

RESPONSIBLE BUSINESS CONDUCT FOR CLIMATE ACTION

Strengthening the contribution of business to climate goals

OECD Business and Finance Policy Papers, No. 68

Responsible business conduct for climate action: Strengthening the contribution of business to climate goals

OECD standards on responsible business conduct (RBC) encourage credible and impactful climate action aligned with global climate goals for business and investors. This paper outlines the relevance of RBC principles and standards in the context of setting net zero targets, promoting climate adaptation and resilience, and enabling a just transition. This paper also contributes to promoting coherence in policy and practice related to business climate action.

This paper is part of the series “OECD Business and Finance Policy Papers”, <https://doi.org/10.1787/bf84ff64-en>.

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Foreword

The Organisation for Economic Co-operation and Development (OECD) works with governments, businesses, civil society organisations and trade unions to promote evidence-based policy making and establish international standards that offer globally coordinated solutions to the world's most pressing social, economic, and environmental challenges. The OECD Guidelines for Multinational Enterprises for Responsible Business Conduct (the *OECD Guidelines*) and accompanying OECD Due Diligence Guidance for Responsible Business Conduct (the *Due Diligence Guidance for RBC*) are international and government-backed standards which outline how businesses can contribute to sustainable development as well as avoid and address adverse impacts of their activities on people and the planet, including throughout their supply chains. Currently, 52 countries adhere to the *OECD Guidelines*, which were most recently updated in 2023. Updates include upgrades to existing environment-related provisions, notably the addition of new provisions regarding climate mitigation and adaptation expectations towards enterprises.

This paper is designed to raise awareness among businesses, industry initiatives, policy makers, and civil society, on the role that OECD standards on RBC can play in encouraging credible and impactful climate action aligned with global climate goals by business and investors. The paper outlines the relevance of RBC principles and standards in the context of setting net zero targets, promoting climate adaptation and resilience, and enabling a just transition. This paper also seeks to contribute to promoting coherence in policy and practice related to business climate action. It has been received comments from the United Nations Environment Programme (UNEP) to ensure consistency of the UN global environmental agenda in the way to respond to the triple planetary crises of climate change, nature and biodiversity loss, and pollution and waste.

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Executive summary

Businesses have a key role to play in driving effective and credible action in response to the climate crisis. This includes financing, developing, and supplying climate solutions and technologies, as well as by progressively reducing greenhouse gas (GHG) emissions and adverse impacts on carbon sinks in line with global temperature goals and by contributing to climate resilience and adaptation.

Businesses are increasingly engaging in climate action, driven by stakeholders' demands and expectations, a fast-evolving policy and regulatory landscape and an acute understanding of the financial risks posed by climate change. Setting net zero and emission reduction targets, adopting transition plans, and disclosing climate-related information are among the measures being adopted. In parallel, a range of voluntary methodologies, frameworks and coalitions have emerged to support investors and businesses in better managing and disclosing their exposure to climate change related risks and its financial impacts.

This paper explores how OECD principles and standards on Responsible Business Conduct (RBC) can support effective climate action by business in relation to climate mitigation, adaptation, and resilience, while supporting a just transition. The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (the *OECD Guidelines*) and associated risk-based due diligence guidance can equip business with a useful framework to manage their adverse climate risks and impacts and align their conduct with climate policy goals. The *OECD Guidelines* constitute the only internationally agreed instrument calling on businesses to align their GHG emissions and impacts on carbon sinks with internationally agreed temperature goals, based on best-available science.

They include expectations for climate mitigation as well as adaptation and call on companies to understand and respond to climate risks and impacts associated with their own activities and operations as well as those directly linked to their operations, products, and services by a business relationship. More specifically, the *OECD Guidelines* provide recommendations on:

- Having commitments on climate mitigation and adaptation through science-based policies, strategies, and transition plans.
- Adopting, implementing, monitoring, and reporting on short, medium and long-term mitigation targets which:
 - Are science-based.
 - Include absolute and also, where relevant, intensity based GHG reduction targets.
 - Take into account scope 1, 2, and, to the extent possible based on best available information, scope 3 GHG emissions.
- Prioritising eliminating or reducing sources of emissions over offsetting, compensation, or neutralization measures in the context of climate mitigation actions
- Avoiding activities, which undermine climate adaptation for, and resilience of, communities, workers and ecosystems.

RBC instruments encourage a proactive, risk-based and engagement-centred approach to climate action. Under a risk-based approach businesses are encouraged to prioritise their most significant risks and take

appropriate action. The RBC approach allows for continuous improvement over time and supports responsible engagement rather than de-risking wherever possible making it an appropriate framework to enable proactive action and transition-oriented and stakeholder driven approaches, which can contribute to effective and well-informed climate strategies. RBC instruments also provide a holistic framework for fostering consistency of business climate action with other environmental and social policy goals and contributing to a just transition.

Further collaboration and dialogue between environment, labour, human rights, finance, and corporate governance policy communities will be important to supporting businesses in responding to and implementing growing expectations regarding climate action.

1 Introduction: The triple planetary crisis and responsible business conduct

1.1. The triple planetary crisis, human rights, and the role of business

The world is facing a triple planetary crisis in relation to climate change, biodiversity loss and pollution. These crises are interconnected and mutually reinforcing: climate change and pollution accelerate the decline in biological diversity, which itself undermines the capacity of ecosystems to contribute to climate mitigation and to adapt to a rapidly changing environment (UNFCCC, 2022^[1]). These do not only cause irreversible damages to the bio-system, but they also jeopardise the enjoyment of a wide range of human rights (e.g., access to water, food, health, adequate housing). They also result in the displacement and migration of populations and severely undermine opportunities to reduce poverty, improve lives and livelihoods and contribute to the achievement of the Sustainable Development Goals. Such interconnectedness was underscored by the United Nations General Assembly's resolution on the human right to a clean, healthy, and sustainable environment (UNGA, 2022^[2]).

Meanwhile, progress in curbing global greenhouse gas (GHG) emissions has been far from sufficient: the planet has already warmed by 1.1°C above pre-industrial levels and the socio-economic and environmental impacts of extreme weather and slow onset events including storms and sea level rise, landslides and erosion, droughts, rising temperatures and wildfires are already being felt across society and the economy (IPCC, 2023^[3]; OECD, 2021^[4]). Based on nationally determined contributions submitted and updated by Parties to the UNFCCC, estimates indicate that aggregate emissions are expected to rise further by 2030 (UNFCCC, 2022^[5]). In that context, meeting the Paris Agreement temperature goal requires far-reaching, urgent, and ambitious climate mitigation action to achieve significant GHG emissions reductions by 2030, and to reach global net zero emissions by mid-century (IPCC, 2022^[6]). Failing to do so would significantly increase the impacts resulting from climate change, including through the crossing of climate tipping points (OECD, 2022^[7]).

Businesses have a key role to play in delivering an effective and progressive response to the climate crisis. While multinational enterprises (MNEs) provide jobs, skills development, as well as products, technologies, and services necessary for the transition, they also account for a significant share of total emissions, including throughout their supply chains (Steenbergen and Saurav, 2023^[8]). The financial sector plays a key role in shaping the transition of investees and borrowers in the real economy through their capital allocation decisions. Enterprises should manage their climate risks and impacts by reducing GHG emissions across their operations and supply chains, contributing to climate resilience, and, for financial service practitioners, aligning their investments with climate policy goals (OECD, 2021^[9]). However, climate strategies and plans must also be reconciled with managing social, human rights or other environmental risks and impacts in order to effectively tackle the triple planetary crisis and avoid harm to workers, communities and society more broadly.

1.2. Drivers shaping business responses to climate change

There have been significant developments and increased expectations for business to contribute to credible climate action and reduce their GHG emissions in ways which are aligned with the Paris Agreement. Business responses to the climate crisis have been spurred by a number of drivers, including:

