

Incentivizing action on ongoing and residual emissions: post-London follow-up

Joint EWG virtual session on 26th September

Humphrey Adun, Scarlett Benson, Alice Farrelly & Piera Patrizio,

Purpose of meeting this meeting



- ▶ Informal follow-up call to share progress on the drafting process and invite reflections
- ▶ Recap of process since London: internal drafting and iteration, incorporating EWG and pilot survey feedback submission to CEO today, followed by internal approvals
- ▶ Today is to create space for open exchange rather than decision-making
- ▶ **Goal: keep you updated, ensure transparency, and give early visibility before draft publication**

DISCLAIMER & ANTITRUST

- **Disclaimer** - Please note, this document is for information purposes only in order to inform discussions and for no other purpose.
- The information provided by SBTi (including information supplied by third-parties) in this document is furnished on a confidential basis and must be treated as confidential.
- No such information may be divulged to any third party without the prior written approval of SBTi.
- This information shall not be used for any other purpose. SBTi reserves all rights in this document.

Antitrust Caution – Do not engage in any discussion, activity or conduct that may infringe on any applicable competition law.

For example, do not discuss company-specific information on:

- current or future prices, pricing strategies, or price related information;
- output, capacity, inventory levels, or costs;
- data related to market share;
- current or future business model transformation strategies.

Members are responsible for halting any activity that may violate this policy and reporting it immediately to SBTi.

CONFLICT OF INTEREST DECLARATION

- As per the [EWG Terms of Reference](#) and the [SBTi COI policy](#), conflicts of interest must be declared
- At the start of each meeting the chair will ask members if a new COI has arisen
- A Conflict of Interest may be:
 - Actual: A true conflict exists between a Party's duties with the SBTi and their private interests.
 - Potential: Where a Party has personal or private interests that could conflict with their duties with the SBTi, or where it is foreseeable that a conflict may arise in future.
 - Perceived: Where an unbiased observer could reasonably form the view that a Party's private interests could influence their decisions or actions.

ARE THERE ANY COI THAT THE SBTi SHOULD BE AWARE OF?

VIDEO-CONFERENCE GUIDELINES

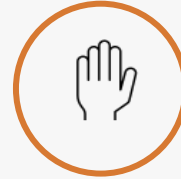
Participant guidelines



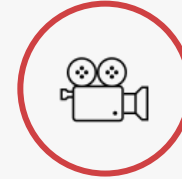
Mute during presentations



Use the chat box



Use the raise hand function



If you can, please keep your camera on

Notes from us



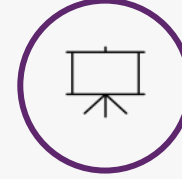
Treat info as confidential



Meeting is being recorded



We will follow up with minutes..



..And we will follow up with slides!



Proposal

Summary | High-Level Overview of the Approach

Phase 1: Effective from CNZS V2 launch

Recognition-based incentive model open to all companies & mandatory disclosure

- Two recognition tiers to incentivize companies to engage with these optional elements early and provides lead time for the market to scale, thereby reducing costs over time and lowering barriers to adoption.
- Mandatory disclosure puts positive pressure on companies to engage.



Phase 2: Effective from 2035, signalled in CNZS V2

Minimum ongoing emissions responsibility requirement for Cat A companies. Recognition-based incentive model continues to drive increased ambition

- Send a clear demand signal, supporting long-term investment and the development of high-integrity solutions.



Phase 3: Effective from net-zero target year, signalled in CNZS V2

At the net-zero target year and thereafter, all companies neutralize all remaining residual emissions.

- Residual emissions must be counterbalanced to claim net-zero.

