THE SCIENCE BASED TARGETS INITIATIVE'S SCOPE 3 REQUIREMENTS

Background

This discussion paper sets out WWF's perspective on the Science Based Targets initiative's (SBTi) revision of Scope 3 requirements, addressing the need for SBTi to simplify target setting, and give companies more ways to invest in emissions reductions in their value chains. In addition, we discuss the need to channel more corporate finance to the Global South and for conserving and restoring nature.

Summary

- Above all, WWF is clear that corporate climate action should primarily focus on in-value-chain emission reductions and transforming sectors and markets.
    - Mobilizing corporate investments in their own operations and within their own value chains is most impactful, because that is where companies have the greatest incentive to act and most influence to drive deep decarbonization and systemic market transformation across sectors and regions.
- Investments in in-value-chain emissions are also a proven and effective way to reduce risks, and channel substantial climate finance into value chains in the Global South and into broader nature action.
    - Rapid emission reductions from global value chains will significantly reduce climate risks to vulnerable communities and countries, and reduce adaptation and loss and damage needs.
    - Many of the in-value chain investments corporates make to deliver their targets flow to the Global South via multi-national company supply chains.
    - SBTi's new FLAG (forest, land-use and agriculture) standard addresses direct drivers of nature loss and will accelerate investments in sustainable agriculture and nature conservation and restoration through company supply chains.
- While progressing towards net zero emissions, some companies are facing challenges setting and implementing Scope 3 science-based emissions reductions targets, often due to having complex supply chains, and limited ability to influence suppliers.

- The recent SBTi board announcement saying that it would allow companies to use Environmental Attribute Certificates (EACs), including carbon credits to meet their targets, without following its own standard operating procedures, has impacted the credibility of the SBTi. This risks undermining the important role that the SBTi is playing in reducing corporate emissions and financing a decarbonized global economy.

- The SBTi must be science-based, follow good governance and be solutions-oriented to remain a credible standard for corporate climate action across all sectors and regions.

- To address the challenges companies are facing, SBTi should consider an array of options that improve the feasibility and effectiveness of emission reductions, including modifying target setting methods, focusing on the most material and highest impact emissions categories, considering a wider range of metrics, refining sector pathways, improving overall operational excellence, and the targeted use of market mechanisms.

- WWF supports the targeted use of some market mechanisms, such as EACs and carbon credits *within* company value chains, as long as the SBTi includes appropriate safeguards to ensure impact and transparent claims and reporting. For example:

    - Energy attribute certificates for electricity, such as renewable energy credits; other 'energy carrier certificates' for green hydrogen, green gas or sustainable aviation fuel; 'certified commodities' conveying a specific emission factor, such as green steel; and insets - market mechanisms, including carbon credits and certified commodities, issued for activities inside a company's value chain.

- This will provide companies facing Scope 3 challenges more options to meet their targets, while continuing to drive market transformation of their value chains.

- WWF does not support the use of offsets - carbon credits from *outside* company value chains used to counterbalance value chain emissions - to meet company climate targets (except for residual emissions), because they would redirect efforts away from the investments and innovations needed for driving systemic change and deep decarbonization in companies' value chains. WWF also opposes their use in justifying climate neutrality or net zero claims when companies are off track or miss their targets.

- However, to drive additional finance to the Global South and nature, WWF believes it would be helpful to grow a high quality and credible voluntary carbon market for companies to make additional investments beyond their value chain and to neutralize any residual emissions (those remaining emissions within a company's value chain that are hardest to abate given existing technologies). WWF supports companies to invest in neutralizing residual emissions today through greenhouse gas removals as long as it doesn't substitute action on in-value-chain emission reductions.

- For investments beyond their value chains, WWF encourages companies to fund different types of mitigation projects, including nature-based solutions, identify the adequate finance vehicle for each of them, and not solely rely on carbon credits as a funding vehicle.

- In lieu of developed countries delivering the needed public climate finance to developing countries, some have argued that corporations should deliver the needed funding through

offsets. WWF fully recognizes that companies have a role to play, but their priority must be investments in their value chain, because this is a more effective way to mobilize corporate climate finance and tackle the climate crisis.

