



SCIENCE  
BASED  
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

# SCIENCE BASED TARGETS INITIATIVE PUBLIC CONSULTATION ON BEYOND VALUE CHAIN MITIGATION (BVCM)

Version 1

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## PURPOSE OF THIS PUBLIC CONSULTATION DOCUMENT

The Science Based Targets initiative (SBTi) is developing corporate guidance on beyond value chain mitigation (BVCM) to accelerate and scale private sector mitigation finance. From 19th June 2023 to 30th July 2023, the SBTi will hold a 6-week public consultation process on this topic to inform the development of this guidance and related products. This document is structured and designed to facilitate this consultation process; it is not a draft of the SBTi’s guidance on BVCM. Additional information on the consultation process is provided below.

*Please note that this consultation draft document, including the draft recommendations, is not or intended to constitute legal advice and as such does not establish compliance with any legal or regulatory requirements. Users should therefore seek independent legal advice on applicable national law and regulation.*

*All information that the SBTi receives from respondents will be treated with care and kept confidential. Results of this consultation will only be communicated in aggregated form. All feedback will be analyzed and used to draw up the final proposal. However, when analyzing the data, we need to know which responses are from which stakeholder group, so we kindly ask you to provide us with information about your organization.*

## BACKGROUND

### The Science Based Targets initiative (SBTi)

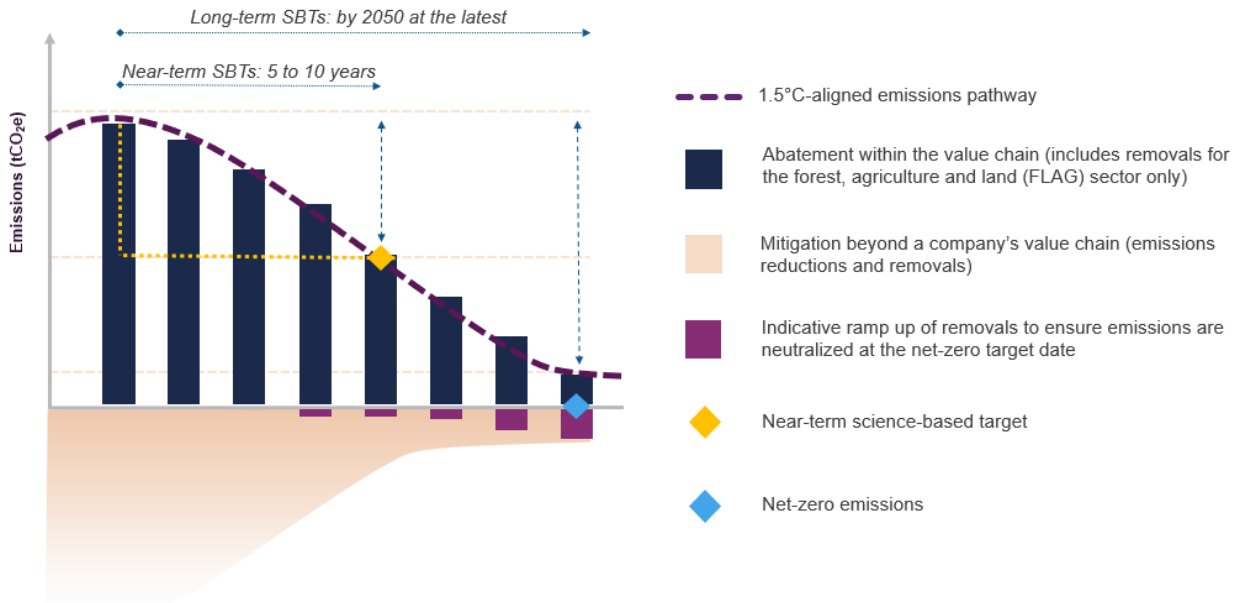
The SBTi is a global body enabling businesses to set ambitious climate mitigation targets in line with the latest climate science. It defines and promotes best practice in science-based climate target setting, provides resources and guidance to reduce barriers to adoption, and independently assesses and approves company targets. The SBTi seeks to drive a race to the top, led by pioneering companies, which will empower peers, suppliers and customers to follow suit and drive governments to take bolder action. At the end of 2022, 1638 companies had near-term 1.5°C aligned targets validated by the SBTi, and a further 136 had SBTi-validated net-zero targets.

### The Corporate Net-Zero Standard

In October 2021, the SBTi launched the Corporate Net-Zero Standard which provides guidance, criteria, and recommendations for companies to set long-term climate targets consistent with scenarios that limit global temperature rise to 1.5°C with no or limited overshoot (i.e., net-zero carbon dioxide (CO<sub>2</sub>) emissions around 2050, accompanied by rapid reductions in non-CO<sub>2</sub> greenhouse gas (GHG) emissions). The Corporate Net-Zero Standard incorporates and builds on the SBTi's existing methodologies for companies to set near-term emission reduction targets and sets out four key elements:

1. **Near-term science-based targets (SBTs):** Companies are required to set 5–10-year targets to reduce emissions within the company value chain in line with 1.5°C pathways.
2. **Long-term SBTs:** Companies are required to set targets to reduce emissions within the company value chain to a residual level in line with 1.5°C scenarios by no later than 2050.
3. **Beyond value chain mitigation:** Companies are encouraged to take immediate and consistent action to mitigate emissions beyond their value chains to support global efforts to limit global temperature rise to 1.5°C.
4. **Neutralization of any residual emissions at the net-zero target date:** Companies are required to neutralize the climate impact of any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter through the permanent removal and storage of carbon from the atmosphere.

Figure 1: Elements of the SBTi Corporate Net-Zero Standard



The Corporate Net-Zero Standard includes a set of criteria that must be met for net-zero target(s) to be validated by the SBTi, as well as a set of recommendations that are important for transparency and best practice but are not required. This includes the recommendation on beyond value chain mitigation:

*R9 — Beyond value chain climate mitigation: Companies should take action or make investments outside their own value chains to mitigate GHG emissions in addition to their near-term and long-term science-based targets. For example, a company could provide annual support to projects, programs and solutions that provide quantifiable benefits to climate, especially those that generate additional co-benefits for people and nature. Companies should report annually on the nature and scale of those actions pending further guidance.<sup>1</sup>*

## The case for beyond value chain mitigation

Recent analysis by the Earth Commission reinforces the goals of the Paris Agreement on Climate Change, indicating that the “safe boundary” to avoid the most severe climate impacts on humans and other species requires stabilization of the global mean surface temperature at or below 1.5°C of warming.<sup>2i</sup> According to the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, the best estimate of the remaining carbon budget for a 50% chance of limiting warming to 1.5°C with no or limited overshoot is only 500 gigatons CO<sub>2</sub> (GtCO<sub>2</sub>). This translates to a peaking of global GHG emissions between 2020 and, at the latest, before 2025.<sup>3</sup>

However, even at this “safe boundary” of 1.5 °C warming, more than 200 million people could be exposed to unprecedented temperatures, and more than 500 million could be exposed to long-term sea-level rise.<sup>4,5</sup> At today’s level of warming (estimated between 0.95 and 1.2°C), tens of millions of

<sup>i</sup> The Earth Commission identifies this “safe boundary” based on minimizing likelihood of triggering climate tipping elements; maintaining biosphere and cryosphere functions; and accounting for Holocene and previous interglacial climate variability.

people are already exposed to temperature extremes.<sup>6,7</sup> In some regions of the world, climate impacts are becoming so frequent and severe that no adaptation strategies can fully avoid losses and damages.<sup>8</sup> The Earth Commission therefore concludes that the “just boundary” of climate change should be set at or below 1.0°C of warming – a temperature threshold which has already been passed.<sup>9</sup>

There is an enormous gap between where we are headed and where we need to be in order to limit warming to 1.5°C, let alone to return to below 1.0°C.<sup>10</sup> Policies presently in place around the world are projected to result in about 2.7°C of warming.<sup>11</sup> Estimates suggest that annual climate finance needs to increase by at least seven times by 2030, reaching at least USD 4.3 trillion per year compared to approximately USD 665 billion today.<sup>12</sup>

Companies around the world recognize the existential threat of climate change and are voluntarily taking action beyond what is required by regulation today. At the time of writing, more than 5000 companies have committed to reduce their value chain emissions in line with a 1.5°C pathway through their commitment to the SBTi, with these companies representing more than one-third of global market capitalization.<sup>13,14</sup> Many of these companies are already working to align their capital flows with the Paris Agreement and are deploying climate mitigation finance towards the achievement of their SBTs. In 2020, corporates and commercial financial institutions deployed an estimated USD 260 billion of climate finance (around 20% of overall climate finance).<sup>15</sup>

However, given that there are many companies across the world that are not yet decarbonizing their businesses in line with a 1.5°C pathway, and given that there are sources of emissions that sit outside of corporate value chains altogether, much more needs to be done today to address the climate finance and mitigation gap. The Climate Policy Institute (CPI) argues that while private sector finance is increasing, it is not doing so at the pace necessary considering public sector capacity constraints.<sup>16</sup>

For this reason, the SBTi calls on companies to go **above and beyond** their science-based targets, to **also** invest in mitigating climate change beyond their value chains and contribute to societal net-zero – what the SBTi refers to as beyond value chain mitigation (BVCM).

There is a growing expectation for companies to pursue BVCM, and companies are expressing interest in doing so. Analysis conducted by Systemiq for the SBTi showed that almost 70% of surveyed companies felt that the private sector should be doing more than abatement of value chain emissions for society to limit warming to 1.5°C, but that there was a need for more guidance on best practice.<sup>17</sup>

## The SBTi's expected technical outputs on BVCM

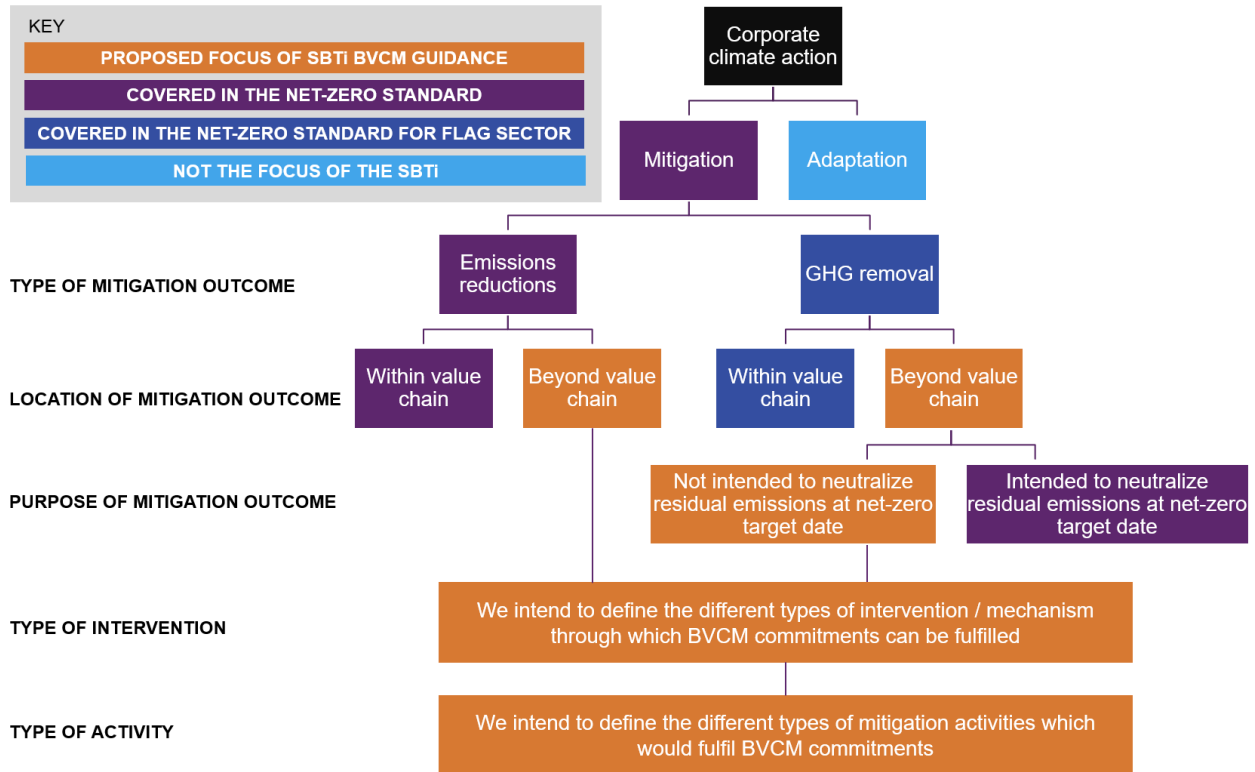
In recognition of the critical importance of BVCM, and in response to demand from corporates, the SBTi has assembled a team and a network of expert advisors to develop guidance for companies on BVCM which will be published in Q4 2023. The guidance document will:

1. Further clarify the definition of BVCM;
2. Articulate the need for companies to go beyond their SBTs to also invest in BVCM;
3. Explore the business case for BVCM;
4. Provide recommendations on:
  - Determining a commitment to BVCM;
  - Deploying finance and resources across mitigation activities;
  - Claims, transparency and reporting with regards to BVCM.

The proposed focus of the guidance is visualized below.



Figure 2: Proposed focus of the BVCM guidance



To complement this guidance, the SBTi will also publish a research paper in Q4 2023 that explores incentives for BVCM over which the broader climate ecosystem has influence, including civil society, academia, policymakers, standard setters, advocacy organizations and multi-lateral organizations. It will consider both barriers to investment (such as a current lack of consistent guidance on best practice), as well as positive incentives such as claims, tax incentives and voluntary and regulatory disclosure requirements on climate risks and opportunities and transition planning. The research paper will provide recommendations for different actors and identify areas for further research with the aim of offering a shared “theory of change” for scaling corporate climate finance into BVCM over the coming decades.

Please note that, at this time, the SBTi will strongly encourage companies to invest in BVCM but will not require or validate BVCM targets, claims, activities or investments.

# PUBLIC CONSULTATION ON BEYOND VALUE CHAIN MITIGATION

## Objectives of the public consultation

As discussed, BVCM is an important complementary mechanism for delivering climate finance and mitigation at the necessary speed and scale. It is complementary in the sense that companies should always employ BVCM to supplement, and never to substitute for, climate mitigation within their own value chains. In developing guidance and mechanisms to incentivize companies to implement BVCM, there are several complex technical and value-based considerations. This public consultation document explores these considerations and offers a proposal or a set of options for finalizing the BVCM guidance document and supporting research paper.

While there is no expectation of achieving consensus, given the importance and complexity of this topic, we are hoping to receive consultation responses from a large and diverse group of stakeholders to understand different perspectives on the topic. It is worth noting that during the public consultation period, the SBTi will conduct direct outreach to certain important stakeholder groups that might not otherwise be captured through the online process.

## Purpose of this document

As mentioned above, the purpose of this document is to elicit feedback from a diverse set of stakeholders on the topic of BVCM to inform the development of SBTi products. The document is not a draft of the guidance or of the supporting research paper on incentives.

## Structure of this document

This document is structured around nine consultation topic areas. Each topic area section includes a discussion of the topic (for example, presenting the key considerations and conceptual framing), and provides a proposal and/or options for the SBTi's approach, alongside a set of consultation questions. The consultation topics are as follows:

1. Defining BVCM
2. Overarching process for BVCM
3. Determining the nature and scale of the commitment to BVCM
4. Deploying resources and finance across BVCM activities
5. BVCM-related claims
6. Reporting on BVCM
7. Incentives for BVCM
8. Terminology
9. Illustrative case studies

If readers find that the terms used in this document are unfamiliar, we recommend that they refer to consultation topic 8 on terminology where we provide definitions for key terms used within this document (some of which are under consultation).



## Instructions for responding to the public consultation

Please read this document and consider the consultation questions (these are included in the light orange boxes throughout the document) and then complete the online form (which contains those same questions) [here](#).

Please let us know if you need more information or support in completing the consultation process.

## Consultation timeline

The public consultation will run for 6 weeks from 19th June to 30th July 2023. Please complete and submit your consultation survey response by the **deadline of 23:59 ET, 30th July 2023**.

## Key contacts

Please contact [standards@sciencebasedtargets.org](mailto:standards@sciencebasedtargets.org) if you have questions about the consultation process.

## Next steps

The SBTi will consider the consultation responses and work to complete the deliverables with an expected launch date in Q4 2023. The SBTi will also provide a summary of the consultation process.

## CONSULTATION TOPIC 1: DEFINING BVCM

### 1.1 Defining BVCM: Discussion

Climate change mitigation is defined by the IPCC as a human intervention to reduce emissions or enhance the sinks of greenhouse gases (and encompasses carbon dioxide removal (CDR) options).<sup>18</sup> A company's value chain emissions are their scope 1, 2, and 3 emissions as defined by the GHG Protocol Corporate Accounting and Reporting Standard.<sup>19</sup> One could therefore argue that "beyond value chain mitigation" simply refers to a company intervention to reduce emissions or enhance the sinks of GHGs that does not result in a change in that company's scope 1, 2 and 3 GHG inventory.

In the SBTi Corporate Net-Zero Standard, BVCM is described as: "Mitigation action or investments that fall outside a company's value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere." The Standard also references the following examples of BVCM activities: forestry (e.g., Jurisdictional REDD+), conservation projects (e.g., peatland or mangrove), energy efficiency (e.g., cookstove projects), methane destruction (e.g., landfill gas projects), renewable energy (e.g., solar/wind/biogas), industrial gases (e.g., N<sub>2</sub>O destruction at nitric acid facilities), scale-up of Carbon Dioxide Removal (CDR) technologies, e.g., Direct Air Capture and Carbon Storage (DACCS).<sup>ii</sup>

While at this time the SBTi does not plan to validate company targets relating to BVCM, there is a need to provide more detailed guidance on what activities and investments would fulfil company commitments to the BVCM recommendation within the SBTi Corporate Net-Zero Standard. In order to provide this guidance, we have considered and consulted with our partners and expert advisory group on a number of questions, including:

- a) What is a mitigation action or investment?
- b) Does the mitigation action or investment have to have a guaranteed outcome, or is it sufficient that it has an expected outcome?
- c) Does the mitigation action or investment have to lead to quantifiable mitigation outcomes? If so, what methods should be used to quantify mitigation outcomes?
- d) To what extent does the mitigation action or investment have to be additional?
- e) To what extent can there be double claiming of mitigation impacts between companies?
- f) To what extent does the mitigation action or investment have to lead to permanent mitigation outcomes?
- g) How can we clarify the distinction between BVCM and neutralization of residual emissions?
- h) How does the company's claim impact which mitigation activities can fulfil BVCM commitments?

We include a short discussion on (and highlight different perspectives regarding) each of these questions below.

#### a) What is a mitigation action or investment?

A mitigation action can be defined as an intervention that results in GHG reductions or removals (see the IPCC definition of mitigation above). In considering the meaning of "mitigation investment", it is useful to refer to the IPCC definition of climate finance – i.e., the financial flows whose **expected** effect aims to reduce net greenhouse gas (GHG) emissions and/or to enhance resilience to the

<sup>ii</sup> The list of examples included in the Corporate Net-Zero Standard were non-exhaustive. Other examples of CDR include biomass with carbon removal and storage (BiCRS), and enhanced weathering.

impacts of current and projected climate change.<sup>20</sup> This therefore raises the question of whether the action or investment needs to have **guaranteed** mitigation outcome or whether it is sufficient that the mitigation outcome is **expected**. This question is explored in (b) below.

**b) Does the mitigation action or investment have to have a guaranteed outcome, or is it sufficient that it has an expected outcome?**

A company might invest in innovation, research and development (R&D) to develop new technologies whose purpose is to reduce or remove GHGs. However, finance deployed into innovation and R&D does not necessarily guarantee that a mitigation impact will occur. It is therefore necessary to consider whether or not BVCM should be limited to finance deployed with guaranteed mitigation outcome (or whether and how this might differ for different types of claims).

