

AGENDA



Introduction to the SBTi & UK Market Trends
Overview of the SBT-setting process
Demystifying Scope 3 target setting
The SBTi Net-Zero Standard

Key resources & target-setting support



INTRO TO THE SBTI & UK MARKET TRENDS



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THE SCIENCE BASED TARGETS INITIATIVE (SBTi)





INTRODUCTION TO SBTs

WHAT ARE SCIENCE-BASED TARGETS?





- (Near-term) science-based target: Ensures that the company is taking near-term action to reduce emissions at a pace that is consistent with keeping warming below 1.5°C;
- **Long-term net-zero target:** Provides clarity about the direction that the company will follow and serves as a north-star for long-term strategic and investment decisions;
- 3 Annual disclosure: Gives visibility on how the climate strategy is being implemented and provides transparency on progress against targets

Science-based targets show companies **how much** and **how quickly** they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change

SBTI BUSINESS CASE: BENEFITS FOR COMPANIES



ALIGNING TO CLIMATE SCIENCE IS GOOD FOR BUSINESS

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ADDRESS STAKEHOLDER EXPECTATIONS i.e: long term sustainability of business model

INCREASE COMPETITIVENESS i.e: minimize energy and emissions-related costs

ANTICIPATE REGULATORY, POLICY AND MARKET DEVELOPMENT i.e: mitigate transition risks

SEIZE OPPORTUNITIES BEHIND THE LOW - CARBON TRANSITION i.e: low - carbon products/services

SCIENCE BASED TARGETS IN THE UK



524 UK HQ'd organisations have joined the SBTi, of which 220 have approved near-term targets. These include:



Approved SBTs by country:

THE CDP SBT CAMPAIGN

CAMPAIGN GOAL: Create a positive ambition loop between investors, purchasing organisations & companies that incentivizes high-impact companies to set SBTs, accelerating decarbonization of the real economy.

*2021 campaign figures: sign-up for 2022 campaign, launching in October, now open

THE SBT-SETTING PROCESS

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PROCESS FOR SETTING A SCIENCE-BASED TARGET*

INCLUDES INDEPENDENT TARGET VALIDATION

*Process for large companies. SBTi offers a streamlined route for SMEs.

HOW TO SET A TARGET

STEP 1: COMMIT | SIGN THE COMMITMENT LETTER

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- → Submit a signed copy of the <u>SBTi commitment letter</u>, thereby signalling intention to submit a near-term target for validation within 24 months
- → Companies can choose to also commit to setting a Net-Zero target

In addition, to align with the most ambitious aim of the Paris Agreement and to what science dictates is necessary to reduce the destructive impacts of climate change on human society and nature - to reach net-zero global emissions by 2050 at the latest in order to limit global warming to 1.5°C - my company is committing to:

Set net-zero targets, including a long-term science-based target: My company commits to set a long-term science-based target to reach net-zero value chain GHGs emissions by no later than 2050 in line with the <u>SBTI Net-Zero Standard</u>, submit it for SBTI validation and publish it, all within a maximum of 24 months. By committing to set a net-zero target, I also acknowledge that my company will be part of the Business Ambition for 1.5°C campaign. My company will also join the Race to Zero campaign.^{34,5}

→ Companies which make a Net-Zero commitment automatically enter the UNFCCC

HOW TO SET A TARGET STEP 2: DEVELOP THE TARGET | CRITERIA OVERVIEW (V5)

Level of ambition (Scope 1+2): At a minimum – consistent with the level of decarbonization required to keep temperature increase to 1.5°C.

- **Progress:** Both the target timeframe ambition (base year to target year) and the forward-looking ambition (most recent year to target year) must meet the ambition criteria.
- Boundary: All company-wide Scope 1 and 2 GHG emissions (> 95%);
- Timeframe: 5-10 years into the future;

- **Reporting:** Disclose GHG emissions inventory on an annual basis.
- **Scope 3**: A Scope 3 screening is required. An ambitious Scope 3 target is required when Scope 3 emissions cover < 40% of total emissions.

