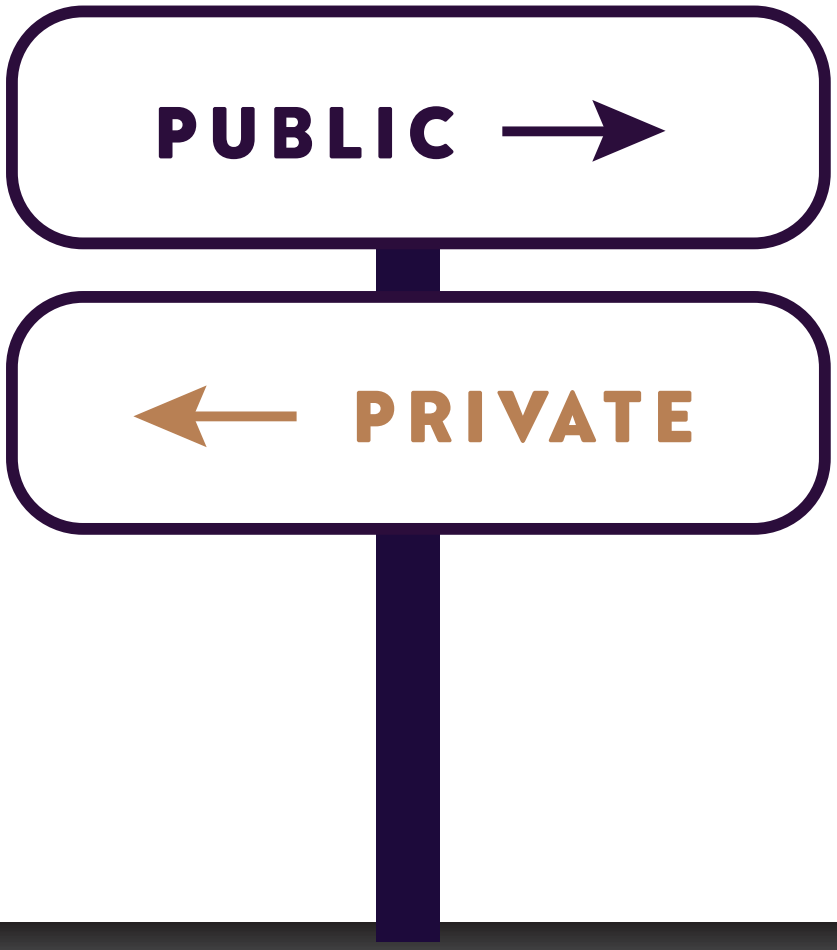
NET ZERO TRACKER

EVERYBODY'S BUSINESS

The net zero blind spot

Publicly-listed companies are committing to net zero, but privately-held firms are largely not

18 October 2022



A report by:

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Executive summary

In recent years the emission-cutting plans of major publicly-listed companies (those listed on stock exchanges whose shares can be widely bought and sold) have received an increasing amount of attention from various quarters. Regulators demand more clarity on climate-related risks, campaign groups highlight the non-existence or lack of some corporate ambition, activist shareholder groups demand (and sometimes get) more concrete plans, and advisory groups work with companies to develop their plans. Much of this attention focuses on companies' targets to reach net zero emissions, which is now the dominant framework that many entities — corporate and public sector — use for decarbonisation pledges and plans.

By comparison, the plans of major private companies receive very little attention. But private companies, accountable only to their owners, and with less regulatory scrutiny and oversight, make up a large share of the world economy, particularly in the fossil fuel sector. **The aggregate annual revenue of the 100 largest private companies in the world amounts to over $4 trillion, almost 5% of the global economy.**

In this report, we pull back the curtain on the world's biggest private companies and ask how their pledges and plans for net zero compare to their publicly-listed counterparts. The comparison includes both the existence and robustness of a net zero target: for example, whether the company has:

- set interim targets
- published a plan outlining how it will reach net zero
- committed to report its progress annually
- is clear about the Scopes[1] of emissions contained in its target, and planned use of offsets.

Data on the world's biggest 100 publicly-listed companies was drawn from the Net Zero Tracker, the definitive online registry of net zero pledges and plans maintained by the four organisations behind this report. We then used a list of the biggest 100 private companies[2] and applied the same criteria to their targets, where they exist, that we use for the Tracker.

On almost all net zero quantity and quality metrics we investigated, we find that private companies are trailing their public counterparts, often by a disturbing distance. **Less than half as many have set net zero targets (32 of the top 100 private firms compared with 69 of the top 100 publicly-listed companies). Of those that have set a net zero target, only 13% (4) have published a plan to reach it, versus 73% (50) of their publicly-listed counterparts**. The private companies that have set a net zero target are less likely to include Scope 3 emissions within it, are less likely to have set interim targets, and give less clarity on their planned use of offsets.

