Brief: NewClimate Institute's feedback to the VCMI Scope 3 Claim

October 2024

In September 2024, the Voluntary Carbon Markets Integrity Initiative (VCMI) launched a consultation period for a second proposal of its Scope 3 Claim. Stakeholders were invited to provide feedback on the proposal through a survey, by 07 October 2024.

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

Summary of concerns

- VCMI proposes that companies should be able to make extensive use of carbon credits up until 2038 to address the "emissions gap" between their target trajectories and their actual emissions, which would result in weakening the system of accountability for corporate climate action.
- **Problem 1: Backsliding ambition |** The VCMI proposal risks further undermining already insufficient levels of corporate climate ambition, potentially reverting to marginal, business-as-usual emission reductions.
- **Problem 2: Distract from and delay short-term action |** The VCMI proposal could enable companies to delay meaningful immediate emissions reductions, allowing them to continue increasing their emissions in the short term.
- **Problem 3: Undermining efforts of front-runners |** The VCMI proposal could disadvantage ambitious companies with genuine climate strategies by allowing laggard competitors to exaggerate their own efforts.
- There are far more transparent and constructive solutions to the challenges companies face in decarbonising their value chains, such as focusing on key emission sources and setting targets that specifically address them.
- We urge VCMI to abandon the proposal of flexibility mechanisms that are not aligned with and may undermine the promising improvements expected in the SBTi's Corporate Net Zero Standard. Carbon credits should not be used as a flexibility mechanism to suggest that companies are on track to meet their targets, nor as adequate compensation for falling short of those targets.

1 Statements from the consultation survey

The following statements are included in the consultation survey. We indicate in the rows below our agreement or disagreement with the questions.

We have excluded some of the survey questions that we consider too specific and irrelevant for us, due to our more fundamental disagreement with the broader concepts that those details relate to.

Statement: *“The Scope 3 Claim methodology is clear and easy to understand.”*	**Strongly disagree**

We consider that the VCMI’s proposed Scope 3 Claim is potentially misleading. The nuances of the Scope 3 claim methodology – particularly related to the emissions trajectory and carbon budget methodology (see section 3.2) – significantly affect the transparency and integrity of the proposal.

Statement: *“Considering the proposed requirements and guardrails, use of the Scope 3 Claim by companies will help accelerate progress towards global net-zero.”*	**Strongly disagree**

We consider that the VCMI’s proposed Scope 3 Claim is likely to rather slow down progress towards global net-zero. We find that the Scope 3 claim would risk distracting from and delaying action for companies using the claim (see section 3.2), and would undermine the efforts of frontrunner companies (see section 3.3).

Statement: *“Setting the scope 3 emissions gap limit at 24% of the emissions indicated by the trajectory in the claim year is an adequate threshold to make sure most companies making efforts to reduce scope 3 emissions will be able to make the claim and prevent companies not making efforts from making a claim.”*	**Strongly disagree**

We find that allowing an emissions gap of up to 24% risks dialling back the already insufficient levels of corporate climate ambition to marginal business-as-usual emission reductions (see section 3.1) and will even allow some companies to continue *increasing* emissions in the short term (see section 3.2). This will not differentiate in any way between companies making efforts to reduce scope 3 emissions, and those that do not make efforts.

Statement: *“The use of the carbon budget concept ensures a credible science-based approach and simplifies the claim calculation.”*	**Strongly disagree**

The VCMI’s provisions for companies’ emissions trajectories, based on the use of its so-called “carbon budget” approach, would risk distracting from and delaying short term action, by allowing companies to continue increasing their emissions in the short-term (see section 3.2).

Statement: *“Scope 3 Claim requirements enable stakeholders to assess whether companies are making meaningful efforts to achieve their targets, e.g. public disclosure of the scope 3 emissions gap and the actions taken to remove scope 3 emission reduction barriers.”*	**Disagree**

This would depend on where and how companies would be required to disclose their ‘emission gap’, how this would affect companies’ communications related to their targets validated by the Science Based Targets initiative (SBTi), and what is the specific terminology of the Scope 3 Claim that companies can make. None of these details are clearly defined in the VCMI’s proposal.

2 Alternative options for consideration

2.1 Use of carbon credits for emissions outside the target boundary

Box 2 of the consultation survey presents the following option for consideration as an alternative to the Scope 3 Claim proposal.

Statement: *"The use of carbon credits should be restricted to addressing emissions that are not accounted for within scope 3 emission reduction targets – those outside the target boundary."*	**Agree**

We consider that the major risks associated with the VCMI's proposal would be partially mitigated, if the use of carbon credits would be restricted to addressing emissions outside the target boundary. **Importantly, this would ensure that companies use carbon credits to complement – rather than replace – the essential actions needed to meet their pledged targets.**

However, it is unclear what would be the additional value of such a claim to any other claim that the company is making. The terminology of the claim would be important. If it could be interpreted as an offsetting claim, then it could be misleading. If the claim would imply a form of contribution, then it would raise the question why this is any different to the existing set of VCMI's Silver, Gold and Platinum contribution claims.

