SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Meeting 5: traceability and direct mitigation

16 July

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Traceability isn't the goal in and of itself - but rather it should ***enable credible climate performance claims*** *and help to* ***bring transition risk into focus***

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Agenda

1. **Session intro and welcome**
2. Recap: what did we learn from the previous session
3. Framing the discussion: claims and physical traceability
    - ISEAL perspective
    - VCI perspective
4. SBTi criteria and proposal on traceability
5. Discussion: minimum traceability requirements for direct mitigation
6. Next steps

Introduction | Our goal today is to establish a shared understanding of the minimum requirements for physical traceability needed to credibly substantiate direct mitigation

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Today's questions	…and outcomes
1. **What did we learn from the previous session?**	Share key takeaways on target boundary to address in the standard
2. **What is the role of physical traceability and chain of custody (CoC) models in performance claims?**	Develop a shared understanding of the relevance of physical traceability for performance claims
3. **Discussion: what is the minimum level of physical traceability required to substantiate direct mitigation actions?**	Identify potential principles for physical traceability for direct mitigation

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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.

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CONFLICT OF INTEREST DECLARATION

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- 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 Conflict of Interest 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

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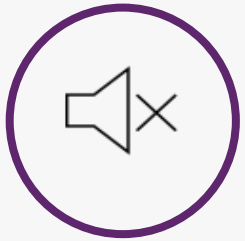
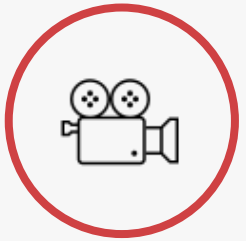
Participant guidelines



Mute during presentations

Use the chat box

Use the raise hand function



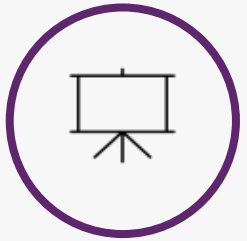
If you can, please keep your camera on

Notes from us

Treat info as confidential

Meeting is being recorded

We will follow up with minutes



…And we will follow up with slides!

Scope 3 EWG | **Where we are and where we're going**

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23 Apr + 14 May → 4 June → 25 June → 16 July → 31 July + Sept workshop →

Net-zero aligned procurement	Net-zero aligned revenue	Target boundary	Traceability & direct mitigation	Indirect mitigation
• Refining framework for net-zero aligned procurement • Prioritisation of suppliers • Metrics for aligned commodities and services	• Refining framework for net-zero aligned revenue • Metrics for aligned sold products *External presenter: Oxford Net-Zero*	• Reviewing and challenging current proposal *(CDP, CEDA, consultation results)* • Refinement of target boundary approach	• Min. levels of traceability for direct mitigation claims	• Justification for indirect mitigation • Data quality requirements for indirect mitigation

We are here

EWG in person:
Tues. 9th Sept. from 10am till Thurs. 11th Sept until 3pm Wallacespace Clerkenwell Green, London
Please respond to the calendar invite to confirm participation

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Draft takeaways | **Target boundary definition**

Emerging findings from the EWG discussions on target boundary (for further refinement)

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	Category-level significance *≥5% total scope 3 emissions*	**Emissions-intensive activities** *≥1% total S3 OR ≥10.000 tCO_2e*	**Maximum cumulative exclusion threshold** *(new)* *e.g. 10% max. exclusions*

Takeaways	• **Support for 5% category-level threshold** as primary screening:
	  ○ Aligns with companies' reporting practices and easy to implement
	  ○ Aligns with GHG Protocol definition of materiality
	  ○ Expected to capture >90% of emissions and coverage *within* sectors is consistent (avg. difference across companies is 15%)
		• **Queries raised about unnecessary burden** of this step if category-level threshold captures most EIAs anyway
		  ○ As most EIAs are in cat. 1 and 11 which are relevant for approx. 90% of companies, step 1 should capture most EIAs
		  ○ Additional failsafes may be needed for transport and leasing-related categories
			• **Support for 90% min. cumulative coverage threshold** as a failsafe to ensure credibility, comparability, and completeness across companies
			• If adopted, SBTi should consider developing clear guidance for how companies can "top up" to reach 90% coverage (e.g. ranking by emissions magnitude, ease of action, lower significance EIAs).

Latest thinking	• Retain 5% category-level significance threshold	• Consider moving EIA screening into category-specific requirements • Refine list of EIAs using latest FINZ draft for greater specificity at process-level	• Consider introducing 90% minimum target coverage requirement with guidance

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Claims | SBTi is updating its approach to addressing scope 3 and associated claims using principles to ensure credibility

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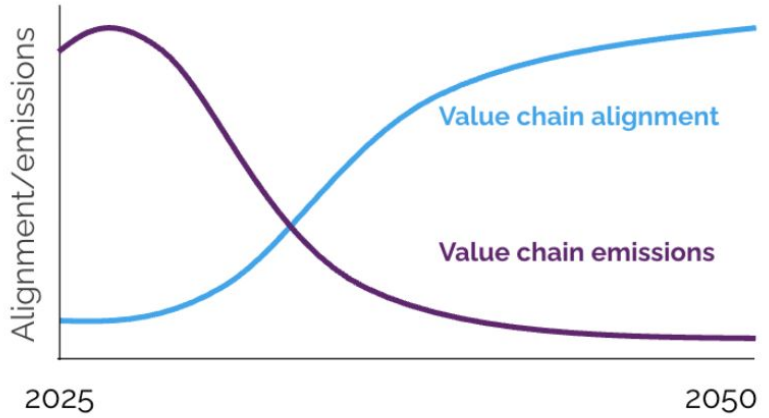
SBTi incentivizes companies to **reduce value chain emissions** and **align business practices** with the transformation needed to reach net-zero emissions by 2050, through developing standards for target-setting and assessment of conformance against these standards.

Demonstration of progress against targets requires a **robust claims framework** with **minimum requirements** that help ensure a truthful and accurate reflection of outcomes and impacts delivered.



SBTi is basing its claims framework on guiding principles derived from ISEAL guidance and emerging regulations:

- **Clarity:** clear, specific, and easily understood by consumers, investors, stakeholders and other parties
- **Truthfulness:** truthfully reflect the organization's climate ambition, performance or actions and not mislead, misrepresent, exaggerate or omit material information
- **Verifiability:** supported by credible evidence, be subject to independent verification, align with recognised standards

Claims | **SBTi envisages two types of claims: assurance and climate-related claims**

The EU defines an environmental claim as *"a voluntary, explicit statement made by a company about the environmental aspects or performance of its product, service or operations."*

Two types of claims are envisioned under the SBTi claims framework:

Assurance status claims	A statement that indicates a company's stage in the science-based target-setting cycle and its status with respect to assessment of conformance against SBTi requirements.
Climate-related claims	Statements made by companies about their climate-related ambition, performance or contributions. These claims may be forward-looking, reflect current performance, or refer to achieved outcomes or impacts.

