ICROA'S RESPONSE TO THE SCIENCE-BASED TARGET INITIATIVE (SBTi) NET-ZERO CRITERIA PUBLIC CONSULTATION

12 MARCH 2021

***

The International Carbon Reduction and Offset Alliance (ICROA) appreciates the opportunity to provide comments and feedback on the Science Based Targets Initiative (SBTi) Net-Zero Criteria Draft for Public Consultation Draft ("the draft").

ICROA is encouraged to see support for corporate action in line with the overarching objective of reaching a net-zero state by defining mitigation pathways to reach the Paris Agreement goals of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels." It is positive to see the increasing number of commitments being made by corporates and we hope that the SBTi Net Zero Criteria and Standard will create even more momentum to achieve global climate targets, which include immediate action to significantly reduce emissions in all sectors over the next decades.

Established in 2008 as a non-profit membership organisation and later housed within the International Emissions Trading Association (IETA), ICROA represents the voice of the voluntary carbon market (VCM) and promotes collaboration across key stakeholders and influencers to enhance confidence in and respect for the value and impact of voluntary climate action. Throughout the last 15 years, our members have gained strong expertise and a vast experience in the VCM and are active in promoting and advancing best practices in voluntary action on climate change. As the first movers on integrity in the VCM, ICROA unites businesses committed to the ongoing development of the highest standards of environmental integrity for climate solutions. ICROA maintains a Code of Best Practice that defines and promotes leading practice in the use of market-based instruments and climate finance to achieve and communicate voluntary climate action. We work to enable individuals and entities to reduce their internal emissions and compensate for their unabated greenhouse gas emissions within their operations and supply chains by financing emissions reduction and removal activities beyond their direct control enabled by the VCM.

We thank the SBTi as well as all of the contributors for their hard work on the Foundations for Science-Based Net-Zero Target Setting in the Corporate Sector (September 2020) and the ongoing the Net-Zero Criteria Consultation that will be a building block for the completion of the upcoming Net-Zero Standard.

TABLE OF CONTENTS

Part I: ICROA's High-Level Comments

1. The Role of Corporate Neutrality and Corporate Net Zero in a Global Context

ICROA supports voluntary climate leadership and recognizes that the private sector has a strong role to play to achieve net-zero on a global scale. We do have concerns about the proposed approach to target setting for corporates in the SBTi's Net Zero Criteria Draft that will be exposed in both the high-level and more detailed comments provided below.

We would like to emphasise the importance of keeping it simple – creating complex criteria, calculations and targets may well discourage voluntary climate action, and we believe that the role of the SBTi should be to join ICROA in encouraging and driving action today and in the future. Carbon neutrality, which includes the use of much-needed compensation and not "*optional*" compensation, as stated in the draft, to complement a longer-term net zero commitment is simple, ambitious and helps catalyse high-quality and credible mitigation projects that are necessary to achieve the Paris goals.

ICROA strongly supports claims of neutrality, that are of course complimentary to net zero pledges and targets, and believe that this should be more emphasized in the draft and that both should be encouraged – net zero to define commitments to longer-term action, and neutrality to demonstrate constant action throughout the transition to net zero. Both, of course, are to be supported by continuously greater monitoring, reporting and transparency to ensure quality and integrity.

ICROA supports the mitigation hierarchy outlined by the SBTi of a complement of internal abatement, neutralisation and compensation, as it is stated in the ICROA Code of Best Practice that our members have followed over the last 15 years. Our members are experienced practitioners in the voluntary carbon market and encourage companies to make permanent, verifiable and transparent reductions while ensuring that corporates aiming for and actually achieving carbon neutrality and net zero can communicate their achievement with integrity in ways that are understood by key stakeholders around the world, and also in ways which deliver a strong incentive for other businesses to scale their efforts. This is what we believe will help bring climate leadership and create an environment where companies will not think twice about taking voluntary action and raising the bar to increase climate ambition.