- **Fast-evolving climate policy landscapes:** policymakers have been using a wide range of policy instruments¹ to drive the reduction of GHG emissions, promote economic activities that provide climate solutions, encourage the transition and adaptation across relevant sectors (e.g., in energy, transport, land use) or tilt the markets through carbon pricing mechanisms. To date, the *Climate Change Laws of the World* database has compiled over 5,000 laws, policies, and other documents related to national climate action (Grantham Research Institute, 2023^[10]).
- **An acute understanding of the financial impacts of climate change:** the physical effects of climate change e.g., extreme heat, droughts and floodings, sea level rise, and storms are already impacting business operations in various ways (e.g., damages to assets, stranded assets, operational and supply chain disruptions, impacts on workforce availability or productivity, impacts on affordability and availability of resources) and have led to the first climate-related bankruptcies (IMF, 2019^[11]). Climate change is also expected to generate broader impacts that may affect business e.g., increasing scarcity of certain resources (e.g., water, minerals), greater pressure on specific ecosystems and ecosystem services as well as population displacement, all of which can generate and exacerbate conflicts. Climate change is also profoundly transforming business operating and legal environments through climate, tax and fiscal law and policies, climate-related litigation, technologies and innovations, consumer preferences or investors' interests. Such developments can also represent financial risk and are often referred to as transition risks (TCFD, 2017^[12]).
- **Investor and shareholder activism:** shareholders are increasingly exerting pressure on companies to better manage climate-related risks as well as mitigate and adapt to the effects of climate change. Climate resolutions by shareholders are on the rise, climate stewardship is actively being used to tilt investee actions toward decarbonisation (Ceres, 2022^[13]) and climate-related concerns rank as the primary reason for portfolio exclusion (Profundo, 2023^[14]).
- **Climate litigation:** climate litigation is increasingly directed at private actors, with over 130 lawsuits filed against corporates since 2015 (UNEP, 2023^[15]). While earlier cases focused on financial impacts sustained due to mismanagement of or failure to disclose climate-related risks, more recent cases focus on corporate liability for direct contribution to climate change, misinformation and greenwashing, or predicted future impacts of climate change, arguing that continued investment and business engagement in high-emitting activities will lead to long-term losses, both for companies but also for people and planet (Grantham Research Institute, 2023^[16]).
- **Demands from consumers, workers, and society at large:** a collective understanding that climate change poses an existential threat to both present and future generations is resulting in increased bottom-up pressure, civil society campaigns, and youth-led activism. Consumers are also reflecting climate-conscious expectations in their purchasing habits – with potentially massive implications on climate mitigation outcomes. For example, the International Energy Agency estimates that around 55% of the cumulative emissions reductions could be linked to consumer choices (IEA, 2021^[17]). In addition, business climate action is significantly influencing their ability to attract and retain talents (Deloitte, 2022^[18]).

In response, companies have taken a number of actions, including assessing and mitigating financial risks and impacts of climate change and more directly contributing to climate goals through:

- **Setting net zero and emission reduction targets:** climate commitments are becoming mainstream among companies and investors, with almost half (929 out of 2,000) of the world's

largest publicly listed companies having set-up net-zero targets (Net Zero Tracker, 2023^[19]) and more than 450 financial institutions, representing over USD 130 trillion in assets, having pledged to mobilise finance to reach net-zero emissions by 2050 (GFANZ, 2021^[20]).

- **Adopting transition plans:** transition plans provide an important means for businesses to translate climate commitments into time-bound action plans. They explain how businesses are aiming to mitigate and/or reduce GHG emissions in a transparent manner² (OECD, 2022^[21]). Credible transition plans rely on science-based targets, strong governance and accountability mechanisms as well as regular reporting based on comparable and reliable metrics, but presently have only been introduced by a minority of companies. (CDP, 2022^[22]).³
- **Disclosing climate-related information:** climate disclosure provides information to understand climate-related risks, dependencies, opportunities and impacts of a business, often through its exposure to climate change or its carbon footprint, including those of its products, services, and supply chain (i.e., scope 3) expressed through various credible and science-based metrics. It is estimated that 97% of the 1,350 largest companies report some type of climate-related information (e.g., carbon footprint, carbon intensity) (IFAC, 2023^[23]). Climate disclosure also encompasses reporting on progress made to achieve net-zero targets and can be embedded in transition plans (OECD, 2022^[21]).

To better articulate expectations regarding corporate climate action while also avoiding risks of greenwashing and fostering greater **comparability and interoperability across sectors and jurisdictions**, policymakers are increasingly embedding these practices into policies and regulations (OECD, 2022^[21]). A number of these draw on international standards such as the Task Force on Climate-related Financial Disclosures (TCFD) and more recently the International Sustainability Standards Board (ISSB), which are designed to support businesses and investors in integrating climate-related financial risks into management, governance, processes, and strategies – with the ultimate goal of mitigating financial impacts of climate change.

However, approaches that rely on reducing company exposure to climate-related risks may not always lead to alignment of corporate conduct with broader societal goals related to climate action (GFANZ, 2022^[24]). This is particularly relevant in a context where businesses' climate-related risks are not adequately understood - let alone priced - and where market-based measures may therefore be insufficient in driving the transition to net zero. An approach oriented towards preventing, mitigating and where relevant remediating climate risks and impacts related to business activity is needed in order to align business conduct with climate goals and avoid and address impacts on people and planet. **Harnessing OECD standards for responsible business conduct (RBC)**, including risk-based due diligence, can help in doing so, by aligning business conduct towards **credible, impactful and holistic** climate transition pathways.

1.3. OECD standards on RBC: a driver of responsible business climate action

The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (the *OECD Guidelines*) are the **leading international standard** outlining expectations from governments on what it means for business to behave responsibly. Since their **update in 2023**, they also include expectations on what RBC means in the context of climate action and constitute the only international agreement asking businesses to align their GHG emissions and impacts on carbon sinks with internationally agreed temperature goals. In the Environment Chapter of the *OECD Guidelines*, climate change is listed as an adverse environmental impact, in response to which companies are expected to “*establish and maintain a system of environmental management appropriate to the enterprise associated with the operations, products and services [...] over their full life cycle, including by carrying out risk-based due diligence*” (OECD, 2023^[25]). (See Box 1)

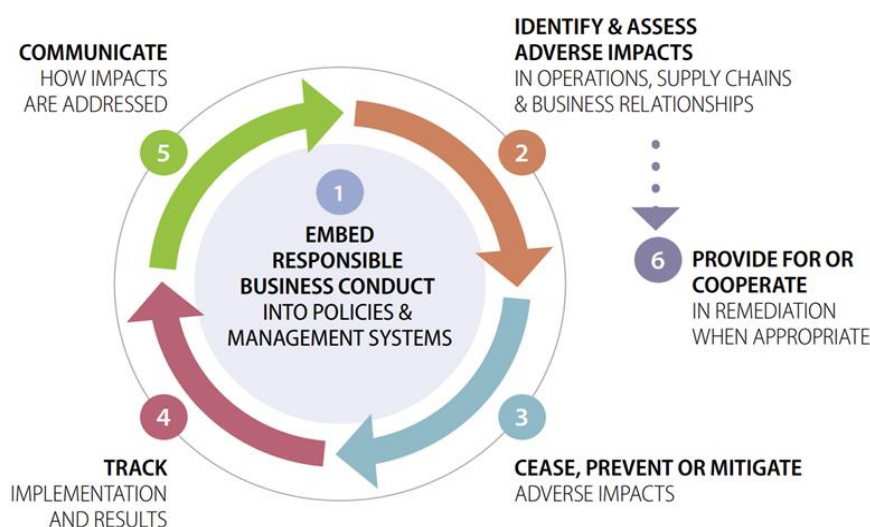
Box 1. Climate risks and impacts under the OECD Guidelines

Under the OECD Guidelines, climate change is recognised as an adverse environmental impact, which itself is defined as “significant changes in the environment or biota which have harmful effects on the composition, resilience, productivity or carrying capacity of natural and managed ecosystems, or on the operation of socio-economic systems or on people.” (OECD, 2023^[25]) Environment (including climate) risks under the Guidelines refer to the potentiality of such impacts arising. Unless otherwise specified, this is the meaning attributed to this term throughout this paper.

Climate impacts and risks may be understood differently by different communities, e.g. climate scientists and investors, based on different perspectives. For many investors or businesses climate risks refer to the financial risks posed to business performance as a result of climate-related physical, transition and other liability risks. From the perspective of climate science, climate impacts refer to the effects on natural and human systems of extreme weather and climate events related to climate change. And climate risks refer to the risks of such climate impacts occurring (IPCC, 2023^[26]).

RBC is operationalised through **risk-based due diligence**, a process by which companies can identify, prevent, mitigate, and account for how they address actual and potential impacts on people and planet, associated with their operations, products, and services (see Figure 1). The due diligence process is laid out in the OECD Due Diligence Guidance for Responsible Business Conduct (the *Due Diligence Guidance for RBC*) as well as sector-specific due diligence guidances,⁴ some of which include specific recommendations regarding climate change.⁵

Figure 1. RBC Due Diligence Framework and supporting measures



Source: OECD (2018^[27]), *OECD Due Diligence Guidance for Responsible Business Conduct*, OECD Publishing, Paris, <https://doi.org/10.1787/15f5f4b3-en>.

Under OECD’s RBC standards, **all MNEs are expected to conduct risk-based due diligence**, regardless of their **ownership structure** (including State-owned Enterprises), **size** (including SMEs) and **sector** (including the financial sector). The scope of the due diligence process encompasses businesses’ own operations, products and services and covers their **supply chain**, going beyond tier one suppliers.

