How to Evaluate a Company’s Net-Zero Target

Using the MSCI ESG Research Climate Target & Commitments Dataset

As awareness of the risks and opportunities of climate change grows, more and more companies are setting net-zero targets. Net-zero targets aim to reduce greenhouse gas emissions to the greatest extent possible, and compensate for remaining unavoidable emissions via offsets or removal.

But how do wealth and asset managers know if a company’s net-zero target is meaningful?

Climate Target & Commitments Dataset

A framework for breaking down corporate net-zero targets.

The Target and Commitments dataset equips investors to evaluate companies’ pledges to decarbonize and to compare decarbonization commitments among companies.

1 - Comprehensiveness

Does the target focus on the majority of a company’s emissions?

- % of company footprint covered by target: 100%
- Unit of measurement: tCO2
- Target scopes: 1, 2, 3

*Based on a hypothetical company
Source: MSCI ESG Research LLC (Sep. 2021)

2 - Ambition

How much and how quickly does a target aim to reduce emissions?

- Projected reduction per year to meet stated target: 3.77% p.a.
- Intention to use carbon offsets: No
- Target year: 2030

Greenhouse gas emissions comprise three scopes:

- **Scope 1**: Direct emissions
- **Scope 2**: Indirect emissions from purchased energy
- **Scope 3**: Value-chain (supply chain) and downstream (use of a company’s products)

Sector emissions by scope:

- Utilities: 44%, Energy: 12%
- Materials: 22%, Industrials: 14%
- Energy: 12%, Real Estate: 1%
- Communication Services: 1%, Consumer Staples: 1%
- Consumer Discretionary: 2%, InfoTech: 1%
- Health Care: 3%, Financials: 0%
- Global publicly listed companies*: 10%

Scope 3 emissions dominate most companies’ carbon footprints

Sector average of carbon emissions per scope:

- Utilities: 48%
- Materials: 70%
- Industrials: 84%
- Energy: 87%
- Real Estate: 88%
- Communication Services: 89%
- Consumer Staples: 92%
- Consumer Discretionary: 92%
- InfoTech: 93%
- Health Care: 95%
- Financials: 99%
- Global publicly listed companies*: 85%

*As indicated by constituents of the MSCI ACWI Index whose Scope 1, 2, and 3 emissions were reported by the companies or estimated by the MSCI Climate Change Metrics Methodology. Source: Carbon Disclosure Project, MSCI ESG Research LLC as of Jan. 5, 2021

**Visual Capitalist**