

## WORKING PAPER

# Use Cases and Case Studies of Company Climate Commitments

#### ABOUT VCMI

has been led by Meridian Institute, a US-based not-for-profit



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#### ABOUT THIS PAPER

This VCMI Working Paper is a product of the VCMI Consortium working in collaboration with staff from the VCMI funders. This particular paper was led by Trove Research. This paper has not been reviewed nor approved by the VCMI Steering Committee, which was being formed as the paper was being developed. The intent of the paper is to spur dialogue and an exchange of ideas amongst all key stakeholders to inform the development of VCMI guidance on matters addressed in this paper during the next phase of the VCMI process, which will be governed by the VCMI Steering Committee. You can learn more about the Steering Committee here).

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> Key Terms of Reference: The subject matter addressed in this paper relies upon a complex, evolving, and interrelated set of key terms. In an effort to be clear about the definitions we have used for these key terms, the VCMI Consortium has developed a Glossary of Key Terms that can be found in Annex A of this paper as well as all of the Working Papers that are being released by the VCMI at the time of its official launch.

If you would like to give feedback, please contact vcmi@merid.org



# I. Introduction

# Introduction

This paper has been prepared by Trove Research<sup>i</sup> to support VCMI with an analysis of the state of play of corporate climate claims. Specifically, it sheds light on the nature of current claims, how they differ, and how prevalently they feature in different industry sectors. The numerical analysis is drawn from a sample of 60 large firms covering six broad economic sectors, using data from Q1 2021. Claims that have been updated more recently are not included in the analysis.

In the last year, there has been significant growth in the number of companies making climate commitments or making claims related to the climate impact of their products and services. The focus of many company climate targets is emissions reductions within the company's own operations and supply chain. However, there are various types of targets, claims, and commitments that incorporate the use of emissions offsetting through the purchase of carbon credits.

The use of "science-based targets", developed by the Science Based Targets initiative (SBTi), is one of the main methods by which companies seek to demonstrate that their emissions reductions targets are aligned with global emissions reductions targets agreed under the Paris Agreement. Under current guidance from the SBTi, emissions reductions should be achieved throughout the company's value chain that represent an emissions reduction pathway that is aligned with the Paris Agreement. Currently, only Science Based Targets (SBTs) that extend up to 15 years into the future can be verified by the SBTi. The SBTi is now developing the criteria for a net zero standard, enabling companies to commit to achieving net zero emissions by 2050 or sooner. This is likely to be released in November 2021. It is anticipated that existing SBTs will become an interim to the longer-term net zero targets that companies will commit to. Companies are also making commitments to achieve net zero emissions by different target dates, or to reduce or offset all emissions associated with their operations to claim a "carbon neutral" status for a product, service, or the company as a whole.

These developments are taking place as companies seek to make climate commitments or ambitions public or demonstrate that they have already achieved an emissions reduction or offsetbased claim, without broad agreement on the definitions of these climate claims or commitments. This may create difficulties in understanding, comparing, and assessing different climate targets, claims, and commitments made by companies, as well as increase the complexity for companies in trying to understand how to set their own commitments or claims.

Section 2 of this paper describes the structure of corporate climate claims used in the analysis and shows the distribution of claims by type and sector. Section 3 presents examples of firms using these claims, and Section 4 lays out some brief observations.

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# II. Types of Corporate Climate Claims

# Types of Corporate Climate Claims

Companies use a wide variety of terms to refer to their voluntary climate commitments. These fall into four broad categories:

- Carbon Neutral company level
- Carbon Neutral products or services
- Beyond Carbon Neutral (can also be Beyond Climate Neutral)
- Net Zero

"Carbon neutral" (company level and products) claims are typically made in relation to current activities. We term these

"achievement" claims. "Net zero" claims reflect a commitment to achieving emissions reductions in the future. We refer to these as "commitment" claims. Claims referring to "beyond carbon/climate neutral" imply reducing emissions in excess of current emissions, for example covering historic years. These can be either, achievement or commitment claims, depending on the state of company's carbon credit purchasing programme. This is summarised in Table 1.

