

COMMITMENT TO THE SCIENCE BASED TARGETS INITIATIVE (SBTi) IN DENMARK

A PROGRESS REPORT IN THE LEAD-UP TO COP27

November 2022



Global Compact
Network Denmark

FOREWORD

Science-based target setting is becoming the new normal globally

So far, 2022 has left no doubt that our climate is changing dramatically. Heat waves blistered through Europe and China, floods left one-third of Pakistan under water, and hurricane Ian tore through Florida and Cuba, just to mention a few events directly influenced by global warming. There is no time to waste when it comes to fighting climate change. However, current national climate plans, if implemented, put us on a path toward a catastrophic 2.5°C temperature increase at the end of the century from pre-industrial levels. That is painfully insufficient, and as leaders gather for the COP27, we must demand higher goals, better financing, and faster action.

Thankfully, there is an increased commitment from the private sector to fight climate change, as well as pressure on politicians to deliver on their promises and pledges. These are particularly manifested in the exponential surge of companies committed to the Science Based Targets initiative (SBTi). The SBTi is becoming the golden standard of climate target setting. Through the SBTi, companies set climate targets rooted in climate science, thus directly contributing to the Paris Agreement. Targets are validated by the SBTi, and companies must report on their annual progress to ensure accountability and transparency. No other initiative can offer that.

It is particularly encouraging to see the rise in SBTi commitments in the Danish private sector, as outlined in the Danish Progress Report on the SBTi. The Danish private sector has a long history of taking responsibility, and now many of the largest Danish companies have taken crucial next steps and set ambitious climate targets in which they commit to reducing emissions not only from their own operations but also from their entire value chains. As the report shows, Denmark has one of the highest number of companies committed to the SBTi relative to the total amount of companies nationally—double the rate in the UK and seven times the rate in Germany. This demonstrates an unprecedented level of dedication to the global green transition.

By encouraging and putting pressure on suppliers and collaborators worldwide to set climate targets, Danish SBTi companies help create a ripple effect and secure a critical mass of companies committed to the SBTi. This critical mass is crucial to make science-based target setting the rule in the global market rather than the exception. I hope Danish companies will keep leading the way internationally when it comes to science-based target setting and will continue to strengthen the private sector's role in limiting temperatures globally to a state in which we can all thrive.

Connie Hedegaard

Chair of the Board for the KR Foundation

& Former European Commissioner for Climate Action

Data & Methodology

This report is based solely on publicly available data. The primary data sources are the SBTi-website, the CDP-database, and the surveyed companies' annual reports, sustainability reports, and websites. From these sources, Danish companies' annual scope 1, 2, and 3 emissions and abatement targets have been mapped and analyzed along with financial data on Danish SBTi-committed companies and Large Cap companies. Footnotes are used throughout the report to provide clarification on how some of the analyses were conducted.

Some companies with remarkable strategies or sector benchmarks have been used as case studies. To obtain data on these companies' strategies and challenges, data sources, such as the companies' websites and newspaper articles, were used. Data on companies outside Denmark were obtained solely from the SBTi website.

The data cut-off date is September 30, 2022. Please note that by the time this report is released, more companies may have committed to and received validations from the SBTi. See the full dynamic list of committed and validated companies at sciencebasedtargets.org.

ABOUT THE SBTi AND THIS REPORT

The Science Based Targets initiative (SBTi) is a global body that enables businesses to set ambitious emissions-reduction targets in line with the latest climate science. The initiative is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF), and one of the We Mean Business Coalition commitments. The SBTi's goal is to provide companies worldwide with the confidence that their climate targets are supporting the global economy in halving emissions by 2030 and achieving net-zero emissions before 2050.

The SBTi is evolving into a global standard setter, ensuring the highest ambition in credible corporate climate target setting. It defines and promotes best practices, offers resources and guidance to reduce adoption barriers, and independently assesses and approves companies' targets. To ensure target integrity, the SBTi's target validation process follows a rigorous protocol aligned with regularly updated criteria based on the latest climate science.

All methodologies are aligned with the Paris Climate Agreement and the goal of limiting the global average temperature increase to 1.5°C in 2100 from a pre-industrial level.

This report is a snapshot of SBTi commitment in the Danish private sector in the lead-up to the 27th Conference of the Parties of the UNFCCC (COP27). This report has three main chapters. The first chapter describes the growth and status of Danish companies' commitment to the SBTi, the second chapter looks closer at how Danish commitments compare to SBTi commitments internationally, and the third chapter dives into the future of SBTi in Denmark and some of the most important challenges the initiative faces.

THE SBTi METHODOLOGIES

The foundation of the SBTi methodologies is the Greenhouse Gas Protocol, which classifies emissions into scopes 1, 2, and 3 (described in Box 1). Scope 1 emissions represent direct emissions from, for example, factory boilers or company vehicles. Scope 2 emissions are indirect emissions related to cooling, heating, and electricity use. Scope 3 emissions cover all other indirect emissions in a company's value chain, such as raw materials and the transportation of goods.

The SBTi operates with 'near-term' and 'long-term' targets. Companies must achieve their near-term targets in 2030 at the latest, which for many companies amounts to a 50% emissions reduction.¹ A long-term target entails achieving net-zero emissions by 2050. Currently, companies can choose a baseline year (the point of departure for the climate target) from between 2015 and 2021, while near-term targets must be achieved within 5–10 years. Importantly, large companies' (non-financial companies with over 500 employees) near-term SBTi targets must cover 95% of their total scope 1 and 2 emissions and two-thirds of their total scope 3 emissions.

Last year, the SBTi introduced the Corporate Net-Zero Standard—the first of its kind in the world. The standard defines a scientific pathway for companies to achieve net-zero emissions by 2050, requiring companies to reduce 90% of total emissions while allowing a maximum of 10% reductions using offsetting/compensation.²

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(1) Before July 15, 2022, companies could also receive an SBTi validation of targets limiting the rise in global temperatures to well below 2°C.

(2) Read more about the Corporate Net-Zero Standard on sciencebasedtargets.org/net-zero

BOX 1 SCOPES 1, 2, AND 3



Source: The Greenhouse Gas Protocol

Companies' GHG emissions can generally be divided into three scopes:

SCOPE 1

Direct emissions from company-owned or controlled sources, e.g. production facilities or vehicles.

