IETA High level comments to VCMI beta scope 3 claim consultation

October 21st 2024

Overall, we welcome VCMI's consideration of flexibility and a more pragmatic approach to corporate net zero delivery.

Taking into account the proposed requirements and safeguards, the Scope 3 Claim could help accelerate progress towards achieving global net-zero goals, for those companies eligible to use the Scope 3 Claim. The claim balances the requirements placed on companies with the rigor needed to ensure that companies' actions on retiring high-quality carbon credits are credible, providing direction for participation, removing ambiguity around the purchase of carbon credits and applying towards corporate decarbonization.

However, improvements to the approach can be implemented to ensure that the framework provides a more actionable approach for companies to abate their scope 3 emissions, including:

- The approach should alignment with the IETA Guidelines for the use of high quality carbon credits;
- The approach needs to provide an incentive for companies to take action, being inclusive for all regions, sectors and scales. There is no strong incentive for corporates to act unless credits can count toward achievement of science-aligned net-zero short- and long-term targets. It is worth mentioning that only 2 companies have made a VCMI claim to date. In this regard, the approach needs to motivate more companies to use the claims code and scope 3 claim. We consider that VCMI needs to have impact at scale and not become impractical guidance and standard. We believe more companies will choose to use VCMI and leverage the Scope 3 Claim if carbon credits can be used to count towards achievement of science-aligned net zero targets.
- The approach shall address how credits can be counted towards climate targets (the use case), as this is the priority and less so the claim. We recommend VCMI pays equivalent attention to use cases.
- The approach shall clarify the type of claim that companies will be allowed to make (exact claim name/terminology). This is of crucial importance. The Scope 3 claim mechanism is sufficiently complicated to explain, but ultimately, guidance on how companies' claims are communicated externally to stakeholders is one of VCMI's key value adds.

- The approach needs to provide more clarity and facilitate understanding, particularly on how to determine the percentage or amount of scope 3 emissions that can be mitigated with carbon credits;
- The approach should be extended to allow for companies who are off track on Scope 1 and 2 to also use carbon credits towards their targets and should NOT restrict the use of carbon credits to addressing emissions that are not accounted for within scope 3 emission reduction targets – those outside the target boundary;
- The approach needs to ensure no double-claiming occurs between scope 1, 2 and 3 emissions and VCMI needs to provide guidance on how to address this issue;
- The approach should address the challenge for companies to publicly disclose failed strategies as it will be reputationally damaging and competitively sensitive, carefully considering the extent of disclosed information;
- The approach shall NOT constraint the selection of high-quality carbon credits retired to make the claim to be intentionally related – sectorally and/or geographically;
- The approach shall allow companies to have the flexibility to choose the high-quality carbon credits retired to make the claim at their choice, provided that they come from recognized crediting programs, such as VCMI, CCP, ICROA, CORSIA and governmental initiatives.
- The approach needs to provide enough flexibility in terms of emission gap thresholds and phase-out year to accommodate all types of companies´ circumstances and sectors. The 24% limit is overly arbitrary and will likely exclude companies who want to leverage this mechanism. Moreover, the approach should NOT be phased out arbitrarily in 2038. If a phase out year is essential, consider allowing companies to propose their own phase out year when they believe they will have addressed the emissions gap. This greater flexibility would better accommodate the unique circumstances of a greater range of companies;
- The approach shall allow companies to set their emission trajectories that best fit their circumstances, provided they are science aligned with their targets;
- The approach shall implement guardrails to ensure the use of high-quality carbon credits, but not to limit the ability of companies to use credits to abate their scope 3 emissions;
- The approach should be implemented in a stepwise approach, considering stock takes and re-calibration options;

In the absence of a consistent, formalized standard for the industry, this provides guidance on market participation to organizations.