On the one hand, there is a need to incentivize investment into mitigation R&D and innovation which may not have a guaranteed mitigation outcome. By 2050, it is expected that almost 50% of emissions reductions required to achieve net-zero will come from technologies currently at demonstration or prototype stage.<sup>21</sup> These technologies need to rapidly scale. However, at the same time, given the need to peak emissions by 2025, one could also argue that BVCM should be limited to guaranteed and verifiable mitigation outcomes, at least in the short-term.

**c) Does the mitigation action or investment have to lead to quantifiable mitigation outcomes? If so, what methods should be used to quantify mitigation outcomes?**

Certain actions or investments made by a company might have mitigation impacts that are very difficult to quantify. For example, investment and activities related to capacity building, behavior change, or policy advocacy can directly or indirectly deliver mitigation outcomes, but quantifying, attributing and accounting for the mitigation impact associated with a company's action or investment is challenging. Despite this, these investments are critical to ensure that there is an effective enabling environment in which mitigation can occur.

In terms of the methods that could be used to quantify mitigation outcomes, the Greenhouse Gas Protocol defines **inventory accounting methods** to track GHG emissions and removals within a defined inventory boundary over time relative to a historical base year.<sup>22</sup> This is the mechanism through which companies measure progress towards their science-based targets. However, since BVCM falls outside the scopes 1, 2 and 3 inventory of the company, that company cannot account for BVCM using inventory accounting methods.

One of the most widely understood mechanisms for delivering climate mitigation beyond a company's value chain is through the purchase and retirement of carbon credits. Carbon credits are units that are issued by a carbon crediting program and represent a GHG reductions or enhanced GHG removals which are quantified using **intervention accounting methods** (or project accounting methods). Intervention account methods measure system-wide GHG impacts relative to a counterfactual baseline scenario or performance benchmark that represent the conditions most likely to occur in the absence of the mitigation project that generates the credit.<sup>23,iii</sup> In intervention accounting, companies can evaluate actions through (a) forward-looking (or ex-ante) assessments to inform decision-making by estimating future impacts of implemented or potential actions, or (b) backward-looking (or ex-post) assessments to evaluate the effectiveness of actions after implementation by estimating impacts to date.<sup>24</sup>

<sup>iii</sup> In life cycle assessment, inventory methods correspond to attributional methods and intervention methods correspond to consequential methods.

#### d) To what extent does the mitigation action or investment have to be additional?

Additionality is a defining concept of carbon credit projects and programs. Carbon credits produced by a project or program are considered additional if the activity would not have taken place in the absence of the purchase of the carbon credit. Conversely, if the project or program and associated emissions reductions or removals would have occurred regardless of the payment for carbon credits, the resulting credits are not considered additional. Carbon crediting programs include various “additionality tests” to prove the additionality of credits, for example:

- A demonstration that the proposed project activity is not legally required (or that non-enforcement of the legal requirements is widespread);
- An “investment analysis” of whether the project is financially attractive in the absence of credit revenues;
- A “barriers analysis” demonstrating that at least one alternative to the project would not be prevented by (non-financial) implementation barriers (e.g., social, institutional, or technical barriers);
- A “common practice analysis” demonstrating that the proposed project is not common practice, or is distinct from similar types of activities that are common practice.<sup>25</sup>

If companies are purchasing carbon credits as a mechanism by which to invest in BVCM, the additionality requirements would be stipulated by the carbon crediting program. However, since the SBTi envisions an array of mechanisms for channeling finance into BVCM (including but not limited to carbon credits), we must consider which additionality tests are relevant where investment is channeled through mechanisms other than carbon credits. Clearly there is a need to incentivize flows of finance to where it is most needed (i.e., where it is not already an attractive financing opportunity or where it is not being addressed by policy) and therefore additionality is an important consideration. However, some have argued that there is scope to lower the bar on additionality for BVCM (since it is voluntary and in addition to a company’s science-based value chain target) as it could incentivize finance to flow into mitigation measures where there is a return on investment (ROI) but where the payback periods are longer or the risk is higher making the investment less attractive compared to an alternative investment which does not deliver climate mitigation.

#### e) To what extent can there be double claiming of mitigation impacts between companies?

The draft GHG Protocol Land Sector and Removals Guidance defines double claiming as a form of double counting which occurs where multiple parties claim the right to a single emission reduction, removal, or mitigation outcome.<sup>26</sup>

In the draft Land Sector and Removals Guidance, the GHG Protocol states:

- “Scope 1, scope 2, and scope 3 are mutually exclusive for the reporting company, so that there is no double counting of emissions or removals between the scopes within one company’s inventory... Scope 1 and scope 2 are defined to ensure that two or more companies do not account for the same emissions within scope 1 or scope 2”
- “By definition, scope 3 emissions or removals occur from sources or sinks and pools owned or controlled by other entities in the value chain (e.g., raw material suppliers, waste management companies, lessees and lessors, distributors, retailers, customers, etc.). As a result, it is expected that across different reporting entities a given emission or removal will be counted more than once across the scopes (i.e., as one entity’s scope 1 emissions or removals and another entity’s scope 3 emissions or removals).”
- “The double counting of emissions by sources or removals by sinks between the two inventory accounting frameworks [corporate GHG inventories with **national** GHG inventories] is inherent,

as a given source will appear in both a company’s inventory and national inventory if the company operates in that country.”

- “Double counting can be a concern regarding GHG credits, that apply different accounting approaches (i.e., inventory accounting for corporate GHG inventories versus project/intervention accounting for GHG credits) and involve unique claims.”
- “Companies shall not double count a ton of GHG reduction or removal that has been credited and sold if the credit is used (or could potentially be used) [by a company] as an offset or for compensation.”
- “To avoid double counting of credits used as offsets or compensation, companies shall deduct emission reductions or removals associated with the sale of credits used as offsets from the company’s GHG target accounting. To do so, companies shall separately calculate:
  - Inventory emissions and removals: scope 1, 2 and 3 emissions and scope 1 and 3 removals, independent of GHG credit purchases/sales, and
  - Emissions and removals adjusted for sold credits: scope 1, 2 and 3 emission values that are adjusted for GHG credits issued or generated within the inventory boundary.
  - Companies shall use the emissions and removals values adjusted for sold credits when accounting for progress toward a target.”

The GHG Protocol conducted a comprehensive consultation process on this draft guidance and is currently working to finalize the guidance, including the accounting requirements on double counting and claiming. Questions have been raised around the feasibility of avoiding double claiming in all situations and whether or not double claiming always presents a risk to overall global mitigation efforts. The SBTi is working closely with the GHG Protocol and other technical experts on this topic and intends to align with the finalized GHG Protocol guidance on this topic.

**f) To what extent does the mitigation action or investment have to lead to permanent mitigation outcomes?**

Permanence is the longevity of a carbon pool and the stability of its stocks, given the management and disturbance environment in which it occurs.<sup>27</sup> Companies with SBTi net-zero targets are required to neutralize the climate impact of any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter through the **permanent removal and storage** of carbon from the atmosphere. However, for companies engaging in BVCM as they transition towards net-zero, there is a need to define the extent to which companies would need to provide evidence that measures are in place to ensure the continued storage of the carbon as a result of BVCM investments and activities. Some have argued that having lower requirements on permanence for BVCM could incentivize investment into lower cost, but shorter-lived, mitigation outcomes which are important given the rapidly shrinking carbon budget.

Again, the topic of permanence (and associated accounting rules) is being considered within the context of the finalization of the GHG Protocol Land Sector and Removals Guidance and the SBTi is engaging closely with the GHG Protocol and other technical experts on this topic.

**g) How can we clarify the distinction between BVCM and neutralization of residual emissions?**

There is demand for the SBTi to clarify the distinction between BVCM and neutralization of residual emissions. The table below compares these two concepts.



Table 1: Comparing and contrasting BVCM and neutralization

Area of distinction	Beyond Value Chain Mitigation	Neutralization of residual emissions
Definition as per the Corporate Net-Zero Standard	Mitigation action or investments that fall outside a company's value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere.	Measures that SBTi companies take to eliminate the climate impact of residual GHG emissions which are released into the atmosphere at and after the SBTi-aligned net-zero target date through permanent removal and storage of carbon from the atmosphere. Carbon removals can be implemented within or beyond the value chain for the purpose of neutralization of residual emissions.
Purpose	To increase the likelihood of achieving societal net-zero. Investing in mitigation action beyond corporate value chains can accelerate the net-zero transition and address the ecological crisis.	To reach a state of net-zero emissions at company level. Carbon removals will be required to counterbalance the impact of any unabated emissions that remain once companies have achieved their long-term science-based target.
GHG reductions or removals	GHG reductions and removals	GHG removals
Within / beyond the value chain i.e., scopes 1–3	Beyond the value chain. BVCM activities are not accounted for in the company's scope 1, 2 or 3 GHG inventory.	Within or beyond the value chain
Temporal prioritization	Immediate: once the SBTi-aligned net-zero target <i>has been set</i> .	Mid-term: once the SBTi-aligned net-zero target <i>has been achieved</i> .
Status within the Corporate Net-Zero Standard	Recommendation	Requirement
Recommendations/ requirements in the Corporate Net-Zero Standard	Recommendation for companies to take action or make investments outside their own value chains to mitigate GHG emissions in addition to their near-term and long-term science-based targets. Companies should report annually on the nature and scale of those actions.	Companies are required to remove carbon from the atmosphere and permanently store it to counterbalance the impact of any unabated emissions that remain once companies have achieved their long-term science-based target, and for subsequent years thereafter. The neutralization of unabated emissions applies to both the emissions reduction target(s) boundary and to any unabated



		emissions that have been excluded from the GHG inventory.
Examples	A company could provide annual support to projects, programs and solutions providing quantifiable benefits to climate, especially those that generate additional co-benefits for people and nature.	Eligible approaches are to be defined in a future revision of the Corporate Net-Zero Standard, but may include direct air capture and carbon storage (DACCS), biomass with carbon removal and storage (BiCRS) <sup>iv</sup> , and enhanced weathering.

#### h) How does the company's claim impact which mitigation activities can fulfil BVCM commitments?

The mitigation activities which can be used to fulfil BVCM commitments are in large part determined by the claim that a company intends to make, which is itself informed by the regulatory context since many national and supra-national governments have or are developing their own specific guidelines and legal requirements on what climate claims companies can make. This is discussed in more detail in consultation topic 5 but it should be stated that the SBTi is supportive of new types of claims which represent support or finance to actions that result or may result in climate mitigation outcomes, including collective actions to contribute to climate mitigation outcomes, where a direct attribution cannot be made.

### 1.2 Defining BVCM: Proposal

The SBTi is consulting on two options for a high-level definition of BVCM:

- A. Maintain the definition as set out in the Corporate Net-Zero Standard: "Mitigation action or investments that fall outside a company's value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere."
- B. Amend the definition set out in the Corporate Net-Zero Standard to reflect that mitigation actions or investments may not have guaranteed outcomes: "Mitigation action or investments that fall outside a company's value chain, including activities that **seek to** avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere."

While at this time the SBTi does not plan to validate company targets relating to BVCM, the SBTi will include more detail on what activities and investments would fulfil the recommendation to engage in BVCM within the Corporate Net-Zero Standard. As shown in the discussion section above, there is much to consider in this regard. The SBTi is therefore seeking feedback as part of this public consultation process to inform this.

<sup>iv</sup> The term BiCRS describes a range of processes that use biomass feedstock to remove CO<sub>2</sub> from the atmosphere and store it underground or in long-lived products.

## 1.3 Defining BVCM: Consultation questions

*Public consultation question box 1: questions on defining BVCM*

Questions 1–5 in the online form ask survey respondents to provide contact information, information on the type of organization that they represent, the sector, the country in which the organization is headquartered and the status of the organization with respect to the SBTi.

6. In defining BVCM, do you think that the SBTi should:
  - a) Maintain the definition on BVCM as set out in the Corporate Net-Zero Standard: “Mitigation action or investments that fall outside a company’s value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere”?
  - b) Amend the definition that was set out in the Corporate Net-Zero Standard to reflect that mitigation actions or investments may not have guaranteed outcomes: “Mitigation action or investments that fall outside a company’s value chain, including activities that **seek** to avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere”?
  - c) No comment.
  - d) Other, please specify.
7. In your opinion, BVCM should include:
  - a) Quantifiable mitigation only.
  - b) Both quantifiable and unquantifiable mitigation.
  - c) No comment.
8. In your opinion, how important on a scale of 0–100 is it that companies investing in BVCM ensure that mitigation outcomes are additional, i.e., the mitigation would not have occurred in the absence of BVCM activities and investments? (0 being not important and 100 being very important)
9. Linked to the question above, which of the statements below do you support? If neither, please tick other and specify your position:
  - a) Companies should only be able to count actions and investments towards their BVCM commitments if they are subject to the same additionality tests as carbon credits.
  - b) The SBTi should incentivize investment into mitigation which might not meet strict additionality requirements but which is currently underfinanced.
  - c) No comment.
  - d) Other, please specify.
10. While the SBTi intends to align with the GHG Protocol, we are interested in perspectives on double claiming between BVCM and corporate scope 1–3 GHG inventories. In your opinion, how important on a scale of 0–100 is it that companies investing in BVCM avoid double claiming between one company’s BVCM activities and other companies’ scope 1, 2 and 3 GHG inventories? (0 being not important and 100 being very important)
11. Linked to the question above, the SBTi is seeking feedback on perspectives on double claiming in a situation where one company (Company A) makes an investment to deliver a BVCM outcome which occurs in the scope 1, 2 and 3 value chain inventory of another company (Company B). In this situation, which of the below options do you most agree with?

- a. Only one of the companies should be able to claim the mitigation outcome and they should agree which company can claim it (either Company A for BVCM **or** Company B for its science-based target).
- b. Only Company A should be able to claim the mitigation outcome as BVCM and Company B must not count the mitigation outcome towards the delivery of its science-based target.
- c. If Company A makes a climate “contribution” claim regarding its BVCM investments, as opposed to what is often referred to as a climate “compensation claim”, then both companies should be able to claim the mitigation outcome (Company A for BVCM **and** Company B for its science-based target). However, if Company A makes a compensation claim in relation to its BVCM investments, then Company B must not count the mitigation outcome towards the delivery of its science-based target.
- d. Both companies should be able to claim the mitigation outcome regardless of the claim that Company A intends to make about its BVCM activities and investments (Company A can claim the mitigation outcome to fulfil its commitment to BVCM **and** Company B can claim the mitigation outcome towards the delivery of its own science-based target).
- e) No comment.
- f) Other, please specify

12. In your opinion, how important on a scale of 0–100 is it that companies investing in BVCM ensure permanence of mitigation outcomes? (0 being not important and 100 being very important)

13. Linked to the question above, which of the statements below do you support? If neither, please tick other and specify your position:

- a) Companies should only be able to count actions and investments towards their BVCM commitments if they have mitigation measures in place to manage the risk of reversals including monitoring of the continued storage of carbon.
- b) The SBTi should incentivize investment into mitigation with short-lived storage and therefore, given monitoring of permanence represents a barrier for companies, the SBTi should set a lower bar for ensuring permanence of mitigation for BVCM (since it is above and beyond a company’s science-based target).
- c) No comment.
- d) Other, please specify.

14. Is the distinction between BVCM and neutralization of residual emissions described in this document clear? (yes/no)

15. If you have suggestions for how to further clarify the distinction between BVCM and neutralization of residual emissions, please provide them here. (open text)

## CONSULTATION TOPIC 2: OVERARCHING PROCESS FOR BVCM

### 2.1 Overarching process for BVCM: Discussion

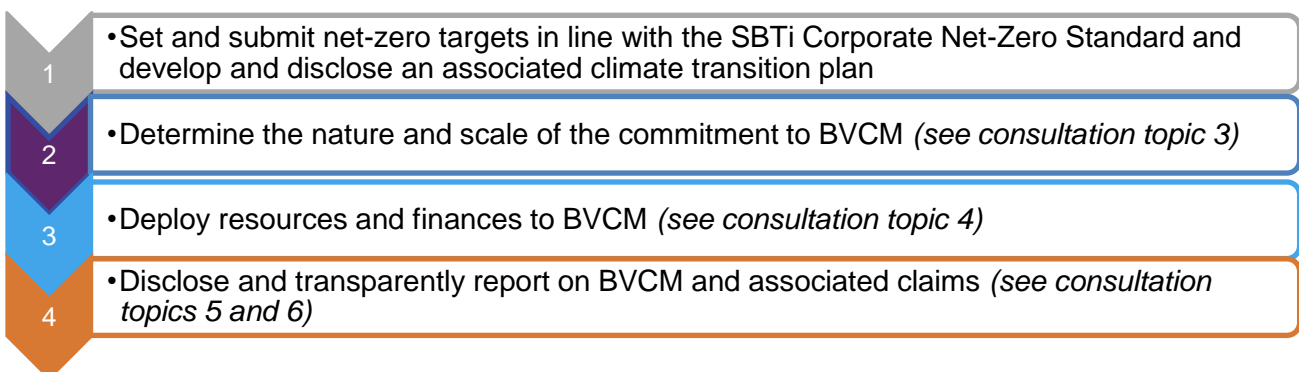
To ensure that the guidance is practical and actionable, the SBTi intends to set out a step-by-step process to guide companies investing in and implementing BVCM.

### 2.2 Overarching process for BVCM: Proposal

The proposed visualization of this process is set out below. Steps 2, 3 and 4 are the main focus of the guidance (and for which there is the intention to articulate sub-steps). Step 1 is considered as a pre-requisite for company investment into BVCM but since this is the focus of the SBTi's existing standards it will not be addressed in detail within the BVCM guidance. However, the SBTi does intend to emphasize that step 1 includes investment into R&D that will enable the company to deliver on its long-term science-based target e.g. a steel company might invest into nascent technology that might in the future allow zero-carbon hydrogen to be used as a clean feedstock for steelmaking.

**In consultation topic 9 we provide a set of three fictional examples to show how companies in different sectors would apply each of these steps.**

Figure 3: Proposed overarching process for BVCM



Note: for information on climate transition plans, see CDP's technical note on this topic.<sup>28</sup>

### 2.3 Overarching process for BVCM: Consultation questions

Public consultation question box 2: questions on the overarching process for BVCM

16. Our objective in including this visualization is to provide a clear process to guide companies implementing and investing in BVCM. Do you feel that this process is helpful for the reader?
- a) Very helpful
  - b) Somewhat helpful
  - c) Not so helpful
  - d) Not at all helpful
17. If you have feedback on this process or the diagram, please provide suggestions on how it could be improved. (open text)

## CONSULTATION TOPIC 3: DETERMINING THE NATURE AND SCALE OF THE COMMITMENT TO BVCM

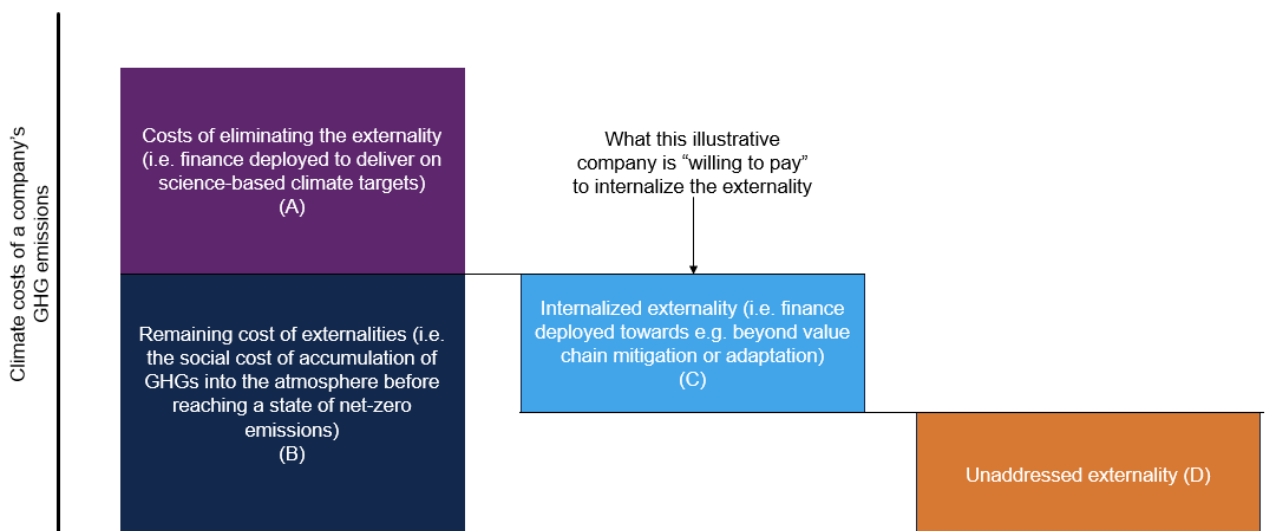
### 3.1 Determining the nature and scale of the commitment to BVCM: Discussion

#### Conceptual framing

In defining guidance on how companies would determine the ambition of their commitment to BVCM, the SBTi must consider the tension between “responsibility”, “ability” and even “willingness” to pay. Figure 4 below is a conceptual visualization of this tension. It shows a company’s theoretical responsibility for climate change through (A) the cost associated with reducing emissions in the transition to net-zero and neutralizing residual emissions at the net-zero target date and thereafter, and (B) the social cost associated with the accumulation of GHGs into the atmosphere before reaching net-zero.

