

ACT - Assessing Low Carbon Transition by CDP and ADEME

How ready is a company
to transition to the low-
carbon economy?

The University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership (CISL) is a globally influential Institute developing leadership and solutions for a sustainable economy. We believe the economy can be 'rewired', through focused collaboration between business, government and finance institutions, to deliver positive outcomes for people and environment. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our interdisciplinary research engagement builds the evidence base for practical action.

The Banking Environment Initiative (BEI)

The Banking Environment Initiative (BEI) is a group of global banks committed to pioneering actionable pathways towards a sustainable economy. The BEI co-produces horizon scanning applied research, develops leadership tools and convenes academic and industry collaborations. It is a member-led, not-for-profit group convened by CISL and initiated in 2010 with the support of The Prince of Wales.

Authors

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A. Situation

The Assessing low-Carbon Transition (ACT) initiative, by CDP and ADEME (French Environment and Energy Management Agency), assesses how ready an organisation is to transition to a new low-carbon world using a future-oriented, sector specific methodology.

ACT methodologies are available for 12 high climate impact sectors with a further 4 methodologies to be added in Q1 2022. In addition to private company assessments, the ACT methodologies have been applied to produce a public Climate and Energy Benchmark for the Auto Manufacturing and Electricity Utilities sectors. A benchmark of the Oil and Gas industry is planned for July 2021.

This case study explores:

- What do these figures and symbols mean for a Bank's relationship managers, bearing in mind the highest rating is 20A+?
- How can the ACT initiative support banks in their client relationship management?

B. Approach

ACT aims to assess how company strategies and actions contribute towards the Paris Agreement mitigation goal of well below 2°C warming. The ACT rating combines quantitative and qualitative information on a company's past, present and projected future to reveal its alignment with the low-carbon transition.

The ACT rating consists of three elements (ref. Fig. 1):

1. **Performance score** (from 1 up to 20): 20 represents full alignment with the methodology indicators along nine assessment areas;
2. **Narrative score** (from A down to E): A means that information reported by the company and available from public sources are consistent and show that the company is well aligned to transition to the low-carbon economy;
3. **Trend score** (+ improving; - worsening; or = stable): + highlights the company will be better placed to transition to the low-carbon economy in future.

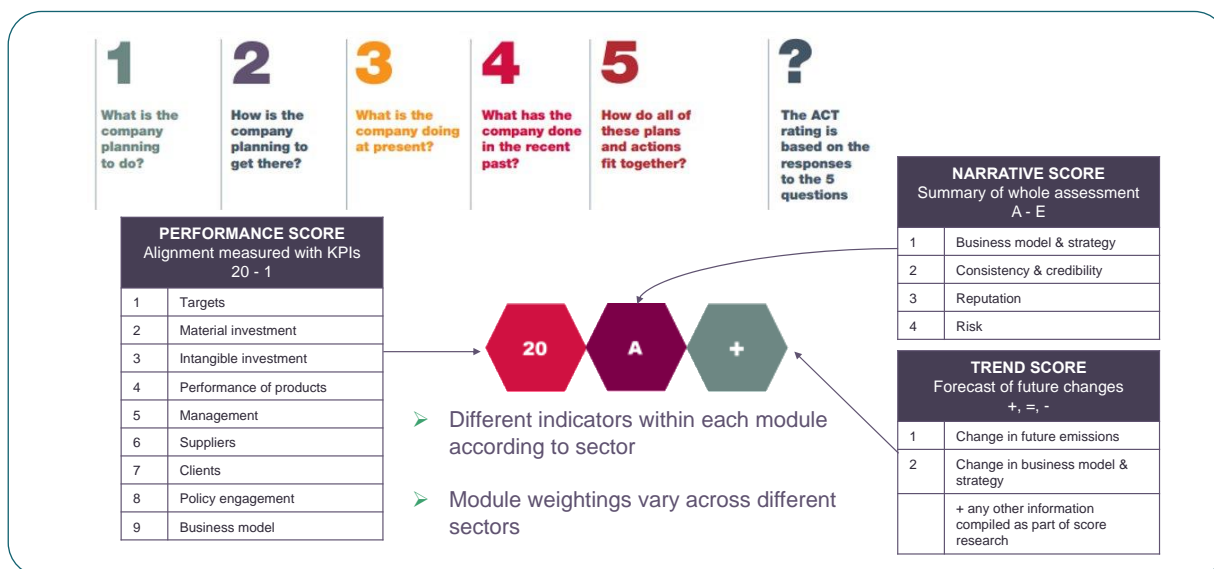


Fig. 1 - ACT Rating structure and assessment areas

For each assessment area, the ACT rating and associated details represent the most relevant characteristics of the sector or company when it comes to low carbon transition. It can be used as a guide for banks and relationship managers to effectively engage clients and conduct financial evaluation.

C. Evidence of the intended positive climate impacts

Results of the public assessments conducted by ACT as the implementation of the Climate and Energy Benchmark are reported on [World Benchmarking Alliance](#), with snapshots of results for specific sectors.

Banks' relationship managers can consult the World Benchmarking Alliance source to explore companies' climate transition plan assessments, ranking and information on factors useful for financial evaluation as well. Details of how to request an assessment for a specific company are available from the [ACT Initiative](#) by emailing info@actinitiative.org.

See the Case Study Further Information for application of the ACT methodology to two sectors; the electric utilities and automotive sectors.