Claims shall be **clear**, **accurate** and **substantiated** and shall be communicated in a manner that ensures **transparency**, **consistency** and **alignment** with SBTi requirements, applicable regulations and recognised best practice.

N.B. SBTi provisional thinking, which is to be deliberated by the Claims EWG.

Claims | **Climate-related claims include ambition, performance and contribution claims; performance is today's focus**

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Provisional taxonomy and descriptions for climate-related claims used in SBTi Corporate Net Zero Standard:

Ambition claims	Statements about a company's climate goals or targets that reflect its intended environmental performance at a specific point in the future.
Performance claims	Statements about measurable climate-related outcomes within an organisation's value chain.
Contribution claims	Statements about a company's contributions that result in climate mitigation outside of its own value chain.

Performance claims should…

- Transparently **communicate performance** while **avoiding blame** or stigma for those who fall short
- Recognize **legitimate constraints** without using them as blanket **justifications for inaction**
- Be backed by reliable, **robust data** without imposing excessive **reporting burdens**
- Be compelling and **easy to grasp**, while guarding **against greenwashing** or misleading claims

N.B. SBTi provisional thinking, which is to be deliberated by the Claims EWG.

Claims | Why is physical traceability important for credible scope 3 performance claims?

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Physical traceability refers to…

"*When a company has the ability to **identify**, **track**, and **collect information** on activities (e.g., activity data or GHG emission or removals factors) related to **material flows** of goods and services in its value chain, across its upstream and downstream processes and products*"

GHGP, Land Sector and Removals Standard (forthcoming)

…and enables…

Understanding of impacts and risks

Knowledge of exposure to **transition risk** due to dependence on emissions-generating activities in the value chain

Design of interventions

Targeted action to reduce emissions or align the emissions source with net-zero

Reduction of risk from misleading claims

Higher certainty that real-world climate benefits from an intervention are connected with the good or service sourced

Traceability | **Traceable emissions data includes information on the source and its sustainability characteristics**

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Traceable emission data

Knowledge of the source
(e.g. origin of material sourced)

Traceability to the source within the value chain, e.g. origin of physical material flowing through the value chain. Can be established at

- Counterparty-level (e.g. supplier producing commodity)
- Activity-level (e.g. specific commodity sourced or activity pool)

Tier 2 (steel producer) — Tier 1 (car door) — Auto manufacturer

Knowledge of the source's characteristics
(e.g. emissions intensity / net-zero certification)

Understanding of the sustainability characteristics or attributes related to the emissions source within the value chain, e.g.

- Climate performance of the counterparty
- Emissions intensity of the activity

e.g. steel made at net-zero intensity benchmark (0.111 kg CO_2/kg)

Background | Work is being done concurrently by organizations in the climate ecosystem to inform how traceability can help to substantiate performance claims

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GREENHOUSE GAS PROTOCOL

Developing Land Sector and Removals (LSR) Guidance for what constitutes verifiable and traceable emissions/removals interventions (final guidance expected late 2025).

LSR interim traceability guidance* defines physical traceability as "when a company has the ability to identify, track, and collect information on activities (e.g., activity data or GHG emission or removals factors) related to material flows of goods and services in its value chain, across its upstream and downstream processes and products."

The level of physical traceability can be categorized from most specific (e.g. harvested area of origin) to least specific (e.g. unknown).

*definition taken from GHGP AMI Working group presentation (2025), subject to change as part of LSRG development

ValueChange

Guidance for credible value chain emissions reductions especially in the food and agricultural sectors, including traceability and allocation of emissions reductions from interventions.

iseal

Updated chain of custody models and definitions guidance to support transfer and validation of sustainability claims. Lays out models (e.g. identity preserved, mass balance, book and claim) for tracking sustainability attributes through supply chains.

OECD

Traceability forms part of the **Guidelines for Responsible Business Conduct**, which promote identification, tracing and managing of ESG risks in the value chain to ensure companies can credibly link products and impacts to their origins.

AIM PLATFORM

Developing guidance for indirect interventions and how to allocate emissions using credible methodologies to enable companies to take responsibility for scope 3 emissions beyond their control. AIM categorises traceability into three main categories

- *Physical association*: interventions that target physical emissions (e.g. direct suppliers)
- *Close association*: interventions that target a likely supplier (e.g. sourcing area is known but specific supplier may not be known)
- *Sectoral association*: interventions that target decarbonization of the types of goods or services present in the scope 3 inventory, but where one or more challenges makes support for a physical or close association impossible

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SBTi EWG Scope 3 meeting – CoC and functions

iseal

What is chain of custody

Chain of Custody: a means by which inputs, outputs, and associated attributes are transferred, monitored and controlled as they move forward through each step in the supply chain. (adapted from ISO 22095:2020)

- Enables the **transfer and validation of attributes** associated with activities and entities included in a sustainability system.
- Controls the movement, handling and processing of materials **within** and **between** approved or certified business entities.
- **Forms the basis for any claims** that can be made about an approved or certified product.

iseal

CoC system functions

Depending on the approach taken, CoC systems can:

› **Track and control volumes** of certified materials **and specified characteristics** as they flow through the supply chain

› **Identify the raw material origins** of a final product or product component

› Protect and monitor the **integrity** of claims

› **Link sustainability practices, performance or outcomes** at a certain stage in the supply chain **with a product claim** at the end of the chain