From a financing perspective, true climate leadership would mean going beyond science-based targets (A) and internalizing the full externality by financing additional climate action (including BVCM) equivalent to or greater than the cost of (B). The reality today is that very few companies internalize their full externalities (A and B), instead basing their commitment to BVCM and adaptation based on their ability or willingness to pay (C), resulting in (D), an “unaddressed externality”.

Figure 4: Conceptual visualization of “responsibility” versus “willingness” to pay at the entity level (please note that the sizes of the bars are merely illustrative)



#### Allocating responsibility for BVCM

The SBTi near- and long-term science-based target pathways are based on a combination of science and principled judgements that aim to steer voluntary climate action towards achieving the aims of the Paris Agreement and the Sustainable Development Goals (SDGs). They are constructed from three main elements: a greenhouse gas (GHG) budget, a set of emission scenarios which represent a way of distributing the carbon budget over time, and an allocation approach for dividing mitigation responsibility between all companies.<sup>29</sup>

There are two main allocation approaches used to date in the SBTi:



- **Convergence approach:** all companies within a given sector reduce their emissions intensity to a common value (e.g., CO<sub>2</sub>e per kWh) by some future year as dictated by a global emissions pathway. The reduction responsibilities allocated to a company vary depending on its initial carbon intensity and growth rate relative to those of the sector, as well as the sector-wide emissions intensity compatible with the global emissions pathway. The convergence approach can only be used with sector-specific emissions scenarios and physical intensity metrics (e.g., tons GHG per ton product or MWh generated).
- **Contraction approach:** all companies reduce their absolute emissions or economic emissions intensity (e.g., tons GHG per unit value-added) at the same rate, irrespective of initial emissions performance. The contraction approach can be used with sector-specific or global emissions scenarios.

While at this time the SBTi does not plan to validate company targets relating to BVCM, there is a need to provide more detailed guidance on what would be considered best practice in terms of the nature and scale of the commitment to BVCM. In defining this, we have considered whether and how responsibility for BVCM could be allocated to companies based on a “combination of science and principled judgements” that take into account equity considerations.

#### **a) Possible allocation approach: Sharing the mitigation gap**

One option for allocating responsibility for BVCM to companies could be to quantify the mitigation gap (i.e., the mitigation required for 1.5°C that is not currently captured in the targets and plans of countries and non-state actors) and allocate that mitigation responsibility to the companies that “opt in” to BVCM either equally or proportional to their own emissions or ability to pay. This approach would be aligned with what is needed to limit warming to 1.5°C. However, practically, it would be extremely challenging to define and manage since it depends on how many companies “opt in” to BVCM and the size of the mitigation gap, both of which would be in a constant state of flux. For this reason, this is not an approach that the SBTi is considering exploring further.

#### **b) Possible allocation approach: Willingness to pay**

Another option could be to leave companies to decide what they are willing to pay for BVCM. Given the urgency of the climate crisis, ideally all companies would start investing in BVCM today. The willingness to pay approach could reduce barriers to adoption and create momentum for climate action. However, it cannot be justified as an approach based on “science or principled judgements” and therefore this is also not an approach that the SBTi intends to explore further.

#### **c) Possible allocation approach: Polluter pays**

Companies transitioning to net-zero (i.e., reducing their emissions in line with a science-based 1.5°C pathway) continue to release emissions resulting in an accumulation of greenhouse gases in the atmosphere, contributing to global warming and the associated damage. The commonly accepted “polluter pays” principle is a principle of international environmental law set out in the 1992 Rio Declaration and signifies that those who produce pollution should bear the costs of managing it to prevent damage to human health or the environment.<sup>30</sup> This principle could therefore be used to allocate responsibility for BVCM by requiring a company to “take responsibility” for or to “pay” for the damage associated with its unabated emissions as it transitions to net-zero.

This could be applied in two ways: (i) by delivering mitigation beyond the value chain proportional to the company’s unabated value chain emissions, (ii) by making a financial payment equivalent to the societal cost of climate change caused by unabated emissions. This latter option could utilize the



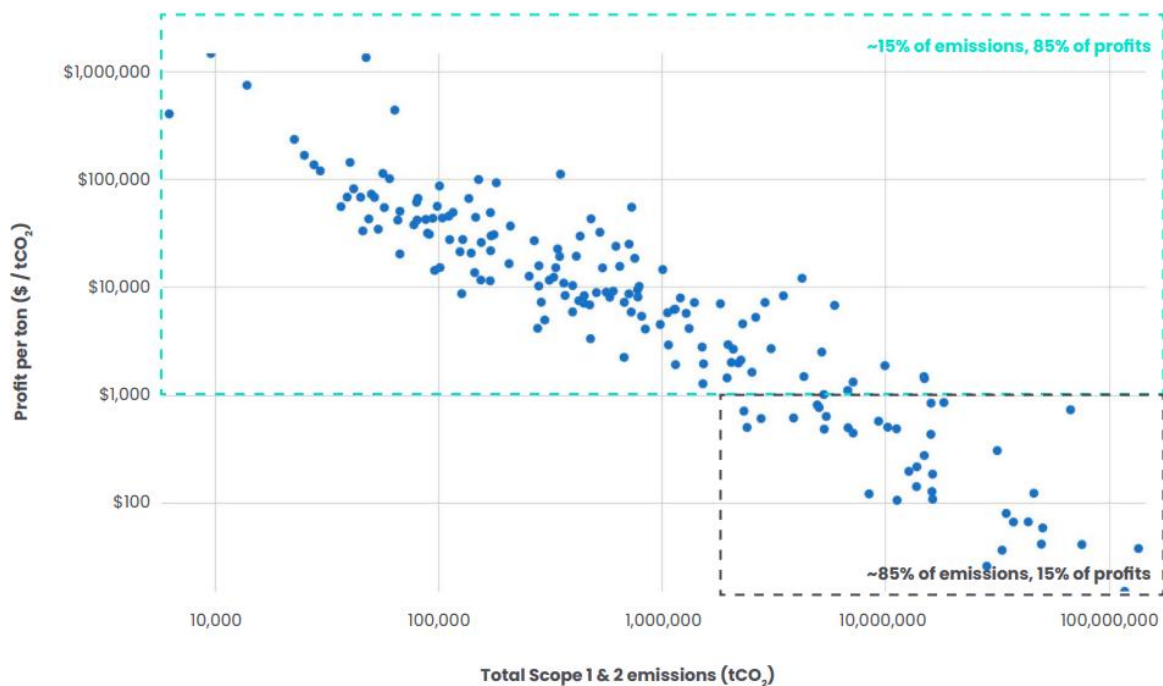
social cost of carbon which is a tool used by policymakers and other decision makers to internalize the externalities of climate change and to put the effects of climate change into economic terms to support decision-making.<sup>31</sup> There are challenges with using the social cost of carbon, however, given estimates of the social cost of carbon are highly sensitive to assumptions, in particular the discount rate (where a high discount rate places less value on the future and results in a lower social cost of carbon).<sup>32</sup> Another challenge is that since the social cost of carbon represents the economic damage of GHG emissions, it would logically follow that funds raised using this tool should be spent on adaptation and loss and damage as well as mitigation and thus there becomes a challenge in determining a scientific basis for establishing what should be spent specifically on mitigation in the context of a company's BVCM commitment.

#### d) Possible allocation approach: Ability (or capacity) to pay

Responsibility for BVCM could be allocated based on a company's ability to pay (e.g., as a percentage of profit). A company's ability to pay for BVCM depends on their profits per tCO<sub>2</sub>e of unabated value chain emissions and the internal investment needed for it to reduce those emissions.<sup>33</sup>

Analysis by Carbon Gap highlights that this ability to pay differs widely between sectors. The Carbon Gap graph below shows 142 companies from the Forbes 2000 list that reported scope 1–2 emissions data (2020 data). It shows that 141 companies in the sample (78%) had profits exceeding USD 1,000/tCO<sub>2</sub>e of scope 1 and 2 emissions in 2020, representing around 15% of emissions and 85% of profits in the dataset. If these 141 companies implemented an internal carbon fee of USD 100 applied against their scope 1 and 2 emissions, it would generate more than USD 15 billion in climate finance, seven times more than the voluntary carbon market in 2021. This would cost on average 1.49% of company profits (median 0.6%) or 0.16% of revenue (median 0.08%).<sup>34</sup>

Figure 5: Profit per tCO<sub>2</sub>e of scope 1 and 2 emissions against the total scope 1 and 2 emissions (tCO<sub>2</sub>e) of 179 companies in the Forbes 2000 list (Source: Carbon Gap, 2022)<sup>35</sup>



When scope 3 emissions are included too, 78 of the 141 companies had profits over USD 1,000/tCO<sub>2</sub>e. If those 78 companies paid USD 100/tCO<sub>2</sub>e for their scope 3 emissions (in addition to the USD 100/tCO<sub>2</sub>e for scopes 1 and 2 emissions), it would generate an additional USD 12 billion, costing companies on average an additional 1.57% of profits (median 0.75%) or 0.3% of revenue. These companies are mainly in the banking, finance, insurance, pharmaceuticals and software & services sectors.<sup>36</sup> This highlights the benefits of an ability to pay approach where large sums of finance can be generated at relatively low costs for companies in high-profit sectors.

However, a key challenge with using the ability to pay approach to determine responsibility for BVCM is that it is difficult to justify a scientific basis to determine the percentage of profit per tCO<sub>2</sub>e of unabated emissions that should be channeled into BVCM. The 2023 Climate Inequality Report offers a potential methodological or conceptual approach. The authors consider a “1.5% wealth tax for 1.5°C” that would be applied to individuals and would raise USD 295 billion in annual revenues for climate change. It would be designed as follows: individuals’ net assets owned between USD 100 million and USD 1 billion would be taxed at 1.5%, net assets between USD 1 billion and USD 10 billion at 2%, net assets between USD 10 billion and USD 100 billion at 2.5% and net assets above USD 100 billion at 3% (see Table 2 below). A similar approach could be applied to BVCM to limit the distributional impacts of paying to address climate change.<sup>37</sup> However, while this approach could be used to allocate responsibility for BVCM, some could argue that this is more of a value-based approach, rather than a science-based one. In addition, since it has been conceived to apply to extremely wealthy individuals, the extent to which it can be applied to companies’ profit is yet to be determined.

Table 2: Revenues from a tax on extreme wealth (Source: Climate Inequality Report, 2023)<sup>38</sup>

Wealth group	Number of adults	Total wealth (USD billion)	Proposed tax rate (%)	Total annual tax revenues (USD billion)
All >USD 100 million	65,130	28,141	-	295
USD 100m – 1bn	62,380	15,295	1.5%	109
USD 1bn – 10bn	2,584	8,292	2%	109
USD 10bn – 100bn	155	3,181	2.5%	52
Above USD 100bn	11	1,374	3%	26

### e) Possible allocation approach: Hybrid option

Finally, there could be a hybrid option which would take a number of factors into account such as profits per tCO<sub>2</sub>e unabated emissions, the investment needs for abating value chain emissions and potentially other factors such as historic emissions or regional distribution of emissions. Again, this approach is challenging since it requires value judgements about how these different factors should be weighted but this could be an area for further research.

Table 3: Potential allocation approaches for BVCM (Source: Adapted from Systemiq, 2021)<sup>39</sup>

Allocation approach	Pros	Cons
Sharing the mitigation gap	<ul style="list-style-type: none"> <li>Aligned with what is needed to keep within 1.5°C.</li> </ul>	<ul style="list-style-type: none"> <li>Challenging to define and manage since it depends on how many companies opt in and the size of the ambition gap which will be in a constant state of flux.</li> </ul>

Willingness to pay	<ul style="list-style-type: none"> <li>• Could result in a higher adoption of BVCM.</li> <li>• Avoids having to justify a science-based or equity-based approach.</li> </ul>	<ul style="list-style-type: none"> <li>• Not defensible as “science-based”.</li> <li>• Not sufficiently nuanced to account for different impacts or economic capacity of different sectors/companies.</li> <li>• Difficult to implement a mechanism to incentivize/recognize companies taking action, given the difficulty in determining a comparable level of effort.</li> </ul>
Polluter pays	<ul style="list-style-type: none"> <li>• Internalization of externalities associated with continued emissions.</li> <li>• Estimates of social costs of carbon usually much higher than market prices for carbon credits and it would therefore generate larger sums of finance if companies followed a polluter pays approach based on the social cost of carbon.</li> </ul>	<ul style="list-style-type: none"> <li>• Companies may not be able to generate sufficient profit to bear the financial costs associated with damage caused by their unabated emissions.</li> <li>• Difficult to determine the social cost of carbon – it is highly sensitive to assumptions, in particular the discount rate.</li> <li>• If using a social cost of carbon, it is challenging to determine what should be spent on mitigation versus adaptation, loss and damage, since use of the social cost of carbon would bring these into scope.</li> </ul>
Ability to pay	<ul style="list-style-type: none"> <li>• Companies with greatest financial means have the greatest capacity to solve ecological and social problems.</li> </ul>	<ul style="list-style-type: none"> <li>• The ability to pay differs wildly between industries, and is highest among low emitters.</li> <li>• It is challenging to justify a science-based approach to determining what the right amount of profit or revenue that companies should be responsible for. This might require reliance on value-based rather than purely scientific judgements.</li> </ul>
Hybrid option	<ul style="list-style-type: none"> <li>• Could balance trade-offs between different approaches described above.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to establish weighting of different factors – requires value judgements.</li> </ul>

### Methods for determining the nature and scale of a company’s BVCM commitment

The SBTi intends to provide guidance for companies on methods for establishing the nature and scale of their commitment to BVCM – i.e., “how much” BVCM a company should deliver or how much finance a company should deploy in support of BVCM. The SBTi has identified three potential methods for companies to determine the nature and scale of their commitment to BVCM:

1. **Ton-for-ton:** In addition to delivering on its science-based target (covering value chain emissions), a company would deliver mitigation beyond its value chain proportional to the climate impact of some percentage of the GHGs emissions of that company in a defined period

(e.g., in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the price that a company pays per tCO<sub>2</sub>e of BVCM (in the case of carbon credits, this would be determined by market prices) and the percentage of unabated emissions that are being “matched” with BVCM in that defined period.

2. **Money-for-ton:** In addition to delivering on its science-based target (covering value chain emissions), a company would channel finance into BVCM based on predefined price of the unabated GHG emissions of that company in defined period (e.g., in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the chosen cost of carbon (e.g., a social cost of carbon or otherwise) and the unabated emissions in that defined period.
3. **Money-for-money:** In addition to delivering on its science-based target (covering value chain emissions), a company would allocate a share of revenue or profit towards financing climate mitigation beyond the value chain. The volume of finance deployed towards BVCM would be determined by the chosen denominator (e.g., profit or revenue) and the chosen percentage.

With the exception of “sharing the mitigation gap” and the “hybrid option”, each of the allocation approaches described above can be applied to these three methods, as shown in the table below.

*Table 4: Applying the allocation approaches to the three methods for determining the nature and scale of the BVCM commitment*

Allocation approach	Method for determining the nature and scale of the BVCM commitment		
	Ton-for-ton	Money-for-ton	Money-for-money
Willingness to pay (it is expected that the SBTi will not recommend this approach)	Company chooses the percentage of unabated emissions to be matched by BVCM.	Company chooses the price of carbon and the percentage of unabated emissions to which the price of carbon is applied.	Company chooses the percentage of profit which will be channeled into BVCM.
Polluter pays	Company matches 100% unabated emissions (and possibly also historic emissions) with a proportional amount of BVCM.	Company applies a social cost of carbon applied to at least 100% of unabated emissions (and possibly also historic emissions).	Method not consistent with polluter pays principle as it is not tied to the unabated emissions.
Ability to pay	Some weighting which takes into account ability to pay applied to tCO <sub>2</sub> e of unabated emissions to determine a tCO <sub>2</sub> e volume of BVCM to be delivered.	Some weighting which takes into account ability to pay applied to the social cost of carbon and/or to the tCO <sub>2</sub> e of unabated emissions to determine a financial commitment to BVCM to be delivered.	The SBTi or other standard setter makes a science- and value-based judgement on the percentage of profit which companies should invest into BVCM e.g., 1.5%.



The SBTi's understanding of the pros and cons of each of the three methods are set out in Table 5 below. Please note that these methods are not presented in order of preference.