1 See the explanatory footnote on page 8
2 See the scope of this analysis on page 10

The situation is even more concerning when considered in the context of other findings by the Net Zero Tracker and others showing that overall, while corporate target-setting continues at speed, the targets of publicly-listed companies themselves show insufficient rigour and integrity. Considered collectively, the net zero performance of major private companies in this report is seriously deficient compared against a benchmark that is itself full of shortcomings.

It is likely that constituencies that take an active interest in the decarbonisation plans of publicly-listed companies will start to bring more scrutiny to bear on their privately-held counterparts.

Acknowledgements

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1. Context

Corporate greenhouse gas (GHG) emissions matter. In 2014, researcher Richard Heede found that over 60% of cumulative global emissions could be attributed to just 90 global 'carbon majors'. More recently, a CDP analysis revealed that since 1988, 70% of global emissions can be traced to just 100 firms.

In 2018 the IPCC's Global Warming of 1.5°C report propelled the concept of net zero into the political mainstream — showing that carbon emissions need to reach net zero in order to curb climate change at any level of warming, and by mid-century to give a reasonable chance of meeting the Paris Agreement target of limiting it to 1.5°C. In its wake, a growing share of publicly-listed companies — some driven by a desire to do the right thing, others worried about becoming outliers or pariahs — pledged to end their contributions to human-caused climate change. As of October 2022, more than one-third (790) of the world's 2000 largest listed companies (by annual revenue) has a net zero target of some description. And it turns out, the larger you are, the more likely it is you have pledged: if the Net Zero Tracker looks at just the largest 100 publicly-listed companies, over two-thirds (69) have pledged a net zero or similar target.

Of course, a pledge is only as good as the plans and policies underpinning it. Recent analyses, including the Corporate Climate Responsibility Monitor and our Net Zero Stocktake 2022, show that having a net zero target is not necessarily synonymous with high ambition or integrity.

To date, the lion's share of voluntary and regulatory initiatives have focused attention on 'charismatic' well-known publicly-listed companies, where reams of data exist and corporations have reputations to protect. Indeed the scope of the Net Zero Tracker itself has, until this analysis, excluded private firms. Other voluntary initiatives such as Climate Action 100+, Influence Map and the Transitions Pathway Initiative similarly concentrate their scrutiny mostly on publicly-listed companies.

On the regulatory side, disclosure regulation for publicly-listed companies is surging internationally. At present, climate- or sustainability-related risk disclosure is mandatory in China and the UK. In the next few years it will become mandatory in the EU (2023), India (2023), New Zealand (2023), Switzerland (2023), Canada (2024) and South Korea (2025), edging mandatory disclosure towards covering almost half of global GDP (48%) and emissions (47%).

If the US were to follow suit — mandatory disclosure has been proposed by regulators — about 70% of global economic activity will eventually be forced from the climate reporting wilderness, cementing disclosure as a ground rule for publicly-listed companies worldwide.

The missing ingredient

In one sense the lack of stakeholder attention given to private firms is understandable, given the different circumstances under which capital is committed to private vs public enterprises. However, in other senses

it is inexplicable: a tonne of carbon is a tonne of carbon, whichever variety of company emits it; while the collapse of a company due to inadequate consideration of climate risks can cause social and economic upheaval irrespective of how it is capitalised and managed.

Policymakers in the EU and UK have begun to mandate that 'large' (over 500 employees) and 'very large' (500+ employees and a turnover of £500m+) private companies, respectively, disclose climate-related information and risks. A start, but still some way from being comprehensive or adequate. For the US and other nations, private firms remain firmly off policymakers' radar.

Two other trends make the missing private ingredient all the more urgent: many publicly-listed companies are (1) going private, or (2) offloading their carbon-intensive assets to private companies.

Going private

Over the last few years, economic value has been concentrating into the hands of private companies vis-a-vis publicly-listed companies. According to the Private Markets Pilot, a group which calls for private companies to disclose more climate data to CDP, private equity net asset value has grown three times as fast as the value of assets in publicly-traded companies since the turn of the century. A recent Bain & Company analysis found that 10% of the public companies reporting to CDP in 2016 had gone private by 2021. Once in private hands, an astounding 85% stopped reporting to CDP.

'Fossil-spinning'

When reputation-conscious publicly-listed companies divest polluting assets to private firms, there is no overall reduction in the GHG emissions related to these assets. It is simply a form of 'emissions leakage' or 'fossil-spinning' between asset classes. In most cases, the assets would be better held in the more transparent hands of the publicly-listed company. Uneven disclosure requirements may incentivise the transfer of emission-intensive and increasingly financially risky activities from the more regulated to the less regulated world.