2.2 Use of carbon credits related to the scope 3 emission sources

Box 3 of the consultation survey presents the following option for consideration as an additional recommendation.

Statement: *"The selection of high-quality carbon credits retired to make the claim should be intentionally related – sectorally and/or geographically – to the sources of scope 3 emissions contained in the company's scope 3 emissions gap.*	**Neutral**

This alternative proposal could potentially mitigate some of the risk that the Scope 3 Claim distracts from and delays action. If carbon credits derive from equivalent activities, it is possible that they may not present a significantly cheaper alternative and a disincentive to direct action. This would also ensure that the specific transition associated with the emission source remains addressed in some way, which would also be beneficial for the company in terms of supporting the emergence and development of technologies that they will later rely on to directly reduce their own emissions footprint.

However, this depends on the activities being sectorally ***and*** geographically ***equivalent***, rather than sectorally ***or*** geographically ***related***, which could still imply the use of carbon credits from various activities and not necessarily one of equivalence to the emissions source.

The use of commodity EACs within the supply shed (see NewClimate Institute 2024, forthcoming) might be preferable to the use of carbon credits from sectorally related activities, since commodity EACs could – if well defined – target the specific technologies and transitions necessary to be aligned with 1.5°C-compatible pathways. By comparison, carbon credits could be issued from measures for marginal emission reductions to conventional technologies that are not necessarily supporting the transition to new technologies.

3 Concerns with the VCMI Scope 3 Claim proposal

The following section is adapted from a NewClimate Institute blog from 02 September 2024.

VCMI's revised proposal suggests that companies could purchase carbon credits for up to 24% of their target emission levels until 2038 to address the "emissions gap" between their target trajectories and their actual emissions. Whether this constitutes offsetting is subject to interpretation. Although VCMI states that the Scope 3 Claim cannot be used to meet emission reduction targets or to offset scope 3 emissions, the specific terms of the claim remain undefined. We believe it is highly likely that the Scope 3 Claim could mislead investors, consumers and regulators, potentially encouraging companies to use carbon credits as an alternative to cutting emissions within the value chains.

VCMI's proposal threatens the principle that companies should not be able to achieve short- and medium-term emission reduction targets through offsetting. This has been a cornerstone of the Science Based Target initiative (SBTi) since its initiation and was also one of the key recommendations in the Integrity Matters report by the United Nations' High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities.

3.1 Problem 1: Backsliding ambition

Allowing an emissions gap of up to 24% risks dialling back the already insufficient levels of corporate climate ambition to marginal business-as-usual emission reductions.

To illustrate the implications of the Scope 3 Claim for existing 2030 targets, we tested it on the 16 companies covered in the 2024 Corporate Climate Responsibility Monitor report that have SBTi-validated 2030 targets for scope 3 emissions. Figure 1 demonstrates that the revised Scope 3 Flexibility Claim could further weaken the already insufficient 2030 targets of most companies. The VCMI allowance could reduce scope 3 targets to levels that are critically insufficient for achieving sector-specific trajectories needed to limit global warming to 1.5°C. Some companies would be eligible for the VCMI claim with emission reduction levels so minimal that they essentially represent business-as-usual scenarios, requiring no meaningful climate action.

