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Setting Robust Decarbonisation Targets for Business

Executive Briefing

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The Importance of Decarbonisation Targets

Our climate is changing. Hong Kong will experience higher temperatures, sea level rise, and more extreme weather events. To stabilise the climate and to avoid the most severe consequences of climate change, carbon emissions must be reduced and eventually carbon neutrality must be achieved.

The Paris Agreement of the United Nations Framework Convention on Climate Change was a landmark achievement in that the global community agreed to work towards keeping global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase further than 1.5°C. Countries are required to respond to the Paris Agreement by establishing nationally determined contributions. For businesses, setting decarbonisation targets is the equivalent to countries establishing nationally determined contributions.

“You can’t manage what you don’t measure”. Targets are key for facilitating and operationalising businesses’ decarbonisation. In other words, effective decarbonisation requires setting targets. Fundamentally, it is important to have a vision and strategy to align your business with a low carbon future.

BEC’s [The New Normal: A Hong Kong Business Primer on Climate Change Adaptation](#) and [The Hong Kong Climate Resilience Roadmap for Business](#) provide more insights on what climate change means for business.

Setting Decarbonisation Targets Makes Business Sense

Setting targets is a robust time-tested strategy for managing the performance of any aspect of a business’ operations. Indeed, the following statistics confirm this.

Strengthen Brand Reputation

79%

of corporate executives observed strengthened brand reputation after their companies committed to set decarbonisation targets. Brand reputation is important as consumers are increasingly aware of the effects their choices have towards a sustainable future.

Increase Consumer Appeal

80%

of consumers seek socially or environmentally responsible products whenever possible and would switch brands to support a good cause. 66% of consumers confirm they feel more positive about companies that are making efforts to reduce the carbon footprint. Furthermore, most consumers expect companies to share the results of their sustainability commitments.

Boost Investor Confidence

52%

of corporate executives saw increased investor confidence after their companies committed to set decarbonisation targets. Investors increasingly regard businesses’ environmental policies as an indication of whether investments are future-proof.

Improve Regulatory Resilience

35% of corporate executives view that their companies' resilience against regulatory change has increased due to establishing decarbonisation targets. More stringent decarbonisation regulations are expected as governments continue to work towards emission reduction.

Drive Innovation

63% of corporate executives revealed decarbonisation target drives innovation within their businesses. Targets will induce the development of innovative solutions and strategies consistent with a low carbon future.

Secure Bottom Line Savings

29% of corporate executives have seen bottom line savings because of decarbonisation targets. Decarbonisation targets ensure businesses are efficient and resilient, leading to benefits that translate into bottom line savings.

Establish Competitive Edge

55% of corporate executives found that committing to setting decarbonisation targets gave their companies a competitive edge. Setting decarbonisation targets and strategies is a statement of leadership in positively contributing to society's low carbon transformation.

These statistics are adapted from research by the Science Based Targets initiative^{1, 2} and the Carbon Trust³. BEC's [Low Carbon Hong Kong: Supporting Business to Set Targets](#) further explains the business benefits of setting decarbonisation targets aligned with the Paris Agreement, and introduces methodologies for target setting.

¹ <https://sciencebasedtargets.org/2018/07/09/six-business-benefits-of-setting-science-based-targets/>

² <https://sciencebasedtargets.org/wp-content/uploads/2017/04/SBTi-manual.pdf>

³ https://www.carbontrust.com/news/2019/04/footprint-labelling?utm_source=Carbon+Trust+Newsletter&utm_campaign=68b7150297-EMAIL_CAMPAIGN_2018_06_15_08_28_COPY_02&utm_medium=email&utm_term=0_2e40152a6f-68b7150297-56975371

A Framework for Setting Decarbonisation Targets

Step 1

Gather Support & Obtain Commitment

Support from senior management is essential for developing and implementing decarbonisation targets and for securing resources needed to achieve carbon reductions once the target is set.

Influencing Up: Senior Management

Be Targeted

- Analyse and map senior management audiences.
- Be concise; develop your elevator pitches specific to your targets' priorities.

Present Justifications

- Articulate value in a compelling way; speak their "language", e.g. in terms of revenue and reputation.
- Avoid using jargon.

Stay on Top of Emerging Trends

- Be a subject matter expert; highlight the risks and opportunities.
- Work out how those trends may affect your organisation.
- Drive senior management to capture first mover advantage.

Decarbonisation targets will shape how your organisation operates and will ultimately affect colleagues across all departments. Colleagues' participation and contributions is therefore needed for setting and achieving decarbonisation targets.

