Chartered Accountants Ireland

# CLIMATE ESSENTIALS FOR ACCOUNTANTS

IFAC International Federation of Accountants®

**As we approach the next UN Climate Change Conference - COP26 - the sense of urgency to address climate change is intensifying across the world.**

COP26 will bring into focus policies set out by countries to avoid a dangerous rise in global temperatures. Heatwaves, floods and wildfires are increasing in occurrence, and will continue to do so without urgent action.

Businesses must play their part, and accountants will be key financial decision-makers within these businesses. However, the vocabulary of climate action may be new to them. This guide aims to demystify it and introduce accountants to jargon that they will hear with increasing frequency over the coming months and years.

## CARBON



## COP26

# WHAT ARE CARBON EMISSIONS?



**Energy is needed to power our lifestyles. In many cases, fossil fuels are burned to create this energy. Fossil fuels emit greenhouse gases, which cause global warming.**

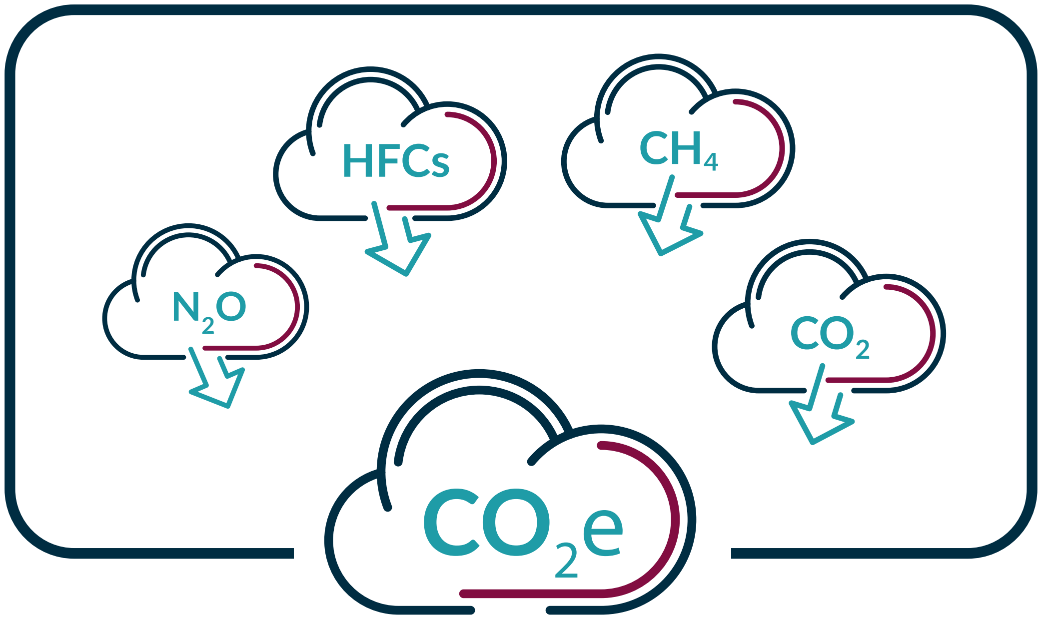
Carbon dioxide (‘carbon’ or ‘$CO_2$’) is the most common greenhouse gas emitted in terms of quantity released and total impact on global warming by human activities.

Whether you drive to work, take a flight or switch on your office air-conditioning system, you are likely to be generating greenhouse gas emissions.

# CARBON DIOXIDE EQUIVALENTS

## There are a number of greenhouse gases with global-warming potential.

Other greenhouse gases such as methane, nitrous oxides and HFCs also contribute significantly to climate change. In order to use only one metric to refer to them collectively, they are often converted into carbon dioxide equivalents (‘$CO_2e$’).

