

Meeting 3: aligning revenue with net-zero

4th June

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Agenda

1. **Session intro and welcome**
2. Recap: what did we learn from the previous session
3. Discussion topics:
 - Refining the framework for net-zero aligned revenue
 -  *Break (5 mins)*
 - Metrics for aligned revenue
4. Next steps

Introduction | Our goal today is to explore how the SBTi should define and assess net-zero alignment of sold products, including definitions, methods and metrics

Today's questions

... and outcomes

1. What did we learn from the previous session?

Share key takeaways and points to clarify in the draft standard

2. How should the SBTi define and assess net-zero aligned revenue
(defining an aligned product and method for aligned revenue)?

Critique and refine the proposal for aligned revenue targets

5 min break



3. What metrics should the SBTi use to determine if a product's use phase is net-zero aligned?

Initial input on effective alignment metrics for further exploration

DISCLAIMER & ANTITRUST

Disclaimer - Please note, this document is for information purposes only in order to inform discussions and for no other purpose.

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

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

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

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

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

CONFLICT OF INTEREST DECLARATION

- As per the [EWG Terms of Reference](#) and the [SBTi COI policy](#), conflicts of interest must be declared
- At the start of each meeting the chair will ask members if a new 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



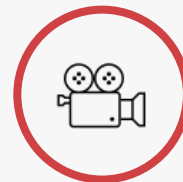
Mute during presentations



Use the chat box

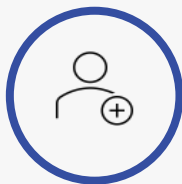


Use the raise hand function



If you can, please keep your camera on

Notes from us



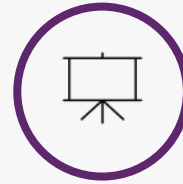
Treat info as confidential



Meeting is being recorded



We will follow up with minutes

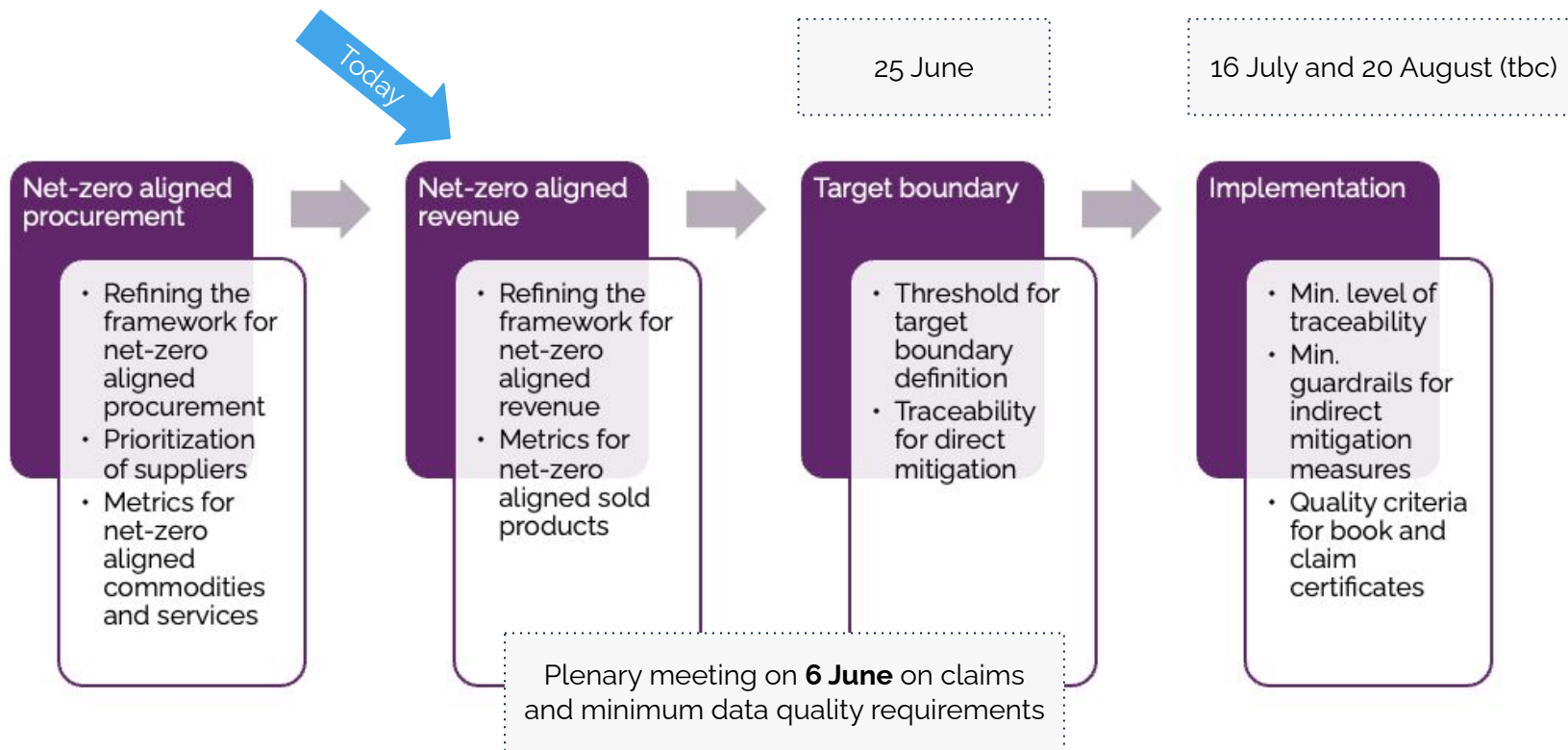


..And we will follow up with slides!

Finally, please have your devices ready to use...