Summary | Proposed criteria for ongoing and residual emissions in CNZS V2 Second Consultation draft

Criteria #	Topic	Revision
< Overarching change from PC1 to PC2: Ongoing and residual emissions integrated into a single framework >		
Phase 1: Effective from CNZS V2 launch (& continue during phase 2)	CNZS-CX Mandatory disclosure	<ul style="list-style-type: none"> Previously included as a footnote in EWG draft, revised to include clearly as a criterion. During the recognition phase (i.e. prior to 2035) all companies are required to report on whether or not they will take responsibility for ongoing emissions over the five-year target cycle. And if not, why not.
	CNZS-CX Minimum recognition prior to 2035	<ul style="list-style-type: none"> Previously included under CNZS-C19 in the EWG draft, but feedback indicated the recognition phase prior to 2035 was unclear. Revision sets a clear criterion for minimum recognition before 2035. Revision proposes greater optionality in budget determination (MfT or TfT) and eligible outcomes (ex-post and other climate contributions), compared to the stricter requirements that will apply from 2035 onward.
	CNZS-CX Beyond entry level recognition	Previously included as part of ongoing emissions reporting, now included as a separate criterion to indicate availability of recognition for ambition beyond entry level.
	CNZS-C20 Climate leadership recognition	Minor revision to require disclosure and justification of science-based carbon price, recommend carbon-price > 100 and allow for differentiated carbon prices across emissions scopes.
	CNZS-C21 Ongoing emissions reporting	<i>No change in content from EWG draft; revision to streamline into one reporting table.</i>
Phase 2: Effective from 2035	CNZS-C19 Responsibility for ongoing emissions before the net-zero target year (from 2035 onwards)	Revision to: <ul style="list-style-type: none"> Link this requirement to ongoing emissions, rather than residual emissions. Specify a required share of removal outcomes with century to multiple millenia storage. Add sub-criterion that clarifies "effective from 2035" in the context of a target cycle. Add risk of reversal safeguard for all removal types.
	CNZS-C18 Neutralization at net-zero	<ul style="list-style-type: none"> Revision to replace quantitative 1000 year threshold in EWG draft with century and millenia storage categories. Revision to require like for like atmospheric matching. Add risk of reversal safeguard for all removal types.

Orange highlight = new criterion (since EWG draft)

Mandatory disclosure requirement: Deep dive

Key features of proposal

All companies are required to report on whether or not they will take responsibility for ongoing emissions, and if not why not.
Disclosure will be made public on the SBTi dashboard.

Rationale for main changes

- Mandatory 'opt out' disclosure creates positive pressure to incentivize action on recognition elements of the standard.
- Strong consensus from EWG on introduction of this requirement: when proposed on 25 June, 100% of BVCM EWG survey respondents indicated strong support for this requirement; support re-emphasized at EWG in-person.

Status and next steps

- Status: Finalized in draft
- Next steps: Proceeding with SBTi approval process.

Phase 1: Effective from CNZS V2
launch

Optional recognition - Entry level and Beyond entry level tiers

Overview of headline criterion: Prior to 2035, companies can gain optional recognition for taking responsibility for a minimum volume of ongoing emissions over the target cycle.

Key features of proposal	Rationale for main changes	Status and next steps
<ul style="list-style-type: none">● Eligibility: Company must be conformant with the Standard and not in "non-progress achieved" status on abatement targets.● Responsibility and what counts: Address 1% of highest-scope ongoing emissions within the 5-year target timeframe.<ul style="list-style-type: none">○ Option A: Deliver ex-post mitigation equivalent to 1%.○ Option B: Apply a carbon price to 1%, directing funds to ex-post mitigation and/or other climate activities.● Carbon Price: For Option B, disclose price and rationale; minimum recommended price: \$20.● Quality & Verification: Contributions must meet defined quality criteria (in development) and be independently third-party verified.● Beyond entry level tier: Adheres to same requirements but takes responsibility for >1% of highest scope within target time frame.	<p>Greater flexibility in what counts at the Entry Level tier</p> <ul style="list-style-type: none">● Feedback EWG at in-person that minimum recognition tier should be flexible given the aim is to incentivize broad uptake.● Allowing carbon price approach could help finance towards more expensive technologies during this phase.● Allowing both options means we don't 'pit' ex-post and carbon price approaches against each other, aligns external frameworks; and the aligns with approach we are proposing at the climate leadership tier.	<p>Status:</p> <ul style="list-style-type: none">● Ongoing research on eligible activities & integrity criteria● Excel tool being developed to support public consultation on responsibility share <p>Next steps:</p> <ul style="list-style-type: none">● Public consultation feedback on % coverage of ongoing emissions for entry level