- Voluntary corporate climate action is an indispensable element of building a net zero future. But to succeed, it needs to be complemented by government regulation and finance. Voluntary programs should not be overburdened.

Background and context

To avert the most catastrophic effects of climate change on people and nature, governments have made bold climate and nature commitments that require regulation, finance and voluntary corporate action. Voluntary corporate climate action was never intended to substitute for government regulation, yet governments are increasingly shifting responsibility for action to voluntary programs, and in some cases overburdening their mission. Tackling climate change will require regulation, finance and voluntary corporate action regardless of national context. Done well, their integration can reinforce a “race to the top”.

Be it mandatory or voluntary, corporate climate action should be based on the best available science and facilitate action in differing national and jurisdictional circumstances. Voluntary programs need to steer companies to credible transition pathways while allowing a certain degree of adaptability to accommodate national and jurisdictional differences**.**

Corporate climate leaders are most effective when they simultaneously drive greenhouse gas emission reductions in their own operations and influence systemic market transformation in the sectors and regions where they operate. They can be even more effective when advocating for policies and enabling conditions needed to meet the first two goals, which are likely to be impossible to achieve otherwise.

The Science Based Targets initiative

WWF is a founding partner of the SBTi, a global body established in 2015 that enables companies and financial institutions to set ambitious emissions reductions targets in line with the latest climate science. SBTi was established through a collaboration between Carbon Disclosure Project (CDP), the United Nations Global Compact, World Resources Institute (WRI) and WWF. It is now an independent body. WWF remains closely engaged with SBTi and its partners, helping shape guidance and target setting.

The SBTi mission focuses on incentivizing the private sector to reduce its footprint through robust target setting, implementation and accountability, and systematic transformation of the markets they operate in by influencing and supporting suppliers and customers to reduce emissions. Translating science-based transition pathways into requirements for how much and how fast companies need to cut their emissions – and what counts toward this target – has been essential for the SBTi’s credibility and success to date.

To achieve its mission, SBTi's original theory of change prioritizes mobilizing "a critical mass" of the largest companies in all critical sectors across the global economy to set targets and create a tipping point causing the remaining companies in those sectors to follow.

Over the years, SBTi has become the gold standard for companies to set scientifically grounded climate goals, standardizing the previous ad hoc system where companies decided for themselves. Since its inception, over 8,000 companies and financial actors, equivalent to about one-third of the global market value, have committed to setting climate goals according to the SBTi.

Scope 3 emissions

Addressing Scope 3 emissions is critical, as they represent 75% of a company's greenhouse gas inventory on average[1], and companies have a unique ability to influence the emissions generated in their supply chain and in the products their customers use.

INFO BOX: What are Scope 3 emissions?

The Green House Gas Protocol Corporate Standard[2] classifies a company's greenhouse gas (GHG) emissions into three 'Scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy, including electricity. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

SBTi has always tried to balance ambition with practicality by recognizing that one-size target setting does not fit all and allows companies to set different types of targets according to their size, sector, and place in the supply chain. For example, small- and medium-sized enterprises (SMEs) are not required to set Scope 3 targets[3].

Currently, Scope 3 criteria require companies with a substantial Scope 3 footprint (40% of emissions) to set targets for their value chain emissions. As Scope 3 is more difficult to address than Scopes 1-2, the SBTi currently provides some flexibility for near-term Scope 3 targets. Recognizing the importance of reaching net-zero by 2050, the SBTi requires company long-term targets to cover and reduce at least 90% of emissions across all scopes, at a 1.5ºC ambition level, except for forest, land and agriculture where it is 72%[4].

