

Getting the claims right

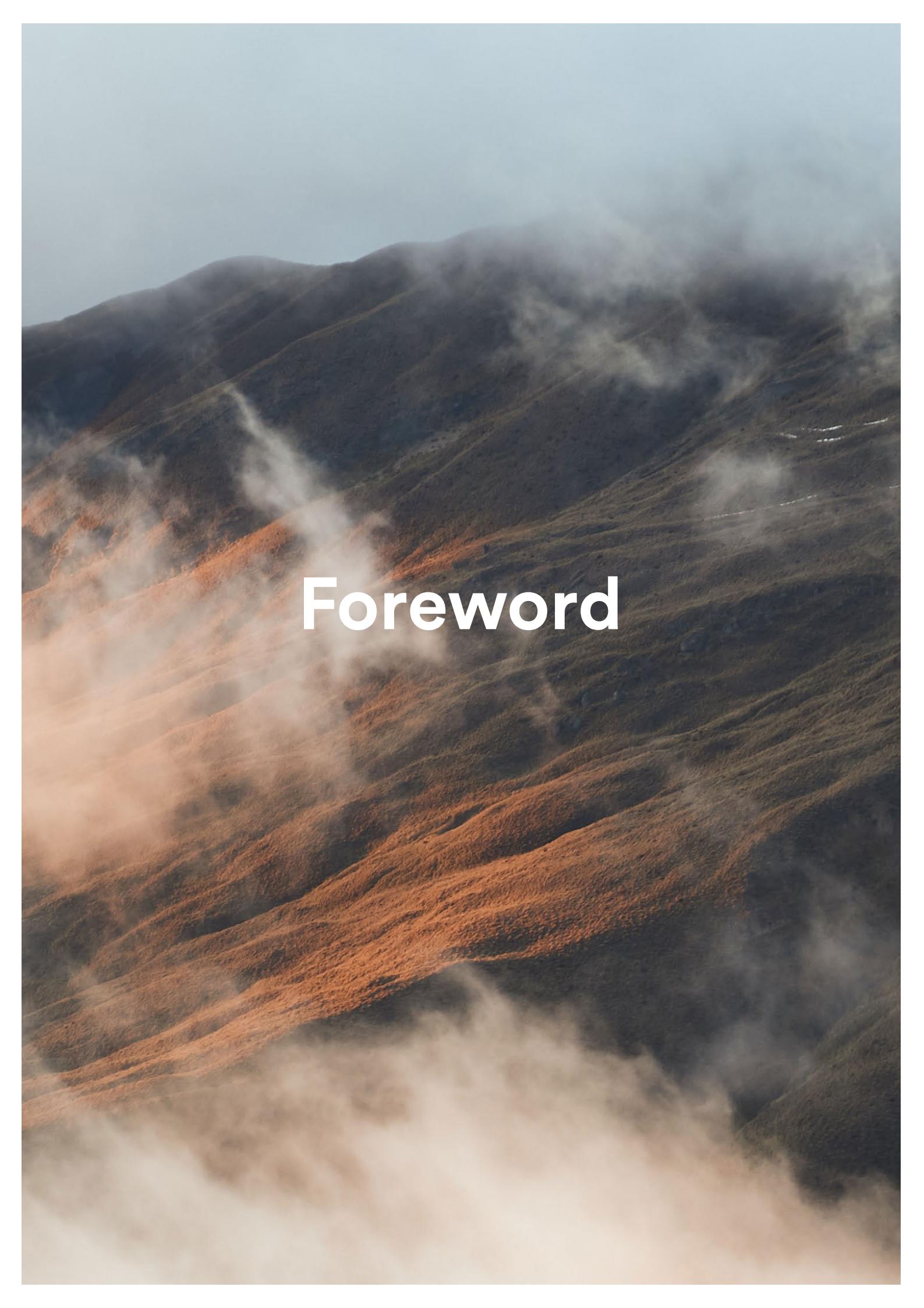
The role of compensation
in corporate climate claims



Table of contents

Foreword

- 1 Introduction**
- 2 Corporate standards for net zero**
 - Science Based Targets initiative
 - Race to Zero
 - Net zero claims are not always translating into action
 - The role of compensation is not clear
- 3 Net zero vs. carbon neutrality**
- 4 Constructing high integrity net zero or carbon neutrality claims**
 - Setting the correct time frame
 - What emissions should be included?
 - Mitigation hierarchy
 - Type of compensation used
 - How to ensure the quality of carbon credits?
- 5 The Compensate Credit**
- 6 Summary: Pathways to new zero and carbon neutrality**
- 7 Sources and further reading**

A photograph of a mountain range shrouded in low-hanging clouds or fog. The mountains have steep, rocky slopes with sparse vegetation. The lighting suggests either sunrise or sunset, casting a warm, golden glow on the exposed rock and creating strong shadows. The word "Foreword" is overlaid in large, white, sans-serif capital letters.

Foreword

Foreword by the author

I began to work with climate issues over 10 years ago, advocating for climate justice on behalf of civil society organisations. Back then, I was not only up against politicians that were unwilling to recognize the urgency of the climate crisis, but also corporations that were defending the status quo.

In recent years things have changed dramatically. Now when I meet politicians and top decision makers, I commonly find that corporations are echoing the demands of climate activists. It's now mostly the politicians who are holding back the needed changes. Corporates are increasingly on the side of climate science.

