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IETA COUNCIL GUIDANCE ON NET ZERO CLIMATE AMBITION

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This guidance document offers a collective view of the members of IETA's governing Council, representing a variety of sectors and countries on the important topic of climate ambition – and the goals of net zero and corporate carbon neutrality. References to "we" or "our" in the paper mean "the IETA Council" as a group. The Council guidance is intended primarily to support IETA's Mission and to promote consistency in our policy positions around the world. It offers our view of how IETA's work can help to deliver net zero emissions goals. It is not meant to be prescriptive on our working groups, but to offer a touchstone for coordination on this important topic. We also believe it may assist member companies in their own carbon neutrality considerations.

INTRODUCTION

The global need for enhanced ambition in response to climate change is reflected in the Paris Climate Agreement. It seeks to inspire delivery of nationally determined contributions (NDCs) that align over time with its ultimate goal of holding global average temperature increases to well below 2°C, pursuing efforts towards 1.5°C. To get there, it aims to reach a balance of sources and sinks by mid-century. Current NDCs are far from this goal, and they need to move urgently in the "net zero" direction.

There is a rich history of companies using voluntary strategies that set "carbon neutrality" goals for their business operations. These strategies focus on deep reductions and avoidances of emissions, while using verified offsets to compensate for any remaining emissions. But Paris calls on all of us to aim higher - to reach for that balance in sources and sinks that many are calling a "net zero" goal. This signals even deeper reductions and increasing amounts of removals. We are proud to see many countries and companies make their own net zero commitments to align with the Paris Agreement. We recognize that there is significant nuance in how different firms use these terms. In this document, we see "net zero" as the ultimate ambition of international climate policy.

Carbon markets are not an end in themselves. They are a means of delivering climate goals. Now they must gear up towards net zero targets. Carbon markets can produce the price signals that motivate businesses, consumers and investors to take action at scale. Other pricing systems, like carbon taxes or tax credits, can also be well-designed to prompt the level of action needed. Given the vast capital needs for the transition ahead, a variety of carbon pricing tools and climate financing strategies will be integral to delivering net-zero ambition in mitigation of greenhouse gases – as well as strategies to adapt to climate change.

In this document, we hope to provide guidance on how we see the "net" in "net zero" evolving in IETA's future work. Given where we begin, it is a visionary and inspiring endeavor. We encourage our Working Groups to rise to the challenge of engaging fully in this topic in the many jurisdictions we serve around the world.

IETA COUNCIL GUIDANCE

1. **We support the use of the scientific findings of the Intergovernmental Panel on Climate Change (IPCC) for developing climate policy.**

   All IPCC scenarios for holding the global temperature rise to 1.5°C are based on deep decarbonization that achieves a global balance of emissions from carbon sources and removals by sinks in the future. The concept of net zero is grounded in sound science.

2. **We support the Paris Climate Agreement (Paris Agreement) and the United Nations Framework Convention on Climate Change (the Convention).**

   Our support for the Paris Agreement includes its goal of holding "temperature increases to well below 2°C above preindustrial levels and pursuing efforts to hold temperatures to 1.5°C in order to significantly reduce the risks and impacts of climate change" (See Paris Agreement, Article 2). To deliver this goal, we agree on the need to "achieve a balance between anthropogenic emissions by carbon sources and removals by sinks of greenhouse gases in the second half of the century"
   - These provisions build towards the ultimate objective of the Convention of "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system" (see Article 2 of the Convention).
   - The Paris Agreement and the Convention recognize that different countries have different opportunities and challenges, so some countries will move faster than others. We believe the same is true for many companies.
   - Carbon pricing, technology and finance will be critical to delivering this level of climate ambition. Well-designed carbon markets can deliver the price signal, prompt the investments and accelerate use of advanced technologies. This can enable higher climate ambition – and ultimately, achievement of net zero goals.

3. **Mandatory caps for greenhouse gas emissions must decline ultimately to net zero to align with the Paris Agreement's goals.**

   We support "cap and trade" and other market-based policies that create a strong price incentive to deliver deep decarbonization for covered sectors. For sectors that are not covered by carbon pricing, we support voluntary commitments by companies that seek to make their own contribution to the global effort.
   - Effective market-based policies require reliable and transparent monitoring, reporting and verification requirements, flexible compliance pathways to achieve the same net results a lower costs and enforced penalties for non-compliance. Effective voluntary markets should reflect these same attributes, although penalties are not expected when a company aspires to go "beyond compliance."
   - For some sectors, countries will find that even fully implemented policies cannot achieve zero emissions. They will need to net-out "hard to abate" emissions with verified carbon emission reductions and removals from other sectors that meet high quality standards. These may not be available domestically, so "net zero" may only be accomplished with international market cooperation, as elaborated below.

- We believe that carbon pricing combined with emission caps provides the strongest assurance of achieving the Paris Agreement targets, but we know that not every country is capable of administering a capped system at present – so they will need our support to improve their capabilities over time. Where the pricing system operates without a cap (e.g. taxes or tax credits), we support efforts to reconcile a meaningful carbon price with the country's emissions objective that are characterised by integrity and accountability and offer trading flexibilities for achieving net zero.
- We believe that carbon pricing systems should be technology agnostic. Carbon pricing systems should be open to a wide range of technological solutions, as reflected in the findings of the IPCC. Solutions range from emissions reductions, avoidances, and carbon removals, including natural climate solutions and all forms of negative emissions technologies.

4. We support trading between sectors and countries that are subject to emissions limits or caps, to enable and galvanize global community action to get farther and faster towards "net zero" together, than if each of us acts alone.

Time is of the essence. International cooperation through trading has the potential to accelerate the achievement of net zero emissions.

- This is why we support effective rules and accounting standards under Articles 5 and 6 of Paris Agreement, as well as the Carbon Offsetting and Reduction Scheme for International Aviation, so that they can encourage even greater levels of action.
- We also see a valuable role for promoting high ambition through voluntary commitments that tap international carbon markets for credits to compensate for emissions that cannot be reduced or avoided.

5. International trading can help make net zero possible for all companies, sectors and jurisdictions.

Effective net zero policies will need to include cooperative approaches that reach across companies, sectors, states and regions to recognize the unique economic, social and environmental contributions that each country makes toward our collective global welfare. Without such cooperation, some countries simply will find net zero to be impossible.

- Certain countries will be unable to achieve net zero goals inside their own borders because they lack sufficient opportunities for removing greenhouse gases to adequately decrease emissions from sectors that are difficult or impossible to abate. This is also true for many companies, which may not have sufficient opportunities to reduce, avoid or remove emissions cost-effectively in their operations.
- Conversely, other countries and entities may be able to achieve reductions and removals that are more ambitious than net zero targets inside their own national or state borders or corporate operations, which they could then transfer for use by participating countries or companies facing high costs.
- International trading must be properly accounted for, with corresponding adjustments in the emissions balances for the countries involved, in order to guard against double counting or double use of market instruments. (See Paris Agreement Articles 2, 4, 5, 6 and 13). This is essential for investor, business and public confidence in the system.

6. We pledge IETA's support in the development of meaningful net zero policies and strategies

In summary, we believe that global market mechanisms, national and regional trading systems and all technological and natural climate solutions will be needed to deliver the ambitious goals of the Paris Agreement.