

Dow (DOW) - Climate Transition Analysis

Recommended Questions

Q.1 *Will Dow Enhance Its 2030 Emissions Reduction Target to Align with Science-Based Pathways?*

Background: Dow lags behind its peers. A 15% reduction in Scope 1 and 2, combined with no Scope 3 target, positions Dow on a 3°C warming trajectory inconsistent with Paris Agreement objectives, opting instead for an IEA Stated Policies Scenario approach aligned with a 2.5°C outcome in the best case scenario.

Best Practice: Establish a science-based target (SBTi-validated or equivalent) committing to at least 25-30% reduction in Scope 1 and 2 emissions by 2030, aligning Dow with sector leaders and 1.5-2°C pathways.

Q.2 *Will Dow increase transparency/accountability in its supplier and customer engagement efforts to reduce Scope 3 emissions?*

Background: Scope 3 emissions represent 73% of Dow's total footprint (77.23 MTCO₂e in 2024) yet remain entirely outside quantitative reduction targets. Competitors (LyondellBasell 30% reduction, BASF 15% for upstream) have established Scope 3 milestones that provide accountability and drive supply chain decarbonisation.

Best Practice: Establish transparent metrics for tracking supplier and customer engagement outcomes; specifically, percentage of emissions from suppliers with their own science-based targets, quantified annual emissions reductions achieved through supplier and customer partnerships, and revenue contribution of lower-carbon products as a percentage of total sales.

Q.3 *How will Dow ensure that climate-related executive incentives drive substantial emissions reductions?*

Background: 20% of long-term (LTI) compensation is tied to carbon emissions reduction (5,000 KTCO₂e reduction by 2030 target). However, the program includes a 200% cap on combined performance metrics payout (Financial + Climate). This structural cap creates a mathematical scenario where, if financial metrics (Operating EBIT and Free Cash Flow) achieve maximum performance (200% payout), the climate component could become mathematically irrelevant to total compensation outcomes.

Best Practice: Restructure the LTI program to be governed by a separate performance cap independent of financial metrics to ensure that environmental performance is prioritised alongside financial metrics not in competition with.

Report Key Takeaways

- Dow has met its 2030 Scope 1 and 2 reduction target (15% reduction) ahead of schedule, reducing operating emissions by 5,240 KTCO₂e since 2020. However, this 15% pathway is closer to 3°C warming scenario, rather than a below 2°C pathway or the 1.5°C Paris ambition. Peer companies (BASF 25%, Bayer 42%, LyondellBasell 42%) have committed to substantially steeper reductions by 2030.
- Dow's Scope 3 emissions constitute 73% of total emissions yet remain outside a 2030 quantitative reduction target. Despite expanded supplier engagement Dow discloses no quantified emissions reductions from value chain initiatives, limiting investor visibility into their effectiveness.
- Dow faces growing carbon pricing exposure under EU ETS scenarios, with actual costs potentially reaching USD 200 million per year under CBAM implementation and regulatory tightening (equivalent to ~8% of Dow's EBIT in 2024).

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