# Table 1: Types of commitment and achievement claims

COMMITMENT CLAIMS	ACHIEVEMENT CLAIMS
Carbon Neutral – company level	
Carbon Neutral – product level	

Beyond Carbon Neutral

Net Zero

- Company coverage: whether the
- Target achievement date: whether the the agreement today.
- Emissions target: whether the emissions

### Figure 1: Differences in company climate claims

		<u>1. Carbon</u> <u>Neutral</u> <u>Product</u>	<u>2. Carbon</u> <u>Neutral</u> <u>Company</u>	<u>3. Carbon</u> <u>Neutral</u> <u>Product</u>	<u>4. Net Zero</u>
<u>Company</u>	Whole company value chain		$\checkmark$	$\checkmark$	$\checkmark$
<u>coverage</u>	Specific product/service	$\checkmark$			
Target	Today	$\checkmark$	$\checkmark$	( 🗸 )	
<u>date</u>	Future (2030 — 2050)			( 🗸 )	$\checkmark$
Emissions	1.5°C pathway alignment	( 🗸 )	( 🗸 )	( 🗸 )	$\checkmark$
<u>target</u>	Internal emissions reduction required	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$
	CO <sub>2</sub> only	$\checkmark$	$\checkmark$	$\checkmark$	
Emissions	All GHGs				$\checkmark$
<u>coverage</u>	Scope 1 and 2 required, Scope 3 encouraged	$\checkmark$	$\checkmark$	$\checkmark$	
	Scope 1, 2, and 3 required				$\checkmark$
Emissions	Compensation and neutralization projects	$\checkmark$	$\checkmark$	$\checkmark$	
target	Only neutralization projects				$\checkmark$

- Emissions coverage: the type of emissions - Use of carbon credits: whether the

and is not a recommendation for the structure

Figure 2 shows the distribution of company claims from the sample of 60 companies used in the analysis, differentiated by claim type and the year in which the target needs to be achieved. Targets set by companies can be achieved immediately, or before 2030, 2040. or 2050.

Companies were counted twice if they have both current and future claims. Where companies have multiple future claims, the most ambitious target or the target with the longest timeframe was mapped, and other pledges were considered to be interim on the pathway to their principal climate commitment. The size of the circles represents the number of companies in a particular time/commitment cluster.

# Figure 2: Distribution of corporate climate commitments (sample 60 companies)<sup>ii</sup>





Nearly a third of claims (18) in the sample are "carbon neutral" at the company level, reflecting immediate actions to offset a company's carbon footprint. Some of these (8) are commitments for achieving carbon neutrality in later years, the most prevalent being by 2050. However, over half the claims in the sample are for "net zero", with target dates roughly equally split between 2030 and 2050, and some in 2040. The high representation of net zero commitments is in part likely due to the size of the companies in the sample, with large companies more likely to commit to longer-term targets. Only a few companies have set "beyond carbon neutral" targets.

Figure 3 shows these commitments by company and economic sector. A general pattern is that companies with long-term

ii) Trove Research analysis, 2021

targets such as 2050 are likely to be in more carbon-intensive industries, such as energy and metals. This reflects the absolute cost of carbon to these companies and the time required to make material changes to technology, processes, and supply chains to reduce emissions. Companies prepared to make shorter term commitments, such as carbon-neutral, are more likely to be in the services sector with smaller carbon footprints. Figure 3, also highlights where companies that have current carbon neutrality-related pledges have also made future commitments, either fully carbon neutral pledges (e.g. RWE, ArcelorMittal) or net zero pledges (e.g. HP, BlackRock).





