Corporate net zero: we need a more sophisticated approach

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We need to avoid the conflict between achieving financial objectives and delivering on the company's impact commitments.

The drawbacks of a blanket adoption of corporate net zero

First, the “net-zero aligned” financial terms may raise expectations for investors and customers that the company will fully transition to a carbon-free economy. This can lead to confusion and unintended consequences. For example, if a company commits to net-zero emissions by 2050, stakeholders may expect that the company will be fully carbon-free by that year. However, this may not be feasible or achievable, especially for hard-to-abate sectors such as power generation or steel production.

Second, the term “corporate net zero” may obscure the reality of the situation. In many cases, companies are likely to face a conflict between achieving financial objectives and delivering on their net-zero commitments. For example, if a company in the energy sector is committed to net-zero emissions, it may be difficult to meet this goal without significantly increasing costs or sacrificing profitability. In this case, the company may need to make difficult choices about how to allocate resources.

Third, the term “corporate net zero” may create confusion about the nature of the commitment. Some companies may use this term to mean that they are taking steps to reduce their emissions, while others may use it to mean that they are planning to transition to a carbon-free economy in the future. This can lead to confusion and confusion about the commitment.

The optimal path is of course for both “communities” to move together, which is why the framework recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) is so important. This framework provides a comprehensive approach to climate-related financial disclosures, which can help companies assess and disclose the risks and opportunities associated with climate change.

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Fourth, the “someone else’s problem” effect. It’s too easy for today’s management team to think that the responsibility for reducing emissions lies with others, such as governments or other companies. This can lead to a lack of engagement and a failure to understand the full scope of the problem.

And yet there are several crucial drawbacks to the blanket adoption of corporate net zero. A more sophisticated approach is needed that is carefully designed and tailored to the specific circumstances of each company.

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Fifth, the “metrics, targets and reporting” effect. Companies often struggle to define and measure their emissions, and this can make it difficult to set realistic targets and track progress. There is a risk that companies may become overly focused on meeting targets at the expense of other important priorities.

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Sixth, the “investment decision” effect. Companies may be tempted to make short-term investment decisions that are not in line with their long-term goals of achieving net-zero emissions. This can lead to confusion and unintended consequences, as stakeholders may expect the company to make long-term decisions that align with its commitments.

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Seventh, the “moral hazard” effect. Companies may be tempted to invest in carbon-intensive technologies in order to meet their net-zero commitments, even if these technologies are not the most efficient or cost-effective ways to reduce emissions. This can lead to confusion and unintended consequences, as stakeholders may expect the company to take the most efficient and cost-effective actions.

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Eighth, the “climate and environmental outcomes” effect. Companies may be tempted to focus on short-term gains in climate and environmental outcomes, even if these gains come at the expense of long-term sustainability. This can lead to confusion and unintended consequences, as stakeholders may expect the company to take a long-term view.

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Ninth, the “value chain effects” effect. Companies may be tempted to focus on short-term gains in value chain outcomes, even if these gains come at the expense of long-term sustainability. This can lead to confusion and unintended consequences, as stakeholders may expect the company to take a long-term view.

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Lastly, the “social and economic outcomes” effect. Companies may be tempted to focus on short-term gains in social and economic outcomes, even if these gains come at the expense of long-term sustainability. This can lead to confusion and unintended consequences, as stakeholders may expect the company to take a long-term view.

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