Influencing Down and Across: Colleagues

Raise Awareness

- Make sustainability visible internally through handbooks, reports, posters, trainings and internal events.
- Be direct and concise in communications materials.

Explain Sustainability Clearly

- Use simple and engaging narrative.
- Integrate the sustainability story into the overall corporate story.
- Communicate a clear plan: Why decarbonisation? How can we achieve it?

Direct Action and Innovation

- Connect the dots; coach and guide relevant departments on "what's in it for them".
- Co-create: carry out trials, share incentives and rewards.
- Develop practical tools: checklists, KPIs, cross-functional teams, systems to enhance efficiency and support innovation.

Step 2

Understand & Map Baseline Conditions

Understanding your organisation's baseline carbon footprint is essential in setting decarbonisation targets. Which operations contribute to carbon emissions? How much? When? Where? Collecting and analysing relevant data will help you establish the baseline. Below are three categories of emissions which you should account for.

Categories of Carbon Emissions

Scope 1

Direct emissions from the company's owned or controlled sources.

Scope 2

Indirect emission from the generation of purchased energy used by the company.

Scope 3

All indirect emissions, not covered in Scope 2, that occur in the value chain of the company – both upstream and downstream. These are emissions consequential of the activities of the company but occur from sources not owned or controlled by the company.

It is best practice to account for, manage, and report carbon emissions across all 3 scopes. Scope 3 emissions are particularly a challenge to grasp and will require engaging with other value chain partners. However, there are tools⁴ available to help you assess Scope 3 emissions.

Collecting data to monitor the company's carbon performance should be a continuous process, not just a one-time exercise. Establish a standing mechanism where relevant data is continuously collected and analysed.

Step 3

Determine Target Scope & Boundary

With the understanding of your company's carbon emissions profile, it is time to decide the scope and boundary of the decarbonisation target. Does the target cover Scopes 1, 2 and 3 carbon emissions? Does it cover the whole company and all operations in its entirety?

It may be the case where different segments of your business warrant having individual targets, given the difference in nature of

operations, how and when low carbon practices can be integrated into the operations to achieve targets, and if different stakeholders will need to be involved. Should various specific targets be pursued, for external communications, it is suggested to present the targets in the form of one aggregated target that applies across the entire organisation.

Clarity in scope and boundary is essential for effective implementation of the target and integration into your company's overall business strategy.

Step 4

Choose an Approach to Creating Target

Targets can be established through top-down or bottom-up approaches. A top-down approach is where you have identified a state which your company should attain and then set that as a target, and let the target steer the operations and strategic actions to transform the company towards achieving the target. A top-down approach is usually motivated by questions such as: Where does the company need to be by then? Setting a target that aligns with the goals of the Paris Agreement is an example of a top-down target.

A bottom-up approach refers to identifying specific, incremental opportunities for improvement across your company, assembling them together to form one overarching indicator and setting that as a target.

Typically, a top-down approach results in setting more significant targets compared to taking a bottom-up approach. However, the

⁴ <https://quantis-suite.com/Scope-3-Evaluator/>

bottom-up approach is sometimes chosen as it provides more predictability as to how the targets can be achieved.

Step 5 Specify Target Metrics

Broadly, there are two types of units for setting targets: absolute basis or intensity basis. An absolute emissions reduction target specifies a definitive amount of carbon emissions to be reduced over time. For example, a target of reducing 50% CO₂e by 2040 compared to 2010 levels is an absolute target. Absolute targets are detached from the economic performance of organisations. In other words, it involves recognising some limits to carbon-emitting activities.

An intensity target is usually expressed as a reduction in the ratio of carbon emissions relative to another business metric. For example, a target of reducing carbon 60% CO₂e per HKD revenue by 2040 compared to 2010 levels is an intensity target. Intensity targets take into account the growth or decline in market share and can function as an indicator for the “carbon efficiency” of a company. As business metrics can fluctuate, it may be that the intensity targets are achieved but no actual carbon emissions are reduced. As such, it is best practice to ensure the intensity target can also be translatable into absolute terms to ensure their robustness.

For intensity targets, business metrics that are most relevant and representative of the company’s operations should be used.

Sample Intensity Metrics by Sector

Power Generation
CO₂e per unit electricity generated

Transport
CO₂e per unit freight per distance travelled

Buildings
CO₂e per unit gross floor area managed

Manufacturing
CO₂e per unit products produced

What metrics the target will use governs the type of data to be collected and therefore will influence your data collection process and system.

Step 6 Define Target Timeframe

How far into the future the target end date is set can determine the type of response by the company. Short-, medium-, long-term targets motivate short-, medium-, long-term planning and actions respectively. Typically, long-term planning can facilitate larger-scale initiatives and investments to reduce carbon emissions, while short-term actions will motivate practical strategies that have a shorter planning cycle and may unlock “quick win” initiatives.

