

Corporate
Contribution to
**CLIMATE
NEUTRALITY**

Third Edition



EXECUTIVE SUMMARY

The definition of net-zero emissions is one of the major topics on the agenda of the 26th Conference of the Parties (COP26) of the United Nations Framework Convention on Climate Change, held in Glasgow from October 31st to November 12th, 2021.

The latest report issued by the Intergovernmental Panel on *Climate Change (IPCC) – Climate Change 2021, The Physical Science Basis* – provide unmistakable evidence about the role of anthropogenic emissions (those caused by human activities) that lead to global warming. The report points to a pressing need to enhance actions that can substantially reduce greenhouse gas emissions, thus limiting the average increase in global temperature (when compared to pre-industrial levels) below the 1.5°C target established in the Paris Agreement.

The urgency for countries and private organizations to join efforts to neutralize their GHG emissions, following suit of several companies in Brazil, reflects the need to increase the ambition of mitigation actions to meet the objectives of the Paris Agreement.

This study was conducted by Agroicone and Proactiva in partnership with CEBDS, and it is divided into two parts. The first section describes how net zero targets emerge from the Paris Agreement and turn out to be the natural, practical path to be followed by the Parties. In addition, it provides a brief presentation of neutrality targets adopted by some countries. It also seeks to clarify Brazil's positioning and engagement with these global initiatives, and how private

organizations and the market adhere to the climate agenda in Brazil.

The second part comprises studies on how companies from different economic sectors in Brazil take measures and actively respond to climate neutrality challenges. CEBDS conducted a series of surveys with some of its associated companies to understand how the private sector is planning and what strategies are being implemented towards the global climate neutrality agenda in line with the targets under the Paris Agreement.

THE URGENCY FOR COUNTRIES AND PRIVATE ORGANIZATIONS TO JOIN EFFORTS TO NEUTRALIZE THEIR GHG EMISSIONS, AS IS ALREADY BEING DONE BY SEVERAL COMPANIES IN BRAZIL, REFLECTS THE NEED TO INCREASE THE AMBITION OF MITIGATION ACTION

Neutrality Targets Worldwide

The IPCC 'Global Warming of 1,5 °C' report indicates the need to reduce net CO² emissions by 45% below 2010 levels by 2030 and reach net-zero emissions by 2050 to limit global warming to 1.5 degrees Celsius.

This evidence increasingly requires signatory countries of the Paris Agreement ("Parties") to present more ambitious climate commitments (the so-called "NDCs" or "nationally determined contributions") preferably including net-zero pledges. Without a global

effort in this direction, it will become extremely difficult to limit global warming below 1.5°C, which, according to the scenarios put forward by the new IPCC report, should take place between 2030 and 2040.

By October 2021, 22 Parties, including the European Union, had presented long-term strategies containing neutrality targets. Currently, 61% of global emissions, or 56% of the global population, are covered by the climate neutrality targets pledged by the Parties.

What is "climate neutrality"? What about "carbon neutrality"?

Climate neutrality refers to net zero CO₂ emissions and is achieved when anthropogenic CO₂ emissions are balanced globally by anthropogenic CO₂ removal over a specific period.

When companies refer to their climate goals and commitments, they often adopt terms such as "carbon neutral," "carbon neutrality," "GHG neutral," and "zero-net emissions" similarly. However, each concept has distinct aspects and nuances, as described below.

In short, companies use the term "carbon neutral" to explain that the volumes of CO₂ released into the atmosphere as a result of company activities are offset by an equal amount that is removed from the atmosphere.



Faced with the climate emergency, countries, cities, companies, investors, universities, and several other stakeholders are taking action to adopt their own neutrality targets. Learning the status of these commitments is paramount to directing efforts and sharing best practices that will help companies in their decarbonization strategies.

Since the establishment of the *Marrakech Partnership for Global Climate Action* at the 22nd Conference of the Parties, which took place in 2016, several players launched different initiatives with the aim of converging efforts towards climate neutrality. Some examples include: *Race to Zero*, *Business Ambition for 1.5°C* and *We Mean Business Coalition*, which will be further described in this study. In 2020, the *NewClimate Institute* identified at least 826 cities, 103 regions and 1,565 companies with neutrality goals across the world.

