Brief: NewClimate Institute's feedback to the SBTi Scope 3 Discussion Paper

September 2024

In July 2024, the SBTi published its Scope 3 Discussion Paper, setting out some potential options for the major revision of its Corporate Net Zero Standard. Stakeholders were invited to provide feedback on the Discussion Paper through a survey, by 04 October 2024.

This document discloses NewClimate Institute's response to the SBTi's survey, along with an explanation of our interpretation and perspectives.

1 Alignment targets framework

NewClimate Institute's understanding of the Scope 3 Discussion Paper

The proposed framework would first require companies to identify and prioritise the most critical emission sources and related transitions within their sectors. For these prioritised emission sources and transitions, companies would need to commit to specific 'alignment targets' and 'policies' over the interim period, on the way to their longer-term net zero targets. These near-term alignment targets would come either alongside or instead of aggregated interim GHG emission reduction targets. For example, vehicle manufacturers may need to set near-term targets framed in terms of the annual sales share of zero emission vehicles and the share of near-zero emission steel procured, rather than simply an emission reduction commitment compared to a base year. Companies' longer-term net-zero targets would continue to be expressed in terms of aggregated GHG emission reductions.

We are optimistic about the prospects for short-term 'alignment targets' to address current challenges in corporate climate target setting.

Instead of succumbing to pressure to introduce unnuanced flexibility to its standards through carbon credits (as explained in a recent blogpost from September 2024), the *alignment targets* framework may be a more direct and constructive solution to addressing existing problems of corporate target setting.

The proposal puts the spotlight on the necessary near-term actions and sector-specific transitions for companies, rather than predominantly focusing on aggregated GHG metrics that have proven particularly susceptible to obfuscation and creative accounting. Our analysis in three annual iterations of the Corporate Climate Responsibility Monitor indicated that current validations under SBTi's standards do not always translate into meaningful changes to companies' business models that address their most critical emission sources. The real meaning of companies' emission reduction targets is often muddied by the exclusion of key emission sources, questionable baseline comparisons, reliance on carbon credits and other certificates, or reliance on technologies like CCUS and bioenergy in sectors where they are not appropriate.

The newly proposed approach may address some of the challenges that companies face with the current SBTi standards. By focusing on simplified and aggregated GHG metrics, the SBTi standards used to date imply a common and uniform responsibility for companies to reduce the emissions of the sector they operate in. This does not sufficiently accommodate the differing circumstances and responsibilities of individual companies. The current SBTi standards might be more advantageous to large incumbent polluters than they are to sector innovators and disrupters (Robiou du Pont *et al.*, 2024), such as newly established manufacturers of renewable energy technologies or producers of plant-based foods, whose interim growth in production and related emissions may be beneficial for reducing the emissions of the sector overall.

Potential challenges like data availability and differences in emission sources between companies within a sector could make setting alignment targets difficult. As a result, this framework could be effective for most companies, but it may not be directly applicable to all companies.

Emission reduction targets remain relevant for many incumbent corporations.

In the long-run, the need for all sectors and activities to reach either zero or near-zero emissions means it is important for emission reduction targets to remain in place for major incumbent corporations, in addition to alignment targets. This would also be an important safeguard, given the alignment target approach has not yet been implemented and it cannot be known whether the approach may present any unforeseen barriers.

Setting 1.5°C-compatible alignment targets for key sectoral transitions may be the best way to focus on specific transitions, but it does not necessarily imply 1.5°C-compatibility of an entire business model in

the longer-term without overarching GHG emission targets: for example, an energy utility planning to phase out coal-fired power generation and transition from gas to hydrogen is not 1.5°C-aligned if the company also pivots its business model to derive a major portion of its revenue from fossil fuel extraction and trading, which may not be covered by the company's specific alignment targets. It is not realistic to expect standards developed by voluntary initiatives like the SBTi to foresee and cover all the potential current and future activities that companies may engage in, as companies and sectors adapt and evolve. We have seen that aggregated GHG emission reduction targets do not always have the specificity to reliably guide key transitions, but maintaining such targets in addition to more specific alignment targets is a key safeguard to ensuring that the full business – however it evolves – is subject to climate targets.

