

Meeting 6: guardrails for indirect mitigation

31 July

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Flexibility, in recognition of legitimate barriers, ***must not come at the cost of credibility***. Tools are only valuable if they're ***anchored in what truly counts: real emissions reductions***.

Agenda

1. **Session intro and welcome**
2. Recap: what did we learn from the previous session
3. Framing the discussion: SBTi criteria and proposal on indirect mitigation
4. Discussion:
 - Justification for using indirect mitigation
 -  *Break (5 mins)*
 - Time limit for indirect mitigation
 - Guardrails for comparable outcomes
5. Next steps

Introduction | Our goal today is to establish a shared understanding of the minimum requirements to credibly substantiate progress against scope 3 targets when using indirect mitigation

Today's questions

...and outcomes

What did we learn from the previous session?

Share key takeaways on min. traceability requirements for direct mitigation

1

Discussion: under what conditions is it appropriate to use indirect mitigation on an interim basis?

Refine justifications for using indirect mitigation instead of direct mitigation

5 min break



2

Discussion: how should the SBTi define time limits for the use of indirect mitigation as an interim measure?

Determine approach for limiting use of indirect mitigation as an interim measure

3

Discussion: when indirect mitigation is used, what are the minimum guardrails to ensure comparable outcomes to direct mitigation?

Identify minimum quality requirements for book and claim certificates for IM

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

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

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- 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

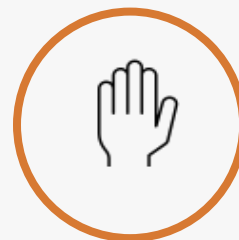
Participant guidelines



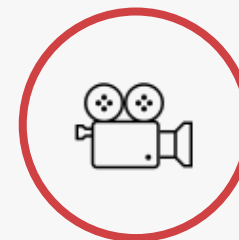
Mute during presentations



Use the chat box

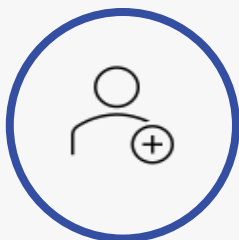


Use the raise hand function



If you can, please keep your camera on

Notes from us



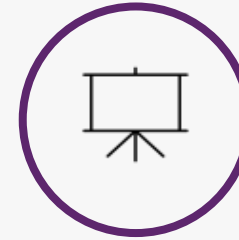
Treat info as confidential



Meeting is being recorded

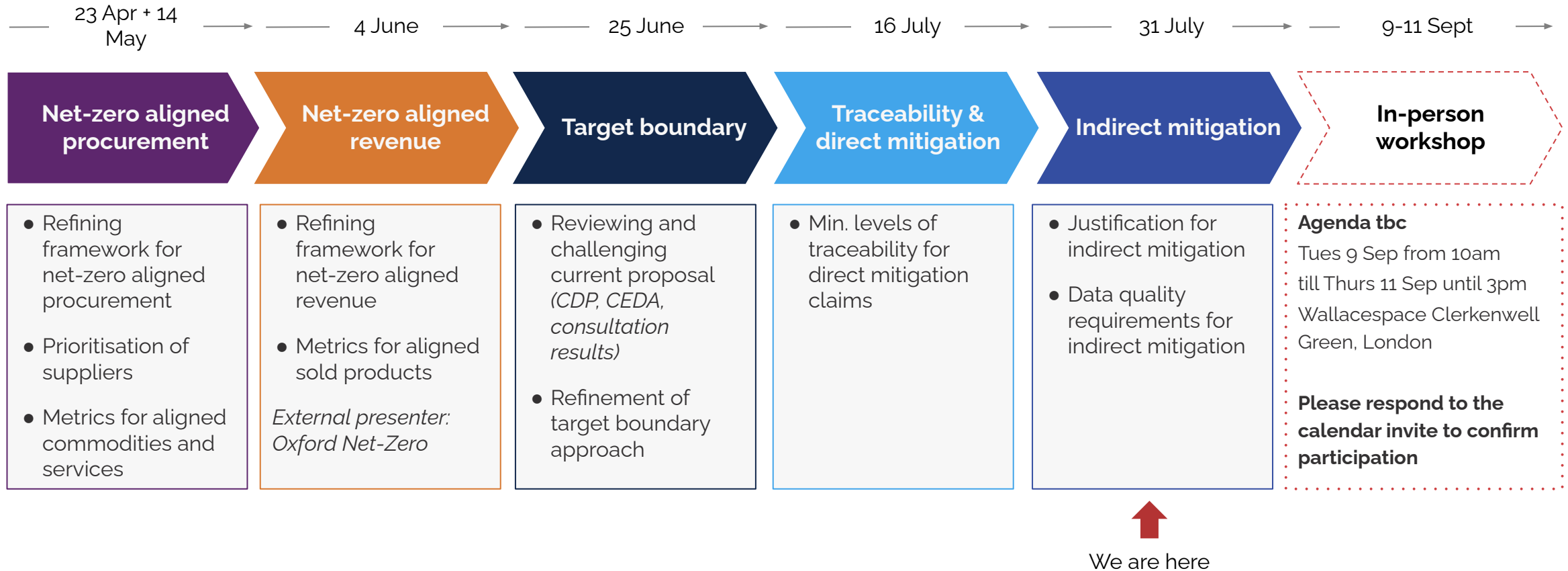


We will follow up with minutes



...And we will follow up with slides!