Concretely, when applied to climate change, the *OECD Guidelines* expect companies to embed climate action into an environmental management system and conduct risk-based due diligence to assess and address their climate risks and impacts with the objective of ensuring that GHG emissions and impact on carbon sinks are consistent with internationally agreed global temperature goals and based on best available science including as assessed by the IPCC (OECD, 2018^[27]).⁶

The *OECD Guidelines*' approach to climate risk management is concerned with preventing and mitigating climate risks and impacts on people and planet associated with business activity. It is an **outward-facing** and **impact-oriented** approach that seeks to align business climate action with climate mitigation and adaptation policy goals. This approach may differ from climate-related risk management frameworks whose primary focus is to manage financial impacts arising from climate physical and transition risks.

RBC due diligence is an ongoing, both proactive and reactive, and process-oriented activity. It is not limited to the initial investigation of a potential business relationship or transaction, but importantly also calls on business to take action to **prevent or mitigate** potential adverse impacts and **provide for or cooperate in remediation where a business has caused or contributed to an adverse impact**.

While voluntary in nature, the *OECD Guidelines* are embedded in a **smart mix** of policy and regulations as well as **industry** and **multistakeholder initiatives**:

- **Industry and multistakeholder initiatives:** the *OECD Guidelines* and related due diligence guidance are endorsed by and reflected in leading industry and multistakeholder initiatives related to corporate responsibility and sustainability (e.g., UN Principles for Responsible Investment, the Global Reporting Initiative, the Taskforce on Nature-related Financial Disclosures, Ethical Trade Initiative, etc),
- **Policy and regulations:** increasingly, the *OECD Guidelines* and related due diligence guidance have been embedded and reflected in regulations on **human rights and environmental due diligence** (e.g., EU Corporate Sustainability Due Diligence Directive, French Duty of Vigilance Law, German Supply Chain Act, Norway Transparency Act), **trade-based obligations** (e.g., UK Environment Act, EU Deforestation Regulation) as well as **sustainable finance** and **corporate disclosure laws** (e.g., South African Taxonomy, EU Taxonomy Regulation, EU Corporate Sustainability Reporting Directive). They are also reflected in a number of policy areas, including trade agreements, public procurement, or development co-operation guidelines (OECD, 2022^[28]).

In this respect, many companies and investors are already integrating due diligence expectations as set out in the *OECD Guidelines* and supporting due diligence guidances. In addition, the *OECD Guidelines* are equipped with a unique implementation mechanism: the OECD **National Contact Points for Responsible Business Conduct** (the NCPs). NCPs are agencies established by all governments adhering to the *OECD Guidelines*. Their mandate is twofold: to promote the *OECD Guidelines* and related due diligence guidance, and to act as a non-judicial grievance mechanism by handling cases (referred to as "specific instances") related to the non-observance of the *OECD Guidelines*, including with respect to climate-related expectations (see Box 2).

Box 2. Climate-related National Contact Point cases

NCPs have been handling various cases related to the environmental performance of companies, including in relation to climate change. Since 2011, 24% of all specific instances submitted to NCPs (i.e., 77 out of 322) made reference to provisions of the Environment Chapter; with the Environment Chapter being the 4th most cited Chapter of the *OECD Guidelines* (OECD, 2021^[9]). Such cases are important as they help to further clarify and interpret expectations of business regarding climate actions under the *OECD Guidelines* in specific, real-life contexts and provide recommendations where conduct can be improved. The NCP system also provides a non-legal alternative to hold business accountable with respect to climate action.

Three recent cases bear a specific resonance in the context of business climate action:

- **ING Bank and NGOs concerning internal climate policy (Dutch NCP, 2019):** This case led the financial institution to commit to align its portfolio with the Paris Agreement, based on the specific recommendations of the *OECD Guidelines* when it comes to environmental objectives. In addition, the Parties jointly called on the Dutch government to request the IEA to develop scenarios which provide a 66% chance of limiting global warming below 1.5 °C.
- **British Petroleum and ClientEarth concerning misleading climate claims (United Kingdom NCP, 2019):** The case concerns the alleged breach of the *OECD Guidelines'* Disclosure and Consumer Interests Chapters, including with regards to marketing communications and environmental statements on BP's renewable energy projects. Following the complaint being filed, BP issued a statement regarding its wider net zero carbon emission targets, and as part of this announcement, committed to stop global corporate reputation advertising campaigns and re-direct resources towards implementing climate policies.
- **ANZ Banking Group and NGOs concerning disclosure of climate-related information (Australian NCP, 2020):** a number of NGOs alleged that the bank was in breach of a number of *OECD Guidelines'* provisions due to non-disclosure of scope 3 emissions (including from its lending activities) as well as its inadequate system of due diligence because of the bank's continued investment in fossil fuels, and lack of policies to reduce investment in fossil fuel industries. The complainants further alleged that the bank was providing misleading climate information by publicly supporting the Paris Agreement targets, while continuing to invest in projects that undermine the meeting of those targets. The NCP eventually determined that the bank's actions were consistent with the 2011 edition of the *OECD Guidelines* but noted that clarifications on the role and expectations of companies vis-à-vis climate change would be welcomed in light of regulatory and standards development on climate change (supporting an update of the Environment Chapter in 2023).

Source: OECD (n.d.^[29]), *Database of specific instances*, <https://mneguidelines.oecd.org/database/>; OECD (2021^[9]), *The role of OECD instruments on responsible business conduct in progressing environmental objectives*, OECD Publishing, Paris, <https://mneguidelines.oecd.org/The-role-of-OECD-instruments-on-responsible-business-conduct-in-progressing-environmental-objectives.pdf>.

2

Harnessing OECD standards on responsible business conduct for effective climate action

The impacts of climate change are being felt across societies, and most acutely by those that are the most vulnerable to climate change (UNFCCC, 2023^[30]). Aligned with the call of the IPCC for society to adopt “rapid and far-reaching transitions [which] are unprecedented in terms of scale [...] and imply deep emissions reductions in all sectors” (IPCC, 2018^[31]), the *OECD Guidelines* call on business to “act as soon as possible and in a proactive way” when it comes to addressing climate change (OECD, 2023^[25]). Business can operationalise this call through a wide range of measures aimed at decarbonising and contributing to climate adaptation in the context of their operations, products, and services, and taking into account the imperatives of a just transition. RBC instruments can contribute to credible, impactful, and holistic climate transition pathways by underpinning and reinforcing existing good practice as well as addressing some of the gaps and challenges related to business climate action.

2.1. A broad approach to climate action

RBC instruments recommend climate action on mitigation and adaptation and that businesses go beyond their direct operations in carrying out due diligence and addressing impacts. These expectations and how they can support effective climate action are explained in more detail below. RBC instruments also cover a broad range of social and environmental risks and promote a holistic approach to climate action. This is discussed in more detail in Section 3.

2.1.1. Going beyond mitigation

Initiatives and policy regarding **climate adaptation** expectations for business to date have received far less attention relative to climate mitigation. However, climate adaptation measures are crucial to address the risks and damages associated with climate hazards and to increase broader societal resilience.

Climate adaptation is understood as both **a process and an outcome** of adjusting and preparing for present and future climate change impacts (IPCC, 2014^[32]). From a business perspective, it may involve planning and adopting measures to ensure **business continuity** and **financial viability** of the company as well as other organisational and structural measures to adapt to climate variability and extreme weather events. These can take many forms i.e. adapting a business’s sourcing strategy to select climate resistant crops and commodities, re-skilling staff, protecting the workforce against heatwaves, upgrading and reinforcing physical assets to withstand flooding or diversifying its supply chains to anticipate future risks of disruptions, and in severe cases relocating operations away from areas exposed to climate hazards (Goldstein, 2019^[33]).

However, a **siloed approach** to climate mitigation can undermine adaptation objectives and vice versa. For instance, as hydrogen is becoming an increasingly strategic source of low-carbon energy needed for the green transition, energy companies will need to carefully consider the location of future hydrogen and electrolysis plants, and avoid water scarce areas where they could increase the climate vulnerability of local communities and ecosystems to drought (Schipper, 2020^[34]). Likewise, adaptation efforts may result in enhanced GHG emissions for example through the use of energy intensive desalination plants or cooling systems (OECD, 2021^[35]).

The *OECD Guidelines* recognise climate change as an adverse impact that can be associated with business activities and call on them to take action both on climate mitigation as well as climate adaptation. In this respect they ask companies to understand the extent their activities and those of their business relationships a) are associated with GHG emissions or with reducing carbon sinks in a way that is not consistent with a pathway towards low GHG emissions; or b) do not take into account adaptation needs or undermine climate resilient development, and in turn take appropriate action.

