Can Climate Goals Survive the AI Energy Boom?

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Andrew Jones: Companies are trying to satisfy a lot of different stakeholders, This is a sign of this space maturing and being integrated more into the core business Measurement is becoming more precise over the last few years. it's less about setting the aspirational target

Steve Odland: Andrew, we've talked about sustainability goals that have been set over the years. Everybody's read in the papers that countries set these goals and, of course, the Paris Accords were the most famous set of those goals. But they may not be aware that most companies set goals as well, right?

Andrew Jones: That's true, Steve. As we've seen in our research, in our recent report, it's a mainstream practice, particularly amongst the larger cap companies who have a global footprint and more mature governance programs and sustainability programs.

Steve Odland: Yeah and they're public about this. They share this with their constituents, their customers, employees, and owners, and their commitment to various aspects of sustainability. And we're going to talk about that today, what the current practices are and how people are doing in meeting those goals.

There is a classification system, Andrew, that's been widely adopted. And probably people have heard about it, but it's scope one, scope two, and scope three. Can you just talk about what each means?

Andrew Jones: Delighted to, Steve. And these terms can often become a little bit jargony, right? They reflect the broader terminology in the environmental science space. But effectively, these are ways in which companies account for their greenhouse gas emissions.

They're divided into three scopes. So you have scope one, which is direct emissions, effectively what the company operates. So emissions from factories and vehicles and other assets. Then you have scope two, which is emissions from the energy and electricity that it purchases, which is a really interesting area.

And then finally, scope three, which can be sometimes quite amorphous and ambiguous, but is effectively emissions from the entire wider value chain, so indirect emissions. And that can include everything from upstream suppliers to downstream consumer use. For many companies may actually be the biggest area of their carbon footprint.

Steve Odland: Let me just run through it and make sure I get it. Scope one is what they control, right? It's emissions that come from their operation. Scope two is really electricity and that's not really controlled by them per se, except if they have a choice of electricity providers, which may be more or less sustainable. And then scope three is really upstream, what their suppliers are emitting. Did I get it right?

Andrew Jones: You did. You mentioned scope two, you're so right. That's purchased electricity. In some ways that's indirect because it may depend more on the cleanliness of the grid than it does on the company's choices. And as you said, scope three is both upstream and downstream as well, because it also includes consumers. So very big area.

Steve Odland: Okay. So scope one's controllable, two is electricity, three is upstream. How are they doing on achieving their goals in each scope?

Andrew Jones: As you can imagine, it varies a lot, depending on the scope. We see this in our analysis of disclosures and filings and data, that progress has been mixed depending on the scope. Actually the area where we've seen companies-- particularly big US public companies-- making the strongest progress in recent years in terms of reducing emissions is in scope two, which is those emissions from purchased electricity.

And actually we've seen significant progress here, Steve. Just in the last sort of three or four years, we've seen median scope two emissions in the S&P 500 has fallen about by about between 40% and 60%, depending on how it's accounted for.

This is significant progress. And that reflects a bunch of things. It reflects real world improvements: cleaner grids, more efficient buildings, lower energy use. It also reflects, I think, companies being more intentional about investing in renewable power or purchasing renewable energy. So big progress in scope two. Perhaps as we can go on to discuss maybe the other two scopes, perhaps more challenges.

Steve Odland: There's been big progress on two, but they're pretty far along on scope one, aren't they?

Andrew Jones: It depends on the company and the industry, Steve. We actually found an interesting finding in our recent report that for the Russell 3000-- corporate America writ large-- there has been some notable reductions in median and average scope one

emissions. But when you hone in on the S&P 500 and the larger cap companies, among those companies that have scope one targets, more than half actually have shown flat or even rising scope one emissions over the last few years.

The point being that this is still a work in progress. I think making further reductions is starting to prove quite challenging. It requires some quite big trade-offs or technological advances or even rethinking sort of redesigning industrial processes.

So a lot of progress for sure, but still a bit more to go, I think, is the ultimate takeaway here.

Steve Odland: Yeah. It's hard. It's probably easier to get the low-hanging fruit on these things but then as you're trying to get out the remaining kinds of emissions it gets harder and harder.

Your point is an important one, which is that those companies that have stated goals tend to be the ones that work at it and track it, and more progress is made, hence it's probably a good idea to continue to set these goals regardless of the size of the company that you are.

Andrew Jones: I think this is a really fair point, Steve, and I agree. There was obviously a lot of enthusiasm around target setting over the last decade really following the Paris Agreement in 2015. As we said at the start of this discussion, it's become a mainstream practice, particularly amongst larger companies.

What we're now seeing is many of these companies are starting to move much more into, I think, the harder work of execution at a time when some of those original assumptions perhaps about either the ease of decarbonization or the policy environment or the technologies being available have maybe not played out exactly as expected a decade ago.