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This slide represents a summary and not a comprehensive overview. Please refer to the SBTi website for the full criteria and recommendations

HOW TO SET A TARGET STEP 2: DEVELOP THE TARGET | SBTI TOOL

Science-based Target Setting Tool

Version: Version 1.2.1

Support: info@sciencebasedtargets.org

Section 1. Input data

Scopes 1 and 2

HOW TO SET A TARGET STEP 3: SUBMIT AND BOOK A VALIDATION SLOT

- For both near-term and net-zero corporate target validations
- Via the system, companies upload completed <u>target submission forms</u>;
- Reserve a date for target validation;
- Provide payment information

HOW TO SET A TARGET STEPS 4 AND 5: COMMUNICATE AND DISCLOSE

Once approved, companies **must** communicate their targets.

SBTi publishes approved targets on its website on the <u>companies taking action</u> <u>page</u> as well as on partner's websites (We Mean Business and CDP).

Companies **must** publicly disclose their emissions inventory and progress against their targets on an annual basis.

Recommendations include annual reports, sustainability reports, the company's website, and/or <u>disclosure</u> <u>through CDP's annual questionnaire</u>.

DEMYSTIFYING SCOPE 3 TARGET SETTING

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SBTi SCOPE 3 OVERVIEW

Acknowledging challenges of data availability and lack of direct influence, the SBTi allows for greater flexibility on scope 3 target setting when compared with scopes 1 & 2:

 Scope 3: A Scope 3 screening is required and an ambitious, measurable Scope 3 target is required when Scope 3 emissions cover more than 40% of total emissions

• **Boundary:** Companies must set one or more targets that collectively cover at least 2/3 of scope 3 emissions.

- **Timeline:** 5-10 years into the future; from date target is submitted to SBTi for official validation
- Ambition:

- Minimum level of ambition: well-below 2°C
- Various target-setting methods for scope 3 (see next slide). Multiple methods can be used and combined.

SCENCE BASED TARGETS	
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TWG-INF-002 October 2021 -	Nendations Version 5.0
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	Figure 5. Intensity reduction targets can lead to absolute emissions increases when production levels increase
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¹⁷ This slide represents a summary and not a comprehensive overview. Please refer to the <u>SBTi website</u> for the full criteria and recommendations

SCOPE 3 TARGET SETTING METHODS I

SBTi CRITERIA VERSION 5 – MANDATORY FROM 15th JULY 2022

Option 1: Emissions Reduction Targets

- 1. Well-below 2°C aligned **absolute reduction** targets (minimum 2.5% linear annual reduction rate)
- 2. Well-below 2°C aligned **economic intensity** targets calculated based a 7% year-on-year reduction of greenhouse gas emissions per unit of value added (GEVA method)
- 3. Well-below 2°C aligned **physical intensity** targets calculated based on a 7% year-on-year physical emissions intensity reduction
 - Eligible denominator must be representative measure of a company activity related to emissions boundary of the target e.g. FTE, volume of production, amount of raw materials procured

<u>Note</u>: Sector-specific intensity targets (using Sectoral Decarbonisation Approach) can also be used to cover scope 3 emissions, except in cases prohibited by sector-specific guidance.

SCOPE 3 TARGET SETTING METHODS II

Option 2: Supplier or Customer Engagement Targets

- **Formulation:** Companies state the % of emissions from categories covered by the target or the % of annual procurement spend covered by target.
- **Boundary:** Any relevant upstream and/or downstream categories for their engagement targets.
- **Timeline:** targets must be fulfilled within 5 years from the date the target is submitted.
 - **Ambition:** At a minimum, suppliers/customers should set SBTs on scope 1 and 2 emissions. Inclusion of scope 3 emissions is encouraged.

<u>Note:</u> Only the share of a company's scope 3 emissions covered by supplier's or customer's targets can be counted within the target boundary.