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



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Draft takeaways | Traceability requirements for direct mitigation

Emerging findings from the EWG discussions (for further refinement)

- To substantiate **direct mitigation** actions, a company must be able to demonstrate a **credible level of physical connectivity** between the action (e.g. sourcing decision) and the emissions source or activity pool within its value chain
- This means that the specified characteristic (e.g. emissions intensity) claimed as a result of the action **could** be physically present in the activity (product or service) sourced
- This helps to demonstrate that the sustainability performance being claimed within the value chain is **meaningfully linked** to the company's actions

Key takeaways

Next steps

Chain of custody models

- **Chain-of-custody models** are useful references, but may be too rigid for dynamic GHG accounting—especially in mixed commodity systems. Full compliance is **not always necessary**.
- **Over-specification** (e.g. segregation requirements) can lead to inefficiencies, such as half-empty containers or excessive logistics costs.
- VCI's **"CoC logic"**—which emphasizes consistency in geography, time, quantity, and function—may offer a flexible, yet robust, alternative.

Discuss "and/or" logic of traceability and availability conditions for direct mitigation at next EWG (today).

Assess the inclusion of a "do no harm" principle to prevent decarbonization disincentives in constrained markets.

Role of mass balance

The "gray area" between mass balance and book-and-claim models is the crux of the challenge:

- Mass balance systems **with physical connectivity** could qualify for direct mitigation.
- Systems that **entirely detach product from attributes** (pure unbundled book-and-claim with no linkage) would likely fall into indirect mitigation.
- Thus, the **cutoff point could be based on a minimum threshold of connectivity**, not simply on whether a system is labeled "mass balance" or not.

Consider a "progressive ratcheting" model to increase physical connectivity over time.

Sector-specific pragmatism

Different sectors required tailored approaches given value chain realities:

- **Transport sector:** Difficult to achieve granular traceability—support for recognizing "transport sheds" or service-based activity pools.
- **Commodities:** full traceability often impractical due to mixing; support for activity pool and supply shed models.

Incorporate service vs. product distinctions (e.g. transport vs. commodities).

Draft guidance should include sector-specific activity pool-level definitions where available in a credible standard.

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Background | The draft CNZS allows for indirect mitigation measures on an interim basis with high-level guardrails



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 basis²⁴. *(NOTE: Indirect mitigation measures are expected to adhere to quality criteria to be developed through the consultation process.)*

- 16.5.1. Companies shall provide a justification for choosing indirect mitigation measures over direct mitigation.
- 16.5.2. Indirect mitigation measures shall count towards scope 3 targets as an interim measure and shall be reported separately to direct mitigation efforts.
- 16.5.3. Indirect mitigation shall deliver measurable outcomes comparable to direct mitigation.

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.

Indirect mitigation is distinct from beyond value chain mitigation (BVCM) in that it is intended to contribute to net-zero transformation relevant to the value chain, whereas BVCM contributes to global climate mitigation for activities that are not associated with the value chain.

***NOTE:** Indirect mitigation measures are expected to adhere to quality criteria to be developed through the Expert Working Groups and consultation process*

Companies shall **prioritise direct mitigation** with traceability to the value chain

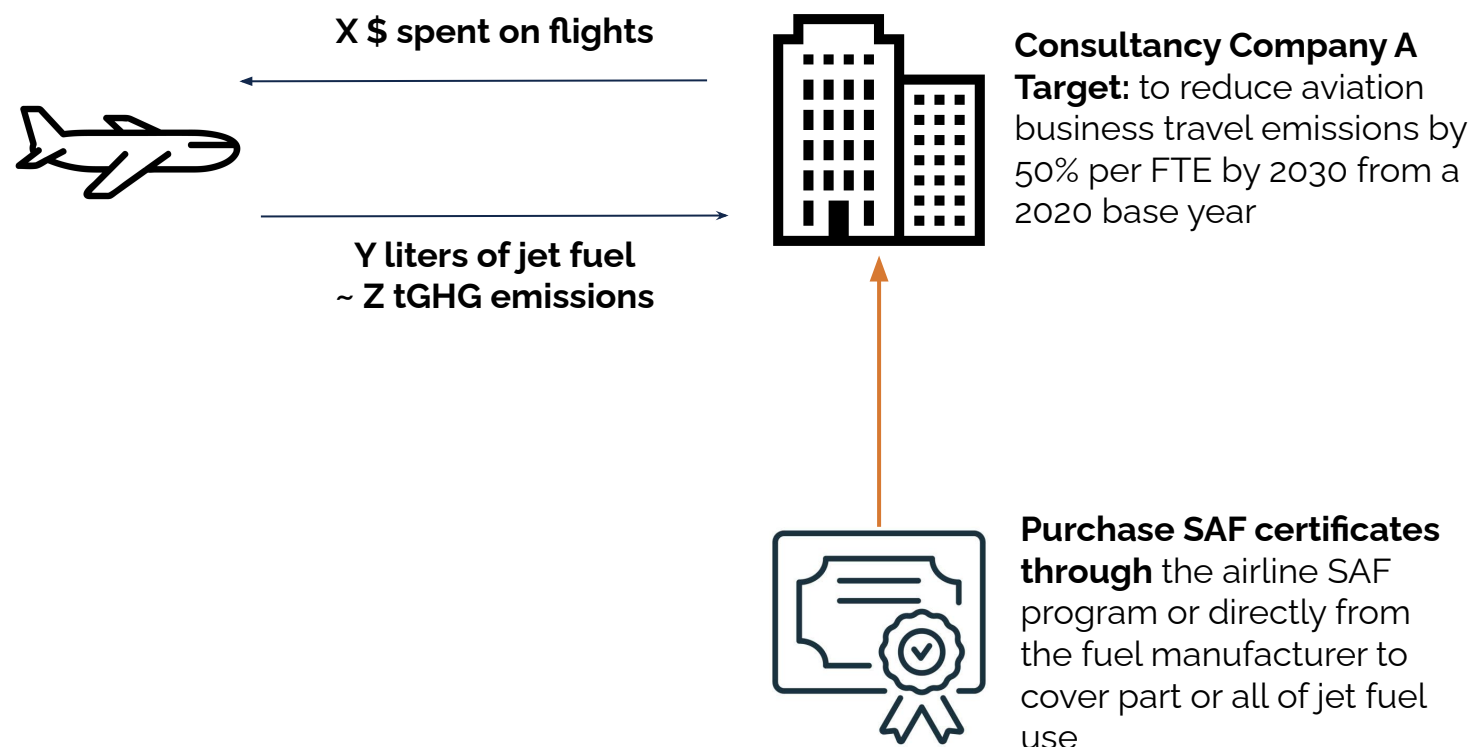
Where direct mitigation is not possible, indirect mitigation may be used:

- 1 • with a valid **justification**
- 2 • on a **time-limited** basis
- 3 • with **separate reporting** to deliver **comparable outcomes**

Indirect mitigation shall deliver **measurable** net-zero aligned transformation **relevant to a company's value chain** and **comparable to direct mitigation**, though it lacks a physical connection to the value chain

While these measures do not affect a company's inventory under the GHG Protocol Standards... their goal is to **enable direct mitigation in the long term**, such as **the scale-up of low-carbon technologies** relevant to the value chain that **may eventually reduce a company's emissions inventory**.

Indirect mitigation example | SBTi Aviation Guidance: purchasing SAF to address emissions through indirect mitigation



Relevance for targets

Proposal in CNZS v2.0:

Indirect mitigation actions such as purchasing SAF certificates could count towards reducing the emissions intensity of business travel and achieving the consultancy's S3 target

Open questions:

- Allowable changes to S3 GHG inventory remain unclear as there is not physical connectivity
- SAF purchases must still meet quality criteria

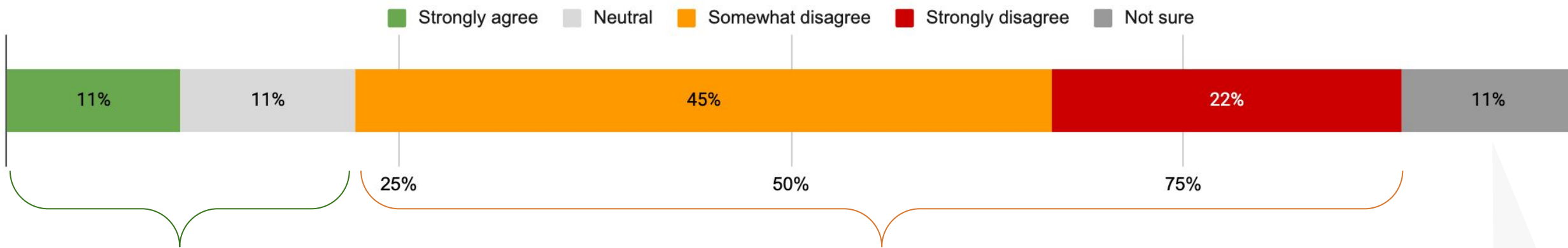
Background | Indirect mitigation could be most appropriate for alignment targets on emissions-intensive activities where direct mitigation is not possible

Transparency on the nature of the mitigation action taken should support differentiated claims

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	Direct mitigation
	Green sourcing (emissions-intensive activities)	At the activity level (e.g. commodity or service)	Climate performance of underlying commodity or service (e.g. NZ intensity benchmark)	Limited - below threshold	Book and claim (unbundled)	Indirect mitigation
				Accessible - above threshold	Activity level	Direct mitigation
Emission reductions	Absolute or Intensity	At the activity level (e.g. commodity or service)	Emissions factor of underlying commodity or service	n/a	At the activity level or activity pool level using credible chain of custody model	Direct mitigation

*Product: any good or service (GHG Protocol. Corporate Value Chain [Scope 3] Accounting and Reporting Standard)

Survey summary | To what extent do you agree that indirect mitigation should only be used as an approach for emissions-intensive activity (EIA) alignment targets and not emission-reduction targets?



Reasons in favor of IM allowed exclusively for alignment targets:

- IM plays a limited role in helping align sectors
- Strong risk of double counting
- Emission-reduction targets should be followed by impact traceability **+1**

The majority of respondents **disagree (67%)** with the proposal. The main reasons are the following:

- Risk of not creating sufficient incentive for investments
- For some supply chains, indirect mitigation is the only option
- It would make it impossible for companies to meet their targets
- Would push companies to choose alignment target to use IM instead of emission reduction targets
- Limits the use, value and practicality of IM