D. Key Learnings

BANKS' USE OF THE FRAMEWORK

Banks, and their client-facing community, could use the detailed results of company-specific ACT assessments when engaging with companies during Phase 2 – Assess of the BEI's Guide to Client Engagement. It helps them assess a client's preparedness for their transition to the low-carbon economy.

This feeds into the Guide's Phase 3 – Design, as the ACT assessment results give clear, actionable steps for companies to help them write and improve their transition plan, allowing bank relationship managers to lead an informed and practical engagement on low carbon transition. Assessment results could be incorporated into financing strategies and investment and lending analysis.

TRANSITION PLANNING IS AN ESSENTIAL TOOL

To have confidence that companies will be able to reach this low-carbon future, the path ahead needs to be designed and validated as robust and science-based, with a clear action plan and associated financing to accompany it. This requires companies to set out their decarbonisation plan, identify metrics and targets and plan important business transformation areas. This is net zero transition planning, and it is a necessary evolution in strategic planning. This is not about how the current business model can continue to exist while reducing climate impact; instead, it is about how the business model can be transformed to contribute to a low carbon economy.

CROSS-SECTOR DEPENDENCIES ARE KEY

In order to decarbonise the entire value chain within and across sectors, it is not enough for banking assessments to look just at the single company or transaction. Many dependencies exist within sectors, so it would be important to work with cross-sector views and cross-sector teams. See *Overcoming Barriers to Progress* in the Guide.

“ACT is one of the few methods [...] with such a deep sectoral approach that also considers SMEs. ACT will be useful to identify the most climate proactive companies and to support those who do care about climate” Thibaud Clisson, ESG Senior Analyst, BNP PARIBAS ASSET MANAGEMENT

E. Further examples

To help banks understand and assess where their client and the sector is, here are some summaries of ACT company and sector assessments produced as part of the Climate and Energy Benchmark in partnership with the World Benchmarking Alliance:

ELECTRIC UTILITIES SECTOR

The analysis shows that less than 10% of the world's 50 most influential electric utilities companies have Paris-aligned targets. There is still a strong fossil fuel dependency, with 70% of the benchmarked companies already set to exceed their carbon budgets to 2033. Overall, the sector displays a lack of ambition in terms of transition planning, milestone creation and accountability. Disruptors have real potential to instigate and lead a clean energy transformation, but greater urgency is needed to deliver on the targets and ambition of the Paris Agreement.

Ørsted A/S case

Ørsted ranked 1st with an ACT rating of 15.6A+

Looking at the Performance Score (ref. Fig. 1) and the nine assessment areas, the company has put in place leading practices in:

- **Targets:** the pathway set out by Ørsted's 2025 science-based target for Scope 1 & 2 emissions is assessed as more ambitious than its well-below 2-degree pathway, and it also has a target for its Scope 3 emissions;
- **Material investment:** its future emissions intensity is projected to continue decreasing at a low-carbon-aligned rate, driven by the scheduled closure of fossil fuel assets and the launch of several wind assets with significant capacity;
- **Business model:** over the past decade, Ørsted has successfully repositioned itself from a conventional electricity generator to a predominantly low-carbon electricity generator. In 2019, approximately 90% of Ørsted's EBITDA was derived from offshore wind.

Looking at the Narrative Score, the progress towards the Paris Agreement is a key element to consider: the Ørsted Transition plan drives the phase out of all coal-fired generation by 2023 while expanding its installed renewable electricity capacity, increasing this to 20 GW by 2025 and 30 GW by 2030. By 2025, 99% of Ørsted's electricity generation is targeted to come from renewable sources.

AUTOMOTIVE SECTOR

The world's 30 most influential auto manufacturers are not on track to meet the goals of the Paris Agreement. While most companies have some transition plans or an existing low-carbon vehicle on the market, most are not yet doing enough to reduce emissions at the rate needed to meet the well below 2-degree pathway.

Groupe PSA case

Groupe PSA ranked 1st in the 2019 benchmark with an ACT rating of 13.3B+

Looking at the Performance Score (ref. Fig. 1) and the nine assessment areas, the company has put in place leading practices in:

- **Management:** Groupe PSA has a publicly available low-carbon transition plan with measurable, time-bound emissions performance indicators and milestones. Examples include a target to reduce global average fleet emissions by 55 per cent by 2035. Financial incentives for emissions reduction are in place at the highest management levels and a significant proportion of all employees' variable compensation is based on emissions performance
- **Customer awareness:** Groupe PSA focuses on marketing the idea of electric mobility options (i.e. video campaigns to encourage consumers to purchase electric vehicles). It launched new onboard eco-coaching and eco-mode functions for plug-in hybrid electric vehicles as well as a web-based application allowing customers to access the fuel consumption of its vehicles, to make informed purchasing choices

Looking at the Narrative Score: the Group PSA transition plan will be achieved through increasing the group's electric vehicle offerings and decreasing advanced vehicles' costs with new electric motor developments and energy management best practice. 100 per cent of models will be available in electric or plug-in hybrid versions by 2025.

We note that since the 2019 assessment, Groupe PSA announced a merger with FCA, one of the worst performing companies in this benchmark.

This reiterates the need for a continuous improvement cycle represented by the Guide to bank-client engagement, repeating the Assess phase at appropriate intervals depending on client developments, bank reviews and science-based updates in the broader market.

For more, see CISL's [Let's Discuss Climate: The essential guide to bank-client engagement](#)