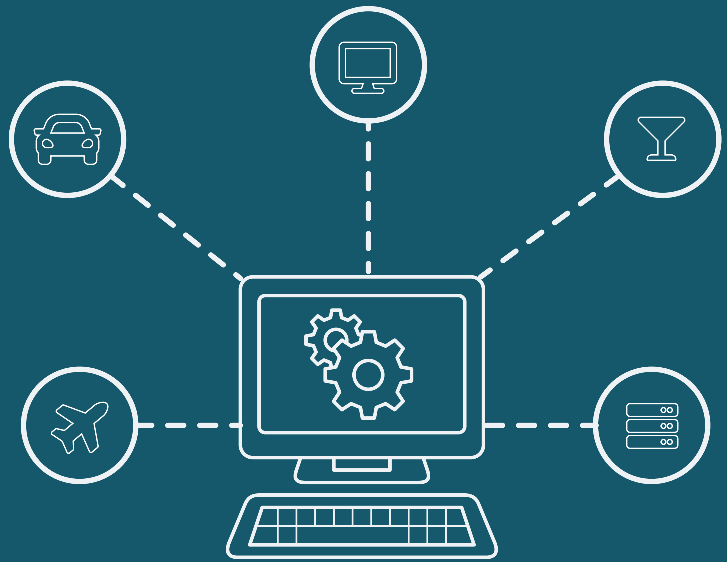


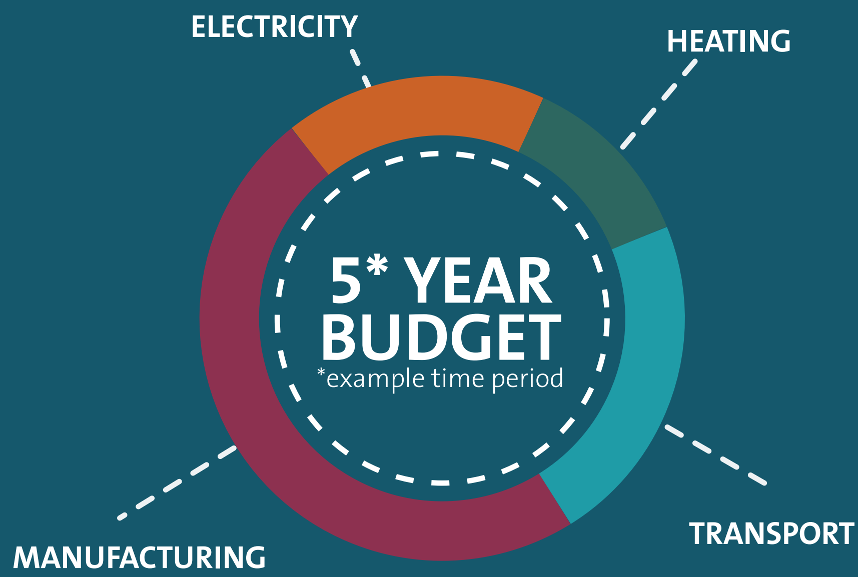

## CARBON FOOTPRINT

A carbon footprint measures (in $CO_2e$) the **total amount of greenhouse gas** released into the atmosphere by the everyday activities of an organisation, a household, an event, a service, or a product.

## CARBON CALCULATOR

A carbon calculator is software that calculates your carbon footprint. The software calculates the amount of $CO_2e$ produced by the activities of businesses, organisations, individuals and households over a specified period of time, usually one year. It includes direct energy used by a house or business and, indirectly, electricity use, and emissions in the value chain of a business, such as in travel, use of products, waste, procurement and distribution.



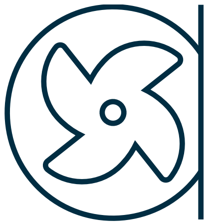



## CARBON BUDGET

Climate scientists define a 'carbon budget' as the cumulative amount of greenhouse gas emissions allowed over a set period of time to stop global temperature rising more than 1.5°C above pre-industrial levels. Countries and companies are using carbon budgets to establish how much carbon can be emitted into the atmosphere without compromising the future climate. They then use these 'budgets' to create strategies to reduce their emissions.

## SCOPE 1, 2, 3 CARBON EMISSIONS

**There are three scopes of carbon emissions that a company creates:**

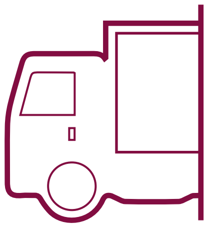


### SCOPE 1

Scope 1 emissions directly occur from sources that are controlled or owned by an organisation. For example, heating fuels, transport fuels and fugitive emissions from manufacturing processes.

### SCOPE 2

Scope 2 emissions arise indirectly when the business consumes purchased electricity.