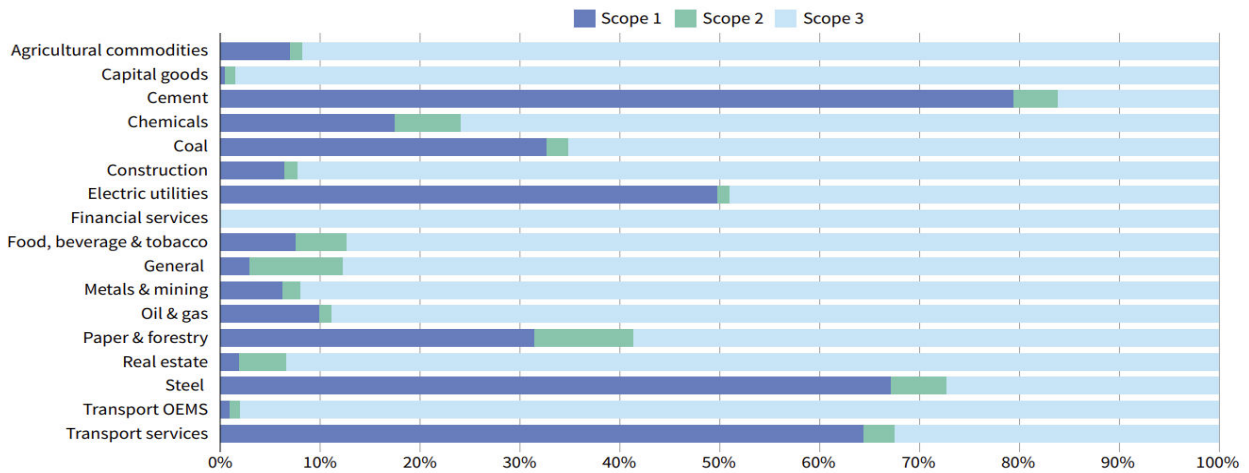
The *OECD Guidelines* also recognise that in some instance **business activity itself can undermine adaptation and resilience**. For example, not adapting shift work to temperature rises or avoiding taking the necessary measures to protect worksites at risk of flooding can worsen adverse impacts on workers, communities, and ecosystems. Furthermore, businesses' own adaptation strategies in some instances can be incongruous with broader societal goals or end up redistributing climate impacts onto others (e.g., by capturing or diverting resources and lands, disengaging from areas at high risk of climate hazards or discontinuing supply of goods and services in certain areas). In this respect, RBC principles and standards, including risk-based due diligence, call on business to implement outward-perspective to adaptation and "*avoid activities which undermine climate adaptation for, and resilience of, communities, workers, and ecosystems* (OECD, 2023^[25]).

2.1.2. Going beyond direct operations

A key aspect of RBC expectations is that companies carry out due diligence not only on impacts associated with their own operations but also on impacts **directly linked** to their operations, products and services by a business relationship (including across their supply chains and, for financial service practitioners, their portfolios).

Currently most businesses focus their climate action on their own operations. For example, the majority of companies' net-zero targets cover GHG emissions scope 1 and 2, only a minority includes scope 3 emissions comprehensively (Net Zero Tracker, 2022^[36]). Likewise, climate regulation for the private sector rarely includes responsibility for Scope 3 emissions, and where it does, it is generally on a voluntary or discretionary basis. However, emissions from supply chains or portfolios represent the leading source of GHG emissions for many businesses (and investors). For instance, in sectors associated with end-products, scope 3 emissions will often account for 80- 90% of total emissions. Similarly, it is estimated that the supply chains of eight sectors (i.e., agricultural, construction, garment, fast-moving consumer goods, electronics, automotive, professional services and freight emissions) account for more than 50% of global emissions (WEF, 2021^[37]). For the financial sector, scope 3 emissions ("financed emissions" i.e., emissions of underlying investees and borrowers) are estimated to represent over 99% of total reported emissions as illustrated in Figure 2 (CDP, 2023^[38]).

Figure 2. Illustration of estimated shares of Scope 1, 2, and 3 GHG emissions by sector



Note: Relevance of Scope 3 Categories by Sector CDP Climate Change Questionnaire.

Source: OECD (2023^[39]), *OECD Ministerial Meeting: Responsible Business Conduct in the Global Economy*, <https://mneguidelines.oecd.org/key-issues-paper-2023-oecd-rbc-ministerial-meeting.pdf> based on CDP (2023^[38]), *CDP Technical Note: Relevance of Scope 3 Categories by Sector*.

Measuring, reporting, and taking action on Scope 3 emissions is a significant challenge. The lack of a coordinated and commonly agreed approach to Scope 3 emissions reporting may lead to risk of double counting emissions by different actors in the value chain – an issue which has yet to be addressed in regulation and guidance. Data gaps also represent an ongoing challenge for practitioners. However, limiting expectations related to climate mitigation to Scope 1-2 emissions would mean that the vast bulk of real emissions associated with corporate activities may not be accounted for, and ultimately that climate action by corporates may not be sufficient to meet global climate goals.

Furthermore, the most significant physical impacts of climate change can arise in a company's supply chain, particularly in contexts where governments may lack the capacity or resources to support businesses in their adaptation efforts. As the physical impacts of climate change increase both in likelihood and severity, **supply chain resilience** may be significantly impacted. Due diligence can help companies in better understanding their **supply chains vulnerabilities**, including exposure to climate physical impacts and encourage companies to adopt responses that proactively support business partners and impacted workers and communities in adapting to those impacts. This can help ensure continuity in the supply of essential goods and services, including those required for the transition (e.g., minerals resources) and the enjoyment of human rights (e.g., agri-food products, medicine, energy supply) as well as prevent and mitigate harms to people and the planet within a company's supply chain (OECD, 2021^[40]).

The RBC due diligence framework sets out practical approaches for how corporates and financial institutions can go about identifying and assessing climate-related risks in their supply chains and the types of actions they can take to influence their business relationships to improve their climate performance and resilience. The risk-based approach in the *OECD Guidelines* can be relevant for addressing some of the current challenges associated with measuring and addressing Scope 3 emissions as well as adaptation issues across business relationships.

2.2. An authoritative foundation for good practice in setting and implementing climate mitigation targets⁷ and transition plans

2.2.1. Setting, monitoring and reporting on appropriate climate mitigation targets

A broad range of net zero guides, coalitions, frameworks, methodologies, benchmarks and standards have emerged to support business and financial institutions in setting GHG emissions reduction targets, measuring, cutting and disclosing their GHG emissions, and eventually aligning their activities with the temperature goal of the Paris Agreement. This has led to a steep increase of net-zero commitments by private sector entities: by the end of 2023, over half of the 2,000 largest publicly listed companies had set emission reduction targets (Net Zero Tracker, 2023^[19]). However, as noted by the UN High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities (HLEG) there is risk that net-zero pledges “are not aligned with the science, do not contain enough detail to be credible, and use the terms ‘net zero’ or ‘net zero aligned’ inconsistently”. Against this backdrop, a range of stakeholders are calling for grounding corporate net-zero commitments in internationally recognised standards as a way to strengthen their **credibility and comparability** (UN HLEG, 2022^[41]).

OECD RBC instruments and standards do not provide a science-based methodology to measure nor set GHG emission reduction targets. However, RBC principles and standards can ensure that the targets are set and operationalised in a credible way and based on internationally recognised science-based standards. In this respect, the Environment Chapter of the *OECD Guidelines* includes expectations on establishing climate mitigation targets and commitments which can promote and underpin existing good practice. This includes:

- **Setting science-based targets:** the *OECD Guidelines* call on companies to adopt targets that are “science-based, include absolute and also, where relevant, intensity-based GHG reduction targets [...] consistent with relevant national policies and international commitments, goals, and informed by best practice.” Science-based target setting is key to avoiding greenwashing while creating a commonly understood language for climate action among stakeholders, including regulators, investors and consumers. It implies relying on a common set of climate metrics to strengthen their reliability and comparability across companies and sectors.
- **Setting scope 1, 2 and 3 GHG emissions targets:** Under the *OECD Guidelines*, targets should “take into account scope 1, 2, and, to the extent possible based on best available information, scope 3 GHG emissions”. As initially defined by the Greenhouse Gas Protocol, economic activities and business models generate GHG emissions outside the direct scope of an enterprise’s own operation (Greenhouse Gas Protocol, 2023^[42]). Assessing and addressing emissions across the full value chain is an important part of risk-based due diligence under the *OECD Guidelines*, which encourages companies to prioritise addressing the most significant emissions sources associated with their operations, product and services, wherever they sit in the value chains.
- **Setting interim targets:** the *OECD Guidelines* also expect the “adoption, implementation, monitoring and reporting on short, medium and long-term mitigation targets”. Setting interim targets is important to ensuring the credibility of long-term commitments and tracking progress towards them. While a number of companies are setting interim targets, these tend to fall short of the ambition required to align their emissions pathway with the objectives of the Paris Agreement and are often not substantiated with concrete action (New Climate Institute, 2022^[43]).
- **Responsible use of offsetting and carbon credits when setting targets:** companies do not always have the means to immediately reduce their GHG emissions (i.e., hard-to-abate sectors), which can in turn lead to relying on offsetting schemes and carbon credits to reach their net-zero targets including using carbon removal technologies or nature-based solutions. Under the *OECD Guidelines*, high-quality offsets may be considered as a last resort - to address unabated emissions

- and their use should be disclosed separately to emission reduction reporting – as a way to avoid misleading communication on progress and over reliance on such schemes, which can delay effective climate mitigation actions (ADEME, 2022^[44]).

