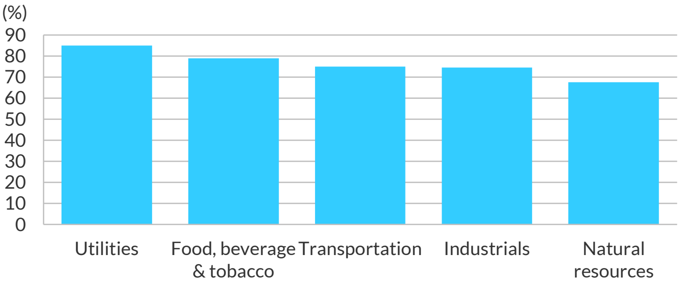
# GHG Emissions Targets Common Across Developed Europe Corporate Sectors

## Utilities Are Furthest Advanced in Setting Targets, but Size Is Biggest Differentiator

### Proportion of Fitch-Rated Issuers with Public GHG Emissions Reduction Targets




Source: Fitch Ratings



More than three-quarters of developed Europe corporates reviewed by Fitch Ratings have publicly announced targets to reduce greenhouse gas (GHG) emissions. About half have some form of net-zero or carbon-neutral pledge. The level of targets is supported by the EU's ambitions on reaching carbon neutrality by mid-century, which precipitates regulatory shifts and rising stakeholder demands for companies to prioritise reductions in GHG emissions.

Our review of 178 Fitch-rated issuers in high-emission sectors found that targets were most prevalent among utilities (85% of issuers). Natural resources issuers (including oil and gas, metals and mining, and chemicals companies) were the least likely to have set clear public targets, but even here over two-thirds of issuers had done so.

## Net-Zero Targets More Varied

Long-term net-zero or carbon-neutral commitments were rarer and showed more variation between sectors. Overall, 32% of issuers had a net-zero commitment across their value chain. A further 20% had a more limited commitment that only encompassed part of the value chain (generally excluding Scope 3 emissions) or part of their business.

Again, utilities were the most likely to have some form of net-zero target, while this was the case for only a quarter of transport issuers. Chemicals and building materials companies also had fairly low net-zero commitments.

## Bigger Issuers Much More Likely to Have Set Targets

The biggest factor driving whether or not issuers have introduced emission reduction targets appears to be their overall size. More than 95% of issuers with annual revenue of at least EUR10 billion have announced targets, compared to 49% of those with revenue of less than EUR1 billion.

A similar correlation can be seen with credit ratings, with 92% of investment-grade issuers having announced clear targets but only 51% of non-investment-grade issuers.

## Emissions Decline for 2020

Among issuers reviewed that have disclosed figures for 2019 and 2020, aggregate Scope 1 and 2 GHG emissions fell 9% in 2020.

However, it is unclear how much of this decline will be reversed this year as many sectors' emissions will have been lowered by the Covid-19 pandemic. Aggregate transport emissions in the study saw a particularly sharp decline of 63% as flights were disrupted throughout 2020.

### Related Research

EU's Fit-for-55 to Spur Energy Transition in Multiple Sectors (August 2021)

Rising CO2 Prices Increase Divergence Between Clean and Thermal Generation (July 2021)

Oil Majors Accelerate Pivot to Low Carbon (March 2021)

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## GHG Targets Widespread

Over three-quarters of the corporates in developed Europe reviewed by Fitch have announced targets to reduce their greenhouse gas emissions. Our study covered 178 issuers in the utilities, transport, natural resources, industrials and food, beverage and tobacco industries.

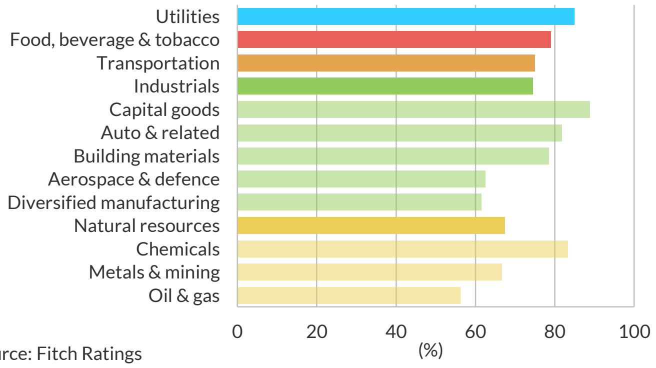
We considered a target to be a commitment to reduce either the overall volume of GHG emissions, or the carbon intensity of operations, by a specified amount in a definite timeframe. We also required that it should apply to either the whole company or a significant proportion of its operations.

The presence or absence of stated emission reduction targets or net-zero commitments is not usually directly relevant to credit ratings. However, Fitch expects regulatory action on GHG emissions to become an increasingly important factor driving ratings in many sectors over the next several years, especially so in Europe under the auspices of the EU Green Deal.

Transparent emissions reduction strategies and targets may help indicate the level of preparedness for regulatory change. Similarly, GHG emissions, along with other environmental, social and governance (ESG) factors, are becoming a more important part of lenders' decision-making process when it comes to funding companies or projects.