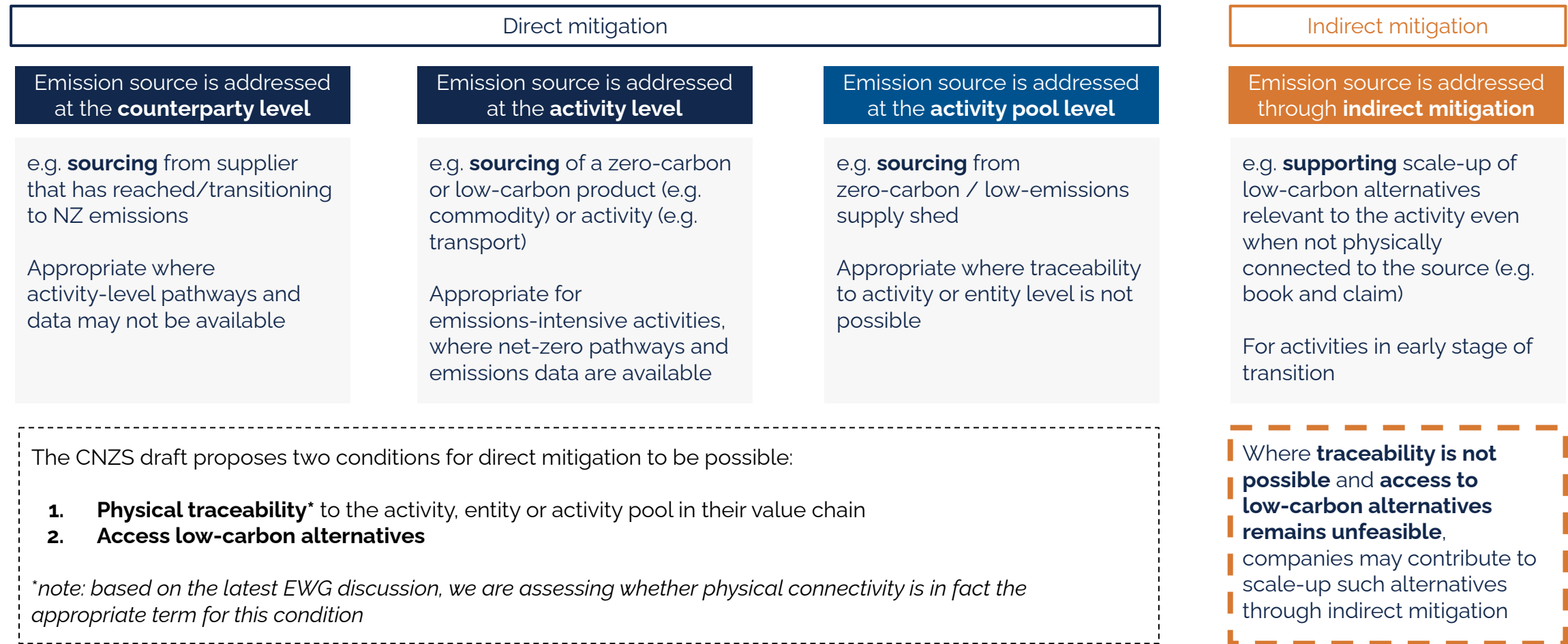
Question related to how to deal with the target boundary if some EIAs don't meet the threshold but would be eligible for IM

Agenda

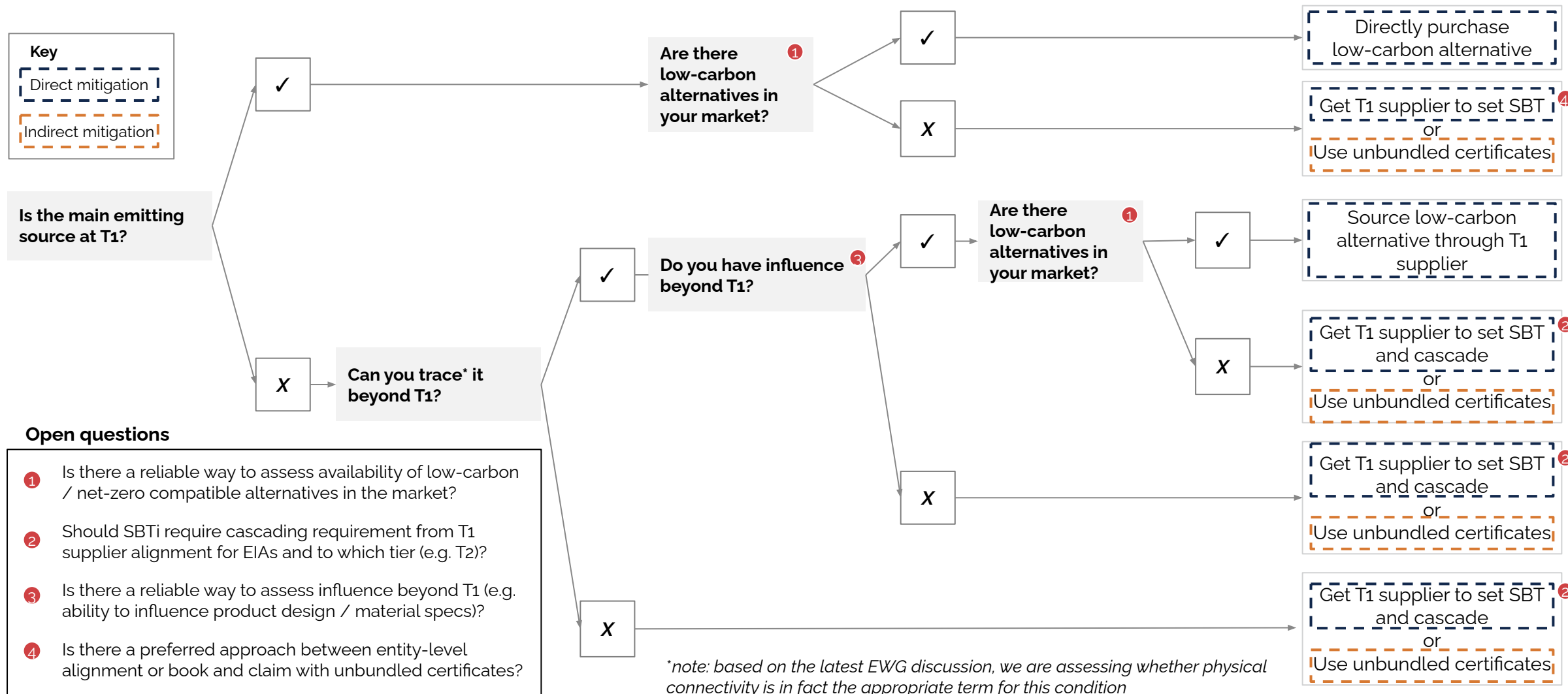
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The CNZS v2.0 introduces different approaches to address emissions sources within the scope 3 target boundary