In 2020, Brazil submitted its NDC under the Paris Agreement, confirming its target for the year 2030 (a 43% reduction in emissions) and pledging to reach climate neutrality by 2060; During the Climate Leaders' Summit in 2021, Brazil also pledged to achieve net zero emissions by 2050.

At the beginning of COP26 in Glasgow, Brazil communicated to the UNFCCC Secretariat its commitment to achieve net zero carbon emissions by 2050 and pledge to reduce 50% of emissions by 2030.

In the document presented in Glasgow titled "Diretrizes para uma estratégia nacional para neutralidade climática" (Guidelines for a National Strategy towards Climate Neutrality¹), the country points out possible scenarios to manage transition pathways towards a climate-neutral economy. However, this document hasn't been instrumentalized yet. The updated version of the National Policy on Climate Change – which is one of the key steps to establish policies and actions required for the climate agenda – should be enacted in 2022, in line with Resolution 2 dated August 17, 2021, of the Chief of Staff Office.

Another aspect addressed in the report, in light of the recommendations of the Partnership for Market Readiness Project (PMR), is the need to create a regulated carbon market in Brazil as a key strategy towards the decarbonisation of the economy. CEBDS plays a significant role as a reference institution in the debate on carbon pricing and its agenda. As such, the organisation proposed an ambitious vision aligned with the state of the art in carbon markets in the world through a study titled "Proposal for a Regulatory Framework for the Brazilian Carbon Market."

Likewise, CEBDS made important contributions to the original wording of Bill (PL) No. 528/2021, drafted by Deputy Marcelo Ramos, through a Replacement Proposal, which sought to create a regulated market alongside a registration system for the GHG offset market (also known as the voluntary market).

Despite its complexity, the implementation of an ecosystem of carbon markets independently coexisting with a regulated and voluntary market is strategic to guide and encourage companies in the transition to a low-carbon economy. The creation of a regulated carbon market in Brazil based on trades of emissions through sectorial targets is a fundamental condition to generate emission reductions in intensive sectors, as it will offer companies an opportunity to balance the costs of their reductions.

In addition, a regulated Brazilian carbon market would align the country with various pricing schemes such as those in Europe, the United Kingdom and China, among others and, in this sense, would mitigate the risks of implementing border adjustment measures (border tax) that may adversely affect Brazilian exports.

¹ <https://www.gov.br/mma/pt-br/diretrizes-para-uma-estrategia-nacional-para-neutralidade-climatica.pdf/>

Climate neutrality in Brazilian companies

Within this context, the private sector has sought to implement different measures to improve the country's climate scenario and stand out in the investment market. Climate challenges faced by Brazilian companies vary according to the industry, size and territory in which they operate.

A benchmark study on corporate-based neutralization initiatives held with the seventy-seven companies associated with CEBDS showed that these organizations have ambitious climate agendas, with goals and scopes of action determined according to the challenges and complexity of their operations and value chains.

The main criteria considered in the benchmark study were:

1. Definition of climate neutrality goals.
2. Adoption of science-based targets.
3. Corporate decarbonization routes adopted to achieve neutrality goals, execute actions, and ensure achievement of previously determined targets.
4. Structured governance for the climate agenda to encourage internal commitment to the pledged targets.
5. Disclosure of climate data to communicate the progress of actions to stakeholders in a transparent manner and to redefine potential management routes.

The information displays CEBDS member companies' commitment to the climate neutrality agenda. Data for analysis was collected through a desk-review of information and documents from seventy-seven companies and data collected in surveys conducted with fifteen of these companies.

CLIMATE NEUTRALITY OF COMPANIES ASSOCIATED WITH CEBDS



56%

CEBDS members that have public goals of climate neutrality

30%

CEBDS members with public neutrality goals committed to the Science Based Target (SBTi)

According to the survey, the main motivations for Brazilian companies to move forward in achieving their targets include:

- Establishment of global targets coordinated by the head office, with target achievement efforts supported by the Brazilian operations.
- Need to report to shareholders and investors who are increasingly aware and demanding in this matter.
- Opportunity to stay at the forefront of the sustainability agenda.