Reminder of the EWG meeting schedule



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Draft takeaways | Refining the prioritisation approach and metrics for net-zero aligned procurement

Emerging findings from the EWG discussions on thresholds for prioritizing suppliers (for further refinement)



Supplier Prioritization Thresholds

- **Strong support** for introducing a **minimum emissions coverage threshold** to prioritize suppliers
- Most common threshold range: **70–90%** of upstream Scope 3 emissions identified in relevance assessment



Emissions-Intensive Suppliers

- **90% support** for prioritizing suppliers linked to emissions-intensive activities
- Need for **clear definitions** of "emissions-intensive" based on processes (e.g., smelting, clinker production)



Use of Spend as a Proxy

- **<25% support** for using spend as a primary metric
- Spend may be useful **only when emissions data is unavailable**, and mostly as a secondary filter



Supplier Alignment Over Time

- **By 2030:** 80–95% of priority suppliers to have science-based targets and transition plans (or within 5 years of base year)
- **By 2040–2050:** 95% to be actively reducing emissions or transitioned to net-zero, though specific timelines/guidance for performance still tbc



Alignment Assessment Metrics

- Broad support for **multiple metric types**:
 - Physical intensity (e.g. kg CO₂e/ton)
 - Technology-based classifications
 - Verified certificates (with caveats)
- Preference for **activity-level alignment**, with **entity-level as a fallback**
- Need for a **hierarchy of metrics** and sector-specific benchmarks

Draft takeaways | Refining the prioritisation approach and metrics for net-zero aligned procurement

Suggested next steps to develop refined proposal for net-zero aligned procurement



Supplier Prioritization Thresholds

Propose a 70-90% (tbc) coverage threshold for prioritising suppliers to balance ambition and feasibility



Emissions-Intensive Suppliers

Define emissions-intensive activities per sector, using FINZ taxonomy or equivalent



Use of Spend as a Proxy

Develop clear guidance on how and when to use spend as a secondary prioritization tool



Supplier Alignment Over Time

Test proposed near-term milestones for alignment as part of pilot and get feedback on feasibility. Further research / discussion needed on milestones for performance.



Alignment Assessment Metrics

Establish a flexible, tiered metric system for assessing alignment:

- Prioritize activity-level benchmark where possible
- Default to entity-level if no activity benchmark exists

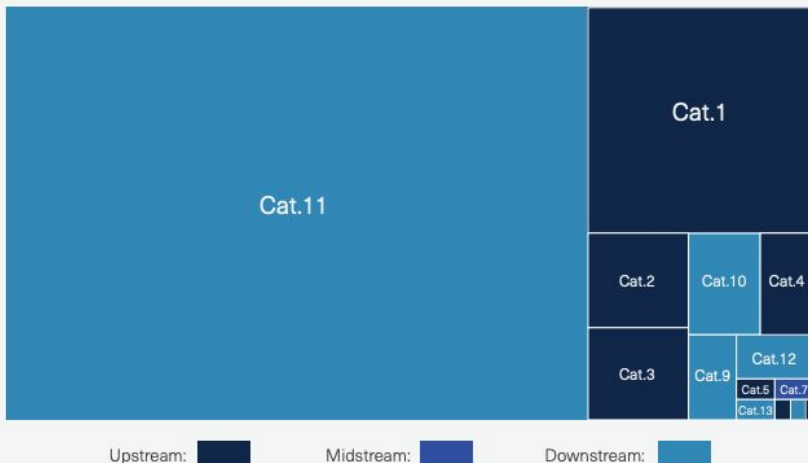
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Background | Challenges with existing scope 3 approaches to address use phase emissions

Category 11 (use of sold products) represents one of the largest emission sources for many companies (>62% of reported scope 3 according to [FTSE All-World Index](#)).

Scope 3 emissions by category (excluding category 15)



Current CNZS v1.2 methods are primarily based on emissions metrics with one alignment metric option:

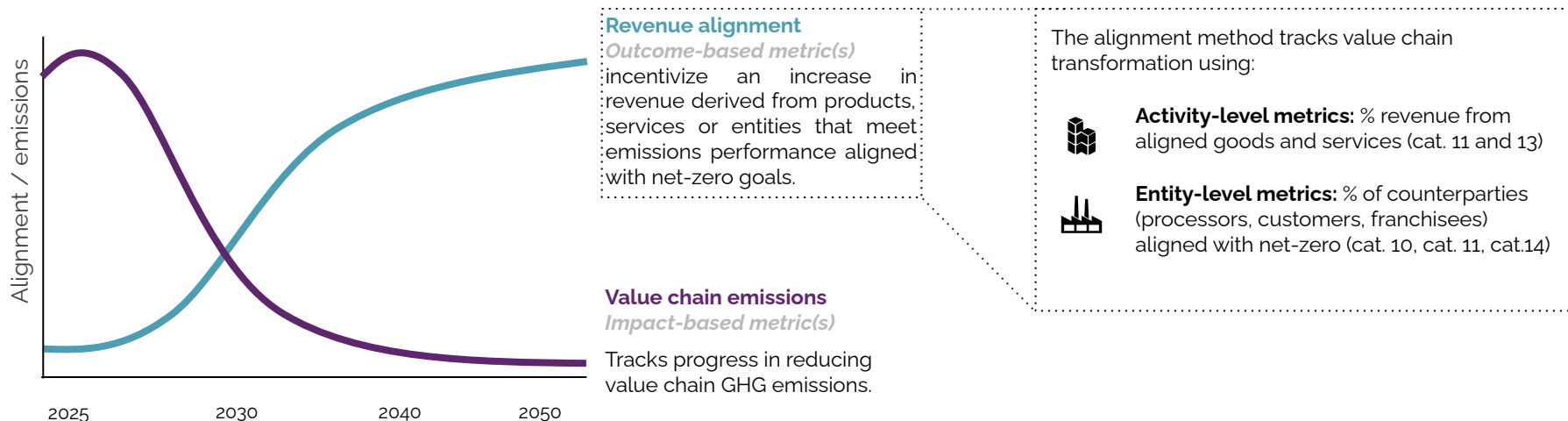
- **Absolute emissions reductions** from selected downstream categories
- **Intensity based reductions** of sold products (physical or economic)
- **Customer engagement** to increase share of customers with SBTs