Issuers without such strategies and targets may ultimately face reduced access to funding or higher borrowing costs than peers.

### Proportion of Companies with GHG Targets by Broad Sector and Sub-Sector




Source: Fitch Ratings

Corporates' relative vulnerability to long-term ESG-related market developments is assessed in Fitch's Climate Vulnerability Scores. These scores set out the potential impact on the creditworthiness of sectors and individual issuers over multiple timeframes in a realistic stress scenario incorporating a transition to a 2ºC warmer climate by 2050.

For example, our Vulnerability Score for oil production is 80 in 2050, close to the maximum of 90 and pointing to disrupted profitability for some companies and an existential threat to others. But we see the near-term threat as far lower. The sector score starts at 30 in 2025 and steadily rises as the effects of carbon pricing and bans on the sale of internal combustion engine-powered vehicles increase.

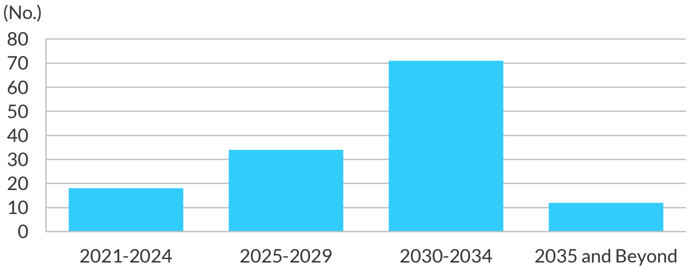
Overall, 76% of companies in the study had implemented GHG targets. Not surprisingly, utilities showed the highest proportion of issuers making public GHG reduction commitments at 85%. This reflects the industry's progress with the energy transition, particularly in western Europe, and the highly regulated nature of much of the sector.

However, targets were common across all the broad sectors examined, with the lowest level of 67% recorded among natural resources companies. This reflected low levels of target-setting among smaller exploration, production and services companies in the oil and gas sub-sector.

The majority (83%) of targets were aiming for an absolute percentage reduction in emissions volumes from a set base year. The rest were carbon-intensity targets. Intensity targets were most common in such sectors as building materials and transport, where low-emission alternatives to major parts of the industry (cement production and air transport) are not widely available.

### Corporate GHG Reduction Target Year

First target year for issuers with multiple targets




Source: Fitch Ratings

A direct comparison of the level of planned reductions is not possible due to the differences in base year, timeframe and breadth of the targets. The most common target year that companies have set is 2030, which aligns with the EU's target date for achieving a 55% net reduction in GHG emissions.

Most targets relate only to Scope 1 or 2 emissions, which include direct GHG emissions from company-owned or controlled sources (Scope 1) and indirect emissions, such as those created in producing the electricity that the company purchases (Scope 2).

Scope 3 emissions are all other indirect emissions throughout the value chain, including from the use of a company's products. In some sectors these emissions can far outweigh Scope 1 and 2, and can also be harder to directly control. Scope 3 emissions targets are therefore also less common, with only around a third of companies that have set Scope 1 and 2 targets also having a target for Scope 3.

## Long-Term Net-Zero Commitments Vary

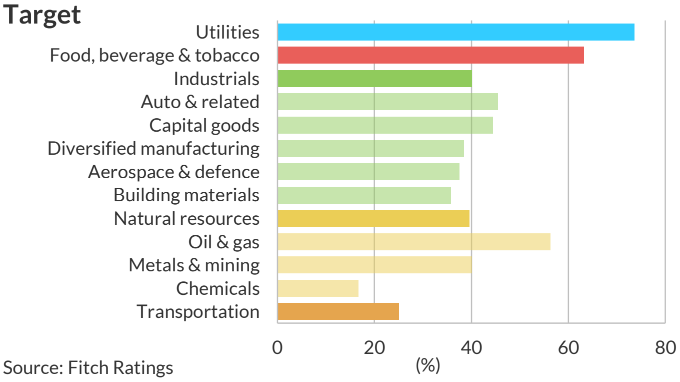
Headline commitments from companies to become net zero or carbon neutral were rarer and showed more variation between sectors. They also often involved different definitions or limitations on what those commitments covered.

For example, some companies only included Scope 1 and 2 emissions, or limited their targets to certain operating areas of the business. Others had different policies on the use of carbon offsets to achieve their targets.

Overall, 32% of issuers had a net-zero commitment across their value chain. A further 20% had a more limited commitment that only encompassed part of the value chain (generally excluding Scope 3 emissions) or part of their business.

Again, utilities were the most likely to have some form of net-zero or carbon-neutral target, while only a quarter of transport issuers have announced one. Chemicals and building materials companies also had fairly low net-zero commitments.

