SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Incentivizing action on ongoing and residual emissions: options for consideration

Joint EWG virtual session VI on 5th August

Presentation deck

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Introduction | Our goal for today is to build a shared EWG position on the way forward for the ongoing emissions and residual emissions frameworks within the Corporate Net-Zero Standard V2.0.

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Today's questions	… and outcomes
1. **What is the rationale behind the phased-approach proposal?**	Clarify the reasoning behind the phased-approach
2. **How should we structure and design the recognition model during the recognition only phase?**	Refine the structure and design of the recognition model based on EWG input
3. **When should the mandatory requirements to address residual and/or ongoing emissions commence, and what should the mandatory component entail?**	Establish a way forward for the requirement and recognition phase

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- data related to market share;
- current or future business model transformation strategies.

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

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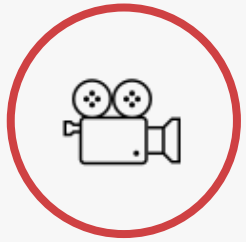
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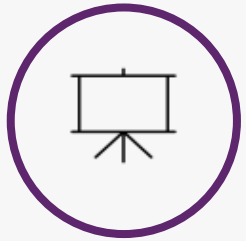
Meeting is being recorded


We will follow up with minutes…


..And we will follow up with slides!

Finally, please have your devices ready to use…

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AGENDA

Welcome & housekeeping	10 min
SBTi presentation: Phased approach proposal	15 min
Presentation and discussion: Recognition only phase	60 min
Presentation and discussion: Recognition and requirement phase	60 min
Next steps	5 min

The journey so far..

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March

Ongoing emissions	Residual emissions
Incentive model = SBTi recognition	3 incentive models for consultation: (1) Require IRT (2) Recognize IRT (3) Require additional abatement and/or removals

- 60% of PC1 respondents consider required IRT will create a barrier to entry
- Economic assessment and and EWG discussion emphasized economic and non-economic barriers to implement IRT
- Strong **likelihood that IRT will follow a recognition-based model** in CNZS V2.0.

July

Distinct purposes	Removal eligibility overlap
OER and IRT frameworks have distinct climate objectives and purposes.	Overlapping eligibility creates risks e.g. double claiming, complexity. There are multiple ways to structure the recognition frameworks to manage for this risk.

- Feedback from EWG was clear: **simplicity is paramount,** with many EWG favoring merged recognition frameworks for OER and IRT.
- We need to **balance this with ensuring the Standard incentivizes the distinct climate objectives of IRT and OER.**

Today

A two phased approach proposal
Phase one: Recognition only CNZS V2.0 recognizes companies for addressing ongoing and residual emissions through a single recognition framework. **Phase two: Requirement and recognition** Minimum requirements for certain companies, combined with a recognition-based incentive model open to all to drive increased ambition. The date and scope of compliance will be specified in CNZS V2.0 as a signal.

Two key open points to discuss within this group today:

- The **structure and design of the recognition model during the recognition** phase
- **What becomes mandatory and when**.

IRT = Interim removal target; OER = Ongoing emissions responsibility; PC1 =First public consultation

Objectives of the phased approach

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To align with the goal of limiting warming to 1.5°C with low overshoot companies would need to:

- Set targets to reduce their value chain emission over time, consistent with the goal of reaching net-zero emissions by 2050.
- Proactively address any S1 residual emissions by setting interim removal targets from 2030 onwards.
- Address a portion of ongoing emissions e.g., through BVCM.

There are barriers preventing us introducing these requirements:

- Removal targets face multiple implementation challenges, due to economic and non economic barriers.
- The cost is also disproportionately allocated to companies in hard to abate sectors, often the least profitable.

Combining a recognition and a requirement module could help mitigate these risks….

Date to be discussed - e.g., 2035 or 2040

Phase 1
Recognition-based incentive model open to all companies

Phase 2
Minimum requirements for certain companies, combined with a recognition-based incentive model open to all to drive increased ambition

➔ 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.

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

In the pre-read we proposed two options for each phase- thus combining into four possible combinations:

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		Phase 1: Recognition only			
		Option 1. Tiered recognition model		Option 2: Simple recognition model	
Phase 2: Requirement and recognition	Option A: Mandatory Scope 1 residual emissions targets	1A	Tiered recognition during recognition phase with mandatory removal targets for scope 1 residual emissions during recognition and requirement phase.	2A	Simple recognition during recognition phase with mandatory removal targets for scope 1 residual emissions during recognition and requirement phase.
	Option B: Mandatory requirement for Cat A companies for OER from 2040	1B	Tiered recognition during recognition phase with mandatory ongoing emissions responsibility for Category A companies during recognition and requirement phase.	2B	Simple recognition during recognition phase with mandatory ongoing emissions responsibility for Category A companies during recognition and requirement phase.

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How we design this phase will impact WHAT companies fund: "money-for-ton" and "ton-for-ton" design options

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We could use ton-for-ton or money-for-ton as the key design features…

Ton-for-ton

Ongoing emissions (tCO_2e) ✖ % of ongoing emissions that the company takes responsibility for = Total tCO_2e to be delivered to take responsibility

Benefits:
- Clear tCO_2e metric for impact measurement
- Quantifiable, verifiable targets
- Easy to communicate and understand

Drawbacks:
- Risks incentivizing companies to resort to least cost mitigation measures
- Does not create space for funding things like R&D, innovation and enabling environment which are less quantifiable in terms of tCO_2e, and potentially even ex-ante outcomes

➔ **Companies may not be adequately incentivized to fund higher cost solutions like higher durability removals or ex-ante**

Money-for-ton

Ongoing emissions (tCO_2e) ✖ % of ongoing emissions that the company takes responsibility for ✖ Science-based carbon price ($) = Total budget to be deployed towards responsibility

Benefits:
- Creates space for companies to fund a portfolio of higher and lower cost solutions, as well as ex-ante and less quantifiable solutions

Drawbacks:
- Companies are not required to deliver guaranteed mitigation outcomes
- Difficult to establish the "right" price

➔ **Companies may not deliver sufficient near-term mitigation to meaningfully impact temperature overshoot**

Solid colored boxes indicate the target
Boxes with coloured text and white fill indicate the calculation steps

Possible adaptations of these design options to limit drawbacks

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Ton-for-ton

1. Add a minimum average carbon price requirement to incentivize investment into a mix of higher and lower cost solutions.

1. Add required split of mitigation outcomes, e.g.,:
   - Minimum amount of removals
   - No more than [90%] of tCO_2e to be from avoidance/ reduction/ removals.