Table 5: Methods for determining a commitment to BVCM and their respective pros and cons

Method	Pros	Cons
<b>Ton-for-ton</b>	<ul style="list-style-type: none"> <li>• Most widely used approach historically</li> <li>• Companies are required to deliver quantifiable mitigation outcomes (since the commitment is framed based on tCO<sub>2</sub>e delivered)</li> <li>• Clear tCO<sub>2</sub>e metric for impact measurement and verification</li> <li>• Encourages value chain emission reductions</li> <li>• Some argue that it incentivizes mitigation at least cost to society as companies can resort to the least-cost mitigation option to deliver their commitment under this model</li> </ul>	<ul style="list-style-type: none"> <li>• May result in more limited deployment of finance as companies can resort to the least-cost option to deliver their commitment under this method, resulting in a gap between the level of finance deployed and the externality</li> <li>• Linked to the above, risk that companies optimize the price of carbon credits at the expense of quality</li> <li>• No link between investment volume and externality linked to unabated emissions</li> <li>• Increasing backlash in certain markets associated with compensatory claims that seek to convey that the tCO<sub>2</sub>e of unabated value chain emissions are netted out or counterbalanced by the tCO<sub>2</sub>e of BVCM (resulting in regulatory risk, litigation risk and reputational risk)</li> <li>• Increasing backlash in certain markets associated with claims that mislead consumers about the climate impact of products or services (resulting in regulatory risk, litigation risk and reputational risk)</li> <li>• Does not account for ability to pay</li> </ul>
<b>Money-for-ton</b>	<ul style="list-style-type: none"> <li>• Can maximize the amount of finance mobilized from private sector entities participating in BVCM</li> <li>• May increase finance towards higher cost mitigation options or investments with an uncertain or unquantifiable outcomes (e.g., efforts to stop deforestation, R&amp;D beyond the value chain or capacity building)</li> <li>• Captures investments with high need but more uncertain outcomes (e.g., technical risk phase of R&amp;D, landscape readiness and implementation activities)</li> </ul>	<ul style="list-style-type: none"> <li>• Companies are not required to deliver guaranteed mitigation outcomes as the commitment relates to the volume of finance rather than the tCO<sub>2</sub>e outcome (but of course they can deliver guaranteed mitigation outcomes if they choose)</li> <li>• Impact metrics are less well-established</li> <li>• Difficult to establish the "right" price (e.g., social cost of carbon or otherwise)</li> <li>• If the chosen cost of carbon is too low, it may not generate sufficient finance or mitigation to address the externality</li> <li>• If using social cost of carbon, it is difficult to establish what should be spent on mitigation versus adaptation, loss and damage</li> </ul>

	<ul style="list-style-type: none"> <li>• Stronger incentive for value chain emission reductions</li> <li>• Applies the polluter pays principle, i.e., there is a link between investment volume and externality linked to unabated emissions</li> <li>• Opens up scope for investing in climate adaptation or policy advocacy</li> <li>• Choice of carbon price can take into account ability to pay</li> <li>• Claims are less likely to imply the fungibility of unabated value chains and BVCM, thereby reducing risk of greenwash</li> </ul>	<ul style="list-style-type: none"> <li>• If using a social cost of carbon, does not account for ability to pay (however, companies can use other carbon pricing approaches to take ability to pay into account)</li> <li>• Claims are less well-established</li> </ul>
<b>Money-for-money</b>	<ul style="list-style-type: none"> <li>• May increase the use of higher cost mitigation options or investments with an uncertain or unquantifiable outcomes (e.g., R&amp;D beyond the value chain or capacity building)</li> <li>• Choice of percentage and of financial metric can take into account ability to pay</li> <li>• Potentially attractive consumer-facing claim</li> <li>• Easy to communicate</li> <li>• Opens up scope for investing in climate adaptation or policy advocacy</li> </ul>	<ul style="list-style-type: none"> <li>• Companies are not required to deliver guaranteed mitigation outcomes as the commitment relates to the volume of finance rather than the tCO<sub>2</sub>e outcome (but of course they can deliver guaranteed mitigation outcomes if they choose)</li> <li>• Difficult to establish a scientific basis for determining the share of the chosen financial metric to be channeled into BVCM</li> <li>• If the chosen share of profit (or other metric) is too low, it may not generate sufficient finance or mitigation to address the externality</li> <li>• Doesn't incentivize value chain abatement as it is not linked to the unabated emissions</li> <li>• Impact metrics are less well-established</li> <li>• Claims are less well-established</li> </ul>

### 3.2 Determining the nature and scale of the commitment to BVCM: Proposal

#### Process

The SBTi proposes that companies would follow the below steps for determining the nature and scale of their commitment to BVCM (to be further refined following this consultation process):

1. Bring stakeholders together to consider the business case for BVCM taking into account increasing expectations in terms of companies' social license to operate given the existential threat of climate change and business-specific climate change risks and opportunities.



2. Select a method for determining the nature and scale of the commitment to BVCM considering pros and cons of the different methods (see Table 5 above).
3. For the chosen method, follow the steps to determine the nature and scale of the commitment to BVCM (the SBTi will define these steps in the guidance document) in line with best practice recommendations.

### Proposed best practice application of methods

The SBTi is seeking feedback on the best practice application of these methods. For all methods, it is proposed that best practice implies:

- Independent third-party verification of quantifiable mitigation outcomes and co-benefits delivered.
- Fair, transparent, and equitable distribution of benefits and revenues developed in consultation with relevant rightsholders and other stakeholders.
- Transparent, understandable and non-misleading claims and in compliance with relevant regulation on claims (see consultation topic 5).
- Transparent reporting and disclosure (see consultation topic 6 for proposed reporting requirement).

In addition to the above, Table 6 below presents the proposed best practice applications of each method.

Table 6: Proposed best practice application of each method for determining a commitment to BVCM

Method	Proposed best practice adoption of this method
<b>Ton-for-ton</b>	<p>In addition to delivering on its science-based target (covering value chain emissions), a company delivers verified mitigation outside the value chain proportional to the climate impact of at least 100% of scopes 1, 2 and 3 emissions that year.</p> <p>Please note that inclusion of historic emissions might also be considered best practice for some sectors, but there is acknowledgement that this would not be possible for many sectors given the magnitude of emissions throughout the lifetime of the company.</p> <p>Best practice adoption of this method in particular will also be impacted by the claim that a company intends to make. For example, if a company's claim seeks to convey that the BVCM outcomes are netting out or counterbalancing the company's remaining value chain emissions, then higher standards are required in terms of e.g., permanence, additionality, avoidance of double claiming, avoidance of leakage and potentially also fungibility for that claim to remain accurate.</p> <p>Alternatively, if the claim is communicated as a contribution to global climate mitigation efforts, reputational risk to the claimant is lessened since it not necessary to demonstrate that the positive environmental impact of the BVCM outcome is equivalent to or greater than the negative impact of the company's unabated emissions. For contribution claims, companies should still take measures to ensure</p>

	<p>that BVCM outcomes are delivered (e.g., through independent third-party verification) and report transparently on environmental quality attributes around e.g., permanence, additionality, avoidance of double claiming and avoidance of leakage, etc.</p> <p>Please note that the regulatory landscape around claims is evolving and this will define the minimum bar for companies. For this reason, in the BVCM guidance, the SBTi may advise companies against compensatory claims which seek to convey counterbalancing of unabated emissions through BVCM. Please refer to consultation topic 5 in this document for a discussion on claims.</p>
<p><b>Money-for-ton</b></p>	<p>In addition to delivering on its science-based target (covering value chain emissions), a company channels finance into mitigation outside the value chain based on a social cost of carbon applied to at least 100% of unabated scopes 1, 2 and 3 emissions in that year. The social cost of carbon is aligned with credible academic sources and the company reports transparently on the cost of carbon used and the method for determining it.</p> <p>Given the company’s commitment is a financing one, the company can channel some portion of finance to mitigation with uncertain or unquantifiable mitigation outcomes to ensure that investments support R&amp;D into emerging climate technologies and the creation of an enabling environment for mitigation to occur. More discussion on this is included in the consultation topic below on deploying finance and resources to different BVCM activities.</p> <p>Given the social cost of carbon is used, the company should allocate some portion of this finance into adaptation, loss and damage. The SBTi is conducting research to inform recommendations on the use of carbon pricing mechanisms (including the social cost of carbon and how this could be used to channel finance to both mitigation and adaptation, loss and damage).</p> <p>Please note that inclusion of historic emissions might also be considered best practice but there is acknowledgement that this would not be possible for many sectors given the magnitude of emissions throughout the lifetime of the company.</p>
<p><b>Money-for-money</b></p>	<p>In addition to delivering on its science-based target (covering value chain emissions), a company allocates a share of revenue or profit towards financing climate mitigation beyond the value chain.</p> <p>The SBTi is conducting research to inform recommendations on an appropriate percentage of revenue or profit.</p> <p>Given the company’s commitment is a financing one, the company can channel some portion of finance to mitigation with uncertain or unquantifiable mitigation outcomes to ensure that investments support R&amp;D into emerging climate technologies and the creation of an enabling environment for mitigation to occur. More discussion on this is included in the consultation topic below on deploying finance and resources to different BVCM activities.</p>

Please note, it is possible for companies to combine the approaches; for example, a company could apply a high social cost of carbon to its unabated emissions to establish a financial budget, and deliver ton-for-ton mitigation equivalent to 100% of unabated scopes 1, 2 and 3 emissions and then deploy the remaining budget to higher cost or less quantifiable mitigation outcomes, or even spending that on other categories of climate action such as adaptation.

**Please refer to consultation topic 9 which includes a set of fictional examples to show how these recommendations could apply to companies in different sectors.**

### 3.3 Determining the nature and scale of the commitment to BVCM: Consultation questions

*Public consultation question box 3: questions on budgeting for BVCM*

18. In your opinion, application of which method(s) would result in the greatest outcomes for climate?

- a) Ton-for-ton
- b) Money-for-ton
- c) Money-for-money
- d) No comment
- e) Other, please specify

19. In your opinion, application of which method(s) best reflect corporate climate leadership?

- a) Ton-for-ton
- b) Money-for-ton
- c) Money-for-money
- d) No comment
- e) Other, please specify

20. In your opinion, which method(s) would be the most attractive to companies?

- a) Ton-for-ton
- b) Money-for-ton
- c) Money-for-money
- d) No comment
- e) Other, please specify

21. In your opinion, application of which method(s) best shield companies from criticism and greenwashing?

- a) Ton-for-ton
- b) Money-for-ton
- c) Money-for-money
- d) No comment
- e) Other, please specify

22. In your opinion, what are the key benefits associated with each of the methods described?

23. In your opinion, what are the key risks associated with each of the methods described?

24. In your opinion, what is best practice application of each of the methods described?

25. For the **ton-for-ton** method, in your opinion, how important is it to **ensure permanence of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
26. For the **money-for-ton** method, in your opinion, how important is it to **ensure permanence of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
27. For the **money-for-money** method, in your opinion, how important is it to **ensure permanence of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
28. For the **ton-for-ton** method, in your opinion, how important is it to **ensure additionality of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
29. For the **money-for-ton** method, in your opinion, how important is it to **ensure additionality of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
30. For the **money-for-money** method, in your opinion, how important is it to **ensure additionality of mitigation outcomes** on a scale of 0–100 (0 being not important and 100 being very important)?
31. For the **ton-for-ton** method, in your opinion, how important is it to **avoidance of double claiming between one company's BVCM activities and other companies' scope 1, 2 and 3 GHG inventories** on a scale of 0–100 (0 being not important and 100 being very important)?
32. For the **money-for-ton** method, in your opinion, how important is it to **avoidance of double claiming between one company's BVCM activities and other companies' scope 1, 2 and 3 GHG inventories** on a scale of 0–100 (0 being not important and 100 being very important)?
33. For the **money-for-money** method, in your opinion, how important is it to **avoidance of double claiming between one company's BVCM activities and other companies' scope 1, 2 and 3 GHG inventories** on a scale of 0–100 (0 being not important and 100 being very important)?
34. For the **ton-for-ton** method, in your opinion, how important is it to **ensure avoidance of double claiming between companies and countries** on a scale of 0–100 (0 being not important and 100 being very important)?
35. For the **money-for-ton** method, in your opinion, how important is it to **ensure avoidance of double claiming between companies and countries** on a scale of 0–100 (0 being not important and 100 being very important)?

36. For the **money-for-money** method, in your opinion, how important is it to **ensure avoidance of double claiming between companies and countries** on a scale of 0–100 (0 being not important and 100 being very important)?
37. For the **ton-for-ton** method, in your opinion, how important is it to **ensure avoidance of leakage** (where this is relevant for the given mitigation activity) on a scale of 0–100 (0 being not important and 100 being very important)?
38. For the **money-for-ton** method, in your opinion, how important is it to **ensure avoidance of leakage** (where this is relevant for the given mitigation activity) on a scale of 0–100 (0 being not important and 100 being very important)?
39. For the **money-for-money** method, in your opinion, how important is it to **ensure avoidance of leakage** (where this is relevant for the given mitigation activity) on a scale of 0–100 (0 being not important and 100 being very important)?
40. For the **ton-for-ton** method, in your opinion, how important is it to **ensure fungibility** between BVCM and unabated emissions on a scale of 0–100 (0 being not important and 100 being very important)?
41. For the **money-for-ton** method, in your opinion, how important is it to **ensure fungibility** between BVCM and unabated emissions on a scale of 0–100 (0 being not important and 100 being very important)?
42. For the **money-for-money** method, in your opinion, how important is it to **ensure fungibility** between BVCM and unabated emissions on a scale of 0–100 (0 being not important and 100 being very important)?
43. Given there are tensions between responsibility and ability to pay, in your opinion, should the SBTi further explore a hybrid option which weights responsibility and ability to pay by considering elements such as profits per tCO<sub>2</sub>e unabated emissions, the investment needs for abating value chain emissions and potentially other factors such as historic emissions or regional distribution of emissions? If yes, please provide suggestions if you have them for a methodology that could underpin this hybrid option. (open text)



## CONSULTATION TOPIC 4: DEPLOYING RESOURCES AND FINANCE ACROSS BVCM ACTIVITIES

### 4.1 Deploying resources and finance across BVCM activities: Discussion

During Q1 and Q2 of 2023, the SBTi conducted a series of interviews with companies, as well as a survey, to understand how companies are currently choosing to deploy their investments into BVCM. Companies reported that the geography of operations, supply chains and customer base, as well as their strategic priorities are key factors informing how they choose to allocate resources and finance towards different BVCM activities. For example, we identified:

- Food and agriculture companies are deploying resources and finance into avoided deforestation or restoration in supply chain-adjacent landscapes to improve resilience and to deliver on wider environmental and nature goals.
- Consumer-facing companies are deploying resources and finance into their consumer markets to build a stronger brand reputation and social license to operate in these markets.
- Heavy emitting sectors are investing into CDR technologies as a long-term risk management strategy to reduce their future costs for neutralizing residual emissions at their net-zero target date and thereafter.

These considerations are important in developing a clear business case internally for BVCM. However, given the need for global emissions to peak by 2025 and the speed at which new climate technologies need to be scaled, the SBTi will strongly recommend that companies deploy finance and resources to where it is most needed from a climate perspective.

### 4.2 Deploying resources and finance across BVCM activities: Proposal

The SBTi intends to provide recommendations for companies on deploying resource and finance to different mitigation activities. We are consulting on a set of **six principles** that companies should consider when designing their portfolio of BVCM activities and investments (please note that the current ordering of the principles does not signify their relative priority). We also intend to encourage companies to club together to pool their funds to deliver greater scale of impact.

Table 7: Draft principles for BVCM portfolio design

Principles	Guiding questions for companies
1. <b>Scale:</b> Maximizing climate mitigation in the near-term	➤ What opportunities would help my company maximize value and deliver near-term, verifiable mitigation impact at scale given the financial resources available?
2. <b>Urgency:</b> Avoiding tipping points and lock-in	➤ How can my company support and/or channel finance to help prevent ecological and climate tipping points and avoid high-carbon technology or infrastructure lock-in?
3. <b>Transformation:</b> Innovating for net-zero	➤ How can my company support and/or channel finance to activities which might be more uncertain in terms of the



	mitigation outcome but which could have cascading positive impacts and deliver long-term systemic change?
<b>4. Financing Need:</b> Focusing on underfinanced mitigation	<ul style="list-style-type: none"> <li>➤ How can my company channel finance to mitigation activities which otherwise would not receive finance because of either limited or no return on investment (ROI), long payback periods or higher investment risk?</li> <li>➤ Where are host countries seeking private sector finance to support delivery (and potentially enhancement) of Nationally Determined Contributions (NDCs) to the Paris Agreement?</li> </ul>
<b>5. Co-benefits:</b> Supporting the SDGs	<ul style="list-style-type: none"> <li>➤ How can my company support and/or channel finance to activities which deliver co-benefits such as adaptation, resilience, livelihoods, just transition, biodiversity, water security, etc?</li> </ul>
<b>6. Climate Justice:</b> Addressing inequality	<ul style="list-style-type: none"> <li>➤ How can my company support activities which contribute to climate and earth system justice, for example by channeling finance to countries and communities with lower responsibility for climate change but with greatest vulnerability to climate change impacts?</li> </ul>

The guidance will explain the rationale and scientific-basis for each of the principles, and provide a non-exhaustive list of mitigation activities which align with each principle. Certain mitigation activities will be aligned with one principle and not another (for example investing in high-cost and risky R&D would not necessarily align with Principle 1 but would align with Principle 3), and certain mitigation activities might be aligned with multiple principles (for example investing in certain nature-based solutions might align with Principles 1, 2, 4, 5 and 6). Moreover, it is important to note that the priority mitigation activities today will likely be different to the priority mitigation activities in 5, 10, 15, or 20+ years. As such we will clearly state that the guidance on specific mitigation activities which align with each principle will need to be updated over time whilst giving companies confidence that the activities described would be considered good practice today.

The SBTi also intends to provide high-level guidance on minimum standards and guardrails which would apply to different investments, e.g., social safeguards and supply-side quality criteria, pointing to existing standards and initiatives focused on this.

The sections below provide more detail on each of the principles which will be further refined in the guidance.

### Principle 1. Scale: Maximizing climate mitigation in the near-term

- *What opportunities would help my company maximize value and deliver near-term, verifiable mitigation impact at scale given the financial resources available?*

Global GHG emissions peak between 2020 and at the latest before 2025 in global modelled pathways that limit warming to 1.5°C (>50%) with no or limited overshoot and in those that limit warming to 2°C

(>67%).<sup>40</sup> By 2030, GHG emissions need to be cut by 43%. This translates into investment requirements of USD 4.3 trillion in annual finance flows by 2030.<sup>41</sup>

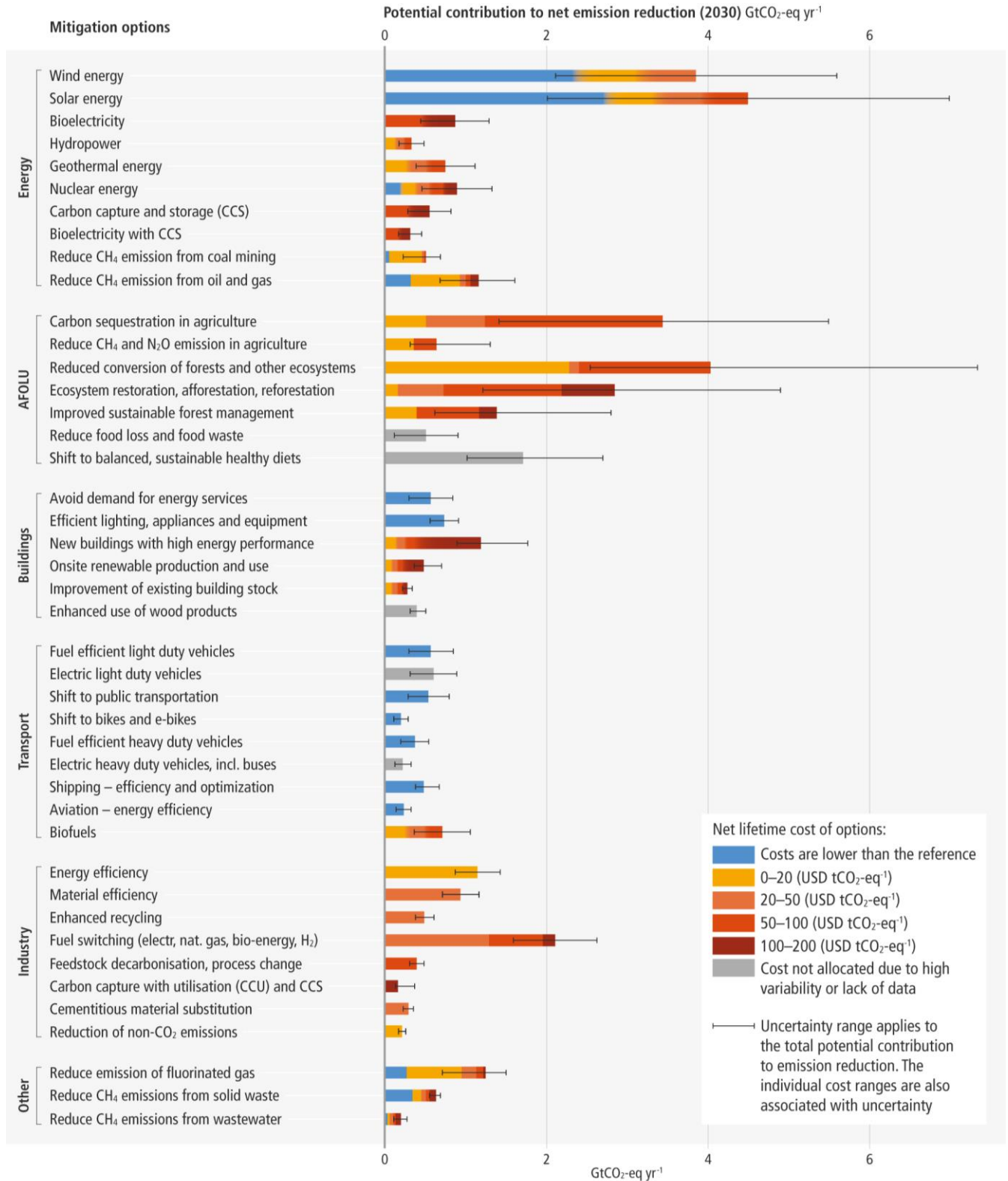
Given the need to rapidly cut emissions, the mitigation potential of an investment (tCO<sub>2</sub>e per unit of currency spent) is an important factor in prioritizing BVCM activities and investments as it will maximize mitigation outcomes.