2.2.2. Embedding climate action into policy and management systems

There is evidence that, in current practice, climate action and more specifically net-zero commitments are not systematically embedded into companies' governance, management, and corporate strategies - leading to limited implementation and alignment with climate objectives (Net Zero Tracker, 2023^[19]). For instance, quantified decarbonization strategies and disclosure of **capital expenditures** aligned with GHG reduction targets remains anecdotal (Climate Action 100+, 2022^[45])

Under RBC standards, companies are called on to embed climate considerations into their policies and management systems (OECD, 2018^[27]). This includes ensuring that responsibility for climate action is assigned across **relevant corporate functions**, with sufficient board-level and management oversight and expertise. It also means providing sufficient resources for the necessary actions to implement their climate policies.

Furthermore the recently revised **G20/OECD Principles of Corporate Governance**, note that the “*corporate governance framework should ensure that boards adequately consider material sustainability risks and opportunities when fulfilling their key functions in reviewing, monitoring and guiding governance practices, disclosure, strategy, risk management and internal control systems, including with respect to climate-related physical and transition risks*” (OECD, 2015^[46]). While the Principle for Corporate Governance are concerned with climate risks where they represent a material financial risk to companies, rather than climate impacts of company activities on people and the planet, the two perspectives are increasingly interrelated.

2.2.3. Supporting credible climate transition plans

Transition plans can play an important role in explaining corporate climate goals, commitments as well as outlining the actions to operationalise such goals and progress against them to internal and external stakeholders (OECD, 2022^[21]). Regulatory and standard developments around transition plans is fast evolving, including in the European Union, United Kingdom, Japan, Singapore, New Zealand, Brazil and broader G20 countries. At the same time, there are still significant discrepancies in approaches and practices. To date, a number of studies have shown **considerable variations** as to how such plans are designed and operationalised in practice (CDP, 2023^[47]). This in turn has raised concerns over their transparency, credibility, and overall positive contribution to climate goals (OECD, 2022^[21]). The OECD has issued a **Guidance on Transition Finance** which outlines ten key elements of credible corporate transition plans (see Box 3) (OECD, 2022^[21]). Many of these elements are likewise called for and thus can be reinforced or operationalised through RBC instruments and standards.

Box 3. OECD Guidance on Transition Finance

The OECD Guidance on Transition Finance has been recognised as a key international reference for building robust transition finance markets based on credible corporate transition plans, for example in G7 Communiqués (G7, 2023^[48]) and in the European Commission Recommendations on transition finance (EU, 2023^[49]) amongst others.

- Element 1: Setting temperature goals, net-zero, and interim targets
- Element 2: Using sectoral pathways, technology roadmaps, and taxonomies
- Element 3: Measuring performance and progress through metrics and KPI
- Element 4: Providing clarity on use of carbon credits and offsets
- Element 5: Setting out a strategy, actions, and implementation steps, including on preventing carbon-intensive lock-in
- Element 6: Addressing adverse impacts through the Do-No-Significant-Harm (DNSH) Principle and RBC due diligence
- Element 7: Supporting a just transition
- Element 8: Integration with financial plans and internal coherence
- Element 9: Ensuring sound governance and accountability
- Element 10: Transparency and verification, labelling and certification

Source: OECD (2022^[21]), *OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans*, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/7c68a1ee-en>.

2.3. A proactive, risk-based and engagement-centred approach to climate action

Businesses may face various challenges in pursuing climate action related to data gaps, reconciling priorities, costs and lack of access to technology as well as uncertainties with climate science and modelling. For example, a lack of agreed approach in modelling remaining carbon budgets by sector and country can create challenges to setting targets for climate mitigation. The non-linearity of physical and economic phenomena (e.g., with climate tipping points and extreme events) may create challenges to effective adaptation efforts. While RBC instruments do not provide the solution to overcoming all of the uncertainties and operational challenges business face with respect to climate action, they encourage an approach to climate action that is proactive, impact-oriented as well as workable for business.

2.3.1. Overcoming capacity and information gaps and ensuring expectations are practicable through a risk-based approach

OECD RBC standards are focused on preventing and mitigating impacts of companies on people and planet through using a **risk-based approach**. The risk-based approach acknowledges that businesses cannot always address all identified impacts at once. Businesses are thus expected to **prioritise** their actions, based on **likelihood** and **severity** of the impacts. They are also expected to put in place mitigation measures that are **commensurate** and **proportionate** to the risk or impact (OECD, 2023^[25]). For example, when applied to climate mitigation action, the risk-based approach may trigger responses such as targeting scope 3 high-emissions sources, reducing methane emissions, engaging with high-emitting suppliers, transforming business models that have the highest adverse impacts on carbon sinks or avoiding investments in lock-in of carbon intensive activities (OECD, 2023^[50]). The risk-based approach also

recognises that **prioritisation will often not be an exact science** and provides enterprises some flexibility and ability to make judgement calls when making prioritisation decisions. However, as discussed further in the following section, it recognises engagement with stakeholders as a key process to ensure such decisions are credible.

Importantly, to trigger engagement or action under a risk-based approach, **perfect information is not necessary**. In line with the precautionary principle, the *OECD Guidelines* are explicit that *where there are threats of serious or irreversible damage to the environment, taking also into account human health and safety [...] lack of full scientific certainty or pathways [should not be used] as a reason for postponing cost-effective measures to prevent or minimise such damage.*" (OECD, 2023^[25]). In this respect, due diligence can provide a framework for spurring action by business to address climate issues where they are likely to be the most significant even in context of ongoing data gaps and lack of agreed transition pathways across sectors. Such flexibility is especially important in the context of addressing issues related to climate performance by business partners, including Scope 3 emissions where, as discussed above, lack of data and leverage are often raised as impediments to taking action.

2.3.2. Engagement as a cornerstone to responsible and effective climate action

Stakeholder engagement is not commonly featured in mandatory or voluntary expectations related to climate action, including in transition plans or climate coalitions. However, it can play a critical role in ensuring that commitments or targets, prioritisation decisions as well as mitigation and adaptation measures taken to address climate change are credible and effective.

The *OECD Guidelines* and *Due Diligence Guidance for RBC* include strong expectations around stakeholder engagement through which businesses provide opportunities for relevant stakeholders' views⁸ to be taken into account with respect to activities that may (or do) significantly impact them. Meaningful stakeholder engagement is described by the *OECD Guidelines* as "*ongoing engagement with stakeholders that is two-way, conducted in good faith by the participants on both sides and responsive to stakeholders' views.*" (OECD, 2023^[25]) In the context of climate mitigation and adaptation actions by businesses, stakeholder engagement can be leveraged in a number of ways to strengthen the credibility, effectiveness, and accountability of business actions.

First, engagement helps **ground climate actions and commitments in science and legitimate expertise**:

- **Supporting credible actions through climate expertise:** Businesses are increasingly engaging with climate scientists, ecologists and other climate risk experts to design credible climate actions. Engaging with experts can be useful during the initial risk scoping phase of the due diligence process, in setting science-based targets and commitments but also when designing the prioritisation process to address climate risks and impacts.
- **Bottom-up expertise:** experts' engagement on climate is not necessarily top-down but can also come from a wider variety of stakeholder's views, including for instance from potentially impacted stakeholder such as Indigenous Peoples, workers, and their legitimate representatives⁹ or consumer groups. Engagement with impacted stakeholders will also be crucial to better understanding potential interdependencies between climate impacts and human rights (discussed in more detail in Section 3) and can provide valuable insights on how to enhance climate action's effectiveness (especially in the context of adaptation).

Secondly, engagement is of particular importance for business to **exercise leverage over their business relationships** (e.g., suppliers, investee companies) in pursuing effective climate mitigation and adaptation actions. RBC due diligence seeks to achieve **continuous improvement** over time in line with targets through using leverage and supporting business partners (e.g., through capacity building, technology transfer, financial support) to decarbonise and adapt rather than calling for disengagement which can

promote “cut-and-run” behaviours that do not necessarily turn into real-economy, positive climate outcomes (e.g., reducing scope 3 emissions by simply changing suppliers may not result in the overall emissions reductions needed at the societal level). For example, investors – and more specifically asset owners – are increasingly adopting either engagement, divestment, or exclusion strategies to align their portfolio with net zero objectives or reduce their exposure to climate-related financial risks. However, reducing emissions at portfolio-level through divestment or exclusion of certain activities may not result in reducing emissions in the real economy where such activities can access alternative forms of investment or finance. In these instances responsible stewardship for decarbonisation focused on responsible asset retirement rather than divestment - aligned with RBC principles and standards – will be critical tools to reach climate goals (OECD, 2023^[51]; NZAOA, 2024^[52]). In the context of climate mitigation actions, engagement and disengagement strategies by investors and companies have to balance the need for exercising leverage to achieve decarbonisation of high-emitting sectors while mitigating the risk of contributing to carbon lock-in¹⁰ (OECD, 2023^[50]).