1. A combination of the above.

Money-for-ton

1. Add a minimum tCO_2e delivery requirement to incentivize investment into ex-post mitigation outcomes.

1. Add required split of mitigation outcomes, e.g.,:
   - Minimum amount of removals
   - No more than [90%] of tCO_2e to be from avoidance/ reduction/ removals.

1. A combination of the above.

1. Provide flexibility on the carbon price (e.g., differentiation across scopes/ allow companies to justify their choice).

How a "ton-for-ton with minimum average carbon price" model could work

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Ton-for-ton

Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for = Total tCO_2e to be delivered to take responsibility

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Drawbacks:
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➔ **Companies may not be adequately incentivized to fund higher cost solutions like higher durability removals or ex-ante**

Ton-for-ton with minimum av. carbon price

Both:

Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for = **TOTAL** tCO_2e to be delivered to take responsibility

Total tCO_2e to be delivered to take responsibility × Minimum average carbon price ($) = **MINIMUM** budget to be deployed towards delivering those tCO_2e

➔ ***Total tCO_2e is fixed.***
➔ ***There is a minimum total budget, but companies have flexibility to fund a mix of lower- and higher-cost solutions, as long as the average cost per tCO_2e meets or exceeds the minimum defined price.***

Benefits:
- All of the above
- Plus, it creates space for companies to fund a portfolio of higher and lower cost solutions

Drawbacks:
- Does not create space for funding things like R&D, innovation and enabling environment which are less quantifiable in terms of tCO_2e, and potentially even ex-ante outcomes

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How a "money-for-ton with minimum ton-for-ton delivery" model could work

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Money-for-ton

Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for × Science-based carbon price ($) = Total budget to be deployed towards responsibility

Benefits:

- Creates space for companies to fund a portfolio of higher and lower cost solutions, as well as ex-ante and less quantifiable solutions
-

Drawbacks:

- Companies are not required to deliver guaranteed mitigation outcomes
- Difficult to establish the "right" price

➔ **Companies may not deliver sufficient near-term mitigation to meaningfully impact temperature overshoot**

Money-for-ton with minimum ton-for-ton delivery

Both:

Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for × Science-based carbon price ($) = **TOTAL** budget to be deployed towards responsibility

Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for = **MINIMUM** tCO_2e to be delivered

Benefits:

- All of the above
- Plus, it sets a minimum amount of tCO_2e delivered

Drawbacks:

- Complicated to explain and communicate
- How to establish the ton-for-ton value e.g., 50% as per "Above and Beyond" or 40% as per the OERR

➔ ***Total financial budget is fixed.***
➔ ***There is a minimum tCO_2e outcome that must be delivered, but companies have flexibility to choose lower- and higher-cost solutions, as long as the total tCO_2e delivery meets or exceeds the minimum volume.***

Solid colored boxes indicate the target
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Summary: The two approaches differ in terms of: (1) whether the $ or the tCO_2e are fixed & (2) flexibility in terms of "what counts"

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Ton-for-ton with minimum av. carbon price

Both:

- Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for = **TOTAL** tCO_2e to be delivered to take responsibility
- Total tCO_2e to be delivered to take responsibility × Minimum average carbon price ($) = **MINIMUM** budget to be deployed towards delivering those tCO_2e

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Money-for-ton with minimum ton-for-ton delivery

Both:

- Ongoing emissions (tCO_2e) × % of ongoing emissions that the company takes responsibility for × Science-based carbon price ($) = **TOTAL** budget to be deployed towards responsibility
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Benefits:

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- Plus, it sets a minimum amount of tCO_2e delivered

Drawbacks:

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- How to establish the ton-for-ton value e.g., 50% as per "Above and Beyond" or 40% as per the OERR

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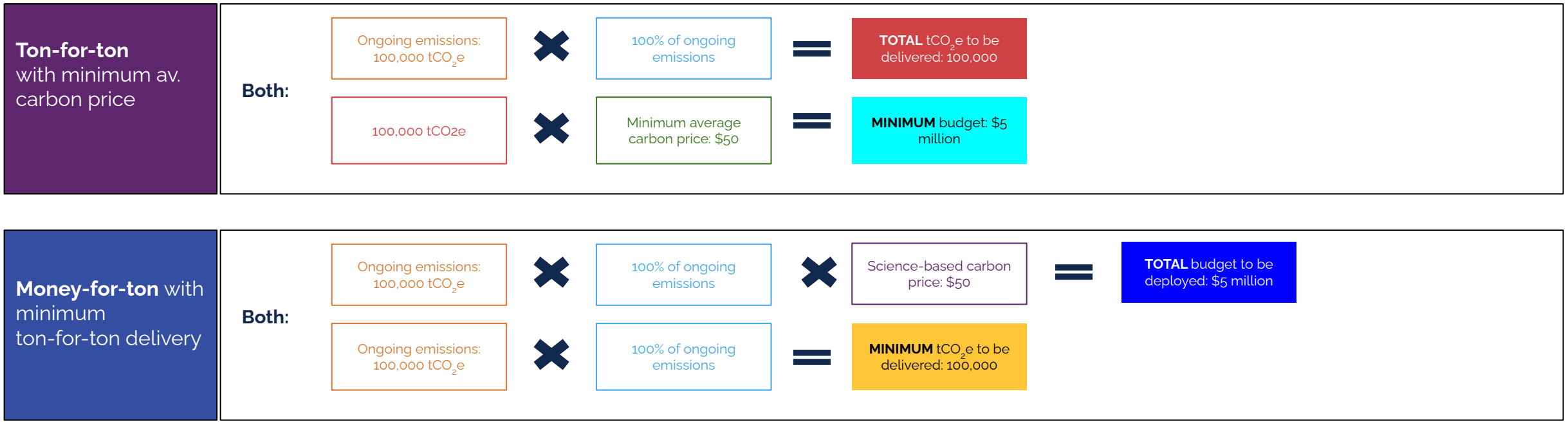
- Of course, when the same % of ongoing emissions and the same carbon price benchmark are used, the two models result in similar budgets and delivery expectations.
- But they remain structurally distinct:
  - One fixes tCO_2e and sets a minimum budget (ton-for-ton model), meaning only ex-post, measurable outcomes count;
  - The other fixes the budget and sets a minimum tCO_2e to be delivered (money-for-ton model), but allows additional spending on enabling actions that don't generate ex-post tonnes, as long as the minimum delivery threshold is met.



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Which model could deliver these outcomes most effectively?

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The different outcomes/ goals we're balancing…

Reminder: Different climate objectives of the different targets
(from our last joint EWG session)

Responsibility for ongoing emissions	Responsibility for residual emissions	
	Interim removal targets	Neutralization of residual emissions at + after NZ target date
Reduce temperature overshoot from cumulative ongoing emissions	Prepare the system to meet future removal needs and avoid shocks	Ensure net-zero claims are physically valid by counterbalancing residuals

Reminder: Goals for BVCM
(articulated in the SBTi's 2024 "Above and Beyond" report)

BVCM GOAL 1: Deliver additional near-term mitigation outcomes to achieve the peaking of global emissions in the mid-20s and the halving of global emissions by 2030.