### SCOPE 3

Scope 3 emissions are linked to the organisation's operations from assets that they do not own or control. They cover emissions associated with buying goods and services, staff commuting, business travel, waste management, and procurement.
**Scope 3 emissions usually form the biggest part of an organisation's carbon footprint.**

*"For many businesses reducing Scope 1 and 2 emissions is the first target in a strategy to reduce carbon emissions. However, Scope 3 emissions often account for the vast majority of their carbon footprint and can be the hardest to address. Being aware of economically viable solutions to reduce carbon emissions is a really important role for accountants"*

## DECARBONISATION

Decarbonisation means the reduction or elimination of greenhouse gases from energy sources. The term is most often used to describe the efforts by governments and businesses to reduce carbon emissions in their economies.

# CARBON NEUTRALITY OR NET ZERO CARBON?

**'Carbon neutral' and 'net zero' are terms used by organisations to describe their ambition to significantly reduce their carbon footprint and to offset any residual emissions.**

Although it's easy to get caught up in the terminology, only one thing matters: **companies must start reducing carbon emissions.**
Many businesses do this by:

- Driving energy efficiency internally to reduce energy consumption.
- Switching to low-carbon or renewable energy sources.
- Transitioning to electric vehicles.
- Reducing Scope 3 emissions (see page 6).

# CARBON OFFSETTING

A carbon offset is an action intended to compensate for, or neutralise, the emission of carbon dioxide into the atmosphere. Often they are investments in accredited and verified emission-reduction projects. These can take the form of investments in renewable energy or low-energy technologies or nature-based solutions that directly remove carbon from the atmosphere.

The use of carbon offsetting should be a last resort and only used after reducing your carbon footprint as much as possible.

**There are not enough offsets in the world to effectively combat climate change, meaning that dramatically reducing carbon emissions is essential.**

# MEASURING CARBON EMISSIONS

**Here are some of the best-known frameworks for calculating, assessing and disclosing climate information, and setting targets**

## GREENHOUSE GAS PROTOCOL

The Greenhouse Gas Protocol is a globally recognised standard for measuring and managing GHG emissions from companies and their value chains.

It can be used as the methodology for calculating carbon emissions and can also enable a company to track its progress towards its climate goals.

GREENHOUSE GAS PROTOCOL

## TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) is a framework for organisations to disclose their business's risks and opportunities associated with climate change to provide better information to stakeholders.

TCFD-based recommendations are widely adoptable and applicable to organisations across sectors and jurisdictions.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

## CDP

The CDP (formerly the Carbon Disclosure Project) is a global data collection and assessment programme focused on climate change.

Each year the CDP gathers data via questionnaires from companies on their GHG emissions, energy use, management and governance of climate action, and their business's risks and opportunities associated with climate change.

It then scores these companies based on that data.

CDP DISCLOSURE INSIGHT ACTION

## SCIENCE-BASED TARGETS

The Science Based Targets Initiative (SBTi) is led by a collaboration of organisations and was set up to develop international standards for target-setting by businesses and organisations.

SBTi assesses companies' carbon targets to determine whether they align with the goals of the Paris Agreement i.e. that they are `science-based'. Science-based targets show companies how much and how quickly they need to reduce their greenhouse gas emissions in line with leading climate science and the Paris Agreement goals.

SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

# WHAT IS COP26?

COP26

**COP (or 'Conference of the Parties') is a summit attended by the 197 countries which have signed the United Nations Framework Convention on Climate Change (UNFCCC).**

COP aims to accelerate these countries' actions towards the goals of the UNFCCC and the Paris Agreement.

COP takes place every year, although it did not happen in 2020 due to COVID-19. This year the UK, in partnership with Italy, will host the 26th COP ('COP26') in Glasgow on 31 October – 12 November 2021.