SBTi CRITERIA V4.2 vs V5

VERSION 5 MANDATORY FROM 15th JULY 2022

WHAT?	SBTi V4.2SBTi V5Valid until 14 July 2022From 15 July 2022	
AMBITION	Scope 1 & 2: Min. well-below 2°C Scope 3: 2°C	Scope 1 & 2: Min. 1.5°C Scope 3: Well-below 2°C
	5-15 years	5-10 years
BOUNDARY	Scope 1 & 2: 95% Scope 3: 2/3	

Note: the SBTi encourages companies to align with the highest level of ambition as quickly as possible.

CDP SUPPLY CHAIN PROGRAM SUPPORTING THE SETTING OF SCIENCE BASED TARGETS

1. Data collection, engagement and tracking

- One point of access for all supplier emissions data to create supplier engagement strategy
- **Streamline communication** about SBT to suppliers through a single channel, including KPIs and webinars

2. Best in class framework

- CDP questionnaire is the **gold standard** for environmental reporting and a tool for suppliers to develop their environmental strategies and set SBTs
- Minimum version questionnaire available for SMEs

3. Strategy

- Focus engagement efforts on key suppliers who you need to set an SBT and help build their capacity
- Create a **risk scenario** based on suppliers' current performance and likelihood to set SBTs

60+ members with SBTs
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Firmenich gasNatural Givaudan°
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CDP Science-Based Targets Campaign

THE SBTI NET-ZERO STANDARD

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THE SBTI NET-ZERO STANDARD ADDRESSING LACK OF CLARITY ON DEFINITION OF 'NET ZERO'

- Corporate net-zero targets can play a critical role in addressing the climate emergency, but the lack of a robust benchmark has triggered scepticism around net-zero as a concept.
- Over an 18-month period, the Science Based Targets Initiative carried out a rigorous, stakeholder-informed process to develop a framework to enable companies to set science-based net-zero targets.
- The <u>SBTi Net-Zero Standard</u> was launched on October 28th, 2021
- From January 2022 onwards, companies are able to have Net-Zero targets independently validated by the SBTi, thereby demonstrating to stakeholders that their near- and long-term decarbonization plans are aligned with climate science

WHAT DOES NET-ZERO MEAN?

Understanding net-zero at the global level

WHY HAS THE SBTI DEVELOPED A NET ZERO STANDARD?

Net-zero targets differ across four key dimensions:

Corporate net-zero targets can play a critical role in addressing the climate emergency, but the lack of a robust benchmark has triggered scepticism around netzero as a concept.

Common criticisms include:

- Incomplete boundary: Selective inclusion of emission sources in corporate net-zero targets
- Delayed action: Lack of. interim milestones for longterm targets.
- **Mitigation deterrence:** Focus on offsetting instead of on reducing emissions.
- **Poor accountability:** Lack of scrutiny and accountability on voluntary commitments.

Four key elements make up the Net-Zero Standard framework

Four considerations for setting near-and long-term science-based targets

		<u>C</u>		
	Timeframe	Ambition	Boundary	Methods
	What is the maximum timeframe to meet your targets?	What is the ambition level in terms of limiting temperature rise?	How much coverage or your emissions inventory is required?	What are the eligible methods to set your targets?
Ŷ	5-10 years from date of	Scope 1 and 2: 1.5°C	Scope 1 and 2: 95%	1. Absolute reduction
Near-term science- based target	submission	Scope 3: Well-below	Scope 3: If >40% of total	2. Sector-specific intensity convergence
		2°C	emissions, 67%	3. Renewable electricity
			coverage	4. Supplier or customer engagement
				5. Scope 3 economic intensity reduction
				6. Scope 3 physical intensity reduction
	2050 latest	Scope 1, 2, and 3: 1.5°C	Scope 1 and 2: 95%	1. Absolute reduction
			Scope 3: 90%	2. Sector-specific intensity convergence
Long-term				3. Renewable electricity
science-				4. Scope 3 economic intensity reduction
based target				5. Scope 3 physical intensity reduction

Acknowledging challenges with Scope 3, the Standard is following an expansive boundary approach

A comprehensive target boundary is necessary for companies to make credible net-zero claims.