BVCM GOAL 2: Drive additional finance into the scale-up of nascent climate solutions and enabling activities to unlock the systemic transformation needed to achieve net-zero by mid-century globally.

If we **do** want to incentivize BVCM goal 2 then the model we need to follow is the **money-for-ton with minimum ton-for-ton delivery,** because the ton-for-ton alternative option is limited to ex-post verified mitigation.

We would need to define the "science-based carbon price" and the % of emissions to be covered on a ton-for-ton basis

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Science-based carbon price…

Reminder: Science-based carbon price definition
(articulated in the SBTi's 2024 "Above and Beyond" report)

The SBTi considers **science-based carbon prices** to represent the economic value of GHG emissions, based on:

1. robust scientific assessment of the external cost of GHG emissions (the costs of emissions that the public pays for) *[i.e., "social cost of carbon"]*

1. robust scientific assessment of the expected costs associated with achieving a 1.5°C pathway *[i.e., "target consistent carbon price"]*

   and/or

3. the true and complete cost to fully and permanently abate a given GHG emission.

Reminder: Research on carbon prices
(in Annex E of the SBTi's 2024 "Above and Beyond" report)

1. Social cost of carbon (SCC)
Estimates for the SCC vary widely due to differing assumptions in discount rates, regional weighting, timeframes, models, and damage valuation. **Research in the Above and Beyond Report found estimates for SCC ranging from $3 to $1,500 per tCO_2e.**

2. Target consistent carbon price
As with SCC, target-consistent carbon prices are dependent on a variety of inputs and assumptions, leading to a wide range of estimates. **Research in the Above and Beyond Report found estimates for target consistent carbon prices ranging from $22 to $124 per tCO_2e.**

3. The true and complete cost to fully and permanently abate
I.e., some things are cheaper and some more expensive - and costs change over time. The point of this category is to distinguish from the market-price of credits which are a function of supply and demand.

Question: could we propose different carbon prices for scopes 1 and 2 versus scope 3 (given scope 3 is inherently double counted across corporate inventories)?

We would need to define the “science-based carbon price” and the % of emissions to be covered on a ton-for-ton basis

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% emissions to be covered on a ton-for-ton basis

Reminder: Recommendation in “Above and Beyond”

Above and Beyond Report best practice recommends:

- Companies apply a science-based carbon price to 100% ongoing scope 1, 2 and 3 emissions to determine a financial budget.
- Companies use this financial budget to deliver ex-post BVCM outcomes **equivalent to 50% of ongoing scope 1-3 emissions (i.e. 50% ton-for-ton).**

The rationale for embedding TfT within the Above and Beyond recommendation stems from the urgency of peaking global emissions and halving them by 2030. To accelerate progress on this, companies should be encouraged to BVCM channel finance toward verified emissions reductions and/or removals.

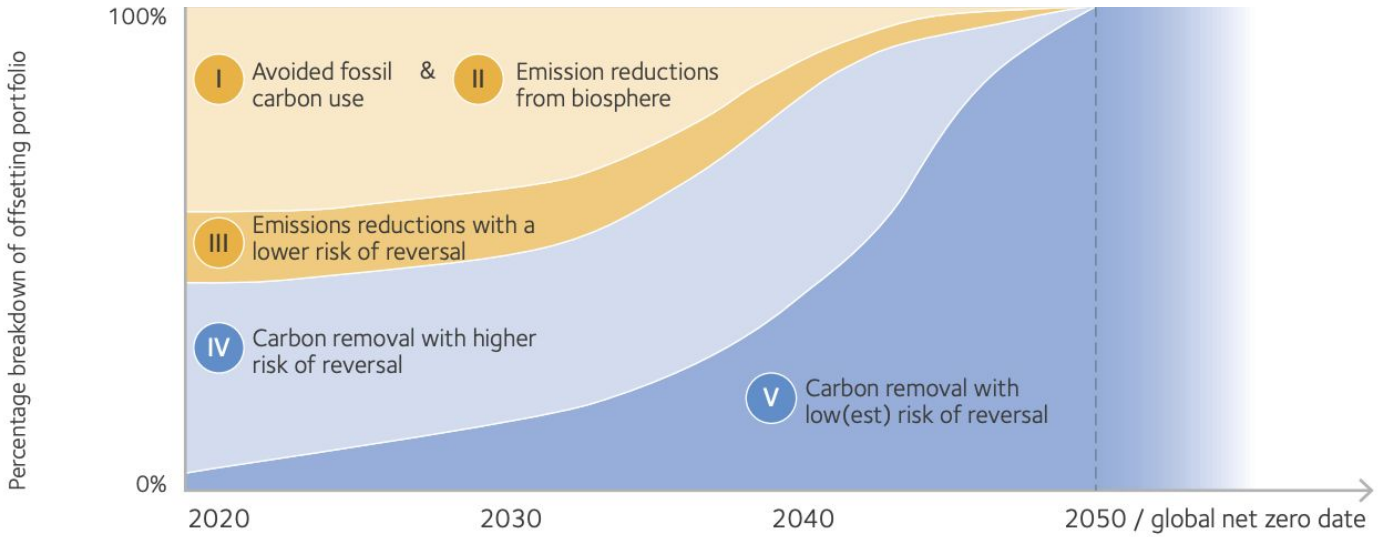
The 50% coverage threshold itself was chosen as a pragmatic balance of stakeholder views rather than a science-based figure.

Reminder: Ongoing emissions responsibility ratio

Ongoing Emissions Responsibility Ratio is a **scenario-derived method developed by the SBTi Research team to establish the minimum level of responsibility** that a company should take for each tCO_2e of ongoing emissions, beyond what is already required through its near- and long-term value-chain abatement targets.

Preliminary research shows that the **median ratio across scenarios is 0.4**, indicating that for every 1 tCO_2e of ongoing emissions, a company is responsible for at least 0.4 tCO_2e of mitigation outcomes – over and above its value chain emissions reductions.

Would we still need or want to specify required/ recommended split in avoidance/ reduction/ removals?



Source: Revised Oxford principles for net zero aligned carbon offsetting, 2024

- All three mechanisms (i.e. avoidance, reduction, and removals) have a role to play in the transition to net zero.
- However, there is currently *no science-based allocation* or optimal mix that can be applied across companies or sectors.
- Current credit attributes on the VCM do not explicitly disclose atmospheric contribution and mixed methodologies create uncertainty about the removal volume realised by NbS projects.