We see the argument that some companies and sectors – such as SMEs and companies marketing climate solutions – could be treated differently in the near term. For these companies, specific alignment targets without accompanying absolute GHG emission reduction targets might better recognise and reward companies that enter the market with climate friendly solutions, encouraging rather than containing their growth. However, the objective segmentation of companies according to this logic may be a considerable challenge: for example, companies marketing climate solutions may also continue polluting business divisions in parallel.

Responses to the Scope 3 Discussion Paper Feedback Form

1	**Which approach to introducing alignment targets do you think would be most effective?**

Alignment targets as an optional supplement to emissions reduction targets

Alignment targets as an alternative option to emissions reduction targets (i.e. companies chose one of the two options)

Alignment targets replace emissions reduction targets

Both alignment and emission reduction targets are required for near and long-term targets (For major incumbent corporations, especially in sectors where output and activity reduction is a key measure)

Alignment targets are required in the near-term (emission reduction targets optional), with both alignment and emission reduction targets required in the long-term. (For SMEs & disrupters)

Alignment targets are not introduced

3	**At what level of granularity should the SBTi assess the alignment of value chain activities with global climate goals?**

Share of aligned revenue or procurement (e.g. share of procurement from aligned sources; share of overall revenue generated from aligned products and services)

Share of aligned upstream and downstream activities (e.g. share of a specific commodity procured from aligned sources; share of a specific product)

Both at the overarching revenue and procurement-level (Option 1) with sub-targets at the activity level (Option 2)

4	**Which of the following options for assessing alignment do you think is most effective if a company identifies a value chain activity in a high-climate-impact sector (e.g. steel production) in its direct business relationships (e.g. tier one supplier)?**

At the entity level only (e.g. supplier performing that activity must have a science-based target)

At the emissions source level only (e.g. certification of that specific activity, e.g. steel production)

At both the entity level and emissions source level

5	**Which of the following options for assessing alignment do you think is most effective if a company identifies a value chain activity in a high-climate-impact sector (e.g. steel production) beyond its direct business relationships (e.g. beyond tier one supplier)?**

At the entity level only (e.g. supplier performing that activity must have a science-based target)

At the emissions source level only (e.g. certification of that specific activity, e.g. steel production)

At both the entity level and emissions source level

2 Prioritisation and boundaries

NewClimate Institute's understanding of the Scope 3 Discussion Paper

The current SBTi Corporate Net Zero Standard (v1.2) requires companies to cover only a minimum of 67% of their scope 3 emissions under their interim targets. Companies are entirely free to decide which emission sources to cover under their targets and may well exclude some of the most critical emission sources that require the most urgent attention. Under the newly proposed framework, we understand that companies should be required to set alignment targets and policies covering the most material and critical emission sources of their sector, which we believe in most cases should lead to a set of targets covering far more than 67% of the scope 3 emission footprint.

The reasonable target boundary depends on whether the short-term target setting framework will include just alignment targets, aggregated GHG emission targets, or both.

Alignment targets for prioritised emission sources should cover all the key transitions for the business areas they operate in. A pragmatic approach could be to require coverage of at least 90% of scope 3 emissions.

The prioritisation of emission sources to be covered by alignment targets should be inclusive enough to ensure that the most relevant emission sources for the most critical sector transitions are addressed. The effectiveness of the SBTi's proposal to base the prioritisation on an assessment of magnitude, activities in high-climate-impact sectors and activities with a high risk of lock-in, will depend on how these factors are defined, or whether companies are left to define them.

We are concerned that there would be significant risks in leaving companies to determine this prioritisation completely freely, since this could result in the exclusion of transition-relevant emission sources. However, we also recognise that a prescriptive approach may face limitations in practice due to the high degree of heterogeneity in the business areas that companies are operating in. For this reason we propose that a coverage of at least 90% of a company's emission footprint may be a reasonable approach to ensure that key transitions are covered, without companies needing to focus extensively on less material emission sources.

