Hey! What's New? 2024-131

Businesses' Slow Crawl on Climate Action Jeopardizing Global Environmental Goals

A worldwide failure of businesses to put action plans and financial commitments in place to tackle climate change risks has derailed progress on vital global environmental goals, according to the latest EY 2024 Global Climate Action Barometer (Barometer).

Now in its sixth year, the Barometer looks at the extent to which organizations across the globe are reporting – and acting to mitigate – risks posed by climate change. It scrutinizes the efforts of more than 1,400 businesses in 51 countries, across 13 business sectors, by looking at their transition plans and the information they publish based on the 11 recommendations set by the Task Force on Climate-related Financial Disclosures (TCFD), which was established to improve and increase reporting of climate-related financial data.

According to this year's Barometer, "the quality of disclosures remains worryingly low. The average quality score sits at 54% – edging up just slightly from 50% last year, indicating that many companies are avoiding sharing detailed information with customers, investors and other stakeholders. A score of 100% indicates that all the details needed are being disclosed. Countries and regions with the highest quality disclosure records are the UK (69%), South Korea (62%), Japan (61%), Southern Europe (61%) and Western/Northern Europe (61%), while the Middle East (29%) sits at the bottom of the pack."

This latest Barometer "throws into sharp relief companies' lack of readiness to meet the crucial goals of the 2015 Paris Agreement – including targets to limit emissions and temperature increases and to strengthen their ability to adapt to the impacts of climate change. Only slightly more than two-fifths of companies (41%) report they have a transition plan in place to help them mitigate the risks of climate change, and while a little more than a fifth (21%) report they do intend to develop one in the future, 38% do not have any intention of doing so."

The research found that, among the world's biggest emitters adoption of transition plans is even lower – only 8% in China and just 32% in the US. By way of contrast, adoption of these plans in UK and Europe is 66% and 59%, respectively – largely the result of successful regulatory regimes, underlying the importance of regulation as a means to drive action.

Compounding this problem, says the Barometer, "even fewer companies have made clear financial commitments to support their transition plans. Just 4% have disclosed operational expenditure (expenses arising from day-to-day business operations) and 17% have reported capital expenditure (money invested in a business' assets for future gains) – a sign that, even where companies have action plans, they are not ready to execute them."

Dr. Matthew Bell, EY Global Climate Change and Sustainability Services Leader, says: "Ambition without action is meaningless at the best of times, but in the face of a global climate emergency, it is perilous. Businesses do seem to be taking small steps to improve their reporting on climate risks, but it's a slow crawl at a time when they need to sprint, and the stakes could not be any higher."

A more upbeat finding in the Barometer is that an increasing number of businesses – 67% in total, rising from 58% last year – are using scenario analysis, as recommended by the TCFD, to assess the scale and timings of possible climate risks, continuing an upward trend from previous years; and almost three-quarters (71%) have used both qualitative and quantitative analysis.

Unfortunately, very few companies – just 36% – are carrying scenario findings through to their financial reports (only a slight improvement on 33% from last year and 29% in 2022). Even fewer (32%) disclose any climate risks with a high financial impact, meaning that they face a potential blind spot when looking at how their finances could be impacted.

The Barometer's results "also expose a clear and widespread tendency towards short-term thinking, which could hinder progress towards net zero. More than eight in 10 businesses (83%) have set short-term targets for a reduction in greenhouse gas emissions stretching to 2030, but only slightly more than half (51%) have set goals for the longer term; and of those, only slightly less than a quarter (24%) have had their targets validated by the Science Based Targets initiative – the organization charged with developing the standards to help businesses reduce emissions.

For more, as well as six actions that businesses can take now to bring about needed change, see Businesses' slow crawl on climate action jeopardizing global environmental goals | EY - Global.