The graphic below from the IPCC Working Group III report (2022) visualizes the mitigation potential and cost of mitigation options in the energy, agriculture, forest and other land use (AFOLU), buildings, transport, industry and other sectors. The blue shading in the bars indicates the GtCO<sub>2</sub>e of mitigation potential where the costs are lower than the reference level (i.e., they are cheaper than the existing technology or practice). The light orange shading indicates mitigation opportunities where costs are between 0–20 USD/ tCO<sub>2</sub>e. The dark red indicates mitigation opportunities where costs are between 100–200 USD/ tCO<sub>2</sub>e.<sup>42</sup>

For alignment with Principle 1 it is therefore recommended that companies channel some portion of their investment and resources towards mitigation options where they can achieve greatest “bang for buck”, such as those shown in the graph below in the lighter orange colors, e.g., reduced conversion of forests and other ecosystems and energy efficiency.

For mitigation options shown in the graph below shaded in light blue (i.e., where the costs are below the reference level), these investments would be considered as lower priority for companies investing in BVCM since they would not be considered “additional” (i.e., they are already financially viable). For Principle 1, it is also recommended that companies focus a portion of their investment and resources on quantifiable and lower risk mitigation options to increase the likelihood that mitigation will occur. Issuing and retiring high-quality, carbon credits that have been verified to a credible third party standard is one way to ensure that mitigation outcomes have occurred. There are initiatives such as the Carbon Credit Quality Initiative (CCQI) which provide transparent information on the quality of carbon credits – it is recommended that companies use tools such as the CCQI to identify carbon credits which are most likely to deliver real emissions reductions and enhanced removals.<sup>43</sup>

Figure 6: Overview of mitigation options and their estimated ranges of costs and potentials in 2030 (Source: IPCC WGIII)<sup>44</sup>



## Principle 2. Urgency: Avoiding tipping points and lock-in

- *How can my company support and/or channel finance to help prevent ecological and climate tipping points and avoid high-carbon technology or infrastructure lock-in?*

There are important temporal considerations to take into account when designing a portfolio of investments and activities into mitigation beyond the value chain – notably a) risk of climate or ecological tipping points and b) risk of high-carbon technology or infrastructure lock-in.

### A) Risk of climate or ecological tipping points

Analysis published in 2022 points to a set of 16 tipping points where past a certain temperature threshold there is unstoppable and self-perpetuating change in a climate system – change which would take effect on timescales varying from a few years to centuries. Observations and early warning signals indicate we may have already passed tipping points in the West Antarctic ice sheet, the Greenland ice sheet, the Atlantic Meridional Overturning Circulation, and through destabilization of the Amazon rainforest (known as “Amazon dieback”).<sup>45</sup>

These tipping points are triggered through global warming and therefore Principle 2 is aligned closely with Principle 1 in that it places heavy emphasis on delivering near-term mitigation across sectors at scale.

Tipping points are also triggered through localized feedbacks in certain ecosystems. For example, deforestation and forest degradation reduce evapotranspiration which reduces rainfall and further drives forest degradation. Similarly, local fires can intensify drought and drive forest loss which can trigger “mega fires”.<sup>46</sup>

As such, investments to protect and restore natural ecosystems – in particular tropical forests – are critical in avoiding tipping points. The SBTi Forest, Land and Agriculture (FLAG) sector methods drive investment by forest, agriculture and land companies in their value chains to prevent further deforestation and conversion, but it is also critical that companies from non-FLAG sectors invest in protection and restoration of natural ecosystems through BVCM, for example by purchasing high quality, verified jurisdictional REDD+ carbon credits, by financing payment-for-ecosystem-services (PES) projects/programs to protect natural ecosystems, or by investing in landscape restoration.

### B) Risk of high-carbon technology or infrastructure lock-in

Evidence suggests that the remaining carbon budget will be fully used up by committed existing infrastructure (coal-fired power plants, pipelines, gas-powered vehicles, etc.), which will cumulatively emit about 658 GtCO<sub>2</sub> if operated as it has been historically. More than half of these emissions are predicted to come from the electricity sector. Infrastructure in China, the USA and the 27 member states of the European Union represent approximately 41%, 9% and 7% of the total, respectively. This indicates that little or no new CO<sub>2</sub>-emitting infrastructure can be commissioned, and that existing infrastructure may need to be retired early (or be retrofitted with carbon capture and storage technology). The most cost-effective premature infrastructure retirements will be in the electricity and industry sectors, where non-emitting alternatives are available and affordable.<sup>47</sup> Companies and investors should therefore drive investment into low carbon energy generation technologies where they are considered additional (i.e., where it is not already cost competitive) in a manner tied to the accelerated phase out of coal and other fossil fuels linked to the electricity and industry sectors.



### Principle 3. Transformation: Innovating for net-zero

- *How can my company support and/or channel finance to activities which might be more uncertain in terms of the mitigation outcome but which could have cascading positive impacts and deliver long-term systemic change?*

According to the International Energy Agency, without a major acceleration in clean energy innovation, reaching net-zero emissions by 2050 will not be achievable. Technologies that are available on the market today provide nearly all of the emissions reductions required to 2030 in the IEA's Net Zero Emissions by 2050 Scenario (NZE). However, reaching net-zero emissions in 2050 will require widespread use after 2030 of technologies that are still under development today. By 2050, it is expected that almost 50% of emissions reductions will come from technologies currently at demonstration or prototype stage and which need to rapidly scale.<sup>48</sup> There is also urgency with regards to the development of novel carbon dioxide removal (CDR) technology since the amount of CDR needed in the second half of the century will only be feasible if we see substantial deployment in the next ten years.<sup>49</sup>

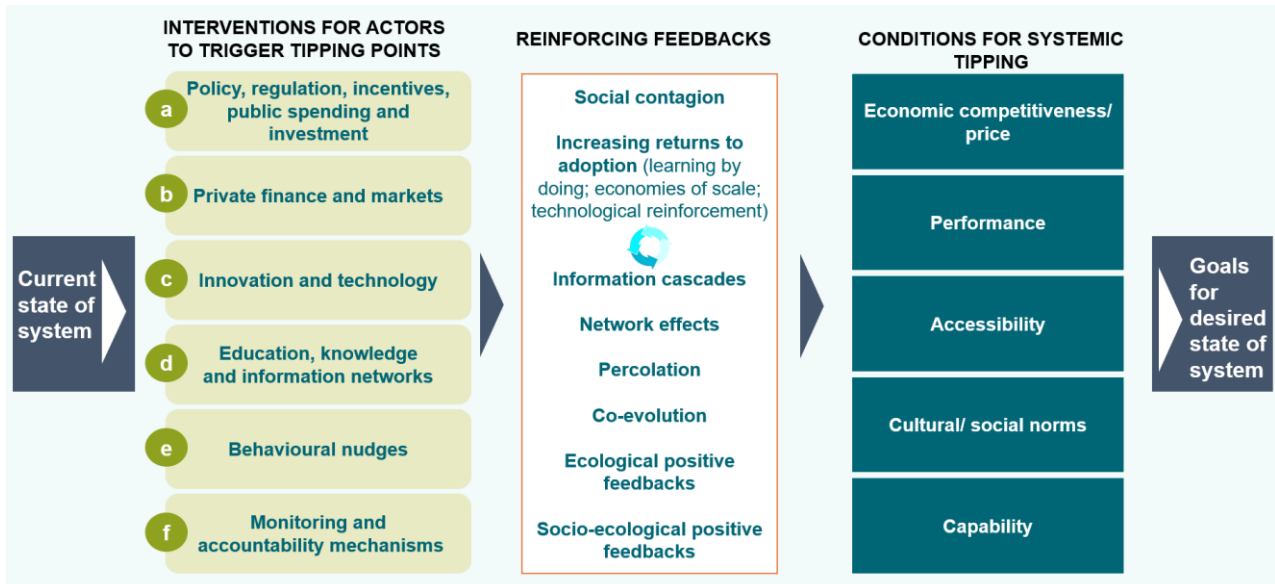
There is therefore the need for private sector finance to make investments into emerging climate technology.<sup>50</sup> Companies and financial institutions can make these investments directly or through funds such as the Breakthrough Energy Catalyst. Breakthrough Energy Catalyst funds and invests in project companies utilizing emerging climate technologies that reduce emissions. By investing in these opportunities, Catalyst seeks to accelerate the adoption of these technologies worldwide and reduce their green premiums.<sup>51</sup>

Certain investments can also contribute to market tipping points that shift market dynamics in favor of low-carbon solutions. The University of Exeter and Systemiq identify three "super-leverage points" in which interventions to 1) scale batteries, 2) green hydrogen and 3) alternative proteins have an outsized impact across many parts of the economy. They argue that investment into batteries serves as an enabling technology in both the power sector for stationary storage, and in road transport for electric cars and trucks and thus increasing deployment in one sector will drive down battery costs for both sectors. Similarly, they propose that the development of large-scale green hydrogen production will enable the decarbonization of several industrial and long-distance transport sectors, while shifting to alternative proteins, thereby cutting demand for meat production, could reduce both pressure for land use change and emissions from livestock farming.<sup>52</sup>

For alignment with Principle 3 it is therefore recommended that companies consider where their investments can have an outsized impact through positive tipping points (i.e., tipping the system towards positive outcomes). The framework below – developed by the University of Exeter and the Food and Land Use Coalition – explains the conditions and actions needed to trigger a positive tipping point and could be used by companies to consider how their BVCM investments could positively tip a system towards the goals of the Paris Agreement.<sup>53,54</sup>



Figure 7: Framework for positive tipping (Source: The University of Exeter and Food and Land Use Coalition)<sup>55</sup>

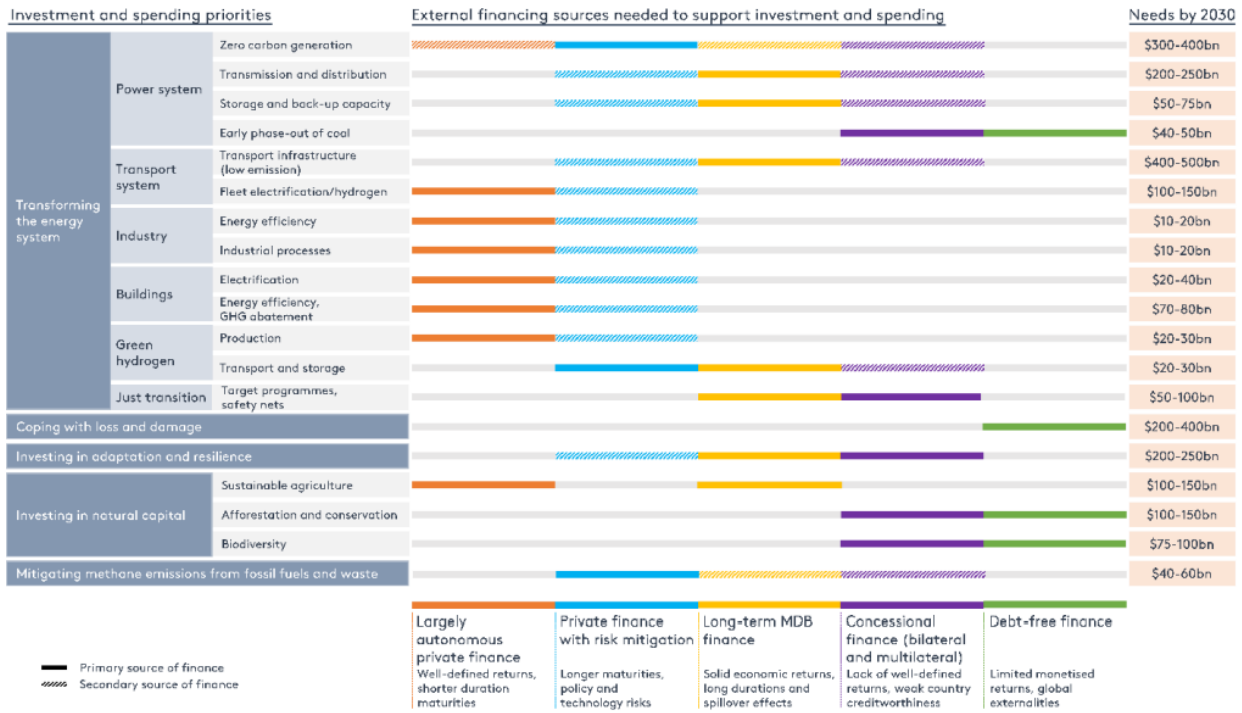


#### Principle 4. Financing Need: Focusing on underfinanced mitigation

- *How can my company channel finance to mitigation activities which otherwise would not receive finance because of limited/no ROI, long payback periods or higher investment risk?*

There are different investment needs across mitigation options, with different risk and return profiles. In alignment with Principle 4 companies should channel investment where it is “financially additional” – for example, into capital-constrained markets in which project developers or governments are unable to obtain commercial financing for climate mitigation due to high risk or limited ROI. The graphic below shows mitigation areas in need of concessional or debt-free finance and which should be considered as part of companies’ BVCM investments e.g., early phase-out of coal, afforestation and conservation of natural ecosystems.

Figure 8: External financing sources for investment and spending priorities for climate action and related development goals (Source: Independent High-Level Expert Group on Climate Finance, 2022, Figure 5.1)<sup>56</sup>



- Where are host countries seeking private sector finance to support delivery (and potentially enhancement) of NDCs to the Paris Agreement?

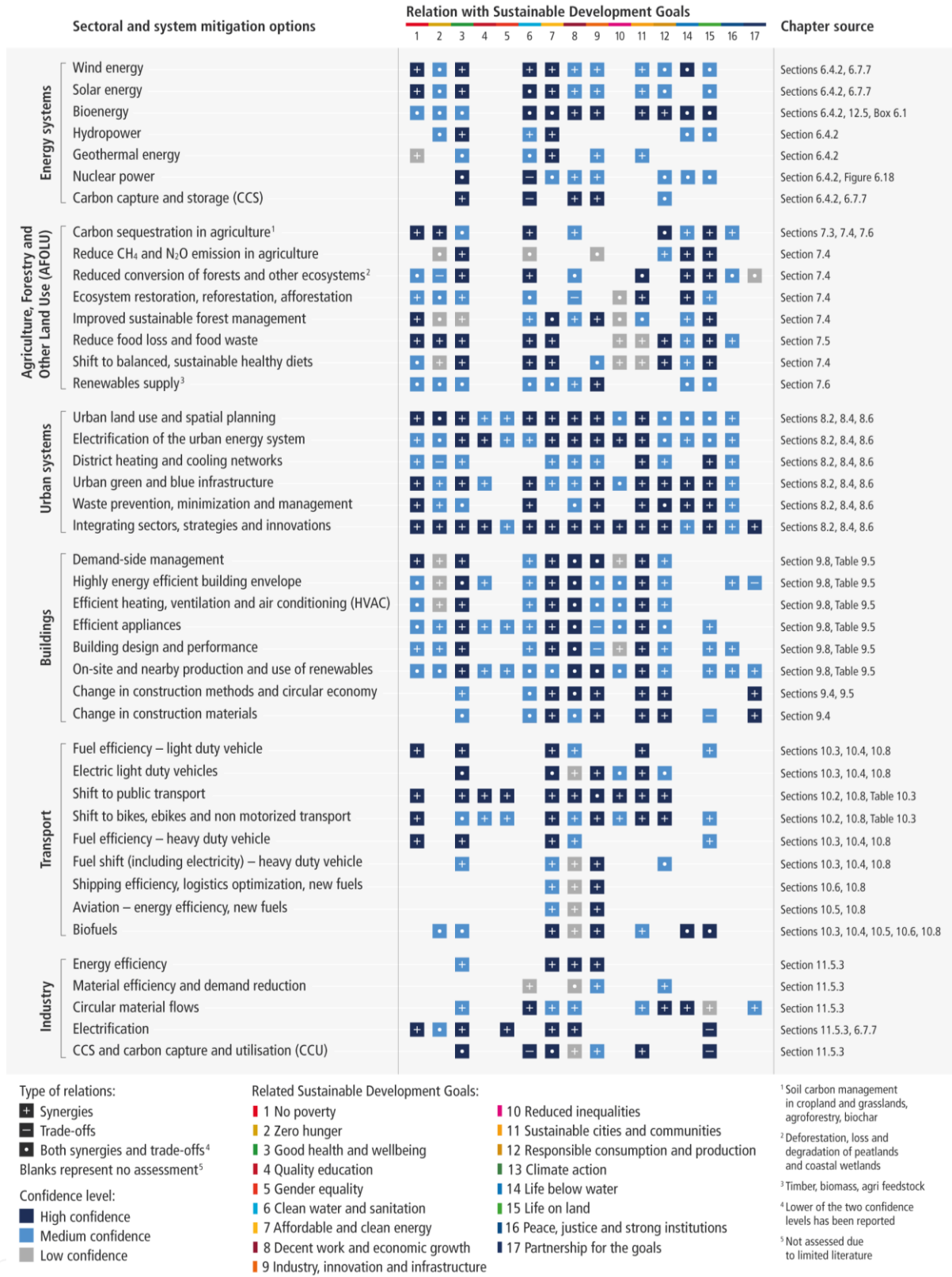
Companies should engage with host country governments to understand where they are looking for private sector finance to support in the delivery or enhancement of their NDCs. In addition, there may be opportunities for blended finance mechanisms to de-risk private investment.

### Principle 5. Co-benefits: Supporting the SDGs

- How can my company support and/or channel finance to activities which deliver co-benefits such as adaptation, resilience, livelihoods, just transition, water security, biodiversity, etc.

For alignment with Principle 5, it is recommended that companies channel investments and resources towards mitigation activities which also support the delivery of the wider SDGs. Figure 9 below – from the IPCC AR6 WGIII report – shows synergies and trade-offs between sectoral and system mitigation options and the SDGs.