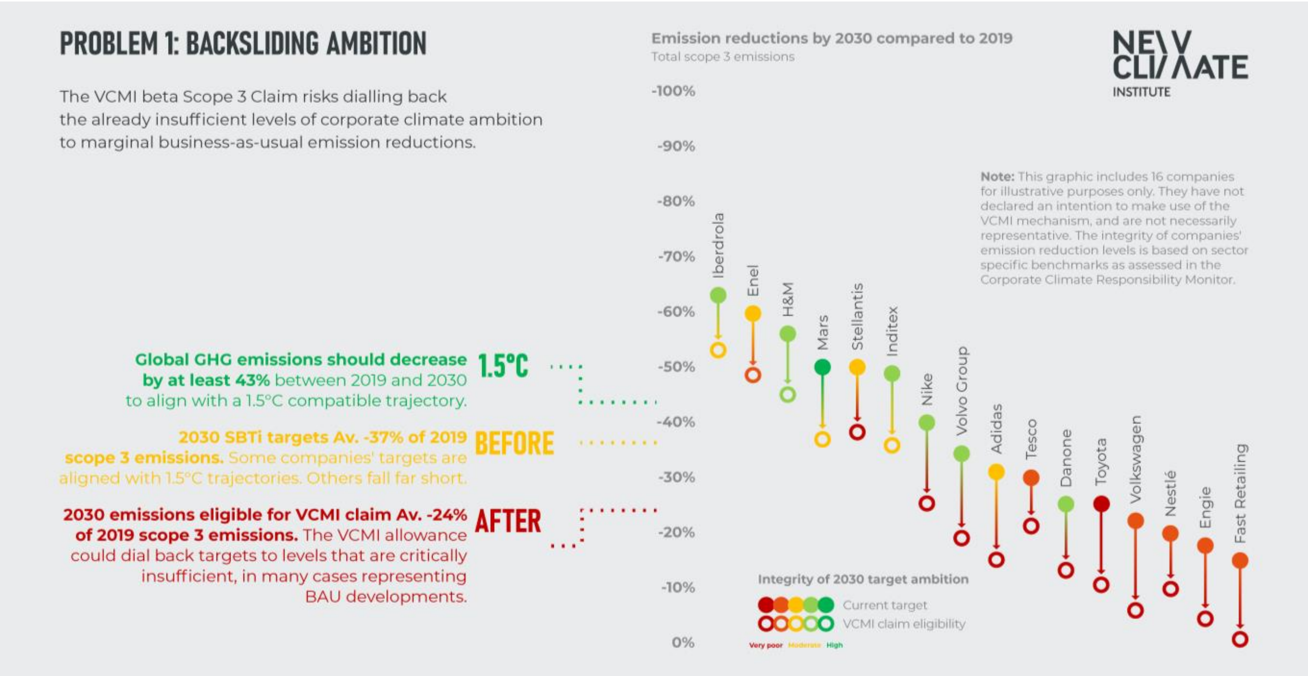

Figure 1: Backsliding ambition

3.2 Problem 2: Distracting from and delaying action

The VCMI’s provisions for companies’ emissions trajectories, based on the use of a carbon budget approach, would risk distracting from and delaying short term action, by allowing companies to continue increasing their emissions in the short-term.

Figure 2 illustrates an example of a company with a target to reduce its scope 3 emissions by 50% between 2025 and 2035. Due to the 24% flexibility allowance *in addition* to VCMI’s provision for companies to chart a non-linear pathway towards their targets, this company would be able to steadily *increase* its emissions for the first half of the target period up to 2030 while still qualifying for the VCMI Scope 3 Flexibility Claim.

The VCMI’s carbon budget approach would eventually require companies to reduce emissions over the latter half of the target period. However, companies could simply abandon or backslide on its targets at this point, after benefitting from the flexibility for years. This could potentially allow the company to use the Scope 3 Flexibility Claim to distract from and delay meaningful climate action.

Short-term flexibility for corporations would delay necessary transitions and distract from their lack of progress—a fundamentally wrong approach to addressing the climate crisis. Companies must take immediate action to drastically reduce emissions within their value chains while developing long-term strategies for transitioning to net zero. We cannot afford any periods of inaction if we are to meet the goals of the Paris Agreement.