Acknowledging the challenges with Scope 3, **the SBTi is following an expansive boundary approach.**

This gradual increase in ambition:

- Allows companies to focus on making steep cuts in their most material emissions now
- Affords time to work through the complexity of scope 3
- Provides opportunities to collaborate across the whole value chain to support suppliers and customers to decarbonize

SBTi has evolved its terminology, phasing out compensation & moving towards "beyond value chain mitigation"

Term	Definition (as per SBTi Net Zero Standard
Mitigation	A human intervention to reduce emissions or enhance the sinks of greenhouse gases (IPCC).
Abatement	Measures that companies take to prevent, reduce or eliminate sources of GHG emissions within their value chain . Examples include reducing energy use, switching to renewable energy and retiring high-emitting assets.
Beyond value chain mitigation (BVCM)	Mitigation action or investments that fall outside a company's value chain. This includes activities outside of a company's value chain that avoid or reduce greenhouse gas emissions, or that permanently remove and store greenhouse gases from the atmosphere.
Compensation (legacy terminology)	Actions that companies take to help society avoid or reduce emissions outside of their value chain.
Neutralization	Measures that companies take to remove carbon from the atmosphere and permanently store it to counterbalance the impact of emissions that remain unabated.

The Net-Zero Standard was developed with the

Abatement must be prioritised; however, companies are increasingly expected to go beyond their SBTs

SCIENCE BASED

TARGETS

The Net-Zero Standard requires that these removals are permanent. We expect that frameworks to assess CO2 removal permanence, as well as resolving social and environmental concerns, will develop over time

1. CCUS = carbon capture, utilization and storage, H₂DRI = hydrogen direct-reduced iron (both technologies prevent GHGs from entering the atmosphere and therefore count towards emission reductions); 2. Removals contribute towards "beyond value chain mitigation", or "neutralization", depending on whether they are used to counterbalance remaining residual emissions; 3. Can also count towards emissions reductions for companies with forestry, land-use and agricultural emissions in their supply chains

What role do carbon credits play in the SBTi Net-Zero **Standard?**

Purchasing high-quality carbon credits in addition to reducing emissions along a science-based trajectory can play a critical role in accelerating the transition to netzero emissions at the global level. Carbon credits can play two roles in science-based net-zero strategies:

> In the transition to net-zero (i.e., now onwards) Companies can purchase carbon credits while they transition towards a state of net-zero emissions (i.e., in addition to science-based abatement of value chain emissions) to support society to achieve netzero emissions by 2050

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At net-zero

Companies with residual emissions within their value chain are expected to neutralize those emissions with an equivalent amount of carbon dioxide removals at their net-zero target date, and these removals can be sourced from carbon credits

KEY RESOURCES & TARGET-SETTING SUPPORT

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Four key resources for companies to set net-zero targets

SCIENCE BASED TARGETS

Getting Started Guide

A simple, step-by-step guide that allows companies to understand how to set net-zero targets.

SBTi Corporate Net-Zero Standard

Provides criteria, guidance and recommendations to support corporates in setting net-zero targets.

SBTi Corporate Net-Zero Criteria

The criteria companies' net-zero targets must meet to be approved by the SBTi.

Net-Zero Tool

Target-setting tool to calculate long-term SBTs in line with the Net-Zero Standard.

<u>Link</u>

Link

SBTi – GENERAL RESOURCES

- SBTi Corporate Manual
- SBTi How-to-Guide
- SBTi FAQs
- SBTi target-setting tool
- The SBTi target validation booking system
- SBTi YouTube Channel: webinars & events

Global Gold Climate Change Consultancy and SBT Accredited Solutions Providers

UK Silver Climate Change Consultancy and SBT Accredited Solutions Provider

THANKYOUL

CONTACT

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LEARN MORE

Net-Zero Standard webpage: . The Net-Zero Standard - Science Based Targets

Net-Zero Standard Deep Dive webinar: <u>The Net-Zero Standard: A deep dive into setting corporate</u> <u>science-based net-zero targets - YouTube</u>