However, we also consider that the prioritisation of emission sources should consider not only current but also future potential emission sources (e.g. the emissions footprint of batteries from EVs; changes in the emissions profile for energy companies that shift from generation to retail models). This would require also identifying and prioritising emission sources for each sector or business area that have a high climate-relevance or potential for lock-in, even if the magnitude of emissions from those sources is less significant today.

GHG emission reduction targets are most transparent if they cover 100% of scope 3 emissions

If companies are required to continue communicating aggregated GHG emission reduction targets, the most transparent way to express these targets would be to compare them to the full emissions footprint. Many companies already cover 100% of their emissions with their GHG targets, and it is clear what these targets mean. By comparison, having a 50% emission reduction target that only covers 67% of emissions is akin to committing to reduce 33% of a company's emission footprint. Allowing targets with incomplete coverage leads to misleading and incomparable targets. This applies to both near-term and long-term GHG targets.

Feedback survey questions

7	**Should the SBTi continue requiring companies to set scope 3 targets only if their scope 3 emissions constitute 40% or more of total Scope 1, 2 and 3 emissions?**
Yes	
No	
Unsure	

8	**At what level of granularity should the SBTi require companies to breakdown their scope 3 emissions in order to enable effective identification of relevant emissions sources for target setting?**
At the category-level only (e.g. business travel)	
At the specific activity, commodity, product or service level (i.e. more granular sub-categories, e.g. business travel can be broken down into emissions from flights, trains, buses and passenger cars) using a predefined significance threshold.	
Where categories are identified as high magnitude (i.e. constitute a large volume of emissions), for example the top 2 or 3 categories, break these down at the specific activity, commodity, product or service level using a predefined significance threshold.	

10	**Which approach to determining the target boundary for near-term targets do you agree with most?**
Align near-term boundary with net-zero target boundary requirements (90%), supplemented by climate-relevant emissions sources if necessary.	
Use a 67% near-term target boundary and 90% long-term target boundary as a minimum threshold, supplemented by climate-relevant emissions sources if necessary.	
Set the target boundary based on the two most relevant scope 3 categories.	
Retire percentage target boundary concept. Focus on climate-relevant emissions sources and require transparent justification for why other emissions sources are not addressed.	

3 Commodity environmental attribute certificates (EACs)

The SBTi scope 3 discussion paper presents two potential scenarios for the use of commodity certificates.

- Scenario 1: Use of commodity certificates from value chain activities
- Scenario 2: Use of commodity certificates from sources with lower or no value chain traceability

13.a.	**In the context of Scenario 1, what additional considerations should the SBTi take into account when further examining this scenario?**

EACs could serve as an accounting tool to determine chain of custody for interventions that can be physically linked to the value chain (SBTi discussion paper scenario 1).

Under a framework focused on *alignment targets* (see section 1), companies might start setting more climate targets for their upstream emissions based on the percentage of products or services they procure that are aligned with 1.5 °C pathways. For example, companies may set targets to increase the share of near-zero emission steel in their procurement. Under such a target setting framework, EACs could be a means to address two key challenges:

- **Establishing a common definition for 1.5°C-alignment:** EACs could be used to certify commodities against a standardised definition of what constitutes 1.5°C alignment (i.e. what counts as near-zero emission steel?). The SBTi could support this by ensuring that the process for developing standardised definitions is independent and science-based, rather than led by private interest groups, as has often been the case for existing and planned commodity EACs. For instance, the SBTi could take the initiative to develop definitions, or identify criteria and guardrails for processes that the SBTi will recognise.
- **Proving environmental attributes**: EACs could be used to prove the environmental characteristics of the commodities that companies procure, in the case that there is a robust chain of custody system with identity preservation and physical association with a supplier.

In this case, commodity EACs serve purely as an accounting tool for interventions within the value chain, rather than being a means for flexible approaches or market-based accounting.

