

The Case for the Corporate Climate Pledge

More businesses are taking the climate pledge: Net zero by 2040.
Should your organization step up too?

In 2019 Amazon made headlines when it founded the Global Climate Pledge in partnership with Global Optimism, committing to net zero carbon emissions by 2040. That's a full ten years ahead of the 2050 target set by the Paris Climate Agreement. Since then, 200+ businesses have signed onto the climate pledge, including some of the largest corporations in the world. With momentum building, should your business become a signatory too?

Below, we share the case for signing onto the climate pledge and highlight proven strategies to make sure your organization is ready.

WHY 2040? IT'S THE RIGHT THING TO DO

Every year it seems like there's another once-in-a-century weather event. Climate change has become more real for more people in every region of the planet.

In 2021 the Intergovernmental Panel on Climate Change (IPCC) released its Climate Report, in which the United Nations Secretary-General declared a "code red for humanity." The UN signaled global emissions must fall 7 percent each year through 2030 to stay within the 1.5-degree Celsius goal set in the Paris Agreement.

"We can't wait any longer," said Marcia McNutt, President of the National Academy of Sciences, in a recent interview. And many businesses agree. Pledge signatories believe bold, aggressive action is required to realize long-term sustainability.

Why? Because the science is clear: "Climate change is a human-made problem," said Dr. Jonathan Overpeck, Dean of the School for Environment and Sustainability at the University of Michigan.

You might even say this is a corporation-made problem. Consider a recent study found that, since 1988, corporations have produced more than 70 percent of the world's total carbon emissions.²

If corporations mobilize now, they can make a comparatively large impact in a short period of time. In fact, if all signatories follow through on their commitment, together they will mitigate around 1.98 billion metric tons of carbon emissions, equal to 5.4 percent of current global annual emissions.

Government action alone won't get us there. It's incumbent on businesses to push toward net-zero by 2040.

As Global Optimism says, it's the "right thing to do."

THE FINANCIAL CASE

Beyond ethics and social responsibility, businesses must also consider the significant financial risk they face.

First is the **physical risk** from more frequent natural disasters—floods, storms, fires, pollution. Along with the risk to real assets, natural disasters impact supply chains, human capital, warehousing, factories, insurance, and more.

Second, there's **transitional risk**, which refers to the disruption businesses face as corporations adopt more climate-friendly business practices. Pledge signatories are challenged to find new supply chain partners and adopt new technologies and manufacturing processes. There will also be tighter monitoring and oversight across business partnerships that may impact how and with whom you do business.

Next is **reputational risk**. Investors, stakeholders, and consumers are putting enormous pressure on businesses to push toward carbon neutrality. And given the ESG prioritization of major institutional investors like Blackrock and State Street, corporations are finding that climate concerns directly impact their ability to attract capital.

Finally, businesses confront **regulatory risk**. As national and local governments advance climate initiatives, organizations are finding they need to operate in ever more complex regulatory environments. In addition, the SEC has signaled they'll seek to require and standardize ESG disclosure and reporting.

Taken together, these risks present a compelling case for adopting the climate pledge. If you're not out in front of this, it will almost certainly catch up to you by the end of the decade.

On the flipside, these challenges present significant opportunity.

Forward-thinking, innovative corporations stand to capitalize on evolving disruption as business practices shift toward net-zero carbon.

ADOPTING THE PLEDGE

Global Optimism made the climate pledge simple, breaking it down into three main components:

#1 REGULAR REPORTING

The climate pledge requires signatories to “measure and report greenhouse gas emissions on a regular basis.” Companies are allowed one year from the sign date to report their data.



We suggest that before signing the pledge, you start with an environmental policy and baseline carbon measurement. Then, report using leading frameworks such as CDP (formally the Carbon Disclosure Project) and The Task Force on Climate-related Financial Disclosure (TCFD). Before publicly committing to a climate goal, these frameworks can help you first understand your baseline environmental impacts.

CDP collects qualitative and quantitative environmental performance data via an annual survey. The platform then consolidates the data, enabling stakeholders to assess environmental impact across survey respondents. CDP is considered the gold standard for corporate environmental reporting, leading the industry for 20+ years.

TCFD is designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings, including global warming scenario analysis and planning. TCFD disclosure recommendations are structured by governance, strategy, risk management, and metrics and targets.

These frameworks also complement each other. The CDP climate change questionnaire is designed to align with TCFD, helping businesses break down the TCFD recommendations through annual standardized disclosure questions.

We recommend using both to inform what you measure and how you report progress.

#2 CARBON ELIMINATION

Next, the climate pledge requires signatories to “implement decarbonization strategies in line with the Paris Agreement through real business changes and innovations, including efficiency improvements, renewable energy, materials reductions, and other carbon emission elimination strategies.”

Once a company understands its baseline impacts, the next step is to operationalize decarbonization strategies throughout the organization. This requires strong leadership commitment, targeted resource allocation, buy-in from internal stakeholders, and alignment with your overall corporate strategy. Your company should have a near-term plan to reduce your carbon footprint that is bankable, owned by management, and targeted towards reducing your absolute emissions (as opposed to prioritizing offsets).

Because there are inconsistencies in how different organizations define, measure, and achieve “net zero,” the Science Based Targets initiative (SBTi) developed a standardized guide that aligns with the Paris Agreement and limits global warming below 1.5 degrees Celsius. If your company is pursuing a path towards carbon neutrality, following the guiding principles and recommendations of SBTi will help ensure your pledge for net zero emissions can be implemented in a way that is consistent with larger global climate goals.



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#3 CREDIBLE OFFSETS

Finally, the Pledge requires signatories to “neutralize any remaining emissions with additional, quantifiable, real, permanent, and socially-beneficial offsets to achieve net zero annual carbon emissions by 2040.”

Carbon offsetting is an important tool, which often involves either removing or avoiding carbon emissions altogether. Many corporations secure renewable energy certificates (RECs), enact reforestation practices, and capture methane. Purchasing offsets can not only accelerate your net zero transition, it can also serve as a brand differentiator and help align with your existing corporate strategy.

Before you finance carbon offsets, be sure to carefully assess their potential impact to ensure they result in a meaningful carbon reduction. In addition, be sure to consider the possibility of unintended consequences, such as reversibility.

Check out the Greenhouse Gas Protocol Guidance. It's an excellent resource you can use to inform your carbon reduction strategy.

YOUR ROADMAP TO 2040

As you consider whether and to what extent to adopt the climate pledge, it's important to recognize that it's easier than you think. There are proven strategies to achieve your sustainability goals. And you don't have to do it alone.

Broadridge in partnership with Third Economy can help. Our team brings the experience and expertise you need create and execute a roadmap to 2040.

Building on best practices from hundreds of corporations, we can help you develop a policy, perform baseline measurements, identify opportunities, source offset options with pricing, and align your disclosure with science-based targets.