...but these approaches faces challenges, including:

- **Data complexity:** accurately estimating use-phase emissions involves assumptions about lifetime, intensity, usage, and disposal
- **Limited control:** companies may have minimal influence over how customers use products (e.g., grid decarbonization)
- **Limited uptake:** customer engagement targets (e.g., % customers with SBTs) are rarely used
- **Incentive misalignment:** current metrics may penalize solution providers (e.g., EV makers) whose emissions grow during the transition

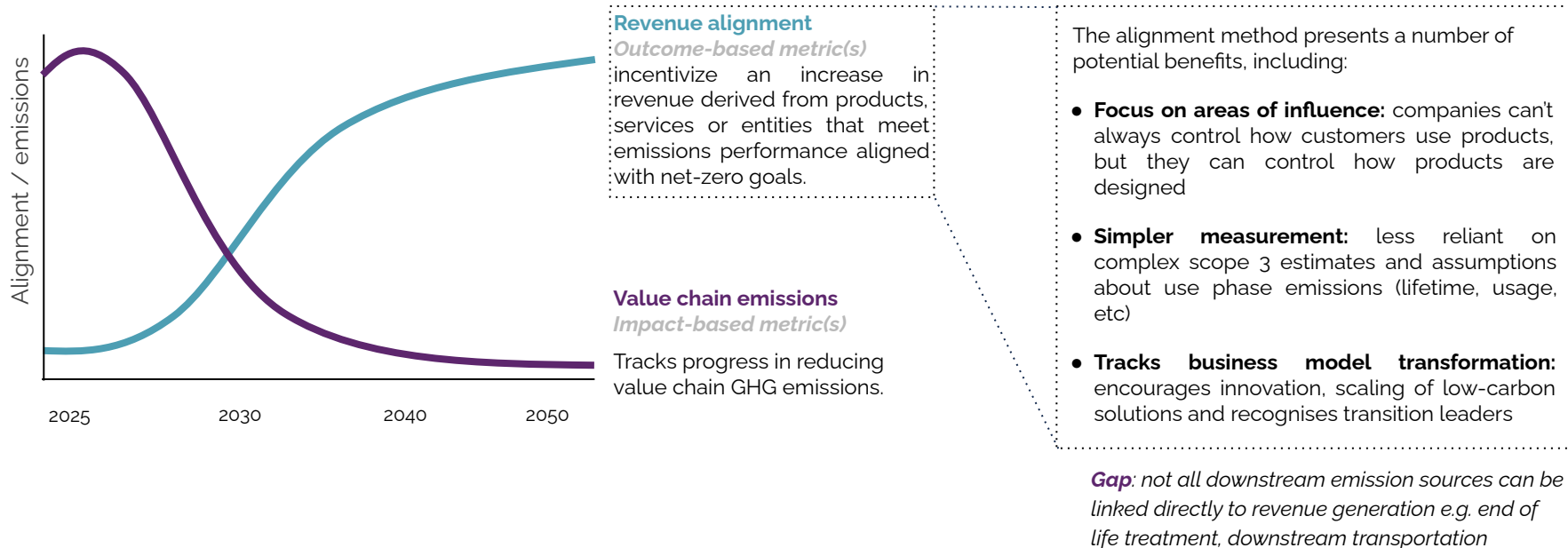
Background | Tracking revenue alignment may help to address data challenges and recognise transition leaders

As the global economy **transitions** towards a state of net-zero emissions, the **proportion products** and **services** that companies **sell** or **lease** are expected to reach a level of emissions **performance consistent with reaching net-zero** emissions globally.



Background | Tracking revenue alignment may help to address data challenges and recognise transition leaders

As the global economy **transitions** towards a state of net-zero emissions, the **proportion products and services** that companies **sell or lease** are expected to reach a level of emissions **performance consistent with reaching net-zero** emissions globally.



Background | Current draft proposes alignment of downstream emissions at the activity, category or counterparty level as an optional method to address relevant emission sources



C16.4. Companies shall set targets using any of the following methods and the benchmarks indicated in [Table E.1](#), [Annex E: Indicators, Benchmarks and Methods](#):

- 16.4.1. Targets to reduce absolute emissions associated with the category or activity at a rate consistent with reaching net-zero emissions by 2050.
- 16.4.2. Targets to reduce the average emissions intensity of the category or activity at a rate consistent with reaching net-zero emissions by 2050.
- 16.4.3. Targets to increase the level of alignment of the category, activity or value chain counterparty at a rate consistent with achieving net-zero emissions by 2050.