One company's transition to net zero is seen by others as an opportunity to profit, even in the light of 'stranded asset' warnings. Since 2018, the Western world's biggest oil companies have shed $44bn of mostly fossil-fuel assets; in the coming years, the industry is eyeing offloads worth $128bn, according to Wood Mackenzie. A prominent example recently played out in the UK, with private firm INEOS buying up BP's global petrochemical business and acquiring Hess Corporation's oil and gas assets. INEOS, unlike many of its private peers, actually has a net zero target. But, as we found in this analysis, its target lacks credibility — it does not, for example, cover Scope 3 emissions[1], have a detailed plan to reduce emissions, or stipulate the scale of offsets it plans to rely on.

1 Scope 1: Covers sources and sinks directly managed by an entity; Scope 2: Covers indirect emissions from energy use; Scope 3: Covers all other indirect emissions across an entity's value chain, upstream and downstream.

With these trends playing out, BlackRock Chairman Larry Fink recently warned of a "huge capital markets arbitrage" in carbon-intensive assets, with no net benefit to global emissions. "If we are really sincere about the world having net zero carbon in 2050," he said, "we cannot move these parts of the economy out of public entities into private hands. The net zero world doesn't change, but the company looks better."

2. Analysis

Scope

For this analysis we limited our scope to the world's 100 largest publicly-listed companies by annual revenue and the 100 largest private-unlisted companies (hereafter 'private companies'). The publicly listed companies were drawn from our existing Net Zero Tracker database. For the private companies, we used this Eqvista list to first identify the 100 largest; then we used the Net Zero Tracker Codebook to assess their credentials. Two sets of eyes were cast over every company. To note:

- Our data collection relies on the availability of publicly-facing documents and press releases of pledges, plans and strategies to reduce greenhouse gas emissions.
- We found that one private company on the Eqvista list, Aldi, is legally split into two: Aldi Süd and Aldi Nord. We chose to code Aldi Nord, the less ambitious of these two targets.

See here for further methodological details about how the Net Zero Tracker collects data.

While only giving a 'glimpse' into this arena, the analysis shows why it is essential to scrutinise privately held companies alongside their public counterparts. The combined annual revenue of the 200 companies assessed is **$19 trillion**, equivalent to roughly 20% of the global economy. If we break the 200 companies into their respective two categories:

- The aggregate annual revenue of the **100 publicly-listed companies** amounts to **$14.6 trillion**, or 15.2% of the global economy.
- The aggregate annual revenue of the **100 private companies** amounts to **$4.3 trillion**, or 4.5% of the global economy.

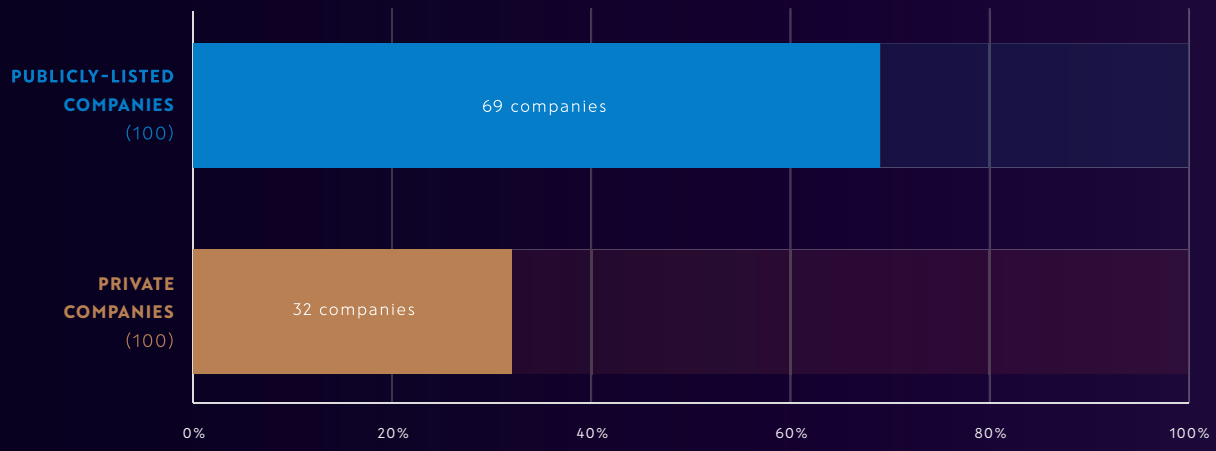
Findings

Of the 100 private companies investigated, we found:

- Only **32** have set net zero targets, compared with **69** of the largest 100 publicly-listed companies.
- The combined annual revenue of the private companies with net zero targets is **$1.2 trillion**; the figure for publicly listed companies is **$10.5 trillion**.
- Only **13%** (4) of the 32 private companies with net zero targets have published a plan to deliver on their pledges, versus **73%** (50) of the 69 publicly-listed companies with net zero targets.
- None of the private fossil fuel companies investigated (8) has pledged a net zero target, compared with 65% of publicly-listed companies in this sector.
- All 10 of the largest publicly-listed companies in the world have a net zero target or similar, compared with **none of the largest 10 private companies**.