Phase 1: Effective from CNZS V2 launch

Optional recognition - Climate leadership tier: Deep dive

Overview of headline criterion: Companies can gain "Climate Leadership" recognition status by taking responsibility for 100% of their ongoing emissions over the five-year target cycle.

Key features of proposal

- **Eligibility:** Companies must achieve $\geq 90\%$ performance across all targets.
- **Responsibility:**
 - Category A: Responsible for 100% of Scope 1-3 ongoing emissions.
 - Category B: Responsible for at least 100% of Scope 1-2 ongoing emissions.
- **Approach and what counts:** Apply a science-based carbon price to relevant ongoing emissions. Resulting budget must fund:
 - $\geq 40\%$ ex-post mitigation (reductions or removals) of ongoing emissions.
 - Remaining share: additional ex-post outcomes (including avoidance) or other climate activities (e.g. ex-ante funding, R&D, enabling measures, adaptation, loss & damage).
- **Science-based Carbon Price:** Disclose and justify chosen price; recommended $> \$100$ at this tier. Differentiation allowed between price applied to Scope 1-2 and Scope 3.
- **Quality & Verification:** Contributions must meet quality criteria (in development) and be independently third-party verified.

Rationale for main changes

Eligibility

- Internal decision to use specify % of progress made at this tier. Not fully achieved (i.e lower than 100%) aligns with PC1 findings.

Differentiation in responsibility for Category B companies

- Feedback that differentiated approach should be considered for Cat B companies.
- 64% PC1 respondents supported recognition for Cat B company based on scope 1 and scope 2 responsibility.

Ex-post outcomes

- At Climate Leadership level, only reductions and removals count for the 40% ex-post mitigation, while avoided emissions count in the remaining share.
- This is due to the carbon budget logic of the OERR.

Science-based carbon price

- Disclosure approach aligns with Gold Standard.
- PC1 + some EWG consider 100% coverage too high - carbon-price adjustments is one way to manage this:
 - Sector-based "ability to pay" was rejected by BVCM EWG as too complex
 - Strong support (75% BVCM/CDR EWGs, 5 Aug) for adjusted Scope 3 carbon price

Status and next steps

Staus

- Finalized in draft
- Proceeding with SBTi approval process.

Next steps

- Publication of OER rationale

Phase 1: Effective from CNZS V2
launch

Minimum requirement post 2035: Deep dive [1/2]

Overview of headline criterion: From 2035, Category A companies are requirement to take responsibility for a portion of ongoing emissions.

Key features of proposal	Main changes rationale	Status and next steps
<p>Scope of responsibility: All Category A companies take responsibility for 10% of their ongoing scope 1 emission from 2035, linearly increasing to 100% at the net-zero target year.</p>	<p>Latest proposal shared with EWG members discussed differentiating scope of responsibility per sector. After some internal discussion some challenges with this approach emerged, including:</p> <ul style="list-style-type: none">• Some companies have material emissions across several sectors.• The approach would require establishing a definition of "hard-to-abate sectors" not only at the NZ-TY but also throughout interim target cycles• A company's highest-emitting scope may change over time, making the requirement difficult to communicate consistently in the Standard.	<p>Status:</p> <ul style="list-style-type: none">• Ongoing discussion on the inclusion of avoided emissions as ex-post mitigation• Excel tool being developed to support public consultation on responsibility share <p>Next steps:</p> <ul style="list-style-type: none">• Public consultation feedback on % coverage of ongoing emissions for entry level
<p>Eligible activities: Ex-post mitigation outcomes (reductions and removals) . In 2035 at least 17% of mitigation outcomes shall be removals stored in long-lived reservoirs capable of retaining carbon for centuries to millennia. This share increases in each target cycle in line with climate scenarios</p>	<ul style="list-style-type: none">• Broad support at EWG in-person for requiring share of durable removals.• Use of century to millenia definition aligns with IPPC and addresses feedback from several EWG members that the previously proposed durability thresholds were complex and not science-based .	