Long- and short-term targets are not mutually exclusive. You can set a long-term target supported by short-term interim targets which serve as progress-tracking milestones. Similarly, this can simultaneously facilitate both long- and short-term initiatives.

The target base period is also an important component of the timeframe. As the base period will serve as a benchmark against future performance, in choosing the baseline, you must consider the data availability of the potential base period and whether it is

representative of the company's overall operations and typical carbon emissions profile. To ensure representativeness, one approach is to average emissions data over multiple, consecutive years to smooth out atypical fluctuations.

Step 7

Set Target & Ambition

Given the urgency and severity of climate change, there is growing expectation for companies, and all parties of society, to take significant mitigation actions and set ambitious targets.

To keep global temperature rise below 2°C above pre-industrial levels, between 2010 and 2050, a 49-72% absolute reduction of carbon emissions globally is required. To limit temperature increase to 1.5°C, a 70-95% absolute reduction is needed within this period.⁵

These are significant reductions. However, in light of the climate emergency, bold action is needed. It is best practice that your company sets a decarbonisation target on par with this level of ambition. BEC's [Low Carbon Hong Kong: Supporting Business to Set Targets](#) provides more information on existing target setting methodologies that help translate this level of ambition to what it means for your company and your sector.

Step 8

Develop Blueprint to Achieve Target

Now that a target is set, the immediate next step is to develop a blueprint on how to achieve the target.

Decarbonisation initiatives range from upgrading physical assets/equipment, to smart management strategies to drive low carbon decisions and behaviour.

Planning Decarbonisation Initiatives: Key Elements to Consider

Anticipated & Actual Carbon Reductions

- How much carbon emissions are the initiative expected to reduce?
- How can the effectiveness of the initiative be measured, and the relevant data be collected?

Stakeholders & Governance

- Which stakeholders will be involved in the initiative? What are their interests?
- What are the relationships between different stakeholders?

Enablers & Contingencies

- What are the enablers for implementing this initiative successfully?
- Does this initiative require certain preconditions to be met before it can be pursued?

Time

- How much time is needed for preparation and for meeting the preconditions of this initiative before implementation?
- What is the effective duration of this initiative?

Understanding these elements will help you decide which initiatives to pursue, the order of their implementation, and how to sustain and maintain the initiatives once they are launched. Planning strategically is critical.

⁵ <https://sciencebasedtargets.org/wp-content/uploads/2016/10/SBT-Manual-Draft.pdf>

Step 9

Track & Communicate Progress

Progress in decarbonisation should be tracked and measured against the overall target. The data collected will also enable you to assess the effectiveness of individual initiatives and, as needed, to update and finetune your blueprint to ensure accuracy and relevance.

Considering the evolving expectations from investors and stakeholders, it is best practice to disclose targets and progress against targets. This can be incorporated into sustainability reports. Targets should be communicated in reader-friendly and engaging forms. In addition to communication, you should engage and work with peers, stakeholders, and partners across your value chain to tackle carbon emissions collaboratively.

Once the targets are achieved – congratulations! This would be a good time to formulate new targets once again.

A Flexible Framework

This Executive Briefing presents an overarching framework for setting decarbonisation targets. The steps described here and the order which they are presented is by no means the sole, definite method for setting targets. This Executive Briefing is designed to provide readers with a picture of what the target setting process could look like. You are encouraged to use this, along with other available resources, as reference to support your target setting process.

Background: The Low Carbon Hong Kong Initiative

Low Carbon Hong Kong is an initiative of BEC which aims to support businesses develop strategies and targets aligned with the goals of the Paris Agreement. Since 2016, milestones under the initiative include the publication of an introductory [report](#), a series of workshops for different business sectors backed up by research, and engagement activities with C-Suite. All the early works culminated to the [BEC Low Carbon Charter](#), launched in 2019, under which companies pledge to step up their decarbonisation endeavours and commit to set and achieve decarbonisation targets. This Executive Briefing is part of a suite of tools designed to support signatories of the Charter, and businesses more generally, to set and achieve decarbonisation targets.

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About BEC & BEC CCBF AG

Business Environment Council Limited ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

BEC Climate Change Business Forum Advisory Group ("BEC CCBF AG") promotes the awareness of, and builds capacity in relation to, climate change mitigation, adaptation and resilience activities amongst BEC's membership and the business community in Hong Kong. It also aims to provide a platform for BEC to engage relevant regulatory bodies on climate change-related matters, and forge collaboration between local and global experts on climate change.

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