Under the *OECD Guidelines*, **responsible disengagement** from a business relationship is considered a last resort, after failed attempts at mitigation, or where the company deems addressing impacts not feasible, or because of the severity of the adverse impact is too high¹¹ (OECD, 2023^[25]). Further consideration on responsible disengagement is laid out in section 3.2.2.

Box 4. The role of technology transfer in supporting climate mitigation and adaptation in global supply chains

Know-how and technology transfer toward business relationships in the context of climate mitigation or adaptation is a form of engagement that can help reduce GHG emissions and support adaptation – especially in emerging economies. Both the Environment and the Science, Technology and Innovation Chapters of the *OECD Guidelines* discuss the role of technologies, and more specifically technology transfer in the context of environmental performance:

[78.] The use of leverage and provision of technology on mutually acceptable terms, technical assistance and funding to suppliers and other business relationships for climate mitigation and adaptation efforts will be crucial for meeting targets and addressing impacts.

Technology transfer plays a significant role in the decarbonisation and climate performance of SMEs, especially those in emerging economies that lack access to climate finance, green patents and clean technologies. Studies have shown that access and deployment of green and low-carbon technologies depend on a country’s integration in global value chains – as technology transfer occurs through imported goods and investment by MNEs. Further evidence suggests that suppliers and local businesses linked to MNEs through supply chains, equity partnerships, or technological licensing arrangements are more likely to adopt ‘green business practices’ (e.g., adopt target setting and decarbonization measures) as compared to their peers without such links.

Source: OECD (2023^[25]), *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*, OECD Publishing, Paris, <https://doi.org/10.1787/81f92357-en>; Steenberg & Saurav (2023^[8]), *The Effect of Multinational Enterprises on Climate Change: Supply Chain Emissions, Green Technology Transfers, and Corporate Commitments*, World Bank, <http://hdl.handle.net/10986/39830>.

3 Understanding and taking action on interdependencies between climate change, human rights and broader sustainability goals

The **interconnectedness of the triple planetary crisis and social equity and human rights** highlight the need for a more **comprehensive** and **integrated** response – both in policy and in business conduct – to climate change (UNFCCC, 2022^[1]). Recognising these interdependencies and taking them into account in the context of business climate action can help businesses better understand the **nature-climate-human rights nexus** and maximise synergies to ensure business action on climate also takes into account social and human rights implications. It can also help prevent and mitigate potential harms associated with the transition **away** from high-emitting sectors and **towards** greener and low-carbon economy.

However, at present, business rarely meaningfully integrates such considerations into their climate action (Noels and Jachnik, 2022^[53]) (IHRB, 2023^[54]). Recent study (Climate Action 100+, 2023^[55]) and benchmark (WBA, 2021^[56]) indicate very limited uptake and implementation by businesses that allow for consideration of **interdependencies** between climate issues, human rights and broader sustainability goals (including conducting human rights due diligence associated with climate actions, developing stakeholder informed transition plans, establishing commitments to upskill or reskill workers or compensating workforce adversely impacted by the transition etc.).

This section outlines how RBC standards can contribute to better responding to human rights impacts driven by climate change and to the enable a just transition including through: encouraging businesses to consider their climate impacts and actions in a **holistic manner** through understanding relationships to other environmental and social issues; **collaborating** and considering collective action in the face of cumulative impacts and systemic issues; pursuing **continuous improvement** over time and putting **stakeholders** at the centre of due diligence efforts.

3.1. Promoting holistic climate actions

Climate change adversely impacts a wide range of human rights including rights to water, food, health, adequate housing and self-determination, and rights implicated by forced displacement and migration (UN General Assembly, 2021^[57]).¹² Healthy habitats, biodiversity and ecosystems are essential for the full enjoyment of human rights. Ultimately, climate change can interfere with the enjoyment of the right to life as well as the right to a safe, clean, healthy, and sustainable environment, with the consequences most egregiously felt by those most vulnerable, who are often also those least responsible for climate impacts. This includes women, Indigenous Peoples, local communities, children, youth, and future generations

(OECD, 2022^[58]). As an example, biodiversity loss has an especially detrimental effect on Indigenous Peoples and others who depend directly on nature to sustain their livelihood (UNEP/OHCHR, 2021^[59]).

Transitioning *away* from a carbon intensive economy and delivering net-zero commitments can generate **disruptions** through economic restructuring, reallocations of capital and financial flows, workforce displacement, and affect the affordability and availability of goods and services. Managed poorly, the transition *towards* a low-carbon economy could result in new social and human rights risks (or scale-up existing risks) – especially in regions, sectors and supply chains needed to deliver goods and services required for reaching net zero targets (see Box 6 for example). Failure to address these risks could potentially slow down government authorisation, increase cost-overruns, delay delivery of projects and assets necessary for the transition (OHCHR, 2017^[60]). For example, land grabbing and community conflicts have been identified as key drivers for the failure of Nature based Solution (NbS)¹³ projects (Compensate, 2021^[61]). As such, taking a holistic approach to climate action and addressing adverse social impacts of the transition can help ensure support for the rapid decarbonisation measures needed.

Box 5. The concept of ‘just transition’: conceptual roots and global uptake

Just transition has grassroots origins in trade unions and activists’ efforts to align worker strikes and campaigns with environmental action and concern for environmental justice. The concept was incubated in the United States in the 1970s to gather support from environmental activists and trade unions in addressing health and safety issues in oil refineries. The concept was subsequently mainstreamed in the 1980s and 1990s as the International Confederation of Free Trade Unions adopted a declaration that referred to “*‘just transition’ policies that include measures for equitable recovery of the economic and social costs of climate change programmes*”.

Just transition gained traction when it was referenced in the preamble of the Paris Agreement, reiterating the need for governments to take “*into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities*”. In parallel, the International Labour Organization (ILO) has developed a guiding framework for a “*Just transition towards environmentally sustainable economies and societies for all*”, with the original concept centred around the social partners and the role of governments in adopting policies that could support workers adversely impacted by the transition away from GHG-intensive industries and sectors.

The concept has subsequently been broadened to both explicitly include businesses as key agents of the transition as well as to encompass a broader set of human rights implications of a low-carbon transition onto workers, communities, consumers, and between countries.

Sources: UNFCCC (2015^[62]), *Paris Agreement*, https://unfccc.int/sites/default/files/english_paris_agreement.pdf; ILO (2015^[63]), *Guidelines for a just transition towards environmentally sustainable economies and societies for all*, International Labour Office, Geneva, <https://www.ilo.org/publications/guidelines-just-transition-towards-environmentally-sustainable-economies>; IHRB (2020^[64]), *Just Transitions for All: Business, Human Rights, and Climate Action*, <https://www.ihrb.org/other/climate-change/report-just-transitions-for-all>.

The *OECD Guidelines* cover a broad range of social and environmental risks and impacts beyond climate change: human rights and labour rights but also biodiversity loss, degradation of land, marine and freshwater ecosystems; deforestation; air, water and soil pollution and mismanagement of waste, including hazardous substances among others (OECD, 2023^[25]). The *OECD Guidelines* recognise that “[a]dverse environmental impacts are often closely interlinked with other matters covered by the Guidelines such as health and safety, impacts to workers and communities, access to livelihoods or land tenure rights” and encourage businesses to **identify and address interdependencies** between their climate risks and

impacts and other sustainability impacts, including human rights through “*taking into account multiple environmental, social and developmental priorities*” in the context of their due diligence. (OECD, 2023^[25])

