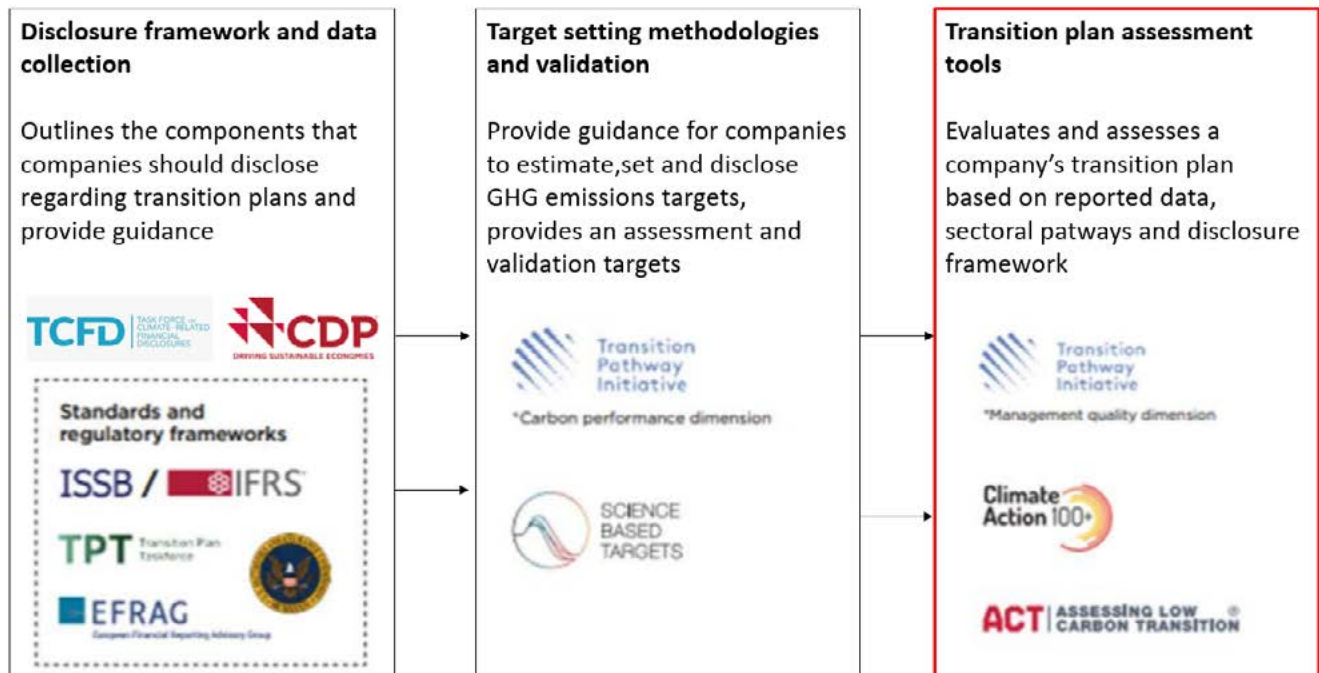


Figure 5: Recommendation for the compliance cycle of transition plans
Source: Adapted from European Commission EU ETS ‘Monitoring and Reporting Regulation Guidance Document 1’

5.2. Market availability of target and transition plan assessment tools

In addition to tools for setting targets and transition plans (presented in Section 2 above), complementary methodologies have been developed to assess their meaningfulness. In the figure below, we show that several methodologies to assess a corporate transition plan are already developed and used.

Figure 6: Initiatives and tools allowing the development of target and transition plan framework



Beyond acknowledging the complexities of assessing targets and transition plans, competent authorities need to have suitable tools at hand, (i.e. methods for assessing targets and transition plans) and resources to address the complexities (e.g. the expertise of the JRC and national environmental agencies). Greater efforts will be needed to transition from intermediate assurance as required by the CSRD to a mandatory EU assessment and remediation framework that can provide the necessary reliability to policy makers, citizens, financial institutions and companies. Competent authorities should therefore make use of existing tools and methodologies to gradually build their own in-house tools.