The challenges in meeting Scope 3 targets

Although many companies are making progress toward or meeting their near-term Scope 3 targets with the help of these flexibilities, many also are struggling.[5] Survey data shows that these companies are finding it challenging to influence suppliers, afford the costs of decarbonizing and lack the ability to track progress toward their target due to insufficient primary data.[6]

Some sectors with complex value chains, such as retail, face challenges tracing their emissions through their value chain or have limited influence deep into their supply chains. Other sectors, such as aviation and steel, have fewer cost-effective options for reducing emissions directly. Across

[1] CDP (2023) CDP technical note: Relevance of Scope 3 categories by sector
[2] GHGP (2015) Corporate standard
[3] SBTI (webpage) Set a target as a small to medium sized enterprise (SME)
[4] SBTI (2024) SBTi corporate net-zero standard criteria
[5] SBTi (2023) The Scope 3 challenge survey results
[6] SBTI (2023) Catalyzing value chain decarbonisation: Corporate survey results

sectors, many companies struggle to procure the renewable energy needed when producing in countries which lack the political will or capacity to transform the national energy mix. These challenges will increase as companies commit to long-term net-zero targets.

The SBTi is revising Scope 3 requirements

Recognizing these Scope 3 challenges, the SBTi published a schedule for updating the Scope 3 standard within its Corporate Net Zero Standard revision process. The SBTi is likely to consider a wide range of non-market and market options to address these challenges, including assessing the level of ambition required (how much), modifying target setting methods and the boundary of what can count toward scope 3, considering the role of market instruments in meeting targets (what counts). To gather input on the potential role of market instruments, late last year the SBTi sought public input through a public call for evidence. The results of the call for evidence and inputs from the SBTi's technical bodies are still pending, with at least some results scheduled for publication in July 2024.

However, on Tuesday 9 April, the SBTi's Board of Trustees made an announcement[7] regarding the use of market mechanisms to contribute to the abatement of Scope 3 emissions, including EACs and carbon credits. Without following the SBTi's standard operating procedure for standard revision, the announcement stated that "*SBTi has decided to extend their use [EACs and carbon credits] for the purpose of abatement of Scope 3 related emissions beyond the current limits.*"

The announcement prompted significant controversy and confusion, and has impacted the credibility of the SBTi. This risks undermining the important role that the SBTi is playing in reducing corporate emissions and financing a decarbonized global economy.

Aside from the break with standard operating procedures, some welcomed the decision, as an indication that SBTi was willing to consider more options for companies to invest in their value chains, however others raised concerns that it could also potentially allow for an increased use of offsets or lower ambition on Scope 3 overall.

After this announcement, SBTi clarified that no change has been made to the current standards. The SBTi process for updating the Scope 3 standard within the Corporate Net Zero Standard revision process is ongoing. With this paper, WWF intends to surface critical considerations.

WWF's perspective on the SBTi's mission

To maintain the SBTi as the credible standard for corporate climate action across all sectors and regions, the SBTi needs to be science-based, follow good governance and be solutions-oriented.

The SBTi has become the "go to" initiative for addressing many issues related to corporate climate action which is creating additional demands on SBTi beyond its original mission and theory of change. For example, stakeholders are increasingly expecting SBTi to define corporate ambition, codify transition planning, judge company progress toward their targets, and channel additional climate finance to nature and the Global South.

[7] SBTI (2024) Statement from the SBTi Board of Trustees on use of environmental attribute certificates, including but not limited to voluntary carbon markets, for abatement purposes limited to scope 3

As the SBTi considers its future strategy, it should not lose sight of its original mission: incentivizing emissions reduction and market transformation through robust public target setting and transparency.

WWF's perspective on updating Scope 3 emissions standard

Corporate climate action and investments should focus on their own operations and within their own value chains[8] because that is where companies have the greatest incentive[9] to act and most influence[10] to drive the investment needed for deep decarbonization and systemic market transformation across sectors and regions.

However, we acknowledge that setting and implementing science-based targets for Scope 3 is proving more complicated than anticipated for some companies.

WWF supports a revision of Scope 3 criteria and requirements that holistically addresses key challenges, enhances its feasibility, enables more action and increases its effectiveness, as long as SBTi follows its well-documented governance process and applies appropriate safeguards.

