OECD instruments on responsible business conduct: supporting implementation and accountability of business' net-zero commitments

OECD Background Note to the joint OECD & UNFCCC Secretariat COP 26 event - *Responsible Business Conduct and Climate Action: how global instruments on responsible business conduct can support implementation and accountability of business' net-zero commitments*

Wednesday, 3rd November 2021, 10:00-11:15 GMT
Glasgow, Hydro Bowl, Climate Action Room 1

The momentum around net-zero

The 2015 Paris Agreement sets out global commitments to limit the average temperature increase to well below 2ºC above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5ºC above pre-industrial levels. To implement these goals, the Paris Agreement requires parties to submit Nationally Determined Contributions (NDCs), includes the objective to mobilize finance flows towards low greenhouse gas (GHG) and climate-resilient development, and recognises non-party stakeholders, including business, as an integral part of the global solution.[1]

The most recent 2021 report of the Intergovernmental Panel on Climate Change (IPCC)[2] echoed the findings of the 2020 UNEP Emissions Gap Report[3], highlighting that achieving a "minimum" target of net zero emissions by 2050 is critical in order to reach the 1.5ºC goal. This would require at least halving global emissions by 2030 as an interim ambition. Fifty-eight countries, representing 54% of global GHG emissions, have now communicated a net-zero emissions target,[4] with the UK[5] and France[6] becoming the first major economies to sign a net-zero by 2050 target into law.

Governments have recognised that these commitments cannot be achieved through public sector action alone. This has been highlighted by G20 which has welcomed action from non-state actors, including those implementing science-based net zero targets under the UNFCCC's Race to Zero campaign.[7]

---

[1] United Nations Framework Convention on Climate Change (2016), Decision 1/CP.21 Adoption of the Paris Agreement, FCCC/CP/2015/10/Add.1, par. 133, https://undocs.org/en/FCCC/CP/2015/10/Add.1

[2] IPCC (2021), Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [MassonDelmotte, V., P. Zhai, A. Pirani, S. L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M. I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J. B. R. Matthews, T. K. Maycock, T. Waterfield, O. Yelekçi, R. Yu and B. Zhou (eds.)]. Cambridge University Press. In Press, https://www.ipcc.ch/report/ar6/wg1/

[3] UNEP (2020), https://www.unep.org/emissions-gap-report-2020

[4] https://am.jpmorgan.com/content/dam/jpm-am-aem/emea/regional/en/insights/market-insights/otmoi/mi-otmoi-the-path-to-net-zero-emissions.pdf

[5] https://www.legislation.gov.uk/ukpga/2008/27/contents and https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

[6] https://www.loc.gov/item/global-legal-monitor/2019-12-04/france-law-on-energy-and-climate-adopted/ and https://perma.cc/5XYM-8VDA

[7] Joint G20 Energy-Climate Ministerial Communiqué. Energy transition and climate sustainability working groups. July, 23 2021

The Race to Zero campaign works to mobilize non-state actors – including companies, cities, regions, financial and educational institutions – to halve global emissions by 2030. The campaign was launched at the UN Secretary General's Climate Action Summit in 2019 and is currently led by the High-Level Climate Champions for Climate Action. Non-state actors join the campaign by becoming members of one of 20 official partner initiatives.[8] Each of the partner initiatives are reviewed by an Expert Peer Review Group (EPRG) that provides independent recommendations to the Champions on whether the partner initiatives meet the Minimum Criteria for participation.[9]

By way of example, the Science Based Target Initiative (SBTi) is an official partner initiative of Race to Zero and has launched a 'Business Ambition for 1.5°C' campaign. In the lead up to COP 26, over 970 companies have reportedly set science based targets,[10] with these targets including the development of an emissions reduction target in line with SBTi's criteria. Companywide emissions and progress against targets is then reported on annually.

Similarly, a number of initiatives have emerged to drive climate action by the financial sector and investors. For example, in 2019 the Institutional Investors Group on Climate Change (IIGCC) established the Paris Aligned Investment Initiative (PAII)[11], a global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement. The PAII is now a Race to Zero partner initiative and includes over 110 investors that use a common set of recommended actions, metrics and methodologies under the Net Zero Investment Framework, to achieve net-zero emissions by 2050 at the latest. As of March 2021, the initiative has grown to include four regional investor networks – AIGCC (Asia), Ceres (North America), IIGCC (Europe) and IGCC (Australasia).

Challenges facing corporate net-zero commitments

A 2021 survey by the Energy & Climate Intelligence Unit and Oxford Net Zero found that of 2,000 publicly listed companies surveyed, 21% had committed to net zero emissions by 2050 at the latest.[12] However, the survey also found that there was considerable variation in the quality of business commitments with regard to their scope, governance mechanisms and implementation plans. A recent benchmarking study by Climate Action 100+ found that of the 159 corporate emitters surveyed, no company performed at a high-level across all 9 indicators – including the presence of a decarbonisation strategy, capital allocation alignment, climate policy engagement and climate governance.[13] Further, the assessments showed that no company had fully disclosed how it will achieve its goal to become a net zero enterprise by 2050 or sooner.