The game changer was the 2018 IPCC 1.5 degree report. It seems to have been a wake-up call for the corporate community. There is no business on a dead planet is something that many corporate leaders recognized after the groundbreaking report. Swiss Re has estimated that 55% of global GDP depends on high-functioning biodiversity and ecosystem services.

Since 2018 we have seen a huge surge in corporate climate action. Especially in the realm of making carbon neutrality or net zero commitments. A large company without a carbon neutrality or net zero target is becoming more and more rare.

But setting targets is not enough. They have to be followed through by actions. And this is where the picture is much less rosy. Countless recent reports show that companies are not living up to their promises. Not even close. Setting net zero targets that are decades away has not led to immediate action.

A big part of the problem is that we lack common definitions of the most used corporate climate claims like carbon neutrality or net zero. There is also very little transparency behind these claims. This can easily lead to greenwashing.

“How can companies be held accountable if we don't agree on the definitions of climate claims and we don't have transparency into how they are constructed?“

Empty promises won't affect the amount of greenhouse gases in the atmosphere.



Contrary to some views that corporate climate claims should be banned, I think we should work on finding common definitions and increasing transparency. Ideally, corporate climate claims can be a tool to keep companies accountable for their role in mitigating the climate crisis.

This white paper was born out of a need to define pathways to reach carbon neutrality and net zero on a corporate level. Pathways that are aligned with climate science and the targets set in the Paris Agreement. I hope readers will find this as a useful tool in their efforts to make high integrity climate claims.

Niklas Kaskeala,
Chief Impact Officer
Compensate



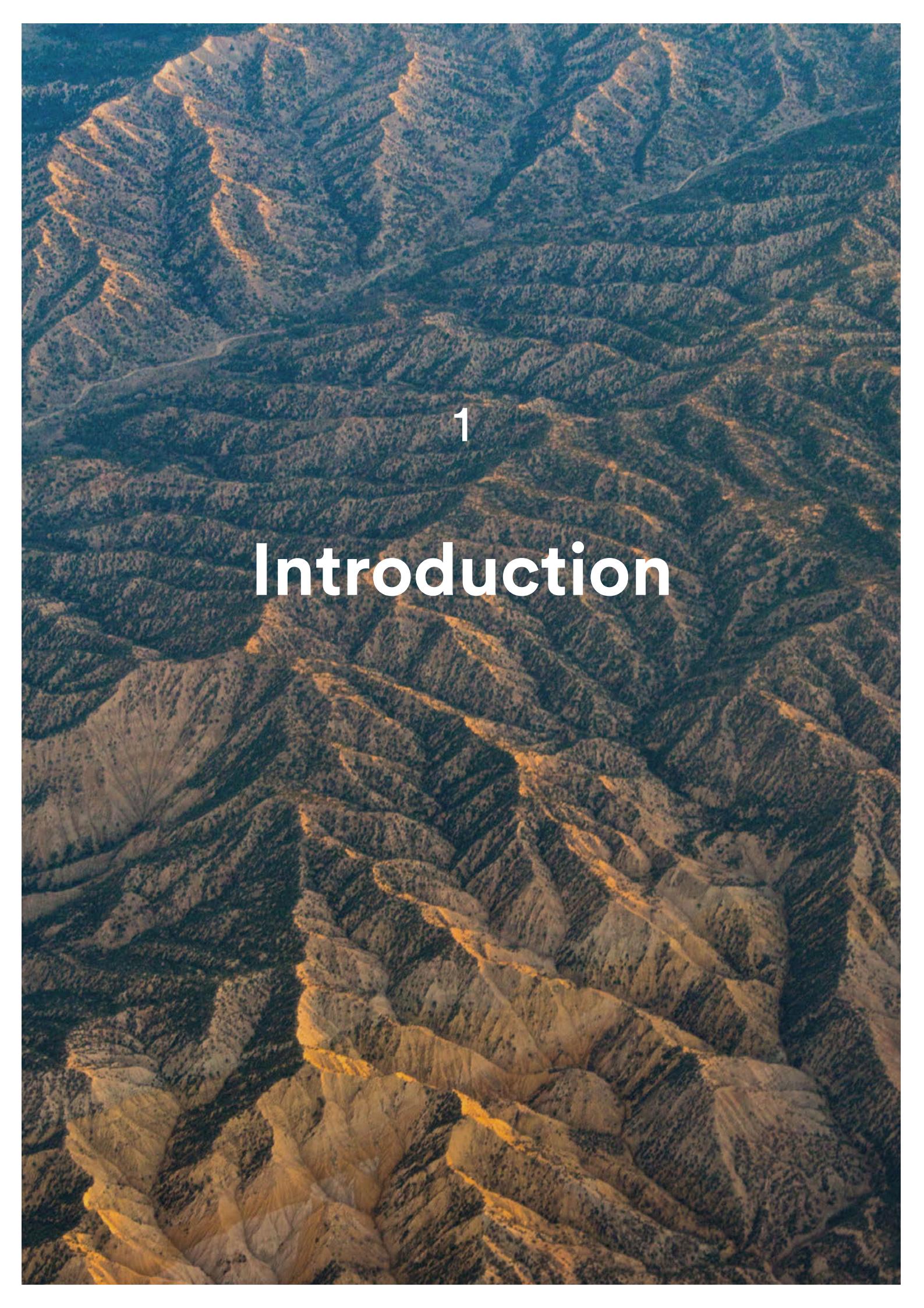
The author Niklas Kaskeala is the Chairman of the Compensate Foundation and Chief Impact Officer of Compensate Operations Ltd.