5.3. The need to develop EU 1.5°C sectoral decarbonisation pathways to ease the corporate target and transition plan assessment

According to the OECD Transition Finance Working Group, ensuring environmental integrity in the absence of national/regional sectoral pathways and without integrating the different capacities of jurisdictions may be problematic. Even if global science-based pathways are available, translating them into targets and plans at corporate level without any country/regional sectoral pathways is an issue. National net-zero targets vary significantly, and few countries have set sectoral emissions limits or carbon budgets to meet net-zero targets. The net-zero transition is dynamic, and affected by domestic considerations, including the capacity of different countries to leapfrog.

As recognised by GFANZ⁵⁸, “benchmarks from sectoral pathways should allow financial institutions to build strategies and take action to support and enable the transition in the real economy”. In addition, sectoral decarbonisation pathways are of crucial importance for comparing and evaluating company performance in an objective way⁵⁹:

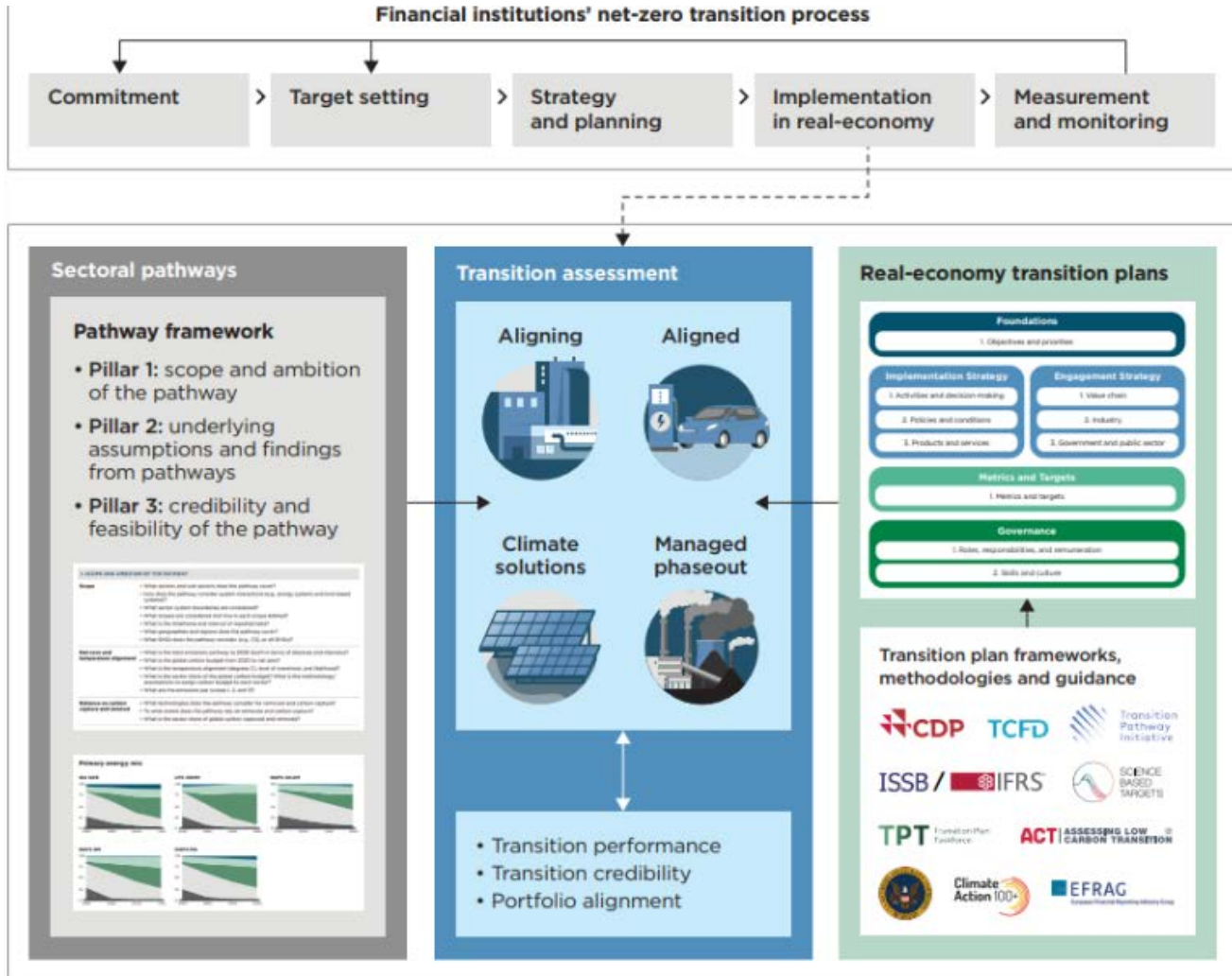
- **Assess performance objectively.** It is difficult to assess and evaluate the performance of a company without a benchmark. Are the decarbonisation levers adequate to deliver the right amount of GHG emission cut? Is the target and transition plan realistic in terms of cost or timeline?