WWF supports the SBTi in considering all options to address the challenges companies face in setting and achieving their Scope 3 targets, including but not limited to:

1. Refining sectoral pathways to update sector-specific abatement potentials and residual emissions[11].
2. Harmonizing target boundaries to allow companies to focus on their most material and highest impact emissions categories.
3. Expanding existing target setting methods and metrics to include, for example, additional "action/engagement targets", such as new supplier engagement targets that can help with complex supply chains or allowing new "alignment targets" that could set targets for how much of a company's procurement and/or revenue is from climate/net-zero aligned sources or products, which could reward innovative products and suppliers.
4. Clarifying which market mechanisms may count toward meeting a target.
5. Improving its overall operational excellence and customer service to effectively assist companies with any requirements or process related questions and challenges.

Targeted use of market mechanisms can support greater feasibility for companies
The use of market mechanisms[12] (part of solution 4 above) has garnered the most debate after the publication of the SBTi Board statement.

[8] IPCC (2022) Sixth Assessment Report Working Group III, summary for policymakers, section c
[9] MIT (2020) Supply chain resilience in the era of climate change
[10] Review of International Political Economy (2005) The governance of global value chains
[11] IOP Science (2024) The size and composition of residual emissions in integrated assessment scenarios at net-zero CO2
[12] Market mechanisms include Environmental Attribute Certificates (EACs) and carbon credits. SBTi defines EACs 'as certificates used to quantify, verify and track the environmental benefits associated with climate mitigation activities or projects'. The April Board statement includes carbon credits and carbon offsets as EACs, although most organizations, including WWF, define them separately.

The SBTi has allowed, and WWF has always supported, companies to complement direct investments in emissions reduction with indirect investments via market mechanisms. Current provisions, for example, already allow for:

- The use of Renewable Energy Certificates (RECs) for electricity in Scope 2.
- The use of carbon offsets from removals for neutralizing residual emissions across all three scopes in the Net Zero Standard.
- The use of carbon credits in BVCM guidance.

In addition, WWF supports the targeted and evidence-based use of some market mechanisms, such as EACs and carbon credits *within* company value chains, as long as the SBTi includes appropriate safeguards to ensure impact and transparent claims and reporting (as described below). These could include:

- EACs for electricity (e.g. a renewable energy credit)
- Other energy carrier certificates (e.g., green hydrogen, green gas, Sustainable Aviation Fuel)
- Certified commodities conveying a specific emission factor (e.g. green steel).
- Insets (i.e. carbon credits issued for activities inside a company's value chain). These could be especially helpful in the land-use sector, where the lack of traceability hampers direct company interventions while challenges from land use and land use change require holistic approaches.[13]

This will provide companies facing Scope 3 challenges more options to meet their targets, while continuing to drive market transformation of their value chains.

Ensuring integrity, credibility, transparent reporting and social equity
As SBTi revises the Scope 3 requirements for market mechanisms, such as EACs and carbon credits, they should adopt guiding principles to ensure integrity and ambition, while applying appropriate guardrails.

The SBTi and EAC providers should draw on the available evidence (through the SBTi call for evidence and systematic review), expert feedback and piloting. In considering which EACs or other market instruments to allow, the SBTi should draw on the lessons from their historical use in Scopes 1 and 2.

First and foremost, the SBTi should set out clear principles to ensure that the instrument would serve a demonstrable need and clear purpose such as transforming difficult-to-reach parts of companies' complex value chains in markets where solutions are nascent, too expensive and not easily physically delivered to a company's facilities, suppliers and end users.

[13] Since the GHG Protocol's current provisions do not allow companies to account for insets within their emissions inventories (they are accounted for separately under intervention/project accounting rules), the wider use of insets to count toward targets will require changes in either or both GHGP and SBTi requirements. WWF recommends revisions include dual accounting and reporting as is done in Scope 2 now to maximize transparency.

Any principles should also be coupled with clear metrics of success for delivering system transformation and third-party research to assess performance and delivery of systems transformation through these instruments over time.