Compensate

Compensate offers businesses and individuals easy access to high-quality carbon projects. Compensate consists of Compensate Operations Ltd, which runs the day-to-day business operations of the group, and the nonprofit Compensate Foundation, which focuses on advocacy work to improve the integrity of the voluntary carbon market. Compensate Foundation fully owns Compensate Operations Ltd.

Compensate was established in 2019 by Finnish entrepreneur and former member of parliament, Antero Vartia. Today, Compensate works with partners in Europe and North America and is building a carbon marketplace based on full transparency and high integrity to set a new standard for the carbon market industry.

This white paper is published by the Compensate Foundation and it has been supported by the Tiina & Antti Herlin Foundation.

The background image shows a vast, rugged mountain range from an aerial perspective. The mountains are covered in dense vegetation, with sunlight casting long shadows and illuminating the peaks, creating a pattern of light and dark green across the landscape.

1

Introduction

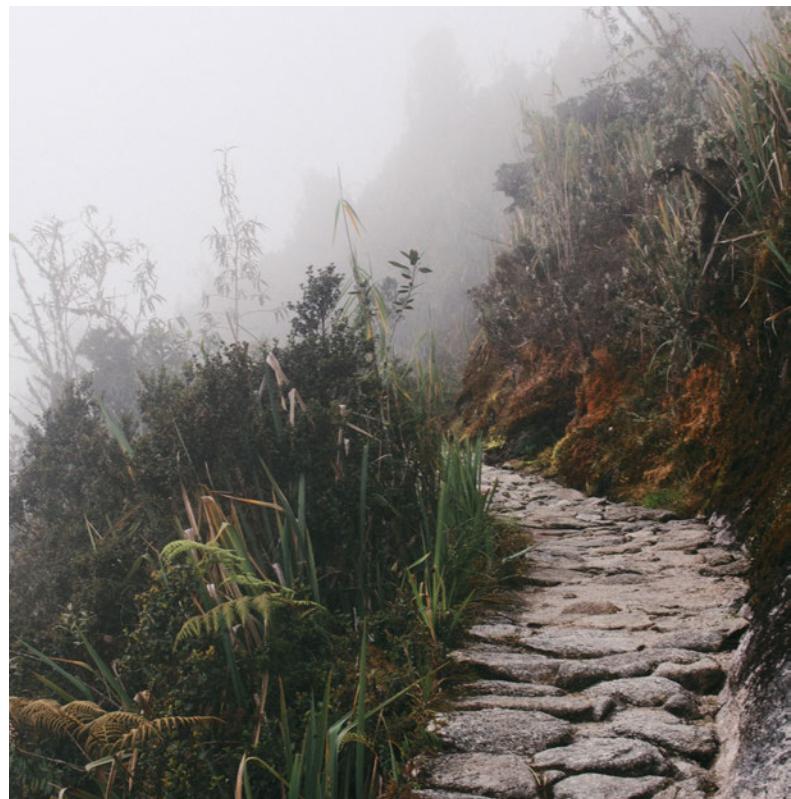
Introduction

The climate crisis is the defining issue of our time. It's perhaps the biggest challenge humanity has ever faced. The Intergovernmental Panel on Climate Change (IPCC) said in the second part of the Sixth Assessment Report released in February 2022, that humans and nature are being pushed beyond their abilities to adapt.

UN Secretary General Antonio Guterres described the report as an "atlas of human suffering". He has no doubt as to where the blame lies. "The facts are undeniable. This abdication of leadership is criminal. The world's biggest polluters are guilty of arson of our only home."

Corporations produce just about everything we buy, use, and throw away and have played a huge role in driving the climate crisis. The CDP (formerly known as the Carbon Disclosure Project) has estimated that just 100 companies have been the source of more than 70% of the world's greenhouse gas emissions since 1988.

It is clear that corporations are a major contributor to the climate crisis. But they can also be one of the keys to solving the crisis. Achieving the United Nations Sustainable Development Goals (SDGs), which also include clean energy and climate action, might in fact open up market opportunities worth at least 12\$ trillion and create 380 million jobs by 2030.





Without ambitious corporate climate action, we will not limit global warming to the 1.5 degree limit set in the Paris Agreement.

Corporate climate claims such as carbon neutrality and net zero structure and define corporate climate action nowadays. While these terms and claims are very useful in understanding the ambition level of corporate climate action, there is ambiguity and often little transparency in how these terms are defined. This can easily lead to greenwashing.

In order for corporate climate claims and targets to be relevant in the fight against the climate crisis, we need to understand how they are constructed. We need to find common definitions for corporate climate claims and increase transparency around them.

“Ideally corporate climate claims would be a tool to keep companies accountable for their role in mitigating the climate crisis.”

Transparency and understandability would help consumers to make responsible choices. It would help critical stakeholders to address companies that are merely greenwashing.

This white paper will take a closer look at mainly two important climate claims that are made by corporations and other private organisations: net zero and carbon neutrality*. The less commonly used claims like climate positivity and carbon negativity will also be briefly discussed.