# Company Commitments and Claims

III. Case Studies:



# <u>1. Carbon Neutral</u> <u>Company</u>

Achieving corporate carbon neutrality can be considered an important interim target to the achievement of global net zero, but carbon neutrality alone is distinct from corporate net zero. Some of the factors that differentiate the two include:

#### - <u>Alignment with a temperature pathway:</u>

To be net zero, an organization must prioritize value chain emissions reductions and align this with a 1.5°C trajectory. At present, carbon neutral commitments tend to require less strict commitments to future emissions reductions.

#### Emissions coverage:

Carbon neutrality tends to prioritize CO<sub>2</sub> emissions and covers Scopes 1 and 2 emissions, with Scope 3 encouraged. Net zero covers all greenhouse gas emissions across Scopes 1, 2, and 3.

#### <u>Time horizon for achievement:</u>

Carbon neutrality reflects an immediate achievement, whereas net zero typically has a long-term time horizon, often to 2040 or 2050.

### <u>Type of credits:</u>

To date, there has been little restriction in the type of credits used in carbon neutral claims. Net zero claims associated with the SBTi currently limit the use of carbon credits from projects that remove  $CO_2$  from the atmosphere.

Companies can maintain their carbon neutrality status each year by re-evaluating their carbon footprint and then purchasing carbon credits on an annual basis to cover their absolute annual greenhouse gas emissions. Neutrality status can be recognized by credible third-party verification schemes, such as PAS 2060, a standard developed by The British Standards Institution (BSI) and the Carbon Trust.

# Table 2: Case studies of carbon neutral company claims

	BNP PARIBAS	KERING	DANONE
Sector	Financial services	Apparel	Food and beverage processing
Credit type	Carbon neutral operations (direct emissions and indirect emissions linked to the purchase of energy and to business travel) since 2017.	Carbon neutral within its own operations and across the entire supply chain since 2019.	Pledged to become carbon neutral by 2050 across their full value chain.
Use of offsetting	BNP Paribas have maintained carbon neutrality through careful monitoring and reductions of $CO_2$ emissions, the use of renewable energy and, offsetting residual emissions.	On top of efforts to first avoid and then reduce their emissions, Kering offset the Group's annual greenhouse gas emissions from 2018.	Committed to compensating for their remaining carbon emissions as they work towards a carbon neutral future.
Credit type	Sustainable forestry management credits from Verified Carbon Standard (VCS).	REDD+ forestry credits from VCS.	Agroforestry, mangrove restoration, and clean cookstove project credits from VCS and Gold Standard.
Scope 1, 2, and 3 emissions	Reduce absolute Scope 1, 2, and 3 GHG emissions by 25% from a 2012 base year.	Reduce absolute Scope 1 and 2 GHG emissions 90% by 2030 from a 2015 base year. Reduce Scope 3 GHG emissions 70% per unit of value added by 2030 from a 2015 base year.	Reduce Scope 1 and 2 GHG emissions 30% by 2030 from a 2015 base year. Reduce Scope 1, 2, and 3 emissions per ton of sold product 50% by 2030 from a 2015 base year.

# 2. Carbon Neutral Products or Services

A carbon neutral product applies the same concept of a carbon neutral company, but to a particular component of the company, such as a product or service. In order to achieve carbon neutral certification, a company must first calculate the emissions associated with the production of a product (i.e. product carbon footprint) through undertaking life-cycle analysis (LCA). The company must then develop a carbon reduction plan with a clear timescale for achievement before finally compensating unabatable emissions, typically through the purchase of carbon offset credits. The duration for certification tends to last for one year, after which the product must be re-certified, with the company providing clear evidence of achieved emissions reductions over the preceding period.