13.b.	**In the context of Scenario 2, what additional considerations should the SBTi take into account when further examining this scenario?**

For the SBTi's scenario 2, we differentiate between two different situations: EACs derived from interventions *within a specific supply shed*; and EACs *without traceability and close association to the supply shed*.

In some circumstances, commodity EACs derived from interventions *within a specific supply shed* may be a reasonable means to claim emission reductions in the value chain.

Companies could face disincentives to take direct action for supply chain decarbonisation if they are offered the ability to make and account for interventions within the broader supply shed rather than working with specific suppliers directly. Yet, interventions within the supply shed may be the most direct approach possible to decarbonise the value chain in some cases. This could be the case if supplier traceability is not feasible, for example with electricity flows within a grid, or when suppliers change on a frequent basis, as is often the case for the fragmented supply chains of several agricultural commodities. Whether the procurement of EACs from the supply shed could be a reasonable approach

for market-based accounting is likely dependent on the nature of the commodity and the definition of the supply shed. The approach would also introduce risks that must be carefully considered. The case-specific development of high integrity crediting mechanisms for each individual commodity will be highly challenging and susceptible to influence from actors with significant interests. Decades of experience with Renewable Energy Certificates has also shown that the procurement of EACs *alone* without consideration of the specific procurement constructs may be unlikely to have a significant emission reduction impact.

We question whether it is realistic for commodity *EACs without traceability and close association to the supply shed* to be effective and robust enough to be used as market-based accounting instruments. We perceive significant risks that imperfect mechanisms could reduce transparency and facilitate distraction and delay from necessary action.

Developing crediting frameworks for commodities is subject to several challenging complexities related to fragmentation, traceability, procurement constructs, accounting integrity, and potential disincentives for direct interventions in the value chain (NewClimate Institute, 2024, forthcoming).

The relatively poor historical track record of existing crediting frameworks for distinctly less complex commodities (e.g. carbon credits and renewable electricity certificates) demonstrate that these challenges are not trivial. It might be irresponsibly optimistic to assume that crediting systems without traceability and physical association could be developed for multiple other commodities in a reasonable timeframe, while ensuring that they are effective and robust. Given that the rationale for the use of commodity EACs is often to accelerate nascent technologies, EAC accounting frameworks would need to be operational soon to effectively serve this purpose.

EACs with lower value chain traceability could be used for *contributions.* This could be a reasonable target-setting approach in some cases, but must be distinct from targets for reducing a company's own emissions footprint.

Commodity EACs without traceability and physical association could potentially still be useful if they are used to channel "contributions" to beyond value chain interventions and not used for GHG inventory adjustments or emission reduction targets.

In the context of a more nuanced framework for target setting that prioritises critical emission sources, it may be reasonable in some circumstances for voluntary standard setters like the SBTi to recognise *contribution*-framed interventions without traceability as a means of supporting 1.5°C aligned transitions. This could be justifiable for emission sources and circumstances where direct action within the value chain is not realistically feasible.

If commitments to contributions are to be recognised as a means of supporting 1.5°C aligned transitions, they must be clearly framed in those terms; it would be inaccurate and counterproductive for such *contribution*-framed commitments to be conflated with targets for emission reductions or other specific transitions within the value chain, given the high degree of uncertainty and improbability that the purchase of commodity EACs can really be equivalent to direct action within the value chain. Commitments to contributions should only be considered a temporary option for supporting transitions where new technologies are geographically limited and require significant financial support to commercialise and scale. A clear distinction of such commitments should provide an incentive for companies to set targets for outcomes within the value chain as soon as they have the means to do so.

4 Carbon credits within the value chain

NewClimate Institute's understanding of the Scope 3 Discussion Paper

The SBTi's discussion paper identifies the following *potential* scenario for the use of carbon credits: *Use of carbon credits from mitigation activities within the value chain to substantiate value chain emission reduction claims* (scenario 3).