IETA consolidated response to VCMI beta scope 3 claim consultation

- **The Scope 3 Claim methodology is NOT clear enough and easy to understand**: More clarity is needed to understand the relation between the emission gap, the trajectory emissions and the target boundary. The methodology also needs to clarify why high-quality carbon credits retired to make the claim must cover at least the entirety of the scope 3 emissions gap. It is also not clear how the target boundary is defined and set and its relation to the emissions gap. Furthermore, clarity is also needed on the calculation to be used to identify the percentage of scope 3 emissions that can be mitigated with carbon credits and on how to measure scope 3 emissions and avoid double claiming across the value chain. More clarity is also required on how the two calculation approaches for determining a company's permitted emissions gap can be implemented and reasons why a company may choose one or the other. To this end, additional guidance can be provided with respect to:
    - How credits can be counted towards climate targets (use cases for carbon credits);
    - How progress towards meeting near-term scope 1 and 2 emission reduction targets is measured and verified, based on the VCMI Claims Code through the MRA framework;
    - How the two calculation approaches for determining a company's permitted emissions gap can be implemented;
    - How to identify the percentage of scope 3 emissions that can be mitigated with carbon credits;
    - How to avoid overlapping value chain measurement;
    - How will VCMI address the double claiming of Scope 3 emissions.
- **The use of carbon credits should NOT be restricted to addressing emissions that are not accounted for within scope 3 emission reduction targets – those outside the target boundary:** Aligned with IETA Guidelines, high-quality carbon credits shall be allowed to be use to abate Scope 1, 2 and 3 emissions, to provide companies with flexibility and realistic options for action, while respecting the mitigation hierarchy. It has been demonstrated (Ecosystem Marketplace, MSCI, Sylvera reports) that companies that use carbon credits to abate their emissions are also those decarbonizing faster and implementing more ambitious strategies to mitigate their scope 1 and 2 emissions. Limiting the use and application of carbon credits prevents the scaling of high-integrity carbon projects by minimizing investment and the internal decarbonization of the organization. There is no strong incentive for corporates to act unless credits can count toward achievement of science-aligned net-zero interim short- and medium-term targets.
- **It should be mandatory for companies to publicly disclose when they are not making sufficient progress to meet their targets and the barriers they face in reducing scope 3 emissions, but the extent of disclosed information should be carefully considered:** As

documented in the IETA Guidelines companies falling to meet interim targets and needing to use carbon credits to compensate should disclose publicly the challenges experienced in meeting targets and planned future actions to meet them (Refer to IETA Guideline 6_Page 14). This enhances accountability for commitments. However, requiring companies to report on their failures and the reasons targets and barriers are not being met creates a disincentive to disclose. IETA members recognize that many companies will find it a challenge to publicly disclose failed strategies as it will be reputationally damaging and competitively sensitive. The extent of disclosed information needs to be carefully considered.

- **The selection of high-quality carbon credits retired to make the claim should NOT be intentionally related – sectorally and/or geographically - to the sources of scope 3 emissions contained in the company's scope 3 emissions gap:** In the absence of universal criteria enforcing the high-quality label of carbon credits, we should not be arbitrarily enforcing rules around the purchase of credits related to location or sector. Limiting purchase options may limit market participation. There is no need to prescribe action in this way. Organizations may choose the high-quality credits they want to abate their scope 3 emissions. Otherwise, the proposal would limit companies' flexibility in selecting the best value and highest quality credits, as they would be confined to a narrower market. Certain sectors or regions may suffer from liquidity issues, making it difficult to source sufficient carbon credits. Such constraints could lead to over-concentration in specific areas, reducing the overall effectiveness and availability of carbon credits. Moreover, making this requirement mandatory would create perverse market price anomalies as countries/regions with a large surplus of credits compared to their emissions would experience low prices, and vice versa. In our experience, organizations do actively tend to lean towards carbon credits that support location and sector alignment. However, making this a requirement could limit the investment or volume of such purchases if sector and location are cost prohibitive. Organizations may also opt out of participating entirely if they feel as though their investment decisions are being externally driven. This option should then be presented as a recommendation and not as a requirement.
- **Companies are required to use high-quality carbon credits from recognized crediting programs:** Companies should have the flexibility to choose the high-quality carbon credits retired to make the claim at their choice to cover the company's scope 3 emissions gap, provided that they come from recognized crediting programs, such as VCMI, CCP, ICROA, CORSIA and governmental initiatives. Moreover, other environmental certificates should be allowed to balance scope 3 emissions. This would recognize the environmental benefit of products and services and incentivize companies to invest in decarbonization strategies.
- **Setting the scope 3 emissions gap limit at 24% of the emissions indicated by the trajectory in the claim year is NOT 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:** We do NOT believe VCMI should restrict companies

leveraging the Scope 3 Claim to only those companies whose Scope 3 emissions gap is equal to or lesser than 24% and we advocate against the 24% threshold:

- Though the rationale for this threshold is documented elsewhere in the document by VCMI, it is based on a single study with potential selection bias, and is ultimately a somewhat arbitrary, theoretical number. There will certainly be many companies that are genuinely trying to get back on track and making significant investments in reducing their Scope 3 emissions, who will be excluded if this arbitrary threshold is implemented, and we support efforts to better enable flexibility in the Scope 3 claim as a mechanism for companies to show leadership by compensating for the Scope 3 emissions gap by purchasing high-quality carbon credits, in their effort to get back on track. Also, it is not clear why the top 25% companies with the largest gaps are excluded from the possibility of making a Scope 3 Claim. Preventing companies with too large an emissions gap from leveraging this mechanism will not help decarbonization efforts. Otherwise, there are less incentives for companies exceeding 24% of their scope 3 trajectory emissions to make additional investment (via carbon credits) in parallel with other progress towards decarbonization. Given the sampling bias (i.e., only companies already committed to reducing Scope 1, 2, and 3 were studied) and the likelihood that the upper quartile faces significant decarbonization challenges, the 24% limit likely excludes some companies making genuine efforts but struggling due to the complexity and cost of reducing Scope 3 reductions in their value chains.
- Moreover, the 24% amount is set by an average of a theoretical pathway for a select group of hard to abate industries. The pathways for the selected industries are theoretical as each of them relies on an unrealistic amount of renewable power and grid connections, which collectively is unlikely to be available for each industry. It also ignores the numerous industries which are above the 24% average. Thus, we suggest the percentage should account for sector specific consideration and be re-evaluated should the collective targets still not be achieved in the future. Also, VCMI should also have some sort of pathway for the companies that will still not be on the pathway even with the 24%.
- The Climate Board's "Corporate Engagement with the Voluntary Carbon Market Claims" report presents a different result than SBTi's company level data from their SBTi 2022 Monitoring Report (although this detail was not provided). TCB's report documents the realities faced by companies in meeting this challenge - that most corporations are focused on executing Scope 1 and 2 strategies and 70% were facing challenges. Of the 40% of respondents who had Scope 3 targets, 93% were facing critical challenges. This report indicates that corporations are already facing challenges which will not lessen as their target pathway gets more difficult each year. VCMI shall provide flexibility in terms of the scope 3 gap limit to overcome barrier for

abating scope 3 emissions, allowing for sector specific considerations and a stepwise approach that allows re-evaluation of the gap over time as companies move forward in trying to achieve their net-zero targets. While the approach provides companies more flexibility for making Scope 3 claims, constraining the use of credit will not help companies to decarbonize.

  - In this regard, we do NOT believe VCMI should restrict the use of carbon credits for making a claim. Another alternative approach shall be implemented where there is no limit on the use of high-quality carbon credits to cover the entirety of their scope 3 emissions gap. We strongly encourage VCMI to implement this alternative approach. In conclusion, VCMI should provide an inclusive and flexible approach to allow all companies to take action to cover the entirety of their scope 3 emissions gap where there is no limit on in the scope 3 emission gap nor on the use of carbon credits to allow companies to cover their whole emissions gap, provided that their targets are science aligned.

- **It is NOT reasonable to expect that by 2038 companies will be able to have addressed scope 3 emission reduction barriers entirely and therefore that their emissions will be consistent with meeting their next near-term target:** We do NOT believe VCMI should restrict companies leveraging the Scope 3 Claim until 2038 and we advocate against the 2038 time limit:
  - Similar to our argument against the 24% threshold, basing the analysis on only one study can introduce bias in the conclusions. Moreover, basing the analysis on only seven-hard to abate sector is not representative for all sectors.
  - Moreover, this is not an inclusive approach and will limit the possibilities for companies to abate their scope 3 emissions. The 2038 timeline may be feasible for some sectors, especially those that are already making progress on decarbonization or that operate in less carbon-intensive industries. However, for hard-to-abate sectors and companies with complex global supply chains, fully addressing Scope 3 emissions by 2038 may prove more challenging. These companies might need more time or greater external support to meet this ambitious target. Consequently, sector specific considerations may be required. Also, if no carbon credits are allowed to be used after 2038 to reduce corporate emissions, this will disincentivize many carbon projects that require a longer crediting period than just 13 years.
  - Moreover, it is not expected that decarbonation of GHG inventories of companies will become easier over time. On the contrary the abatement cost will increase over time as cheaper emissions reductions will happen first. In conclusion a more flexible approach, including sector-specific considerations, would acknowledge that some industries may need longer to address Scope 3 barriers, while other sectors should be expected to meet the target sooner.