SCOPE 2

Indirect emissions from the use of electricity, district heating, and district cooling.

SCOPE 3

All other indirect emissions neither directly owned nor controlled by the company. Scope 3 is divided into upstream and downstream.

Upstream emissions are associated with activities prior to the company getting a good or service into possession, e.g., raw materials used in production.

Downstream emissions are associated with activities after the good or service leaves the company, e.g., transportation or use of sold products.

Receiving SBTi validation is a five-step process. First, a company commits to setting a target through the SBTi. Second, the company develops and submits a target to the SBTi within two years of its commitment. The SBTi then begins the validation process in close dialogue with the company. Finally, once the target is validated, the company must publicly communicate the target and report on its progress annually going forward. The five steps are shown in figure 1.

FIGURE 1 THE PROCESS OF RECEIVING AN SBTi VALIDATION

A STEP-BY-STEP PROCESS



COMMIT

Submit a letter establishing your intent to set a science based target

DEVELOP

Work on an emissions reduction target in line with the SBTi's criteria

SUBMIT

Present your target to the SBTi for official validation

COMMUNICATE

Announce your target and inform your stakeholders

DISCLOSE

Report company-wide emissions and progress against targets on an annual basis

Source: SBTi



SBTi Commitment in Denmark - A Story of Progress

The number of SBTi-committed companies worldwide is growing rapidly, and Denmark is currently one of the frontrunners, with exponential growth in commitments since the SBTi's launch in 2015. Seven Danish companies committed to the initiative in 2019 and 17 in 2020, which increased to 50 in 2021 and 112 by September 30, 2022 (cf. Figure 2).

Of the currently committed companies, 29% are Small and medium-sized enterprises (SMEs)³—an increase from 10% in 2021. The rising number of SME commitments could be a sign that Danish SMEs are becoming increasingly aware of SBTi commitment as a credible and ambitious way to demonstrate climate action and a sign that larger companies may be increasingly motivating or requiring their smaller suppliers to commit to the SBTi. Moreover, with recently launched SBTi methodologies for the financial sector, more Danish financial institutions can be expected to join. So far, seven institutions have committed to the SBTi.

FIGURE 2 NUMBER OF DANISH SBTi COMMITTED COMPANIES



Note : Companies have 500 or more employees, while SMEs have fewer than 500.

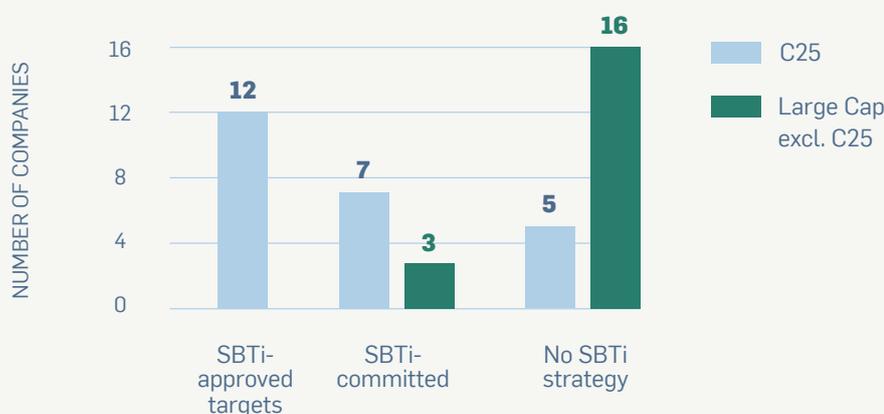
Source: SBTi and Axcelfuture

⁽³⁾ Defined by the SBTi as companies with less than 500 employees

When it comes to large companies (with 500 or more employees), most of the biggest Danish companies are committed. In our assessment of the Danish C25 index,⁴ half of the listed companies have set climate targets validated by the SBTi, seven companies have committed to the SBTi, and five have not yet committed to the SBTi ⁵ (cf. figure 3). All listed companies, however, have put strategies in place to mitigate greenhouse gas (GHG) emissions in scopes 1 and 2, while 80% of the companies have mitigation strategies for scope 3. This shows a widespread adoption of science-based methods to curb GHG emissions at the top of the Danish private sector, which may positively impact SBTi commitment in the rest of the private sector in the years to come.

Curiously, a similar tendency is not seen when examining companies in the Large Cap index ⁶ which are not part of the C25 (the Large Cap companies include the C25 companies but also 20 others). Of the 19 companies assessed in this report,⁷ only three companies have committed to the SBTi (with no targets having been validated yet). Only three companies have absolute targets for scopes 1 and 2, and only a single company has a scope 3 reduction target. The reason for this comparably poor climate performance may be that the C25 companies are traded more often than the rest of the companies in the Large Cap index, making them more able to utilize the capital markets. This may yield higher pressure from C25 companies' investors to perform well on environmental indicators, including reducing GHG emissions.

FIGURE 3 NUMBER OF DANISH C25 AND LARGE CAP COMPANIES THAT HAVE COMMITTED TO THE SBTi



Note 1 : Please note that only 24 companies are part of the C25 index as A.P. Møller Mærsk A/S has two stocks.

Note 2 : The Large Cap company Boozt A/S has been excluded from the analysis because they are registered as a Swedish company in the SBTi database for historic reasons.

Source: SBTi and Axcelfuture

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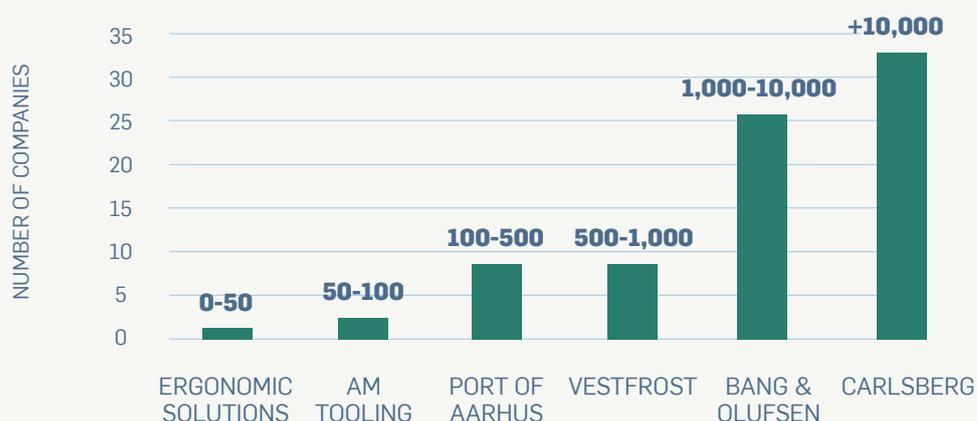
(4) The C25 index consists of the 25 most traded stocks on the Danish stock exchange. As A.P. Møller Mærsk A/S has two stocks in the C25 index, the number of companies in the index is 24.