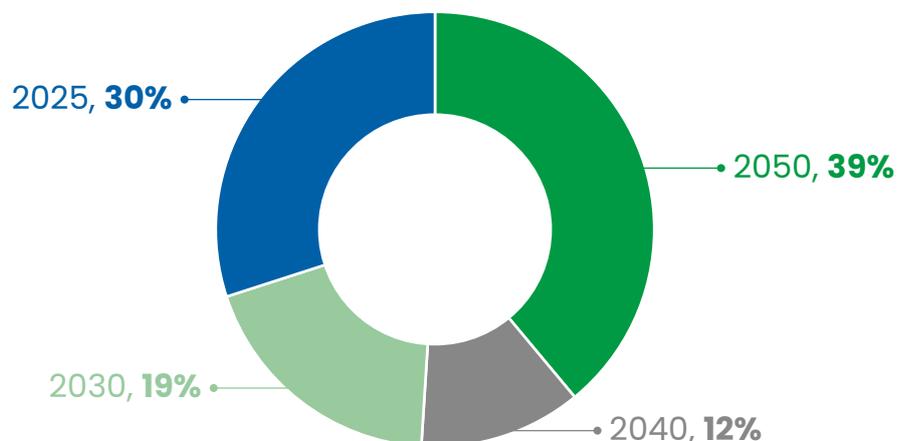
The chart presents a timeline of the neutrality targets of CEBDS member companies. From the universe of companies with climate neutrality targets, 60% of them have committed to achieving their goals by 2040. Moreover, some of the companies with 2025 targets already consider themselves carbon neutral.

The main decarbonization routes chosen by companies are listed below.

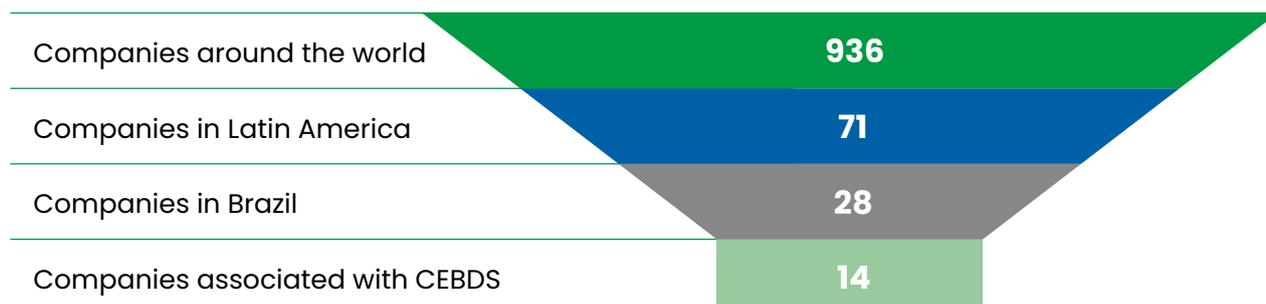
- Search for operational efficiency and replacement of raw materials;
- Search for energy efficiency and replacement;
- Participation in the carbon market and carbon pricing; nature-based solutions actions (NbS); reduction of emissions in the value and supply chain.

CEBDS member companies have already started their journey towards science-based targets. The figure below shows that 40% of companies in Latin America committed to SBTi are Brazilian, of which half are members of CEBDS.

CLIMATE NEUTRALITY TARGETS OF COMPANIES ASSOCIATED WITH CEBDS



COMPANIES WITH SCIENCE-BASED TARGET INITIATIVES (SBTi)



In addition to operating strategies, companies also adopt management instruments that boost climate commitments by driving internal engagement, including:

- Disclosure of climate data and risks, for monitoring and dissemination of their climate data to relevant stakeholders;
- Involvement and engagement of the leadership in the neutrality agenda, ensuring agenda internalization and execution of the designed strategy;
- Structured and transversal governance to monitor, execute, and report the progress of the agenda internally, keeping everyone focused on the main target.