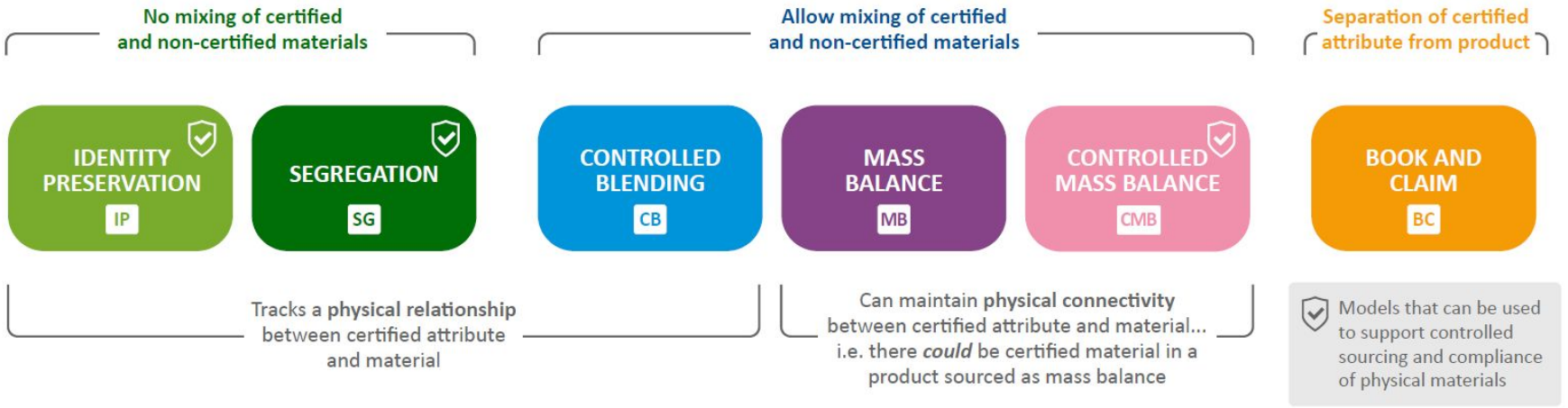
› Capture **origin, risk and sourcing information** for material entering the supply chain

› **Demonstrate a custodial sequence** for materials along the supply chain

›Ensure that entities participating in the CoC (and non-certified materials entering the mix) meet **minimum integrity / performance requirements**

iseal

Making sense of the CoC model landscape



Physical relationship **+** **Physical connectivity** **-** **No physical relationship**

iseal

What factors influence how much physical connectivity we can expect in a given supply chain?

- Nature of commodity / supply
- Length of supply chain
- Degree supply is consolidated / spread within tiers
- Digital maturity of supply chain
- Operational capacity of suppliers to segregate (storage, manufacturing, logistics)
- Operational capacity of supplier to maintain internal traceability
- Reporting company influence over supply chain

iseal

Potential points of confusion and uncertainty…

Confusion:

› Use of the term ‘mass balance’ to describe approaches that are not mass balance

- Inferring a relationship between product and reporting company without CoC
- Attributing certificates to materials when there is no association between them

› Focusing on CoC, and failing to consider the credibility and diversity of systems generating certificates (and what those certificates represent)

› Assuming traceability is always possible (or beneficial)

Uncertainty:

› Most mass balance CoCs track qualitative / binary attributes (certified / non-certified) – what adaptations are needed to facilitate the flow of EF’s through mass balance systems?

› Are supply chain organisations able to adapt their systems to track EFs?

› What infrastructure is needed to enable the flow and verification of EFs through supply chains?

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ValueChange

Traceability in GHG accounting

July 2025

Physical connectivity – why is it important for GHG accounting?

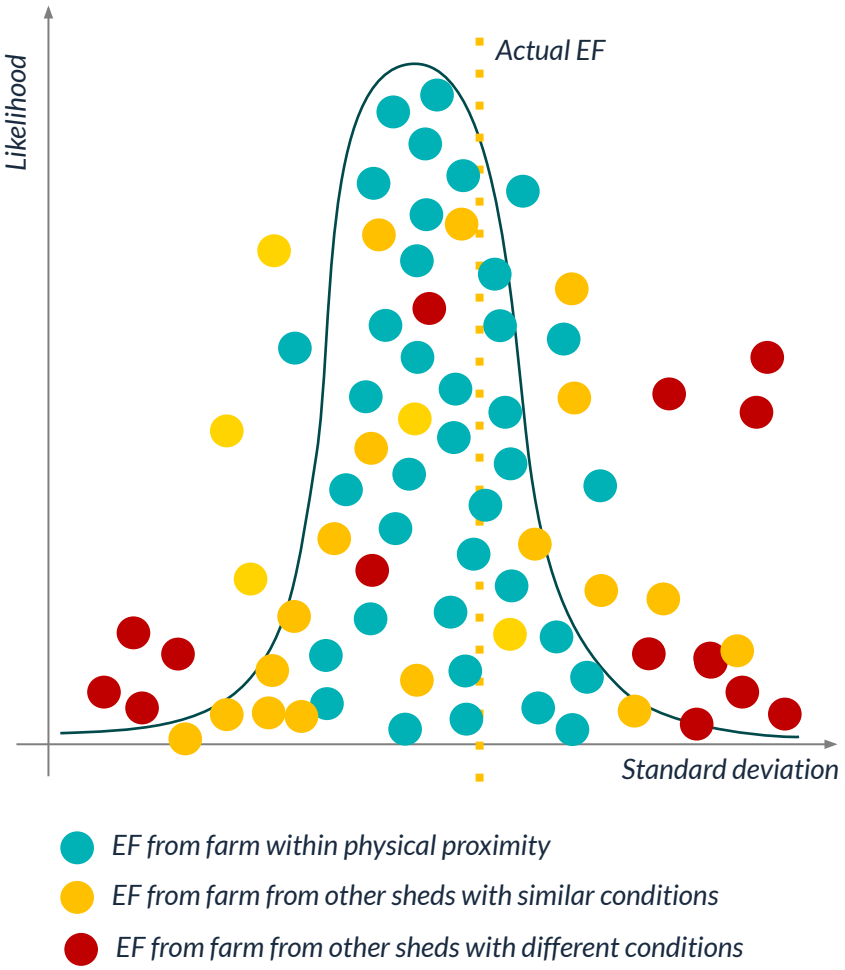
Physical connectivity is the **demonstrable link between the product or commodity** claimed in a company's Scope 3 GHG report and the specific location, supplier, or production unit where the value chain intervention took place.

Physical connectivity determines whether a company can credibly claim that the climate impact (e.g., reduced emissions) from an intervention is embedded in the products it has procured.

Physical connectivity is important for **credible impact**, because:

- It demonstrates **right to claim** – the stronger the link, the less likely it is that an «freerider» will claim the benefits of an Intervention that is disconnected from its value chain, the more likely reported goods + EF are the ones actually sourced
- It enhances **precision and accuracy** and thus reduces uncertainty in the EF used (provided it complies to requirements consistent with the boundary) – leading to GHG accounting closer to reality
- It enables effective **systemic impact in dynamic markets** – creating the right incentives in the right place

VCI supports the idea of establishing a *reasonable* physical connectivity, due to the complexity of value chains and data management.



Proposed concept under development

But… what do we need to prove physicality in GHG accounting

Traceability

(ISEAL consultation)

The ability to **track and verify the history and location of a material's** movement through defined stages of production, processing and distribution.