(5) Please note that it is not yet possible for the shipping industry to receive SBTi validation for their climate targets. Consequently, A.P. Møller Mærsk A/S has no SBTi-validated targets despite a public target of reaching net-zero in 2040.

The SBTi-committed Large Cap index companies (including the C25 index) currently represent a total market value of almost 2,900 billion DKK, annual revenues amounting to 777.6 billion DKK in 2021, and 757,000 employees.⁸ Thus, these companies represent a substantial part of the Danish market, and their collective market power arguably enables them to drive climate action in their value chains across industries, further increasing SBTi commitment among their suppliers.

The total revenue of Danish SBTi-committed companies was at least 1,470 billion DKK in 2021,⁹ and the companies employed around 1.04 million people.¹⁰ In fact, 73% of all Danish companies committed to the SBTi have revenues of over 1 billion DKK per year (cf. Figure 4). Figure 4 shows examples of companies within each revenue category, including the Port of Aarhus—the largest commercial port in Denmark.

FIGURE 4 REVENUE OF DANISH SBTi-COMMITTED COMPANIES IN 2021



Note : The companies mentioned below each column are examples of companies in each revenue group.
Source: SBTi and Axcelfuture and annual reports of the SBTi-committed firms.

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(6) The Large Cap index consists of companies whose shares are traded on the Danish stock exchange and have a market value of more than 1 billion euro.

(7) The Large Cap company Boozt A/S has been excluded from the analysis because they are registered as a Swedish company in the SBTi database for historic reasons.

(8) Updated September 23. The source of information is the annual reports of the firms. Topdanmark and NKT revenues are not included.

(9) Data on revenue only represents 80 of the 112 SBTi-committed companies due to data limitations.

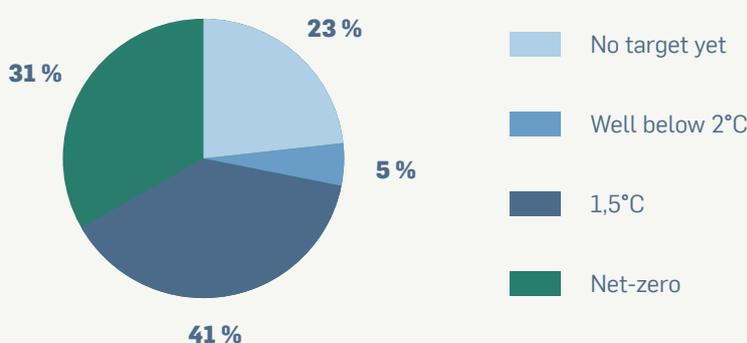
(10) The revenue of 27 companies and the employee number of 5 companies are excluded due to data limitations.

TYPES OF TARGETS AMONG DANISH SBTi-COMMITTED COMPANIES

As mentioned previously, companies can get three types of targets validated by the SBTi: Two types of near-term targets, the well-below 2°C target ¹¹ and the 1.5°C validation, and one long-term net-zero validation.

Figure 5 shows the distribution of targets for all 112 Danish SBTi-committed companies.¹² Most of the companies (41%) have a committed target of 1.5°C, 31% of the companies have a committed net-zero target, 23% have not committed to a specific target yet, and only a few (5%) companies have the now-discontinued well-below 2°C target.

FIGURE 5 TARGETS OF DANISH SBTi-COMMITTED COMPANIES



Note: This figure contains all 112 Danish SBTi-committed companies, i.e., both companies with SBTi validation and companies that are in the process of receiving SBTi validation.

Source: SBTi and Axcelfuture

Of the 64 companies with SBTi-validated targets, 90% are 1.5°C targets, 8% are well-below 2°C targets, and 2% have the long-term net-zero validation (one company).

The number of SBTi net-zero commitments is rising fast, with 11 new commitments in 2021 and 15 new commitments in the first nine months of 2022. Including the SBTi-committed companies that publicly announced net-zero targets before 2021 but have since committed to net-zero targets through SBTi starting in 2021, the total number of net-zero-committed companies in Denmark is 35, corresponding to 31% of the total number of committed companies. The rise in net-zero commitments shows a heightened level of ambition among Danish SBTi-committed companies. As companies have two years to submit their net-zero targets for validation, a substantial increase in the number of net-zero-validated companies within the next few years is expected.

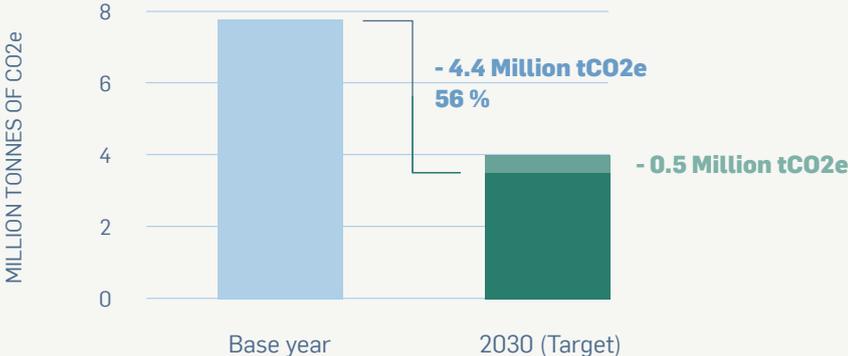
⁽¹¹⁾ From July 15, 2022, it is no longer possible to obtain this validation.

⁽¹²⁾ Not all targets have yet been set and validated by the SBTi. The current number of validated targets is 64.