WWF recommends that the SBTi consider principles such as:

- **Environmental Integrity**: Base decisions on scientific evidence.
- **Process Integrity**: Ensure decision-making processes follow SOPs for robust governance.
- **Ambition**: Encourage ambitious corporate climate action and make it more feasible to set and meet these ambitious goals.
- **Establish guardrails** to ensure credibility, transparent reporting, social equity:
    - Demonstrate significant overlap of the sector, emissions source, activity (e.g. RECs for electricity; SAF for air travel, green gas for natural gas and green steel for steel) and geography (between the certified activity and the targeted in-value-chain emissions).
    - Require dual reporting of emissions on a location and market basis, as is currently done for Scope 2 emissions.
    - No negative emissions claims in energy.
    - Require separate reporting of emissions reductions and removals in the land sector.
    - Consider time limits, third-party reviews or phase-out clauses as market conditions change or principles or criteria no longer apply.

In enabling adoption of energy technologies, land interventions and other interventions to decarbonize value chains, we also recommend that SBTi establish criteria to guide case-by-case decisions.

Criteria for energy-related EACs

In assessing whether an energy related EAC should be approved for use, WWF recommends SBTi consider criteria could include:

- The scale of investment in that sector or fuel is still well below what is needed for society to stay within a 1.5 °C goal;
- AND the cost of the clean energy is uncompetitive with incumbent fossil fuels;
- OR the sustainable energy supply is too limited to meet demand or too distant geographically from the demand;
- OR the portion of the sustainable energy solution that the company is investing in cannot be easily disaggregated or clearly identified.

Carbon offsets are not an adequate instrument to ease the implementation of Scope 3
WWF does not support the use of offsets to meet company climate targets - carbon credits from *outside* company value chains used to counterbalance value chain emissions - except for removal credits used for neutralizing residual emissions, in long term targets.

The use of offsets from out-of-value chains to count against emissions reduction targets risks siphoning funding, focus and innovation away from in-value-chain reductions critical for market transformation, a foundational goal of the SBTi. Shortcutting the decarbonization of value chains through offsets would also be completely inadequate to address the real challenges companies face when trying to reduce the material risks associated with their value chain emissions. Furthermore, the carbon budget to limit warming to 1.5ºC is severely limited, so we should not substitute one emission reduction for another - we need both.

WWF also opposes the use of offsets in justifying climate neutrality or net-zero claims when companies are not on track or don't achieve their targets.

INFO BOX: What is the difference between a carbon credit and a carbon offset?

Carbon credits are not synonymous with carbon offsets. Carbon credits are verified and tradable certificates, which represent one ton of CO2e reduction, avoidance, or removal. They are traded in several areas, including some compliance markets, the nascent international aviation offsets trading system and the voluntary carbon market.

When a credit is issued for activities outside a company's value chain and used to counterbalance value chain emissions, we call that an "offset".

When a credit is issued for activities inside a company's value chain, we call that an "inset", a term not yet unambiguously defined in the market.

WWF's perspective on climate finance and voluntary carbon markets

Significant finance is needed to address global environmental challenges, including climate change, biodiversity loss, land degradation and desertification, and pollution.

To limit global warming to 1.5ºC, the IPCC finds that climate mitigation finance (US$640 billion in 2020) will need to increase by 3 to 6 times globally by 2030, 4 to 7 times in developing countries, and even more in underfunded sectors like agriculture or forestry (10 to 30 times).[14]

This finance is needed to decarbonize and transform key sectors (e.g. energy, industry, transport, buildings, and land use), deploy nature-based solutions and carbon dioxide removal technologies, and support decarbonization in the Global South, among other needs. Meeting these finance goals will require redirecting current investments away from fossil fuels and land-use change-intensive activities and significantly increasing government and private sector investment (e.g. through innovative risk and blended finance strategies).

[14] IPCC (2022) Sixth Assessment Report Working Group III, chapter 15

Private finance can be invested in company operations as well as within and beyond its value chain.

There is a strong business case for companies to invest within their value chain, as it addresses business risks, builds supply chain resilience, meets investor and policy requirements, and finances their transition pathway. That is why companies invest much more readily in their value chains than in climate action outside their value chain.[15]

Furthermore, direct action and investment in company value chains is the most effective way to achieve the structural decarbonization and market transformation needed to meaningfully address climate change. In 2022, corporations spent about $200 billion[16] on climate mitigation in their value chains – at least 100 times the volume of global finance in voluntary carbon markets[17] – with a substantial portion of investments flowing to decarbonize value chains in the Global South.