- **Create sustained pressure for improvement.** The pressure for improved performance in the private sector comes notably from the competition. Benchmarking corporate targets and transition plans with a sectoral decarbonisation pathway will create pressure for improvement, increasing the likelihood that sustainability targets will be achieved. It is, therefore, important that information about the expected climate or nature trajectory of a given sector is publicly available.

- **Expose areas where improvement is needed and reveal underlying problems of a company.** It can be difficult for some companies to decarbonise their business model without demand-side mitigation measures. Underlying problems in the organisation of a given sector can also be revealed through sectoral pathways (See, for example, the French cement sectoral pathways in Annex 3).

Figure 7: Use of sectoral pathways and real economy target and transition plans

Source: GFANZ



This is why we recommend the Commission, with technical advice from the European Scientific Advisory Board on Climate Change notably, to build 1.5°C EU decarbonisation pathways for the relevant sectors, that will serve as benchmarks for competent authorities to assess the credibility of corporate targets and transition plans (see Section 4.3 Step 3). Several precedents already exist that can be re-used and adapted wherever relevant, and that are defined in Annexes:

- The French sectoral decarbonisation pathways, and the specific example of the French cement decarbonisation pathway (Annex 3);
- The PwC-WWF Germany ‘Pathways to Paris’ project on sectoral pathways (Annex 4).

⁵⁸ <https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf>.

⁵⁹ <https://www.oecd.org/governance/budgeting/1902957.pdf>.



ANNEXES

ANNEX 1: ANALYSIS OF INITIATIVES PRODUCING CORPORATE TARGET AND TRANSITION PLAN CONTENT

Type of initiatives	Name	Level of detail
Regulatory initiatives and guidance	European Commission CSRD Article 19a	3 - Concept discussion
	European Commission CSDDD Article 15	
	European Commission CRD VI Article 76; Article 87a; Article 104	3 - Concept discussion
	The US Securities and Exchange Commission (SEC), Climate-Related Disclosures for Investors 2022	2 - Detailed requirement disclosures
	The UK Transition Plan Taskforce (TPT)	2 - Detailed requirement disclosures
	Japan Financial Services Agency - Basic Guidelines on Climate Transition Finance (2021)	3 - Concept discussion
Guidance and standard-setter	IFRS - ISSB climate prototype	2 - Detailed requirement discl.
	EFRAG – ESRS E1 and E2 standard	2 - Detailed requirement discl.
	ADEME/CDP/UNFCCC - ACT initiative	1 - Detailed methodology
	ADEME - Sectoral Transition Plan	1 - Detailed methodology
	Transition Pathway Initiative (TPI)	2 - Detailed requirement disclosures
	TCFD - Metrics, Targets, and Transition Plans guidance 2021	2 - Detailed requirement disclosures
	The US Securities and Exchange Commission (SEC), Climate-Related Disclosures for Investors 2022	2 - Detailed requirement disclosures
	CDP - CDP's questionnaires on climate change	2 - Detailed requirement discl.
Financial initiative	European Central Bank - Keynote speech by Frank Elderson	3 - Concept discussion
	UN-convened Net-Zero Asset Owner Alliance - Target setting protocol	3 - Concept discussion
	EBA – Testing capacity of the EU banking sectors	3 - Concept discussion
	Climate Bonds Initiatives – Financing credible transition	2 - Detail requirement discl.
	Climate Action 100+ - climate questionnaire	2 - Detailed requirement disclosures
	The Glasgow Financial Alliance for Net Zero (GFANZ) progress report 2021	2 - Detailed requirement disclosures
	UNEP FI - Practical Approaches to Applying the EU Taxonomy to Bank Lending	2 - Detail requirement disclosures