The SBTi-validated targets among Danish companies yield a reduction of at least 4.4 million tonnes of CO₂e (tCO₂) of scope 1 and 2 emissions in 2030 compared to the SBTi-validated companies' base years (cf. Figure 6), which is the equivalent of more than four times the total GHG emissions of the municipality of Copenhagen in 2020. **13** This amounts to a 56% reduction in scopes 1 and 2 GHG emissions, which is more ambitious than the SBTi's 1.5°C reduction requirement of a 50% reduction in scopes 1 and 2 in 2030. Danish SBTi-committed companies are thus prepared to reduce an additional 0.5 million tCO₂ in scopes 1 and 2 than is required by the SBTi (cf. Figure 6).

Of the SBTi-validated Danish companies, 86% publicly disclose climate data and annual progress on their climate targets. Hence, 14% are not disclosing, which is about half the global average of 28% of SBTi-validated companies that are not disclosing any data on either scope 1, 2, or 3 emissions.

FIGURE 6 SCOPE 1 AND 2 GHG REDUCTIONS FROM SBTi-VALIDATED DANISH COMPANIES



Note 1 : Companies' base years vary between 2015 and 2021. The SBTi-validated reduction targets are always set in accordance with the base years.

Note 2 : Of the SBTi-validated companies, 27 have no available data on scope 1 and 2 emissions yet.

Source: SBTi, Axcelfuture, and the companies' annual and sustainability reports.

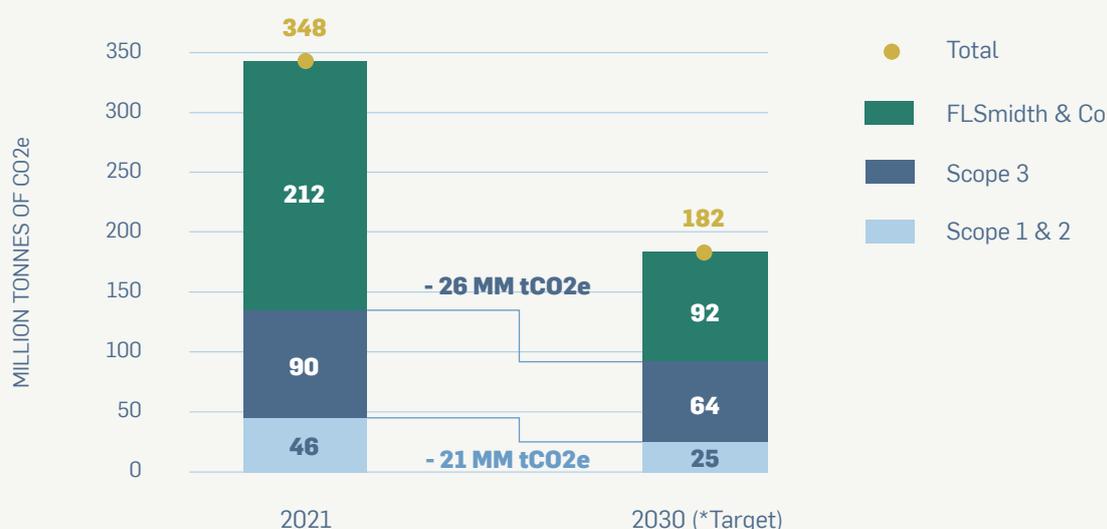
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(13) Companies' base years vary between 2015 and 2021. The reduction potentials are calculated from the base year to 2030, per SBTi methodology.

GHG emissions reductions by 2030 among Large Cap companies will be substantial, judging from these companies' near-term targets (cf. Figure 7). Large Cap companies are set to reduce 167 million tCO₂e by 2030 compared to 2021, which corresponds to four times Denmark's total GHG emissions. Of the 167 million tCO₂e, the C25 index companies account for almost 99% of the reductions, clearly showing the companies' high levels of climate ambitions compared to the rest of the Large Cap companies. The projected high reductions are, however, primarily due to the targets set by FLSmidth & Co., as they account for more than 73% of the total reductions from the C25 companies. More than 99% of FLSmidth & Co.'s GHG emissions are emitted downstream in scope 3.

Figure 7 shows that SBTi-committed Large Cap companies' total GHG emission reductions for all scopes will almost be halved by 2030. SBTi-validated targets cover 2.8 million tCO₂e of scope 1 and 2 reductions (14% of total committed scope 1 and 2 reductions from 2021 to 2030), and 129 million tons of scope 3 reductions (83% of total committed scope 1 and 2 reductions).

FIGURE 7 SBTi-COMMITTED LARGE CAP COMPANIES' PROJECTED GHG EMISSION REDUCTIONS IN 2030



Note 1 : The emissions from FLSmidth & Co. include scopes 1, 2, and 3. However, as scope 3 accounts for more than 99% of their total GHG emissions, the emissions are aggregated.

Note 2 : The targets used for calculating the abatement of GHG emissions are not all validated by the SBTi.

Note 3 : FLSmidth & Co. has an intensity measurement for their GHG emissions, as their target is to reduce emissions by 56% per million DKK of sold product. Their emissions in this figure are calculated from their annual reports, and their 2030 target is a 56% reduction of their calculated 2021 emissions. Therefore, the 2030 target for FLSmidth & Co. in this figure may change over time.

Note 4 : The Large Cap companies (excl. C25) only contain data for 12 of 19 companies.