Companies are now in this interesting space where it's less about setting the aspirational target and it's much more about how do we actually get there, while also managing some of these broader disruptions we're seeing in the business and economic environment.

Steve Odland: Yeah, and originally when this framework was laid out, scope three was viewed as a bridge too far. Let's focus on one and two and we'll get to three. We're there now. You have to get to it because it's the next phase. What you've reported is that companies are starting to.

It's harder to assess. It's harder to make progress because you don't directly control it. But at least now you're seeing an increase in the number of companies that are tracking it.

Andrew Jones: Absolutely right, Steve, and. I think scope three is such an interesting area. Because as we said at the start, this control is very indirect, right?

A lot of it's actually outside of the direct control of the company. It depends on suppliers,

on customers, on various parts of the value chain. And even the actual data and measurement systems are still in progress.

Measurement is becoming more precise over the last few years. We've seen quite a few instances of companies openly revising and restating their scope three emissions, saying that we've now refined our methodologies and we're more confident in these numbers. So it's still a work in progress. But a lot of progress has been made, whether it's building the right data systems, building the supplier relationships, conforming to new regulations.

Still a long way to go on scope three but I think we have to recognize the progress that companies have made here. And I think going forward we'll see companies focus more on the areas of scope three where they do have control, rather than trying to manage their entire value chain. I think they'll really focus on the material areas that really matter.

Steve Odland: It's harder to validate and verify the numbers by any company because they're really reliant on their suppliers' numbers. That also has created some skittishness for companies reporting it because it's not really their numbers, it's not really their control.

But it's still important that they do track it and it's still important that they influence it up the supply chain. That's what your report shows, is that people are starting to come around to that.

Andrew Jones: Oh, definitely. We've seen a lot of change in this space and companies have done a lot, I think, to drive expectations for meaningful data across their supply chains.

We're seeing some interesting trends, as new regulations come on line, whether in the US or Europe or elsewhere, that are increasing and mandate large companies to disclose their scope three. That's also helping drive this through and make it more comparable.

But still a lot of challenges out there, Steve. Still a lot of sort of best guess estimates, still a lot of proxy numbers, still a lot more to really make this data comparable. Often when you see companies' reported scope three emissions go up, it's not necessarily a sign that they've been emitting more. It can often just be a sign that their methodology has improved and they've got more accurate numbers. So still a lot of nuance and ambiguity in this space.

Steve Odland: Yeah. I think when this whole tracking process started, people did it mostly because the shaming or it was the right thing to do, that kind of thing. That's evolved a lot, hasn't it?

Andrew Jones: It really has. When I look at sort of corporate climate action and corporate climate reporting-- which we have to remember is still a very new, historically speaking, phenomenon-- but it's moved through a few phases.

You saw the initial phase probably about a decade ago after the 2015 Paris Agreement,

where there was a lot of alignment, companies began measuring emissions and reporting on them and setting these, whether it's 2030 goals or 2050 net zero goals. We saw in the years that followed sort of climate moved up the agenda of investors and boards and customers.

In the last few years we've seen a change in focus, from that kind of, I guess you can almost call it like the era of pledges and aspirations to implementation. And those commitments I think are now being tested in a tougher environment.

Capital's more expensive. We know energy demand is going up. AI and other priorities are competing for investment and the policy landscape has changed. What we've seen is companies aren't abandoning these targets but they're becoming a lot more selective about what they can control, what they can fund.

And I think this is a positive trend. This is a sign of this space maturing and being integrated more into the core business and some of the core business decisions which do require trade-offs.

Steve Odland: Companies have multiple constituencies. You and I have talked about this over the years. Customers, employees, owners, community, so forth. Do you see any one constituency making more impact on the focus of companies on sustainability and emissions?

Andrew Jones: it's a really good question. I think you're so right that companies are trying to satisfy a lot of different stakeholders, right?

And if you think about why it's become mainstream to report this kind of information, I think it's because different stakeholders use it in different ways. Investors use the data to assess risk. Customers might use some of the emissions data in their own calculations. Boards are using it. Regulators use it. It's satisfying a lot of different stakeholders.

But I think to your question, at different points in time perhaps some stakeholders have been more vocal than others. And I'd say a few years ago it felt like maybe investors and asset managers were very vocal in driving a lot of this focus.

That's evolved a lot in the last few years. Investors are a lot more selective now. And perhaps actually this is now being driven maybe more by customers, by employees, by regulators. So I think the center of gravity might have shifted but there's a lot of stakeholders involved here.

And that's hence why companies do this and why they report on it and why they communicate this and continue to do so.

Steve Odland: Andrew, so you've written this new paper updating all of the trends and so forth. Where can our listeners find it?

Andrew Jones: So Steve, I'd recommend they go to the TCB website, tcb.org and simply

look for the Governance & Sustainability Center, and you will find this new report there, amongst many other content and insights we've generated across the governance and sustainability landscape.