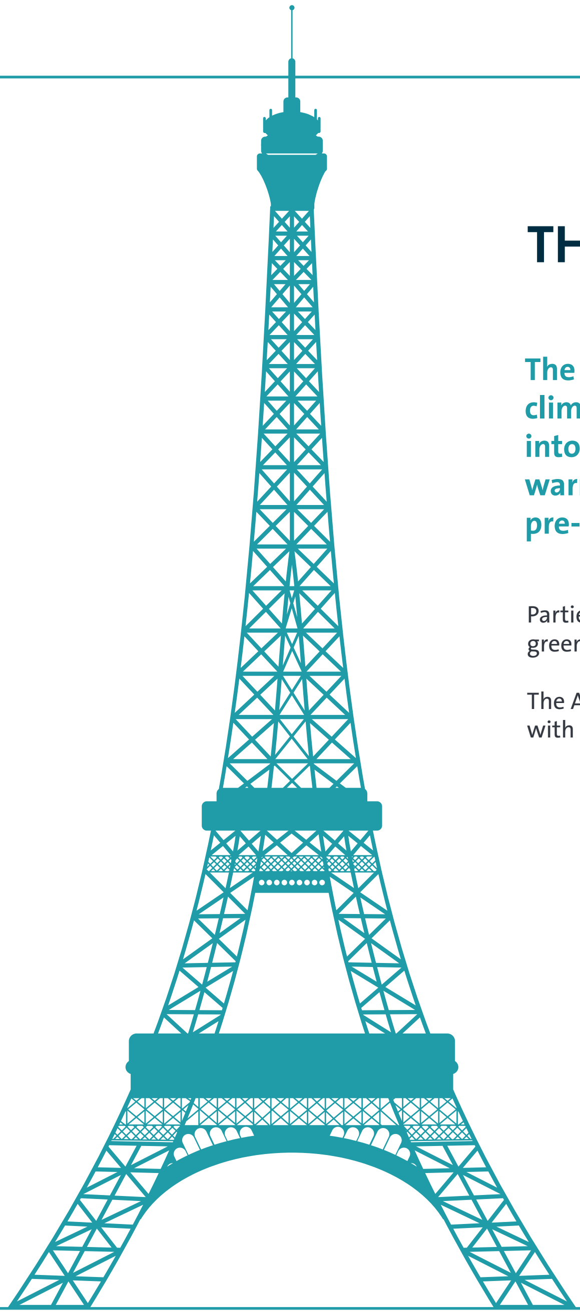
> *"COP26 will be the last best chance the world has to avoid the worst consequences of the climate crisis"*
>
> \- John Kerry, US Climate Envoy

# UN FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)

**The UNFCCC is a United Nations entity. It is tasked with supporting the global response to the threat of climate change.**

When the UNFCCC entered into force on 21 March 1994, it bound member states to “act in the interests of human safety even in the face of scientific uncertainty”.

There are 197 parties to the Convention and it is the parent treaty of the 2015 Paris Agreement.

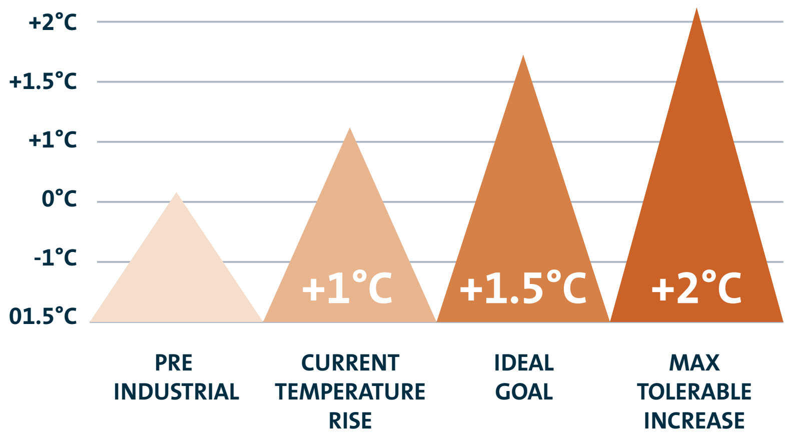


# THE PARIS AGREEMENT

**The Paris Agreement is a legally binding international treaty on climate change. It was adopted at COP21 in Paris and entered into force on 4 November 2016.  Its goal is to limit global warming to well below 2°C, preferably 1.5°C compared to pre-industrial levels.**

Parties to the Agreement are legally bound to combat climate change by reducing their greenhouse gas emissions and adapting to its effects.

The Agreement works on a 5-year cycle of climate action. The first cycle began in 2015, with countries having to submit their climate action plans by 2020/2021.



# WHY IS COP26 SO VITAL?



**In 2021, climate change is a global priority; therefore this year's COP is particularly urgent.**

In 2015, the Paris Agreement had asked countries to submit a climate action plan to COP within five years, i.e. by 2020/2021.
COP26 is the first opportunity for nations to come together to review these plans and to strengthen their climate ambition.

The COP **programme** will focus on ambition and action, and will prioritise the following:

- **Securing global net zero by 2050**
- **Adapting to protect communities and natural habitats**
- **Mobilising finance to raise at least $100 bn in climate finance per year**
- **Working together to deliver.**

**Two things will be at the heart of COP26: progressing the negotiations on the above goals and finalising the Paris Rulebook (the rules needed to implement the Paris Agreement).**

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