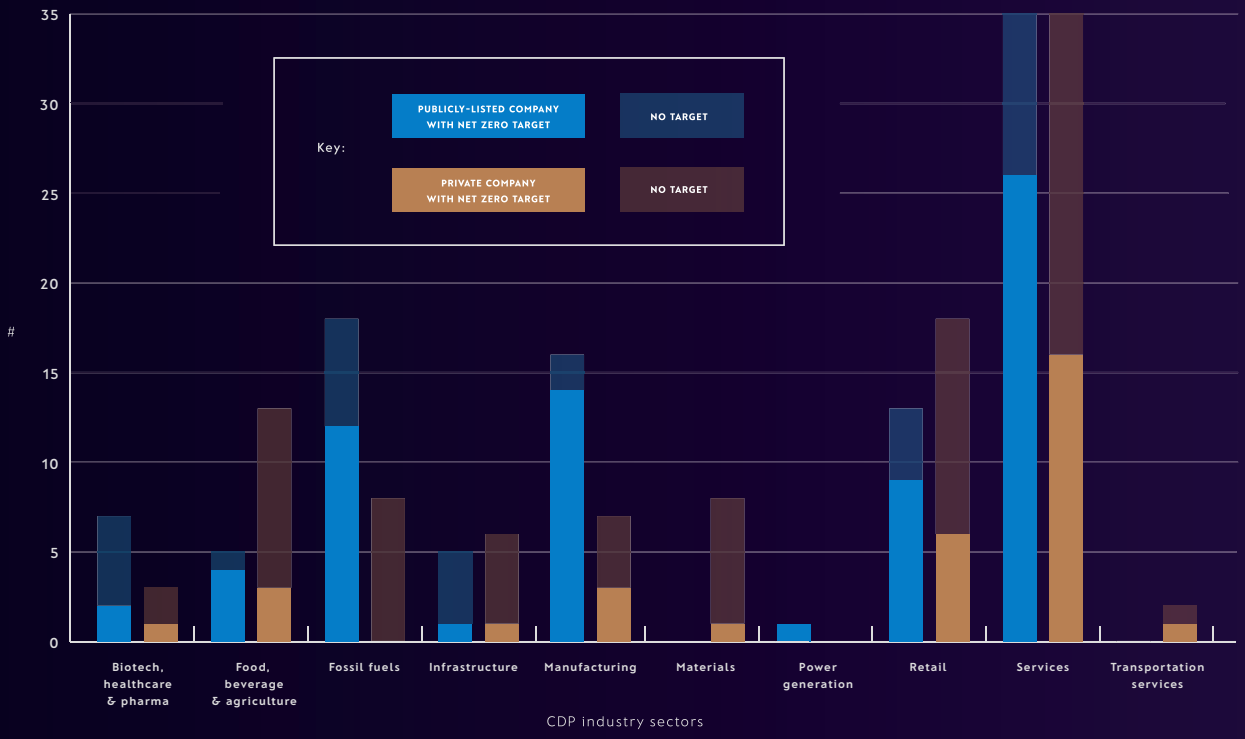
COMPANIES BY NUMBER

The number of publicly listed companies with net zero targets (or similar) is more than double the number of privately held companies with targets



INDUSTRY SECTOR DISTRIBUTION

The number of publicly-listed and private companies, broken down by CDP industry sectors



Looking at private companies within the list of 100 that are in sectors we regard as 'high emitting' (fossil fuels, infrastructure, power generation, manufacturing and materials), we find that:

- Only **17%** (5/29) have set a net zero target, compared with **70%** (28/40) of their publicly listed counterparts.
- Net zero targets cover just **14%** ($222bn/ $1,556bn) of the combined annual revenue in these sectors across the companies in our sample. This compares with the **77%** ($4,768bn / $6,198bn) of combined annual revenue in high emitting publicly-listed companies that are covered by net zero targets.
- Only one of these high emitting private firms, INEOS, has published a plan of how it intends to reach net zero, and even this we consider inadequate.
- The largest high-emitting private companies without a net zero target are **Trafigura Group** (annual revenues of $231bn, headquartered in Singapore); **Vitol Group** ($140 billion, Netherlands); **Koch Industries** ($115 billion, US); and **TATA Group** ($113 billion, India).