We could **require companies to allocate at least 10% of their mitigation portfolio to removals**, reflecting the share of a company ongoing emissions that is conventionally considered residual/hard to abate.

Given that companies are incentivized to gradually increase the share of removals in their portfolios to mitigate transition risks and prepare for the need to neutralize residual emissions, **defining the split may ultimately be unnecessary.**

It's impossible to know the rate & scale of adoption, but we illustrate a range of scenarios here to show impact potential

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Scenario	Tier design feature	# of SBTi validated companies opting in
Scenario A	"Entry Level" threshold of **5%** of ongoing **scope 1 emissions** on a ton-for-ton basis	50% of SBTi-validated companies opt to this Entry Level
Scenario B	"Entry Level" threshold of **5%** of the **smallest scope of ongoing emissions**, on a ton-for-ton basis	50% of SBTi-validated companies opt to this Entry Level
Scenario C	"Full Recognition" threshold of **100% of scopes 1-3 ongoing emissions**, on a ton-for-ton basis	50% of SBTi-validated companies opt to this Full Recognition Level

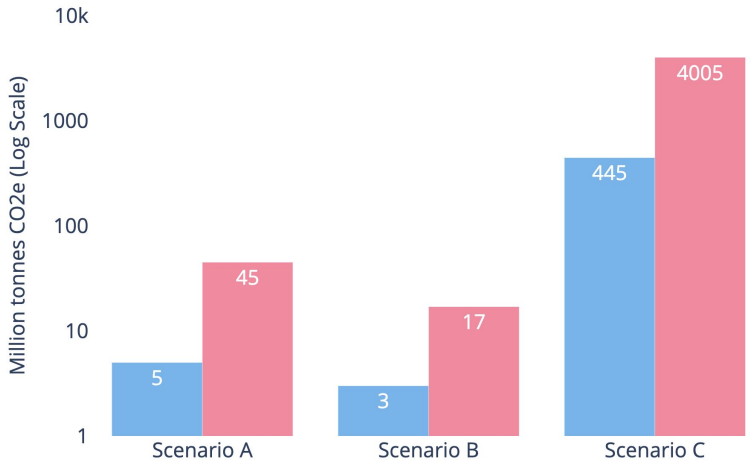
For all three scenarios we quantify the resulting mitigation generated based on differing splits of removals vs beyond value chain reduction/avoidance:

1. 90% removals, 10% reduction/ avoidance
2. A 50/50 split
3. 10% removals, 90% reduction/ avoidance

removals reductions/ avoidance (BVC)

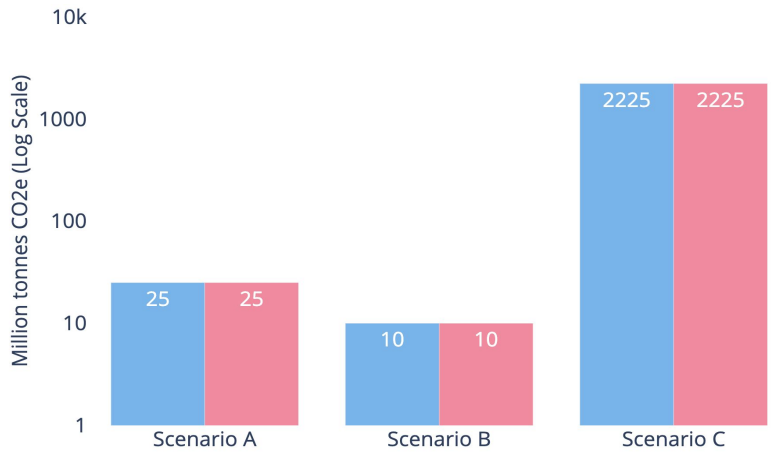
1. 90% removals, 10% reduction/ avoidance

10% 90%



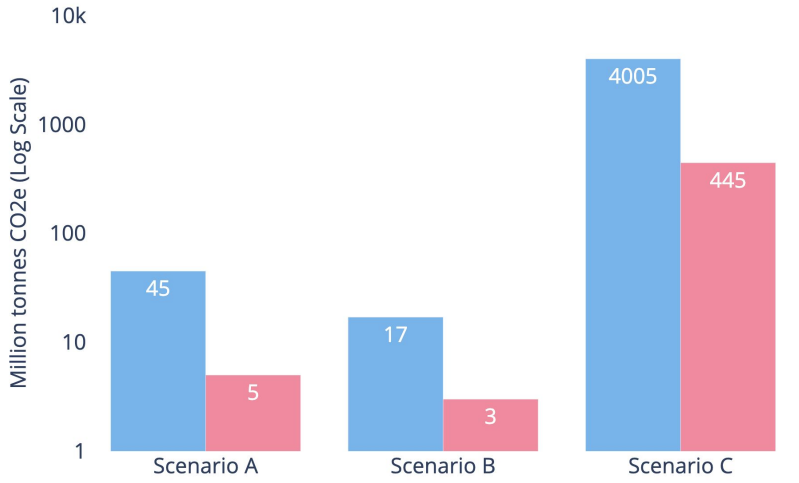
2. A 50/50 split

50% 50%



3. 10% removals, 90% reduction/ avoidance

90% 10%



Let's explore the feasibility of this with 3 illustrative companies

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Company A : Food and beverage company

- Total ongoing emissions: 16.5 million tCO_2e
  - Scope 1+2 emissions: 1.5 million tCO_2e
  - Scope 3 emissions: 15 million tCO_2e
- Profit in the reporting year: $8 billion
- Profit per ton: 485 $/$tCO_2e$

Company B : Technology company

- Total ongoing emissions: 10.5 million tCO_2e
  - Scope 1+2 emissions: 500k tCO_2e
  - Scope 3 emissions: 10 million tCO_2e
- Profit in the reporting year: $70 billion
- Profit per ton: 6667 *$/t*$CO_2e$

Company C : Mining company

- Total ongoing emissions: 600 million tCO_2e
  - Scope 1+2 emissions: 30 million tCO_2e
  - Scope 3 emissions; 570 million tCO_2e
- Profit in the reporting year; $12 billion
- Profit per ton: 20 *$/t*$CO_2e$

Quick feasibility check…

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Money-for-ton with minimum ton-for-ton delivery

Company A : Food and beverage company

- Total ongoing emissions: 16.5 million tCO_2e
  - Scope 1+2 emissions: 1.5 million tCO_2e
  - Scope 3 emissions: 15 million tCO_2e
- Profit in the reporting year: $8 billion
- Profit per ton: 485 $/$tCO_2e$

Both:

16.5 million tCO_2e ✖ 100% of ongoing emissions ✖ Science-based carbon price: $75 = **TOTAL BUDGET $ 1.24 billion**

➔ 15.5% of profit

16.5 million tCO_2e ✖ 50% of ongoing emissions = **MINIMUM tCO_2e** 8.3 million tCO_2e

Quick feasibility check…

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Money-for-ton with minimum ton-for-ton delivery

Company B : Technology company

- Total ongoing emissions: 10.5 million tCO_2e
  - Scope 1+2 emissions: 500k tCO_2e
  - Scope 3 emissions: 10 million tCO_2e
- Profit in the reporting year: $70 billion
- Profit per ton: 6667 *$/t*$CO_2e$

Both:

10.5 million tCO_2e ✖ 100% of ongoing emissions ✖ Science-based carbon price: $75 = **TOTAL BUDGET $ 788 million**

➔ 1.1% of profit

10.5 million tCO_2e ✖ 50% of ongoing emissions = **MINIMUM tCO_2e** 5.3 million tCO_2e

Quick feasibility check…

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Money-for-ton with minimum ton-for-ton delivery

Company C : Mining company

- Total ongoing emissions: 600 million tCO_2e
  - Scope 1+2 emissions: 30 million tCO_2e
  - Scope 3 emissions; 570 million tCO_2e
- Profit in the reporting year; $12 billion
- Profit per ton: 20 *$/t*$CO_2e$

Both:

600 million tCO_2e ✖ 100% of ongoing emissions ✖ Science-based carbon price: $75 = **TOTAL BUDGET $ 45 billion**

➔ 375% of profit

600 million tCO_2e ✖ 50% of ongoing emissions = **MINIMUM tCO_2e** 300 million tCO_2e

Conclusion (we encourage you to challenge us…)

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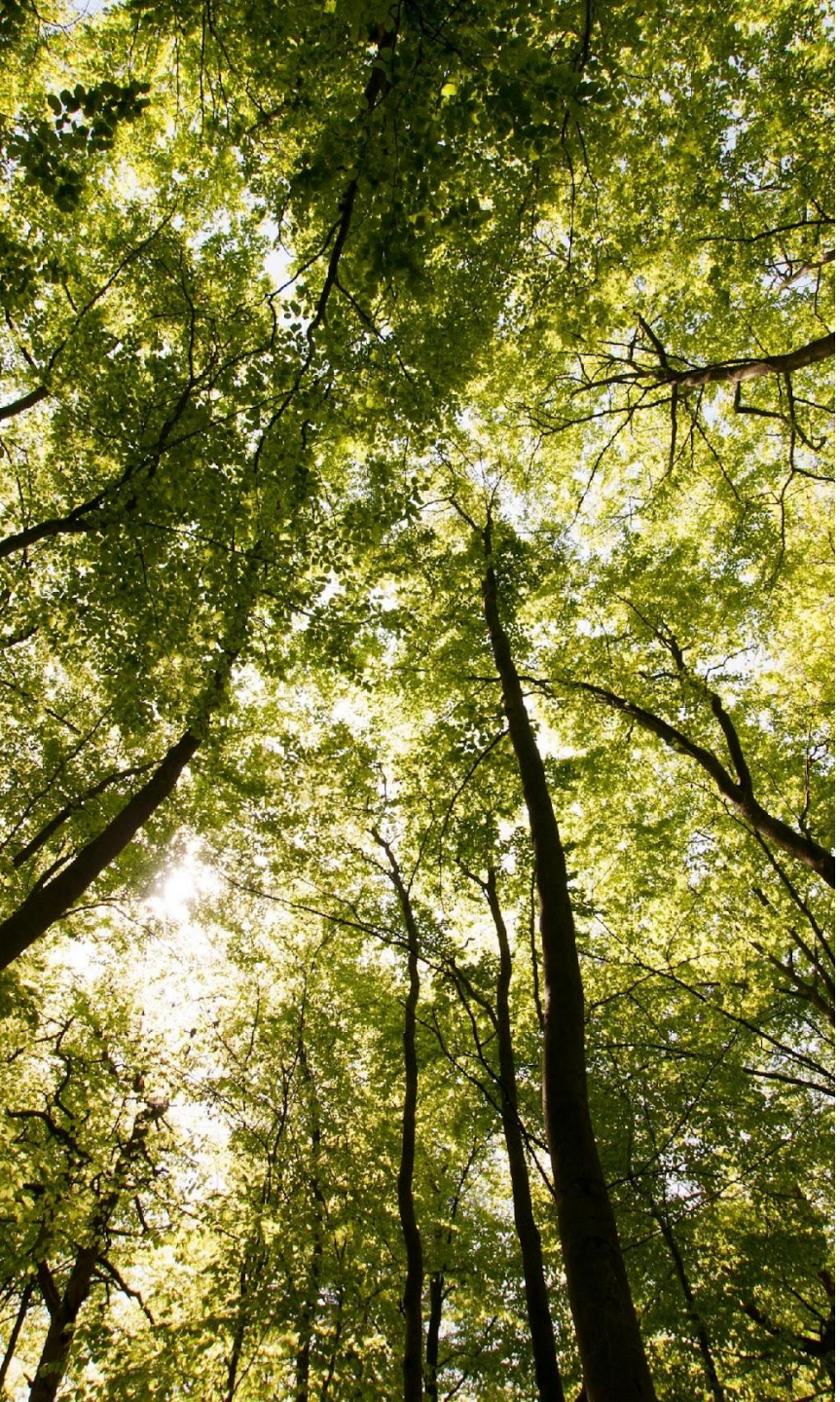
- **The money-for-ton model with a minimum ton-for-ton delivery requirement is the most effective approach for incentivizing a full portfolio of climate action.** It enables companies to fund not only ex-post mitigation, but also ex-ante activities critical for scaling durable CDR, as well as R&D, innovation, and enabling environment investments. Crucially, it does so while still ensuring that a minimum threshold of ex-post mitigation is actually delivered.

- **Within this model, we could consider requiring a split between reductions/avoidance and removals, but doing so introduces complexity, and may be unnecessary.** Since companies are operating with a fixed budget, they are naturally incentivized to fund a mix of lower-cost solutions and higher-cost durable removals. Over time, it is in their interest to increase their share of removals as part of future-proofing their net-zero pathway and helping to build the supply of removals needed to neutralize residual emissions.

- **That said, doing this in a genuinely science-based way** – with a high benchmark carbon price and wide coverage of ongoing emissions – **comes at a significant cost for companies**. This level of ambition, while desirable, may limit uptake if the framework is optional.