### Level of Commitment to Net Zero or Carbon-Neutral Target



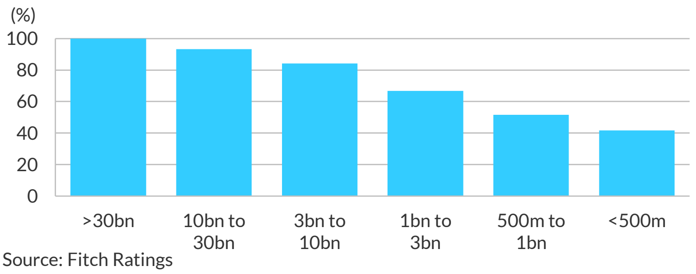

Source: Fitch Ratings

## Size Correlates Most Closely with GHG Targets

The factors that correlate most closely with whether a company has GHG emission reduction targets in place are size and location. A similar review of Fitch-rated corporates in emerging EMEA markets found that only 40% of issuers had announced targets compared with the 76% level in developed markets.

Comparing issuers by revenue, more than 95% of issuers with annual revenue of EUR10 billion or more have announced targets, but this fell to 49% for companies with revenue of less than EUR 1 billion.

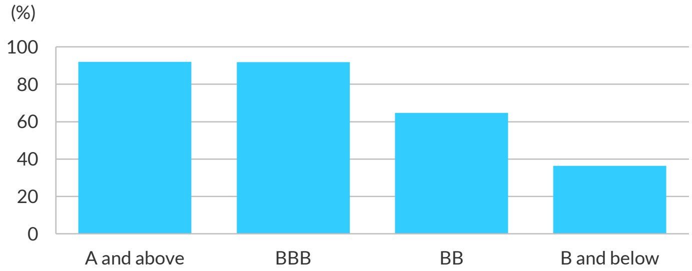
### Proportion of Corporates with GHG Targets by Revenue Range




Source: Fitch Ratings

A similar correlation can be seen with credit ratings, with 92% of investment-grade issuers having announced clear targets, compared to 51% of non-investment grade. This reflects the tendency for small companies to have lower credit ratings, rather than an indication that GHG emissions are already a credit ratings driver in many sectors.

### Proportion of Corporates with GHG Targets by Rating Category



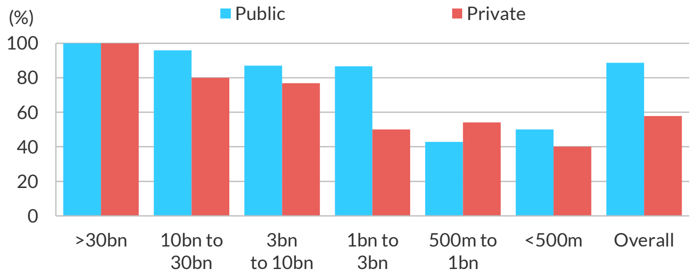

Source: Fitch Ratings

Only 58% of privately owned companies had set clear targets, compared to 89% of those that are publicly traded on an exchange. This is partly because privately owned issuers are, on average, smaller and lower-rated.

However, listed corporates are also more likely to have targets than private peers of a similar size, suggesting pressure from shareholders is a factor.

### GHG Targets Among Public and Private Issuers

Revenue in euros




Source: Fitch Ratings

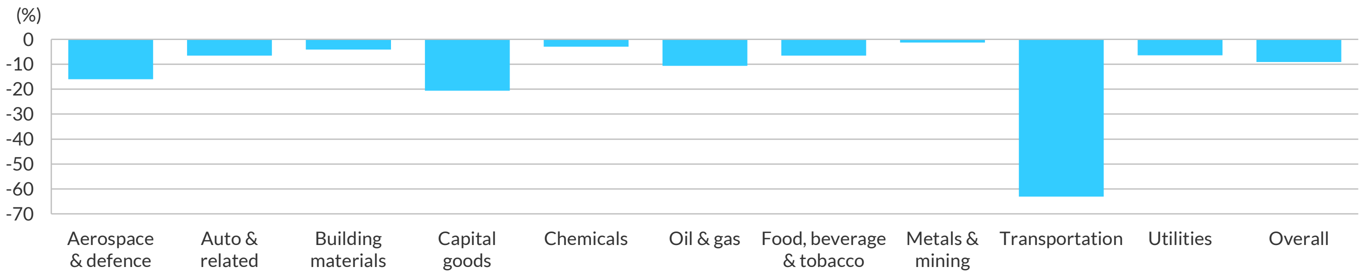
## Pandemic Temporarily Accelerates Emissions Drop

Among issuers that have disclosed figures for 2019 and 2020, aggregate Scope 1 and 2 GHG emissions fell 9% in 2020. All sectors contributed to the decline, but by far the biggest drop was among transportation issuers, which accounted for nearly half the total drop in emissions as travel was severely curtailed by the pandemic.

Other sectors' emissions will also have seen one-off impacts as lockdowns temporarily shuttered some sectors and reduced energy demand. It is therefore unclear how much of this decline will be reversed in 2021 as economies reopen and travel restrictions continue to ease.

### Annual Change in Aggregate Scope 1 & 2 Emissions by Sector

2020 vs. 2019




Source: Fitch Ratings