

2021 CORPORATE CLIMATE ACTION TRANSPARENCY INDEX (CATI) EVALUATION REPORT

EXECUTIVE SUMMARY

INTRODUCTION

Extreme weather events now occur frequently worldwide, and the impact of climate change on human-beings and the environment has become increasingly more visible and significant in recent years. In response, China has pledged that the nation will peak its carbon emissions by 2030 and achieve carbon neutrality before 2060. Yet, China's position as a center of global manufacturing complicates its efforts to meet these ambitious greenhouse gas reduction goals, especially as the country's manufacturing for export soars in the post-pandemic economic recovery.

As globalization has accelerated over the past decade and longer, many international brands have outsourced the production of their goods to suppliers in China that they do not own and factories that they do not operate. For these companies, many of them consumer goods brands, greenhouse gas emissions from their supply chain account for the vast share of their total greenhouse gas emissions. Their decarbonization efforts therefore must reach into supply chain policies and procurement practices as a top priority for achieving their climate commitments. The resulting greenhouse gas reductions from these Chinese suppliers will contribute substantially to achieving the country's 30.60 goal.

On a parallel track, many domestic Chinese companies operating here in the country are also major energy consumers and emitters themselves. They must similarly participate in greenhouse gas reduction by prioritizing the decarbonization of their own corporate manufacturing and business operations. Their manufacturing emissions are under their direct control.

In both cases, China's experience in industrial air pollution control over the past decades, especially promoting information disclosure to hold stakeholders accountable, offers important insight and points of leverage for climate governance at national and corporate levels.

To maximize the synergy between industrial pollution and greenhouse gas oversight and control, with the technical support from the Research Group on Corporate Climate Action Index of the Chinese Research Academy of Environmental Sciences, IPE has upgraded its corporate climate action evaluation index in 2021 and renamed the existing **Supply Chain Climate Action (SCTI) Evaluation to the Corporate Climate Action Transparency Index (CATI)**. The upgraded CATI index continues to assess corporate climate actions from four dimensions, namely: corporate climate policies and mechanisms, greenhouse gas measurement and disclosure, target settings and performance tracking, and climate actions in operation and supply chain. However, by applying sector-specific weighting factors, CATI distinguishes between companies that rely on outside supply chains for their manufacturing and those that themselves are big energy consumers in their own direct production, allocating points differently depending on the type of company being evaluated. Furthermore, by including indicators such as carbon intensity targets, carbon neutrality targets, carbon assets and third party verification, the new CATI is also more granular than its predecessor. This means CATI evaluation can provide companies with a more explicit roadmap towards effective corporate carbon management and carbon mitigation practices and help them better contribute to achieving national carbon neutrality and global goals for temperature rise.

KEY FINDINGS

Overall

With a handful of exceptions, most of the 662 companies that IPE assessed under the new CATI system in 2021 have barely started their efforts to measure and reduce their greenhouse gas emissions and have received failing grades this year.

Dell (81.42), Apple (75.44), Cisco (68.08), Target (67.49), Levis (67.03), GAP (65.2), Foxconn (65.19), Adidas (65.11), Nike (64.41) and Walmart (63.1) ranked among the Top 10. However, these leading performers were far from typical; the average score of this year's evaluation is only 9.89, which is a failing grade. Only 200 companies performed above this very poor average level, and 264 companies scored 0.

Among domestic companies from Greater China region, only Foxconn scored within the top 10 (ranked 7th). Lenovo (18th), Huawei (32nd) and Sinopec (37th) lead the list of other domestic companies, reflecting a relatively late start for companies in China on reducing their greenhouse gas impacts compared to multinationals.

Sectoral wise, companies from electronics & electrical appliances, pharmaceutical & chemical, textile and leather, and automotive industry, appear to be more active in greenhouse gas information disclosure and supplier engagement. On the other hand, power generating and real estate companies score poorly and appear to not yet embrace transparency in their operations and programs, notwithstanding their public statements supporting energy transition and technology development following the issuance of China's national climate policy guidance.