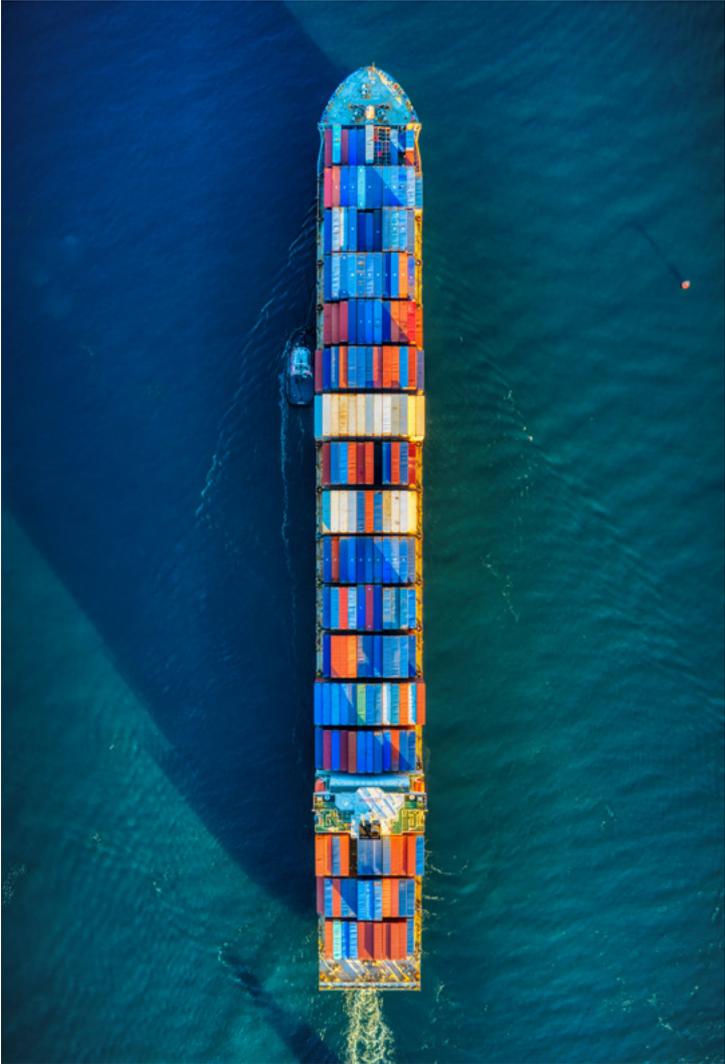
Source: Annual reports of the Large Cap companies and Axcelfuture

PROGRESS AMONG FAMILY-, FOUNDATION-, OR COOPERATIVELY OWNED COMPANIES

The climate targets of large family-, foundation-, or cooperatively owned companies (LFC companies) are also relevant to assess, as they are comparable to the Large Cap companies in terms of size. LFC companies are characterized by either a few owners (family- and foundation-owned companies) or many owners, each with the same proportional ownership share (cooperatives). Of the 11 companies examined in this report, ¹⁴ seven were committed to the SBTi, corresponding to 64% of the companies. This indicates awareness and recognition among LFC companies about the importance of taking climate action. It is also important to note that LFC companies have less SBTi commitment than C25 companies (80% committed companies) but more than the Large Cap companies, excluding C25 companies (16% committed companies).

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(14) The companies are Bestseller A/S, Danfoss A/S, Ecco A/S, Grundfos A/S, Lego A/S, Leo Pharma A/S, Jysk A/S, VKR Holding A/S, Linak A/S, Arla a.m.b.a., and Rambøll A/S. The companies are chosen because they are internationally recognized and have large shares in their relative markets.



CASE: NOVO NORDISK A/S – GHG ABATEMENT THROUGH SUPPLIER REQUIREMENTS

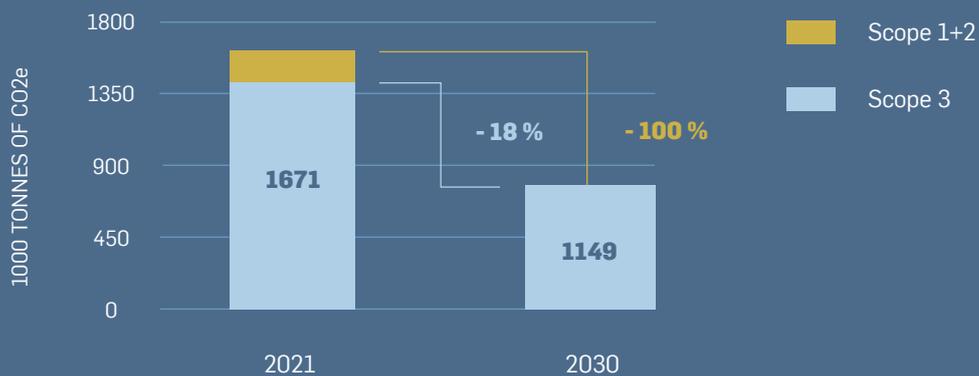
As previously mentioned, large companies' SBTi near-term targets must cover two-thirds of its scope 3 emissions, and long-term targets must cover at least 90% of total emissions. This means that companies must heavily decarbonize their value chains, which inevitably requires engagement with suppliers to encourage or require them to reduce GHG emissions.

An example of a company that is directly engaging its suppliers in its climate targets is Novo Nordisk A/S, a Danish pharmaceutical company.

Novo Nordisk A/S has an overall target to reach net-zero GHG emissions by 2045 across its value chain. This implies that all suppliers must also reach net zero by 2045. One of the milestone targets for Novo Nordisk A/S is that all 60,000 suppliers must only use energy from renewable sources by 2030. This target reduces the company's scope 3 emissions by 18% in 2030 (cf. Figure 8).

Their target to remove 300,000 tCO₂e from their suppliers' energy usage, therefore, corresponds to a 21% reduction in their total GHG emissions. Combined with a net-zero target for scope 1 and 2 emissions, their 2030 target reduces Novo Nordisk A/S' total GHG emissions by 31% from 2021 to 2030.

FIGURE 8 NOVO NORDISK A/S' 2030 SUPPLIER REDUCTION TARGET



Source: Novo Nordisk A/S annual report 2021 and Axcelfuture

CASE: ØRSTED A/S – THE WORLD’S FIRST ENERGY COMPANY TO BECOME NET-ZERO VALIDATED BY THE SBTi

Denmark has a high share of SBTi net-zero-committed companies compared to other countries (see the next chapter). One of them is energy company Ørsted A/S, which is not only the first company in Denmark to have set net-zero targets validated by the SBTi but also the first energy company in the world to do so.

Since Ørsted A/S sold off their remaining fossil fuel assets in 2017, it has been focusing on producing green energy through the construction and operation of wind turbines, bioenergy, solar energy, and energy storage. With a relatively large market share in Denmark and globally and an ongoing mission to expand wind turbine capacity in countries such as the United Kingdom, Ørsted A/S demonstrates that energy companies can become net-zero while still maintaining and growing a large production capacity and securing financial growth. In 2021, Ørsted A/S had a revenue of 77.7 billion DKK and 7,292 employees.

Ørsted A/S’ ambition is to achieve net-zero GHG emissions by 2040 with a near-term target of reducing scope 1 and 2 by 98% in 2025 from a base year of 2006 and total scope 3 emissions by 50% in 2032 from a base year of 2018. This means that from 2018 to 2030, Ørsted A/S will reduce scope 1 and 2 emissions by more than 2 million tCO₂e and scope 3 emissions by 3.7 million tCO₂e (cf. Figure 9).