Image: © RLU

## Table 3: Case studies of carbon neutral product or service claims

	MICROSOFT	LYFT	RWE
Sector	IT and software development	Commercial and consumer services	Energy utility networks
Target description	Certified 825,000 Xbox consoles as carbon neutral in 2019.	Began offering carbon neutral rides in April 2018. Lyft became the first rideshare company to offset all rides globally.	Delivered a carbon neutral LNG cargo shipment to Korean steel company POSCO in March 2021.
Use of offsetting	Neutrality was achieved through purchasing renewable electricity and verified emissions reductions.	Through its carbon offsets program, Lyft purchased and retired carbon offset credits in an amount equal to the total carbon emissions calculated through its greenhouse gas inventory.	The carbon neutral shipment was achieved through the retirement of an equal amount of carbon credits.
Credit type	Finances the Sichuan China Biodigesters project.	Finances a range of projects, e.g. automotive manufacturing process, renewable energy, forestry, and methane capture from landfills.	High quality credits purchased from Gold Standard.
Scope 1, 2, and 3 emissions	Continue 100% renewable electricity through 2030. Reduce Scope 3 GHG emissions intensity per unit of revenue 30% by 2030 from a 2017 base year and to avoid growth in absolute Scope 3 emissions.	Reach 100% EVs on the Lyft platform by 2030. Full decarbonization of Scope 1, 2, and 3 GHG emissions by 2030, reducing reliance on carbon offsets and RECs.	Reduce Scope 1 and 2 GHG emissions 50% per kWh by 2030 from a 2019 base year. Reduce absolute Scope 3 GHG emissions 30% by 2030 from a 2019 base year.

# 3. Beyond Carbon Neutral

For a company to go "beyond carbon neutral", they must remove more carbon from the atmosphere than they emit each year, i.e. compensate for emissions over and above their own carbon footprint to produce additional environmental benefits. Compensation may come in the form of carbon credit purchases or funding additional carbon sequestration projects. Various terms have been used by companies to encompass this concept, including carbon negative, net positive, and climate positive.

This term is commonly used in service-based sectors such as IT, software development, and professional services, owing to lower carbon footprints that can be greatly reduced through the utilization of renewable energy. Companies within these sectors are then able to purchase lower volumes of credits than companies in carbon intensive sectors (such as heavy industry) to meet a beyond neutrality target.

Beyond carbon neutral is a relatively recent concept and suffers from a lack of consensus on its definition, with uncertainty raised about the type/number of offsets that should be utilized and which greenhouse gases are covered. Lack of international consensus has led to companies interpreting this ambition in different ways. Currently, there is no internationally recognized certification body for a "beyond carbon neutral" company.



	GOOGLE	EY	BCG
Sector	IT and software development	Professional services	Professional services
Target description	In September 2021, Google became the first major company to compensate for their entire legacy carbon footprint and committed to operate 24/7 carbon-free by 2030.	In January 2021, EY announced an ambition to be carbon negative in 2021.	BCG have committed to a "Beyond 2030" target to become climate positive by removing more carbon than they emit.
Use of offsetting	Purchased enough credits to neutralize the company's legacy carbon emissions since 1998.	Achieve carbon negative by significantly reducing absolute carbon emissions and then removing or offsetting more than the remaining amount of emissions every year.	Carbon neutral since 2019 through carbon credit purchases. Committed to removing their remaining carbon footprint with nature-based and engineered solutions at an annual average of \$80 per tonne by 2030.
Credit type	Its parent company, Alphabet, has purchased landfill gas project credits from CAR.	Wind power renewable energy credits and nature- based solutions.	Currently purchase credits from sustainable forest management, cookstove, REDD and reforestation projects. Will transition to 100% carbon removal solutions by 2030.
Scope 1, 2, and 3 emissions	Reduce absolute Scope 1 and 2 emissions to zero by 2025 against 2019 and 2015 baselines, respectively.	Reduce absolute emissions by 40% across Scopes 1, 2, and 3 by 2025, against a 2019 baseline.	Reduce Scope 1 and 2 emissions per full-time equivalent employee (FTE) by 90% by 2025. Reduce Scope 3 business travel emissions per FTE by 30% by 2025.