Section 1: Policy & Governance

This section assesses whether companies have made climate commitments, introduced policies to achieve carbon neutrality, and/or put in place policies to decarbonize their supply chain, or included climate risk into their business decision-making. IPE found that about one third of the companies have taken some steps to integrate climate change mitigation into their business goals and have considered climate change risks in business decisions. Among them, 130 companies that rely on supply chain for manufacturing have promoted supply chain emissions reductions with financial incentives and collaborative projects with their suppliers on energy efficiency improvement.

Section 2: Measurement & Disclosure

This section determines the extent to which companies have measured or otherwise estimated their Scope 1, 2, and 3 greenhouse gas emissions, a key foundational step to begin or any serious reduction efforts. Points are allocated based on the extent to which measurement and disclosure has been undertaken in “hot spots” of emissions of the company, which in turn depends on whether the company is outsourcing its manufacturing production to suppliers or undertaking it directly itself. Thus, this important section assesses whether companies are measuring/estimating their greenhouse gas emissions at all, and from there, whether their efforts are focusing attention where it actually matters the most.

IPE found that nearly 300 companies have disclosed Scope 1 and Scope 2 emissions in this first year of CATI scoring. About 150 companies also disclosed Scope 3 emissions, but only roughly 75 companies clarified whether this Scope 3 reporting included supply chain emissions or were derived from other less significant categories of Scope 3 emissions such as business travel or employee commuting.

Also of great concern is the type of companies reporting on Scope 3: Most consumer goods companies did **not** report whether they take supply chain emissions into account when measuring greenhouse gas emissions, although that is where the bulk of their emissions likely lie. Even those that did disclose rarely mentioned the boundary of the upstream supply chain or the methodology of carbon accounting. This makes it hard for stakeholders to evaluate the value of the data disclosure and whether it reflects the actual state of corporate greenhouse gas emissions.

Section 3: Target & Performance

This section evaluates whether companies have set and disclosed greenhouse gas reduction and carbon neutrality targets and how far they are from meeting those targets. It also evaluates whether separate targets have been established for supply chain emissions as well.

IPE found that 106 of companies had set carbon neutrality targets for their Scope 1 and Scope 2 emissions reduction goals, to be achieved by mid-century. Among them, less than 50 extended their carbon neutrality targets to Scope 3. Among companies who have set their Scope 3 emission reduction targets, around 30 of them have disclosed Scope 3 emissions target progress.

It is worth noting that in 2021, one year after China announced its carbon peaking and carbon neutrality initiative, six out of 58 listed domestic companies controlled by central SOEs which are also major energy consumers and emitters have announced the year to peak their carbon emissions and three of them have committed to carbon neutrality by 2050.

Section 4: Climate Action

This very important new section in CATI focuses on the actual activity that companies are taking to achieve energy saving and emission reductions from their own operations and their supply chain. We know that currently most companies lack the ability to identify and manage emission hot spots within their organizational boundary regardless of the scopes. As a consequence, many corporate greenhouse gas management plans are not tailored according to the company's emission profile and the decarbonizing actions being taken are generally "low-hanging fruits", but unnecessarily targeting the emission "hot spots".

In the evaluation, widely-taken decarbonizing measures include green electricity procurement or investment, the replacement with LED light, logistics optimization, material recycling, and carbon offsetting by forest carbon sink or carbon trading. Low-carbon technology appliance and manufacturing innovation are often in pilot schemes due to high cost and technological limitations.

25 brands, such as Apple, C&A, Dell, Levi's, encouraged their suppliers to complete and disclose factory-level data annually using the [carbon data disclosure form](#) developed by IPE and incentivized the suppliers to set their emission reduction targets. Among them, 5 brands have promoted direct suppliers to start supply chain carbon management on their own.