FIGURE 9 ØRSTED A/S’ REDUCTION TARGETS

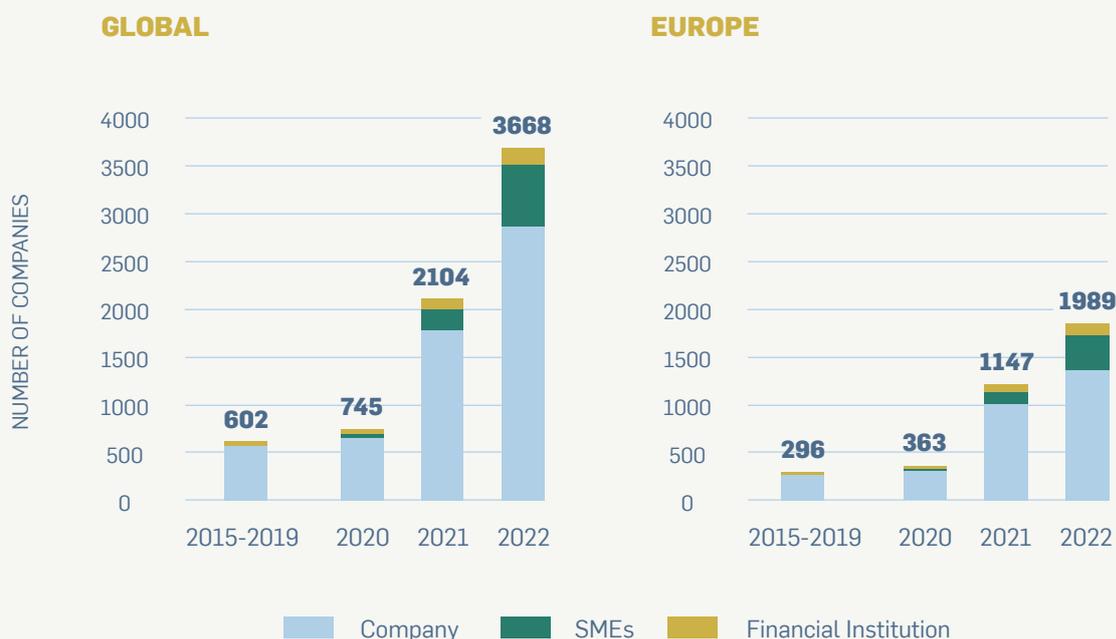


Source: Ørsted A/S, SBTi and Axcelfuture

Ørsted A/S is doing several things to reach their target, including requiring all their suppliers to reach 100% renewable energy supply by 2025 and phasing out coal usage in their power plants by 2023.

SBTi Internationally – A Momentum for Science-Based Climate Targets

FIGURE 10 PROGRESS IN GLOBAL AND EUROPEAN SBTi COMMITMENT, DIVIDED INTO COMPANIES, FINANCIAL INSTITUTIONS, AND SMEs



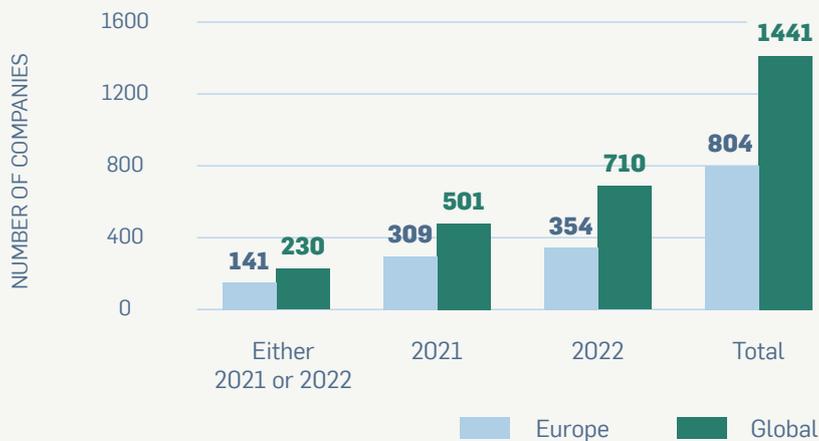
Note 1: 2022 contains data only from January 1 to September 30.

Note 2: SMEs are companies with fewer than 500 employees.

Source: SBTi and Axcelfuture

At both the global and European levels, there has been a similar development in commitments to the SBTi to that of Denmark, and more than half of all commitments are from European companies (cf. Figure 10). Hence, the SBTi has obtained a strong foothold in the European private sectors, with some of the biggest European companies taking responsibility for their direct and indirect emissions through the SBTi. Moreover, European net-zero commitments have accounted for approximately 56% of all net-zero commitments (cf. Figure 11).

FIGURE 11 PROGRESS IN GLOBAL AND EUROPEAN NET-ZERO COMMITMENT



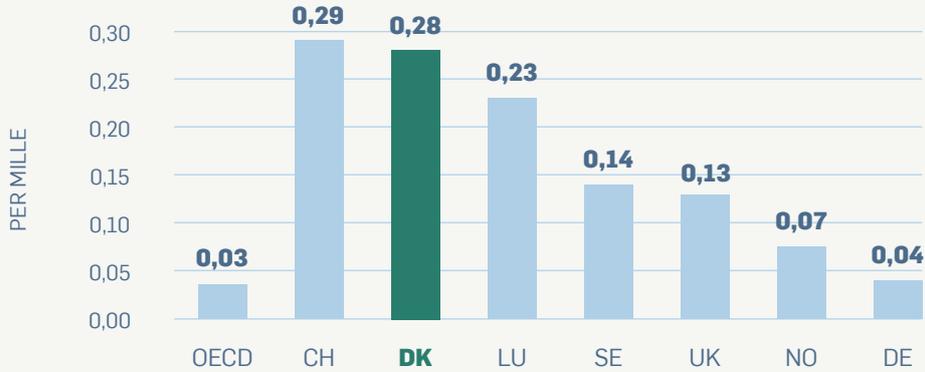
Note : 2022 contains data only from January 1 to September 30.

Source: SBTi and Axcelfuture

This development is positive. Companies around Europe will most likely increasingly demand that their suppliers set climate targets through the SBTi as well to ensure high credibility in terms of data and progress. This is exactly the kind of ripple effect that the initiative needs to take off and create global impact. Once a big company, such as Novo Nordisk A/S, requires suppliers to set targets, these suppliers may in turn ask their suppliers to set targets too, allowing ambitious climate targets to seep through the value chain.

When it comes to SBTi validations, the Danish private sector is far ahead of many comparable European countries, especially when considering SBTi validations relative to the total number of companies. Compared to OECD countries, for example, Denmark has a much higher number of SBTi-validated companies relative to the total number of companies; only Switzerland has more. Among the countries that Denmark is frequently compared to (the United Kingdom, Sweden, Norway, and Germany), the number of SBTi-validated companies relative to the total number of companies is generally more than double. The same tendency is seen when assessing SBTi commitments. Switzerland still has the highest share of companies, closely followed by Luxembourg and Denmark, while Sweden, the United Kingdom, Norway, and Germany have almost half the ratio that Denmark has.

FIGURE 12 NUMBER OF COMPANIES WITH SBTi VALIDATION COMPARED TO TOTAL NUMBER OF COMPANIES IN DENMARK AND THE OECD COUNTRIES



Note : OECD data do not include Australia, Chile, Israel, Japan, Korea, Mexico, and the United States due to unavailable data on the total number of companies.

Source: SBTi, OECD and Axcelfuture

TARGETING SCOPE 3 EMISSIONS

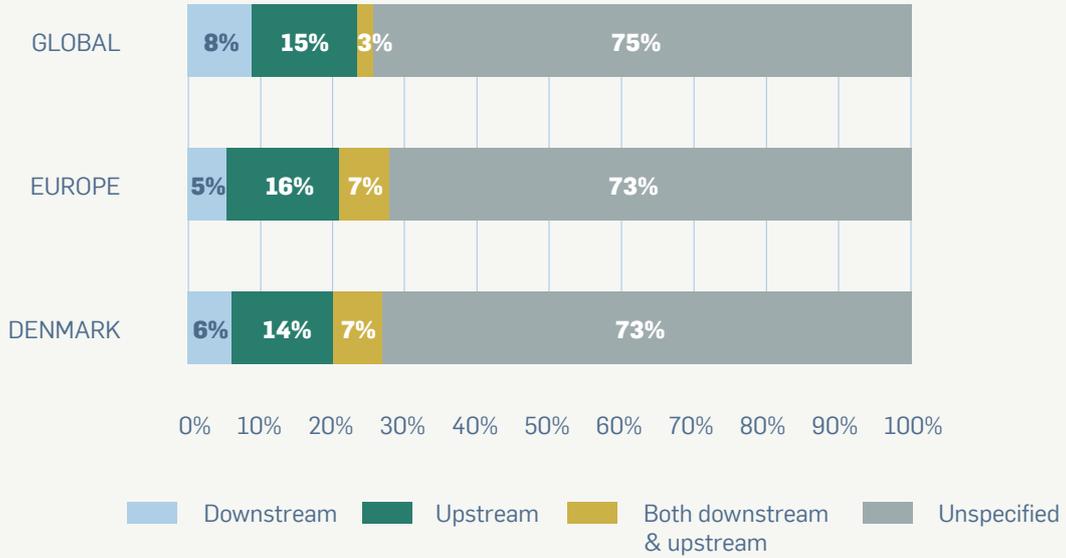
All large companies are required to set targets for scopes 1, 2, and 3, while SMEs are only required to set targets for scopes 1 and 2. ¹⁵

Scope 3 targets often vary significantly between companies, and only a few companies target all scope 3 emissions. Furthermore, most companies globally have not publicly disclosed a specific method for abating scope 3 emissions, merely having a reduction target. Of the companies that have set targets, most (approximately 15%) directly engage their suppliers, thus targeting scope 3 upstream emissions, and requiring their suppliers to meet specific GHG abatement standards. Of companies with SBTi-validated scope 3 targets, 5–8% have requirements for the companies they supply (scope 3 downstream emissions), while 3–7% of companies have targets for both upstream and downstream emissions (cf. Figure 13).

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(15) SMEs must use SBTi's 'streamlined target validation,' which requires them to set scope 1 and 2 targets, but not scope 3 targets. SMEs merely commit to measure and reduce scope 3 emissions to a given extent.

FIGURE 13 CHARACTERISTICS OF SCOPE 3 TARGETS



Note : Due to rounded up numbers, the total percentages are 101% for 'Global' and 'Europe'.

Source: SBTi and Axcelfuture.

Hence, it is more common for SBTi-committed companies to require suppliers to deliver GHG emissions than to reduce the companies' own downstream emissions. This fact highlights the opportunity to create a ripple effect of SBTi commitments. As more companies target their scope 3 upstream emissions, more companies must reduce their GHG emissions—regardless of their climate ambitions—if they are to stay competitive and meet their customers' demands. Therefore, as there is a tendency for SBTi-committed companies to require their suppliers to abate GHG emissions or become SBTi committed, it becomes increasingly more important for the Danish private sector to continue to be SBTi frontrunners and retain a competitive edge.

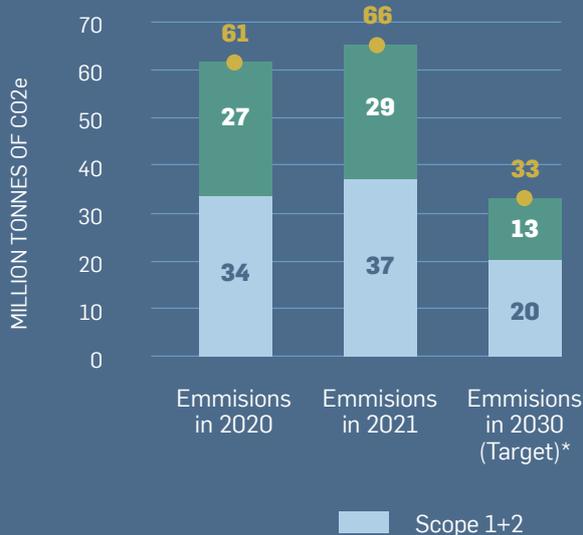
CASE: GREEN LOGISTICS – THE SCOPES DEPEND ON COMPANY STRATEGY

To assess the differences in companies' challenges with reducing GHG emissions, consider two of Denmark's top logistics companies, A.P. Møller Mærsk A/S and DSV A/S. ¹⁶ Both companies are internationally oriented, but have different strategies to secure freight capacity. A.P. Møller Mærsk A/S owns their own fleet of cargo ships and therefore has substantial scope 1 and 2 emissions (56% of their total GHG emissions), whereas DSV A/S lease their trucks and therefore has emissions almost exclusively in scope 3 (98% of their total GHG emissions). The differences in emissions profiles between these two companies are depicted in Figure 14.