ANNEX 2: BEST PRACTICE PRINCIPLES ON CORPORATE CLIMATE TRANSITION PLANS

Based on the landscape of initiatives (Annex 1), WWF developed an initial view of the five principles present in best practice corporate climate transition plans.

Summary of corporate climate transition plan principles	
Principles	Details
1- The transition plan of the undertaking shall be compatible with limiting global warming to 1.5°C and achieving net-zero emissions by 2050 at the latest.	A transition plan is only credible when it is explicitly linked to a 1.5°C and/or Net-zero target with interim targets. The pathway used to develop the net-zero transition plan shall be disclosed with short-, medium (2030), and long-term (2050) decarbonisation targets for the undertaking and individual business lines. The reduction target shall include the undertaking's GHG emissions reduction targets for Scope 1, 2, and 3. Every year, it shall contain a disclosure of the progress made against emissions reduction targets. For assessing transition progress, the reduction target shall be in absolute and intensity (when relevant) metrics. The undertaking shall not include carbon offsets in the GHG inventory to settle its total GHG emissions.
2- The transition plan shall contain the decarbonisation levers foreseen by the climate science community and/or aligned with the EU sectoral decarbonisation roadmap.	The expertise of the climate science community and technical experts is needed to navigate the complexity of allocating global GHG budgets between industries and economic activities. EU sectoral budgets and sectoral pathways are needed to assess the consistency of corporate transition plans. The disclosure of the decarbonisation levers that are planned to reduce GHG emissions toward reaching the target (i.e., technologies deployed, energy efficiency measures, demand mitigation solutions). The disclosure of the transition plan assumptions, uncertainties, and challenges the entity could face in successfully executing the transition plan. Assumptions should be consistent with those used by the organization in its financial accounts, capital expenditures, and investment decisions.
3- Credible pathways take into account technological feasibility and companies' resources	The development of transition pathways must include an assessment of current and expected technologies. The potential decarbonisation of expected technologies must be conservative. The scenario or hypothesis on the expected decarbonisation technologies shall be disclosed. Any pathways and decarbonisation levers shall be associated with the resources needed such as financial resources. The pathway shall be consistent with the expected demand of the sector and entity, and any emissions gap due to the increase of demand should be highlighted.
4- Locked-in-emissions and comparison with the carbon budget of the entity	Locked-in emissions are future estimates of GHG emissions that are caused by an asset or product. It corresponds to long-lived infrastructure and products; it can take years or even decades before they are eventually replaced or decommissioned. These estimated emissions correspond to those that will necessarily be emitted due to the existing and planned facilities or products. Analysing a company's estimates locked-in emissions towards science-based remaining budgets introduces the means to scrutinise the potential cost of inaction, including the possibility of stranded assets. Target setting, as well as locked-in emissions, are valuable illustrations of forward-looking information that companies shall disclose. Both rely on modelling efforts that require integrated thinking on the business model, the market demand evolution, the product performance, and the sourcing strategy.
5- Credible transition means following the transition pathway and regular assessment is required.	<p>The transition plan is not a simple pledge or the implementation of policies and procedures that may or may not deliver operational outcomes. The transition plan to be credible shall be assessed regularly by a third party or EU institution.</p> <p>In Europe, such an assessment framework could be developed and applied to all companies under the CSRD as it is explored regarding environmental governance for the 28 Member States⁶⁰.</p>

60 https://ec.europa.eu/environment/environmental_governance/pdf/development_assessment_framework_environmental_governance.pdf.