Again, we believe in simplicity and pragmatism while driving climate ambition and setting ambitious targets – we do, however, believe that targets can be both achievable and must be challenging to go beyond business-as-usual scenarios, without being overly complex or creating unnecessary barriers. What is important is to raise ambition and encourage companies to use their strengths to take efficient, impactful and quality climate action, that may vary from company to company and sector to sector, but should always keep in mind the power of immediate action today through carbon neutrality to reach global net-zero before or by 2050. Note that we believe all actors have to take their own responsibility – business cannot be held hostage to governmental action or otherwise – and we are unashamedly looking for the business value in this climate leadership.

2. The Role of All Carbon Credits in Achieving Net Zero

ICROA welcomes SBTi's incorporation of offsetting as a legitimate and effective way to reach a state of net zero – as underlined within the Foundations for Science-Based Net-Zero Target Setting in the Corporate Sector paper as playing a "critical role in accelerating the transition to net-zero emissions at the global level[1]" and included in the most ambitious strategy put forward in the document (*Strategy 5, Climate Positive Approach*). Offsetting encourages immediate action that finances emission reductions and removals where they are most effective, and which imposes a carbon pricing signal that accelerates transformation. This

[1] *Page 8, SBTi's "Foundations for Science-based Net-Zero Target Setting in the Corporate Sector" (September 2020)*

complements the long-term alignment of business strategy with climate science by four complementing factors: (1) immediacy of impact (2) financing for climate action (3) pricing carbon and (4) extracting business value.

As we recognise the importance of removals and the key role of neutralisation in the coming decades, we urge the SBTi to re-emphasize the importance of both compensation and avoided emissions as an effective and immediate means to decarbonise and eliminate deforestation and land-use change emissions among many other co-benefits. Firstly, we ask that "optional" should be removed from the title "~~optional~~ compensation," as it is of utmost importance, just like abatement and neutralisation, in corporate mitigation tactics, and from experience, it is in line with ambition for both carbon neutrality and net zero commitments. We also recommend the criteria be placed following the abatement and neutralisation criteria in Chapter 2 (in line with Section V), which is in line with Section 2.4 on "Mitigation Strategies and Tactics" in the Foundations for Science-Based Net-Zero Target Setting in the Corporate Sector paper on page 17, and not in an Appendix.

All project types have an important role to play in the decarbonisation pathway to net zero as removal/sequestration cannot replace the need for immediate emissions reduction/avoidance, and will be required even in the most ambitious decarbonization scenarios. If we focus only on removal projects alone, we may well end up having to remove emissions we could have avoided in the first place. A balance between both project types will be critical to not only sequester carbon but also provide strong co-benefits, as shown by the example of projects to protect existing forests (biodiversity, socio-economic benefits) and reforestation/afforestation projects (carbon sequestration), which also underlines the importance of nature-based climate solutions as playing a "critical [dual] role in climate mitigation strategies[2]." In line with this, the SBTi needs to recognize the role of purchasing high-integrity credits to reduce deforestation and other near-term climate priorities as one of the highest value actions that companies can take for the climate and the health of the planet this decade, and the decades to come, as part of achieving global net zero. This pragmatic approach is entirely in line with the benefits to the climate, as from the perspective of the atmosphere a reduction today is worth more than a removal tomorrow, and much more than a target 15 years down the road.

[2] *Page 8, SBTi's "Foundations for Science-based Net-Zero Target Setting in the Corporate Sector" (September 2020)*

Part II: ICROA's Comments on Proposal Sections

1. General Criteria

a. Net-Zero Target Timeframe

Again, we believe in simplicity and pragmatism while driving voluntary climate ambition and setting ambitious targets – we do, however, believe that targets can be both achievable and must be challenging to go beyond business-as-usual scenarios, without being overly complex or creating unnecessary barriers. What is important is to raise ambition and encourage companies to use their strengths to take efficient, impactful and quality climate action, that may vary from company to company and sector to sector, but should always keep in mind the power of immediate action today through carbon neutrality to reach global net-zero before or by 2050. We encourage the SBTi to support both neutrality and net zero as a complementary way to actually achieve global climate goals. Note that we believe all actors have to take their own responsibility – business cannot be held hostage to governmental action or otherwise – and we are unashamedly looking for the business value in this climate leadership.