Chain of Custody models

(ISEAL consultation)

A means by which inputs, outputs, and **associated attributes are transferred**, monitored and controlled as they move forward through each step in the supply chain.

- CoC tracks change in ownership/custody of goods, and focuses on enabling the trade of goods with differentiated attributes.
- A CoC can only be forward.

Traceability system with CoC logic

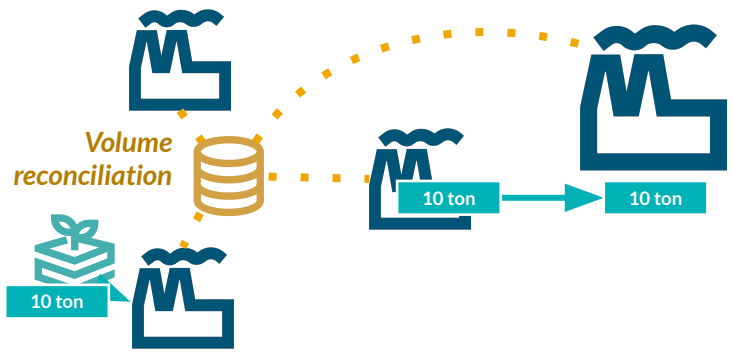
(new concept – working definition)

Leveraging the structure of a CoC model to an **information tracking system** (or a traceability IT tool that tracks product flows) to establish administrative and/or physical traceability of a product, without applying the full CoC rules and requirements.

- An information tracking system can track and record events and data, enabling **traceability**.
- Different to the full CoC requirements, the CoC logic could be based on different rules:
  - Can be established forward or backward
  - Data does not necessarily track ownership, but rather product attributes (less evidence heavy)
  - Does not need to follow allocation/attribution rules as per CoC model but only those for GHG accounting (depending on whether physical accounting or MBMs are used)
  - Volume reconciliation will vary depending on the geographical and temporary dimensions.

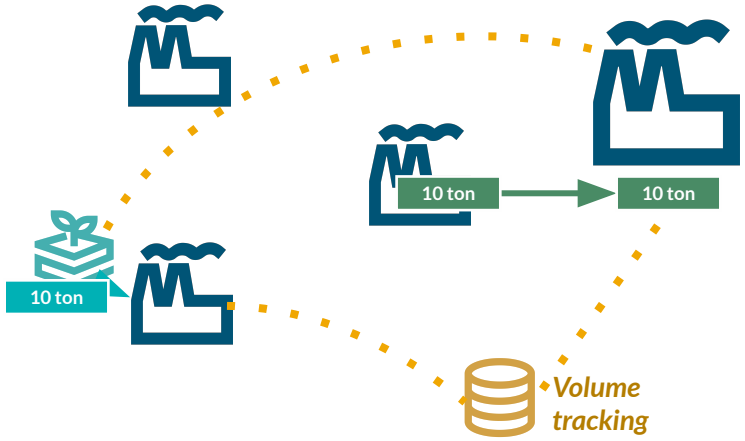
What is the challenge with a Mass Balance CoC system?

MASS BALANCE
Multisite/Group level



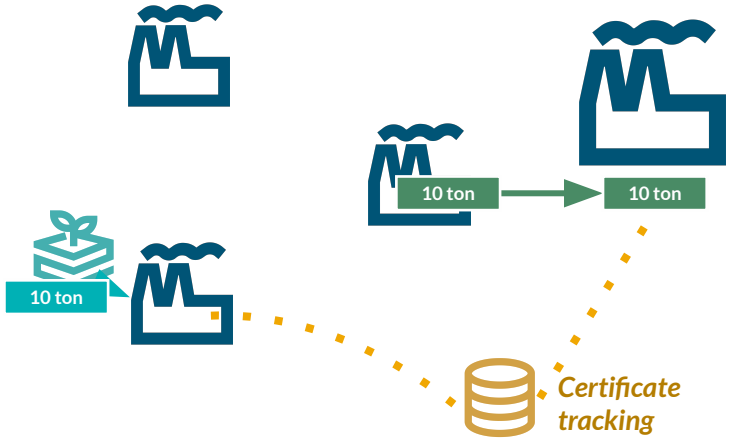
- Nodes exchange information to ensure there is volume tracking and **volume reconciliation**, from 1st Point of mixing to the final offtaker.

GHG Accounting Traceability system?



- Nodes are independent and DO NOT need to exchange information.
- Claims are capped at the **impacted amounts by the interventions.**
- Consistency (geographical, time, etc) is needed to establish physical connectivity.

BOOK AND CLAIM



- Nodes are independent and DO NOT need to exchange information.
- Claims are capped at the **impacted amounts by the interventions.**
- Claims are done through certificates – no attribution needed.

How to assess the physical connectivity?

The information provided about the asset, when there is no segregation, must establish a *reasonable* physical link, that means that it is likely that the product sourced by the offtaker could likely contain some/all of the commodities with the desired transferable attributes due to:

- **Quantitative consistency**, so the quantity of the impacted goods claimed does not exceed the quantity sourced.
- **Temporal consistency**, that the date of acquisition of the goods fall within the reporting period.
- **Functional/technical consistency**, that the purchased good can realistically be the impacted good (as per technical qualitative parameters). This means that non-transferable attributes will not allow for this consistency (e.g., we cannot claim impact for organic products in conventional products).
- **Geographical consistency**, that the purchased goods originate from the defined Supply Shed associated to the impact interventions.

These criteria could help to establish a reasonable physical connectivity of the sourced goods to the supply shed/activity pool.

Proposed concept under development

What could be potential approaches to traceability?

VCI proposes that **physical connectivity for GHG accounting purposes** can be established through mechanisms such as:

Chain of Custody systems (Mass Balance);

Traceability system that tracks volumes following **Chain of Custody logic**, but that does not necessarily comply with all requirements of a CoC model, for example:

- A reasonable approach to volume reconciliation,
- Consistency in boundaries
- Integrity in the impact traceability
- Approach that enables "filling in the gaps"

Proof of Sourcing within defined Supply Sheds/Activity Pools, including:

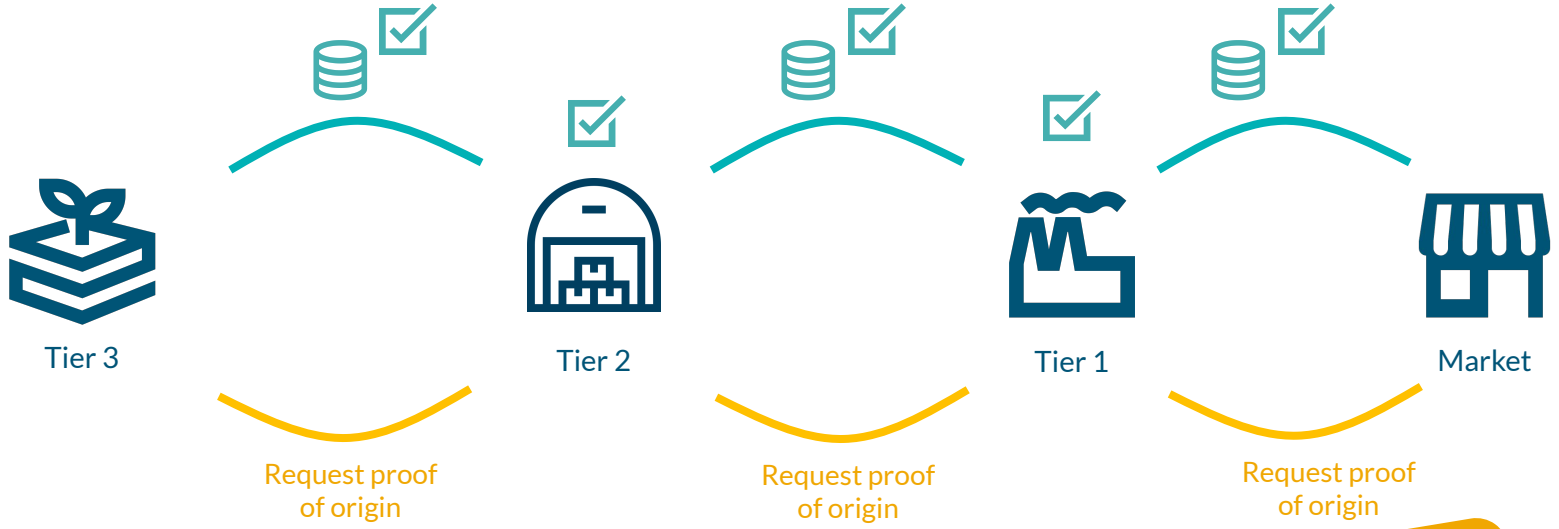
- Backward traceability,
- Consistency in boundaries
- Different degrees of assurance for the integrity in the impact traceability

*A **consistency framework** can help establishing an actionable approach to establish physical connectivity.*

Example of approaches: Backward traceability could facilitate operationalization at scale

- Connectivity or even physical relationships could be established in a retrospective manner, using ***backward traceability systems***
- **Proof of Sourcing** could be a way to establish this backward traceability
- Makes use of the **consistency criteria** to establish connectivity between the product and the EF claimed
- This approach is actionable across different realities in complex value chains.

Classical supply chain certification CoC system



PoS as a backcasting system to establish credible link to the impacted goods

This and more explorations in upcoming VCI work…

Accounting and reporting Scope 3 Interventions in the Food and Agriculture sector. Chapter 4.2 Proof of Sourcing

Then… what traceability would make sense for target setting?

PHYSICALITY

Highest physical connectivity and claiming integrity	*Reasonable physical connectivity*	*Imperfect physical connectivity*	*Low physical connectivity*	*Uncertain physical connectivity*	*No physical connectivity*
Mass balance from single sources (batch/ site) • Data and volume tracking from the exact production unit or supplier where the intervention occurred. • Supported by Batch or Site-level Mass Balance models. • Allows for inventory inclusion with minimal uncertainty. • Follows physical attribution rules.	**Supply Shed with consistency safeguards** • Goods are sourced from a defined Supply Shed, where intervention impacts can be measured and volume flows are monitored/reconciled throughout the VC. • Requires evidence of geographical sourcing alignment and documented CoC checkpoint(s). • Follows physical attribution rules.	**Stratified with limited traceability** • Goods are sourced from a Stratum within a Supply Shed, where intervention impacts can be measured and volume flows are monitored/reconciled throughout the VC. • Evidence trail starts at the first PoA, not at the individual suppliers • Requires evidence of geographical sourcing alignment and documented checkpoint(s) from 1st PoA • Follows physical attribution rules.	**High functional equivalence, low(er) geographical consistency** • Products share: same crop or product type, similar production practices, comparable soil/climatic conditions, similar GHG emissions drivers. • Representativeness validated by data stratification, sampling, or modeling. • Can leverage other attribution mechanisms within the boundary.	**Shared contextual realities and systemic barriers** • Farms or suppliers operate under comparable regulatory, economic, or infrastructural constraints (e.g., irrigation access, extension services, credit markets). • Reflects similar implementation barriers or intervention pathways. • No physical traceability, impact traceability can leverage certificates for attribution.	**Market dynamics and substitution effects** • Based on market logic—e.g., sourcing from a generalized commodity market (e.g., soy, wheat). • No spatial or supplier-level traceability and no spatial boundary. • Supports Book & Claim mechanisms only.

Supplier (site or cluster)	*Local market/sourcing region (subnational)*	*Local market/sourcing region (subnational)*	*Regional impact (one country or multiple within close proximity)*	*Regional/market impact (e.g., across many countries)*	*Sector level impact (global)*

IMPACT

Supply shed/activity pool approaches could help to manage risks in supply chains, but also it could accelerate and scale action market/regional impact, balancing influence and pragmatism.