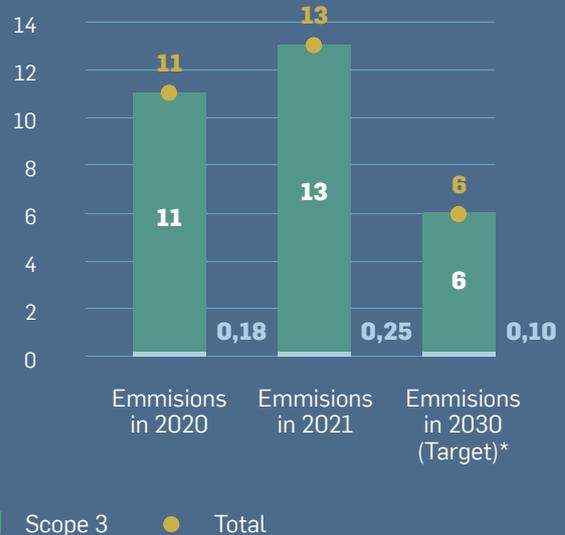
Hence, the companies must employ substantially different emissions reduction strategies. A.P. Møller Mærsk A/S needs to convert its own cargo ships to reduce emissions, while DSV must negotiate with the owners of their leased trucks or even change leasing companies to reach their targets.

FIGURE 14 SCOPE 1, 2, AND 3 EMISSIONS IN A.P. MØLLER MÆRSK A/S AND DSV A/S

A.P. MØLLER MÆRSK



DSV



Source: ESG reports of A.P. Møller Mærsk A/S and DSV A/S

⁽¹⁶⁾ Please note that neither companies' climate targets have been validated by the SBTi, as it is not currently possible for the shipping industry to obtain validations. However, a methodology for the shipping industry is underway.



This example illustrates one of the critical challenges to GHG reduction targets: Companies within the same sector may have different challenges in reducing emissions and require different solutions, which also makes industry benchmarks on climate targets more difficult.

The SBTi methodologies and validation approach are apt to help accommodate these types of challenges, particularly in the following two ways:

- 1.** The SBTi allows efforts to reduce scope 1, 2, and 3 emissions to be equated with companies' efforts to reduce scope 3 emissions. Therefore, no specific business or reduction strategy is favored over another, resulting in a level playing field with a limited competitive advantage. A.P. Møller Mærsk A/S and DSV A/S are good examples of this.
- 2.** Considering the scope 3 requirements for large companies, the SBTi methodologies help to prevent carbon leakage, as they remove companies' incentive to outsource GHG-intensive production to solely reduce scope 1 and 2 emissions. Hence, the SBTi helps mitigate GHG emissions throughout the whole value chain.

The Future of the SBTi in Denmark

The future of the SBTi in Denmark looks promising. There is no sign of the exponential growth in committed companies slowing down, and there is currently a long line of Danish companies waiting to have their targets approved.

As more companies commit to the SBTi worldwide, SBTi commitment increasingly becomes a competitive advantage that only yields more SBTi commitments. Hence, if the Danish private sector remains an SBTi stronghold, first-moving companies may reap the competitive benefits of having set science-based targets early and increasing the robustness of data and emissions inventory.

The SBTi continues to grow. Recently, the organization published a new strategy with a theory of change derived from innovation theory. The SBTi's assumption is that 20% (one-fifth) of businesses in a particular territory or sector equals a critical mass and a tipping point at which it becomes increasingly difficult for other businesses to do nothing, and more and more join the race to the top. ¹⁷

To reach that critical mass, the SBTi has institutionalized itself, appointing a CEO, creating an executive board for the four founding organizations, beginning an extensive recruitment process to up-staff the validation teams, and much more.

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(17) For more information on SBTi's theory of change, please see the [2021 SBTi Progress Report](#) (page 21).



CHALLENGES TO THE SBTi

Although the SBTi is generally enjoying widespread success and recognition, there are some challenges ahead that must be addressed. Some of them are highlighted here, as follows:

- 1.** Currently, SBTi validations are in high demand, which the SBTi is currently struggling to meet. Companies have to wait for up to six months to have their targets validated and approved. The SBTi is addressing this issue by recruiting more technical staff for its validation teams, with the aim of reducing wait times to one to three months.
- 2.** Currently, 14% of Danish SBTi-validated companies and 28% of SBTi-validated companies globally do not comply with the requirement to publicly disclose emissions and progress on climate targets annually. This seriously challenges the credibility of the initiative. However, the SBTi is setting up a progress framework that will advance the work on the measurement, reporting, and verification (MRV) of science-based targets. The framework is expected to be launched in 2023.
- 3.** The EU Commission is pushing companies to create more durable products that last longer. However, there is a perceived conflict among many companies between the GHG Protocol's methods for calculating emissions related to 'use of sold products' and creating more durable and longer-lasting products. Hence, the longer the product lifetime, the more emissions associated with using the product that a company must account for. This provides little incentive for companies to create longer-lasting products from an emissions perspective. While this is perceived as a challenge in the GHG Protocol, the SBTi could investigate measures that discount emissions for long-lasting products.

RESSOURCES

SBTi:

[Ambitious Corporate Climate Action – Science Based Targets](#)

Novo Nordisk A/S supplier target:

[Renewable Power Target for Suppliers \(novonordisk.com\)](#)

DSV A/S sustainability strategy:

[Corporate Responsibility | DSV](#)

A.P Møller Mærsk A/S sustainability strategy:

[Sustainability | Committed to Sustainable Logistics | Maersk](#)

Ørsted A/S sustainability strategy:

[Sustainability – Enabling Sustainable Growth | Ørsted \(orsted.com\)](#)

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