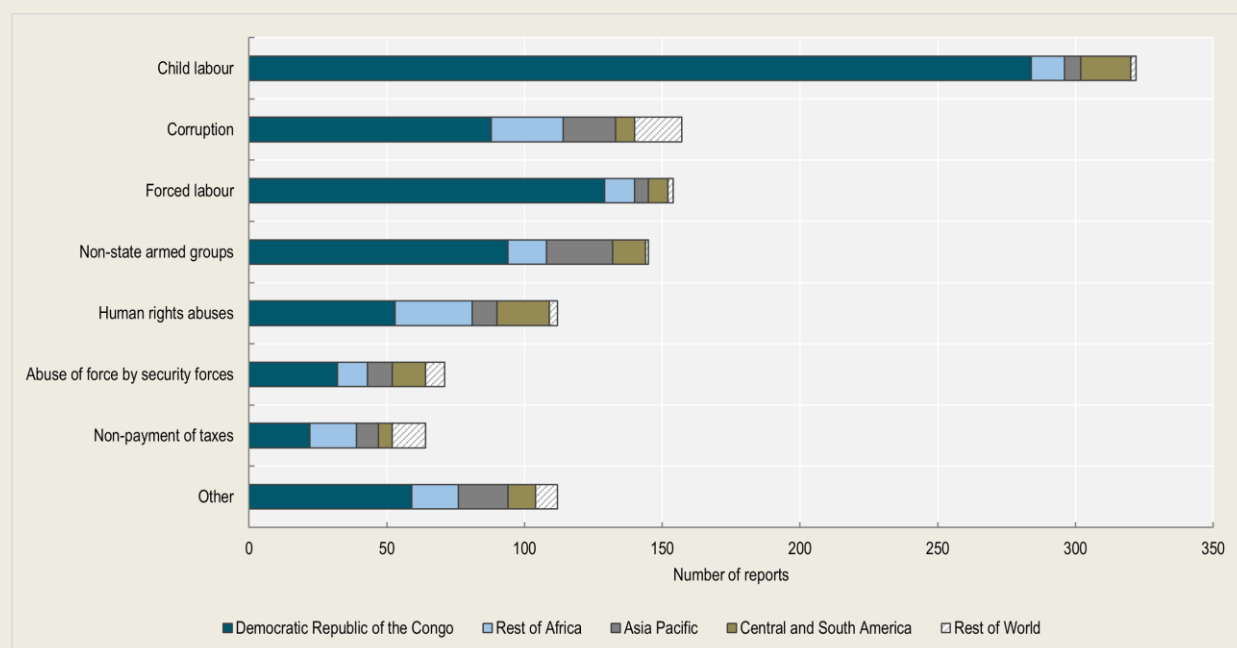
In the context of just transition objectives specifically, they note that “it is important for enterprises to assess and address social impacts in the context of their environmental management and due diligence activities and to take action to prevent and mitigate such adverse impacts both in their transition away from environmentally harmful practices, as well as towards greener industries or practices, such as the use of renewable energy. Respecting labour rights, including engaging in social dialogue and collective bargaining, as outlined in Chapter V, meaningfully engaging with relevant stakeholders and, where relevant practicing responsible disengagement, as outlined in Chapter II, will be important in this respect.” (OECD, 2023^[25]). Through RBC due diligence, businesses are also called on to consider the range of different environment and social impacts they may be associated with, assess their relative severity, and take appropriate action. In this way, the holistic nature of the *OECD Guidelines* as well as the prioritisation process embedded in the risk-based due diligence approach provide a framework for businesses to **break silos in risk management** and consider their contribution to sustainability more comprehensively.

In addition, addressing climate risks and impacts with a better understanding of their interdependencies on nature and social surroundings, including human rights, has the potential to deliver **long-term co-benefits for ecosystems and communities**. For example, mitigation measures that rely on the protection and management of ecosystems could serve as a form of insurance against future climate change risks i.e., through carbon sequestration, biodiversity conservation which could also in turn enhance community livelihoods and other ecosystem services (i.e., improved water quality) (Goldstein, 2019^[33]; OECD, 2021^[35]). It also allows business to proactively address other potential adverse impacts associated with their climate commitments and transition plans. For this reason the *OECD Guidelines*, alongside other project-based environmental and social risk management frameworks (e.g., the IFC Environmental and Social Performance Standards) have been increasingly put forward as a way to operationalise “**Do-no-significant-harm**” (DNSH) provisions and **Minimum Social Safeguards** (MSS) for businesses and investors when pursuing climate actions in order to avoid adversely impacting other key environmental and social objectives (i.e., biodiversity, resource pollution, human rights, circularity) (IFC, 2023^[65]). For example, the *OECD Guidelines* and RBC due diligence have been embedded in the G20 Principles for Sustainable Finance Alignment as a tool for financial institutions (and corporates) to “avoid negative contributions to other sustainability goals” (Principle 2) when engaging in climate mitigation actions (World Bank Group, IMF and OECD, 2023^[66]). OECD standards on RBC have also been embedded in several **taxonomy frameworks and regulations** around the world (notably in the EU, Malaysia, Chile, South Africa, Singapore, or Mexico taxonomies (EU PSF, 2022^[67]; OECD, 2022^[21]).

Box 6. Promoting responsible sourcing of critical minerals

Achieving the climate mitigation objectives of the Paris Agreement would mean quadrupling minerals supply for clean energy by 2040 (IEA, 2021^[68]). To supply these materials in sufficient volumes, sourcing from conflict-affected or high-risk areas will be unavoidable. They also cannot be discounted amid efforts to diversify mineral sourcing. The production of critical minerals is highly concentrated in a few countries, including areas where RBC-related risks are prevalent (see Figure 3).

Figure 3. Public reports of select RBC-related risks by mineral supply chain and by region (2017-2019)



Source: Based on IEA (2022^[69]), *Why is ESG so important to critical mineral supplies and what can we do about it*, <https://www.iea.org/commentaries/why-is-esg-so-important-to-critical-mineral-supplies-and-what-can-we-do-about-it>.

RBC risks and adverse impacts may compromise supply of energy transition minerals in a range of ways. Incidences of RBC-related adverse impacts can erode public and community support for mining projects and potentially leads to short-term production disruptions and local and international resistance to mining investments. Specific supply chain incidents may also give rise to supply disruptions with implications for prices. For example, safety failures can harm workers and lead to long-term interruptions of operations. In addition, corruption in the mining sector and a volatile business environment appear to be associated with periodic shutdowns, delays in the start of the operations and shakedowns of mine sites producing energy transition minerals.

Robust RBC due diligence can help foster security of supply and strategic diversification of mineral supply chains, while ensuring that rules-based trade and investment and broader sustainability and resilience objectives are not undermined. Responsible sourcing requirements needs to be supported by meaningful risk mitigation and development-oriented strategies involving all relevant stakeholders, including companies in the supply chain, host governments and communities and international donors and organisations. Conversely, if the risks are not understood and mitigated, they could deter investment, undermine sustainable development opportunities, disrupt supply and damage local communities, human

rights and the environment (OECD, 2023^[70]). With about 40% of all intrastate conflicts since 1950 being linked to natural resources, and each week a mining project that is delayed costing USD 20 million, failure to address these risks will compromise not only a just energy transition, but the viability of a transition at all. Importantly, these challenges confront producing, processing and destination countries alike, meaning cooperation and a global level playing field on responsible business conduct will be key to a more resilient transition minerals supply chain.

The *OECD Guidelines* also call on businesses to address impacts of goods and services “over their full life cycle” and “to adopt sustainable consumption and production patterns, including, through resource efficiency, the circular economy and other models” (OECD, 2023^[25]). As outlined in the UNEP circularity platform, circularity’s underlying objective is that materials should be kept at their highest possible value as they move and are retained within the value chain. This reduces the use of natural resources and environmental impacts per unit of economic activity or output, while continuing to enable improvements in human well-being.

Moving towards a circular economy model by improving recycling and material efficiency, while also decreasing consumption can also reduce the need for raw materials, support greater societal resilience to climate change as well as avoid adverse impacts to people and the environment commonly associated with mining activities.

3.2. Practical approaches to prevent adverse and unintended impacts of climate action

3.2.1. Encouraging understanding of cumulative impacts and promoting collaborative efforts

Assessing and mitigating **cumulative impacts** that may arise from climate action at scale is also necessary to addressing significant impacts. For instance, it is estimated that the total land surface required to host the reforestation, afforestation, and similar nature-based solutions (NbS) projects¹⁴ associated with net zero commitments (through offsetting) would be equivalent to the size of India (Oxfam, 2021^[71]). There is a growing body of evidence suggesting that NbS provide broader socio-economic benefit and help minimise loss and damages resulting from climate change e.g., protected coastal wetlands are estimated to have helped prevent over USD 600 million of direct property damages during Hurricane Sandy (OECD, 2020^[72]). However, if poorly planned NbS can result in adverse environmental and social impacts i.e., the conversion of natural ecosystems, such as forests or wetlands, into monoculture plantations can adversely impact biological diversity and in turn generate environmental degradation of soil, water, and wildlife in the surrounding area (IPCC, 2019^[73]).

Business adaptation strategies could also have cumulative impacts. For example, agri-food businesses are increasingly shifting towards climate-resilient crops to better cope with climate variability and extreme weather events (e.g., heatwave, storms). When similar strategies are applied at industry-level certain communities may be left stranded, including small-holder farmers without the capacity or resources to adapt to more resilient crops. In that context, the *OECD Guidelines* call on businesses to consider their **share of cumulative impacts** as part of their environmental management.

Furthermore, RBC standards and instruments encourage companies to **collaborate** in their due diligence which can support them in assessing cumulative impacts as well as taking collective action to address them: whenever possible business are expected to build **collective leverage** (e.g., at the level of industry associations or with governments), especially when leverage is initially lacking (OECD, 2018^[27]). Climate

coalitions and initiatives have the potential to play a key role in this sense as they can provide important platforms for pooling knowledge and enhancing leverage in a cost-effective way.