We understand that the potential scenario only foresees the use of credits as a potential tool to substantiate a direct and traceable emission reduction intervention in the value chain. This could be useful, for example, in the case that interventions with specific suppliers may not be easily accounted through other scope 3 accounting approaches.

In this scenario, credits are used only to substantiate the assumptions for calculating inventories; they are not used as a means of flexibility for market-based accounting.

13.c.	**In the context of Scenario 3, what additional considerations should the SBTi take into account when further examining this scenario?**

We advise to not further pursue this potential scenario, as we are concerned that the scenario is highly susceptible to misinterpretation. There is a substantial risk of inadvertently legitimising conventional offsetting approaches under new guises or terminologies.

We perceive that there is a great deal of confusion among stakeholders regarding what this scenario for the use of carbon credits within the value chain means, and we are concerned about the risk that some groups could exploit this uncertainty to force various offsetting proposals as legitimate interpretations.

The following real anecdotal examples highlight the risk of scenario 3 being inadvertently used for various large scale offsetting programmes and approaches. We envisage a high risk for disagreement and conflict over interpretations on what this option covers.

- **Re-allocation of emission reductions:** Companies may use credits to offer specific customers a reduction in the emissions footprint of the product or service provided, although the emission reduction intervention happened elsewhere. For example, a logistics company might use carbon credits deriving from its introduction of electric delivery vehicles on one route, to provide a claim of emissions-free delivery to another company on a different route. Similar claims are already made by some logistics companies. The approach is likely to lead to double counting of interventions, since the company being served by electric vehicles is likely to consider that they have a zero emissions logistics services, as well as the company that is served by conventional trucks but pays a premium for the credits.
- **Offsetting electricity emissions through ETA:** In August 2024, Winrock issued a briefing on behalf of the Energy Transition Accelerator (ETA) claiming that the purchase of carbon credits from the ETA's forthcoming electricity sector crediting approach could be in line with scenario 3 of the SBTi Discussion Paper (Winrock, 2024). Such an interpretation would open the door for this scenario to facilitate conventional offsetting on an enormous scale. We consider that the ETA programme clearly does *not* fit within the SBTi's envisaged scenario, since traceability of the intervention to a specific supplier is not possible.
- **Insetting through biogenic carbon dioxide removals:** Several major companies from the agrifood sector have been championing the idea of "insetting" through biogenic carbon dioxide removal in recent years. "Insetting" is a business-driven concept with no universally accepted definition. The approach can lead to low credibility offsetting claims and the double counting of emission reductions (NewClimate Institute, 2023). The SBTi Discussion Paper implicitly rules

this interpretation out by stating that this scenario accounts for emission reductions only rather than carbon dioxide removals, but we observe many stakeholders still offering their interpretation that this *would* be covered under scenario 3.

While the risks associated with both accidental or intentional misinterpretations is considerable, the potential viability and value of this scenario is unclear:

- We question whether it is pragmatic for a supplier to go through the exercise of registering a project for the issuance of credits, just to demonstrate the implementation of a direct intervention, when this could be reported and substantiated in an inventory through other means.
- Given the concerns regarding the quality of carbon credits, as documented in the SBTi's own Synthesis Report on carbon credits, we question whether credits can even reasonably substantiate *any* interventions, whether in the value chain or not.

5 Carbon credits to support neutralisation of emissions

NewClimate Institute's understanding of the Scope 3 Discussion Paper

The current SBTi Corporate Net Zero Standard (v1.2) requires companies to neutralise the climate impact of scientifically defined residual emissions at their net-zero target year and any future emissions by permanently removing and storing carbon from the atmosphere. The Net Zero Standard expects most sectors to reduce GHG emissions by at least 90% between 2019 and the net-zero target year.