Stakeholders have highlighted the need for business to do more to provide verifiable net zero plans with clear science-based targets and transparent monitoring, reporting and verification of impact.[14] In addition, a recent publication from Oxfam reported business' overreliance on carbon removal and offsetting to meet their goals. With respect to the former, many businesses are relying on technologies that remain unproven or not yet feasible at scale. In addition, rising demand for land-based carbon sinks could have significant

[8] https://unfccc.int/climate-action/race-to-zero/who-s-in-race-to-zero#eq-12

[9] In both demonstrating and mobilising increasing momentum in firm level action, the Race to Zero campaign currently includes 4,475 member companies and 250 financial institutions, that have commit to set ambitious emissions reduction targets through Race to Zero's official partners; https://racetozero.unfccc.int/join-the-race/

[10] https://www.unglobalcompact.org/take-action/events/climate-action-summit-2019/business-ambition/business-leaders-taking-action

[11] https://www.parisalignedinvestment.org/

[12] Black, R., Cullen, K., Fay, B., Hale, T., Lang, J., Mahmood, S., Smith, S.M. (2021). Taking Stock: A global assessment of net zero targets, Energy & Climate Intelligence Unit and Oxford Net Zero

[13] Other indicators include: (1) Net-zero GHG Emissions by 2050 (or sooner) ambition, (2) Long-term (2036-2050) GHG reduction target(s), (3) Medium-term (2026-2035) GHG reduction target(s), (4) Short-term (up to 2025) GHG reduction target(s), (5) TCFD disclosure and (6) Just Transition (not assessed for 2021).
https://www.climateaction100.org/progress/net-zero-company-benchmark/

[14] https://racetozero.unfccc.int/wp-content/uploads/2021/10/Responses-to-the-public-consultation-1.pdf

adverse impacts on human rights and biodiversity with at least 1.6 billion hectares of new forests – equivalent to five times the size of India – being reportedly required for countries and businesses to meet their net-zero commitments through offsetting and carbon sequestration. In addition, land-based carbon removal methods could exacerbate existing strains on agricultural systems and may cause food prices to grow by 80% by 2050. [15]

A proliferation of net-zero emissions standards and guidance for business

Over the past 30 years the number of sustainability standards has increased dramatically, creating a crowded and sometimes confusing landscape for business.[16] Moreover, and in light of the urgent action needed to meet net zero emissions by 2050 at the latest, a broad range of net zero guides, frameworks, standards and tools have emerged to support business on relevant actions - spanning setting targets, delivering emissions reductions and demonstrating progress.

A preliminary review of recent net zero related standards for business shows varying levels of specificity and scope. Although the majority of standards seek to support private sector actors in achieving the 1.5°C goal and focus on emissions reduction, there is considerable variability in the coverage of other risks and potential adverse impacts that are important in the context of responsible action on climate. For example, few standards specifically refer to associated social or environmental risks, aspects relevant to delivering a just transition or the adverse impacts that can result from business activities related to offsetting.

In addition, the integration or mainstreaming of net-zero into the overall business strategy, core decision making and risk management processes of a business, is less addressed. Stakeholders have also highlighted the need for such standards or guidance on net zero to support the private sector in going beyond corporate targets and adhering to additional criteria, such as supporting climate positive policies, aligning lobbying efforts with climate commitments and ensuring educational and marketing activities are in line with net-zero commitments. Stakeholders have also raised the need for greater transparency and disclosure of information on lobbying, investment and affiliation with industry associations.[17]

OECD instruments on RBC and net zero climate action

In guiding the responsible implementation of net zero commitments by the private sector, lessons can be drawn from OECD instruments and engagement on Responsible Business Conduct – namely the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and OECD Due Diligence Guidance for RBC. This is particularly the case with respect to enabling consistency and comparability across jurisdictions, and embedding just transition priorities into business' core decision making and risk management processes.

OECD Guidelines for Multinational Enterprises

The OECD Guidelines are an international soft law instrument backed by 50 governments representing 61% of global trade and 80% of international investments. They enshrine recommendations from governments to business on how companies should be contributing positively to sustainable development while also addressing their adverse impacts on people and the planet.

Specifically, the Guidelines include recommendations for responsible business behaviour across all areas of business impact, including but not limited to the environment, human rights, industrial relations, consumer interests, disclosure and science and technology. A number of recommendations, both within and beyond the Environment Chapter of the Guidelines, intersect with climate related considerations for business and are particularly relevant to private sector action in implementing net zero commitments. In

[15] Aditi, Dabi; Nafkote, Sen. (2021) *Tightening the Net: Net zero climate targets – implications for land and food equity.* Oxfam. https://policy-practice.oxfam.org/resources/tightening-the-net-net-zero-climate-targets-implications-for-land-and-food-equ-621205/
[16] https://www.standardsmap.org/en/home
[17] https://racetozero.unfccc.int/wp-content/uploads/2021/10/Responses-to-the-public-consultation-1.pdf

this respect, guidance can also be drawn from climate-related cases decided by the National Contact Points (NCPs) for RBC.[18] These cases reflect how RBC expectations are being interpreted and implemented practice, and demonstrate the relevance of the OECD Guidelines to responsible climate action by business - including issues such as greenwashing, emission reduction targets, and disclosure.

