Carbon Market Watch response to the UN High-level expert group on net zero

Introduction

Carbon Market Watch welcomes the opportunity to input to the HLEG's call for public submissions on net-zero commitments of non-State entities.

There is currently a proliferation of net-zero claims, as well as other similarly vague claims such as carbon neutral, carbon negative, climate positive, climate neutral, net carbon zero, and so on. Neither policymakers nor shareholders, let alone the general public, are well equipped to understand these announcements and distinguish real action from greenwashing. The HLEG's work is therefore highly welcome.

Together with the NewClimate Institute, we published in February 2022 an assessment of 25 of the world's largest companies that have announced some form of net-zero pledge. Our conclusion was that 24/25 of these announcements were backed by insufficient actions and unclear plans, and amounted to an overall commitment of reducing absolute emissions by only 40% in the target year (despite the claim that "net-zero" would be reached in that year). Beyond the problematic excessive reliance on carbon offsets, a major source of concern was that these targets were actually only covering a small share of a company's total emissions. Many companies excluded their scope 3 indirect emissions from their targets (in one case, this led to over 95% of the company's total emissions being excluded from its net-zero announcement). In addition, the scope of numerous targets is unclear, and reporting can be inconsistent between what companies tell the public, and what they report in a standardised way, for example to CDP (Carbon Disclosure Programme).

We invite the HLEG to consult our report, and draw inspiration from the detailed methodology used to assess the quality of corporate net-zero targets, as part of their work.

Report: https://carbonmarketwatch.org/publications/ccrm_2022/

Methodology:
https://newclimate.org/sites/default/files/2022/02/NewClimate_CCRM2022_Methodoloy.pdf

The concept of "net-zero" climate impact might not be the right objective at corporate level. While it is well adapted to measure progress at global and national level, there are several challenges to be overcome when it is applied at sub-national level. In fact, some have argued that net-zero should not apply to the corporate level, e.g. the French Environment Agency (https://librairie.ademe.fr/changement-climatique-et-energie/4524-avis-de-l-ademe-la-neutralite-carbone.html).

In that context, it is important to consider that alternatives to "net-zero" targets do exist. While the work of the HLEG to provide guardrails for net-zero targets is helpful, it would be incomplete

without an acknowledgement that other ways are available and offer substantial advantages compared to "net-zero" targets. One such alternative model is based on the idea that non-State actors should both take responsibility for their own emissions by reducing them as much as possible, and contribute climate finance to support the global transition towards net-zero. But without arithmetically balancing out remaining emissions with any reductions financed outside of their value chain. We have published a briefing outlining the need for a new model for carbon markets here:
https://carbonmarketwatch.org/publications/above-and-beyond-carbon-offsetting-alternatives-to-compensation-for-climate-action-and-sustainable-development/
One proposed framework to deliver on this model was published by BCG and WWF:
https://wwfint.awsassets.panda.org/downloads/beyond_science_based_targets___a_blueprint_for_corporate_action_on_climate_and_nature.pdf.

Below, we address the four key focus areas of the HLEG, as specified in its Terms of Reference.

1. Current standards and definitions for setting net zero targets by non-State actors and, if necessary, on additional elements to enhance these to achieve the highest possible integrity of standards for net zero targets

Multiple standards exist that seek to address this issue. Rather than summarising them here, we will focus on what elements are the most crucial when setting a net-zero target at corporate level. Some of these are not reflected in any of the standards that we are aware of.

First, it is of the utmost importance that any net-zero target communicated publicly covers the full-scope emissions of the non-State entity. This means including scopes 1, 2 and 3 as defined under the GHG Protocol. Excluding any of these scopes, typically scope 3, leads to a massive reduction in the footprint associated with the entity, and hence completely distorts the image of that company's impact on the climate. Setting targets is about taking responsibility for one's impact, and aiming to reduce it. It is counterproductive to do this while at the same time ignoring a major segment of that impact, as it distorts reality and gives an impression that consumption of goods or services offered by that entity has a much lower impact than it really does.

Following on from that, non-State entities (and States as well) should ensure that the emissions level they report are consistent across the different documents and initiatives through which they provide this data. For example, there should be no discrepancy between the emissions reported by a company to CDP, and the emissions it reports in its environmental reports. Emissions reporting should also be consistent across time. Where there are methodological changes to the calculation of emissions, both the new method and the old method should be applied in the year in which the method is changed (as well as other years ideally), in order to show how this change will affect emissions calculations.

Furthermore, a net-zero target should be further disaggregated into sub-level targets, including at least:

-a target for absolute internal reductions of GHGs (which should be the priority focus for any credible net-zero target)
-a target for removals
-a target for offsets where relevant (noting that companies should ideally not make such compensation claims)
-a target for climate finance support that is not linked to any compensation claims

This is an important dimension of transparency in order to be able to distinguish between numerous "net-zero" targets that might appear equivalent but have very different underlying commitments with respect to absolute reductions, reliance on removals, etc.

Where the target does rely on removals, whether through removal credits or within the entity's value-chain, these should be properly defined and accounted for. Removals must be accounted for in a way that takes into account any emissions generated with the capturing process, e.g. from energy use for a direct air capture plant. The carbon captured must be stored permanently. More detailed guidance on accounting GHG removals can be found in our guide here: https://carbonmarketwatch.org/publications/respecting-the-laws-of-physics-principles-for-carbon-dioxide-removal-accounting/.