From a geographic perspective:

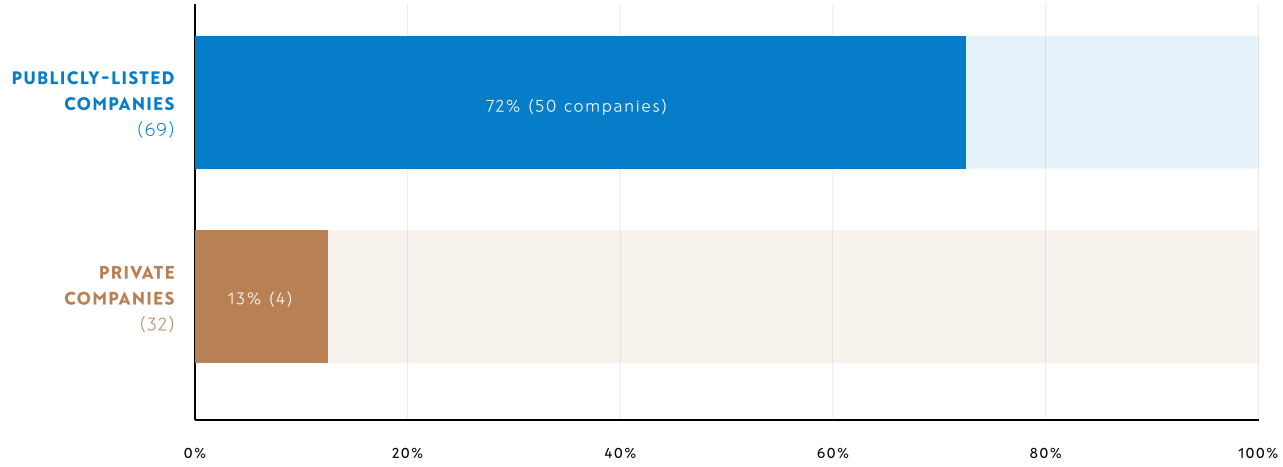
- Of the 50 largest private companies operating in the **US**, only **20%** (10) have a net zero target, far less than US-based publicly-listed firms, where **73%** have a target.
- Of the 16 private companies headquartered in **China**, only one (**6%**), Zhejiang Geely Holding Group, has a net zero target. This compares with **33%** (5/15) of the publicly-listed Chinese companies in this analysis that have a net zero target.
- Of the 21 largest private companies operating in the **EU**, **52%** (11/21) have a net zero target but most of these companies have not published a net zero plan. This compares with **88%** (14/16) of the publicly-listed EU companies in this analysis that have a net zero target.

We also found (across all sectors) that:

- Just **34%** of private firms' net zero pledges include an **interim target**, an important proxy for delivering short-term emission reductions and a marker of real intention to reach net zero. For comparison, 55% of publicly-listed company net zero pledges include interim emissions reduction targets.
- **53%** of private firms' net zero targets include **full or partial coverage of Scope 3 emissions**, where most of a company's value chain emissions typically occur, compared with 61% of publicly-listed companies.
- **69%** of private companies do not specify whether or how they plan to use **external offsets (carbon credits)**, compared with 51% of publicly-listed companies.

