OECD Work on Transition Plans and Links to NTP Concept

National Transition Plans: the existing transition planning landscape

CFMCA Just and Green Transition workshop

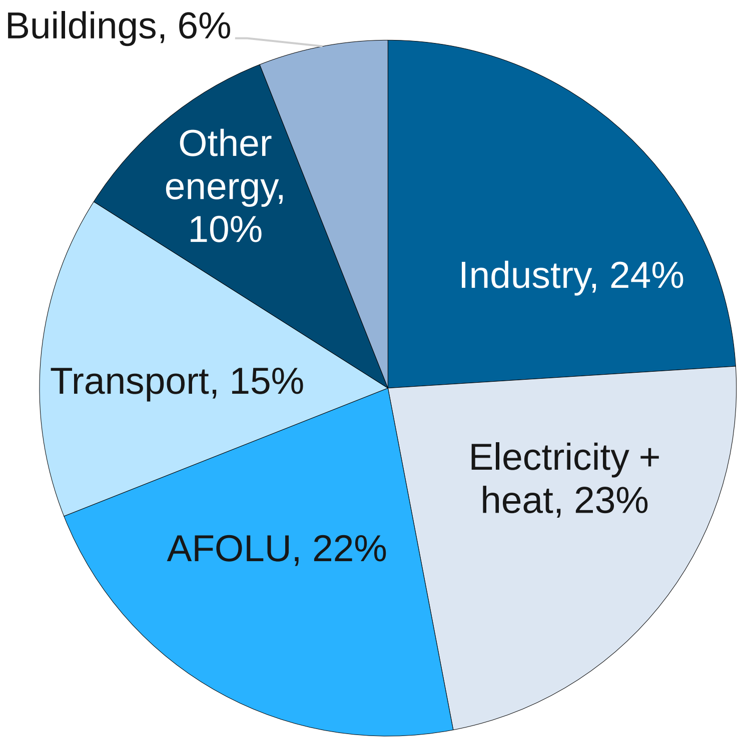
22 May 2024

Background

***To limit the average global temperature increase to 1.5°C**,*

- global GHG emissions need to reach **net zero by 2050** and
- **peak** before **2025,**
- with rapid emissions reductions **across all sectors** of the economy, especially in **emission-intensive sectors**.

Total net anthropogenic GHG emissions by sector (2019)



Note: AFOLU = Agriculture, Forestry and Other Land Use

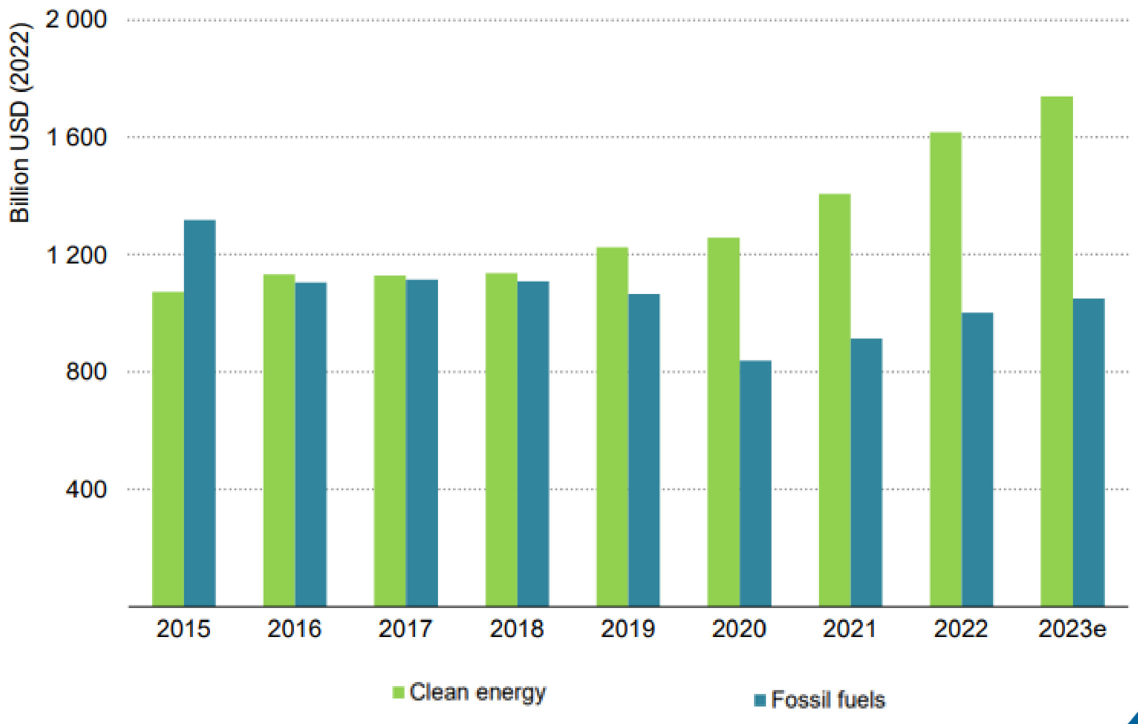
Source: Adapted from IPCC (2022), Climate Change 2022: Mitigation of Climate Change (Figure 2.12)

Global energy investment trends

Global investment in clean energy is increasing much faster than fossil fuel (FF) investments. However:

- In 2022, final investment decisions for **unabated FF power** reached highest level since 2016.
- **Pipeline of new coal projects** is slowing, while **gas-fired power** projects are accelerating.
- Net **income of the global oil and gas industry** reached a record high of USD 4 trillion in 2022.