Optional category, activity or counterparty-level alignment

The alignment method is an option to address relevant downstream emissions sources at either at:
the **activity-level** for products and services (cat. 11, cat. 13); or
the **entity-level** for counterparties including third-party processors (cat. 10), customers (cat. 11) or franchisees (cat. 14)



Annex E: Indicators, benchmarks and methods

 **Activity-level**

 **Entity-level**

Indicator	Description	Unit
Indicator-CNZS.11 Alignment of all sold and / or leased downstream products	- Indicator measures the share of total revenue from net-zero aligned products. - Net-zero aligned products are defined as any good or service that fulfills a credible intensity threshold per functional unit for a net-zero world, as set out in a credible taxonomy or other science-based paper. Net-zero aligned products can therefore be operating at zero or negative emissions, or may still be emitting some level of GHGs. - The % net-zero aligned revenue = revenue from net-zero aligned sold and/or leased products and non-emissions-intensive sold and/or leased products / total revenue.	% revenue
Indicator-CNZS.14 Share of aligned counter-parties (third party processors, franchisees, customers) - categories 10, 11 and 14 only	Percentage of counterparties that are transitioning, or have transitioned, to a level of performance compatible with net-zero (see Table E.3 for definition of alignment, transitioning and transitioned).	% revenue

Activity-level alignment targets:

overview of target formulation

Downstream
alignment of
use phase
emissions
from sold
and leased
products

What must be tracked?

Indicators

% revenue from **net-zero aligned products**

***net-zero aligned product** = product that meets alignment benchmark

What is the 'alignment' benchmark?

Alignment benchmarks

xx kgCO₂ / functional unit or / product¹

OR

Non-emissions-based outcome
(e.g., low emissions vehicles)

How is the target achieved?

Linear alignment approach

Between base year and target year:
Linear increase in % alignment
(e.g., % revenue from aligned products)

By 2050:
100% alignment
(e.g., 100% revenue from aligned products)

1. Based on 2050 SDA (upstream) or other credible taxonomies (downstream); SDA is a method used to calculate emissions intensity targets based on the principle of converging to a sector-wide physical emissions intensity in a future year of a mitigation pathway

Background | The draft CNZS v2.0 proposes a definition of net-zero aligned products (goods and services) and a method for increasing alignment over time

Definitions

Net-zero aligned product:

any good or service that **fulfills a credible intensity threshold** per functional unit for a net-zero world, such as those set out in a **credible taxonomy** or based on **other scientific evidence**. Net-zero aligned products may have zero or negative emissions, or may still emit some level of GHGs

Non-emitting product:

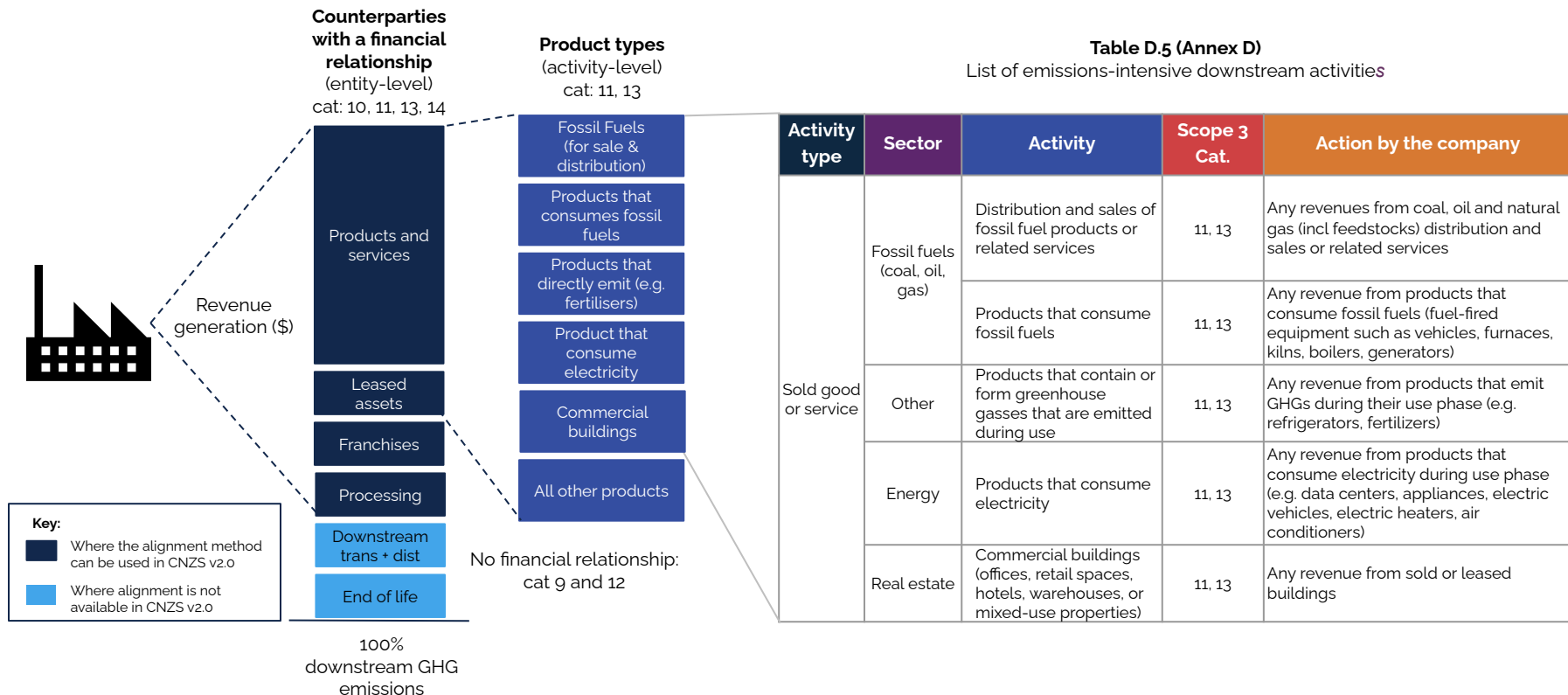
any product that does not emit GHGs during use