b. GHG Inventory

ICROA supports accounting and emission inventories to support target setting in tracking of net zero targets. The ICROA Code of Best Practice refers to the GHG Protocol for carbon measurement as a reference, and our members commit to using the highest-quality international standards for carbon foot printing and completing a comprehensive emissions inventory.

2. Net-Zero Target Criteria

a. Emissions Abatement: Ambition & Target Boundary

As mentioned above, we believe in simplicity and pragmatism while driving climate ambition and setting ambitious targets, as per the ICROA Code of Best Practice. We do, however, believe that targets can be both achievable and must challenge to go beyond business-as-usual scenarios, without being overly complex or creating unnecessary barriers – and support both absolute and intensity targets as there are many scenarios that can lead to mitigating climate change. We would like to underline and be fully aware that intensity targets can extremely be penalising in an economic recession. However, what is important is to raise ambition and encourage companies to make use their strengths to take efficient, impactful and quality climate action along the value chain, that may vary from company to company and sector to sector, but should always keep in mind the power of immediate action today through carbon neutrality to reach global net-zero before or by 2050.

b. Neutralisation

Neutralisation has an important role to play in reaching a state of net zero by 2050, though we are concerned that requiring a set phase-in to use removals may dissuade companies from setting net-zero targets and may lower ambition and investments in climate action – hence, we reiterate the importance of simplicity and pragmatism regarding the approach and criteria. In line with this, we strongly urge the SBTi to recognise that compensation from avoided and reduced emissions and neutralisation from removals are critical in mitigation strategies and actions to reach net zero.

While we acknowledge a likely declining role of reductions and avoidance in a world that is on the pathway to, and close to reaching, the Paris targets, we also need to acknowledge the reality that we are currently a very long way from any global alignment with that pathway. In reality, therefore, the role of reductions and avoidance over the next few decades cannot be overstated. We are concerned that in strictly choosing neutralisation from removals, it may create unintended consequences: (1) can delay climate action, as removals credits have a longer time period to come online and the market currently does not have the supply of credits needed to meet Scope 1,2 and 3 boundaries – the use of carbon credits to compensate for emissions is absolutely necessary and (2) can create perverse incentives to cut down forests, to then reforest in order to create removals credits, rather than avoid emissions altogether. We therefore ICROA strongly recommend the SBTi to accept carbon offsets and negative emissions technologies as companies set their 10-15-year targets and allow companies to supplement internal emissions reductions with carbon offsets and negative emissions technologies even during the interim emissions reductions period. Indeed, there is no scientific basis to discourage or prevent the use of offsets throughout the timeline to net zero, including the first 10-15 years, emission reductions from any sector are absolutely critical in achieving Paris-aligned targets.

Technological solutions and reductions should not be encouraged at the expense of avoided emissions and natural climate solutions, as suggested in Text Box 5.2, Table 5.2. We disagree with criteria NZ-C22.3 and NZ-C22.4 in the draft that seem to favour technological removals, that are still a in development stage and not readily and widely available, over biological removals that are low-risk and low-cost tools to remove emissions in the near term and are in need of increased investment. Although we see the value in these technologies, they are currently difficult to implement and have fewer, if any, co-benefits than natural solutions – we should be maximising our current nature-based solutions for their essential benefits and critical importance to eliminate deforestation and the loss of natural carbon stock, in parallel to investing in innovation and improving technological solutions. Indeed, we should encourage investment in those technologies that deliver the greatest greenhouse gas benefits in both short and longer term.