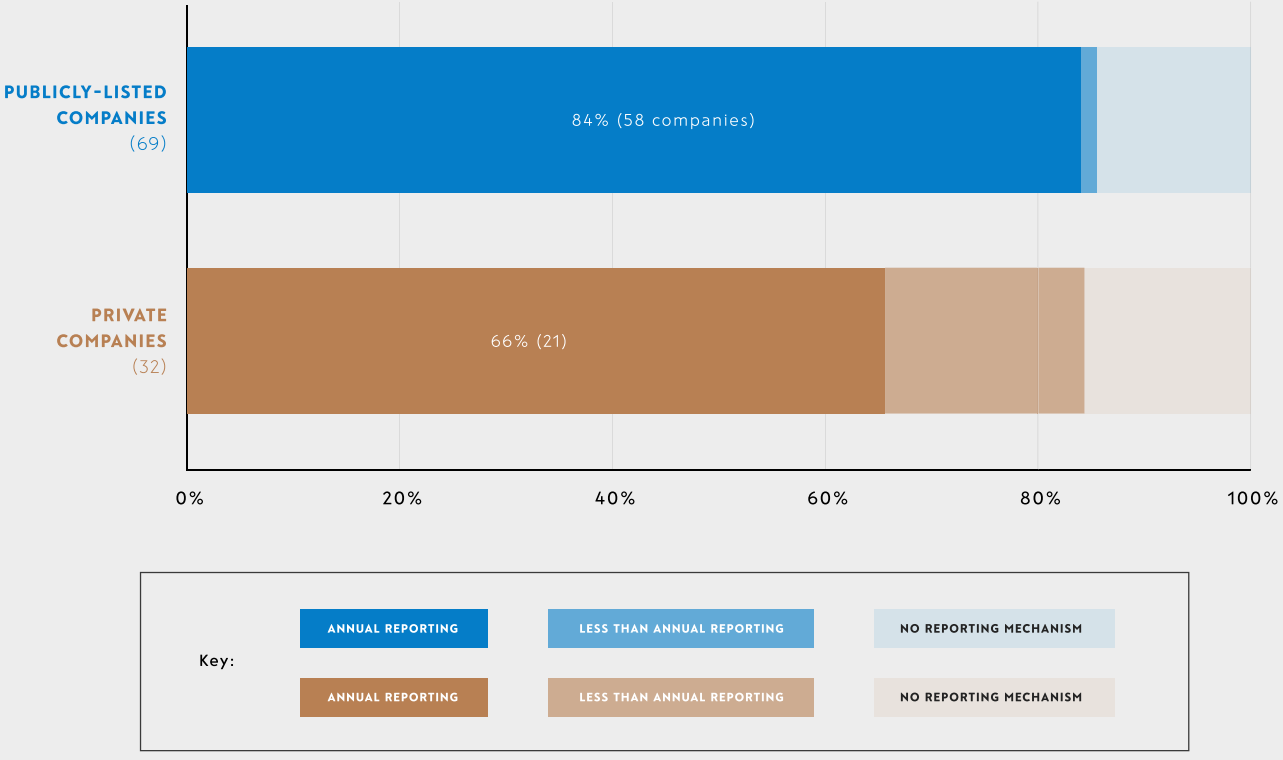
PLANNING DOCUMENT

Of those companies with net zero targets, the proportion that have a published plan to deliver it



REPORTING MECHANISM

Of those companies with net zero targets, the proportion that report on progress



3. Discussion

On both quantity and quality metrics, private firms are trailing their publicly-listed company counterparts by a concerning distance. Tackling this private-public disparity is vital for 'whole economy' decarbonisation. For the Net Zero Tracker team, three areas of particular concern stand out:

- **Lacklustre net zero target setting by private firms**
- **Weak attempts by private firms that do have net zero targets to publish plans to deliver them**
- **Higher-emitting companies, the ones that really matter, are firmly not on the net zero train yet.**

If a private company has not even set an emissions reduction target, how can investors, consumers, regulators, or anyone else hold it accountable for progress or lack thereof? How do policymakers know the state of play so they can regulate judiciously? For climate change and for financial stability, transparency is essential. For publicly-listed firms, net zero target setting is swiftly becoming essential and routine: not so, our analysis shows, in the more dimly-lit world of private companies.

Perhaps the most worrying finding is the striking dearth of plans among private companies — a strong proxy of whether a target has robustness. The absence of a plan is effectively the absence of a target, because without a plan the target cannot be delivered. A plan capable of delivering the net zero goal must also have interim targets, ensuring that the business is progressively changing rather than assuming that a last-minute push can see them home. There also needs to be clarity that the company is planning to achieve all, or at least the vast majority, of its target by cutting emissions rather than using offsets. On all of these counts, the pledges of private companies fall short.

Ultimately, a 'whole economy' climate disclosure system is needed to enhance transparency and drive private firm accountability. Sunlight might be the best disinfectant, but there is also room for improvement in other areas.

a) Transparency begets scrutiny begets accountability

Most private companies are still exempt from public disclosures, depriving stakeholders of the necessary information they need to assess and evaluate climate action and performance. Research by Bain & Company conducted earlier this year showed that 64% of publicly-listed companies (by market capitalisation) report environmental data, compared with less than 1% of private companies.

The obvious remedy is more mandating of transparency — because transparency works. For example, a study released last year by the National Bureau of Economic Research on the influence of mandatory disclosures by US electric power plants showed that disclosure helped 'reduce carbon dioxide emission rates by 7%'. The effect was stronger for plants owned by publicly-listed firms that are subject to the EPA's Greenhouse Gas Reporting Program, the study found. A 2022 analysis by researchers in Germany agrees that extending climate-related disclosure requirements to private companies is the first step to greater

scrutiny and thus accountability: "If disclosure is to be used not only to overcome investors' information asymmetries on public markets, but also to promote a net-zero transition, then these disclosures should (also) be mandatory for (certain) private companies which must report on environmental impacts (including emissions), sustainability performance through metrics, and relevant targets and strategy."

Ultimately, bringing private companies out of the shadows and eliminating the damaging arbitrage that Larry Fink warned of requires government regulation. The good news is that policymakers in the EU and UK have started to include private companies in climate-related reporting requirements. The bad news is that the requirements are limited in scope and apply to 'large' and 'very large' private companies only. In the EU, the forthcoming Corporate Sustainability Reporting Directive (CSRD) will put very large public and private companies on an equal footing in terms of both climate risk and impact disclosure. In the UK, the Streamlined Energy and Carbon Reporting (SECR) framework mandates that very large UK private companies need to report their energy use from electricity, gas and transport fuel, as well as the associated GHG emissions.

