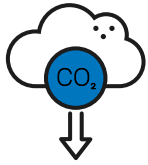


# Net zero: Chemicals

7% of human-caused greenhouse gas emissions come from the operations of the chemicals sector <sup>1</sup>

What does the **chemicals sector** need to do to reach net zero?

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:**



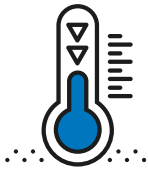
## Net-zero commitment

- Does the company have a comprehensive target for net zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?<sup>2</sup>
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties as they develop?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?<sup>3</sup>



## Strategy

- What are the actions and investments involved in the company's plan to reach net zero, and what is the contribution of each action towards meeting its targets?<sup>4</sup>
- Is the company developing low-carbon products?
- Is executive remuneration aligned with the company's short- and/or medium-term emissions targets, as set out in the net-zero transition plan?



## Resilience

- Has the company analysed the physical climate risks to its assets and operations and evidenced measures to manage them?
- Has the company analysed the resilience of its business model in – and alignment to – climate scenarios? Including the IEA's net zero by 2050 scenario?



## Targets

- Does the company have targets to electrify its energy consumption, and for that electricity to come from renewable sources?
- Does the company have a target to switch to emission-neutral feedstocks?<sup>5</sup>
- Does the company have a target to increase recycled plastic feedstocks?<sup>6</sup>
- Does the company have targets to reduce other airborne pollutants (i.e. NO<sub>x</sub>, SO<sub>x</sub>)?



## Collaboration

- How is the company working collaboratively across its value chain to reduce emissions? (e.g. customers, utilities sector, strategic R&D partnerships, sector initiatives etc).
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g. with carbon pricing)?



## Red lines

- Does the company have a net-zero operational emissions target?
- Has the company committed to calculate and disclose its material Scope 3 emissions?
- Does the company disclose its climate-related lobbying activities, including trade association memberships, and explain the action it will take if the lobbying activities of these associations are not in line with the Paris Agreement?

\* The applicability of the expectations varies depending on companies' business models

1. IEA, DECHEMA, ICCA (2013)

2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.

3. Short-term refers to 2022 - 2025, medium-term 2026-2035 and long-term 2036-2050.

4. E.g., emissions neutral feedstocks, renewable electrification, green hydrogen, circular economy, etc.

5. E.g., green hydrogen-based feedstocks- green ammonia (for agrochemicals), and green methanol (for polymers & HVCs).

6. For companies involved in the manufacturing of polymers and HVCs.

## Further areas for company consideration

### Biodiversity expectations

**Why?** The climate and nature crises are inextricably linked.<sup>5</sup> Net zero requires both emission avoidance and sequestration. Functioning natural systems are essential to this but increasingly vulnerable due to climate change.

**LGIM's expectations:** An assessment of the impacts and dependencies on nature and biodiversity, and appropriate mitigation actions.

**Sector-specific considerations:** Pollution, including from chemicals, is one of the primary drivers of biodiversity loss. Direct impacts could result from manufacturing and polluting effluent. Indirectly – from the use and disposal of chemical products.



### Company levers

- Plastic alternatives
- Collaboration and research and development (R&D) across value chain
- Changes to raw materials and feedstocks, including use of biogenic materials
- Decarbonisation of power and heat
- Energy and resource efficiency
- Recycling and waste treatment

### Government policies

- Carbon pricing
- Support for renewables
- R&D assistance for alternative process (including cost reductions in green electricity)
- Increased waste collection and recycling
- Policies to encourage decentralised energy production and circular economy



#### Challenges

Competitiveness  
 High costs of feedstocks (e.g. biomass) and electricity requirements for low-carbon processes  
 Commercialisation of new technology  
 Carbon capture and storage



#### Opportunities

Key enabler of the low-carbon transition (catalysts, cathodes, light-weight materials)  
 Efficiencies and new production methods  
 Circular economy and partnerships

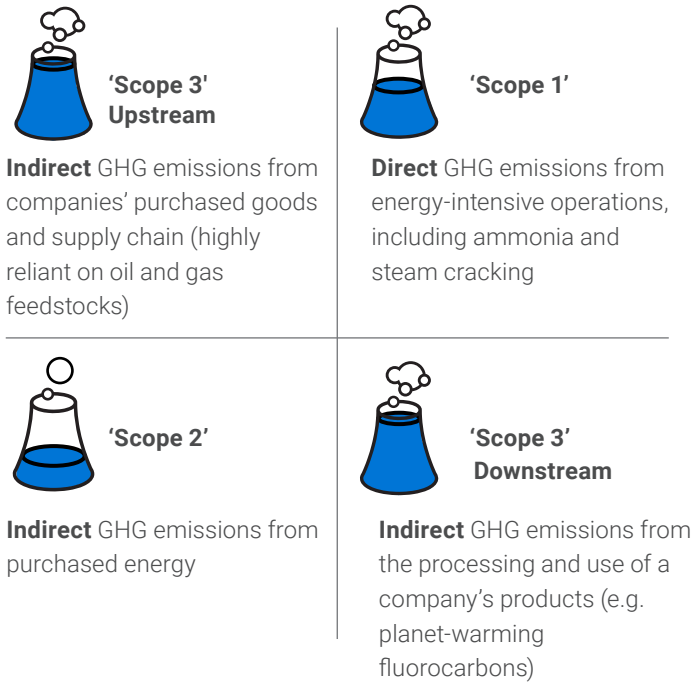


#### What is needed?

Company leadership	Research and innovation	Consumer behaviour
Investment to reduce costs and energy requirements of low-carbon alternatives	Electricity-based processes Alternative materials Downstream pathways	Demand for sustainable materials

5. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

### Sources of emissions



Sources: IEA, DECHEMA, ICCA (2013)

### 'Just Transition' considerations

The potential implications for employees, the supply chain, customers and communities from the transition to a lower-carbon business model

Alternatives to fertilisers/plastics may raise costs of food and other key commodities

### Physical risk impacts

Disruption to global food supply

Weather-caused accidents (leaks, fires, explosions)

Water scarcity



## For more information and to see how companies are rated

[Climate Impact Pledge 2022 - Net zero: going beyond ambition \(lgim.com\)](https://www.lgim.com/Climate-impact-pledge-2022-net-zero-going-beyond-ambition)

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

### Important information

**Source: LGIM as at August 2022. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. The above information does not constitute a recommendation to buy or sell any security.**