Global energy investment in clean energy and fossil fuels (2015-2023e)



Source: IEA (2023), World Energy Investment

Transition finance: Definitions

- No consensus definition, but **increasing convergence on core concepts**
- Transition finance is generally understood as finance intended for **emissions-intensive** economic activities, with **no viable green substitute** but that are on **their way to becoming sustainable or reaching net zero.**

Key distinction

- **Green/sustainable finance** = already green, point-in-time assessment
- **Transition finance** = becoming green, moving towards net zero

Key risks

- Current differences in transition finance approaches can **fragment markets** and **reduce investor confidence**
- **Greenwashing risks**

The landscape of transition finance regulatory approaches

Different jurisdictions are pursuing a spectrum of **different regulatory approaches to identify and designate transition investments** that align with their domestic priorities, such as:

- **Green/transition taxonomies**
  - based on either principles, eligibility criteria and thresholds (e.g. EU taxonomy) or traffic lights systems (e.g. ASEAN taxonomy)

- **Sector-specific technology roadmaps**
  - e.g. Japan roadmaps for iron, steel, chemicals, cement (amongst others)

- **Transition plan disclosure** requirements and standards
  - e.g. UK Transition Plan Disclosure Framework

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Focus on corporate transition plans

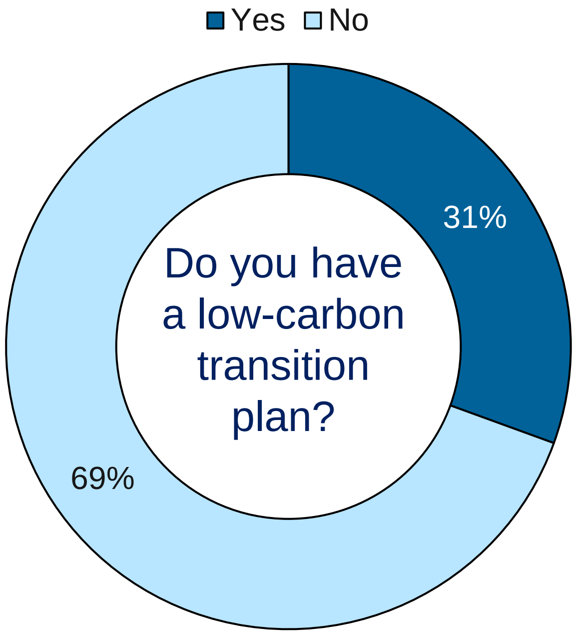
A transition plan is a time-bound, **cross-cutting action plan** that clearly sets out how a company intends to achieve its **transition strategy** and reach its goals/targets to **transform its business model**, operations, assets and relationships towards low-emission, climate resilient pathways aligned with the goals of the Paris Agreement (CBI, 2021; CDP, 2021; CPI, 2022).

Why focus on corporate transition plans?

- Credible corporate transition plans can reduce or avoid risks related to greenwashing, lock-in and delayed action

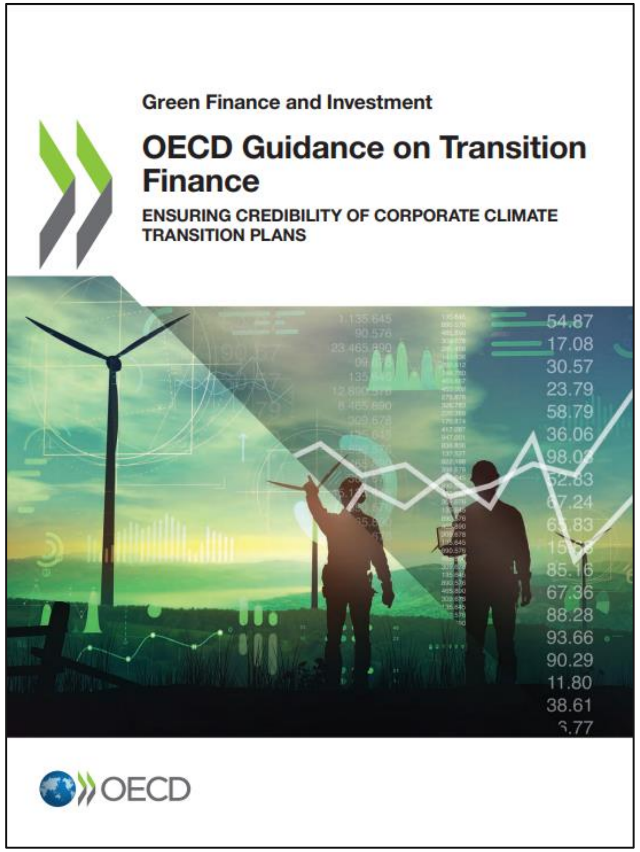
YET

- Increasing evidence that despite investor expectations, only a minority of companies are developing transition plans
- Existing transition plan disclosure is limited and inadequate