The SBTi's discussion paper highlights that the initiative is planning to explore the following key concepts:

- **Matching emissions type with storage type:** Where the type of removal matches the type of emission (biogenic or fossil)
- **Matching atmospheric lifetime with storage timescale**: Where the storage duration would match the atmospheric lifetime of the residual GHGs. For instance, methane emissions would be neutralised by temporary storage and carbon dioxide emissions by long-term storage.
- **Establishing fungibility between removal methods:** The SBTi's discussion paper states that this could include, "creating equivalence ratios to quantitatively value CDR with different levels of permanence in carbon removal, balancing the economic benefits of reducing warming temporarily against long-term climate damage costs" (SBTi, 2024a). The discussion paper provides there are various risks to such an approach, due to "discrepancies in assessing storage times, costs and impacts on long-term temperature change" (SBTi, 2024a).

13.d.	**In the context of Scenario 4: Use of carbon credits to support neutralization of residual emissions, what additional considerations should the SBTi take into account when further examining this scenario?**

We recommend a critical assessment of the three concepts mentioned above as we perceive significant risks for all three matching options. For example, matching emission types with storage types and matching the atmospheric lifetime with storage timescale would allow agrifood companies to neutralise methane emissions from livestock with soil carbon sequestration (biogenic and short-term). This would lead to a strong mitigation deterrence in the sector, while reducing livestock methane emissions by 38% by 2050 is key to limiting global warming to 1.5ºC (Reisinger *et al.*, 2021)

In addition, we would recommend the SBTi to consider the following issues related to neutralisation of emissions:

- **Should support for CDR be tied to residual emissions**, or also to historical responsibility, or even to other "fair share" indicators? For example, under 1.5ºC-compatible trajectories the power sector should be very close to zero emissions by 2040 globally, with advanced economies reaching these levels by 2035 already (Dietz *et al.*, 2021; Climate Action Tracker, 2023). The SBTi requires companies in this sector to reduce absolute emissions by 97% below 2020 levels by 2040 (SBTi, 2024b). This would mean that, under the current Net Zero Standard, power utilities would have to neutralise a relatively small amount of GHG emissions. However, the power sector has an important historical contribution to global temperature increase. We recommend that the SBTi considers whether support to CDR should be tied to the level of residual emissions, or whether other approaches would be more appropriate.
- **Are carbon credits the appropriate funding vehicle to support neutralisation of residual emissions?** NewClimate analysis indicates that the voluntary carbon markets are not the right instrument to channel funding for CDR (NewClimate Institute, 2024). Carbon markets tend to

direct investments mostly toward low-hanging fruits and cheap credits, such as reforestation projects. Even if non-permanent forms of CDR would be excluded, companies are likely to purchase credits from the cheapest technological CDR options available, whereas it is necessary to scale up finance for the more expensive and immature technological CDR options. We consider that other instruments are more appropriate than carbon credits to channel finance to CDR and support neutralisation of residual emissions. These could include auctioning revenues from carbon pricing mechanisms, procurement schemes, or putting direct obligations to invest in CDR on companies (De Simone and Stoefs, 2023).

- Related to the point above, **should support for CDR be expressed in tonnes of CO_2 removed, or rather in monetary terms?** The current Net Zero Standard requires companies to neutralise each residual tonne of CO_2 with a tonne of CO_2 removals. This tonne-for-tonne approach incentivises companies to pursue the cheapest removal options available. However, bringing global emissions to net zero and thereafter to net negative requires that more expensive forms of CDR are scaled up.

- **How can we ensure that CDR is scaled up in the near future**, to compensate for temporary overshoot and ensure that CDR capacity is sufficient by mid-century? The current Net Zero Standard provides that companies should neutralise residual emissions in their net-zero target year, usually not more than 10% of their 2020 emissions. However, the current supply of permanent CDR is limited; it is key that finance for technological CDR is scaled up in the near term to ensure that sufficient supply is available by mid-century. For instance, the SBTi could require companies to set interim targets for emission removals. Scaling up finance for removals now can also help to ensure that costs of future CDR are not disproportionally passed on to future generations.