OECD due diligence guidance

The OECD Guidelines also include an expectation that business conduct comprehensive supply chain due diligence to identify and address their adverse impacts on people and the planet.

To support businesses in carrying out due diligence, the OECD has developed due diligence guidance for specific sectors and at a cross sector level, to explain how to practically implement recommendations on RBC – including across supply chains and taking into account both social and environmental risks and adverse impacts of business activities.[19]

With respect to climate change, guidance from the OECD on due diligence provides companies with clarity on ways in which they can contribute to broader global objectives (spanning mitigation and adaptation) and address related risks and adverse impacts. In the context of the just transition in particular, OECD due diligence guidance provides an important framework and related safeguards to ensure business' climate action also takes into account social and human rights implications, possible trade-offs (or unforeseen adverse impacts across different risk areas), and risk prioritisation considerations.

Policy trends

While policy makers are increasingly taking ambitious action in committing to net zero or related commitments aligned with the Paris Agreement, they are also making efforts to ensure that more sustainable, resilient supply chains become the norm through encouraging or requiring companies to undertake due diligence for RBC.

Strengthening the integration of environmental - in addition to human rights - supply chain due diligence into various voluntary and mandatory regulations and policy initiatives is on the rise. These efforts also point to a growing global recognition of the OECD Guidelines and OECD guidance on due diligence in addressing environmental threats, dependencies and adverse impacts. The most recent example being the commitment from the EU Commission to introduce regulation requiring companies to carry out mandatory environmental and human rights due diligence.[20]

In addition, and in the context of disclosure specifically, leading sustainably reporting frameworks and regulations are converging around OECD due diligence guidance. For example, the Global Reporting Initiative (GRI), the world's leading sustainability reporting framework used by over 5,000 companies and the majority of S&P 500 companies, recently modified its universal reporting standards to integrate and align with recommendations of the OECD (2018) Due Diligence Guidance for Responsible Business Conduct.[21]

---

[18] Each adherent to the OECD Guidelines commits to establish a National Contact Point (NCP); agencies established by governments that provide a non-judicial grievance mechanism for deciding cases of alleged non-observance of the recommendations of the Guidelines by business, known as specific instances. include reference to OECD WPRBC paper title and put (forthcoming) at the end

[19] For the most recent non-sector specific guidance, see the OECD due diligence guidance, http://mneguidelines.oecd.org/duediligence/.

[20]Towards a mandatory EU system of due diligence for supply chains. European Parliamentary Research Service. 2020. See: https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI(2020)659299_EN.pdf. For more information and further examples, please see Policy Trends in Environmental Due Diligence https://mneguidelines.oecd.org/policy-trends-in-environmental-due-diligence.pdf

[21] https://www.globalreporting.org/about-gri/news-center/gri-raises-the-global-bar-for-due-diligence-and-human-rights-reporting/

OECD engagement on climate change and RBC

OECD instruments on RBC provide critical policy levers in driving responsible and accountable private sector action on climate – taking into account social and environmental impacts and embedding action towards a just transition. In connecting corporate action on climate with global policy, the OECD Guidelines and related due diligence guidance offer a unifying framework for the responsible implementation of net zero commitments - and can help to avoid an increasingly fragmented marketplace of standards that can be challenging for business and governments to navigate.

Ongoing work

The OECD Centre for RBC works closely with governments, business, IOs and civil society on RBC and climate change.

Specifically, and through on-going collaboration with UNEP and UNFCCC, the OECD RBC Centre is developing a number of tools to support the implementation of OECD due diligence recommendations by business in the context of environmental considerations, and with a focus on climate change. The tools will not create new standards of conduct, but rather support business and policy makers in demonstrating how the OECD due diligence guidance can be applied to address environmental risks and adverse impacts, and progress global environmental objectives. Current tools underway include:

- OECD Practical Tool on Environmental Due Diligence in Mineral Supply Chains.
- Joint UNEP, UNFCCC and OECD tool on Practical Actions for Companies to Identify and Address Climate Risks in Garment and Footwear Supply Chain.
- OECD-FAO Practical Business Tool on Deforestation, Forest Degradation and Due Diligence in Agricultural Supply Chains.
- Managing Climate Impact through RBC Due Diligence: A Tool for Institutional Investors

Moreover, the OECD has established an Alignment Assessment Practice in response to the growing number of multi-stakeholder and industry initiatives across sectors and geographies, and to support the need for convergence or mutual recognition. The Practice evaluates the alignment of industry and multi-stakeholder initiatives with the recommendations of OECD due diligence guidance to support both government, business and key stakeholders in promoting comparability, improving the quality of initiatives, reducing inefficiencies and costs and strengthening positive outcomes.[22]

For more information

Contact: Stephanie Venuti, *stephanie.venuti@oecd.org*
Visit: *https://mneguidelines.oecd.org/rbc-and-climate-change.htm*

[22] https://mneguidelines.oecd.org/industry-initiatives-alignment-assessment.htm