Source: CDP (2022)

2022 OECD Guidance on Transition Finance



For more information, please see [OECD, 2022]

– Sets out 10 elements of **credible corporate climate transition plans** and good practices for each of them.

– Highlights the need for greater **transparency**, **comparability** and **granularity** in corporate transition plans, and adequate environmental and social safeguards.

– Specifies that **credible plans should be aligned with a 1.5 degree-aligned overall net-zero target**.

– Points to the need for policymakers to take stronger **policy action on corporate transition planning**.

Role of Finance Ministries

Addressing challenges in transition planning and transition finance market

- **OECD Industry Survey on Transition Finance** found that financial market participants perceive a number of **challenges** to scaling up transition finance
- These **can be addressed by Ministries of Finance**, in close coordination with line ministries, as part of a **whole-of-government** approach to mobilising investment, notably:
  - *Lack of **country-level sectoral transition pathways** makes it difficult to assess corporate alignment with national climate targets*
  - ***Gaps in enabling environment** can reduce competitiveness of clean technologies: lack of fiscal incentives, insufficient real economy policies (e.g. prohibition of polluting technologies), etc.*
- Targeted policies by Finance Ministries, working with other relevant parts of government, can provide an **enabling environment to allow scaling up of transition finance – and of net-zero finance more broadly**

National Transition Plans – potential cornerstone for corporate/FI transition planning, and more

- **A whole-of-government approach/strategy** is needed to enable, accelerate the net-zero transition to keep 1.5^{o}C goal within reach
- **National Transition Plans** underpinning countries' Net Zero strategies, new NDCs, and updated LT-LEDs could help to accelerate transition and green finance and investment to support delivery of national climate targets
  - NTPs or NDC investment plans could be developed alongside the next round of NDCs aligned with LT-LEDs and the 1.5^{o}C goal to mobilise investment and support NDC implementation on the ground
- OECD stands ready to support further development of NTP concept and approach
  - Elements similar to whole-of-government approach in Aligning Policies for a Low-Carbon Economy (2015)
  - Ongoing OECD work can inform NTP concept and approaches
    - **Transition finance and transition plans** (e.g. contributions to G20 SFWG, Indonesia's financial regulator)
    - OECD/IEA Climate Change Experts Group (CCXG) **work on the next round of NDCs**
    - Work on the **role of centres of government**

ANNEX: TEN ELEMENTS OF CREDIBLE TRANSITION PLANS

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Elements of credible corporate transition plans (I)

1 **Setting temperature goals, net-zero and interim targets**
Long-term and interim targets are consistent with a 1.5°C reference scenario (explaining underlying assumptions) and cover all relevant GHG emissions.

2 **Using sectoral pathways, technology roadmaps and taxonomies**
Targets are based on available sectoral pathways / technology roadmaps / taxonomies. The plan clarifies how future operating and capital expenditures will be used to achieve targets.

3 **Measuring performance and progress through metrics and KPIs**
Metrics and KPIs cover lifecycle GHG emissions, are measurable and externally verifiable. Targets and reporting include scope 3 emissions (omissions are limited and clearly justified and explained).

4 **Providing clarity on use of carbon credits and offsets**
Given the risk that carbon credits and offsets can pose to the credibility of transition plans, their use is limited and carefully explained.

5 **Setting out a strategy for implementation, incl. on preventing emission- intensive lock-in**
The plan includes actions to achieve the targets, an assessment of the risk of emission-intensive lock-in and, where relevant, a plan for responsible retirement of high-emitting assets.

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Elements of credible corporate transition plans (III)

6 **Addressing adverse impacts through the Do-No-Significant-Harm (DNSH) Principle and due diligence for Responsible Business Conduct (RBC)**
The plan should consider environmental and social objectives and ensure no harm is done to them.

7 **Supporting a just transition**
Measures are taken to mitigate any negative impact on workers, suppliers, local communities.

8 **Integration with financial plans for internal coherence**
The transition plan is integrated into the corporate business and financial planning and reporting.

9 **Ensuring sound governance and accountability**
The design and implementation of the transition plan is subject to regular monitoring and reporting, senior management oversight, and involves all relevant stakeholders.

10 **Transparency and verification, labelling and certification**
Progress on targets is regularly disclosed and third-party verification of the plan ensured.

Thank you!

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