Thank you

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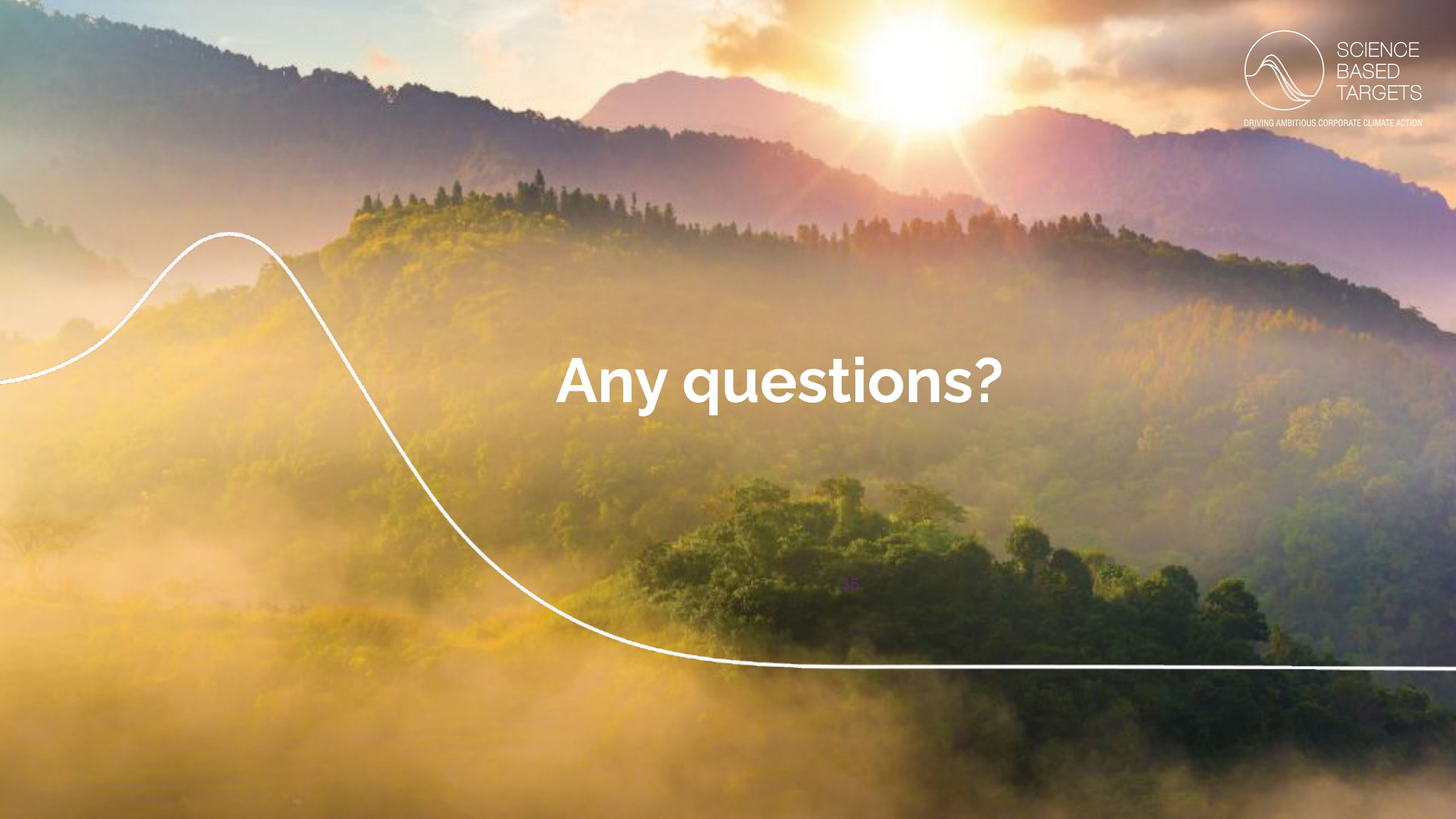
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Any questions?

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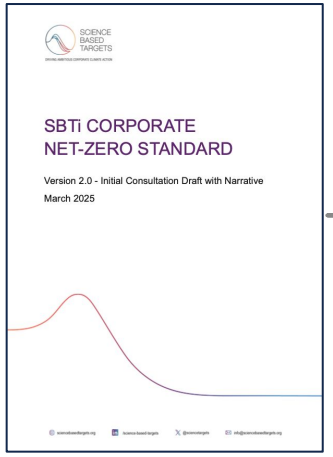
6. Next steps

Criteria | The current draft includes a definition of traceable emissions data, requirements on traceability improvement and the level of traceability for different mitigation types



Traceable emissions data	Refers to emissions data where both of the following are known by the reporting company: • The emissions source in the value chain, established through a credible system (e.g. chain of custody model) demonstrating physical connectedness to the reporting company; • The emissions profile of the emissions source (e.g. emissions factor).

Traceable emissions data requires knowledge of:
- the **source**
- its **emission profile**

C10.1. Companies shall determine the level of traceability to the source for emissions-intensive activities within their value chain and significant scope 3 categories in the target base year.

C10.2. Companies shall develop a plan to increase the level of traceability over the target cycle and report progress against it, in order to assess progress against targets and substantiate related claims, striving to achieve full traceability for emissions-intensive activities by 2035 and for other emissions sources in the value chain by 2050.

To assess progress and substantiate claims, companies shall:
- determine their **level of traceability**
- develop a **plan to improve** traceability
- strive for traceability of **EIAs by 2035**
- strive for traceability of **all sources by 2050**

C16.5. Scope 3 targets shall be pursued through mitigation measures traceable at the emission source or activity pool level. For emission sources that cannot be directly mitigated, companies may employ effective indirect mitigation measures on an interim basis[24]. ***(NOTE**: Indirect mitigation measures are expected to adhere to quality criteria to be developed through the consultation process.)*

Mitigation options include:
- **direct mitigation** traceable at a minimum at the activity pool level
- **indirect mitigation** on an interim basis where direct mitigation is not possible

Key terms | The level of traceability differs between direct, indirect and beyond value chain mitigation

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Direct mitigation

Mitigation actions directly **linked to specific activities** in the value chain, with **traceability established** through a credible system (e.g., chain of custody).... are traceable to the company's value chain at the **emissions source** or **activity pool level,** and are accounted for within the corporate **GHG emissions inventory**

Examples:
- Shifting towards a lower-carbon material
- Switching towards lower carbon products

Indirect mitigation

Mitigation actions that **contribute** to net-zero-aligned **transformation relevant to the company's value chain** but that **cannot be traced** back to activities or emissions sources within the company's value chain. This may include chain of custody models like **book and claim** systems

Examples:
- Procurement of SAF following a book and claim approach to achieve targets against jet-fuel-related emissions

Beyond value chain mitigation

Mitigation action or investments that fall **outside a company's value chain**, including activities that **avoid** or **reduce** GHG emissions, or **remove** and **store** GHGs from the atmosphere. Beyond value chain mitigation contributes to **global climate mitigation** even when the underlying activities have no association with the company's value chain

Examples:
- Intervention to conserve / enhance biogenic carbon stocks not linked to the company's organisational boundary

Key terms | Chain of custody models and traceability are related but separate concepts

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Chain of Custody: a means by which inputs, outputs, and associated attributes are transferred, monitored and controlled as they move forward through each step in the supply chain. (adapted from ISO 22095)

Traceability: the ability to track and verify the history and location of a material's movement through defined stages of production, processing and distribution. (adapted from ISO 22095)

Ref: adapted from ISEAL resources

Chain of custody				
Material forward	**Requires collaboration from the supply chain**	**Track material volumes and specified characteristics**	**Requires volume reconciliation**	**Requires verification**
				
Material forward or product backward	Possible without active engagement	Can track diverse data points	May not require volume reconciliation	May not require verification
Traceability				

Proposal | The CNZS v2.0 introduces different approaches address emissions sources within the scope 3 target boundary

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Companies are expected to increasingly address emissions through direct mitigation linked to the value chain, while allowing short-term flexibility in recognition of existing barriers.