Method

$$\text{Share of aligned revenue (\%)} = \frac{\text{Revenue from net-zero aligned products (\$)} + \text{Revenue from non-emitting products (\$)}}{\text{Total revenue from sold products (\$)}}$$

Rate of increase: linear trajectory from baseline level of aligned revenue to 100% aligned revenue by 2050

Background | CNZS v2.0 proposal focuses action on sold or leased goods and services that emit during use. These activities must be covered by company targets



Impulse | ...informed by the Climate Solutions Framework developed by Oxford Net-Zero and ERI

Criteria and safeguard requirements for qualification of a product or service as a climate solution (Oxford Net-Zero and ERI)

5.1 Core criteria

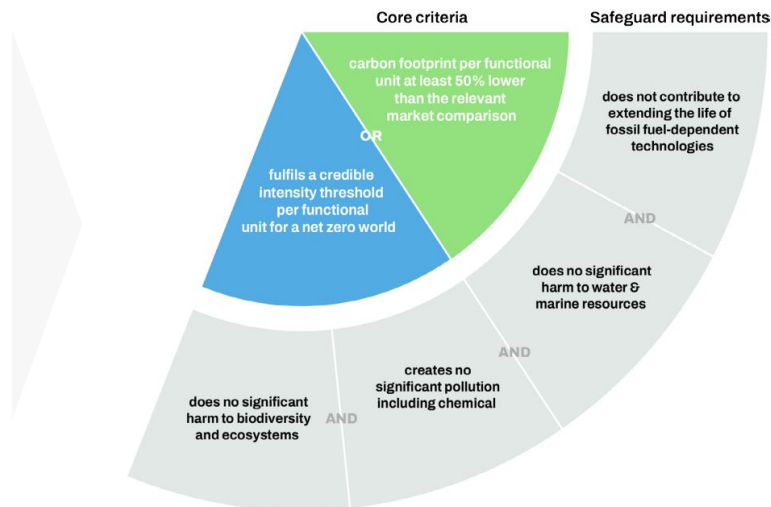
To qualify as a climate solution, a product or service must:

- Have a carbon footprint that is at least 50% lower^{1,2}, than the relevant market-weighted average for the current products/services being replaced³.

OR

- Fulfil a credible intensity threshold per functional unit for a net zero world, as set out in a robust taxonomy or other science-based paper⁴.

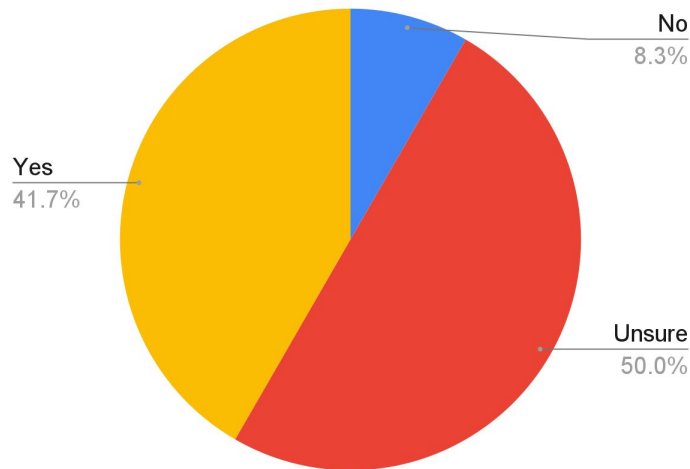
Over time the climate impact of mainstream services and products will gradually decrease, and more credible intensity thresholds for a net zero world will be established. Therefore there will be a gradual shift from using the first criteria above to using the second.



Ref: Falk, J., Wigg, C., Axelsson, K. & Becker, M. (2023). [Climate solutions framework \(CSF\) - defining and qualifying climate solutions and climate solutions companies](#). Exponential Roadmap Initiative.

Poll results | Refining the framework for net-zero aligned revenue

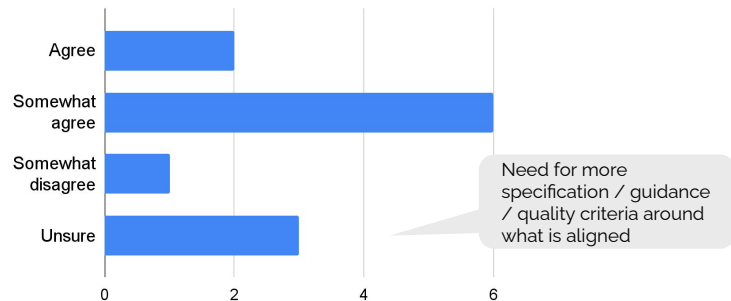
Do you support the use of a revenue based metric (e.g. % revenue from net-zero aligned products) to assess downstream alignment?



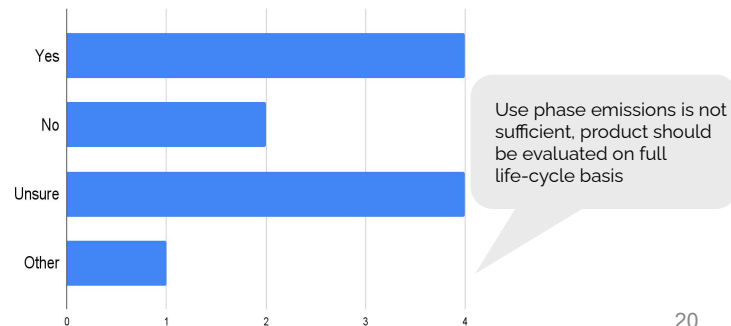
Main takeaways:

- Half are unsure about using a revenue-based metric, indicating a need for discussion on suitability of this approach
- Majority agree or somewhat agree with the definition of a net-zero aligned product, though indicate a need for refinement of both the definition and formula

Definition of a net-zero aligned product



Should the numerator include products that have zero use phase emissions?



Discussion | Is the proposal for net-zero aligned revenue targets credible and do the definition and formula make sense?

1 Is the proposal for aligned revenue targets a credible alternative to emission based targets?

Group exercise 1: general feedback on aligned revenue targets

25 mins

Objective: Broad discussion to understand members' views on whether the proposal for aligned revenue targets is clear and credible, and the level of support for introducing a revenue-based metric and potential alternatives

2 If we were to adopt aligned revenue targets, how should these be defined and calculated?

Group exercise 2: definition and method for aligned revenue

25 mins

Objective: Understand members' views on the proposed definition for aligned products and the method for setting aligned revenue targets

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



<https://tinyurl.com/yfnbthtk>

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



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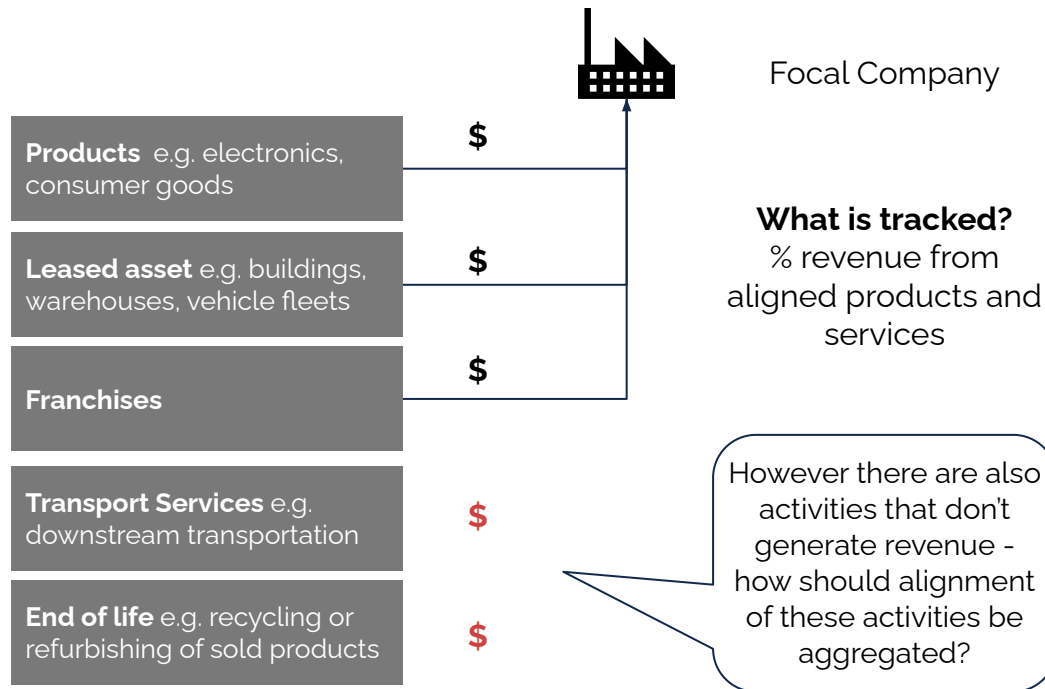
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Discussion | Activity-level alignment targets track % revenue from aligned products, however this is primarily relevant for certain revenue-generating categories (e.g cat. 11 and cat. 13)

How to calculate the alignment of value chain activities?

Alignment approaches can be defined for each value chain activity, so that all revenue and non-revenue generating activities can be categorised as aligned or not aligned



Discussion | The current draft CNZS v2.0 prioritises use phase intensity benchmarks to assess alignment of sold products, but other potential alignment approaches could be explored