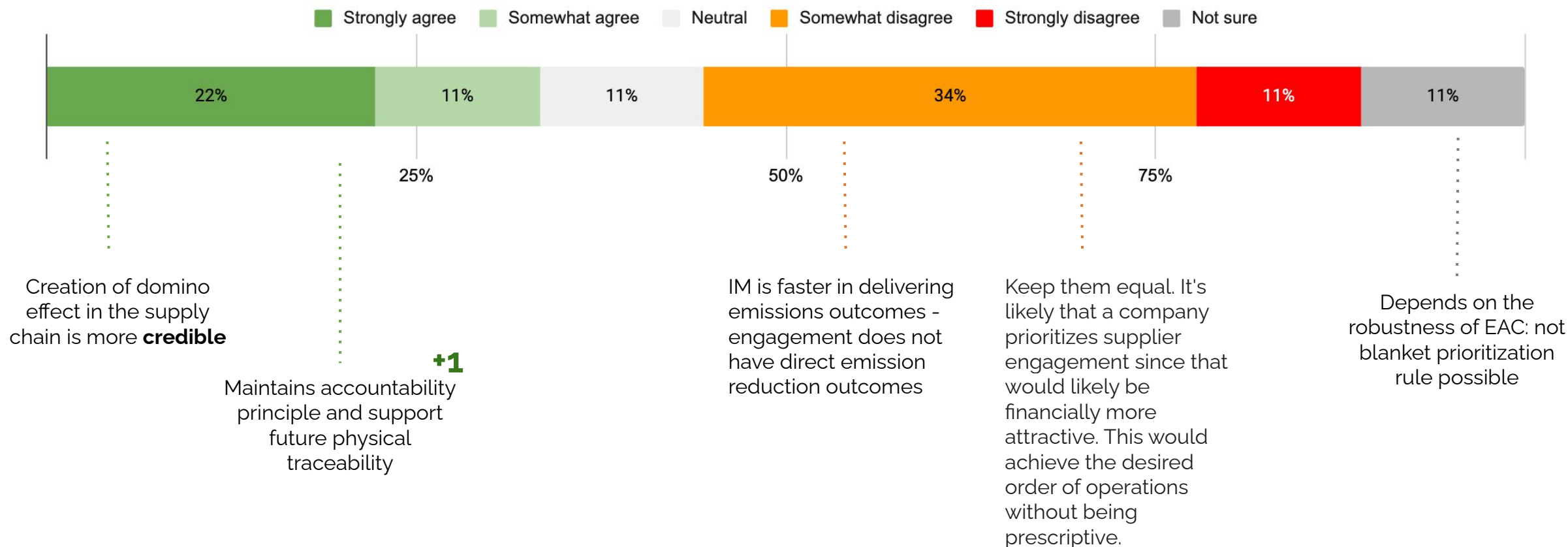
CNZS v2.0 proposes forms of mitigation to address scope 3 emissions. Companies are expected to increasingly address emissions through direct mitigation linked to the value chain, while allowing short-term flexibility in recognition of existing barriers.



Draft decision tree for deciding when indirect mitigation could be an appropriate option for EIA alignment targets



Survey summary | Where the conditions for traceability and availability of low-carbon alternatives cannot be met, to what extent do you agree that entity-level alignment (i.e. engaging a supplier to set an SBT) should be pursued as the next best option before indirect mitigation?



Discussion | Justification for indirect mitigation

Under what conditions is it appropriate to use indirect mitigation on an interim basis?

Join us in Miro via this link available in the chat!



<https://tinyurl.com/3mwj9cjr>

...or via this QR code for those accessing by phone



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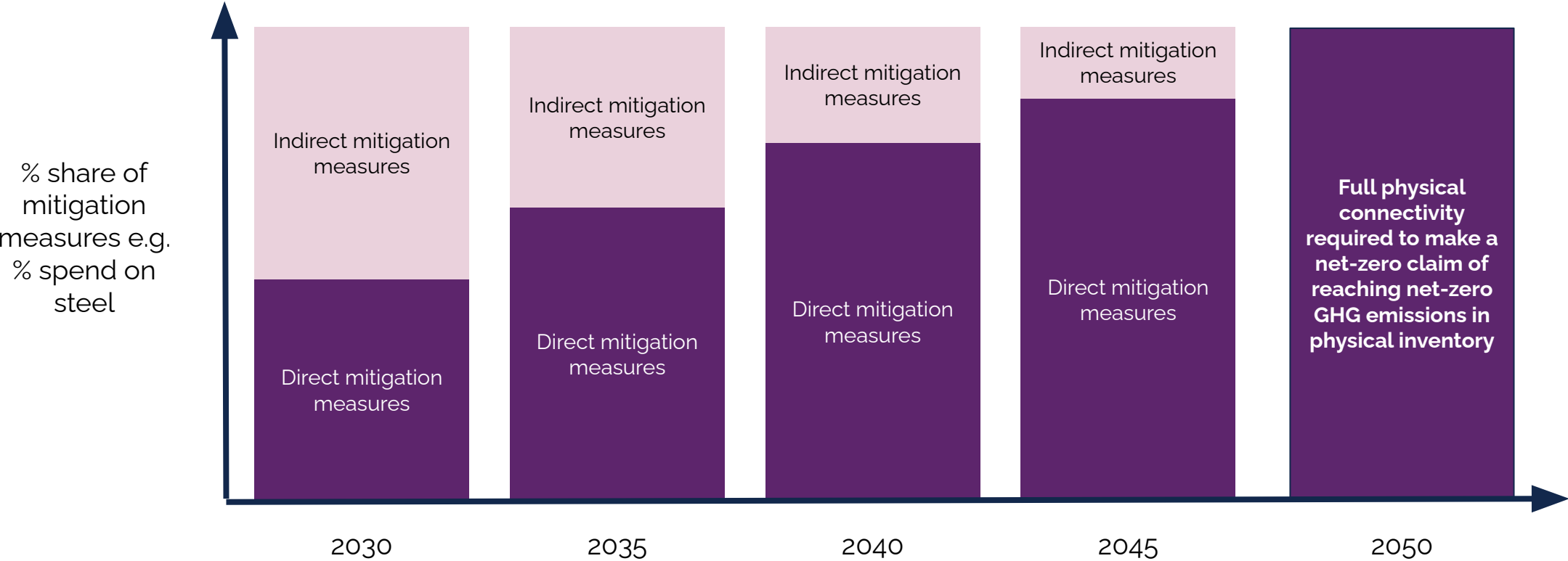
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Timeframe for switching from indirect to direct mitigation

Should SBTi impose specific timeframes for switching from indirect mitigation to direct mitigation measures or could this process occur automatically, with companies preferring to source aligned EIAs directly anyway as soon as possible (e.g. as direct offtake may be cheaper and has the benefit of being reflected in the GHG inventory)?