Phase 2: Effective from 2035, signalled in CNZS V2

Storage characterization for removal activities

Carbon Storage Pool	Examples	Approximate storage timescale
Vegetation, soils, sediments	Afforestation, Reforestation, Agroforestry, Forest management; Wetland and coastal wetland restoration; Soil carbon sequestration in agricultural land	Decades to centuries
	Biochar, Biomass burial	Centuries to millennia
Built environment	Mineralisation	> Ten millennia
Minerals	Ocean alkalinity enhancement, Enhanced rock weathering	> Ten millennia
Geological formation	Bio-oil storage, Bioenergy with carbon capture and storage, Direct air capture and storage	> Ten millennia
Marine sediment	Ocean fertilisation, Biomass sinking	Centuries to millennia

Source: The State of CDR report (2023)

Minimum requirement post 2035: Deep dive [2/2]

Overview of headline criterion: From 2035, Category A companies are requirement to take responsibility for a portion of ongoing emissions.

Key features of proposal	Rationale	Status and next steps
<p>Risk of reversal safeguards: All removals will be required to be supported by contractual guarantees for monitoring and liability management until at least the year 2100. Guarantees may be provided by governments, project developers, or insurance entities.</p> <p><i>Also applies to neutralization at net-zero target year.</i></p>	<ul style="list-style-type: none">Based on feedback from experts that anything beyond 2100 is contractually unfeasible, it also aligns with Paris agreement timeframe.	<ul style="list-style-type: none">To be discussed with EWG:<ul style="list-style-type: none">The 2100 threshold implies that contractual guarantees are required to ensure durability of storage beyond the storage duration specified on the credit being issued<ul style="list-style-type: none">Should we specify the type of mechanism required to achieve this (e.g., horizontal stacking)?Should we indicate that this requirement will be refined as contractual framework and liability mechanism evolve over time?

Phase 2: Effective from 2035,
signalled in CNZS V2

Neutralization at the net-zero target year: Deep dive

Overview of headline criterion: Companies are required to neutralize any residual emissions that remain at the net-zero year and thereafter.

Key features of proposal	Rationale for main changes	Status and next steps
<ul style="list-style-type: none"> • Eligible mitigation outcomes: All residual emissions remaining at the net-zero target year and thereafter must be neutralized with CDR. • Storage durability: Like-for-Like atmospheric lifetime matching: <ul style="list-style-type: none"> ◦ For CO₂ and other long-lived GHGs, with 100% of removals required to have century to millenia storage. ◦ Short-lived GHGS may be counterbalanced with shorter-lived storage pools. • Risk of reversal safeguards: All removals will be required to be supported by contractual guarantees for monitoring and liability management until at least the year 2100. Guarantees may be provided by governments, project developers, or insurance entities. • Responsibility for neutralization: Scope 3 residuals may have shared responsibility. • Quality: Removal activities must meet quality criteria (in development) . 	<p>Storage durability</p> <ul style="list-style-type: none"> • Use of century to millennia definition aligns with academic sources and moves away from contentious discussion on how to define permanence and use of 1000+ years thresholds. 	<ul style="list-style-type: none"> • Status: Finalized in draft • Next steps: Proceeding with SBTi approval process.

Phase 3: Effective from net-zero target year, signalled in CNZS V2



Thank you!



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION