Combatting the interlinked crises of climate change and nature – article 15 of the CSDDD on transition planning

A CDP factsheet

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Corporate governance – 'behavior' – rules will combat climate change, but do not address the nature crisis

The Corporate Sustainability Due Diligence Directive (CSDDD) is an important cornerstone of the EU regulatory framework on company law and corporate governance.

Article 15 of the CSDDD requires large companies to have transition plans that align their strategy and business model with limiting global warming to 1.5 °C. This is critical since only 2% of European companies reported on all elements that make up a credible climate transition plan in 2021.

Maintaining 1.5 transition planning in article 15 and extending article 15 to include nature would show EU leadership and an understanding of how to effectively implement the EU biodiversity strategy, as well as how to support EU companies with a set of clear and coherent policy measures to support their journey of aligning their business model with a net-zero and nature-positive world.

Key recommendations

- Corporate governance must address nature as well as climate: the interrelated climate-nature crisis must be embedded in corporate behavioural rules together with the same approach and rigor.
- The 'how to behave' and the 'how to report on the behavior': need for policy coherence between corporate governance and reporting rules.
- Transition plans are fundamental to catalyzing the action needed to achieve a net-zero and nature-positive economy: the CSDDD must drive the climate and nature transition planning of EU companies.

1 – Corporate governance must address nature as well as climate: The interrelated climate-nature crisis must be embedded in corporate behavioural rules together with the same approach and rigor.

Transition plans

A climate transition plan is a time-bound action plan that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

Nature generates at least $44 trillion in economic value every year, yet losses to nature continue at unprecedented rates with three quarters of land and sea altered by people, and over a million species threatened with extinction.[1]

The IPCC and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) jointly agree that addressing the climate crisis cannot be achieved without simultaneously and equitably addressing the nature crisis. This includes conserving, protecting and restoring ecosystems, adopting more sustainable agriculture and forestry practices, and ensuring a circular economy.[2]

Companies need governance requirements on biodiversity because it is as critical as climate and we cannot solve one crisis without solving the other. The interrelated climate-nature crisis must be embedded in corporate behavioral rules together with the same approach and rigor. This is a paradigm shift that the regulatory landscape is rapidly becoming aware of, and the importance of disclosing, and implementing a robust transition plan (i.e., one that recognizes this interconnectedness of nature and climate).

[1] https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/
[2] https://zenodo.org/record/5101125

2 – The 'how to behave' and the 'how to report on the behavior': there is a need for policy coherence between corporate governance and reporting rules

The draft EU sustainability reporting standard ESRS E1 on climate change sets out rules that state undertakings shall disclose their transition plan for climate change mitigation.

'The objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and business model(s) 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 and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities.'[3]

The draft EU sustainability reporting standard ESRS E4 on biodiversity and ecosystems sets out undertakings shall disclose their plan to ensure that their business model and strategy are compatible with the respect of planetary boundaries of the biosphere integrity and land-system change and relevant targets outlined in [the Post-2020 Global Biodiversity Framework] of no net loss by 2030, net gain from 2030, full recovery by 2050, and the EU Biodiversity Strategy for 2030.[4]

'The objective of this Disclosure Requirement is to enable an understanding of the compatibility of the transition plan of the undertaking with regard relevant local, national and global ecological thresholds and boundaries as well as public policy targets related to biodiversity and ecosystems.'

To ensure effectiveness and operability of the European Sustainability Reporting Standards (ESRS), the EU and Member States should adopt **corporate governance rules that match the reporting requirements** and therefore serve as the precursor for the reporting.

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3 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F08%2520Draft%2520ESRS%2520E1%2520Climate%2520Change%2520November%25202022.pdf

4 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F11%2520Draft%2520ESRS%2520E4%2520Biodiversity%2520and%2520ecosystems%2520November%25202022.pdf

3 – Transition plans are fundamental to catalyzing the action needed to achieve a net-zero and nature-positive economy: the CSDDD must drive both, climate and nature transition planning in EU companies

Transition plans are a vital tool to demonstrate to investors and stakeholders that an organization is committed to achieving a 1.5-degree pathway, and that its business model will remain relevant (i.e., profitable) in a net-zero carbon economy.

Transition plans will be **fundamental in catalyzing the action needed to achieve a net-zero and nature-positive economy** and are therefore at the heart of CDP's strategy. We want to do more to encourage and support companies to establish credible transition plans, underpinned by science-based targets – CDP is continually working to refine and develop guidance on transition plans, as well as measure performance against them.[5]

In 2021, more than a third (37%) of companies disclosing to CDP in EU27 and EFTA reported having a transition plan in place. Yet to evaluate whether companies are disclosing sufficient (and relevant) information on their transition planning, we need to look at other key elements to assess a company's progress towards transition goals, its level of ambition and whether these influence its business strategy.