Therefore, in view of the commitment and active participation of the Brazilian private sector in the climate agenda, this report brings together case studies that introduce innovative initiatives that have been adopted and are on the rise in the zero-carbon action plan. Below is a brief description of some of these initiatives.

- Because climate actions are multifaceted and involve different business areas in a company, having transversal and structured governance is key to implementing practical actions. Where possible, a company should nominate “Climate Ambassadors” in each area to facilitate the exchange of knowledge and the development and implementation of actions in an integrated manner.
- Innovative solutions and products that can support emission reduction targets of the company and its value chain and turn the company into a catalyst for change.
- Measuring the “co-benefits” generated by carbon offset projects is undoubtedly a best practice that brings a different view for the market and is in line with the objective of the Paris Agreement.
- Opportunity to engage the supply chain and establish a funding network for the implementation of renewable energy projects and other types of projects.
- Engagement of different stakeholders financing low-carbon activities, linking better rates and financial benefits to these

models while generating mutual benefits for the company, suppliers, and the planet.

- Deployment of modern technologies and good agricultural practices that will engage the supply chain in achieving the company’s targets. This model brings other benefits, such as the efficient use of feedstock, greater productivity in the field and, consequently, greater income for rural producers.

Within this context of ongoing improvement geared towards the objectives of the Paris Agreement, companies surveyed in this study cited the main challenges and correlated opportunities, and a variety of bottlenecks to be overcome in order to achieve climate neutrality.

Most of the topics mentioned by the companies surveyed in this study can be considered both challenges and opportunities. The word cloud below reflects how those companies view these topics.

The brown color represents the challenges and the topics in green reflect the opportunities. The carbon market in Brazil is a good example. The surveyed companies reported challenges on this topic. However, they believe that the opportunities brought by a regulated carbon market are infinitely greater and transcend these challenges.

This survey of opportunities and challenges shows that scope 3, engagement with the supply chain, and lack of regulatory framework are the biggest challenges. On the other hand, the Brazilian context, the creation of a carbon market, the opportunity to innovate and the different options for Nature-Based Solutions were identified as the great opportunities on this agenda.

- 100% of the companies surveyed ranked Brazil as the country with the greatest potential to contribute to emissions reduction targets. However, the lack of a regulatory framework in Brazil to support companies in the development and implementation of their decarbonization strategies and actions is seen as one of the main current challenges.
- Need to implement a clear governance and sustainability culture within companies.

CHALLENGES AND OPPORTUNITIES OF THE CLIMATE NEUTRALITY AGENDA IN BRAZIL



- Companies are finding it hard to communicate about climate neutrality to various players in their local value chain.
- Challenges in integrating “Scope 3 emissions” – the hardest to be integrated into the companies’ strategy –, as it requires greater control over their commercial and productive relationships.
- The lack of standardized metrics for measuring emissions and reduction rates.
- The recurrent water crisis in the country is raising concerns about the private sector’s ability to rely on the Brazilian hydropower matrix to fulfill most of its emission reduction targets.
- The lack of a national carbon market that enables companies in more emissions-intensive industries to perform offsets.
- Regarding consistency, it is possible to observe that associated historical emissions were not considered in the neutrality targets, in addition to the adoption of offsets without permanent changes in the company.

Corporate engagement with the topic is an ongoing process and requires an understanding of the company’s internal processes and its value chain. Within this scenario, companies must be capable of innovating in several areas, perhaps draw inspiration from the examples in this document to implement novelties, from disruptive technologies to creative engagement initiatives with relevant stakeholders.

It is a dynamic scenario being shaped each day through new market opportunities and new regulations. Such dynamism offers companies not only the opportunity to adopt unprecedented strategies and set themselves apart but also to contribute to the health of the planet.

In conclusion, the advancement of the climate neutrality agenda in company activities comes with challenges and bottlenecks, such as the need to understand their sectorial and territorial reality and the lack of a more robust regulatory framework focused on generating opportunities in this agenda. However, the Brazilian private sector is clearly operating in a committed, inspiring way and has made strong pledges to climate neutrality, effectively helping Brazil fulfill the commitments under the Paris agreement towards global sustainability.

CREDITS

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