Steve Odland: Yeah. And it's a great resource for all business leaders.

You can't have a conversation, it seems, these days without talking about AI. Those little letters. It's really impacting everything that we do. And sustainability is no different.

Andrew Jones: That's so right, Steve. You're right that we can't escape AI, can we? AI has really become central to this conversation we're having today, whether it's about sustainability writ large or specifically climate and climate goals and energy. There's many reasons why that is but I'd say only AI is perhaps forcing, from a sustainability perspective, companies to try and reconcile some different priorities.

They're trying to deploy a transformative technology or at least a potentially transformative technology while trying to still deliver these climate goals we've been talking about, but were set before we really knew about its energy demands. So it's a interesting sort of contradiction that might be emerging within many businesses.

Steve Odland: And, there's AI that's used in the analysis and reporting of sustainability goals but also sustainability goals need to take into account AI use because of its rising electricity demand, its water usage, and so forth.

Andrew Jones: That's so true, Steve. The most recent sustainability disclosures of some of the big technology and cloud companies show that tension clearly, where they can actually see in real time, in the last couple of years, electricity demand is really going up, as we've seen the data center build out, scaling both in the US and globally.

Power demand has increased significantly, and with that, emissions are potentially increasing as we burn more fossil and more gas to get there. So it's this interesting tension where it's exposing this challenge where we don't want to slow down the AI build-out, but clearly we have to be cognizant of the sustainability and climate impact it may potentially have.

Steve Odland: Yeah, and some of it's in scope two and some of it's in scope three, which again, are more indirect, right?

Andrew Jones: That's right. Going back to those scopes, if you think about it, there's a small group of companies out there who are building the AI models or they are building the data centers and infrastructure that will only power it. And for those companies, this is, I guess, the environmental impact of AI-- whether that's emissions created from data centers or water usage in data centers, is a material, straightforward issue.

It is a direct impact. But for the vast majority of companies who are going to be more sort of adopters of that technology, it's going to show up more in their scope three. I think it'd

be very interesting to watch in the next few years if we start seeing a notable trend there.

We're already seeing sort of more pressure from some stakeholders for companies to break out and disclose those emissions and I expect that pressure to continue. So this is a very interesting space where a lot of stakeholders are starting to scrutinize a lot closer.

Steve Odland: As you look across the entire supply chain or value chain, do you see certain areas where companies are making more progress on emissions? Is it where it's really easier than other areas?

Andrew Jones: It obviously depends on the company and on the industry. One of the comments you made earlier in the discussion was I think a really good one, where some of the low-hanging fruit has been picked off.

And we've seen some notable decarbonization in many industries. We've seen companies really improve the energy efficiency of their, whether it's of their facilities, of their buildings, of their fleets. Electrification, a lot of investing in renewable energy, and I think that's notable in some of the scope two and scope one trends.

I think where a lot of the more challenging areas now remain is in either in the sort of what are seen as often the hard-to-abate sectors: materials, like manufacturing, like aviation, as well as more broadly scope three in general. Scope three remains a challenge for many companies. There's some big trade-offs and big questions upcoming in that space.

Steve Odland: Yeah and If you're in the energy-producing world, whether you're drilling for oil and producing it or whether you're producing electricity with it, there's a challenge here. Because these are industries that we need to power our economy, to take care of our people, for human advancement, to pull people out of poverty. So there's a lot of societal good. But on the other hand, they get vilified because of the emissions that naturally come with these industries. There's a particular challenge here and it's a societal debate.

Then you start thinking about what are the substitutes to burning fossil fuels? And there are pros and cons to every one of them. How do we as a society wrestle with all this and come to some sort of consensus?

Andrew Jones: It's really challenging, Steve, because I totally agree that this has become a broader debate than just business and just the energy industry. In some ways, this is the wider consequences of the ongoing AI boom, where corporate climate targets, and I guess climate action in general, depends on our energy system.

You just said it yourself, that the solution is not producing less energy. We need more energy than ever. Renewables can provide some of that new supply but to have reliable grids will require a mix that probably does have to include some natural gas. Maybe some nuclear, some storage of dependable sources.

The challenge is that the electricity demand is growing. It's probably growing faster than cleaner generation renewables can keep up. So therefore we are probably going to see corporate emissions rise for some companies in the short term.

But we have to stay focused on the longer term, and it almost makes me think that climate goals are increasingly becoming infrastructure goals as well.

Steve Odland: The reason this is important is because we can't as a society make progress in perfect be the enemy of good.

Perfection is a great goal and, by the way, you never outperform your ambitions. But at the same time, we can't vilify companies and make enemies of companies and become Luddites about the thing. So we do have to take a holistic approach and holistic societal judgment to all of this.