Direct mitigation

Emission source is addressed at the **counterparty level**

e.g. **sourcing** from supplier that has reached/transitioning to NZ emissions

Appropriate where activity-level pathways and data may not be available

Emission source is addressed at the **activity level**

e.g. **sourcing** of a zero-carbon or low-carbon product (e.g. commodity) or activity (e.g. transport)

Appropriate for emissions-intensive activities, where net-zero pathways and emissions data are available

Emission source is addressed at the **activity pool level**

e.g. **sourcing** from zero-carbon / low-emissions supply shed

Appropriate where traceability to activity or entity level is not possible

For a company to implement direct mitigation, two conditions must be met:

1. Must have **physical traceability** to the activity, entity or activity pool in their value chain
2. Must be able to **access low-carbon alternatives**

Indirect mitigation

Emission source is addressed through **indirect mitigation**

e.g. **supporting** scale-up of low-carbon alternatives relevant to the activity even when not physically connected to the source (e.g. book and claim)

For activities in early stage of transition

Where **traceability is not possible** and **access to low-carbon alternatives remains unfeasible**, companies may contribute to scale-up such alternatives through indirect mitigation

Discussion | Could chain of custody models be a useful tool to frame minimum traceability requirements for direct mitigation?

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Companies are expected to increasingly address emissions through direct mitigation linked to the value chain, while allowing short-term flexibility in recognition of existing barriers.

Direct mitigation			Indirect mitigation
Emission source is addressed at the **counterparty level**	Emission source is addressed at the **activity level**	Emission source is addressed at the **activity pool level**	Emission source is addressed through **indirect mitigation**
e.g. **sourcing** from supplier that has reached/transitioning to NZ emissions Appropriate where activity-level pathways and data may not be available	e.g. **sourcing** of a zero-carbon or low-carbon product (e.g. commodity) or activity (e.g. transport) Appropriate for emissions-intensive activities, where net-zero pathways and emissions data are available	e.g. **sourcing** from zero-carbon / low-emissions supply shed Appropriate where traceability to activity or entity level is not possible	e.g. **supporting** scale-up of low-carbon alternatives relevant to the activity even when not physically connected to the source (e.g. book and claim) For activities in early stage of transition

Physically traceable to company's value chain → **No physical link**

- Identity preservation
- Segregation
- Controlled blending
- Mass balance: batch
- Mass balance: site
- Mass balance: multi-site
- Book and claim

Discussion | …including the point at which physical connectivity between the source and characteristic is lost?

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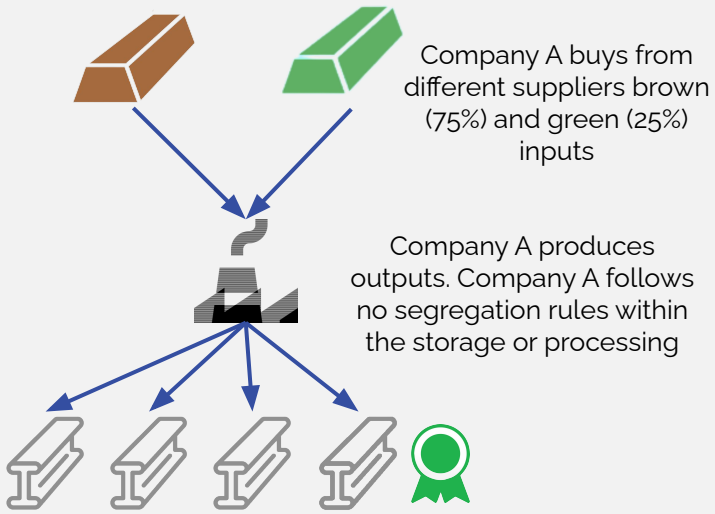
Mass balance: site

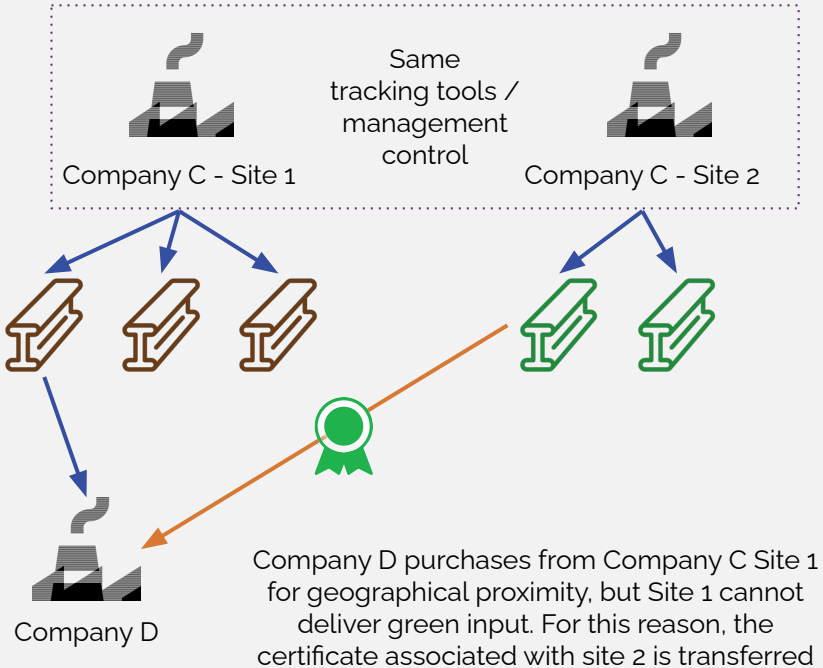


Company A buys from different suppliers brown (75%) and green (25%) inputs

Company A produces outputs. Company A follows no segregation rules within the storage or processing

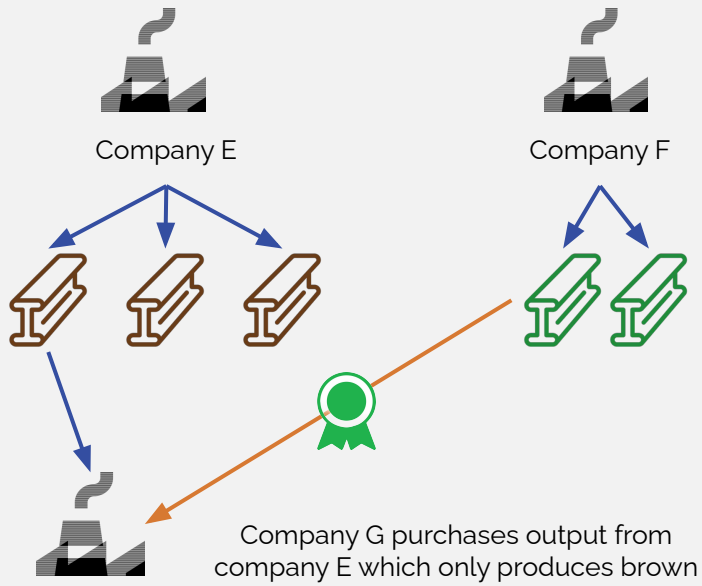
Company A can sell 25% of its final output as green

Mass balance: multi-site



Company D purchases from Company C Site 1 for geographical proximity, but Site 1 cannot deliver green input. For this reason, the certificate associated with site 2 is transferred through an internal mass balance system

Book and claim



Company G purchases output from company E which only produces brown outputs. On the market, it purchases an unbundled certificate for a green output from company F.