In lieu of developed countries delivering the needed public climate finance to developing countries and for nature, there is increasing pressure on SBTi to incentivize the private sector to deliver more climate finance, in particular to the Global South.

Some have argued that corporations should deliver the needed funding through offsets. WWF fully recognizes that companies have a role to play, but the priority for companies must be investments in their value chain, because this is a more effective way to mobilize corporate climate finance and tackle the climate crisis.

In-value-chain mitigation

Investments in in-value-chain emissions are a proven and effective way to reduce risks, and channel substantial climate finance into value chains in the Global South and into broader nature action. Rapid emission reductions from global value chains will significantly reduce climate risks to vulnerable communities and countries[18], and reduce adaptation and loss and damage needs.

Many of the in-value chain investments corporates make to deliver their targets flow to the Global South via multi-national company supply chains.

Today, the vast majority of finance driven by SBTi to the Global South is through Scope 3 and the supply chains of multinational companies.[19] The new SBTi FLAG (forest, land-use and agriculture)[20] sector standard, launched in 2023, will further spur considerable and much needed financing for sustainable supply chains, including stopping deforestation, sustainable agriculture practices, and restoration[21]. These are crucial investments for economies in the Global South.

Out-of-value-chain mitigation

However, investing only within their value chain, particularly for sectors without land in their inventories, risks ignoring critically needed investments in nature, and countries distant from corporate value chains with important conservation, ecosystem services and energy transition needs.

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[15] SBTi (2023) Beyond Value Chain Mitigation research : March and April 2023 corporate engagement results
[16] Climate Policy Initiative (2023) Global landscape of climate finance
[17] Ecosystems Marketplace (2023) Paying for quality state of the voluntary carbon markets
[18] IOP Science (2023) Spatial distributions of stranded fossil asset costs and benefits from climate change mitigation
[19] World Benchmarking Alliance (2020) The impact of multinationals in developing countries
[20] SBTi (2023) Forest, land-use and agriculture (FLAG)
[21] Nature (2019) Contribution of the land sector to a 1.5 °C world

This is why WWF also supports additional private sector investments that can complement market transformation through additional finance for Beyond Value Chain Mitigation (BVCM) - investments in reducing greenhouse gas emissions and environmental impacts outside its direct operations and value chain.

As a vehicle to fund BVCM, high-integrity carbon credits can help finance nature conservation and restoration, especially in areas distant from global value chains, including in the Global South. Under BVCM, carbon credits can also be acquired and retired without any offset claim, but rather using a contribution claim. Contribution claims are claims that accrue towards a country's contribution to goals outlined under the Paris agreement, rather than an individual company's carbon profile.

To drive additional finance to the Global South and nature, WWF believes it would be helpful to grow a high quality and credible voluntary carbon market for companies to make additional investments beyond their value chain and to neutralize any residual emissions (those remaining emissions within a company's value chain that are hardest to abate given existing technologies). The SBTi already allows this in their current Net Zero standard but could consider revising its neutralization requirements in a way that it also enhances the necessary build-up of removals in the near-term.

However, recent scientific studies and media articles have publicly exposed major credibility and integrity issues with some carbon credits[22], highlighting the challenges of many credit projects in reducing GHG emissions (primarily from reduced emissions credits due to inflated baselines) and providing benefits to local communities in the Global South.

For investments beyond their value chains, WWF encourages companies to fund different types of mitigation projects, including nature-based solutions, identify the adequate finance vehicle for each of them, and not solely rely on carbon credits as a funding vehicle.[23]

WWF is developing a broader climate finance and market transformation paper, which will explore this topic in greater detail. This is due to be published in the second half of 2024.

[22] Amnesty International (2024) UN Special Rapporteur is right to raise human rights concerns about carbon markets

[23] WWF (2021) Beyond carbon credits: A blueprint for high-quality interventions that work for people, nature and climate, WWF (2020) Beyond SBTs. A blueprint for corporate action on climate and nature

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