In addition, emission reduction targets should be communicated in absolute terms and against a clear and representative reference year in which historical data is available. If a company sets an intensity-based target, it should clearly translate it to absolute emission levels compared to the reference year. Targets that imply an absolute increase in emissions should not be communicated as "net-zero"-compatible in any way.

Net-zero targets should also include specific objectives for the generation and use of renewable energy. In setting this target, a comparison of market-based and location-based accounting for renewable energy should be carried out, and the most conservative of the two metrics should be used.

Another useful, and necessary, element, is to require entities to communicate and frequently update interim targets. This allows observers to assess whether a) these interim targets are consistent with reaching the final net-zero target and b) whether the entity is delivering sufficient efforts to meet the interim targets and by extension to be on track to meet its longer-term net-zero target.

Companies, in particular those with ample financial resources, should commit to providing climate finance contributions that go beyond the pure "compensation" of their own emissions, and some differentiation to reflect companies' capacity could be relevant. However, given the "absolute" nature of net-zero targets, there should be no differentiation in the basic requirements that all companies must fulfil in order to make a credible claim. "Net zero" implies not net impact on the climate. This is regardless of whether a company is an SME or a large conglomerate, or whether it is based in the global north or global south. While these parameters could certainly warrant some flexibility with respect to other claims and expected levels of ambition and action, it should be ensured that “net zero” will be associated with no net negative impact on the climate.

2. Credibility criteria used to assess the stated objectives, measurement and reporting of net zero pledges by non-State actors

An assessment of the integrity of a net-zero target should include an assessment of its performance against the elements mentionned above. Criteria used should hence include the share of total (scopes 1-3) emissions covered by the target; whether it implies an ambitious absolute emission reduction trajectory; whether it transparently distinguishes between internal reductions, offsets and removals objectives; and whether it includes a specific target for the generation and use of renewable energy.

In addition to assessing the net-zero target per se, the assessment criteria should extend to an evaluation of the entities’ activities and their compatibility with reaching the objectives of the Paris Agreement. This criterion is directly linked to the need for the target to cover the full scope of an entity’s emissions, as well as the need for it to imply an ambitious absolute emission reduction pathway. Indeed, no company should be able to claim to have reached “net zero” if its activities are fundamentally incompatible with the Paris Agreement’s objective, e.g. an entity that derives its revenues from oil and gas activities including exploration, extraction, transport, sale, etc.

Finally, assessing the credibility of a net-zero target should include an assessment of an entity’s activities to influence policymaking and regulations. Many entities today, in particular private companies, engage in lobbying (directly or indirectly through their industry associations) against climate regulation while at the same time making announcements and advertising their voluntary actions. This is inconsistent, misleading, and ultimately harms climate action. It demonstrates that these companies are only willing to take a limited amount of action, and do not foresee delivering the necessary emission reductions through their voluntary commitments.

Assessing the integrity of net-zero targets should hence include criteria regarding the entity’s membership of industry associations, as well as financial support for certain groups or policmakers that advocate against climate action.

3. Processes for the international community to verify and account in a transparent manner non-State actors’ progress towards meeting their net-zero commitments and the fulfilment of their reported decarbonization plans, including any reliance on carbon dioxide removal and offsets. These processes for reporting will also consider to the extent possible methodologies to assess the aggregate impact and comparability of non-State actor efforts including to potentially serve as an input into the United Nations

<u>Framework Convention on Climate Change's stocktake of international climate efforts in 2023 and beyond</u>

In order to enable proper verification of progress, a comprehensive system of reporting would be very beneficial. Current efforts, from SBTI and CDP among others, constitute a useful first step, but the UN, through the HLEG, might play a facilitative role in centralizing non-State actors' targets and reporting information in a standardised way that allows easy comparison.

The selection of information to be reported should be based on the elements that net-zero targets must cover, as described in section 1 above. For example, there should be transparent and comparable information about the share of the entity's total emissions that is covered under the target, as well as the total absolute and relative (i.e. as a percentage of baseline emissions, but not net of offsets) quantity of GHGs that is to be reduced in the target year in order to meet the target. Further information on any reliance on carbon credits and/or removals should also be included.

In addition, full transparency over the entities' lobbying activities should also be required. This should include a requirement for entities to disclose their full membership of industry associations, the financial support they provide to groups and individuals who advocate on their behalf on the topic of climate action, and any related positions on climate and energy policymaking these initiatives have published. A "name and shame" process could be designed - or at least facilitated through the transparent provision of information - in order to call out entities that fail on this front. For example, this could be done by tracking companies' lobbying activities via the work of InfluenceMap: https://influencemap.org/.

<u>4. A roadmap to translate these standards and criteria into international and national level regulations, in the context of a just transition</u>

Regulation is highly needed and voluntary action should only be a transitory stage. Perhaps the most impactful action that truly ambitious companies can take is to invest heavily to push governments to regulate their sector. For a company that genuinely wants to reduce its emissions, it is also a self-serving effort, as it will guarantee that other companies in the sector will face the same constraints as it does.

The UN could play a role in promoting strict regulation of net-zero targets through its various international fora. This can include regulation on financial disclosure and obligations towards shareholders or citizens, as well as regulations around misleading advertisements and consumer protection.

Developing a global repository of harmonised information on non-State actor's targets and their progress towards those targets, in a manner that provides complete and comparable information, could significantly contribute to improving regulation and scrutiny of these targets.

Such a repository should also be open for the inclusion of assessments by third-parties, including civil society actors.