RECOMMENDATIONS

Multinationals sourcing from China should prioritize supply chain greenhouse gas emissions management. Importantly, they should also encourage their suppliers to extend carbon management to their own supply chains.

Domestic companies should start improving corporate climate governance to respond to the “dual carbon” target, strengthen the measurement and disclosure of their direct carbon emissions, set scientific carbon targets, start decarbonizing in the operation, and drive the low-carbon transformation of their own value chain.

For best results, IPE recommends the following specific roadmap for both multinational and domestic companies to undertake to initiate and accelerate greenhouse gas reductions. These steps align with the CATI scoring matrix:

- 1 Develop corporate climate governance policy, clarify business objectives under climate change impacts, and incorporate climate change into business risk and supply chain management.
- 2 Carry out corporate greenhouse gas accounting, create greenhouse gas inventories, and identify emission hot spots in Scope 1, 2 and 3.
- 3 Based on historical carbon emissions, select a target base year and set absolute and/or intensity greenhouse gas reduction targets, and break it down into corporate operations and value chain.
- 4 Develop a corporate greenhouse gas management plan that focuses on where it matters the most.
- 5 Where significant, reduce carbon emissions in corporate operations through measures such as fossil energy substitution, energy efficiency improvement, material efficiency improvement, and reduction of fugitive emissions; reduce carbon emissions in the value chain that can be avoided.
- 6 Push hot spot suppliers to carry out emission measurement and reduction actions by performance evaluation, training and capacity building, encouraging innovation, and financial incentives.
- 7 Motivate and collaborate with carbon emission hot spot suppliers to carry out emission reduction projects.
- 8 Collect supplier first-hand greenhouse gas emission data to track supply chain emission reduction progress and optimize corporate carbon management plans in a timely manner.
- 9 Launch active emissions reduction initiatives in cooperation with pilot suppliers and promote the large-scale supply chain emissions reduction initiative.
- 10 Push suppliers or subsidiaries to take initiative to develop their corporate climate action mechanisms according to the above paths, and extend carbon management to further upstream supply chain.

CATI TOP 50

Developed by IPE in 2021, the Climate Action Transparency Index (CATI) dynamically assesses brands' performance on corporate and value chain level climate action performance. CATI aims to direct brands' focus and efforts to reducing GHG emissions from their supply chain by awarding points for corporate GHG behavior more directly proportionate to where a company's GHG emissions lie.

01	DELL  81.42	02	APPLE  75.44	03	CISCO  68.08	04	TARGET  67.49	05	LEVI'S  67.03
06	Gap Inc.  65.2	07	FOXCONN  65.19	08	adidas  65.11	09	NIKE  64.41	10	WALMART  63.1
11	PUMA  58.18	12	Microsoft  58.07	13	INDITEX  57.84	14	C&A  56.81	15	HP  52.05
16	H&M  50.1	17	Lenovo  49.1	18	UNIQLO  48.73	19	VF  48.51	20	AEO  47.77
21	asics  46.53	22	Coca-Cola  46.5	23	Carrefour  45.91	24	HITACHI Inspire the Next  44.1	25	P&G  42.8
26	LINDEX  42.48	27	PRIMARK  40.98	28	KAO  40.88	29	TESCO  40.67	30	HUAWEI  40.17
31	VOLVO  39.72	32	TOYOTA  39.41	33	MERCEDES-BENZ  38.98	34	new balance  38.95	35	SHOPEC  38.39
36	M&S EST. 1884  38.07	37	GOOGLE  38.02	38	HEWLETT PACKARD ENTERPRISE  37.88	39	MICHELIN  37.73	40	FUJITSU  37.61
41	MAZDA  37.59	42	L'ORÉAL  37.47	43	IBM  37.38	44	DANONE FOR BETTER. FOR BETTER.  37.3	45	BASF We create chemistry  37.24
46	CANON  37.2	47	RICOH imagine. change.  37.02	48	VW  36.04	49	GM  36	50	RALPH LAUREN  35.89