Figure 9: Synergies and trade-offs between sectoral and system mitigation options and the SDGs (Source: IPCC WGIII)<sup>57</sup>



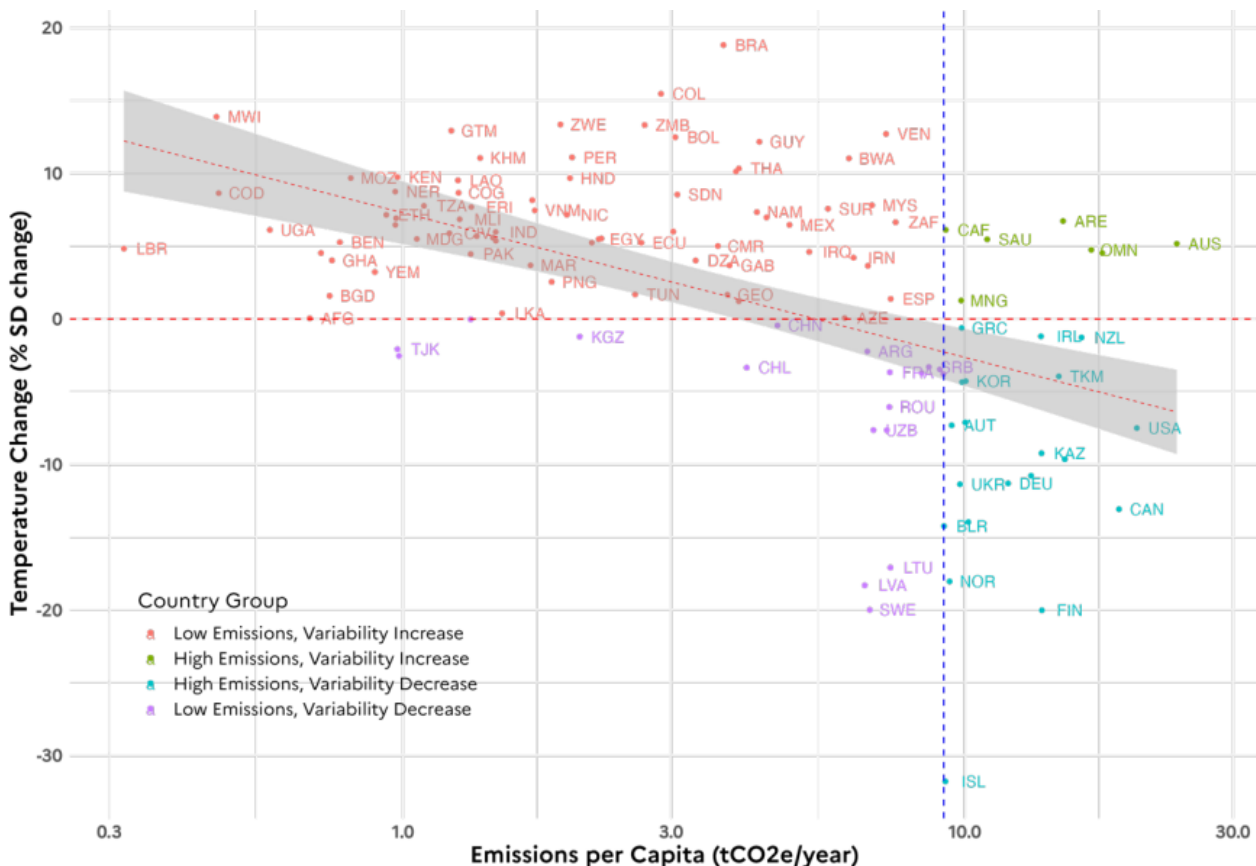
Nature-based solutions – actions that protect, sustainably manage, and restore natural and modified ecosystems to address societal challenges effectively and adaptively, and that simultaneously provide human wellbeing and biodiversity benefits – have significant co-benefits when well designed and carefully implemented, and are therefore considered priority investments.<sup>58</sup>

**Principle 6: Climate Justice: Addressing inequality**

➤ How can my company support activities which contribute to climate/earth system justice, for example by channeling mitigation finance to countries and communities with lower responsibility for climate change but with greatest vulnerability to climate change?

Low-income countries will see themselves exposed to more volatile temperatures and more frequent temperature anomalies with potentially devastating effects on agricultural output, while regions with the highest responsibility for climate change may experience reduced temperature volatility. In alignment with Principle 6, companies should invest climate mitigation finance into countries in the top left quadrant of the graph below.

Figure 10: Predicted change in temperature variability until the end of the century vs emissions per capita between 1990 and 2013 (Source: 2023 Climate Inequality Report)<sup>59</sup>



An equity focused approach also addresses inequalities between different social groups. Climate change has a greater impact on low-income and disadvantaged groups who have fewer resources and less access to opportunities. Disadvantaged and marginalized groups vary across contexts but typically include the poor, women, children, youth and the elderly, members of ethnic and religious minorities, Indigenous people, people with health problems and/or disabilities, migrants and displaced

people, and rural populations.<sup>60</sup> Companies should therefore consider the distribution of the costs and benefits of climate change and the need to engage disadvantaged social groups in decision-making when developing and deploying a portfolio of BVCM investments.

Companies should also support equitable and transparent benefit sharing. In the context of carbon markets, benefit sharing is the allocation of the proceeds from carbon credits to local stakeholders involved in a carbon credit project or program. Benefit sharing rewards local actors for past contributions to climate mitigation and incentivizes future contributions of local stakeholders to mitigation activities.<sup>61</sup>

Securing the human rights as well as the land and resource rights of Indigenous Peoples and Local Communities is also critical. In the context of growing pressures from outside groups seeking to farm, log, mine, and drill for oil and gas on Indigenous and community lands and the threats these pressures pose to traditional norms, institutions, and knowledge, it is more important than ever to secure customary rights and strengthen traditional institutions. Integrated approaches are needed – focusing not only on tenure security, but also on complementary regulatory frameworks and financial, technical, and legal assistance to support local forest management systems and advance sustainable livelihood alternatives. Companies should therefore look to support and ensure the leadership and ownership efforts of Indigenous Peoples and Local Communities who are protecting their traditional and customary lands.

Companies should also invest in activities which support a just transition across sectors, for example providing financial support to farmers – in particular smallholders – to improve the sustainability of agricultural practices and by investing the retraining of workers across sectors affected by the transition to net-zero, including the energy sector.

### Illustrative, non-exhaustive examples of mitigation opportunities which align with the principles today

Table 8: Illustrative, non-exhaustive list of examples of mitigation opportunities against each principle

Principles	Non-exhaustive, illustrative examples of mitigation activities
1. <b>Scale:</b> Maximizing climate mitigation in the near-term	<ul style="list-style-type: none"> <li>➤ Low-cost measures such as reduced conversion of forests and other ecosystems and energy efficiency</li> </ul>
2. <b>Urgency:</b> Avoiding tipping points and lock-in	<ul style="list-style-type: none"> <li>➤ Low-cost measures such as reduced conversion of forests and other ecosystems and energy efficiency</li> <li>➤ Preventing wildfires, reduced conversion of forests and other ecosystems</li> <li>➤ Renewable energy, green hydrogen and phase out of coal and other fossil fuels</li> </ul>
3. <b>Transformation:</b> Innovating for net-zero	<ul style="list-style-type: none"> <li>➤ Emerging climate technology scale-up including novel CDR</li> <li>➤ Interventions to scale batteries, green-hydrogen and alternative proteins</li> <li>➤ Jurisdictional and landscape level initiatives to protect, restore and manage natural ecosystems</li> <li>➤ Investment in progressive climate policy advocacy</li> </ul>



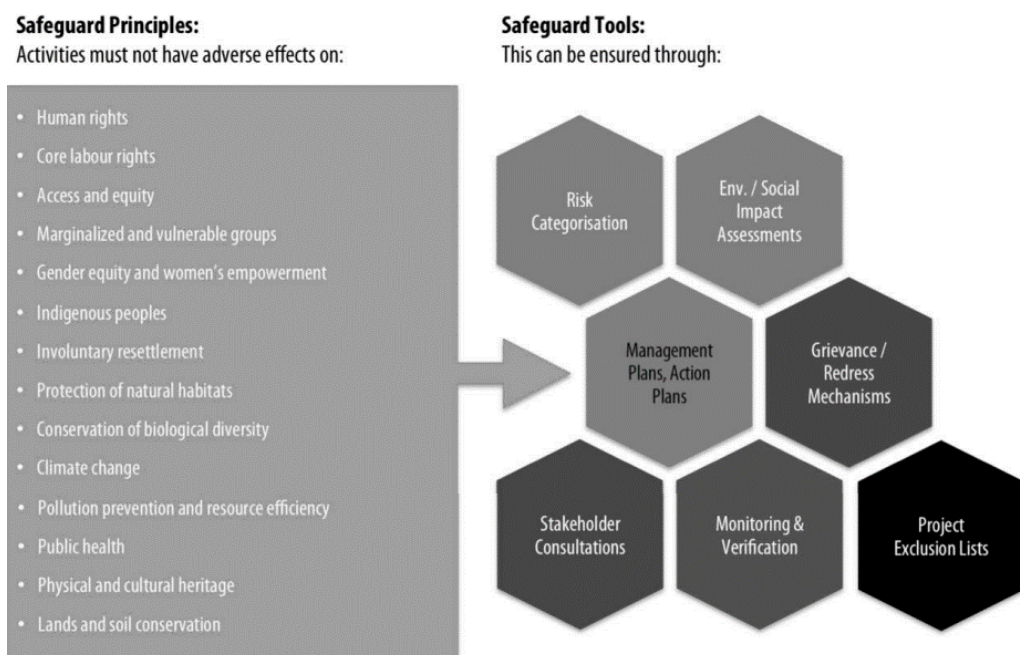
<p><b>4. Financing Need:</b> Focusing on underfinanced mitigation</p>	<ul style="list-style-type: none"> <li>➤ Early phase-out of fossil fuels, reforestation and afforestation and reduced conversion of forests and other ecosystems</li> <li>➤ Support to host country governments seeking private sector finance to support in the delivery or enhancement of their NDCs</li> </ul>
<p><b>5. Co-benefits:</b> Supporting the SDGs</p>	<ul style="list-style-type: none"> <li>➤ Renewable energy in lower income countries</li> <li>➤ Nature-based solutions, landscape restoration, clean cookstoves</li> </ul>
<p><b>6. Climate Justice:</b> Addressing inequality</p>	<ul style="list-style-type: none"> <li>➤ Mitigation opportunities in lower income countries least responsible for climate change yet most impacted by it</li> <li>➤ Supporting disadvantaged and marginalized groups most impacted by climate change</li> <li>➤ Supporting and ensuring the leadership and ownership efforts of Indigenous Peoples and Local Communities</li> <li>➤ Supporting the just transition towards net-zero</li> </ul>

Please refer to consultation topic 9 where we provide illustrative case studies to show how these principles could be applied in practice by companies in different sectors.

**Cross cutting minimum standards and social safeguards**

The SBTi intends to clarify that companies must apply minimum standards and social safeguards (e.g., see Figure 11) against each of these principles and will look to include reference to a number of high integrity standards and guidance such as the Tropical Forest Credit Integrity (TFCI) Guide which was developed for companies interested in purchasing carbon credits in the voluntary carbon market, the Climate, Community and Biodiversity Standards (CCB Standards) which evaluate land management projects from the early stages of development through to implementation and the Cancun Safeguards (which was developed for countries but is a useful reference also for companies).

Figure 11: Overview of safeguard principles and tools for their implementation (Source: Arens and Mersmann, 2018)<sup>62</sup>



## 4.3 Deploying resources and finance across BVCM activities: Consultation questions

*Public consultation question box 4: consultation on deploying resources and finance towards BVCM*

44. In your opinion, to what extent will the combination of the: (i) six principles for BVCM portfolio design, the (ii) guiding questions, (iii) illustrative examples of aligned mitigation actions, (iv) cross-cutting minimum standards and social safeguards, and (v) case studies in consultation topic 9 be helpful for companies in deciding where to channel their BVCM resources and investments?
- Very helpful
  - Somewhat helpful
  - Not so helpful
  - Not at all helpful
45. In your opinion, what could be improved to better support companies in deciding where to channel their BVCM resources and investments? Is anything missing or redundant?
- The six principles (open text)
  - The guiding questions (open text)
  - The illustrative examples (open text)
  - The cross-cutting minimum standards and social safeguards (open text)
  - The case studies in consultation topic 9 (open text)
46. In your opinion, should the SBTi provide more guidance on the operationalization of the principles for BVCM portfolio design? (yes/no/no comment)
47. Please provide recommendations if you have them on how companies might operationalize the principles? (open text)

## CONSULTATION TOPIC 5: BVCM-RELATED CLAIMS

### 5.1 BVCM-related Claims: Discussion

The International Social and Environmental Accreditation and Labelling (ISEAL) Alliance defines a claim as a message used to describe or promote a product, process, business, or service with respect to its sustainability attributes or credentials.<sup>63</sup>

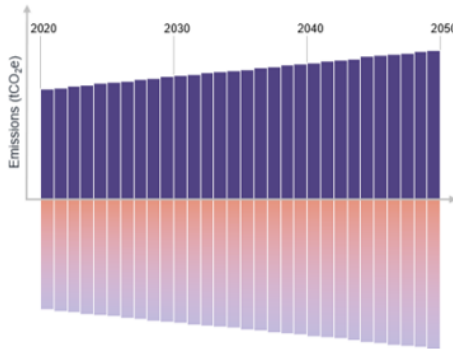
In a recent SBTi survey on BVCM, many respondents stated that an externally validated BVCM claim would be a strong motivator for investment (79% of carbon credit purchasers and 62% of respondents which financed BVCM through mechanisms other than carbon credits). Companies report that climate claims are a key part of the business case for BVCM since they differentiate the company based on climate performance in the eyes of consumers, investors, and other stakeholders.

In its 2021 consultation paper, the Voluntary Carbon Market Integrity Initiative (VCMI) distinguished between “commitment claims” (i.e., process-based, aspirational claims where a company communicates an intent to reach a particular climate target by a certain year in the medium to long term) and “achievement claims” (i.e., performance-based claims which convey a statement of fact where a company highlights a climatic feature or attribute that has already been measured and achieved).<sup>64</sup> An example of a commitment claim would be where companies with net-zero targets validated by the SBTi make the claim that they have SBTi validated net-zero targets. Once the company has achieved its long-term science-based target for all scopes and neutralized residual emissions it can claim to be net-zero (i.e., it can make an “achievement claim”).<sup>65</sup>

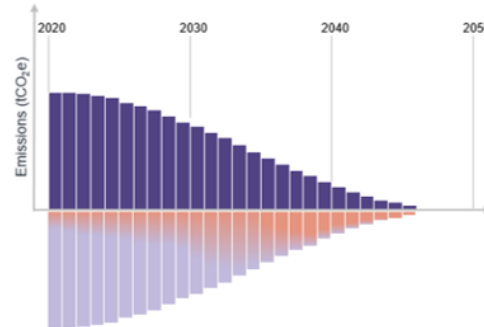
Historically, the most widely used “achievement” claim relating to BVCM was the “carbon neutrality” claim where companies would typically purchase a volume of carbon credits equivalent to their unabated scope 1–3 emissions. However, as the SBTi states in its 2021 FAQ on BVCM, there are several perspectives on when or if the term “carbon neutral” can be used credibly. One view is that when companies purchase carbon credits in an amount equal to their remaining emissions, the “carbon neutral” claim can facilitate increased BVCM. Another view is that the “carbon neutral” claim conceals or downplays the remaining climate impact of businesses that have not fully decarbonized, and hence should not be used at all.<sup>66</sup> Moreover, the figure below demonstrates that because there are different meanings that can be attributed to the term “carbon neutral”, it may not be the most effective claim for leading companies to make to differentiate their climate mitigation actions from companies that are not decarbonizing in line with science.

Figure 12: Illustration of two possible applications of "carbon neutrality" at the corporate level

**Company A continues to increase its scopes 1-3 emissions and purchases carbon credits to "counterbalance" unabated emissions**



**Company B reduces its emissions in line with its SBTi-validated target and also delivers BVCM proportional to its unabated emissions each year**



Monitoring corporate claims has been advanced by private, media and civil society actors over time. However, in most markets, corporate claims are under the jurisdiction of the national government and, depending on the political environment, are enforced strictly or sporadically. Since the SBTi's FAQ on BVCM was published, we have seen increased public efforts to regulate corporate climate claims through both law and softer regulatory instruments such as guidance from consumer, competition and financial authorities. Prominent examples include:

- Efforts by the European Union to govern green claims in general, including climate-related claims. The Proposal for the EU "Green Claims" Directive, published in March 2023, notes that climate-related claims are particularly prone to misleading and suggests that new, supplementary regulations on such climate-related claims are likely to be introduced in the EU in the near future.<sup>67</sup> The European Parliament voted in favour of a linked Proposal for a Directive "Empowering Consumers for the Green Transition" on 11th May 2023, approving a negotiation mandate aiming to ban the use of climate-related claims that are not substantiated with detailed evidence, as well as banning those product claims which involve carbon offsetting (neutral, compensate, etc).
- France's Decree No. 2022-539, which aims to prevent greenwashing by specifying rules for carbon offsetting and carbon neutrality claims, came into force in January 2023. It requires companies to report annually on their products' life cycle emissions as well as those emissions that are offset.<sup>68</sup>
- In December 2022, the US Federal Trade Commission consulted on potential updates to its Green Guides for the Use of Environmental Marketing Claims. In doing so, it requested public comment on four specific issues, of which carbon offsetting was one, explicitly inviting "comments on whether the revised Guides should provide additional information on related claims and issues".<sup>69</sup>

The rate at which regulations are emerging and being updated therefore poses regulatory and litigation risks for companies making climate claims. This can be seen by the increase in administrative sanctions posed by financial, competition and consumer authorities, as well as the growing number of climate-related corporate social responsibility lawsuits in the United States and Europe.<sup>70</sup>



As such, while on the one hand the claim is an important part of the business case for BVCM, unfounded or misleading claims can engender allegations of greenwashing, posing reputational, regulatory, and litigation risk to companies, and can ultimately undermine global climate change mitigation efforts. This risk is exacerbated by a lack of consistent use of terminology across initiatives as well as a lack of agreement on which activities can legitimately be considered part of a BVCM strategy. There is therefore a clear need to better leverage claims in a way that maximizes the business case for BVCM while minimizing the risks associated with BVCM claims.

