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NET-ZERO PLANS UNDER THE CSDD DIRECTIVE

ECGI ONLINE POLICY WORKSHOP

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Net-Zero Plans

Article 15: Combating climate change

1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.
2. Member States shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes emission reduction objectives in its plan.
3. Member States shall ensure that companies duly take into account the fulfilment of the obligations referred to in paragraphs 1 and 2 when setting variable remuneration, if variable remuneration is linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.



Net-Zero Plans

Elements:

- Climate change, not sustainability more broadly
- Only Group 1 companies
- Adopt a plan to ensure that business model and strategy are compatible with
 - “the transition to a sustainable economy”
 - “and with the limiting of global warming to 1.5 °C in line with the Paris Agreement”
- In particular, highlight how climate change is a risk for/impact of operations

Net-Zero Plans

Step 2

- Some companies to include emission reduction objectives
- IF “principal risk”
- (P) targets under Paris Agreement vague

Step 3

- To be taken into account when setting variable pay with directors
- IF variable remuneration is linked to the contribution of a director to the company’s business strategy AND long-term interests AND sustainability



Net-Zero Plans

Positive contribution

- Helps investors, e.g. pension funds
- Forces companies/directors to self-reflect
- May overcome time-inconsistency problem (Armour, Enriques & Wetzer 2021) – due to preferences of political leaders and shareholders, commitment to climate change may vary over time.



Net-Zero Plans

Relevant? Redundant?

- Overlap with CSRD (proposed Art. 19a): to a great extent already in place

Net-Zero Plans

(proposed) Art. 19a CSRD: Sustainability Reporting

1. [In-scope companies] shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.

2. The information referred to in paragraph 1 shall contain in particular:

(a) a brief description of the undertaking's business model and strategy, including: [...]

(iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement; [...]

(e) a description of:

(i) the due diligence process implemented with regard to sustainability matters;

(ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;

(iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

Relevant? Redundant? (2)

- Investors ask for it anyhow – available through market forces
 - ESG activism and engagement -> private ordering
 - “investor-led sustainability in corporate governance”

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Exxon joins peers in setting net-zero goals, but critics find them lacking

Exxon Mobil Corp. announced Jan. 18 that it would aim to eliminate net emissions from its own operations by 2050, making it the last of the supermajor global oil and gas companies to publicly disclose a net-zero goal.

Exxon said it intends to spend \$15 billion over the next five years — \$3 billion per year, or 14% of its estimated capital spending — on low-carbon efforts and emissions reductions. The plan focuses on developing lower-carbon fuels, hydrogen, and carbon capture use and storage projects while lowering corporate-wide methane intensity by 80%.

The company did not detail how much money it would allocate to each project category, but it said its interim goal was to cut emissions from its own operations — known as Scope 1 and Scope 2 emissions — by 20% by 2030 and to net-zero by 2050.

U.S. peer Chevron Corp. rolled out a similar net-zero plan in September 2021. European rivals including Royal Dutch Shell PLC, BP PLC and TotalEnergies SE previously announced net-zero goals that would add renewable resources to their energy holdings while backing out of fossil

Plan criticism

"It's a portion of a portion of a plan," said Andrew Logan, senior director for oil and gas at investor network Ceres, which focuses shareholder activism on sustainability and environmental issues.

Logan said he was encouraged by the supermajor's move. "It's a down payment on a more ambitious plan," Logan said. "To me, it's the tangible sign that [shareholders] are having an impact."

Exxon shareholders elected three new board members in 2021 who were nominated by activist hedge fund Engine No. 1 LP, which has called for the huge oil and gas producer to prepare for a lower-carbon future. Engine No. 1 explicitly invests based on environmental, social and governance factors and data. The fund had no comment on Exxon's Jan. 18 net-zero announcement.

"Moving to zero emissions — even for own operations — is a huge change for a big organization like Exxon," industrial organization and innovation professor David Victor said in an email. Victor is the author of a paper that concluded traditional oil and gas companies must either transition to a low-carbon future or become extinct. The paper supplied Engine No. 1 with the rationale for its proxy fight for board seats.

Exxon's new plan "involves disruption of the status quo," said Victor, who teaches at the University of California San Diego. "Deep disruption means deep uncertainty, and big organizations approach these kinds of problems experimentally — they test stuff," Victor said. "The challenge is that the lack of specificity could be evidence of the lack of effort or the lack of any ability to know what exactly to do. And given the history of Exxon on climate, most folks on the outside don't know what to believe."



Net-Zero Plans

Standardization?

Comparative advantage through standardization???

- Ensuring comparability and harmonizing substance
- Not in sight!
- No delegated act proposed etc

Instead: Focus on making net-zero plans credible and concrete



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