3.2.2. Encouraging continuous improvement, stakeholder engagement and mitigating impacts of disengagement

As explained in Section 2.3.2, **meaningful stakeholder engagement** is a key expectation of RBC instruments and standards as well as a key characteristic of RBC due diligence. Engaging with impacted stakeholders will be key to better understanding and addressing **interlinkages** between climate impacts and human rights as well potential harms associated with **transition activities**. For example, stakeholder engagement can play a key role when decommissioning assets and infrastructure and devising repurposing strategies that can sustain the well-being of communities and avoid transferring the cost of stranded assets on broader society (Energy Sector Management Assistance Program, 2021^[74]). Stakeholder engagement (as well as principles of Free, Prior and Informed Consent for Indigenous Peoples) will be key for preventing RBC-related risks such as land grabbing, forced displacement or deforestation associated with high land use renewable energy projects (see Box 7).

Box 7. Stakeholder centred transition approaches: the example of community ownership

Innovative ownership and financing structures are also being established to safeguard communities' rights and better share the benefits of the transition, including through projects and initiatives such as **Community Ownership of Renewable Energy Projects**. These types of projects aim at avoiding marginalisation of communities and their exclusion from the benefits of locally produced sources of energy. Community ownership projects are based on ownership models where the asset is jointly owned, operated, and controlled by members of a community and the project sponsor/developer.

The model enables communities to participate in decision-making affecting the governance, operational management, and maintenance of renewable energy projects while also harvesting the financial benefits of the projects, especially as a way to invest in local development and public services. The community-ownership approach reduces community resistance to renewable energy projects, hastening the energy transition in a fair and just way. Local communities are more likely to ensure that projects are done in a way that is least damaging to local environments and ecosystems. Such types of projects have been tested in several OECD jurisdictions, including Canada, Colombia, Mexico, Norway, Sweden, the United Kingdom or the United States.

Source: IHRB (2023^[75]), *Community Ownership of Renewable Energy: How it Works in Nine Countries*, <https://www.ihrb.org/resources/community-ownership-of-renewable-energy-how-it-works-in-nine-countries>.

Workers or communities whose revenue and livelihoods depend on high-emitting sectors and industries (e.g., oil and gas, coal, aviation, chemicals and cement, etc.) are likely to be among those that will be the most severely affected by the transition to a low-carbon economy. For example, the World Bank estimates that over four million jobs in coal mines have been cut globally due to fossil fuel phase-out (World Bank Group, 2018^[76]). Phasing out from high-emitting assets can have impacts beyond the workforce and in turn increase the risk of stranded communities (Just Transition Centre, 2017^[77]). On the opportunity side, the ILO estimates that to the right training and upskilling processes, over 70% of jobs affected by the net-zero transition can potentially be reallocated to new jobs in the green economy¹⁵ (ILO, 2019^[78]) while the IEA's Net Zero by 2050 roadmap estimates that the transition could create over 30 million jobs across the energy sector alone (IEA, 2021^[17]).

Under the *OECD Guidelines*, **disengagement from a business relationship is considered as a last resort** and when all possible mitigation options have been exhausted. In that sense, the *OECD Guidelines* are clear in how they expect business to address disengagement, “*including by seeking meaningful consultation with relevant stakeholders in a timely manner and where possible, by taking reasonable and appropriate measures to prevent or mitigate adverse impacts related to their disengagement*” (OECD, 2023^[25]). In the context of negative impacts to workers caused by climate action of business the *OECD Guidelines* include expectations that businesses facilitate the creation of new decent green jobs, provide training to improve and re-skill workers, co-operate with worker representatives and government to mitigate to the maximum extent practicable the adverse effects of changes such as shutting down operations (see Box 7) (OECD, 2023^[25]).

4 Conclusion

Tackling the climate crisis requires a **whole of society approach** with governments, consumers, businesses, and society more broadly all playing a part. Businesses play a key role in that they can be a source of solutions to tackling the climate crisis but also contribute to climate risks and impacts through their activities.

RBC instruments and standards can represent a powerful tool in encouraging impactful climate action by business by complementing and reinforcing existing effective climate standards and initiatives as well as addressing current gaps in practice. As the only government-backed international instrument outlining climate expectations for business they can provide an authoritative foundation for fostering good practice, both existing and nascent, and ensuring business climate action aligns with international climate goals. Further **collaboration and dialogue between environment, labour, human rights, finance and corporate governance policy communities will be important** to supporting businesses in responding to and implementing growing expectations regarding climate action.

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Notes

¹These laws and policies may require international regulatory cooperation to unlock their full potential. To that effect, a number of organisations, including the OECD, UNEP and UNFCCC, are actively supporting, monitoring and evaluating the implementation of climate-related policies and their real-economy impacts. As such, the UN Race to Zero is providing a framework for driving non-state action on climate while the High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities provided recommendations on how to set clearer standards on net-zero pledges. In a similar fashion, the OECD International Programme for Action on Climate (IPAC) supports country progress towards net-zero through regular monitoring, policy evaluation and feedback on results and best practices. More specifically, on climate mitigation policies, the Inclusive Forum on Carbon Mitigation Approaches (IFCMA) provides a platform for dialogue among 133 countries to share best practices, data and evidence-based policies that deliver tangible emission reductions.

²At the company level, climate mitigation and adaptation actions take various forms ranging from switching to electric vehicles, opting for less GHG-intensive energy sources, adopting circular economy production patterns, sourcing climate resilient crop or upgrading infrastructure. Effective climate mitigation and adaptation measures will also rely on clean technologies that improve environmental performance.

³ In 2023 less than a quarter of the 18,600 Climate Disclosure Project (CDP) members disclosed using a 1.5°C-aligned climate transition plan. (CDP, 2023^[47])

⁴ The OECD has developed a number of sector-specific due diligence guidances: the Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2016^[79]); Meaningful Stakeholder Engagement in the Extractive Sector (OECD, 2017^[83]); OECD-FAO Guidance for responsible agricultural supply chains (OECD/FAO, 2016^[80]), Responsible Supply Chains in the Garment and Footwear Sector (OECD, 2018^[81]); Responsible Business Conduct for Institutional Investors (OECD, 2017^[84]); Due Diligence for Responsible Corporate Lending and Securities Underwriting (OECD, 2019^[85]); and Responsible Business Conduct Due Diligence for Project and Asset finance transactions (OECD, 2022^[82]).

⁵ These include sectoral guidances on conducting environment and/or climate due diligence for institutional investors, minerals supply chains and the garment and footwear sector. (OECD, 2018^[27]; OECD, 2023^[51]) (OECD, 2023^[86])

⁶ See para. 76 of the Commentary to the Environment Chapter of the *OECD Guidelines*.

⁷ Currently climate targets focus strongly on climate mitigation and alignment with net-zero objectives. Targets used by business related to adaptation are currently limited or lacking. As such this section considers how the *OECD Guidelines* and enhance good practice with respect to climate mitigation targets. Nonetheless, as discussed in Section 2.1, the *OECD Guidelines* likewise call on business to take action

on climate adaptation and thus encourages business to develop appropriate targets related to their adaptation efforts as well.

⁸ Under the *OECD Guidelines* “relevant stakeholders are persons or groups, or their legitimate representatives, who have rights or interests related to the matters covered by the Guidelines that are or could be affected by adverse impacts associated with the enterprise’s operations, products or services. Enterprises can prioritise the most severely impacted or potentially impacted stakeholders for engagement. The degree of impact on stakeholders may inform the degree of engagement.” (OECD, 2023^[25])

⁹ For example, workers’ involvement, through trainings and reskilling – is vital to transform certain sectors and operations to low-carbon business activities as highlighted in para. 6 of the Environment Chapter of the *OECD Guidelines*.

¹⁰ Carbon lock-in occurs when fossil fuel infrastructure or assets (existing or new) continue to be used, despite the possibility of substituting them with low-emission alternatives, thereby delaying or preventing the transition to such alternatives. Carbon lock-in is related to the long-lived and capital-intensive character of fossil fuel infrastructure.

¹¹ See para. 25 of the Commentary on Chapter II: General Policies of the *OECD Guidelines*.

¹² The United Nations Human Rights Council recently voted in support of resolution A/HRC/48/L.23/Rev.1 recognizing the **Human right to a safe, clean, healthy and sustainable**. The Council further encouraged States to adopt policies for the enjoyment of the right to a safe, clean, healthy and sustainable environment as appropriate, including with respect to biodiversity and ecosystems, and invites the General Assembly to consider the matter.

¹³ The 5th UN Environment Assembly Resolution 5.5 defines the concept of NbS as actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems and calls for more collaboration and resources.

¹⁴ NbS are carbon offsets projects, allowing companies to offset their GHG emissions by investing in projects that reduce or remove emissions from the atmosphere. These projects can take the form of reforestation, afforestation and other natural habitats restoration projects.

¹⁵ This analysis shows nearly 7 million jobs could be lost globally, of which 5 million can be reclaimed by being able to find jobs in the same occupation in another industry within the same country. This means that between 1 and 2 million workers are likely to be in occupations where jobs will be lost without equivalent vacancies arising in other industries, and will require reskilling into other occupations.