One obvious benefit of governments levelling the uneven disclosure playing field would be eliminating the incentive for a company to stay private to avoid incurring climate risks and emissions disclosures. Equally, it would remove a potential reason for a publicly-listed company to delist to mitigate the 'bureaucracy burden' of sustainability and emissions reporting.

b) Risky business

The lack of net zero engagement by private firms presents risks, and not just for the world. Delaying the transition creates risks to the individual firm itself. The risk matrix of not going net zero is expanding, as are the competitive opportunities on offer to private companies that move now before being told to by regulators.

- **Reputational risks** may not occupy as prominent a place in the strategic calculus of private firms as with their publicly-listed peers; but they are not immune. INEOS, one of the few private high-emitting firms with a net zero target and a plan, announced its target at precisely the same time as it signed on with one of the biggest sports brands in the world, the All Blacks.[2] The coincidence was not lost on commentators and campaigners, who followed in the footsteps of others charging the petrochemical company with 'greenwashing' and 'sportswashing'.

- **Recruitment risks**. It has been well documented that publicly-listed oil and gas 'supermajors' are competing for talent in their transition to cleaner forms of energy. But what of their private counterparts? Young graduates are already questioning the climate credentials of potential employers, and this will include private companies. The absence of a net zero commitment and a plan could be off-putting for the best talent.

2 The national rugby union team of New Zealand

- **Regulatory and legal risks** are mounting. Expanded mandatory disclosure for private firms is a matter of when, not if. As mentioned above, EU and UK policymakers have already brought in disclosure requirements, and more markets will follow, not least because of the need for a level playing field between listed and unlisted companies. Meanwhile, **litigation risks** are increasing: the cumulative number of climate change-related cases has more than doubled since the Paris Agreement was signed in 2015, bringing the total number of cases to over 2,000. In a high profile recent case, Shell was ordered by a Dutch court to reduce its net GHG emissions across all scopes by 45% by 2030 compared with 2019 levels, based on tort and human rights law. Private firms are not exempt from this growing trend.

- **Business risks**. With 91% of the global economy covered by a target, the net zero train has well and truly pulled out of the station. It is only inevitable, then, that private laggards will have to engage with the transition to net zero and, ultimately, tackle their emissions — even if they would rather not. The energy price crisis created by Russia's invasion of Ukraine illustrates a second set of business risks. A company actively pursuing a net zero transition is by definition more likely to be increasingly efficient in its energy use and insulated from high, unpredictable fossil fuel prices by procuring or generating energy from renewable sources. This will deliver a lower cost base than those of its competitors.

    - **Scope 3 emissions**: Private and publicly-listed companies are intricately intertwined in global supply chains. As publicly-listed companies increasingly fall under mandatory disclosure and net zero transition requirements, they will have no choice but to deal with their value chain (Scope 3) emissions. Private firms that form part of those value chains will need to either shape up or lose out. Moreover companies that provide less emissions-intensive products or services will have an increasingly competitive advantage on the global market, due both to energy costs (noted above) and the likely advent of carbon border price adjustments.

    - **Public procurement**: Procurement standards are already being used as a mechanism to increase net zero alignment among firms. The US and Spain have legally enshrined the requirement to achieve net zero-aligned public procurement in the future. Meanwhile, the UK government last year introduced a procurement policy by which companies contracted to deliver goods and/or services with an expected value over £5 million annually need to show that their UK operation has a goal of reaching net zero by 2050.

- **Investment risks**. Private equity is relatively insulated from regulatory oversight and – as this report demonstrates – not known for its climate concern. But as private investors, including private equity firms, increasingly align with science-based targets — a process that has already begun — private firms will be forced to fall in line. Some in the investment and private equity community have begun to make noise. For example, in 2021, private market investors with $2.3 trillion of assets including M&G, Neuberger Berman and Nuveen requested standardised environmental disclosure from over 1,000 privately-held portfolio companies through CDP. There is, however, a long way to go. Currently, only

one-tenth of the largest private equity funds monitor and disclose portfolio-wide company emissions.

- **Insurance risks**. Earlier this month Munich Re, the world's largest reinsurer, announced that by 1 January 2025 it will require oil and gas companies to have a 'credible commitment to net-zero greenhouse gas emissions by 2050 including corresponding short- and mid-term milestones'. From 1 January 2023, it will also no longer invest in or insure projects covering the planning, financing, construction or operation of new oil and gas fields. It has to be considered likely that other insurers will follow suit.

c) Everybody's business

Stakeholders that take an active interest in the decarbonisation plans of publicly-traded companies are likely to start bringing more scrutiny to bear on their privately-held counterparts, particularly as more grow concerned about fossil-spinning.[3] Activist shareholders of course cannot hold these companies accountable. But for governments, regulators, lawyers, business advisory groups and all varieties of campaigners, the basics remain: a tonne of carbon is a tonne of carbon, whoever emits it. We are already seeing signs among regulators of an intent to end discrimination between companies' over their emissions and investments on the basis of how they are capitalised and administered.