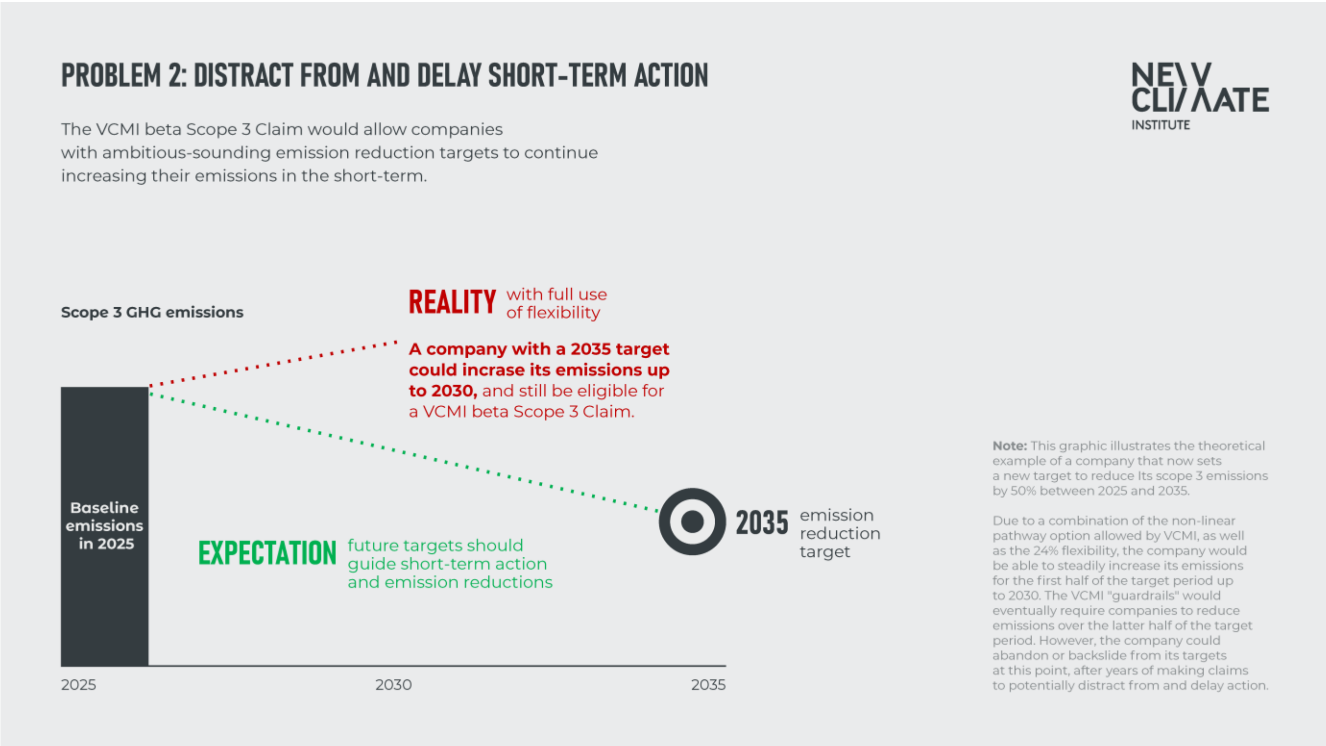

Figure 2: Distracting from and delaying short-term action

3.3 Problem 3: Undermining efforts of front-runners

The VCMI proposal could disadvantage ambitious companies with genuine climate strategies by allowing laggard competitors to exaggerate their own efforts.

The VCMI’s Scope 3 Claim creates a disincentive for companies to become first movers in implementing ambitious climate action that requires substantial financial and operational resources for its implementation, undermining efforts by leading companies to reduce emissions in the short-term such as Volvo Group, Mars or Iberdrola, among others. According to our analysis, these companies already implement ambitious climate actions along their value chains. For example, Volvo Group is currently implementing comprehensive measures to support the phase-in of electric vehicles by 2030 and taking credible steps to address upstream emissions by entering specific supply agreements for low-carbon steel (see Chapter 5.7 of 2024 Corporate Climate Responsibility Monitor for full analysis). Such measures require substantial investments for their short-term implementation, and first movers also face risks when implementing novel climate actions.

The VCMI's Scope 3 Claim, however, enables laggard companies that have *not* undertaken similar efforts to misleadingly appear to be making similar progress towards ambitious-sounding targets. This may create a direct disincentive for companies to become first movers and put significant resources into tackling the considerable challenges of sectoral transitions. Moreover, it could penalise companies that have already committed to forward-looking investments and innovation under the assumption that offsetting would not be allowed. In this context, a growing number of companies are vocally opposing the use of carbon credits toward target fulfilment (See for example statements from H&M Group, Telstra, Decathlon, Michelin and other companies.)

3.4 Problem 4: Potential misalignment with SBTi's CNZS revision

VCMI's Scope 3 Claim does not appear to align with the direction of the SBTi's Corporate Net Zero Standard revision, which promises more transparent and constructive solutions.

Instead of succumbing to pressure to introduce unnuanced flexibility to its standards through carbon credits, the SBTi's Scope 3 discussion paper – published in July 2024 – explores more direct and constructive solutions to address issues with corporate target setting.

The SBTi's discussion paper sets out potential frameworks to encourage and enable companies to focus on critical emission sources through transition-specific alignment targets, rather than relying only on aggregated GHG metrics that are vulnerable to manipulation and creative accounting. For example, vehicle manufacturers may need to set near-term targets related to the annual sales share of zero-emission vehicles and the share of near-zero emission steel procured. In contrast to the controversial statement from the SBTi's Board of Trustees in April 2024, the discussion paper reiterates SBTi's position that carbon credits from activities outside the value chain should not count towards emission targets. This position is further supported by the SBTi's Synthesis Report on carbon credits, which clearly points to the ineffectiveness of carbon credits to meet corporate climate targets.

VCMI's Scope 3 Claim proposal overlooks these developments and contradicts the more innovative and nuanced direction of the SBTi's revised Corporate Net Zero Standard. The International Standards Organisation (ISO) is also working on developing an international standard for corporate net zero targets.

Given these developments, we urge VCMI to abandon the proposed flexibility mechanisms that could undermine the progress of corporate net zero standards. Offsetting is an outdated approach: carbon credits should not be used as a flexibility mechanism to suggest that companies are on track to meet their targets or as sufficient compensation for failing to achieve them.

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