- Evidence for not having a termination year for the flexibility claim can also be found in the IETA Allied Offsets Study: The research shows that for hard-to-abate-sectors, the 'Low-Cost Pathway' exceeds the Paris pathway right out to 2050. We therefore do not support VCMI ending the flexibility claim in 2038. Note, although the 'Fastest Abatement' pathway does align with Paris from around 2035 onwards, this pathway is deemed as unachievable as it disregards the cost of mitigation (Pg 38). The Research study also estimates that corporates will miss meeting scope 3 targets by 62% on aggregate amounting to a massive 24 GtCO2 in 2030 (Pages 17 and 19). VCMI will help raise ambition by permitting flexibility for corporates to use carbon markets to close the gap and not limit the use of carbon credits until 2038.
- VCMI is encouraged to consider the supply pipeline of credits to achieve global net zero. By limiting the use of credits to 2038 for the Scope 3 Flexibility claim you will be "switching off the tap" of carbon market investment including investment into removals. Removals must be funded and scaled to achieve net zero.
- In conclusion, VCMI shall provide flexibility in terms of the year to overcome barriers for abating scope 3 emissions, allowing for sector specific considerations and a stepwise approach that allows re-evaluation of the gap over time as companies move forward in trying to achieve their net-zero targets. We recommend VCMI to remove the timeline restriction and provide an inclusive and flexible approach in terms of the year to overcome barrier for abating scope 3 emissions, allowing for sector, regional and scale specific consideration.

- **Companies should determine a scope 3 emissions trajectory at their discretion, provided that their trajectories are consistent with their science-aligned target:** Companies should be allowed leeway to set their trajectories. In any year, all three scope emissions can vary dramatically depending on the projects being undertaken for emission reductions, corporate portfolio changes and the success of emission reduction efforts and thus do not fit well with a straight-line reduction in emissions over time. Likewise, it is rare for emissions to follow a straight-line reduction in any case, but rather they tend to make step changes as new technologies are developed and introduced. While it is important to ensure equal cumulative reduction targets under both methods, how exactly this would be calculated is unclear and additional guidance would be useful. However, a cumulative under the curve approach is better because it allows flexibility over time and does not dictate a time specific answer. While the method ensures that the company is committing to an equal cumulative reduction target under both methods, companies should have maximum flexibility to set reasonable non-linear trajectories, if that better reflects their decarbonization strategy.
- **The volume of high-quality carbon credits retired to make the Scope 3 claim shall be equal to or greater than the total emissions gap reported:** Requiring high-quality carbon credits in an amount equal to or greater than the emissions gap is preferable and shows greater leadership and commitment to getting back on track.

- **The use of the carbon budget concept ensures a credible science-based approach and simplifies the claim calculation:** The concept sounds rational and straightforward. A carbon budget provides a structured framework that helps companies understand and stay within their allowable emissions. However, VCMI shall clarify the risks and consequences of applying this approach.
- **The limit of 40% of the maximum total scope 3 emissions gap for the amount of carbon credits to be retired in a specific year is NOT sufficient to prevent companies from using an excessive amount of their budget in any given year, especially at the beginning of the target implementation period:** We do not see the rationale to prevent companies using carbon credits in the first years of the implementation period. From a time-value-of-carbon perspective (e.g. 100 tons reduced today is more valuable to mitigating climate change than 100 tons reduced in 2030). Companies making investments TODAY in either Scope 3 or in carbon credits should be prioritized. Guardrails should be implemented to ensure the use of high-quality carbon credits, but not to limit the ability of companies to use credits to abate their scope 3 emissions. Reference to the 40% guardrail shall be removed.
