CO2 compensation in the context of RBI

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Summary

RBI endorses the general approach of SBTi as it offers a valuable instrument to set credible emission reduction targets ánd encourages companies to invest in REDD+. RBIs view is that there is no contradiction between cutting emissions (in line with science-based targets) and using high quality voluntary carbon credits to compensate for residual emissions. On the contrary: the two are closely intertwined and should be adressed in conjunction. If we don't stabilise our sinks and reverse deforestation, companies would keep having to make ever deeper and faster cuts in emissions in order to meet their SBT!

According to SBTi, companies cannot claim net-zero until their long-term science-based target is achieved. This ensures high ambition on emission reduction in the companies and their value chains. RBI's position is that within each step of the transition towards the long term SBT, a company should be able to claim carbon neutrality as is also advocated by McKinsey. The net-zero claim can then be reserved for when the long term SBT is reached.

Both carbon neutrality and net-zero require compensation/ neutralization of residual emissions. SBTi as well as McKinsey consider avoided emissions, like the halting of deforestation by REDD+, as a short time option for neutralization that will be replaced over time by tree planting, like through the large scale planting of trees. RBI's position is that halting deforestation has priority over tree planting as it is much more effective in terms of climate change mitigation, biodiversity conservation and sustainble development. So, phasing out of avoidance should be the result of a succesfull SBTi approach, not a goal in itself.

1. **Introduction**

Reducing deforestation in the tropics is critical to mitigating climate change, preserving global biodiversity and sustaining the livelihoods of the hundreds of millions of often very poor people who depend on the forest. In view of the extent of deforestation (3x the surface of the Netherlands annually, of which 1/3 of pristine rainforest), the members of the REDD + Business Initiative (RBI) regard deforestation in the tropics as a very urgent problem that can only be tackled by the large-scale deployment of the REDD + framework (Reduced Emissions from Deforestation and Forest Degradation), developed by the UN. Most company members of RBI contribute to REDD+ by buying credits from REDD + projects. By doing so, they aim also to achieve their own sustainability goals, such as achieving carbon neutrality.

Such voluntary compensation, however, is not without risks. One of these risks is that companies use compensation to show a green image without taking full responsibility for their climate impact. In that case it can be considered as greenwashing. In order to prevent this, RBI works only with companies that take reducing emissions seriously and take concrete steps to reduce their CO_2. Emissions.

2. Credibility

Voluntary compensation by companies is only credible if it is a supplement to serious measures to achieve emission reduction within the company and its supply chain and not a replacement thereof.

Several instruments are being developed to determine what the targets for emission reductions by a company should be in the light of limiting global warming to 1.5 or 2 degree, as agreed upon in the Paris Agreement. One of the most important instruments in this respect is the

Science Based Targets approach, developed by the Science Based Targets Initiative (SBTi). Although the methodology of SBTi is complex and time consuming -and therefore only usable for larger companies- it was concluded by RBI that our company members should aspire to use it. As SBTi is critical on compensation as an instrument to reach the Science Based Target, the question is what the consequences are for companies that have chosen to follow the SBT approach ánd use REDD+ based compensation as an instrument to reach their climate goals, like carbon neutrality (or net-zero). This paper is meant to clarify this question.

3. SBTi and compensation

This document focuses primarily on the relation between the SBTi approach and REDD+ based compensation. The paper builds on the Criteria and Recommendations[1] document and the Corporate Net-Zero Standard[2] of SBTi.
From the criteria document it is clear that the SBTi approach is quite strict in its approach. The SBT targets are limited to the company itself and its supply chain (upstream and down-stream). Cross boundary co-operation in reaching the targets is excluded, which limits the effectiveness of the approach considerably. This results in criterium 11 which states that:

"*The use of carbon credits must not be counted as emission reductions toward the progress of companies' near-term science-based targets. Carbon credits may only be considered to be an option for neutralizing residual emissions or to finance additional climate mitigation beyond their science-based emission reduction targets"*

So while the criterium excludes the use of carbon credits to be counted towards the science based targets, it opens the door to the use of carbon-credits for neutralizing residual emissions beyond their SBT. The document does not explain what "*beyond"* means exactly. It could be interpreted as beyond the long term SBT target, or as beyond the steps towards the long term target. Also the question of what boundaries are set for the beyond target actions is left open. These questions are explaimed in more detail in the net-zero document.

4. The Net-Zero standard framework

The Net-Zero Standard of the SBTi was developed with the intention of guiding corporates towards a state of net-zero in a way that is consistent with societal climate and sustainability goals and within the biophysical limits of the planet.

To contribute to societal net-zero goals, companies must deeply reduce emissions and counterbalance the impact of any emissions that remain. The SBTi Net-Zero Standard defines corporate net-zero as:

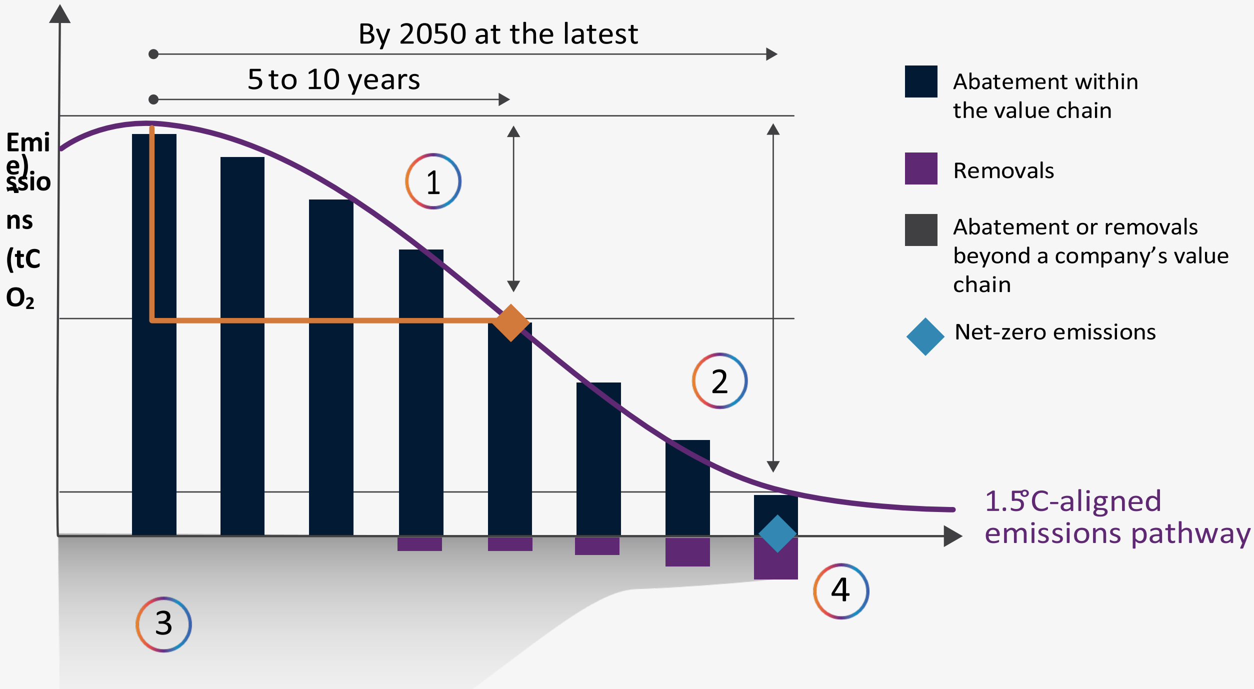
• Reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C-aligned pathways

• Neutralizing any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter.

[1] SBTi 2021, Criteria and Recommendations (version 5.0, Oct. 2021)
[2] SBTi 2021, Corporate Net-Zero Standard (version 1.0, Oct. 2021)

The Net-Zero Standard sets out four key elements that make up a corporate net-zero target as depicted in Figure 2. The first of these elements is a near-term science-based target, the

Figure 2 Key elements of the Net-Zero Standard



1 **To set near-term SBTs:** 5–10 year emission reduction targets in line with 1.5°C pathways

2 **To set long-term SBTs:** Target to reduce emissions to a residual level in line with 1.5°C scenarios by no later than 2050

3 **Beyond value chain mitigation:** In the transition to net-zero, companies should take action to mitigate emissions beyond their value chains. For example, purchasing high-quality, jurisdictional REDD+ credits or investing in direct air capture (DAC) and geologic storage

4 **Neutralization of residual emissions:** GHGs released into the atmosphere when the company has achieved their long-term SBT must be counterbalanced through the permanent removal and storage of carbon from the atmosphere.

second is a long-term science-based target, the third is mitigation beyond the value chain, and the final element is neutralization of any residual emissions. These four elements are described in the following sections in more detail.

Near and Long-term Science Based Targets

Near-term science-based targets galvanize the action required for significant emissions reductions to be achieved by 2030. The Long Term Targets show companies how much they must reduce their value chain emissions to align with reaching net-zero at the global or sector level in eligible 1.5°C pathways by 2050 or sooner. These targets drive economy-wide alignment and long-term business planning to reach the level of global emissions reductions needed for climate goals to be met based on science. SBT states that *a company cannot claim to have reached net-zero until the long-term science-based target is achieved*.

- ***Beyond Value Chain Mitigation and Neutralization***

SBTi states that although setting and achieving science-based targets must be the priority, companies should go further and invest in mitigation outside their value chains to contribute towards reaching societal net-zero. This includes, according to SBTi, securing and enhancing carbon sinks (terrestrial, coastal and marine, etc.) by for instance purchasing high quality, jurisdictional REDD+ carbon credits that support countries in raising the ambition and, in the long-term, achieving their nationally determined contributions.The following figure explains this in more detail, with. A clear distinction between reducing your own emissions (above the x axis) and compensating for residual emissions (below the x axis).

The SBTi uses the concept of neutralization, which it defines as *measures that companies take to remove carbon from the atmosphere and permanently store it to counterbalance the impact of emissions that remain unabated.* It is meant to neutralize the emissions that remain after the long-term Science Based Targets are reached.

5. Input from Mc Kinsey and the Taskforce on Scaling the Voluntary Market (TSVCM)
In a recent report from McKinsey[3] on how investors can guide portfolio companies on their path to net zero it is stated that the overall intent of net zero is clear. It requires companies to decarbonise their entire value chain, and only allows them to mitigate emissions considered to be unabatable – in contrast to a less stringent target such as 'carbon neutral', which allows corporates to offset all their emissions, without requiring decarbonisation. TSVCM's publication 'Calling for a High Ambition Path to Net Zero'[4] recommends that companies not just aim for Net Zero as an end point in decarbonising their operations and value chains (as meant by SBTi), but to also compensate and neutralise their emissions 'on the path to net zero'. This makes the path to net zero much more ambitious and much more effective in terms of climate change mitigation, biodiversity conservation and sustainable developpment. It also gives more recognition to the important role of companies that invest in REDD+ as a contribution to the transition towards a Net-Zero society.

The McKinsey report offers also a clear way forward for companies when it comes to claims they can make. The figure in the report on page 71 is very illustrative in that respect. It makes a distinction between decarbonising your own operations and value chain in line with scientific consensus, the commitment to reach Net Zero as a state of no impact on the climate within a timeframe aligned with the Paris ambition and a clear path towards Net-Zero in which within at any given year the remaining emissions are compensated/neutralized. This allows companies to make carbon neutral claims on their way to net-zero.

6. Discussion
From the perspective of RBI, the general approach of SBTi can be endorsed as it:
1) offers a valuable instrument to set credible emission reduction targets, especially for large companies.
2) encourages companies to invest in beyond value chain mitigation as a contribution to the global effort to limit global warming to 1,5 degree
3) recognizes the importance of purchasing REDD+ credits as instrument to go beyond value chain mitigation action and reach 'societal Net-Zero'

RBI welcomes the input from the McKinsey report and the TSVCM in which is called for an ambitious path towards Net-Zero, in which compensation of the remaining emissions are compensated/neutralized within any given year. That allows companies to make carbon neutral claims without being accused of greenwashing as they implement the SBTi approach.

In order to avoid confusion, RBI will follow the use of specific terms as is done by SBTi and Mc Kinsey. So the terms 'Net- Zero' and 'neutralization of residual emissions' will be

[3] McKinsey, Singapore Economic Development Board & GIC Singapore 2021, Putting Carbon Markets to work on the Path to Net-Zero (August, 2021)
[4] https://www.iif.com/Portals/1/Files/High_Ambition_Path_to_Net_Zero.pdf

reserved for the end result and the terms ‘carbon-neutral’ and ‘compensation’ for the steps towards Net-Zero.

As for the way in which the terms removal (like by planting trees) and avoidance (like by halting deforestation) are used the picture is less clear. The different documents and figures suggest that avoidance should be phased out over time and replaced by removal. RBI’s position is that halting deforestation has priority over tree planting as it is much more effective from the perspective of climate change mitigation, biodiversity conservation and sustainble development. So, phasing out of avoidance should be the result of a succesfull SBTi approach, not a goal in itself.