Question | Time limit for indirect mitigation

Should the SBTi define time limits for the use of indirect mitigation as an interim measure?

If so, how should these be determined across emissions-intensive activities?

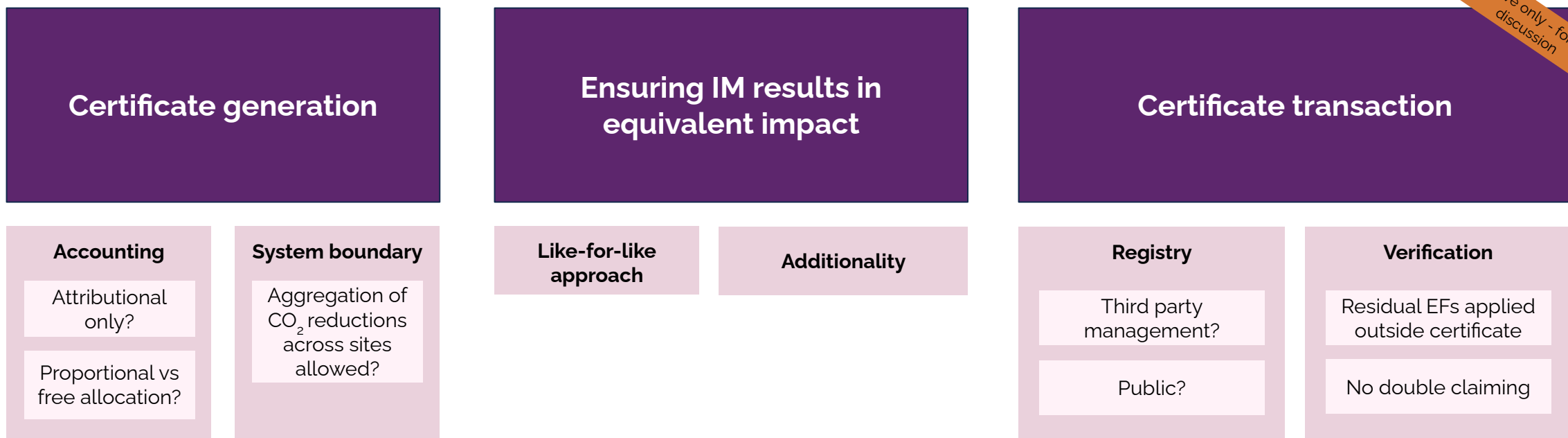
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Three types of guardrails could be considered to drive comparable outcomes for indirect mitigation through the use of unbundled book and claim certificates

Indirect mitigation shall deliver **measurable** net-zero aligned transformation **relevant to a company's value chain** and **comparable to direct mitigation**, though it lacks a physical connection to the value chain.

Illustrative only - for further discussion



These could be used to derive high-level quality criteria for book and claim certificates used to substantiate indirect mitigation

Potential criteria for book and claim certificates with illustrative examples.

Criteria type	Example criteria	Description	Illustrative example (SAF)
Certificate generation	Accounting	- GHG accounting shall be attributional and not consequential or project based - There shall be no free allocation of environmental attributes between products	SAF EF is calculated based on the LCA of the fuel production from waste oil
	System boundary	- EAC shall be generated by a single company - EAC shall be generated within a 12 month period following the mitigation activity - EAC shall only represent mitigation activities that have occurred within a single site	- EAC is generated by the fuel company - EAC is sold within 6 months of its injection into fuel network - EAC is based on the use of fuel within a single fuel network
Ensuring IM results in equivalent impact	Like-for-like	EAC shall be purchased for the same type of activity that is physically sourced.	SAF is being used to directly replace fossil kerosene
	Additionality	- EAC shall represent financial, regulatory and common practice additionality, meaning the mitigation activity would not have occurred in the absence of the incentive created by the certificate Methodology for determining additionality shall be transparent and robust	- EAC is purchased on top of the directly purchased fuel - Check that airline already uses the obligatory volume of SAF - SAF isn't used as the standard source of fuel
Certificate transaction	Registry	EACs shall use a publicly disclosed, transparent, and secure registry that records the issuance, transfer, retirement and/or cancellation of certificates prior to any environmental claims being made	SAF certificates are issued via IATA. Certificates are transferred and retired by the purchasing company
	Verification	- EAC programs shall require independent third-party verification of the environmental attributes defined in the certificate. Verification must follow recognised certification standards and sector-specific methodologies - Verification shall confirm that claimed attributes are accurately quantified and that the claimed attributes are not claimed elsewhere (residual emission factors are used for equivalent volumes sold physically)	As part of the issuance process, a third-party verification approach was undertaken

Illustrative only - for further discussion

What quality criteria have the Beyond Value Chain Mitigation (BVCM) EWG discussed? [slide 1/2]

The BVCM EWG **has only touched upon high-level quality criteria** and what activities should not count as BVCM. So far, our virtual meetings have focused on refining the framework for addressing ongoing emissions - for example, what counts, how much, and the overlap with the removals framework. **A detailed discussion on quality criteria is planned for the in-person meeting in September.**