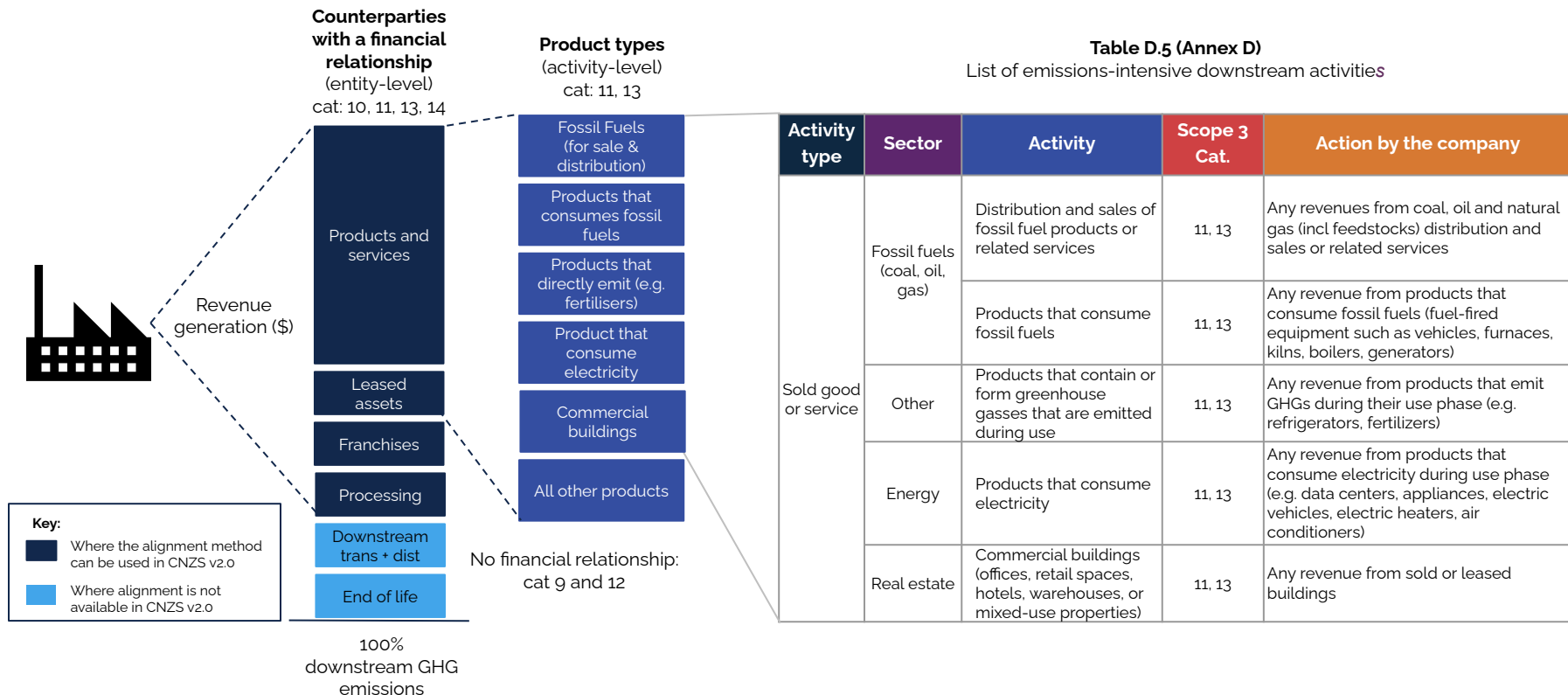
	Alignment Approach	Value chain applicability	Description	Example alignment assessment
Activity emissions profile	Physical intensity	Good or service 	Sold or leased good or service use phase emissions are operating at a certain emissions intensity (e.g. tCO ₂ /unit)	% of total vehicle sales made from vehicles where direct (tailpipe) emissions are zero kg CO ₂ e/km
	Technology type	Good or service 	Identified as a required transition technology in net-zero scenarios Or Sold or leased good or service is a "climate solution", as defined by a credible framework (e.g. ERI Climate Solutions Framework)	E.g. proportion of sales from electric arc furnaces vs traditional basic oxygen furnaces Protein sales from plant-based products which meet climate solution criteria (meet net-zero intensity threshold [kgCO ₂ e/cal] and are 50% lower than market comparison)
Activity classification	3rd party certification scheme	Good or service 	Sold or leased good or service is certified by 3rd party (e.g. building "net-zero ready" certification) Sold or leased good or service is certified as meeting best in class energy efficiency standards (e.g. EU Energy Label)	The leased building is certified as a "green building" using a credible certification scheme The product is rated A according to the EU Energy Label system
	Taxonomies	Good or service 	Sold or leased good or service is listed in a credible climate taxonomy	Product procured is listed in taxonomy e.g. rechargeable batteries sold in accordance with the EU taxonomy are aligned
Entity classification	Renewable energy procurement	Counterparty 	Share of renewable electricity used by counterparties (e.g. franchisees)	Share of electricity in counterparties (e.g. franchisees) that is matched by renewable electricity 24/7

Draft CNZS v2.0 default for activities

Discussion | For some activities it may be possible to identify different activity or entity alignment metrics

	Category	Desired outcome	Activity-level alignment metric	Entity-level alignment metric
Increasing level of influence ↑	Cat 11: Use of sold products	Aligned use phase of a product	Product metrics: - Products appearing in a taxonomy - Products below a physical intensity benchmark	Alignment of customer (e.g. end user has an SBT)
	Cat 13: Downstream leased assets	Aligned use phase of an asset	Product metrics: - Products appearing in a taxonomy / building certification - Products below a physical intensity benchmark	Alignment of customer (e.g. leasee has an SBT)
	Cat 9: Downstream transportation and distribution	Aligned transportation	Transportation metrics: Activity classification: technology type (% low emissions vehicles)	N/a - no direct commercial relationship
	Cat 12: End of life treatment of sold products	Aligned disposal of a product	Waste metrics: Activity classification: % waste treated via responsible end of life options e.g. recycling.	N/a - no direct commercial relationship
	Cat 14: Franchises	Aligned franchise	N/a?	Alignment of franchisee (e.g. franchisee has an SBT)
	Cat 10: Processing of sold products	Aligned processing of a product	N/a?	Alignment of customer (e.g. processor of intermediate products has an SBT)

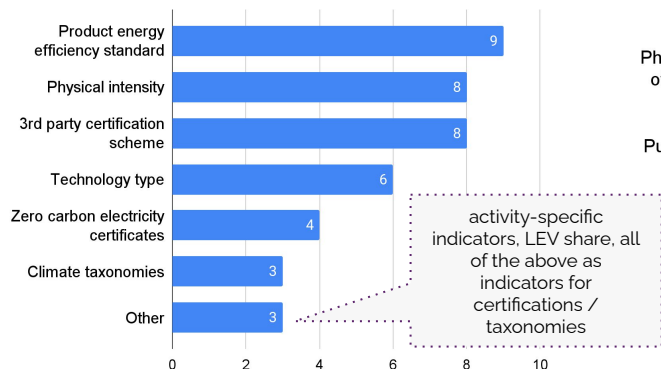
Background | CNZS v2.0 proposal focuses action on sold or leased goods and services in the emissions-intensive activities list. These activities must be covered by company targets



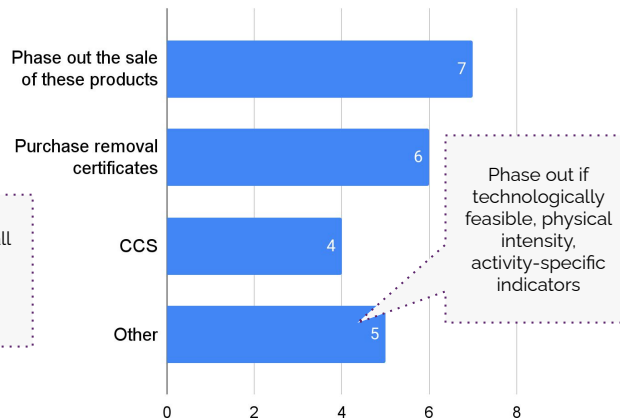
Poll results | Metrics for aligned procurement

What metrics should the SBTi consider to determine whether a sold product or service is net-zero aligned?