Companies can and should build on existing capacity, processes and structures that they put in place for their climate transition planning. They should start adopting plans to ensure that their business model and strategy are compatible with biodiversity and ecosystems recovery and the planetary boundaries for biosphere integrity and land-system change. In practice this means companies have to protect, restore, and sustainably manage more of our lands and seas than they destroy and pollute.

CDP defined 8 key elements that constitute a credible climate transition plan. These elements can be identified via disclosure on 24 indicators found in the CDP questionnaire.

[5] https://www.cdp.net/en/guidance/guidance-for-companies/climate-transition-plans

Figure 1: Percentage of companies that disclose to all applicable key indicators within each element of a credible climate transition plan, CDP 2021 data EU27+EFTA

- Only 2% of companies reported on all 24 key indicators of a climate transition plan identified by CDP. 20% of companies reported on more than 80% of the 24 indicators.
- 37% of companies reporting to the climate change questionnaire in 2021 in EU27 and EFTA countries report that climate related risks and opportunities influenced their organization's strategy and/or financial planning and that they have developed a low-carbon transition plan.
- Across the 8 key elements of a credible transition plan as defined by CDP, reporting on targets is particularly sparse. Also, less than one fourth of companies fully report in the areas risks & opportunities, scenario analysis and value chain engagement & low carbon initiatives.

In 2022, CDP introduced new questions on biodiversity. Data disclosed by publicly listed companies headquartered in Europe find **companies are getting ready for transitioning towards nature-positive business models with hundreds of companies planning to do more in the next two years.**

Governance

- Baseline awareness of and action on biodiversity appears rather low.
- Less than half (40%) have both board oversight and executive responsibility for the topic, and less than half have corresponding public commitments (44%).

Value chain engagement

- One third of companies (34%) assess the impact of their value chains on biodiversity and 17% assess both their upstream and downstream impacts.
- Just over half (55%) are taking action to protect biodiversity.

Impacts, risks and opportunities

- 19% of companies publish information on their impacts on biodiversity, with associated risks and opportunities about half as common (11% of responses).

Target-setting initiatives

- 44% of companies currently do not have any public commitments or endorsement of initiatives that protect biodiversity.
- 32% of companies have both (public commitments and endorsement of initiatives), with another 24% having one or the other.
- Public commitments to avoid protected areas and species account for almost 60% of commitments (companies could indicate more than one type of commitment).
- Net Positive Gain and No Net Loss – similar to nature-positive – garners 11% of responses, followed by the Mitigation Hierarchy (8%), and Free, Prior, and Informed Consent (5%).
- The Sustainable Development Goals account for 46% of the initiatives endorsed.
- The Global Biodiversity Framework garners fewer than 10% of responses (equivalent to just 5% of all disclosing companies).
- Other common initiatives include the United Nations Global Compact, Business for Nature, and national initiatives.

Measurement and accounting

- Indicators are being well-established and should support higher rates of assessment, monitoring, and reporting.
- Only one third (29%) use indicators to monitor the impacts and benefits of their activities.
- Of those using indicators, companies appear to deploy pressure, response, and state and benefit indicators in roughly equal numbers.
- Common types of indicators include certification volumes, investment volumes, monetized impacts, Global Reporting Initiative standards, and many specific examples like species abundance, water quality, and habitat connectivity.

For further information

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CDP Europe and the CDP global system

CDP Europe is a charitable organization registered in Brussels and Berlin and on the EU Transparency Register since 2012. It is part of the CDP Global System, a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 680 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth half of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP and on LinkedIn to find out more.
In Europe, CDP Worldwide (Europe) gGmbH is a charitable limited liability company headquartered in Berlin, Germany, registered on the EU Transparency Register since 2012. It is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium (together: "CDP Europe"). CDP Europe is part of the non-profit CDP Global System ("CDP"), which refers to four legally separate organizations: CDP Europe (BE), the CDP Worldwide Group (UK) and CDP North America, Inc. (US).
CDP Europe's annual report is available here and its regular policy newsletter can be joined here.

CDP Government Partnerships

CDP Government Partnerships are designed for governments to actively encourage ambitious actions by corporates and subnational jurisdictions and to improve data and insights on these organizations' transition to a 1.5°C and nature positive world.
By endorsing the CDP disclosure system, governments can accelerate the implementation of international and national climate and nature targets by corporates and subnational jurisdictions in their country and drive faster progress towards achieving climate neutrality and full recovery of nature by 2050.

CDP Europe in European and international media

Les Echos FINANCIAL TIMES Bloomberg euronews.

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