- **How should the scarce resource of permanent CDR be allocated, recognising its limited potential availability?** While the current Net Zero Standard requires companies to neutralise their residual emissions with permanent CDR, it does not adequately define "permanent" or provide an assessment of the likely availability of permanent CDR. We recommend the SBTi to provide a definition of "permanent" and assess whether the likely availability of permanent CDR meets the expected demand under various scenarios (e.g. one scenario where companies scale up their finance for CDR soon and one scenario where companies only start to increase this finance towards their net zero target years). We recommend the SBTi to scientifically assess whether their assumptions for CDR demand match the limited potential supply of permanent removals (NewClimate Institute, 2024). Based on these findings, the SBTi should revisit the sectoral guidelines on residual emissions.

6 Beyond value chain mitigation (BVCM)

NewClimate Institute's understanding of the Scope 3 Discussion Paper

The SBTi's discussion paper refers to the use of carbon credits to support beyond value chain mitigation (BVCM) as one potential scenario for the use of EACs in corporate mitigation strategies (Scenario 5).

SBTi published its guidance on BVCM earlier in the year after a thorough consultation process with its advisory groups. Even though BVCM is not yet part of the SBTi net zero standard, **Scenario 5 reaffirms the necessity for companies to take responsibility for unabated emissions through beyond value chain mitigation**. The SBTi Discussion Paper implies that BVCM could play a large role in the short-term, due to the current lack of other incentives to contribute to carbon dioxide removals and other mitigation actions outside the value chain. However, this trend is expected to shift in the mid- to long-term as the share of unabated emissions is reduced and carbon removals technologies reach market maturity.

13.e.	**In the context of Scenario 5: Use of carbon credits to support beyond value chain mitigation, what additional considerations should the SBTi take into account when further examining this scenario?**

We support the notion that contributions to BVCM should be highly encouraged or even mandatory and must be separate to emission reduction targets. Setting a price on unabated emissions that aligns with the social cost of carbon and systematically incorporating this into corporate mitigation strategies addresses a significant gap, shifting the responsibility for these emissions from society to businesses, in line with the polluter pays principle.

However, we question whether carbon credits are the right instrument to channel contributions to BVCM. We believe carbon credits should only play a limited role in directing money to BVCM, with greater emphasis on alternative methods such as pooling money through funds. This is due to the lack of integrity associated with carbon credits and their use, but also to the fact that BVCM should fund a broader range of critical investments than those eligible for carbon credits such as adaptation, advocacy and awareness campaigns, or research and development. The SBTi's discussion paper rightly underlines six potential risks for the use of carbon credits from activities beyond a company's value chain: integrity risks, impact risks, finance and dilution risks, mitigation deterrence, emissions lock-in, and misleading claims. **The use of carbon credits to support BVCM should strictly exclude claims related to actions within the value chain and must remain distinct from targets for reducing a company's own emissions footprint.**

7 Renewable electricity accounting

Renewable electricity accounting is a critical issue for consideration in scope 3

A discussion on the accounting options for renewable electricity is not included in the SBTi's Scope 3 Discussion Paper, although this will be a crucial issue for the revision of the Corporate Net Zero Standard, including for scope 3. Electricity use is the largest emission source in companies' value chain emissions footprints, so renewable electricity procurement is not only relevant for scope 2 emissions. The integrity of companies' climate strategies will depend on the way in which these companies and their suppliers account for electricity consumption in the value chain and companies' interventions to support suppliers' use of renewable electricity.

The revision of the SBTi's CNZS, alongside the major revision of the GHG Protocol and the development of a new ISO standard for Net Zero, is a unique and highly critical moment for corporate climate accountability. The rules and guidelines elaborated in these processes will determine the direction of travel for corporate climate action – and eventual regulatory developments – for the next decade.

Many actors are trying to inform and influence these processes, and **renewable electricity accounting appears to be one of the most relevant and most contested issues**. Companies and civil society are putting their weight behind fundamentally opposing proposals. For example, while many academics and civil society groups are supporting a shift to more granular renewable electricity accounting, such as the 24/7 Carbon-free Energy Compact, the Emissions First Partnership championed by Amazon and Meta, among others, proposes a loosening of the current rules.

