

# ESRS E1: climate change – climate change mitigation 1/16/24

The Green Deal aims to make Europe the first climate-neutral continent. We have undertaken to reduce our greenhouse gas (GHG) emissions by at least 55% (compared to the 1990 levels) by 2030 and achieve climate neutrality by 2050. To meet these targets and mitigate the impact on climate change, countries and businesses need to cut down their GHG emissions significantly.

All GHG emissions are divided into three scopes:

- Scope 1 – direct emissions arising/ being produced in the company's core business processes
- Scope 2 – indirect emissions that are related to energy (electricity, heating, cooling and steam) the company consumes but are not caused by its core business activity
- Scope 3 – all other indirect emissions in the company's value chain

Climate change mitigation involves reducing GHG emission flows in the atmosphere by minimising the sources of these gases (e.g. by cutting down the consumption of fossil fuels) or by improving the Earth's natural reservoirs that accumulate and store these gases (e.g. oceans, forests and soil). Climate change mitigation aims to avoid a significant human intervention in the Earth's climate, stabilise the level of GHG emissions over a sufficiently long period to allow the ecosystems to adapt naturally, ensure the production of food is not threatened, and allow the economy to continue developing sustainably.

In late 2023 the European Environment Agency (EEA) prepared and published "Trends and projections in Europe 2023", a report that describes the achievements in climate change mitigation.

By 2022 the EU managed to reduce its GHG emissions by 31% compared to the 1990 levels. This reduction was mainly due to energy-supply and energy-intensive sectors taking part in the EU emissions trading scheme since 2005. The EEA report states that accelerated efforts in reducing GHG emissions are currently needed in the road transport, buildings, agriculture and waste sectors because their progress has been slow. Regulation (EU) 2018/842 of the European Parliament and of the Council on binding annual GHG emission reductions by member states from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement (the "Effort Sharing Regulation") applies to GHG emissions from IPCC source categories: "energy", "industrial processes", "agriculture" and "waste". The Effort Sharing Regulation lays down each member state's GHG emissions reduction targets for 2030. Latvia's target is a 17% reduction.

At the same time, according to initial EEA estimates, the EU has increased its renewable energy consumption, which was close to 23% of the EU's total gross end consumption of energy in 2022. A 16% reduction in primary energy consumption since 2005 has also contributed to the EU's total reduction in GHG emissions.<sup>1</sup>

The EEA report also emphasises activities carried out in governance. In 2023 the member states adopted several policies and measures towards meeting their climate and energy targets. In late 2023 the Latvian Cabinet of Ministers adopted the updated National Energy and Climate Plan for 2021–2030, thereby strengthening Latvia's stance on climate change mitigation.

Companies can reduce their carbon emissions in various ways, yet the most efficient steps could be as follows:

- Transition to renewable energy sources, such as installing and using solar panels. This solution produces results over a short period.
- Various energy efficiency measures such as optimising production processes by using technology that needs less energy or by setting up an energy management system.
- Choosing services and raw materials that are produced or grown locally.
- Adopting the principles of circular economy, etc.<sup>2</sup>

In collaboration with the Business Sustainability Council, Swedbank AS issued a practical guide for businesses “Determining CO2 emissions in company value chains” in January 2022, which answers practical questions such as what are GHG emissions, the basic steps in determining a company’s total CO2 footprint, possible reduction methods, and how to set targets.

The European Sustainability Reporting Standards (ESRS) state that climate change mitigation is associated with companies’ efforts in contributing to the overall process by curbing the global average temperature increase at 1.5 °C above pre-industrial levels, as required by the Paris Agreement. ESRS E1 applies to information disclosure requirements relating to seven GHG emissions gases: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), partly halogenated hydrofluorocarbons (HFC), perfluorocarbons (PCF), sulphur hexafluoride (SF6), and nitrogen trifluoride (NF3), but not only these. This includes the requirement for disclosing information on how your company deals with issues around its GHG emissions and rearrangement risks.

The Corporate Sustainability Reporting Directive and ESRS E1 require companies to report on the positive and negative impacts of their activities on climate change. This covers all business aspects – emissions arising in the production process from the amount of energy consumed and those arising in the company’s upward and downward value chain. The new reporting framework provides that a sustainability report should include information on what is happening now and what could happen in the future. The company should predict and take account of the possible impacts by giving its stakeholders an overview of its goals through its sustainability strategy. For a complete understanding of the company’s efforts in mitigating climate change, the sustainability report should include information on the baseline year, not only the reporting year.

A key aspect of ESRS E1 is the requirement for companies to formulate a transition plan for climate change mitigation. This plan is a strategic guide towards change and outlines GHG emissions reduction targets, as well as requiring the company to indicate its decarbonisation levers, planned activities and initiatives in climate change mitigation, and other aspects. To fully understand the requirements of ESRS E1, it should be read together with ESRS 1 and 2.<sup>3</sup>

On 25 April 2024 you are welcome to attend our new PwC ESG Academy webinar “Greenhouse gas emission calculations and their significance in sustainability reporting”.

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<sup>1</sup> European Environment Agency, 24 October 2023, “Trends and projections in Europe 2023”

<sup>2</sup> Swedbank, 3 June 2022, “Determining CO2 emissions in company value chains”

<sup>3</sup> Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards