

Greenhouse gas emission reduction targets that companies set for themselves and try to achieve in the next 5–15 years. The targets meet the level required by the Paris Agreement adopted in 2015.

Science-based targets for achieving the goals of the 2015 Paris Agreement

The Paris Agreement was adopted at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in 2015. It can be said that the agreement is the successor to the Kyoto Protocol.

The Paris Agreement's goal is to keep global temperature rise this century well below 2 °C above pre-industrial levels, and to strive to limit the temperature increase even further to 1.5 °C. These are evidence-based action goals derived from reports issued by the United Nations Intergovernmental Panel on Climate Change (IPCC), etc.

Science-based targets are GHG emission reduction targets for the next 5–15 years set by companies in order to achieve the Paris Agreement's goals for limiting temperature rise. Each company submits its GHG emission reduction targets to the joint initiative, SBTi,*1 and if the target meets the

guidelines, it is certified as a science-based target.

Initially, the SBTi's certification guideline was to keep the rise below 2 °C. But in 2019, it was revised to "well below 2 °C" with the further goal of limiting increase to 1.5 °C, in accordance with a special report issued by the IPCC in 2018. Companies are supposed to review their targets at least every five years in light of new guidelines.

Science-based targets greatly affect corporate financing

Setting a target is not mandatory, and there are no incentives for achieving a target or penalties for not achieving one. Nevertheless, many companies are working on setting targets. One reason is that institutional investors are paying attention to medium- to long-term environmental measures as an index for evaluating potential investments, and there is a trend to rate companies highly if they actively promote environmental efforts.

One of the turning points is that, in 2017, Japan's Government Pension Investment Fund (GPIF) began taking environmental, social, and governance factors into account when selecting companies for investment. Due to the nature of public pension funds, GPIF evaluates companies from a medium- to long-term perspective. Since climate change countermeasures are medium- to long-term efforts, it can be said that companies that include them in their business plans have a medium- to long-term perspective. Also, in terms of investment in the future, the long-term perspective of environmental measures tends to be appreciated.

GPIF's presence and influence in the investment market is enormous. Today, institutional investors around the world are referring to various environment-related information, including the Carbon Disclosure Project (CDP)*2 report, which summarizes corporate environmental measures, and also science-based targets.

Working to reduce GHG emissions across the entire supply chain

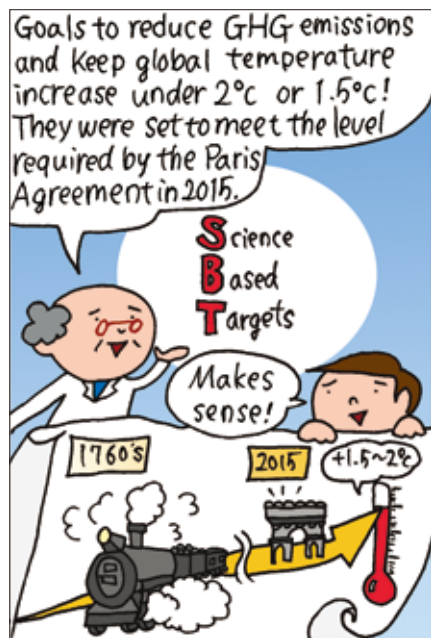
In order to set a science-based target, it is necessary to calculate current GHG emissions based on a standard called the GHG Protocol. The key in calculation is to include GHG emissions from the entire supply chain, from material procurement to product disposal, rather than from the company alone.

GHG emissions from the entire supply chain can be categorized into Scope 1 (direct emissions from a business), Scope 2 (indirect emissions from energy use), and Scope 3 (other indirect emissions). For example, burning fuel in a factory falls within Scope 1, and the use of electricity falls within Scope 2. GHG emissions from the procurement and transportation of materials used in factories, as well as the use and disposal of products shipped from factories, are Scope 3.

SBTi created the Scope 3 goals to be ambitious. Since a company's Scope 3 can be regarded as other companies' Scopes 1 and 2, it is expected that efforts by the entire supply chain will lead to the reduction of GHG emissions in society as a whole.

If these efforts become widespread, some companies may call on their business partners to set science-based targets, and some companies may declare that they will not do business with companies that are not doing enough for the environment.

In other words, medium- to long-term environmental measures are important proactive corporate measures that are directly linked to financing and sales.



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*1 SBTi (Science Based Targets initiative)
An initiative of the Science Based Targets (SBT) organization that encourages companies to set goals and commit to reduce greenhouse gas emissions

*2 Carbon Disclosure Project (CDP)
A project in which institutional investors collaborate to require companies to disclose their strategies for climate change and the amount of their greenhouse gas emissions

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