There are a number of important developments in this space, including (but not limited to):

- **VCMI** is developing a Claims Code of Practice to guide credible, voluntary use of carbon credits and associated claims. The Claims Code of Practice will guide companies to make transparent and credible claims about their progress towards a longer-term net-zero commitment. This is due to be published on 28th June 2023. VCMI's Claims Code aims to:
  - Drive voluntary carbon markets rather than focus narrowly on accounting. Such results include financing additional emissions reductions and/or removals and achieving the SDGs.
  - Require companies to meet core prerequisites that represent good corporate practice on climate change, including following the mitigation hierarchy. This precludes use of credits as a substitute for aggressive decarbonization and/or recognition of companies or their products and services that do not meet high standards of environmental and social integrity.
  - Focus on corporate climate achievements, not commitments.
  - Be practical and robust.
  - Provide an easily understandable schedule of claims that:
    - Are true and accurate.
    - Are clear and relevant to target audience(s).
    - Are substantiated with objective, transparent, and up-to-date data.
    - Avoid overstating the beneficial environmental impacts of the activities on which the claim is based.
    - Avoid creating a false impression or hiding trade-offs.
    - Refer to voluntary actions or achievements that go beyond complying with existing legislation or standard business practice.<sup>71</sup>
- **ISEAL** has published new guidance on making credible claims about engagement in jurisdictional scale sustainability initiatives which distinguishes between **attribution claims**, which require that an entity can show a causal link between their supporting action and a change in performance, and **contribution claims**, where companies claim that they made a contribution to a specific landscape or jurisdictional performance outcome if their actions are relevant to that performance outcome, are timely (leading to improvements in a timely manner), and at a scale to meaningfully impact performance.
- **Gold Standard** published a document entitled “Fairly Contributing To Global Net Zero: Considerations for credible claims” in May 2023 which argues that it is necessary to trend away from inward focused claims, such as carbon neutrality, towards more collective action, contribution-led claims language in order to truly take responsibility and to make a significant contribution to mitigating the climate emergency. In this document, Gold Standard distinguishes between **headline claims** and **narrative claims**. Headline claims are defined as shorter, marketing-focused claims to progress or status used to convey climate-related achievements. Narrative claims are described as typically, longer descriptive claims made to



convey more detailed progress or status-based achievements. For example, describing actions undertaken or planned and sharing data about achievements made.<sup>72</sup>

- **South Pole** is currently consulting on a new vision for Paris-aligned corporate claims on funding climate action which would be compatible with and supportive of the overall goals of the Paris Agreement, as well as the SBTi's Corporate Net-Zero Standard guidance on BVCM. South Pole proposes – and is seeking consultation feedback on – the claim: “Funding Climate Action”. Where space allows, South Pole proposes that this can be expanded to read: “Funding Climate Action with Verified Climate Contributions” and would be coupled with the following supporting copy: “This company has funded climate action through high-quality certified mitigation contributions – in line with its residual carbon emissions”, or “This company has fully funded climate action in line with its residual carbon emissions”.<sup>73</sup>
- The **GHG Protocol** published its draft Land Sector and Removal Guidance in 2022 which distinguishes between two types of targets relating to additional mitigation external to the company's scope 1–3 target boundary: **compensation targets** and **contribution or financing targets**. The draft guidance defines compensation targets as those relating to mitigation external to the target boundary through purchasing and retiring GHG credits to compensate for annual or cumulative unabated emissions in the target boundary, if allowed under the relevant target-setting program or target-setting policy. It defines contribution or financing targets as those where companies contribute to financing GHG mitigation outside the company's target boundary, through financing or purchasing and retiring GHG credits applied against contribution targets (without using GHG credits as offsets of compensation). The GHG Protocol suggests in this draft that credits used against contribution or financing targets would not require avoidance of double counting, since the credits are counted toward more than one entity's GHG or compensation target.<sup>74</sup>

## 5.2 BVCM-related Claims: Proposal

The SBTi does not have concrete plans to validate BVCM claims at this point in time, particularly given others are already working to define these sorts of claims. However, the SBTi expects to include a discussion on the role of claims in the BVCM guidance and to re-emphasize the general principles underpinning best practice claims, for example where companies must ensure that claims: are true and accurate; are clear and relevant to target audience(s); are substantiated with objective, transparent, and up-to-date data; avoid overstating the beneficial environmental impacts of the activities on which the claim is based and avoid creating a false impression or hiding trade-offs; and that they refer to voluntary actions or achievements that go beyond complying with existing legislation or standard business practice.<sup>75</sup>

## 5.3 BVCM-related Claims: Consultation questions

*Public consultation question box 5: consultation questions on claims*

48. Given that claims are often under the jurisdiction of governments, on a scale of 0–100, how directive do you think the SBTi should be when providing guidance on BVCM claims (a score of 0 would be providing a discussion of the role of claims, a score of 100 would be defining claims)? If you are at a company, it might be useful to consider this question with your legal and marketing teams.

49. Are there other federal, national and/or supra-national government-led efforts on claims that should be highlighted in the document? (open text)
50. Are there important trends in claims that you feel have been missed in the discussion of claims in this document? Please provide a description and references. (open text)
51. Given the emerging regulatory context and the fact that the SBTi will not be validating BVCM claims at this time, what information would be most helpful to companies within this guidance? (open text)

## CONSULTATION TOPIC 6: REPORTING ON BVCM

### 6.1 Reporting on BVCM: Discussion

Currently companies submitting net-zero targets are asked whether or not they are investing in BVCM but there is scope for enhancing the SBTi BVCM reporting requirements. There is also scope for companies to report additional information on BVCM in various places, e.g., through CDP, in their financial annual accounts and in their sustainability reports. Requirements on transparent reporting of BVCM investments and activities will be key to ensuring the integrity of companies' claims related to BVCM and to ensure environmental and social safeguards are in place.

### 6.2 Reporting on BVCM: Proposal

The SBTi will recommend that companies report transparently on BVCM on an annual basis (in line with the GHG inventory reporting period) and is consulting on the reporting questions below:

1. In the reporting period, has your organization financed or supported BVCM? If no, please explain why.
2. Which method has your company used to determine the nature and scale of the commitment for BVCM:
  - a) Ton-for-ton
  - b) Money-for-ton
  - c) Money-for-money
  - d) Other, please provide details
3. Please report the tCO<sub>2</sub>e of total estimated emissions reductions and removals delivered through BVCM in the reporting period.
  - a) GHG emissions reductions
  - b) Enhanced GHG removals
  - c) Removals linked to the protection of existing sink function of intact ecosystems
4. Out of the total estimated tCO<sub>2</sub>e of BVCM reported above, please report the tCO<sub>2</sub>e of third-party verified emissions reductions and removals delivered through BVCM in the reporting period, and provide information on the third-party verification conducted.
  - a) GHG emissions reductions
  - b) Enhanced GHG removals
  - c) Removals linked to the protection of existing sink function of intact natural ecosystems
5. Please report the tCO<sub>2</sub>e of emissions reductions and removals delivered through BVCM in the reporting period which have also been reported in the scope 1, 2 and 3 inventories of other corporates.
6. If carbon credits are purchased and retired for the purpose of BVCM, please provide information on project IDs in the registries, volumes retired against each project ID, vintage and corresponding adjustments. (For this question in particular, the SBTi will propose a reporting template).
7. Please report the total volume of finance deployed towards BVCM in the reporting period:
  - a) Verified GHG emissions reductions

- b) Verified enhanced GHG removals
  - c) Verified removals linked to the protection of existing sink function of intact natural ecosystems
  - d) Unverified GHG emissions reductions
  - e) Unverified enhanced GHG removals
  - f) Unverified removals linked to the protection of existing sink function of intact natural ecosystems
  - g) Climate innovation and R&D
  - h) Policy advocacy
  - i) Capacity building and other activities which support the enabling environment for mitigation
  - j) Other, please specify
8. Please provide a description of the BVCM activities your organization supported or financed in the reporting period.
  9. Please describe how your company has identified which BVCM activities to support. For example, describe the extent to which the SBTi's proposed principles (see Table 7 in this document) have informed the strategy: scale, urgency, transformation, financing need, co-benefits and climate justice.
  10. Please describe how your company is managing the risk of reversals (for both emissions reductions and removals), and how reversals will be addressed in your BVCM reporting. This could include referencing a carbon crediting program or other entity that manages the risk of reversals on your behalf.
  11. Please describe the external claims you are making based on your BVCM activities and investments and the steps taken to avoid misleading stakeholders.
  12. Please report on your unaccounted for climate externality in the reporting period (i.e., the gap between finance deployed to external climate action (including BVCM and adaptation, loss and damage) and the social cost of unabated emissions in the reporting year).
- If the ton-for-ton method is used:**
13. Please specify what percentage of unabated scopes 1, 2, 3 and/or historic emissions are covered by the ton-for-ton commitment to BVCM.
  14. Please report the average price paid in the reporting period for your verified tons of BVCM emissions reductions or removals. This can be reported as in aggregate or split by different mitigation activities.
- If the money-for-ton method is used:**
15. Please specify what percentage of unabated scopes 1, 2, 3 and/or historic emissions are covered by the money-for-ton commitment to BVCM.
  16. Please report the carbon price applied to the emissions covered within the commitment, and an explanation of how this carbon price was selected.

**If the money-for-money method is used:**

17. Please specify the financial denominator used to establish the money-for-money commitment (e.g., revenue or profit).
18. Please report the percentage applied to the financial denominator (i.e., x% of revenue or profit).

## 6.3 Reporting on BVCM: Consultation questions

*Public consultation question box 6: consultation questions on budgeting for BVCM*

52. In your opinion, should the SBTi recommend additional reporting questions? If so, please describe your proposal. (open text)
53. In your opinion, should any of the recommended reporting questions be removed? If so, please specify which reporting question should be removed and describe why. (open text)
54. In your opinion, should any of the recommended reporting questions be edited? If so, please specify which reporting question should be edited and describe your proposal. (open text)
55. Where do you recommend companies report against these questions? (multiple tick box)
  - a) Submission to the SBTi which can then aggregate information on a public dashboard
  - b) In their sustainability reports or websites
  - c) In their financial report
  - d) To a reporting initiative such as CDP
  - e) Other, please specify



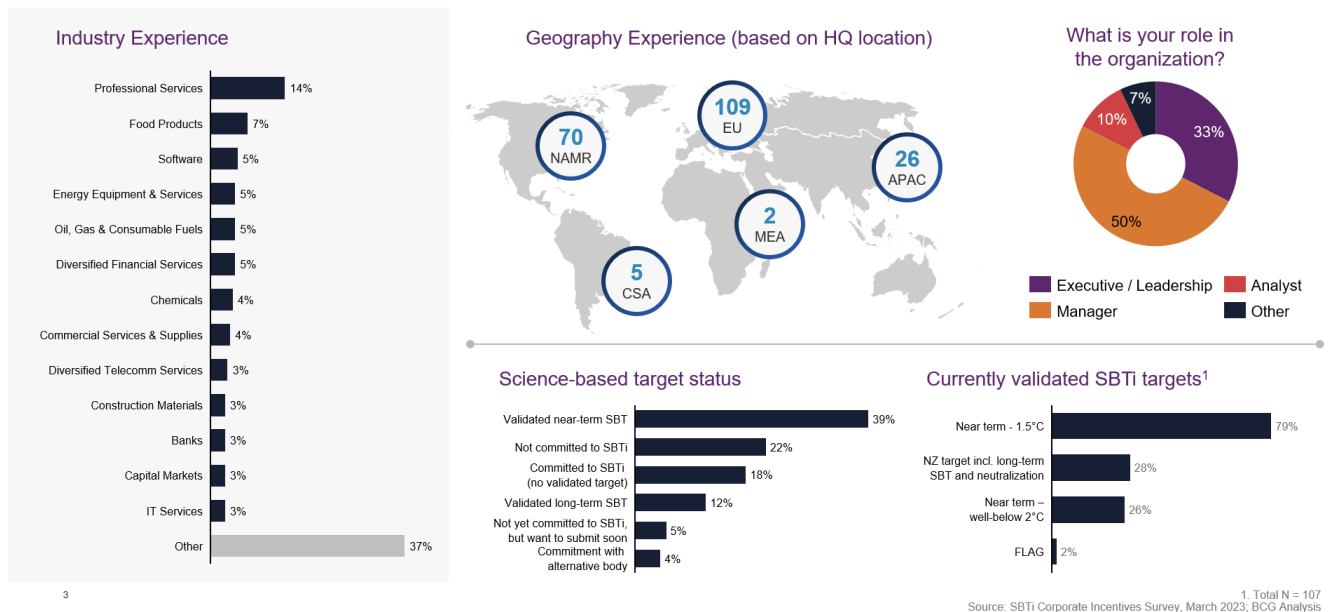
## CONSULTATION TOPIC 7: INCENTIVES FOR BVCM

### 7.1 Incentives for BVCM: Discussion

As mentioned in the background section of this document, to complement the BVCM guidance, the SBTi will also publish a research paper that explores incentives for BVCM over which the broader climate ecosystem has influence, including civil society, academia, policymakers, standard setters, advocacy organizations and multi-lateral organizations. It will consider both barriers to investment (such as a current lack of consistent guidance on best practice), as well as positive incentives such as claims, tax incentives and voluntary and regulatory disclosure requirements on climate risks and opportunities and transition planning. The research paper will provide recommendations for different actors and identify areas for further research with the aim of offering a shared “theory of change” for scaling corporate climate finance into BVCM over the coming decades.

To inform this research, the SBTi conducted a corporate survey (to which 212 companies responded) and interviewed 25 companies on the topic of BVCM during March and April 2023. The aim of this engagement process was to increase understanding of why certain companies are (or are not) investing in BVCM and what might motivate them to invest more in the future.

Figure 13: Overview of respondents to the 2023 SBTi survey on BVCM



This process identified some key insights into the business case for BVCM, notably:

- Differentiation from peers is a key motivator for companies currently investing in BVCM. 85% of respondents stated that this was a motivator for purchasing carbon credits, and 76% of respondents stated this was a motivator for investing in BVCM through mechanisms other than carbon credits.
- 67% of respondents were motivated to invest in BVCM (both via credits and other financing mechanisms) as they recognized the need to be a good corporate citizen.

- Fear of greenwash accusation was a significant barrier to BVCM for many companies. 55% of respondents who were already purchasing credits, stated this was a barrier to them purchasing more; 28% of respondents who were already investing in other types of BVCM finance, stated this was a barrier to them spending more.
- Many respondents also highlighted that they do not currently gain recognition for BVCM which presents a barrier to investment. This was a concern for 48% of respondents already purchasing carbon credits and 39% of respondents already investing via other mechanisms.
- Companies were also concerned about a lack of a clear financial business case for these investments; for example, companies in some sectors highlighted that there was little evidence of a green premium opportunity.
- Many respondents stated that an externally validated BVCM claim would be somewhat or very valuable to their brand (72% of carbon credit purchasers and 61% of other BVCM investors).
- Companies cited demand from investors and customers as the top motivators for BVCM, and also highlighted that recognition of credit from the SBTi would also be an important driver. Other drivers such as peer pressure, tax incentives, CDP performance were also highlighted.

Figure 14: Insights from corporate interviews and surveys on motivators for BVCM

- “ Our customers (e.g., retailers) care about our sustainability goals and targets and will ask us about our progress. Sustainability is a license to operate – *Beverage co.* ”
- “ Our BVCM investments and climate efforts are an extremely important recruitment tool. We need to live up to the standard we are setting – *Professional Services co.* ”
- “ We communicate our investments to employees, investors, policymakers, and customers and we need different narratives for each – *FinTech co.* ”
- “ Our investments and claims we make about them are for investors, policymakers, press, and prospective employees. They are an important employee retention tool and we have also seen governments start to shift to incentivizing this work – *Entertainment co.* ”
- “ There is a growing expectation among investors and regulators that our actions and targets are validated by third parties and science-based – *Entertainment co.* ”
- “ Consumer pressure is very low. The pressure is from ourselves internally, employees, investors, and the founding family who are worried about reputational risk – *Beverage co.* ”

## 7.2 Incentives for BVCM: Proposal

Through the corporate engagement process we have identified a number of barriers preventing investment into BVCM and potential new types of incentives. The table below proposes potential actions which could drive further investment into BVCM, based on these insights. The SBTi intends to unpack these in the incentives research paper described above.

Table 9: Possible actions which could further drive investment into BVCM

Actions to address barriers to BVCM	Actions to incentivize BVCM further
<ul style="list-style-type: none"> <li>➤ <b>Greenwash accusation:</b> <ul style="list-style-type: none"> <li>• Standardize terminology and best practice norms (e.g., on sizing the commitment to BVCM and which mitigation activities are financed, claims, etc.)</li> <li>• Improve market transparency through reporting requirements and public dashboards</li> <li>• Improve integrity on the supply-side, e.g., improving crediting methodologies related to baseline setting, quantification of uncertainty, permanence and additionality, etc.</li> <li>• Improve transparency of carbon credit quality</li> <li>• Develop methodologies for measuring impact of finance outside of carbon markets</li> </ul> </li> <li>➤ <b>Knowledge barriers:</b> <ul style="list-style-type: none"> <li>• Clear guidance, case studies and tools</li> <li>• Integration of BVCM concepts into financial accounting standards</li> <li>• SBTi training modules on BVCM</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Consumer demand:</b> <ul style="list-style-type: none"> <li>• Development and standardization of high-integrity product and organizational claims</li> <li>• Consumer facing campaigns to ensure BVCM is considered part of the social license to operate and to spotlight high ambition companies</li> <li>• Engage with journalists to communicate BVCM best practice</li> </ul> </li> <li>➤ <b>Customer (B2B) demand:</b> <ul style="list-style-type: none"> <li>• Development and standardization of product and organizational claims</li> </ul> </li> <li>➤ <b>Investor demand:</b> <ul style="list-style-type: none"> <li>• Development and standardization of organizational claims</li> <li>• Engage with investor coalitions to highlight business case for BVCM, e.g., transition risk linked to externalities</li> <li>• Engage with activist investors, e.g., ShareAction</li> <li>• Engage with the Taskforce on Climate-related Financial Disclosures (TCFD) and regulators to include reporting on BVCM as part of financial disclosures</li> </ul> </li> <li>➤ <b>Peer pressure:</b> <ul style="list-style-type: none"> <li>• Assemble and spotlight a leadership “club” of high ambition companies working to pilot the BVCM guidance</li> <li>• Broad mobilization campaign to accelerate adoption of BVCM, e.g., with Race to Zero</li> <li>• Development of a BVCM public dashboard</li> <li>• Further integrate BVCM into the CDP questionnaire</li> </ul> </li> <li>➤ <b>Areas for further evidence:</b> <ul style="list-style-type: none"> <li>• Green premium linked to consumer claims</li> <li>• Tax incentives</li> <li>• Realized business benefits from BVCM</li> </ul> </li> </ul>

## 7.3 Incentives for BVCM: Consultation questions

Public consultation question box 5: consultation questions on incentives for BVCM

56. In your opinion, what are the most significant barriers preventing BVCM investment? Please rank the barriers below in terms of their significance (with a rank of 1 being the most significant):

- Fear of greenwash accusation
- Lack of a credible claim for communicating BVCM activities and investments
- Lack of available funds
- Lack of consumer demand
- Lack of customer demand (relevant for business-to-business companies)
- Lack of investor demand
- Lack of standardized guidance on minimum standards and best practice
- Perception of environmental and social risks associated with BVCM
- Weak financial business case
- Other

57. In your opinion, which new incentive mechanisms could be most impactful in driving BVCM investment? Please rank the new incentive mechanisms below in terms of their significance (with a rank of 1 being the most significant):

- Assessment and certification of BVCM claims by a dedicated body
- Assessment and certification of BVCM targets by a dedicated body
- Consumer-facing campaigns to ensure BVCM is considered part of the social license to operate and to spotlight high ambition companies
- Development of BVCM standards by a dedicated body (i.e., not the SBTi)
- Integration of BVCM reporting requirements into ESG frameworks such as SASB, GRI and ISSB
- Integration of BVCM reporting requirements into the CDP questionnaire
- Integration of BVCM reporting requirements into the Taskforce on Climate-related Financial Disclosures (TCFD)
- Regulation on BVCM-related claims
- Tax incentives
- Other

58. In your opinion, how might the SBTi incentivize companies to invest in BVCM? (open text)

59. Please provide any additional insights on what could incentivize greater BVCM investment. If you identified other barriers or incentive mechanisms in your ranking above, please describe those here. (open text)

## CONSULTATION TOPIC 8: TERMINOLOGY

### 8.1 Terminology: Discussion

There is a lack of consistency and standardization of terminology related to BVCM. This lack of consistency creates confusion for corporates and wider stakeholders and creates the risk of greenwash and greenwash accusation. For this reason, we have included a proposed glossary in this public consultation document and are seeking feedback on the definition of key terms. Please note, the proposed glossary included in this public consultation document is not a full list of the terminology that will be included within the glossary of the final guidance – it includes key definitions referred to in this document and those which are not yet widely standardized.