The accounting approach for renewable electricity matters a great deal. Various studies show that companies can almost eliminate their electricity-related emissions with hourly matching strategies (24/7) *and* contribute to decarbonising electricity systems (Xu *et al.*, 2023; Riepin and Brown, 2024; Samarakoon *et al.*, 2024). In contrast, matching electricity consumption with renewables on an annual basis has a very limited effect on electricity-related emissions and grid decarbonisation.

24/7 renewable electricity should be one of the most important alignment targets under the SBTI's revised Corporate Net Zero Standard, both for scope 2 and scope 3 emissions.

We consider that the SBTi should take a more proactive stance on requiring companies to set the most effective and transparent targets for renewable electricity procurement, recognising that the current approach is very loosely defined and leaning on the outdated criteria of other initiatives (see Table 4; NewClimate Institute and Data-Driven EnviroLab, 2020). One of the SBTi's stated objectives is to "define and promote best practice in emissions reductions and net-zero targets in line with climate science". Promoting the best practice of 24/7 renewable electricity accounting may be the single most important measure that the SBTi could take towards this objective.

The target setting approach under the Corporate Net Zero Standard should not necessarily be restrained by the GHG Protocol's accounting guidance for scope 2 emissions, the revision of which will not be complete until at least 2027. It cannot be foreseen whether the current GHG Protocol revision would lead to a 24/7 accounting framework being facilitated or required for scope 2 and 3 GHG accounting, although we perceive that this is the clear direction of travel.

SBTi can require companies to set 24/7 renewable electricity targets for scope 2 and scope 3 emissions, even if the revised GHG Protocol guidance will not require a 24/7 accounting framework. Several of the SBTi's existing target setting options are already unlinked to GHG inventories, and the SBTi Scope 3 Discussion Paper proposes to expand the use of such *alignment targets* that are related to specific outcome indicators, rather than GHG inventories.

8 Transparency of communication

The SBTi and similar voluntary initiatives should take a more proactive role in clearly communicating what their validations mean, and what they do not.

While the SBTi's Scope 3 Discussion Paper appears to propose a promising framework for corporate target setting in theory, the details of its implementation and communication will matter.

It will not be straightforward to define watertight rules on how to identify the most critical emission sources and transitions that should be covered by specific alignment targets. Even if this can be achieved, setting 1.5°C-compatible targets for key sectoral transitions should not imply 1.5°C-compatibility of an entire business model: for instance, an energy utility phasing out coal-fired power and transitioning from gas to hydrogen is still not 1.5°C-aligned if it also shifts its business model to generate significant revenue from fossil fuel extraction and trading. It is not realistic to expect standards developed by voluntary initiatives like the SBTi to foresee and cover all the potential current and future activities that companies may engage in.

Against this backdrop, target validations from initiatives like the SBTi should not be interpreted as an all-encompassing approval of a company's climate strategy and related activities. The SBTi and other voluntary initiatives can take more responsibility and a proactive role to communicate clearly on what its validations mean, and what they do not mean.

Our experience assessing more than 50 companies in three annual iterations of the Corporate Climate Responsibility Monitor — most of which have targets validated by the SBTi — shows that corporates often use the *target* validations to implicitly or explicitly claim the validation of their entire climate strategies towards external stakeholders. However, the SBTi neither verifies companies' emission disclosures nor evaluates transition plans, measures and capital expenditure to meet these targets. The SBTi should do everything in its power to explain the nature and scope of its target validations and counteract misinterpretations. This becomes especially relevant if an updated SBTi standard introduces alignment targets and policies that are more nuanced and complicated to communicate, or permits the use of EACs.

As part of its five-step process to implement the proposed framework, the SBTi's Scope 3 Discussion Paper outlines the development and implementation of action plans (Step 4) and measurement and progress verification (Step 5). Both steps are essential parts of any company's business transition. The SBTi should clearly communicate which of these steps the revised Net Zero Standard—and by extension, their validations—cover, and which it does not.

References

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