The primary focus of the white paper will be on defining the role of compensation as a tool to fulfil corporate climate claims. All climate claims are a balance between actions to reduce emissions and actions to counterbalance emissions with some sort of compensation.

Carbon neutrality vs. Climate neutrality

Carbon neutrality

=

Only CO₂

Climate neutrality

=

All greenhouse gases CO₂e**

* Carbon neutrality and climate neutrality are considered in this white paper as almost synonymous as they differentiate mainly through the scope of which greenhouse gases and other climate affecting human activities are accounted for. Thus sections discussing carbon neutrality can be considered to apply for most parts also for climate neutrality.

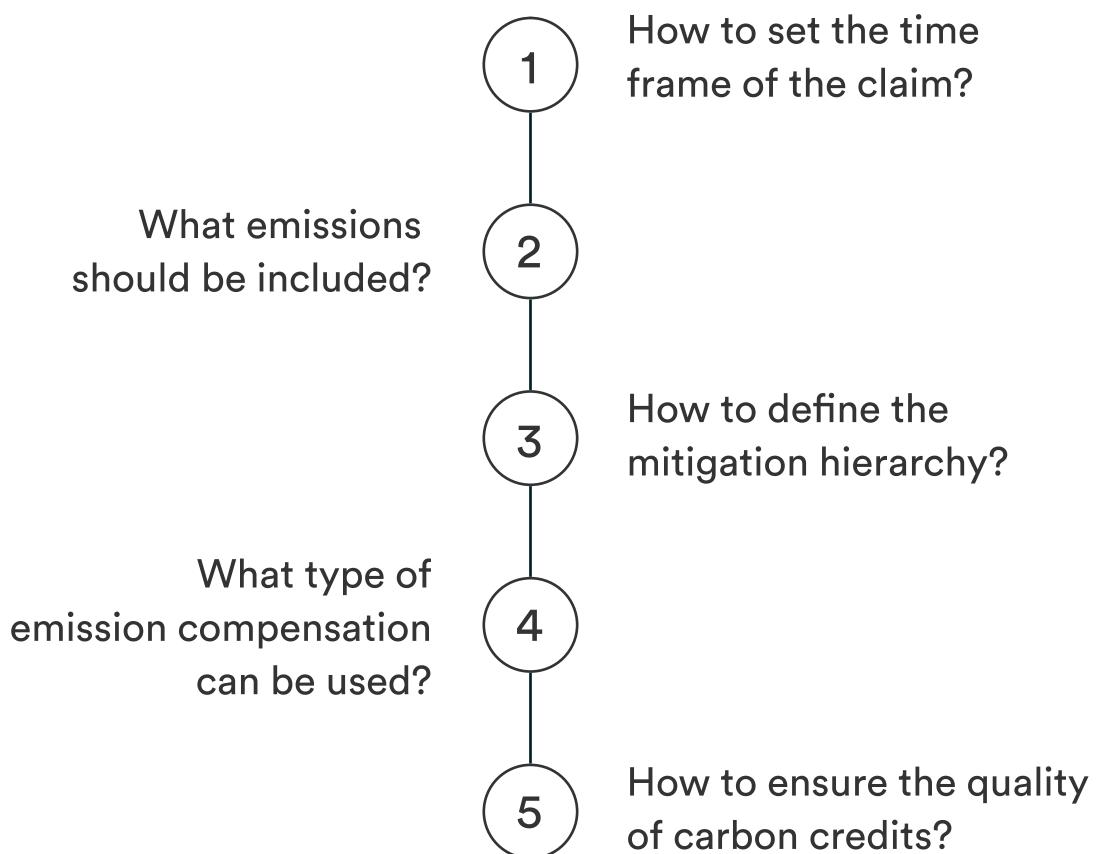
** CO₂e means carbon dioxide equivalent. All greenhouse gas emissions are accounted for, and expressed in CO₂e.

But how to build a sustainable ratio between emission reductions and compensation and how to make sure that compensation actually delivers on counterbalancing remaining emissions? These questions will be examined more closely.

Regarding net zero claims, the white paper will focus on two leading standards, the Science Based Targets initiative (SBTi) and the Race to Zero Campaign and how they address the above-mentioned key questions.

Carbon neutrality claims have less standardisation and there is a lot of variability on how these claims are constructed. The white paper introduces Compensate's views on how to construct a high integrity carbon neutrality claim, that can be used alone or aligned with a net zero target.

We will explore how to make net zero or carbon neutrality claims especially through answering five key questions:

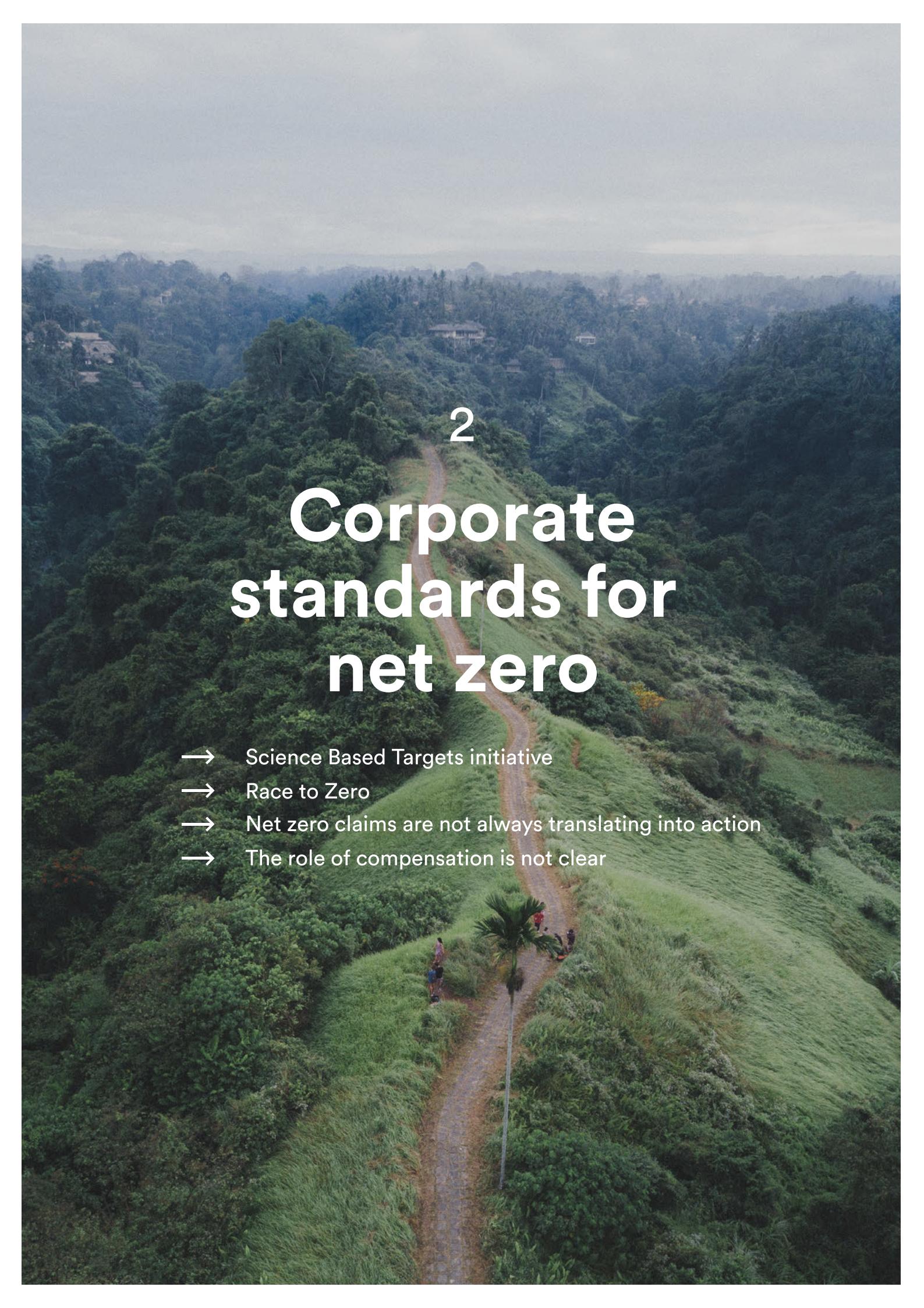


IPCC definitions

The IPCC, or the Intergovernmental Panel on Climate Change, is an intergovernmental body of the United Nations responsible for advancing knowledge on human-induced climate change. Even though the IPCC has not defined how climate claims can or should be used in a corporate context, it is useful to have a look at how the IPCC defines net zero, carbon neutrality and climate neutrality:

- **Net zero** is when anthropogenic (=human caused) emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals of greenhouse gases over a specified period.
- **Carbon neutrality** is when anthropogenic CO₂ emissions are balanced globally by anthropogenic CO₂ removals over a specified period.
- **Climate neutrality** is a state in which human activities result in no net effect on the climate system. Achieving such a state would require balancing of residual emissions with emission (carbon dioxide) removal as well as accounting for regional or local biogeophysical effects of human activities that, for example, affect surface albedo or local climate.

As we can see, the different terms differ mostly according to the scope of greenhouse gases and other climate warming effects that are taken into account. It is also important to note that only anthropogenic (i.e. human caused) emissions, removals or other climate changing effects are considered. This emphasises that the climate crisis is a human caused phenomenon and requires human intervention to mitigate it.

The background image shows a wide-angle landscape of a tropical hillside. A dirt path or road cuts through the dense green vegetation, leading from the foreground towards a cluster of small buildings nestled among trees in the distance. The sky is overcast.

2

Corporate standards for net zero

- Science Based Targets initiative
- Race to Zero
- Net zero claims are not always translating into action
- The role of compensation is not clear