Not only should we value our nature-based solutions, but we should also keep them safe from any harm and violation or at risk of any type of manipulation – which may be incentivised by setting up specific criteria that differentiate requirements for company emissions boundaries (NZ-C24). And while we do see the rationale behind interim science-based targets (SBTs) for removals (NZ-C26), we would like to point out that making this a requirement may slow down or completely blocks corporate climate action as it could limit to specific sectors or company size and type that have alternative decarbonisation pathways.

Regarding NZ-C22, highly credible standards will have safeguard mechanisms to address the issue of permanence and risk of leakage – ICROA and CORSIA have already taken the exercise of addressing both risks, which SBTi could support solely as an additional safety mechanism. To reiterate**,** the SBTi should not replace specific standards in this domain – so we disagree with NZ-C22 – but rather support the role of robust standards with adequate safeguards to address these risks. ICROA disagrees with the emphasis on permanence beyond 100 years according to NZ-C27.1, as it will prioritise technological removals over biological removals, yet both natural climate and technological solutions need to be scaled. We would also like to point out that even technological removals may not even provide this guarantee of several hundred years and therefore the safeguard mechanisms of avoiding reversals plays a more important role in carbon accounting when paired with a realistic timeline of removals – which again, should follow the IPCC timeline of permanence of 100 years and not several hundred years.

Requiring the vintage of instruments of to be less than three years from the use of a carbon removal for neutralisation as suggested in NZ-C-27.6 is unmanageable and unrealistic due to the current verification frequency – and adds no value to the climate, and could be significant barrier to implementation of projects and for companies who truly want to neutralise their emissions. Restrictions on vintages would exclude many existing high-quality projects, especially those in the land sector, that, without the continued VCM funding, would not reach their full potential to reduce or remove emissions. The methodologies for land sector carbon offsets have been explicitly established to require and monitor activities on the ground over decades. An afforestation or reforestation project that started in 2015 would take about 5 years before sufficient verified removals are available to justify transaction costs of verification and usually 10 more years until reaching full potential and financial viability. Excluding projects that already have demonstrated real and verifiable emissions removals and which require ongoing funding to reach full climate potential - simply because it started prior to a date or too "old" – would be counter to the goal of taking voluntary action and would send the wrong message to market participants. We therefore recommend this requirement be removed as this condition will be limiting.

Quality carbon standard, particularly all those endorsed by ICROA, ensure that any reduction or removal units are uniquely identified. However, we reject NZ-C27.3 as worded in the consultation document. This clause will create a barrier for companies who want to take voluntary action and will penalise developing countries unfairly by requiring corresponding adjustments (CAs). This means that – on top of delaying climate action due to the difficulty of undertaking CAs, companies would only buy from countries that could undertake CAs, penalising countries that would benefit from carbon finance to reduce emissions within their countries. Indeed, any argument that could apply to a voluntary action that is credited under a carbon standard, would equally apply to that action regardless of whether it is within the corporate's global footprint or not. If there is a concern about the validity of the host country targets as a result of any voluntary action in that country, then this is an equal concern in the UK as in Uganda, whether it is within the corporate's tax domicile or its actual global presence, within or outside its accounting footprint. ICROA has a strong position with respect to voluntary action and the functioning of the VCM – specifically that no CAs are actually needed or indeed desired. In summary:

- **No export:** Carbon reductions financed by the VCM are not exported, nor ever have been exported, from the Host Country. They are accounted for by the Host Country and can contribute to or go beyond that Country's efforts. Also note that the domicile of the corporate buyer (if different from the project location) has no claim whatsoever.

- **Additionality:** Carbon Standards will be required to ensure baselines and methodologies are updated and adapted over time to maintain additionality at project/programme level by ensuring carbon reductions over-and-above business-as-usual and regulatory requirements.

- **No corresponding adjustments (country-level):** As carbon reductions are not exported from the Host Country, no corresponding adjustments are needed. Carbon finance through the VCM does not undermine ambition, rather it simply becomes one of a number of sources of finance to increase ambition. Moreover, it is not currently not feasible in most cases to automatically subtract individual project-based reductions from a national inventory. Not only this, but Host Country preparedness and willingness for CA implementation is extremely heterogeneous and, today, it is largely impossible to implement CAs. This may result in a Host Country applying CAs, if even slightly possible in the future, and the buying entity would have nowhere to account for these units, and they would ultimately just 'disappear.'