- **To improve feasibility without sacrificing integrity, we should explore adaptive models**, such as:
  - Differentiated carbon pricing (e.g. lower for scope 3, higher for scope 1&2)
  - Tiered frameworks with a clear “entry level” and a ladder of ambition toward full responsibility

- **While these adaptive approaches may sacrifice some simplicity, they could accelerate broader adoption while preserving the upward pressure on ambition and removals share over time.**



Group discussion: **Recognition only phase options**

1. *Should CNZS V2.0 incentivize Goal 2 BVCM activities (e.g., ex-ante, R&D or enabling actions that don't directly result in quantifiable mitigation tCO_2e) in addition to verified ex-post mitigation outcomes?*
2. *Do you support a Money-for-Ton approach with a minimum Ton-for-Ton delivery requirement?*
3. *Should recognition follow a tiered approach (entry level and full responsibility) or simply set a minimum bar?*
4. *If we follow a Money-for-Ton approach with a minimum Ton-for-Ton delivery, what % of ongoing emissions should be covered on a Ton-for-Ton basis?*
5. *If we specify a split of avoidance/ reduction/ removals mitigation outcomes, do you support requiring at least 10% of mitigation outcomes to be removals?*
6. *Do you support different carbon prices for scopes 1 and 2 versus scope 3 (given scope 3 is inherently double counted across corporate inventories)?*

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DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

AGENDA

Welcome & housekeeping	10 min
SBTi presentation: Phased approach proposal	15 min
Presentation and discussion: Recognition only phase	60 min
Presentation and discussion: Recognition and requirement phase	60 min
Next steps	5 min

Recognition and requirement phase: When should mandatory requirements take effect, and what should they entail?

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Option A: Mandatory Scope 1 residual emissions targets

	A. Mandatory Scope 1 residual emissions targets
Proposal	After the compliance date, companies are required to set **interim removal targets** to proactively address **scope 1 residual emissions** with a **linear growth trajectory** toward net zero.
Rationale	Transition period aims to build market readiness, enabling companies to scale up their capacity for removals ahead of the compliance phase.
Pros & cons	✓ Builds on existing CDR EWG work ✓ Drives early planning and investment in removals. x Limited to Scope 1; may overburden sectors with high emissions and limited access to removals.

Still to be defined for this option:

- When should the compliance period commence? (2035 suggested in the pre-read)
- What durability threshold for removals should be required? For example, should removals meet a minimum durability, or a portfolio approach based on increasing average durability over time?
- For companies without projected scope 1 residual emissions, OER recognition remains an option. Should we ratchet ambition of the minimum recognition threshold?

Global mitigation is falling short of Paris goals

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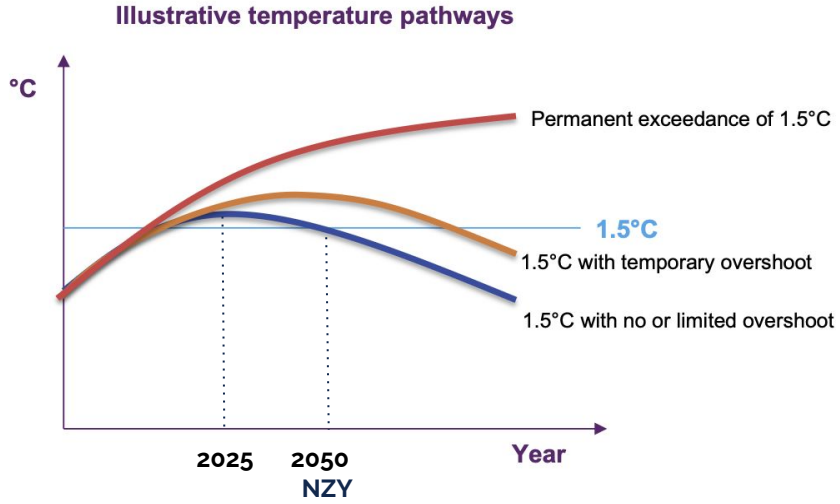

Carbon budget (Gt)	Global emission peak
500	Before 2025
650	Before 2030

1.5C pathways

Remaining budget (Gt)	Exhausted in
130	2028
320	2033

Current trajectory

The pathways underpinning the SBTi target setting framework are consistent with the goal of **limiting warming to 1.5˚C** by the end of the Century, **following a low or no-overshoot trajectory** where global emissions peak no later than 2025 and net zero is reached by 2050.

However, as global emissions have continued to rise post-2020, **a low-overshoot trajectory is increasingly unrealistic.** The current emissions trajectory implies that the remaining 1.5˚C carbon budget will be exhausted within a few years, increasing the risk of surpassing the temperature target.

Global climate indicators sources:
https://essd.copernicus.org/articles/16/2625/2024/
https://carbonbudgetcalculator.com/

As global emissions continue to rise, realigning ambition is critical to stay on track with a 1.5˚C pathway. BVCM currently offers the most feasible and actionable way forward

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	Revised carbon budget	Conservation of 1.5˚C carbon budget and overshoot management	
	Recalibrating global mitigation scenarios	**Increasing in-value chain gross emission cuts**	**Accelerating beyond value chain mitigation and neutralization**
What it does	Redesign underlying pathways using updated science (budgets, overshoot, removal requirements, and timing)	Tightens the existing target ambition by advancing the net zero year or increasing reduction rates	
Changes to existing targets	**Yes**: revised global emissions and technology deployment pathways and end points	**Yes**. Earlier net zero year and/or steeper reduction rates	
Implementation approach	**Integrates ESM informed carbon budgets with IAMs** to generate revised emission mitigation pathways	Recalculates reduction rates from **existing SBTi 1.5 pathways**	
Key risks	Dependent on AR7 scenarios updates	• Accelerating ambition might be unfeasible • Not fair to companies already taking actions	
Actionability	Multi year process	Within current standard revision cycle	

CNZS V2.0 sorts companies into category A or B based on their size and the location of their headquarters

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	Company size				Company location[1]	
	Number of employees #	**Net annual turnover** $ or €	**Balance sheet** $ or €	**Emissions (sc. 1 + 2)** tCO_2e	**High and upper-middle** income countries	**Low and lower-middle** income countries
Large At least 1 criteria	>1,000	>450M	n/a	n/a	A	A
Medium At least 2 criteria	250 – 1,000	50 – 450M	>25M	n/a	A	B
Small At least 2 criteria and under CO_2e threshold	<250	<50M	<25M	<10,000	B	B

Based on World Bank classification

A medium company is considered to be based in low or lower-middle income country if it's HQ is in a low or lower-income country **and** it's turnover derived from high or upper-middle income countries is <50M ($ or€)

1. Based on World Bank Classification of countries
Note: Standard alignment with CSRD criteria; "Large" and "Medium" companies fall into the CSRD "Large" company group, and "Small" companies fall into the CSRD "Medium, small, and micro":

32

Which economies are responsible for the 1.5 overshoot?