International organisations

At the international level, the importance of incentivising and compelling private firms to measure emissions and set net zero strategies should not be left out of the UN Secretary-General-commissioned High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities. Its recommendations are due to be published before or during the COP27 UN climate summit in Egypt.

The UNFCCC-backed Race to Zero Campaign, which mobilises net zero targets from non-state actors to support the goals of the Paris Agreement, already includes leading private companies, providing a ready model for further leadership. One of the founding principles of Race to Zero is that criteria for membership will progressively strengthen over time,[4] which will affect the private companies involved alongside all other members.

Voluntary initiatives

Some voluntary initiatives are leading the way, including the transition-guiding Science Based Targets initiative (SBTi) and non-profit disclosure platform CDP. Both encourage standardised reporting across public and private domains and, in the case of SBTi, private equity sector target guidance. Last year the Science Based Targets initiative (SBTi) launched its Private Equity Sector Science-Based Target Guidance 'to enable PE firms to set targets for operations and investment portfolios aligned with the emission

3 See page 8 for a brief description of 'fossil-spinning'
4 The first strengthening took place earlier this year: https://climatechampions.unfccc.int/criteria-consultation-3-0/

reductions needed to stay in line with 1.5°C', disclose their fossil-fuel exposure and report their portfolio-wide plans to transition to clean energy.

Investors

CDP's recent Private Markets Pilot collaboration with private market investors with $2.3 trillion of assets, including Beach Point Capital and Coller Capital, is perhaps a harbinger of things to come. As the first ever standardised climate disclosure platform specifically for private markets, if it can successfully scale, private equity investors will finally have access to meaningful, comparable and actionable data.

Analysts (including the Net Zero Tracker)

Despite the dearth of information on them, all analysts should be endeavouring to incorporate privately-held companies in their analyses of net zero progress across the corporate world. A recent publication by the NewClimate Institute sets a good example. It looked at both publicly-listed and private companies in its 'deep dive' assessment of the climate action plans of 29 Dutch companies and financial institutions.

As mentioned above, the Net Zero Tracker still only tracks publicly-listed companies, but in light of this analysis we plan to review our corporate scope. We will also engage in closer scrutiny of efforts by publicly-listed companies to offload heavy-emitting assets. We think that helpful areas of future research could include assessing whether correlations exist between mandated climate-related disclosures on private firms and net zero planning (for example in the EU and UK arenas), or looking into whether the provision of climate-related information makes a meaningful difference to where private equity invests its money.

All stakeholders, including analysts like ourselves, could better articulate the above risks of 'not zero' and the opportunities associated with transitioning to net zero for private players.

Campaigners

As mentioned throughout, to date campaigners have tended to concentrate their efforts on 'charismatic companies', usually publicly-listed, often at the expense of private firms. Rethinking the current focus on public companies, which may exacerbate fossil-spinning and regulatory arbitrage, could help to even the ledger. This report shows that privately held companies account for substantial volumes of greenhouse gas emissions, and should logically be as much a focus for campaigners as those in the public sector. The poor performance of private fossil fuel and high-carbon companies provides a compelling reason for more exposure.

4. Let there be light

On almost all net zero quantity and quality metrics we investigated in this analysis, private companies are trailing their public counterparts. The two figures that especially leap from the results page are that:

1. Private firms are currently less than half as likely as their publicly traded counterparts to have set a net zero target; and
2. Where they have set a target, they are less than one-fifth as likely to have published a plan.

These figures alone give pause for thought. But there is more. The private companies that have set a net zero target are also less likely to have set interim targets, are less likely to include Scope 3 emissions within it, and give less clarity on the planned use of offsets.

In short, the lack of integrity of the largest private firms' net zero pledges is a $4.3 trillion blind spot that is likely to gain much greater interest in the coming years.

The value of this Net Zero Tracker analysis lies in providing a glimpse into the dimly-lit world of private firms, and in presenting a baseline for future analysis — by ourselves or others — to compare against it. We also hope it supports efforts to grow awareness across academia, civil society and policymaking centres that we need more than just transparency to address the stark net zero disparities that exist between publicly-listed and privately-held companies.

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The data used for this analysis can be downloaded here.

If you have any questions, please email hello@zerotracker.net; if you would like to request updates to Net Zero Tracker entities, please fill in this form or email updates@zerotracker.net.

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