Best Practice Guide

To complement Planet Tracker's research paper that compares seven key chemical companies and their Climate Transition Plan(s) – see 'TOMORROW'S CHEMISTRY' – the following best practice guidelines are recommended:

CLIMATE ALIGNMENT

- **Ensure thorough climate-related reporting and progress, based on a clear emissions source breakdown.**

Example: Air Liquide demonstrates this through its transparent reporting in its 2023 Sustainability Report and Environmental Data breakdown

- **Set comprehensive science-based reduction targets for full Scope 1, 2, and 3 emissions.**

Example: Bayer commits to reduce absolute Scope 1 and 2 GHG emissions 42% in alignment with a 1.5C pathway, and Scope 3 GHG emissions from purchased goods and services, capital goods, fuel and energy-related activities, upstream transportation and distribution, and business travel 12% by 2029 from a 2019 base year, as stated in its approved SBTs.

- **Focus on scalable technologies for emission reduction and invest in the strategy implementation.**

Example: Air Liquide, as highlighted in its 2023 Sustainability Report, invests significantly in decarbonisation technologies, including renewable energies, showcasing the critical role of scalable solutions in meeting climate goals.

Download **the Engagement Sheet.**

ENGAGEMENT POLICY

- **Prioritise engagement initiatives targeting a significant portion of the company's emissions footprint.**

Example: Toray Industries' efforts to educate suppliers representing 90% of its spending aim to shift behaviours towards sustainability. This initiative disclosed in the company's 2022 CDP Climate response demonstrates proactive supplier engagement, given 67% of the company's footprint comes from upstream Scope 3 activities.

- **Implement both data collection and educational initiatives to shift supplier behaviours towards sustainability.**

Example: Air Liquide targets 100% of its suppliers with educational campaigns and sustainability linked awards, underlining in its 2022 CDP Climate response the importance of comprehensive engagement strategies.

- **Engage customers through collaborative initiatives that lead to innovative solutions**

Example: Incitec Pivot, as disclosed in its 2022 CDP Climate response, works closely with customers on high-efficiency fertilisers, showing the importance of customer collaboration in driving sustainability.

- **Reconcile trade association memberships with corporate climate goals in alignment with the Paris Agreement.**

Example: LyondellBasell assesses and aligns its trade association memberships to ensure advocacy consistency with its climate commitments, highlighting the need for coherent corporate lobbying. For more details read LyondellBasell's Climate Advocacy Report or Planet Tracker's Climate Transition Mismatch paper.

REMUNERATION AND ACCOUNTABILITY

- **Integrate sustainability goals into executive remuneration, ensuring a clear linkage between climate action and compensation in both the short and the long-term.**

Example: Air Liquide sets an exemplary standard by incorporating sustainability metrics into both short-term and long-term executive compensation, fostering accountability and incentivizing progress.

- **Avoid capping incentive payouts in a way that nullifies the sustainability-linked achievements.**

(Negative) Example: Dow disclosed having long-term sustainability-linked remuneration, still at a closer look this is potentially irrelevant, as achieving other targets would invalidate those linked to sustainability. For more details read Planet Tracker's paper Plastic Executive Compensation – A report card for plastic-related companies.

RISK MANAGEMENT AND CAPITAL ALIGNMENT

- **Report transparently climate financial risks in all key financial disclosures - i.e., 10Ks and Annual Accounts.**

Example: Air Liquide disclosed in its 2023 Universal Registration Document - Including the Annual Financial Report, the main environmental risks, related to greenhouse gas emissions, physical impact on operations, and water management.

- **Allocate capital towards emissions reduction and innovation.**

Example: Toray stated in its 2023 Annual Report its ambition to invest in R&D projects which would include emissions reduction and sustainability actions, demonstrating some alignment of capital investments with climate transition targets.

OVERALL CLIMATE TRANSITION

In closing, the good practice guideline could be summed up in six main recommendation:

1. **Set science-based targets that ensure a comprehensive climate transition across the full value chain.**
2. **Reduce reliance on unproven technologies and invest in currently scalable decarbonisation methods.**
3. **Integrate sustainability KPIs into short and long-term executive compensation to drive accountability and action towards climate goals.**
4. **Engage key stakeholders to drive emissions reductions, moving beyond passive strategies like data collection towards direct collaboration or joint venture projects.**
5. **Enhance clarity on financial risks associated with failure to meet climate targets and how these are being managed.**
6. **Report on how capital investments directly contribute to emission reductions and sustainability outcomes.**