Even if current emission pledges are met, by 2050 developed economies will accrue 80% of the carbon debt

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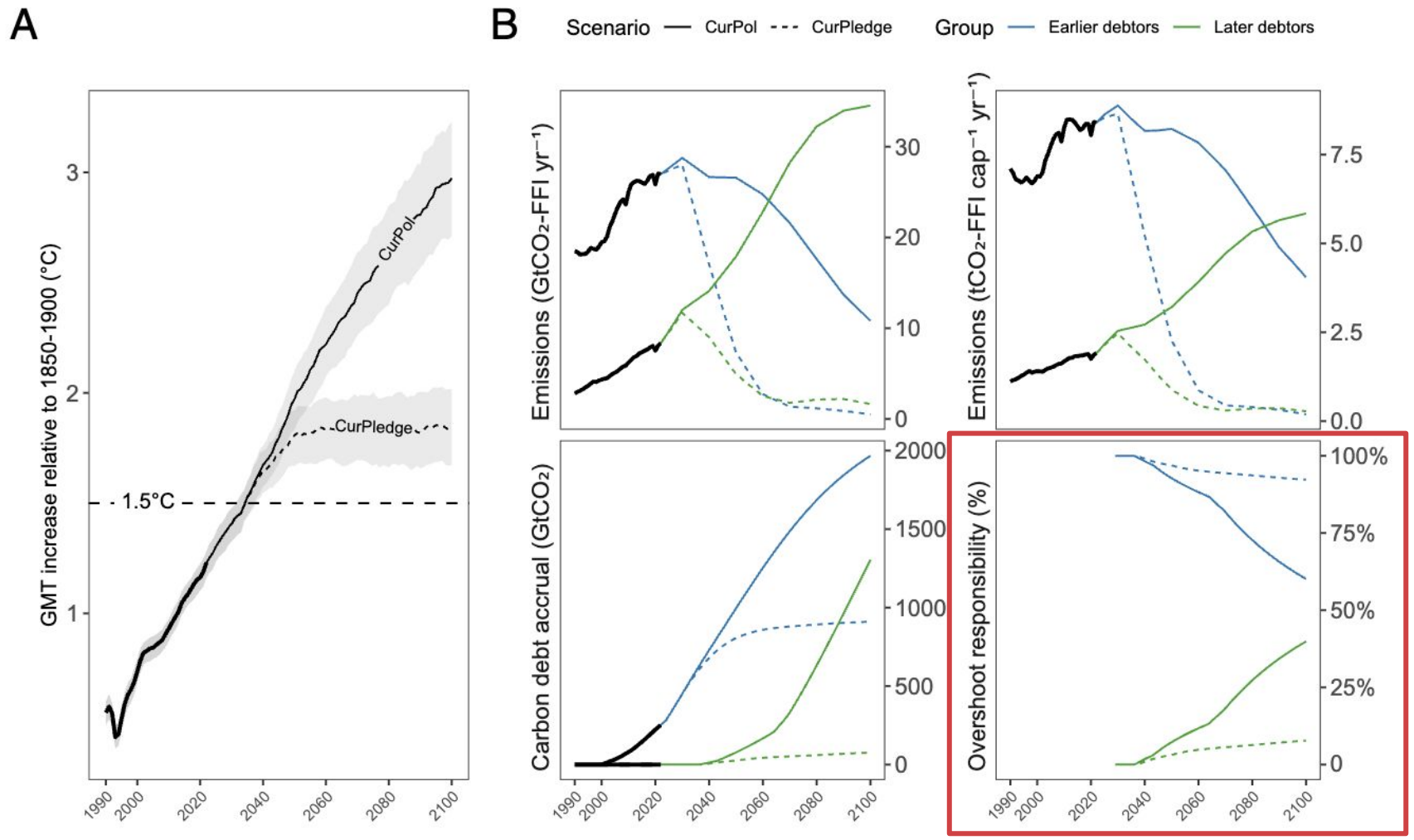

Earlier debtors - NAM: North America, EUR: Europe, APD: Asia-Pacific Developed, EEA: Eastern Europe and West-Central Asia, EAS: Eastern Asia, MEA: North Africa and Middle East
Later debtors - PAS: South-East Asia and developing Pacific, LAC: Latin America and Caribbean, AFR: Sub-saharan Africa, SAS: Southern Asia

Current situation (panel A): we are on an overshooting trajectory and even when considering current commitment (CurPledge) we are on a pathway to 1.8C median peak warming

When accounting for historical emissions (panel B right bottom quadrant): by 2050, developed economies are responsible for 97% of the overshoot even when current NDCs are met (blue dotted line) While developing countries have minimal responsibilities (green lines) in the short term, this increases over time, especially if NDCs are not met.

Source:
Pelz (2025). Using net-zero carbon debt to track climate overshoot responsibility. PNAS

Recognition and requirement phase: When should mandatory requirements take effect, and what should they entail?