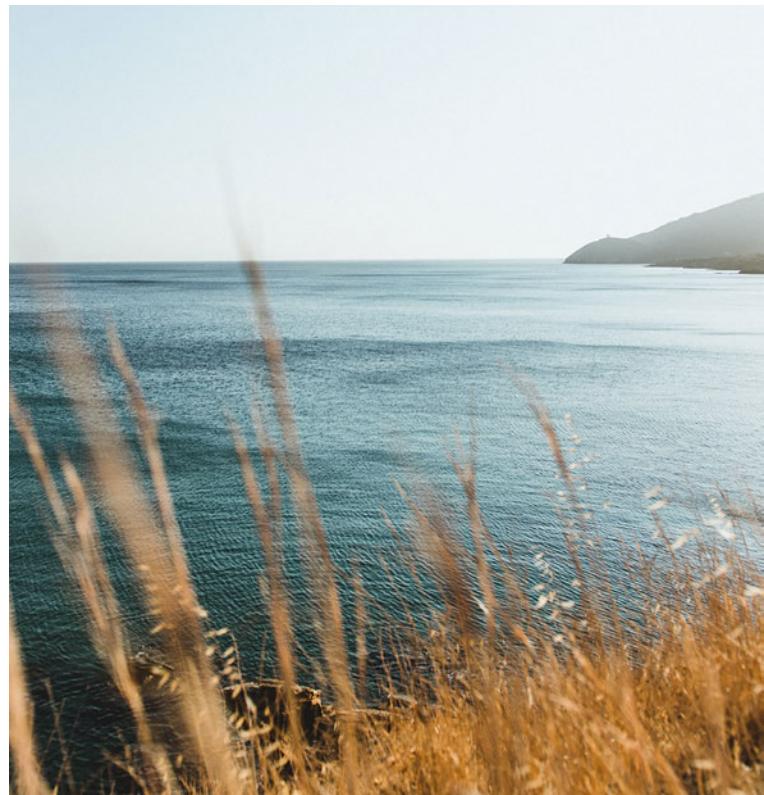
Corporate standards for net zero

The two most popular climate claims, that corporations and other private actors use, are by far carbon (or climate) neutrality and net zero. Carbon neutrality and the related climate neutrality claim is often used to communicate to consumers, while net zero has become the buzzword of the corporate responsibility world.

Science Based Targets initiative

When it comes to defining net zero, the Science Based Targets initiative (SBTi) provides one of the most robust frameworks. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It has in recent years become one of the leading climate action frameworks in the corporate sector by providing companies a framework to align themselves with climate science and the goals set in the Paris Agreement.

The SBTi standard has already had a significant impact on corporate plans as more than 2000 mainly large companies and financial institutions are working with SBTi to reduce their emissions in line with climate science. The SBTi is constantly evolving by developing its guidance.



For instance, in March 2022, the SBTi updated its fossil fuel policy to no longer accept commitments from these companies.

After wide stakeholder consultations, the SBTi published its Net-Zero Standard in October 2021.

SBTi Net-Zero Standard:

- 1** Focus on rapid, deep emission cuts covering a company's entire value chain emissions, including those produced by their own processes (scope 1), purchased electricity and heat (scope 2), and generated by suppliers and end-users (scope 3). In order to reach net zero, companies will need to reduce their value chain emissions by 90-95%.
- 2** Set near- and long-term emission reduction targets by taking action already today. Having regular milestones in emission reduction on the way to net zero by 2050 will help keep companies on track.
- 3** No net zero claims until long-term targets are met. Companies need to first reduce 90-95% of their value chain emissions and neutralise the residual emissions with carbon removals and only then make the net zero claim.
- 4** Go beyond the value chain by making investments outside a company's science-based targets to help mitigate climate change elsewhere and keep the temperature rise below 1.5C. In practice, this could translate into purchasing carbon credits on the voluntary market. The SBTi strongly emphasises that these beyond value chain climate actions should be in addition to deep emission cuts, not instead of them.

Race to Zero

The United Nations-led Race to Zero Campaign, launched in 2020, is working with businesses, cities, regions, investors, and financial and educational institutions to commit to achieve net zero carbon emissions by 2050 at the latest. Thus far over 5 000 businesses have signed the campaign pledge.

Race to Zero definitions:

- **Net zero:** When an actor reduces its emissions following science-based pathways, with any remaining GHG emissions attributable to that actor being fully neutralised by like-for-like removals (e.g. permanent removals for fossil carbon emissions) exclusively claimed by that actor, either within the value chain or through purchase of valid offset credits.
- **Climate neutrality:** When GHG emissions or other activities with warming effects attributable to an actor are fully compensated by GHG reductions or removals, or other activities with cooling effects, exclusively claimed by the actor, such that the actor's net contribution is zero, irrespective of the time period or the relative magnitude of emissions and removals involved.
- **Carbon neutrality:** When CO₂ emissions attributable to an actor are fully compensated by CO₂ reductions or removals exclusively claimed by the actor, such that the actor's net contribution to global CO₂ emissions is zero, irrespective of the time period or the relative magnitude of emissions and removals involved.



- **Climate positive (net negative):** When an actor's greenhouse gas removals, internal and external, exceed its emissions and any removals are "like for like." Must be specified over a declared time period, and whether removals and emissions are cumulative or represent only the time period specified.
- **Carbon negative:** When an actor's carbon removals, internal and external, exceed its emissions and any removals are "like for like." Must be specified over a declared time period, and whether removals and emissions are cumulative or represent only the time period specified.

Net zero claims are not always translating into action

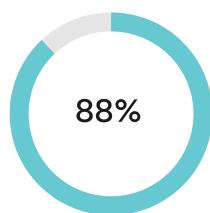
As we can see from the definitions listed above, applying claims like net zero and carbon neutrality in a corporate context is a complex exercise. More complexity is added through the non-standardised use of these terms by corporate actors. Even Race to Zero says that the definitions are not meant "*to mandate standardisation, but rather to suggest opportunities for convergence as a way to reduce communication friction and improve understanding across our community.*"

Despite some ambiguity about definitions, more and more companies are committing themselves to a net zero target. Most are aiming to reach net zero emissions by 2050, which is also the target year for global emissions to reach net zero if we are to limit global warming to the 1.5 degree goal set in the Paris Agreement.