Andrew Jones: I agree completely. Just as you were talking, I was thinking as well that, yes, we can't lose sight of the need to decarbonize; we can't dismiss that. But at the same time, affordability of energy, reliability of energy, these aren't side issues.

These determine whether economic growth can happen and, as you said, all the benefits that flow from economic growth. We need to have a reasoned, balanced, mature perspective here and focus on the long term. And part of that is going to be the policy environment.

It's going to be the ability to build out power plants and transmission lines and all these things that aren't necessarily in the direct control of any individual business. We need to be candid about some of the dependencies and trade-offs, while remaining accountable for energy use and the decisions that we can control.

Steve Odland: In your report it was interesting. You said that only 24% of sustainability leaders that you surveyed were fully confident of achieving their goals. So they set these goals out there. Now, the good news is that they were aggressive goals, either, you know, quantitatively or in terms of the dates that they put on them.

So they're aggressive, and that's good because why not? But then when you miss them, you feel like a failure. What's putting these commitments at risk? Is it the back to the low-hanging fruit is done, and this is getting harder, or are companies just not caring? What is it?

Andrew Jones: It's an interesting finding, Steve. As you just said, we found only a quarter of the sustainability executives we surveyed were fully confident in their targets. I should add another sort of 50% or so were on track. It's not there across the board, it's perhaps certain aspects.

But we also asked those executives who aren't confident why are you not confident, what might be the reasons that your targets would most likely be delayed? This was really

interesting. What it actually showed us was, by some distance, actually, the leading reason was related to cost, capital allocation, and return on investment.

The point here being that it's not political sort of reasons that might drive climate targets to be delayed. It's pure sort of business and financial considerations. The way I interpret this is that, yeah, these climate targets were set, as you just said, some were set with very ambitious, even aggressive timeframes, set at a time perhaps when the environment's very different. And there are now competing investments in decarbonization with AI, investments in the supply chain, resilience, margin protection, all these different things.

They potentially appeared perhaps more realistic when capital was cheaper and now facing tougher scrutiny. It's a more challenging environment, and companies are now doing the harder work of actually really understanding what's in their control and what's perhaps going to take a bit longer than previously assumed.

Steve Odland: Yeah, and when companies established these goals, most of them put 2030 as a year on it. It was a popular stake in the ground. It seemed like it was forever away, it was in most cases 10 to 20 years out. But now we're three and a half years away from this. Do companies need to move the goalposts here or how should they recalibrate?

Andrew Jones: It's funny you say. I remember when the SDGs were launched, even, in 2015. I working in Acadire at the time, and that felt like a whole lifetime away. Suddenly here we are, right on the precipice of that. It's interesting, because many companies set these 2030 goals.

As we just discussed, quite a lot of them aren't fully confident in attaining them. And there's been some recent quite well-publicized revisions of corporate goals that have attracted headlines and potentially created a reputational challenge. But what I would say is that revising a target, while yes, there are communication challenges with it, it's not automatically a retreat.

As we've been discussing, there's often very reasonable and valid reasons why it's changed. Those changes might actually reflect better data or new methods or higher costs or even different business strategies. Companies have to keep this in mind.

Stakeholders need to look beyond the headline. Now, is capital still being allocated? Does the revised target have clear ownership of milestones? There shouldn't be a stigma attached to confronting reality. It's potentially a sign of maturity if targets are recalibrated to be more feasible and more accurate.

Steve Odland: It's an important point, because if you're not doing this every day, it's easy to sit on the sidelines and criticize. Mm-hmm. But I think it would be far more productive to cheer on the progress that they've made rather than criticizing the progress that hasn't been made. I think that's part of your point in this.

Andrew Jones: Yeah. Agreed. As we've been discussing, there are challenges here and

there are constraints. But I think what's emerging out of this is a sustainability discipline that is perhaps more focused on implementation, more focused on accurate data, more focused on sort of integration within the business rather than being siloed, and more focused on really the harder sort of trade-offs that get us to decarbonization in a way that still allows us to pursue our strategic goals, including, of course, AI.

We shouldn't be recalibrating targets for no reason. But to me, I would hope that we'd be more mature and reasoned debate around it.

Steve Odland: Any final thoughts before we close today, Andrew?

Andrew Jones: I'd just perhaps add, Steve, when I look at where we've been and where we're going, the sort of the first wave of climate target setting seems to be coming to an end. What we're now seeing is perhaps climate action and climate strategy starting to become something broader, starting to become energy strategy. And it's not just about decarbonization in a silo, it's about managing sort of electrification and rising power demand and scope three programs.

So I think the next few years are going to really show which companies treat climate as strategy, which just treat it as communications. A lot to come in this space.

Steve Odland: All right, Dr. Andrew Jones, we're going to leave it there. Thanks for being with us.

Andrew Jones: Great to be with you, Steve. A pleasure as always.

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