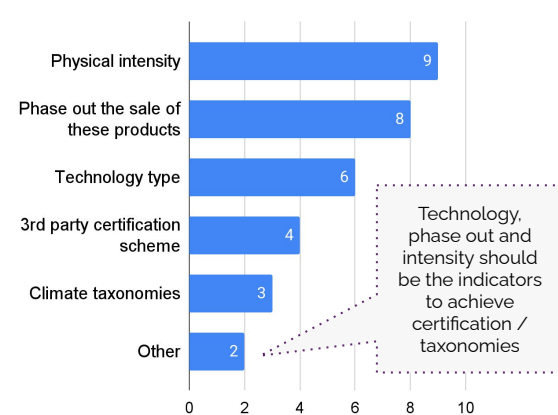
Products that consume electricity during use phase



Products that directly emit during use phase (e.g. fertilisers and fossil fuels)



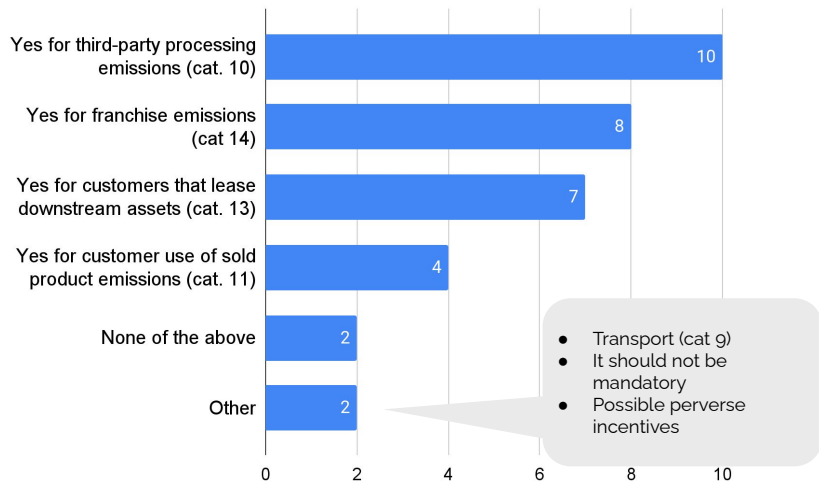
Products that consume fossil fuels during use phase (e.g. ICE cars)



Main takeaways: Respondents support a range of indicators, with preference for physical intensity, phase out of fossil fuels / products consuming fossil fuels, and efficiency for electrified products. Some additional suggestions include: activity-specific indicators, transition enabling practices (i.e. extended product responsibility) and market-aligned disclosures

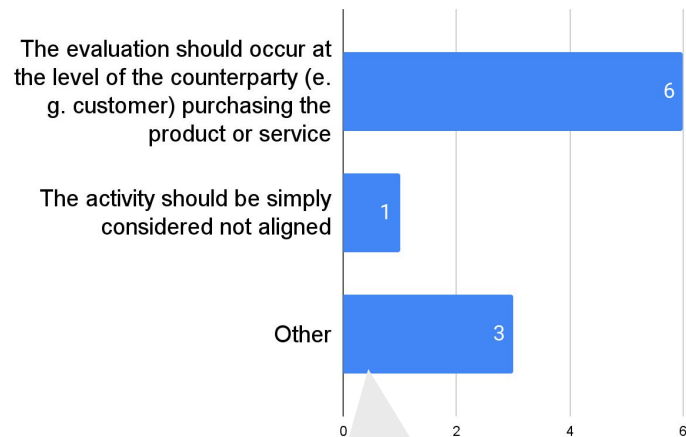
Poll results | Refining the framework for net-zero aligned revenue

Should the SBTi allow entity-level alignment of downstream counterparties as a legitimate metric for covering downstream emissions?



Main takeaways: general support for using the entity-level alignment in b2b sales.

Where there is no viable activity-level metric, how should the percentage revenue be evaluated?



- More information needed
- Hybrid approach between the two options
- If metrics don't exist and sector is material, make an effort to develop these.

Discussion | What metrics should the SBTi use to determine if a product is net-zero aligned? Let's discuss in Miro!

- 3 What metrics should be used to determine if a sold or leased product (i.e. good or service) is net-zero aligned?

Group exercise 3: exploring revenue alignment metrics

30 mins

Objective: To explore and evaluate credible, practical metrics and benchmarks that could be used to determine whether sold and leased products are net-zero aligned

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



<https://tinyurl.com/yfnbthtk>

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Next steps | We are meeting again soon!

Upcoming: special plenary meeting on **6 June** on claims and minimum data quality requirements

Next scope 3 EWG:

Logistics



Date: Wed 25 June

The session will likely be extended to 2:30 hrs due to expert external speakers



Location: Online - Google Meet

Content



Discussion on target boundary and traceability



This session will include contributions from external experts: ISEAL and Watershed

Preparation



Pre-reads are available in our [shared folder](#) (Session 1). Please arrive prepared to engage!



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Thank you!