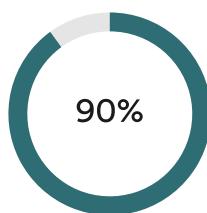


Net zero targets set by countries, regions or cities, already cover 88% of total global emissions, 90% of global GDP, and 85% of the world's population. According to [Net Zero Tracker](#), 699 companies, out of the 2,000 largest publicly-traded companies in the world by revenue, have made net zero commitments.

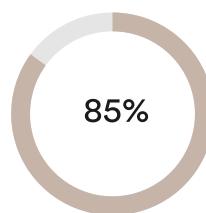
Global net zero coverage



Emissions



GDP (PPP)



Population

Net zero companies

699 / 2000

2,000 largest publicly-traded companies in the world by revenue

The Oxford Dictionary describes net zero as a target of completely negating the amount of greenhouse gases produced by human activity, to be achieved by reducing emissions and implementing methods of absorbing carbon dioxide from the atmosphere.

However, in a business context, the definition of net zero varies considerably and there is ongoing debate about its definition. The University of Oxford conducted stakeholder interviews in 2020 and found that there was some consensus that targets should cover all emissions and reach zero by 2050. In contrast, the stakeholder interviews did not find a common view on, for example, how milestones should be set and what is the role of offsetting or compensation.

So far, net zero targets haven't really guided immediate climate action. The consulting company Accenture estimated that

only 5% of European listed companies with a net zero target have reduced their emissions at a pace consistent with reaching net zero by the target date that they have set.

The Corporate Climate Responsibility Monitor, a joint report from Carbon Market Watch and NewClimate Institute, recently found that

major companies routinely exaggerate or misreport their progress towards net zero targets.

Another concern is that without intermediate targets and concrete measures, setting a net zero target decades from now can just be a tactic to delay taking immediate action. Urgent emission reductions can be postponed without any certainty that, as the net zero target year approaches, the companies will have the capacity to implement the needed quick emission reductions or carbon sequestration.

Very recently there has also been positive news about corporations living up to their commitments. According to a survey of 166 companies done by Climate Action 100+ in early 2022, some corporate players have demonstrated progress in pledging more ambitious long-term, high-level climate goals. But at the same time, the surveyed companies still lag in the setting of more detailed commitments to align their strategies with a 1.5C scenario.

Regulators have recently also woken up to the problems with loosely defined climate claims. The European Commission published in March 2022 a new proposal to better regulate what companies can and cannot say to their customers, with a specific focus on climate impact and preventing greenwashing. Similar regulation has been proposed in the US by the Securities and Exchange Commission.