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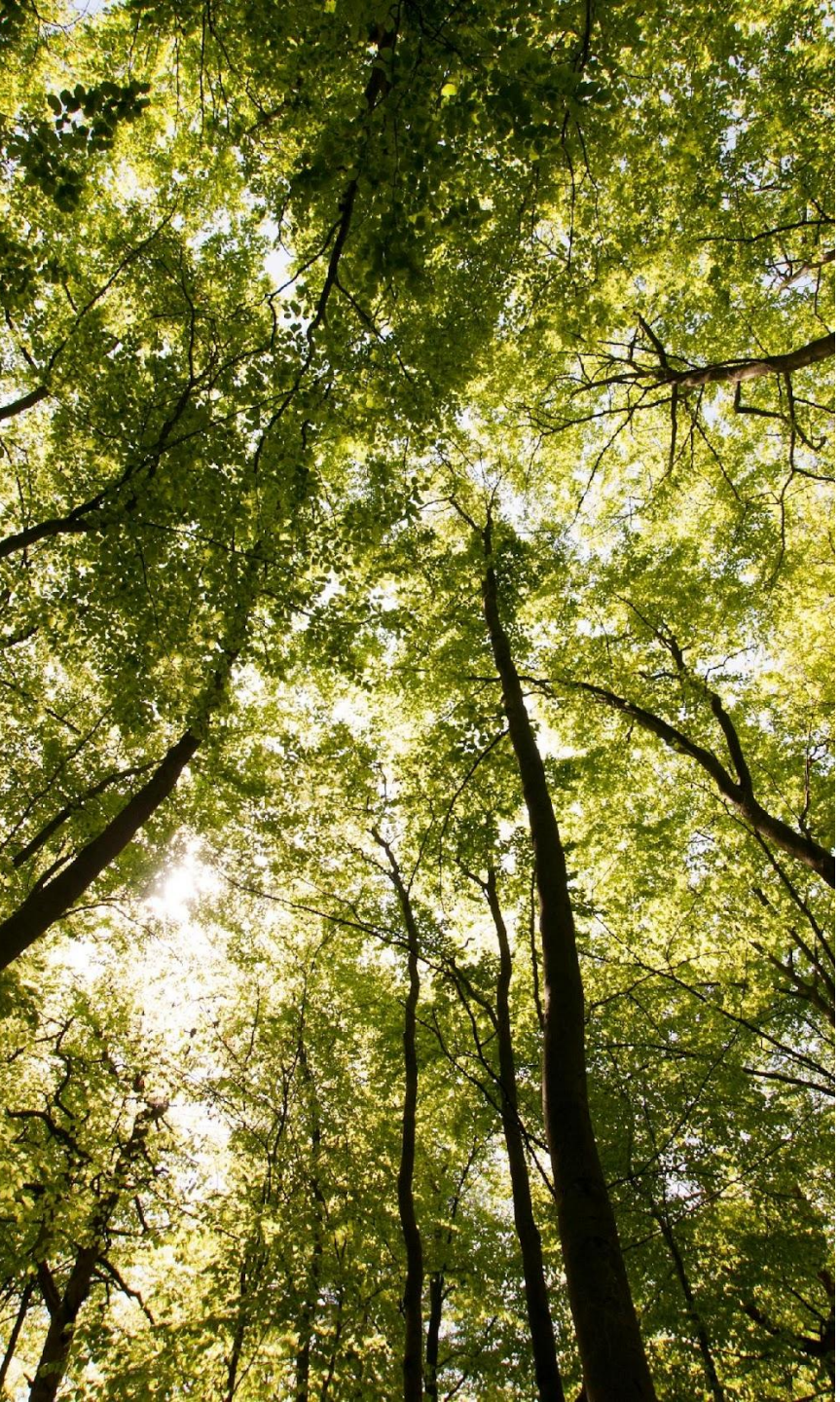
Option B: 2040 mandatory requirement for Cat A companies to address ongoing emissions

	B. 2040 mandatory requirement for Cat A companies to address ongoing emissions
Proposal	**From 2040 onwards,** category A companies (large corporates in high-income countries) are required to take **full responsibility for Scopes 1–3 ongoing emissions.**
Rationale	High-income countries have already consumed a disproportionate share of the global carbon budget - companies in these countries should accelerate decarbonization efforts.
Pros & cons	✓ Ensures high-capacity actors lead ✓ CNZS V2.0 becomes more equitable. x Ambitious target may prove operationally challenging; delayed compliance risks slower market mobilization.

Still to be defined for this option:

- Should we specify the split of mitigation outcomes required for addressing ongoing emissions after 2040?
- What durability threshold for removals should be required? For example, should removals meet a minimum durability, or a portfolio approach based on increasing average durability over time?



Group discussion: **Recognition and requirement phase options**

1. *Which of the recognition and requirement phase options do you prefer?*
2. *If we go with Option A, mandatory Scope 1 residual emissions targets, when should the compliance period commence?*
3. *If we go with Option B, 2040 mandatory requirement for Cat A companies to address ongoing emissions, should we specify a split of mitigation outcomes?*
4. *If we specify a split, should the required share of removals increase over time?*

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What to expect between now and our next meeting 9th - 11th September, in-person (!)...

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Post-meeting survey will be shared by next week

Today's **slides and minutes** will be uploaded to our shared folder

Pre-reads for our in-person meeting will be shared 5 days in advance

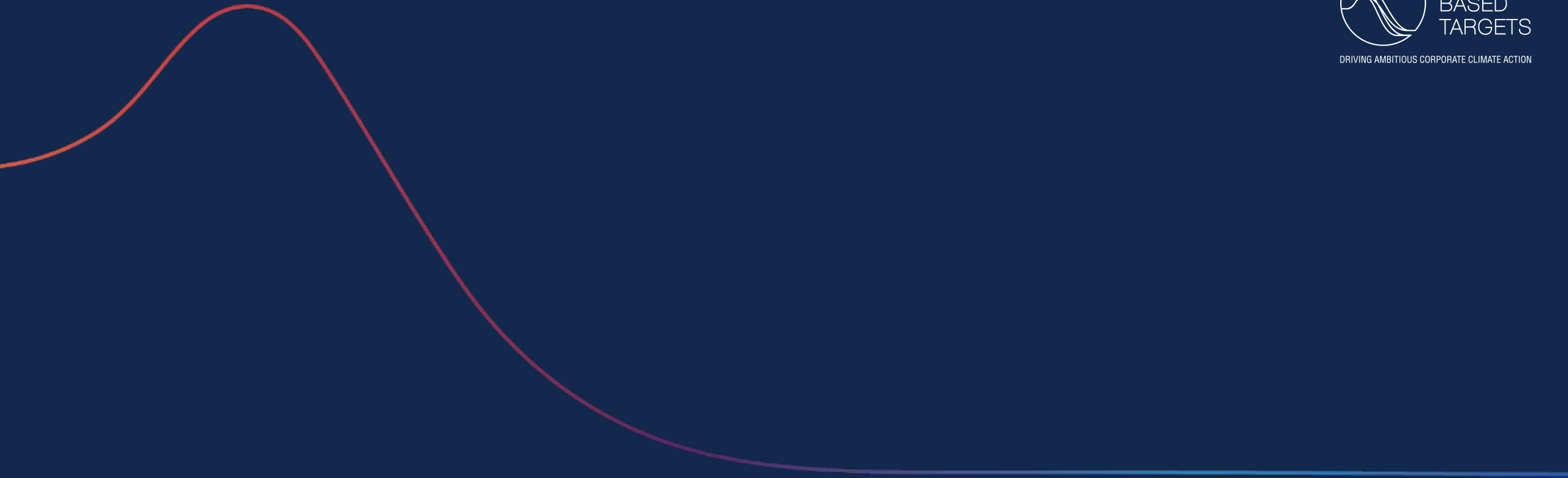
Any questions? You can reach us at:
BVCM alicefarrelly@sciencebasedtargets.org **and** scarlettbenson@sciencebasedtargets.org

CDR: pierapatrizio@sciencebasedtargets.org **and** humphreyadun@sciencebasedtargets.org

If you haven't already, please respond to the invite for the in-person meetings in London.

Daily meeting schedule:

- ➔ *Tues 9th Sept 10am-5pm*
- ➔ *Weds 10th Sept 9am-5pm*
- ➔ *Thurs 11th Sept 9am-3pm*



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