ANNEX 3: THE FRENCH SECTORAL TRANSITION PLANS

The French National Low Carbon Strategy (Stratégie Nationale Bas Carbone or SNBC) defines the path France intends to take to achieve carbon neutrality by 2050. For the French industry, the SNBC sets an 81% reduction target in greenhouse gas (GHG) emissions for 2050 compared to 2015 levels. While the literature provides some guidelines on industrial decarbonisation, what they imply and their cost at operational level have not been detailed. The French Agency for Ecological Transition (ADEME) has built a decarbonisation pathway by formulating assumptions on the temporal deployment of technological levers. By working hand-in-hand with key sectoral players, ADEME seeks to offer visibility to industry and investors, as well as public authorities. The project⁶¹ is a continuation of the work carried out for the SNBC, dividing heavy industry into nine sectors to put forward specific decarbonisation solutions for each sector.

The example of the French Sectoral Transition Plans

The findings presented below are the result of an ambitious exercise that aims to model decarbonisation scenarios for the cement industry by 2050.

The methodology, scenario and assumptions (and well as the limitations) are detailed in the document.

The adoption of transition technologies has been modelled to put forward decarbonisation levers for the French cement industry in a coherent and realistic narrative, and 5 main levers have been identified (see the figure below).

The main findings that could serve the assessment of companies' climate transition plans are:

- Identified technical solutions will not be sufficient to close the emission gap by 2050, demand-side reduction from the industry varies between 10% to 55% depending on the scenario.
- Massive investments need to be made now; the reference scenario shows that the scale of investments should be maintained while accelerating them over a period of 10 years, and not 30 years.
- Limited impact on overall direct employment but with a contrasted picture across territories.

Cement use case: How the Sectoral Transition Plans could be used to assess corporate climate transition plans in the cement sector

The cement sector is considered to be a largely homogenous sector and therefore one unique 1.5°C pathway is deemed sufficient, with no disaggregation into sub-sectors. The vast majority of cement production volumes and emissions today are from “traditional” (Portland) cement. Other clinker-based cements such as white cement or calcium sulpho-aluminate cement also fit the definition of cement and are covered by the sectoral pathway⁶².

In the case of the French cement industry, authorities and companies could use the different pathways developed by the French Agency for Ecological Transition (ADEME) for the cement and concrete sector as default sectoral benchmarks to assess the credibility of the corporate transition plans. Due to the potential differences in the technological routes, both in terms of type of technology and year of adoption at a given site, as well as the penetration rate across the industrial fleet, decarbonising the cement industry can have a multitude of trajectories.

That is why authorities need to ensure that the Sectoral Transition Plan used as the benchmark is the scenario that is the most likely to happen. In the context of the French Sectoral Plans, cement companies should integrate between 10% to 55% demand-side measures among others to be aligned with the French sectoral target.

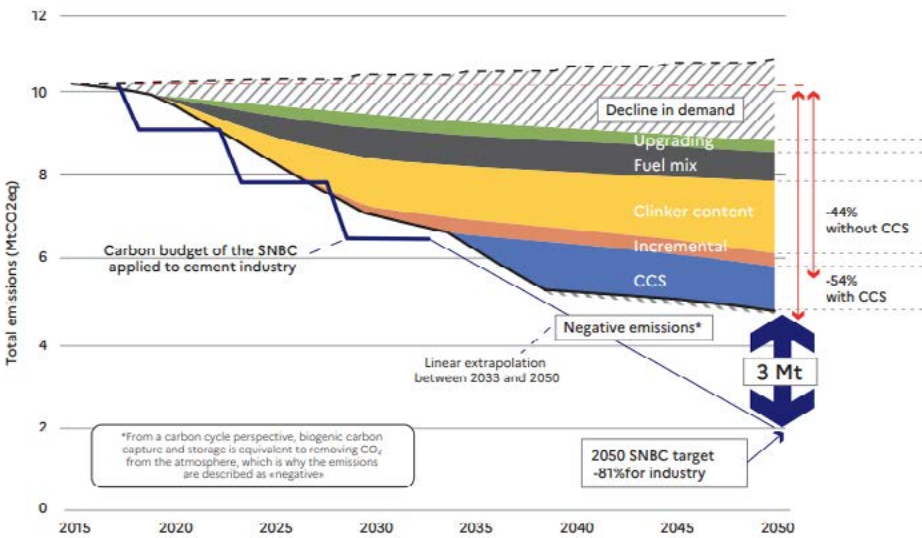


Figure 8: Reference scenario – Transition Plans for the cement sector
Source: [ADEME](https://www.ademe.fr/)

61 <https://bibrairie.ademe.fr/changement-climatique-et-energie/5185-sectoral-transition-plan-for-the-french-cement-industry.html>.