Key

- Certificate of characteristic
- Traceability of material
- Traceability of characteristic

Draft substantiation framework | **The draft CNZS v2.0 introduces a range of target options to address emissions sources in the value chain, each with different substantiation requirements**

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Target option		Substantiation			
Type	**Sub-type**	**Substantiation approach**	**Relevant characteristic**	**Availability of low-carbon alternatives**	**Traceability needed**
Alignment	Engagement *(counterparties)*	At the counterparty level *(e.g. supplier)*	Climate performance of counterparty *(e.g. SBT)*	n/a	At the counterparty level
	Green sourcing *(emissions-intensive activities)*	At the product* level *(e.g. commodity or service)*	Climate performance of underlying product or activity *(e.g. NZ intensity benchmark)*	Limited - below threshold *(e.g. 5% market penetration**)*	Book and claim (unbundled)
				Accessible - above threshold *(e.g. 5% market penetration**)*	At the activity level or activity pool level using credible chain of custody model
	Green sourcing *(non-emissions intensive activities)*	At the product level *(e.g. commodity or service)*	Climate performance of underlying product or activity *(tbc)*	n/a	
Emission reductions	Absolute or Intensity	At the product level *(e.g. commodity or service)*	Emissions factor of underlying product or activity *(e.g. tCO_2e/ton)*		

Development of corresponding claims

N.B. SBTi provisional thinking to be deliberated with the S3 and Claims EWGs

SBTi confidential

**For discussion as part of guardrails for indirect mitigation (based on proposal by The AIM Platform, 2024)

Proposal | How and where should we draw the line for physical traceability to substantiate direct mitigation actions?

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Companies are expected to increasingly address emissions through direct mitigation linked to the value chain, while allowing short-term flexibility in recognition of existing barriers.

Direct mitigation			Indirect mitigation
Emission source is addressed at the **counterparty level**	Emission source is addressed at the **activity level**	Emission source is addressed at the **activity pool level**	Emission source is addressed through **indirect mitigation**
e.g. **sourcing** from supplier that has reached/transitioning to NZ emissions Appropriate where activity-level pathways and data may not be available	e.g. **sourcing** of a zero-carbon or low-carbon product (e.g. commodity) or activity (e.g. transport) Appropriate for emissions-intensive activities, where net-zero pathways and emissions data are available	e.g. **sourcing** from zero-carbon / low-emissions supply shed Appropriate where traceability to activity or entity level is not possible	e.g. **supporting** scale-up of low-carbon alternatives relevant to the activity even when not physically connected to the source (e.g. book and claim) For activities in early stage of transition

Physically traceable to company's value chain → **No physical link**

1. **What is the minimum level of physical traceability required to substantiate direct mitigation actions?**
2. **What best practice mechanisms could be used to assure these minimum requirements are in place?**

Survey | **Summary of results**

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External references
SustainCert Dual Factor Framework to calculate impact
Smart Freight Center Market-based mechanism framework
iRECs and GoO for renewable electricity
CoC models, like physical segregation or identity preservation
AIM platform
PACT
ISCC certifications (incl. ISCC+)
RSB
Material specific certification as RSPO, FSC, BCI

Other comments
A sectoral approach is needed to adapt the concept to each sectoral market reality
No global system in place to provide traceability of climate performance to the material source: companies are developing their own blockchains registries.
High risk if SBTi allows companies self-declaring progress
Improve existing certification systems (i.e. FSC, RSPO, etc.) with climate performance data

Discussion | Traceability for direct mitigation

What is the minimum level of physical traceability required to substantiate direct mitigation actions?

Direct mitigation			Indirect mitigation
Emission source is addressed at the **counterparty level**	Emission source is addressed at the **activity level**	Emission source is addressed at the **activity pool level**	Emission source is addressed through **indirect mitigation**
Physically traceable to company's value chain			**No physical link**

Discussion | What evidence could be used to demonstrate that minimum traceability requirements are in place?

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First-party measures

Measures that are developed / implemented and reported by the claim-making entity, e.g.

- *Self-assessment reports*
- *Self-declaration through commercial documentation (e.g. invoices)*
- *Company-controlled traceability system reports*

Second-party measures

Tools put in place by external parties, like buyers or investors, with a vested interest in the claim, e.g.

- *Buyer audits*
- *Shared traceability system (provided by buyer)*
- *Ad-hoc questionnaires*

Third-party measures

Verification conducted by independent organization with no vested interested in the claim, e.g.

- *Third-party certifications*
- *Full verified CoC models*
- *Accredited third-party audits*
- *Remote sensing*

Risk of bias and conflict of interests
Less costly or resource-intensive

Independent and more credible
Higher costs and resources required

Discussion | Traceability for direct mitigation

What best practice mechanisms could be used to assure these minimum requirements are in place?

Direct mitigation			Indirect mitigation
Emission source is addressed at the **counterparty level**	Emission source is addressed at the **activity level**	Emission source is addressed at the **activity pool level**	Emission source is addressed through **indirect mitigation**
Physically traceable to company's value chain			**No physical link**

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Agenda

1. Session intro and welcome
2. Recap: what did we learn from the previous session
3. Framing the discussion: claims and physical traceability
    - ISEAL perspective
    - VCI perspective
4. SBTi criteria and proposal on traceability
5. Discussion: minimum traceability requirements for direct mitigation
6. **Next steps**

Next steps | **We are meeting again soon!**

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Next scope 3 EWG:

Logistics

Date: Wed 31 July

Location: Online - Google Meet

Content

Discussion: guardrails for indirect mitigation

Preparation

Pre-reads are available in our shared folder. Please arrive prepared to engage!


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Thank you!