Below are the high-level criteria touched on so far, along with some initial insights:

Preliminary proposal -
for further discussion

High-level quality criteria for BVCM

Beyond value chain mitigation outcomes shall meet the following quality criteria:

- Additionality
- Avoidance of double counting
- Avoidance of leakage
- Environmental and social safeguards
- Mechanisms for minimizing risk of reversal



Preliminary proposal -
for further discussion

Clear specificity on what BVCM outcomes cannot count towards

Companies shall not use their BVCM budget to finance:

- Mitigation outcomes reported in the company's scope 1, 2 or 3 inventory (as per the GHG Protocol)
- Mitigation outcomes counted towards other SBTi targets e.g., interim removals targets, activity pool-level mitigation targets and/or indirect mitigation targets (i.e., there must be no double claiming between target types)

Discussions with the BVCM EWG on these high-level quality criteria covered questions such as the importance of additionality and the relevance of double counting risks between corporate and national inventories in the context of climate contributions.

These discussions, along with further refinement of the quality criteria for BVCM, will continue at the in-person meetings in London.

What quality criteria have the Beyond Value Chain Mitigation (BVCM) EWG discussed? [slide 2/2]

In addition to discussions with the BVCM EWG, we are **conducting ongoing research** with a BVCM Research Fellow that is relevant to quality criteria. This work focuses on **ensuring the integrity of harder-to-measure BVCM outcomes and the integrity of BVCM support mechanisms**.

The research areas are summarized below, and **the findings will inform the next iteration of the CNZS V2.0 draft**:

Ensuring the integrity of harder to measure BVCM activities

Research focussed on assessing:

- The integrity and climate relevance of activities that don't immediately represent ex-post mitigation or are harder to quantify. For example, ex-ante investments, R&D innovation, mitigation enabling outcomes, adaptation loss and damage finance.
- Feasible MRV or assurance processes for those that are high-integrity.
- Third-party standards, taxonomies or methodologies to be used as references.

Ensuring the integrity of BVCM support mechanisms

Research focussed on assessing:

- The integrity of BVCM support mechanisms such as grants, results-based finance, market-based mechanisms, concessional finance, across the following areas:
 - ◆ Financial additionality
 - ◆ Attribution and traceability
 - ◆ Risk of double claiming
 - ◆ Transparency of terms
 - ◆ Verification pathways

Discussion | Minimum quality criteria for unbundled book and claim certificates

When indirect mitigation is used, what are the minimum guardrails to ensure comparable outcomes to direct mitigation?

Join us in Miro via this link available in the chat!



<https://tinyurl.com/yc3b6x9r>

...or via this QR code for those accessing by phone



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Next steps | We are meeting again in September!

Next meeting:

Logistics



Date: Tuesday 9th Sept (from 10:00) to Thursday 11th Sept (until 15:00)



Location: London - Wallacespace Clerkenwell
You can book your preferred flight and hotel

Content



Discussion: agenda tbc



This session will also include discussion sessions with other EWG

Preparation



We will likely share some draft updated proposals for your review and comments in advance of the meeting.



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Thank you!

CNZS v2.0 defines EIA alignment based on a NZ benchmark - but could this unintentionally push companies to rely on IM to meet targets rather than incentivising sourcing of activities in transition?

Context:

This pre-read suggest that *indirect mitigation* may fit best as an approach to address alignment targets where *direct mitigation* is not possible.

Under the current CNZS draft v2.0, an emissions-intensive activity (EIA) is considered "aligned" only if it meets a net-zero, or "end-state," physical intensity benchmark.

However, achieving alignment targets may be constrained by the limited availability of commodities that are already at a net-zero intensity. As a result, companies may struggle to satisfy the condition requiring the "availability of low-carbon alternatives in the market" for physical sourcing for direct mitigation.

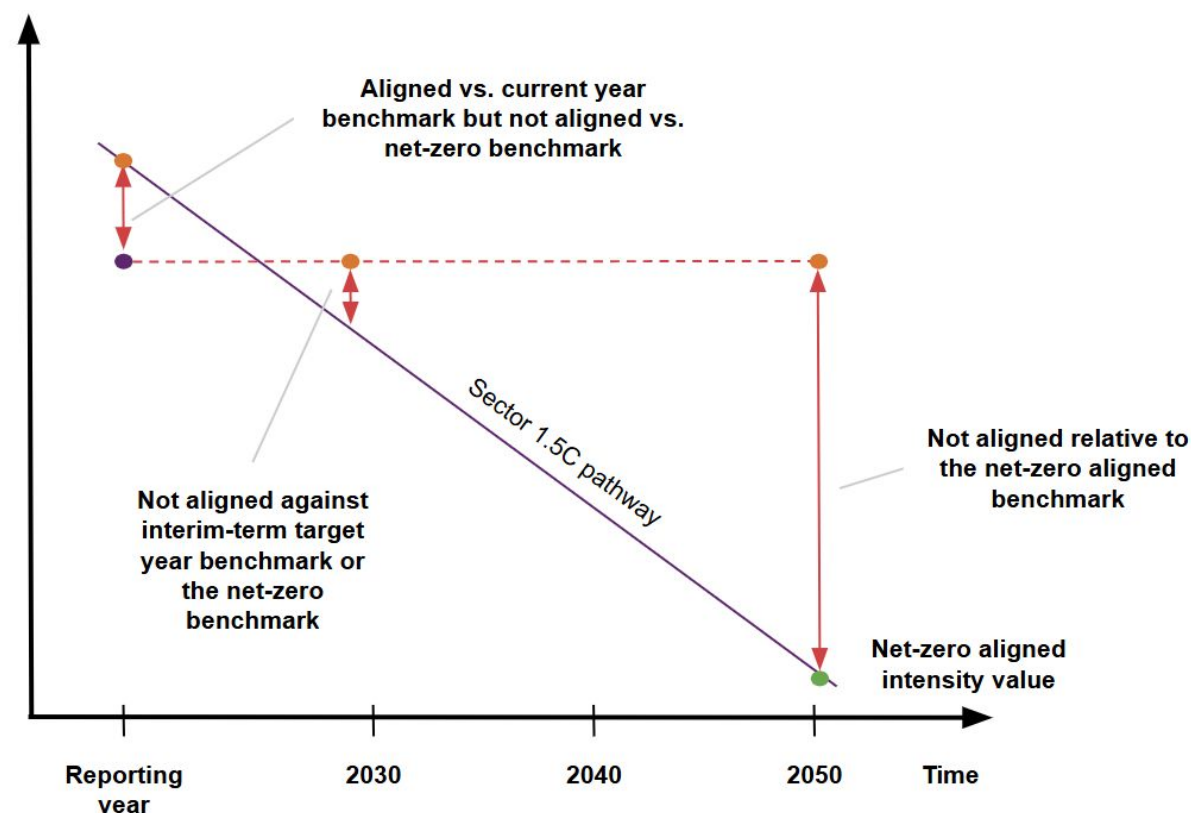
Question:

Could this constraint unintentionally incentivize companies to rely on indirect mitigation strategies, rather than sourcing from activities that are actively transitioning toward lower emissions?

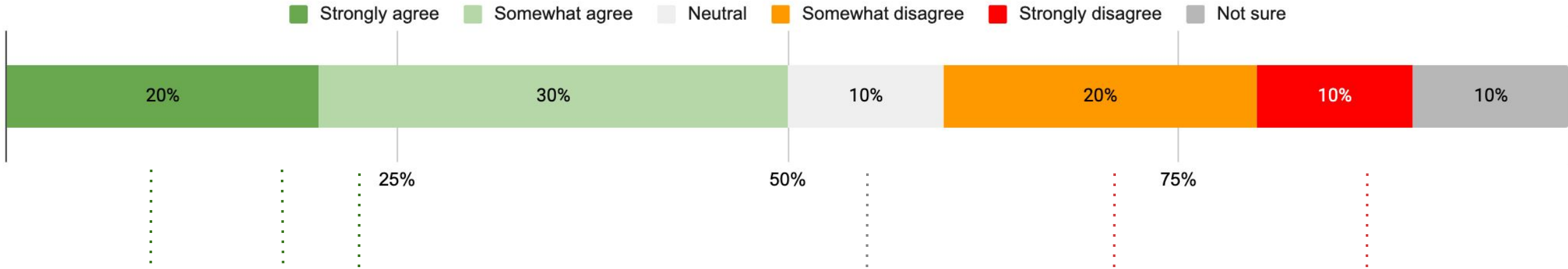
Would expanding the definition of "alignment" to include activities that are *in transition* — and currently operating at or below a defined sectoral intensity benchmark for the reporting year — help address this challenge? What other risks or implications should the SBTi consider in evaluating this approach?

Graph: interim and net-zero physical intensity benchmarks

Unit: e.g. physical intensity
(tCO₂/output)



Survey summary | To what extent do you agree that emissions-intensive activities that meet a physical emissions intensity consistent with being in a state of "transition" (in line with defined sectoral intensity benchmarks for the reporting year) should be considered "aligned"?



Aligned with Net Zero Compliance framework such as the IMO Mid-term measure, compliance with "transitioning" status can be achieved by proving a carbon intensity equal or lower of the yearly target for intensity.

Setting the bar too high ("transitioned") may **not encourage companies to start mitigation actions**. To encourage companies to start, and to continue in their transitions, I think the path should be recognised. Finally, there are many EIAs where there's no fully transitioned alternatives available

This approach incentivizes real decarbonization in value chains **rather than defaulting to indirect mitigation** such as offsets. Strictly requiring end-state net-zero benchmarks today may exclude legitimate low-carbon sourcing efforts that are still evolving, thereby weakening incentives for supplier engagement and transformation.

+1

SBTi should consider optionality for how emission intensive activities can be consider aligned - i.e., a corporate can satisfy the requirement either through relevant indirect mitigation or **through "transition aligned" intensity benchmarks**.

Don't decrease ambition because if there are no alternatives available it doesn't mean that the framing is wrong. **Allow for supplier engagement to increase demand signals**

There are **too many risks and complications** of this approach, and it is not strictly necessary because companies still have the option of setting & achieving absolute GHG reduction targets.

Survey summary | Do you have any suggestions about how availability of low carbon alternatives within a market could be determined?

Main takeaway: the availability of low-carbon alternatives depends on many factors: the type of the product (i.e. alternatives for steel and aluminium are already available), the quality and / or properties of the product, the size of the company that should find alternatives. There are (too?) many barriers to set a threshold.

Proposals:

- define a hierarchy of methods to demonstrate availability (or lack thereof), e.g. 1) SBTi- or other entity-defined list of critical technologies 2) market penetration data and rationale for market definition 3) cost and market definition/typical cost comparison 4) other...
- Align with AIM Platform considerations on market penetration and availability.
- Encourage assessments that determine best-in-class (e.g. along the line of energy rating for appliances) but they should also show the average/median.
- moving away from a binary “available/not available” view toward a tiered or “NZ maturity” assessment, where low-carbon alternatives are classified depending on market penetration, cost, accessibility, geographical distribution, certification maturity, traceability readiness, supplier commitment:
 - **Commercially mature** (widely available and cost-competitive),
 - **Emerging but viable** (limited availability, regionally constrained, or cost-prohibitive),
 - **In transition/development** (technologically promising but pre-commercial or with major access barriers). *Note that this transition/development must be translated into sector/market specific realities.*