62 <https://sciencebasedtargets.org/resources/files/SBTi-Cement-Guidance.pdf>.

ANNEX 4: THE PWC-WWF GERMANY ‘PATHWAYS TO PARIS’ PROJECT ON SECTORAL DECARBONISATION PATHWAYS

The EU committed to becoming the first greenhouse gas-neutral continent by 2050. Germany’s Climate Change Act establishes the national goal of greenhouse gas neutrality by 2045. A gap still exists between political goals and current progress.

The pace of actual emission reductions in Germany has so far been insufficient and the country is on a trajectory for average temperatures to rise by 3-4 degrees. To successfully limit temperature rise to 1,5 degrees, and to ensure the competitiveness and future viability of the German economy, transition processes must be accelerated and actually implemented. A precise, science-based planning - be it changes in the process or the conversion of the entire business model - at company level forms the foundation for meeting the challenges ahead.

Taking into account the individual situation of different sectors and types of business, the [Pathways to Paris](#) project aims to encourage close cooperation between the real economy and the financial sector. For both sectors, it is critical to have a thorough understanding of the transformation required to achieve greenhouse gas neutrality, to accept these requirements as a guiding principle for action and to translate them into specific, feasible investment and transition plans. With the help of well-founded, comprehensible plans, financial institutions and accounting firms can classify whether or not a company is on a Paris-compatible transition pathway.

As a main objective of Pathways to Paris, WWF Germany and PwC Germany, while sparring with 90 representatives of industry and finance, developed three instruments that are intended to support both groups in the transition process to a low-carbon economy. The instruments will help companies identify and understand the necessary changes for their Paris-compatible emission reduction pathways and implement them strategically.

Financial institutions can use the instruments to evaluate a company’s transformation performance and integrate it into a systematic and goal-oriented exchange about their requirements. All three instruments will serve as a foundation for a solution-oriented dialogue between real economy and financial industry.

These three instruments are as follows:

- A **web-based transformation tool** first creates a sector-specific transformation pathway that can be used to better understand the minimum requirements of emission reductions compatible with the Paris Agreement. In the second step, companies can test the effects and costs of various reduction measures and visualise their effects in diagrams. Finally, they can use the tool to plan the implementation of the selected measures in a roadmap, and thus assess the necessary investments for the transformation plan over time.
- The financial industry can specifically demand and promote the transition of companies. An **assessment matrix** consisting of cross-sectoral and sector-specific indicators was developed, to help financial institutions to assess these refinements and their progress.
- Engagement is a way for financial institutions to accompany companies on their transition pathways: **sector-specific orientation frameworks** help to assess a company’s transition performance. They contextualise the core measures from the transformation tool as well as the indicators from the indicator system and show how dialogue can be structured.

Unique Method

Ten sector-based working groups discussed in over 30 workshops how to shift business models to ensure compatibility with the Paris climate target. In each working group, a representative range of companies from the sector was paired with representatives from the financial sector and selected academic experts. With the support of empirical research and in dialogue with the participating companies, the current status of conventional production technologies and alternatives was reviewed, experiences and market assessments shared and the core measures of each sector identified. All assumptions and developments are based on or derived from the decarbonization scenario “*How Germany can reach its climate targets before 2050*“, by Prognos, Öko-Institut, Wuppertal Institut (2021) for Stiftung Klimaneutralität, Agora Energiewende and Agora Verkehrswende⁶³.

The project was funded by the German Federal Ministry for Economy and Climate Protection (BMWK). Transparency, dialogue and cooperation are essential in order to be able to successfully manage the massive efforts in the short time remaining.

⁶³ [Publication - Towards a Climate-Neutral Germany by 2045 \(agora-energiewende.de\)](#).



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