- **No double counting:** Voluntary activity does not lead to double counting at the UN level because carbon reductions are recorded only once by the Country hosting the mitigation activity.

- **Claiming carbon reductions:** When emissions are balanced by a combination of internal abatement and verified carbon reductions outside the boundary of an organisation, carbon neutrality can be claimed.

As they are broadly line with the ICROA Code of Best Practice, we support the remaining quality conditions from NZ-C27 and the social and environmental conformance conditions in NZ-C28 — we do not support NZ-C27.3 and NZ-C27.6, as stated previously above. We also reiterate the important role of robust standards with safeguards to deal with permanence and leakage issues (NZ-C22) as well as the reconsideration or removal of NZ-C27.1 as is, that would require a several hundred-year permanence timeline – and therefore do not support those two criteria either.

c. Compensation (Compensation Actions)

ICROA believes that the SBTi may continue to provide guidance for ambitious, pragmatic and challenging SBTs and net zero targets for corporates, ensuring that pathways are inclusive and truly incite companies to take impactful voluntary climate action starting today versus discouraging them by creating any barriers or unintended consequences. We believe the SBTi is one of many initiatives that should specifically encourage pathways to net zero that are inclusive of all instruments and tactics (abatement, neutralisation, compensation) due to the importance of high-quality climate action today and reinforce the importance of carbon neutrality as an immediate action that will foment more ambition and truly finance a real pathway to net zero before or by 2050.

In addition, we urge the SBTi to require that carbon credits used to compensate for residual emissions truly demonstrate that a company is taking all action to avoid emissions that are not difficult to abate – with clear validation and verification of development and implementation of a clear roadmap and milestones by the SBTi. This will create confidence that companies have residual emissions truly are hard-to-abate, legitimising compensation through the purchasing of credible and verified carbon credits that are certified under robust standards. This, in turn, enables faster and impactful climate action by channelling finance into projects that are proven to avoid, reduce or remove emissions – ensuring that climate "damage" undertaken by a company's residual emissions are compensated by an equivalent amount of results-based carbon credits, and become mandatory and not optional. As stated above in our high-level comments, we ask that the word "optional" be removed and that "Compensation" should be included in Chapter 2 in the main section along with "V. Neutralisation", as it undermines importance and credibility from compensation actions, and from experience, it is absolutely in line with high ambition for both carbon neutrality and net zero commitments.

ICROA supports offsetting and neutrality claims, as they encourage companies to act now and drive for further long-term action – if only a financial metric claim can be made, this will directly discourage climate change mitigation investments. Furthermore, financial metric claims without governance and verification of actual emission reductions achieved by that target can led to a real risk of under compensation of a company's climate impact – which is why the carbon credit mechanism is more impactful: it has an entire governance mechanism in place to ensure emissions reductions actually occur, and the company compensates for the actual size of emissions that it has released. ICROA recommends reformulating the Text Box 9.1 "How are stakeholder views of carbon neutrality shifting" on page 56 to add existing published counterpoints to have more objective information included in the Net Zero Criteria document. To reiterate, ICROA believes offsetting approaches are much more rigorous than 'contribution' claims, and therefore does not support these.

The quality of these 'financial contributions' may be low as they are more flexible – and that it should not be left to subjectivity, but credible, verifiable and transparent to be able to assess the impact. This is why, again, we believe in neutrality and net zero claims that adhere to best practice quality requirements to incite companies to take action without any hesitation or risks. An indicative carbon price that increases over time, as suggested by C-R3, would not be as helpful as having quality requirements that ensure that financing foes towards high-quality projects (i.e. credits certified under robust standards). Solely relying on financial guidance and indicators or a reference carbon price to motivate companies to take action would lead to a flow of finance to the least additional projects with the lowest quality, least amount of climate impact and little to no co-benefits.