# Table 4: Case studies of net zero company claims

# 4. Net Zero

Net zero emissions at a global level, as defined by the International Panel on Climate Change (IPCC), is achieved when "anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period".

At a corporate level, a net zero definition is yet to be agreed. However, the SBTi is currently undertaking a public consultation process and will release their official corporate net zero standard in November 2021. The SBTi's working definition for a net zero company requires two conditions to be met:

- a) Deep decarbonization of value chain emissions (Scope 1, 2, and 3) in line with limiting warming to 1.5°C.
- b) Neutralization of any residual emissions with permanent carbon removal.

Net zero targets must be set for a target year no later than 2050 and companies should commit to interim (5–10 years) science-based targets (SBTs). Companies are encouraged to undertake optional compensation (directly financing innovative projects and programs, as well as purchasing high-quality carbon credits) during their net zero transition to help deliver positive outcomes beyond a company's value chain.

The SBTi distinguishes distinguish between neutralization measures (activities that remove emissions from the atmosphere within or beyond a company's value chain) and compensation measures (activities that reduce/avoid emissions outside a company's value chain, beyond those mitigated by its SBT and net zero target). Currently, companies use both compensation and neutralization measures to achieve carbon neutrality, whereas currently only neutralization measures are being suggested by the SBTi for corporate net zero targets.

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global level, as defined by the International Panel on Climate Change (IPCC)..."

## Table 5: Case studies of net zero company claims

	NIKE	VOLKSWAGEN	UNILEVER
Sector	Textiles and fabric goods	Transportation equipment	Chemicals
Target description	In 2019, Nike committed to 'Move to Zero' – a journey towards zero carbon and zero waste.	Volkswagen have committed to achieving the Paris climate targets for 2050 under the "goTOzero" environmental mission statement.	In 2020, Unilever committed to achieve zero operational emissions by 2030 and net zero across their value chain by 2039.
Use of offsetting	Nike plants trees to offset the carbon emissions associated with all Nike.com shipments in Europe. Use of offsetting in relation to their net zero target will follow SBTi guidance.	On its path to net zero, the Group will continue to work with climate protection projects to offset its emissions.	Will not use carbon credits to meet their targets but, in 2039 and thereafter, will ensure any residual emissions are balanced with carbon removals to achieve and maintain their net zero position.
Credit type	Credits generated from sustainable forestry management, in partnership with WeForest.	Forestry credits from VCS and renewable energy credits (wind) from Gold Standard.	May purchase carbon removal credits in the future.
Scope 1, 2, and 3 emissions	Reduce absolute Scope 1 and 2 GHG emissions 65% by 2030 from a 2015 base year. Reduce absolute Scope 3 GHG emissions 30% within the same timeframe.	Reduce absolute Scope 1 and 2 GHG emissions 30% by 2030 from a 2018 base year. Reduce Scope 3 GHG emissions from use of sold products of light duty vehicles 30% per vehicle km by 2030 from a 2018 base year.	Reduce Scope 1 and 2 GHG emissions 100% by 2030 from a 2015 base year. Reduce GHG emissions from the life-cycle of their products 50% per consumer use by 2030 from a 2010 base-year.







# <u>Summary</u>

This analysis summarizes the "state of play" of corporate climate claims and commitments through the four use cases relating to carbon neutrality and net zero. While not exhaustive, it provides a categorization of the main claims and commitments being made to inform future guidance on corporate climate claims in VCMI.

There are some areas where the lack of consensus on the scope and scale of ambition of these terms is more evident. For example, there is little agreement on what constitutes "beyond carbon neutral", and the claims and commitments that are related to this, such as "carbon negative" and "climate positive". Greater clarification about the definitions and level of ambition of "carbon neutral" and "net zero" is also clearly required and the subject of the main <u>VCMI</u> <u>Consultation Report.</u>

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multistakeholder platform to drive credible net zero aligned participation in voluntary carbon markets (VCMs).

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