### 8.2 Terminology: Proposal

Table 10: Terminology under consultation

Term	Proposed definition	Source
Abatement	Measures that companies take to prevent, reduce, or eliminate sources of GHG emissions within their value chain. Examples include reducing energy use, switching to renewable energy, and reducing chemical fertilizer use.	SBTi <sup>76</sup>
Additionality	Carbon credits produced by a project are additional if the activity would not have taken place in the absence of the purchase of the carbon credits. Conversely, if the project and associated emissions reductions or removals would have occurred regardless of the payment for carbon credits, the resulting credits are not additional.	Adapted from Gold Standard <sup>77</sup>
Adaptation	Activities or investments that support climate adaptation either within the value chain, e.g., climate-proofing operations and supply chains, or beyond the value chain, e.g., providing finance, goods or services for others to implement or facilitate adaptation and resilience building programs.	Definition proposed by the SBTi as part of this consultation
Attribution claim	Attribution claims require that an entity can show a causal link between their supporting action and a change in climate mitigation.	Adapted from ISEAL <sup>78</sup>



<p>Beyond value chain mitigation</p>	<p>Mitigation action or investments that fall outside a company's value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere.</p>	<p>SBTi<sup>79</sup></p> <p>Note, we are consulting on this definition as part of this consultation process (see consultation topic 1).</p>
<p>Carbon credit</p>	<p>A unit that is issued by a carbon crediting program and represents a reduction or enhanced removal of greenhouse gases. Carbon credits are uniquely serialized, issued, tracked, and cancelled by means of an electronic registry.</p> <p>Credited GHG reductions or removal enhancements are quantified using project or intervention accounting methods, which quantify system-wide GHG impacts relative to a counterfactual baseline scenario or performance benchmark that represent the conditions most likely to occur in the absence of the mitigation project that generates the credit.</p>	<p>Adapted from the VCMI<sup>80</sup> and GHG Protocol<sup>81</sup></p>
<p>Claim</p>	<p>A message used to describe or promote a product, process, business, or service with respect to its sustainability attributes or credentials.</p>	<p>ISEAL<sup>82</sup></p>
<p>Climate mitigation compensation claim</p>	<p>A claim that a company which has a validated SBTi target and which is also investing in BVCM might make that:</p> <ul style="list-style-type: none"> <li>• Conveys to audiences that it delivered BVCM proportional to a stated percentage of unabated value chain emissions;</li> <li>• Seeks to convey that the BVCM outcomes are counterbalancing those unabated value chain emissions;</li> <li>• Is based on the application of the ton-for-ton method to determine the nature and scale of the commitment to BVCM.</li> </ul>	<p>Definition proposed by the SBTi as part of this consultation</p> <p>As discussed in this document, there is some debate as to whether these sorts of claims (which imply counterbalancing) can be considered credible given "a good does not counterbalance a bad".</p>

Climate mitigation contribution claim	<p>A claim that a company which has a validated SBTi target and which is also investing in BVCM might make that:</p> <ul style="list-style-type: none"> <li>• Represents support or finance to actions beyond the company's value chain (including collective action) with an expected climate mitigation outcome (where the actions are relevant to the expected performance outcome);</li> <li>• Does not imply that the BVCM outcomes are netting out or counterbalancing the claimants' remaining value chain emissions, but instead are communicated as a contribution to global climate mitigation efforts or even the efforts of a country;</li> <li>• Is not defined by any particular method for determining the nature and scale of the commitment to BVCM.</li> </ul>	Definition proposed by the SBTi as part of this consultation
Double claiming	<p>Double claiming occurs where multiple parties claim the right to a single emission reduction, removal, or mitigation outcome.</p> <p>The double claiming of emissions reductions and removals between a company's GHG inventory and the national inventory where that mitigation outcome occurred is inherent.</p>	Adapted from the GHG Protocol <sup>83</sup>
Fungibility	<p>Being of such a nature that one part or quantity may be replaced by another equal part or quantity in the satisfaction of an obligation.</p> <p>This term is typically used to refer to the property of a REDD+ credit being freely exchangeable/substitutable with other types of carbon credits.</p>	UN-REDD Programme <sup>84</sup>
Leakage	<p>When a carbon crediting project or program displaces emission-creating activities outside the project or program boundary rather than halting them in actual terms.</p>	VCMi <sup>85</sup>

Mitigation	A human intervention to reduce emissions or enhance the sinks of greenhouse gases.	IPCC <sup>86</sup>
Money-for-money method	<p>This is a method for determining the nature and scale of a company's commitment to beyond value chain.</p> <p>In addition to delivering on its science-based target (covering value chain emissions), a company would allocate a share of revenue or profit towards financing climate mitigation beyond the value chain. The volume of finance deployed towards BVCM would be determined by the chosen denominator (e.g., profit or revenue) and the chosen percentage.</p>	Definition proposed by the SBTi as part of this consultation
Money-for-ton method	<p>This is a method for determining the nature and scale of a company's commitment to beyond value chain.</p> <p>In addition to delivering on its science-based target (covering value chain emissions), a company would channel finance into BVCM based on predefined price of unabated greenhouse gases emitted by that company in defined period (e.g., in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the chosen cost of carbon (e.g., a social cost of carbon or otherwise) and the unabated emissions in that defined period.</p>	Definition proposed by the SBTi as part of this consultation
Neutralization of residual emissions	Measures that companies take to eliminate the climate impact of residual GHG emissions which are released into the atmosphere at and after the SBTi-aligned net-zero target date through permanent removal and storage of carbon from the atmosphere. Carbon removals can be implemented within or beyond the value chain for the purpose of neutralization of residual emissions.	Adapted from the SBTi Corporate Net-Zero Standard V1.1, 2023 <sup>87</sup>
Offsetting	Actions that a company takes to deliver mitigation outside of its value chain as a substitute for rapid abatement of value	Definition proposed by the SBTi as part of this consultation, in alignment with VCMI's definition

	chain emissions in line with a 1.5°C pathway. Typically, companies offset emissions on a ton-for-ton basis (i.e., for every unabated tCO <sub>2</sub> e within their value chain, they finance 1 tCO <sub>2</sub> e of mitigation beyond the value chain). Companies cannot achieve their science-based targets through offsetting.	in its Provisional Claims Code of Practice which states that an offset is the use of a carbon credit as a substitute for within value chain emissions abatement and counted as reductions toward an emissions reductions target. <sup>88</sup>
Permanence	Permanence is the longevity of a carbon pool and the stability of its stocks, given the management and disturbance environment in which it occurs.	IPCC <sup>89</sup>  The SBTi is working to define the definition of permanence in the neutralization criteria within the Corporate Net-Zero Standard.
REDD and REDD+	Countries established the 'REDD+' framework to protect forests as part of the Paris Agreement. 'REDD' stands for Reducing Emissions from Deforestation and forest Degradation in developing countries. The '+' stands for additional forest-related activities that protect the climate, namely sustainable management of forests and the conservation and enhancement of forest carbon stocks. Under the framework with these REDD+ activities, developing countries can receive results-based payments for emission reductions when they reduce deforestation.	UNFCCC <sup>90</sup>
Remaining (or unabated) emissions	Emissions that remain in a given year as a company progresses towards the delivery of its near- and long-term science-based target.	Definition proposed by the SBTi as part of this consultation
Removals	The transfer of a greenhouse gas from the atmosphere to storage within a pool. Removals can be stored in land-based, product or geologic carbon pools.	Adapted from the GHG Protocol <sup>91</sup>
Residual emissions (link to neutralization)	Residual emissions represent the emissions that cannot be completely eliminated or reduced to zero despite implementing all available mitigation measures contemplated in pathways that limit warming to 1.5°C with no or limited overshoot.  In the context of science-based targets, residual emissions refer to the companies scope 1–3 emissions that remain once its	Adapted from the SBTi Corporate Net-Zero Standard V1.1, 2023 <sup>92</sup>

	long-term emissions reduction target has been achieved.	
Social cost of carbon	The social cost of carbon (SCC) is an estimate, in a unit of currency, of the economic damages that would result from emitting one additional ton of carbon dioxide into the atmosphere. The SCC puts the effects of climate change into economic terms to help policymakers and other decision makers understand the economic impacts of decisions that would increase or decrease emissions.	Resources for the Future <sup>93</sup>
Ton-for-ton method	<p>This is a method for determining the nature and scale of a company’s commitment to beyond value chain.</p> <p>In addition to delivering on its science-based target (covering value chain emissions), a company would deliver mitigation beyond its value chain proportional to the climate impact of some percentage of the greenhouse gases emitted by that company in a defined period (e.g., in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the price that a company pays per tCO<sub>2</sub>e of BVCM (in the case of carbon credits, this would be determined by market prices) and the percentage of unabated emissions that are being “matched” with BVCM in that defined period.</p>	Definition proposed by the SBTi as part of this consultation
Vintage	The year in which the carbon emission reduction or removal associated with a carbon credit took place. Because the verification process can take two to three years from project/program inception, projects/programs may generate credits for already-reduced emissions.	VCMI <sup>94</sup>
Voluntary carbon market	A marketplace that encompasses all transactions of carbon credits that are not purchased with the intention to surrender into an active regulated carbon market. It includes carbon credits purchased with the intent to resell or retire to meet certain environmental claims.	VCMI <sup>95</sup>



## 8.3 Terminology: Consultation questions

*Public consultation question box 6: consultation questions on terminology*

60. Do you have any suggested edits to the above definitions or sources? Are there any authoritative sources that provide conflicting or misaligned definitions for these terms? Please clearly state the term to which you are referring. (open text)

61. Are there other key terms related to BVCM that you think the SBTi should seek to define and standardize? (open text)

## CONSULTATION TOPIC 9: ILLUSTRATIVE CASE STUDIES

### 9.1 Illustrative case studies: Discussion

The SBTi intends to bring the BVCM guidance to life through a set of illustrative case studies, showing how companies would apply the guidance in practice.

### 9.2 Illustrative case studies: Proposal

The four steps for BVCM are outlined in the section on consultation topic 2, and include:

1. Set and submit net-zero targets in line with the SBTi Corporate Net-Zero Standard and develop and disclose an associated climate transition plan
2. Determine the nature and scale of the commitment to BVCM
3. Deploy resources and finances to BVCM
4. Disclose and transparently report on BVCM and associated claims.

We have provided three illustrative case studies below to show how companies from different sectors with differing responsibility, incentives and ability to pay might approach their BVCM strategies. These case studies will be updated following the consultation process, but they serve to bring to life our proposals through three fictional companies.

*Case study box 1: Illustrative case study of a food and agriculture company's BVCM strategy*

#### **STEP 1: Set and submit net-zero targets in line with the SBTi Corporate Net-Zero Standard and develop and disclose an associated climate transition plan**

Umbrella Corporation is an international food and beverage company headquartered in Houston, United States. Umbrella Corporation has a 2022 GHG footprint of 1.5 million tCO<sub>2</sub>e of scope 1 and 2 emissions and 15 million tCO<sub>2</sub>e of scope 3 emissions. Umbrella Corporation has net-zero and near term SBTs validated with a base year of 2022, including their land sector emissions. Additionally and in compliance with SBTi criteria, Umbrella Corporation has a zero deforestation commitment with a baseline year 2020 and target year of 2025 and, as recommended by the SBTi, a zero conversion commitment with a 2025 target year. Umbrella Corporation is currently on track to meet its near and long-term SBTs.

#### **STEP 2: Determine the nature and scale of the commitment to BVCM**

Umbrella Corporation's 2022 inventory across scopes 1–3 was 16.5 million tCO<sub>2</sub>e, and the company had profits in the same year of USD 8 billion. Its profits per tCO<sub>2</sub>e of scope 1–3 emissions were therefore USD 485.

The company has identified climate-related financial risk which is likely to undermine the long-term success of the business – for example, the company sources agricultural commodities from water scarce areas across the tropical belt and is already seeing impacts from climate change and deforestation take hold. Shifting temperature extremes and precipitation rates are affecting water availability and are reducing productivity/yields of one of their signature commodities. Additionally, there are labor shortages as malaria rates increase and field hours are reduced due to heat exposure. The main drivers of deforestation and forest degradation in the region are expanding agricultural footprint for international and domestic consumption and fuelwood collection.

Similarly, the company recognizes that there is untapped business opportunity linked to shifting consumer behavior in support of sustainability outcomes.

The company has a validated SBTi target and is therefore investing in regenerative agricultural practices throughout its supply chain and has achieved zero deforestation. Carbon credits are the preferred mechanism for this company's investment to support attributional claims, based on company policy. But they have concerns about integrity given some of the recent attacks in the media. The company has identified opportunities to further enhance brand value and build resilience in the landscapes surrounding its supply chain for their signature commodity, by addressing regional broader drivers of deforestation. They would also like to address the broader impacts of climate change, beyond their sourcing region, with some of their investment and a global company.

The company chooses to follow the **ton-for-ton method** in determining the size and nature of its commitment to BVCM. The Chief Sustainability Officer and her team have conducted thorough market research and recognize the importance of purchasing high-quality, verified carbon credits and they therefore budget an average price of carbon credits of USD 20/tCO<sub>2</sub>e. Given the relatively lower profit margins in the food and beverage sector, the company chooses to start by delivering verified mitigation outcomes beyond the value chain proportional to 50% of its remaining 2022 scope 1, 2 and 3 footprint. This would lead to annual costs of USD 165 million or 2% of profit.

### STEP 3: Deploy resources and finances to BVCM

Based on the company's objectives and using the SBTi's principles for deploying resources and finance to BVCM, Umbrella Corporation delivered 8.25 million tCO<sub>2</sub>e of verified BVCM, representing 50% of its 2022 scope 1, 2 and 3 footprint, across following activities:

- 4 million tCO<sub>2</sub>e of emissions reductions from jurisdictional REDD+ within the region of their signature commodity – the activities within this jurisdictional program include securing land tenure for
- Indigenous peoples to slow land speculation, region-wide certification for the signature commodity, restoration of riparian zones and expanded silvopasture practices across grazing lands, etc.
- 1.25 million tCO<sub>2</sub>e of emissions reductions linked to clean cookstove projects within the region of their signature commodity to reduce impacts from fuelwood.
- 3 million tCO<sub>2</sub>e of verified removals from Direct Air Capture and Carbon Storage.

### STEP 4: Disclose and transparently report on BVCM and associated claims

As a high performer on their in-supply chain targets, the company is excited that there are opportunities to address the larger impacts of climate change adjacent to and beyond their supply chain. The company reports these investments transparently in their annual submission to CDP and within their corporate social responsibility (CSR) report. Additionally, they develop a marketing campaign showing how they are contributing to the climate problem within and beyond their operations, including special interest stories from the programs they are supporting. Given their performance on their SBTi target and the fact that they are delivering verified mitigation outcomes beyond the value chain proportional to 50% of their remaining emissions, they communicate to their customers that they are aligned with VCMI Silver status.

*Case study box 2: Illustrative case study of a technology hardware company's BVCM strategy*

**STEP 1: Set and submit net-zero targets in line with the SBTi Corporate Net-Zero Standard and develop and disclose an associated climate transition plan**

Rede Camp is a technology company headquartered in Campinas, Brazil. It's 2022 GHG footprint was 3 million tCO<sub>2</sub>e of scope 1 and 2 emissions and 25 million tCO<sub>2</sub>e of scope 3 emissions. Rede Camp has net-zero and near term SBTs validated with a base year of 2022. Rede Camp is currently on track to meet its near- and long-term SBTs.

**STEP 2: Determine the nature and scale of the commitment to BVCM**

Rede Camp's 2022 inventory across scopes 1–3 was 28 million tCO<sub>2</sub>e, and the company had profits in the same year of USD 20 billion. Its profits per tCO<sub>2</sub>e of scopes 1–3 emissions were therefore USD 715.

This highly profitable tech company recognizes commercial interest in demonstrating to consumers and regulators that their privileged economic position is balanced by tangible social responsibility. Additionally, they know that employee retention partially hinges on their ability to demonstrate their global corporate responsibility in real and meaningful ways, especially to employees under the age of 30. The company is known as an industry leader in technology innovation and sees an opportunity to enhance that brand identity by focusing their investment on the next generation of climate technology solutions.

The company has decided to go beyond its SBTi net-zero target to also invest in BVCM, and it has chosen to follow the **money-for-ton method** in determining the size and nature of its commitment to BVCM. The sustainability manager of the tech company conducted research on carbon price options and identified the average carbon price being adopted across sectors as USD 25/tCO<sub>2</sub>e. However, she notes that the Report of the High-Level Commission on Carbon Prices recommends higher prices: at least USD 40–80/tCO<sub>2</sub>e by 2020 and USD 50–100/tCO<sub>2</sub>e by 2030. Other estimates of the social cost of carbon are much higher.

The sustainability manager presents options of different carbon prices to the C-Suite and it is decided that given the company has a greater ability to pay compared to other sectors and the existential threat of climate change, the company will adopt a carbon price of USD 100/tCO<sub>2</sub>e. Applying a carbon price of USD 100/tCO<sub>2</sub>e to the full scope 1–3 footprint would therefore cost Rede Camp USD 280 million or 1.4% of profit per year.

**STEP 3: Deploy resources and finances to BVCM**

Based on the company's objectives and the SBTi's principles for deploying resources and finance to BVCM, Rede Camp deployed USD 280 million to the following activities:

- USD 200 million into catalyst programs supporting the scale up of emerging climate technologies including methane destruction, long duration energy storage and clean hydrogen.
- USD 80 million in support of multi-stakeholder platforms in landscapes adjacent to its supply chain (mining sites for example) to promote constituency building, spatial mapping and strategic planning. This investment also aligns with the company's SBTN Land target 3.

**STEP 4: Disclose and transparently report on BVCM and associated claims**

The company reports these investments transparently in their annual submission to CDP and within their CSR report. Additionally, they launch a marketing campaign highlighting the breakthroughs their investments are contributing to with a focus on the teams advancing the technology.

*Case study box 3: Illustrative case study of a telecommunications company's BVCM strategy*

**STEP 1: Set and submit net-zero targets in line with the SBTi Corporate Net-Zero Standard and develop and disclose an associated climate transition plan**

Pikatto is an international telecommunications company headquartered in Tokyo, Japan. Pikatto has a 2022 GHG footprint of 2 million tCO<sub>2</sub>e of scope 1 and 2 emissions and 10 million tCO<sub>2</sub>e of scope 3 emissions. Pikatto has net-zero and near term SBTs validated with a base year of 2022. Pikatto is currently on track to meet its near and long-term SBTs.

**STEP 2: Determine the nature and scale of the commitment to BVCM**

Pikatto's 2022 inventory across scopes 1-3 was 12 million tCO<sub>2</sub>e, and the company had profits in the same year of USD 3 billion. Its profits per tCO<sub>2</sub>e of scope 1-3 emissions were therefore USD 250.

The company is seeking market differentiation in a relatively volatile sector and so chooses to follow the **money-for-money method** for determining the nature and scale of its commitment to BVCM – it feels that investing a % of its profit each year into BVCM (over and above its investment needs to deliver on its science-based targets) provides a clear and easy to understand climate claim and, given the company's profit can vary across years, it allows for improved financial management. Additionally, the company brand identity focuses on connection and networking has an internal ethos about learning from nature – particularly through complex natural networks – and wants to include some investment on preserving nature's intact networks.

The sustainability and finance teams recommend to the CEO that 1.5% of annual profits are invested into BVCM this would be considered high ambition for their sector. Based on the 2022 profit, this amounts to USD 45 million per year to be invested by the company to tackle climate change beyond its value chain.

**STEP 3: Deploy resources and finances to BVCM**

Based on the company's objectives and SBTi's principles for deploying resources and finance to BVCM, Pikatto deployed USD 45 million to the following activities:

- USD 15 million towards verified renewable energy generating credits in lower income countries
- USD 15 million towards verified ART TREES High Forest cover, Low Deforestation (HFLD) jurisdictional credits to protect intact forests
- USD 15 million towards energy efficiency solutions

**STEP 4: Disclose and transparently report on BVCM and associated claims**

Pikatto reports these investments transparently in their annual submission to CDP and within their CSR report. Pikatto launches a marketing campaign focused on contributing "1.5% of profits for a 1.5 degree world".



## 9.3 Illustrative case studies: Consultation questions

*Public consultation question box 9: consultation questions on illustrative case studies*

62. In your opinion, how helpful are the illustrative case studies in bringing to life how the SBTi's recommendations on BVCM would be applied in practice?

- a) Very helpful
- b) Somewhat helpful
- c) Not so helpful
- d) Not at all helpful

63. If you have feedback on these illustrative case studies, please provide suggestions on how they could be improved. For example, do you recommend we provide case studies for other sectors and are there any sectors for which the guidance might differ substantially, e.g., potentially financial institutions? (open text)

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