We agree with the quality criteria C-R4, as they are in line with the ICROA Code of Best Practice that outlines best practice for carbon management for both individuals and organisations taking voluntary action on climate. This Code defines and promotes leading practice in the use of market-based instruments and climate finance to achieve and communicate voluntary climate action. We work to enable individuals and entities to reduce their internal emissions and then compensate for their unabated greenhouse gas emissions within their operations and supply chains by financing emissions reduction and removal activities beyond their direct control enabled by the VCM.

As per the ICROA Code of Best Practice, the quality conditions are the following, which are broadly in line with the above listed criteria:

- Real
- Measurable
- Permanent
- Additional
- Independently Verified
- Unique

These more straightforward and simple terms above could be employed within the Net Zero Criteria. In addition, the ICROA Code of Best Practice promotes high quality climate action that is also in line with the SDGs and supports projects with co-benefits – linked to the social and environmental conformance for compensation activities.

We have, however, strong reservations about C-R4.5: "Vulnerability" and completely reject this criterion as it is stated. If we take projects that have generated credits, such as renewable energy projects, we agree that these are no longer vulnerable and also no longer additional – which is why they are being phased out. On the other hand, requiring proof of vulnerability may undermine projects in need long term investments (i.e. cookstove, nature-based solutions…), as it will be an immense challenge to determine the vulnerability over a specific period of time and may also require additional verification, audits, and costs if not in line with current cycles. We disagree with this criterion as stated, as it will penalise high-quality projects in need of long-term investments that may well be additional – and will also create additional complications that will delay corporate climate action.

3. Interim Target Criteria – Interim Science-Based Targets

ICROA supports consistency with the Paris Agreement targets "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels," and interim SBTs should strive to be in line with in line with immediate action today (i.e. carbon neutrality using all instruments). Some companies are capable of doing more, and should set even more ambitious interim SBTs and SBTs, yet others may face more challenges – i.e. hard to abate sectors, that may need sector-specific requirements. Interim science-based targets should therefore be made sufficiently flexible to allow for all carbon offsets and negative emissions technologies, as well as flexibility regarding minimum scope 3 ambition – even well-below 2 °C is extremely ambitious for certain companies and sectors.

4. Communication, Claims and Validity Criteria Target – Target Formulation and Reporting

ICROA is generally supportive of the criteria in this section in order to maintain consistency and be able to easily compare targets between companies – this will in a way standardise target formation and reporting. We are aware that in practice, some companies may not have a clear vision at this point of target setting on detailed specifics (i.e. amount of carbon removal they plan to achieve in scope 1, scope 3 and using contractual agreements in NZ-C39) and therefore may not be able to fully disclose all of this information. We agree that this should not be a requirement but highly advisable or recommended. We support company GHG emissions reporting according to recognised standards (i.e. GHG Protocol) that are provided separately from carbon credit use – however, we underline that the adherence to high-quality and robust standards should already address non-permanence risk (NZ-C39.5), as stated in our above response to section 2b. Neutralisation.

***

We are appreciative of the opportunity to provide a response to the SBTi's Net Zero Criteria Public Consultation Draft. We fully support ambitious corporate action today through carbon neutrality as a way to reach net-zero and are always open for dialogue and collaboration to further our support. We are happy to collaborate and will continue our work to keep supporting both carbon neutral and net zero commitments and translating corporate climate strategies into action – while promoting quality, transparency, and drive forward-thinking, cost effective and impactful climate action on the way to global net zero by or before 2050.

We look forward to seeing the development of this Net-Zero Standard into a pragmatic and practical standard that can be easily used by companies, and applaud the momentum gained this year with the increase of corporate commitments and pledges showcasing the power of voluntary climate action.

Thank you for considering our comments and we are of course available to discuss any of our feedback. Please contact Claire Mizutani (mizutani@ieta.org).