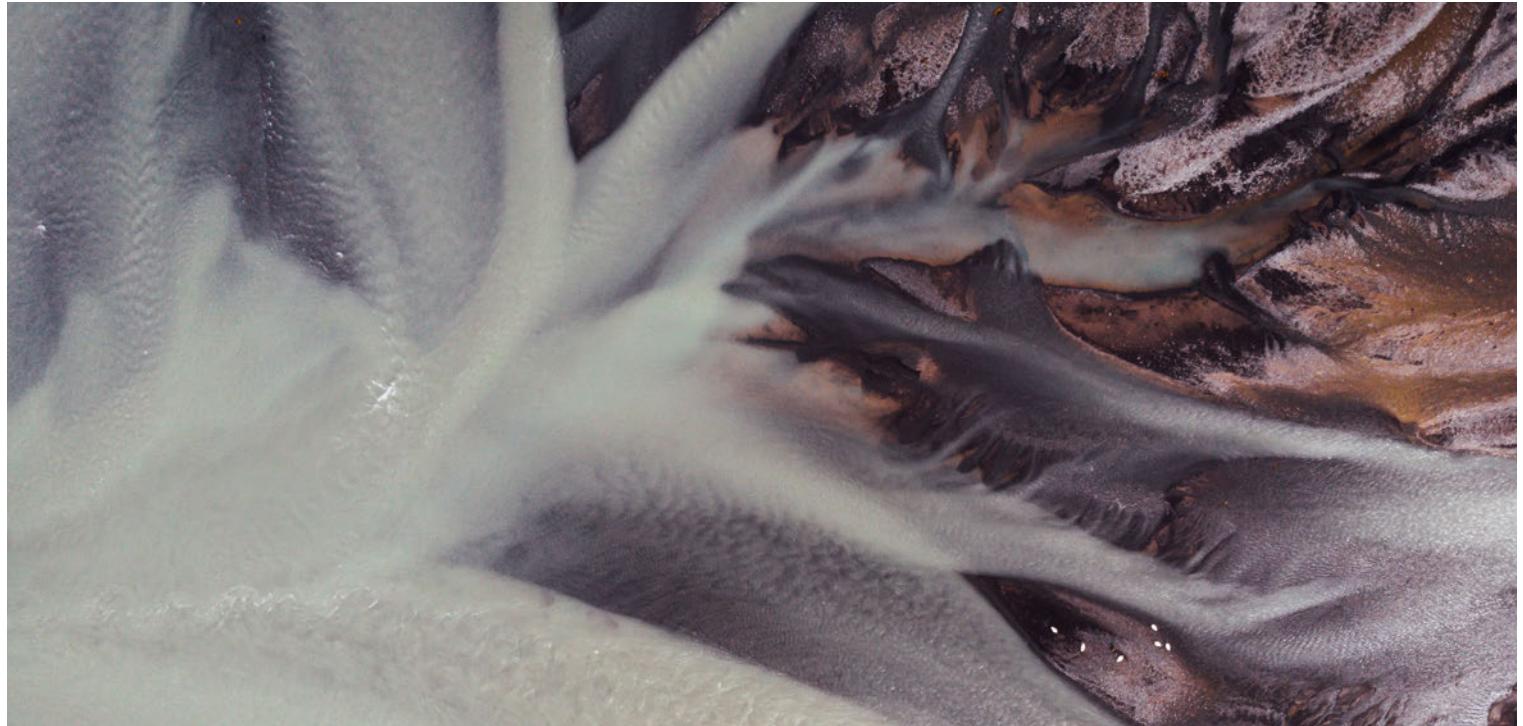
The role of compensation is not clear

According to the “*Taking Stock: a global assessment of net zero targets*” report published in spring 2021,

only about half of the companies that set net zero targets had taken a position on whether voluntary emission compensation could be used to meet the target.

A major concern with the use of compensations is that they will allow emissions to continue without structural changes to the business.

A 2021 Greenpeace report estimated that, due to limited carbon sequestration methods, they will only be sufficient to meet the compensation needs of sectors where emission reductions are most difficult to achieve, such as heavy industry and aviation.



A 2021 [study](#) published in Nature estimated that, given the various constraints, increasing carbon sequestration in forests and soils will only be enough to increase natural carbon stocks by about 100-200 gigatonnes this century. This additional carbon sequestration would only prolong our remaining time to limit global warming to the 1.5 degree goal set in the Paris Agreement by a few years.

A more recent [study](#) also published in Nature in March 2022 argues that there is a climate benefit associated even with temporary nature-based carbon storage, but only if implemented as a complement (and not an alternative) to ambitious fossil fuel CO₂ emissions reductions.

It is clear that we need more precision about the role of compensation in climate claims. But equally important is the type of compensation that can be used.

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Net zero vs. carbon neutrality

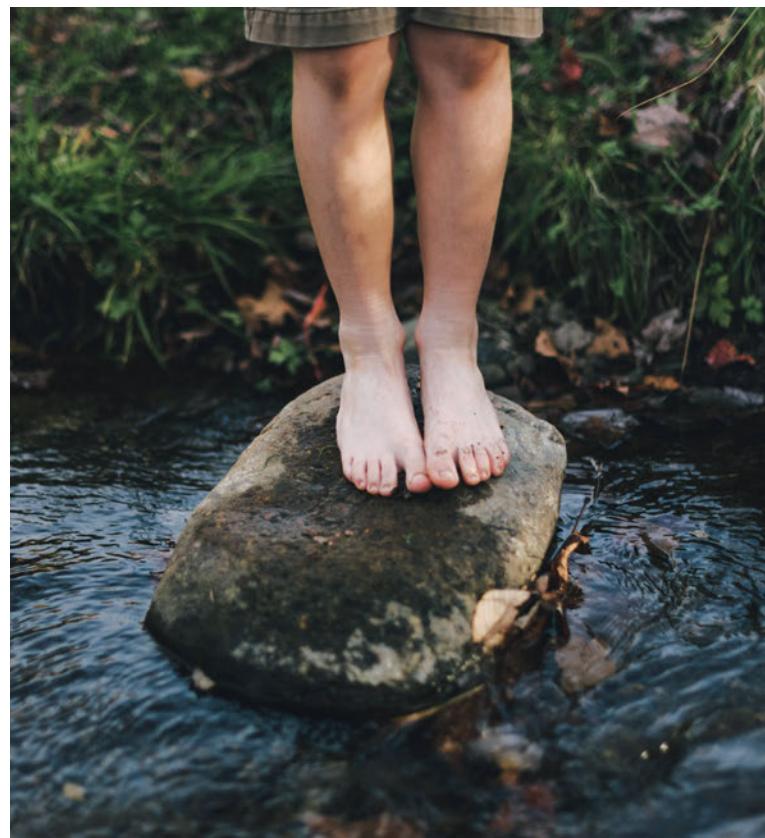
Net zero vs. carbon neutrality

Net zero and carbon neutrality claims have in recent years started to diverge into different paths in terms of how they are constructed. In particular, the credibility of carbon neutrality achieved through compensation alone has become highly questionable.

A carbon neutrality claim could be, in theory, made without any emissions reduction at all and just rely on compensating. Net zero standards have begun to emphasise the primary role of emission reductions. And rightly so.

While companies claim they only purchase carbon credits for offsetting unavoidable emissions, there is little transparency on companies' efforts to reduce emissions from operations, and how much of their climate targets are achieved by offsetting.

Far reaching decarbonisation should always be the number one priority of any climate action and compensation should only cover residual emissions.





It is known that emissions stay in the atmosphere for 300-1000 years, whereas trees, that are used to capture carbon in many offset projects, can sequester CO₂ for several decades or until they are logged and burned, then releasing all the CO₂ back into the atmosphere. This is why the best way to mitigate companies' climate impacts is to reduce emissions.

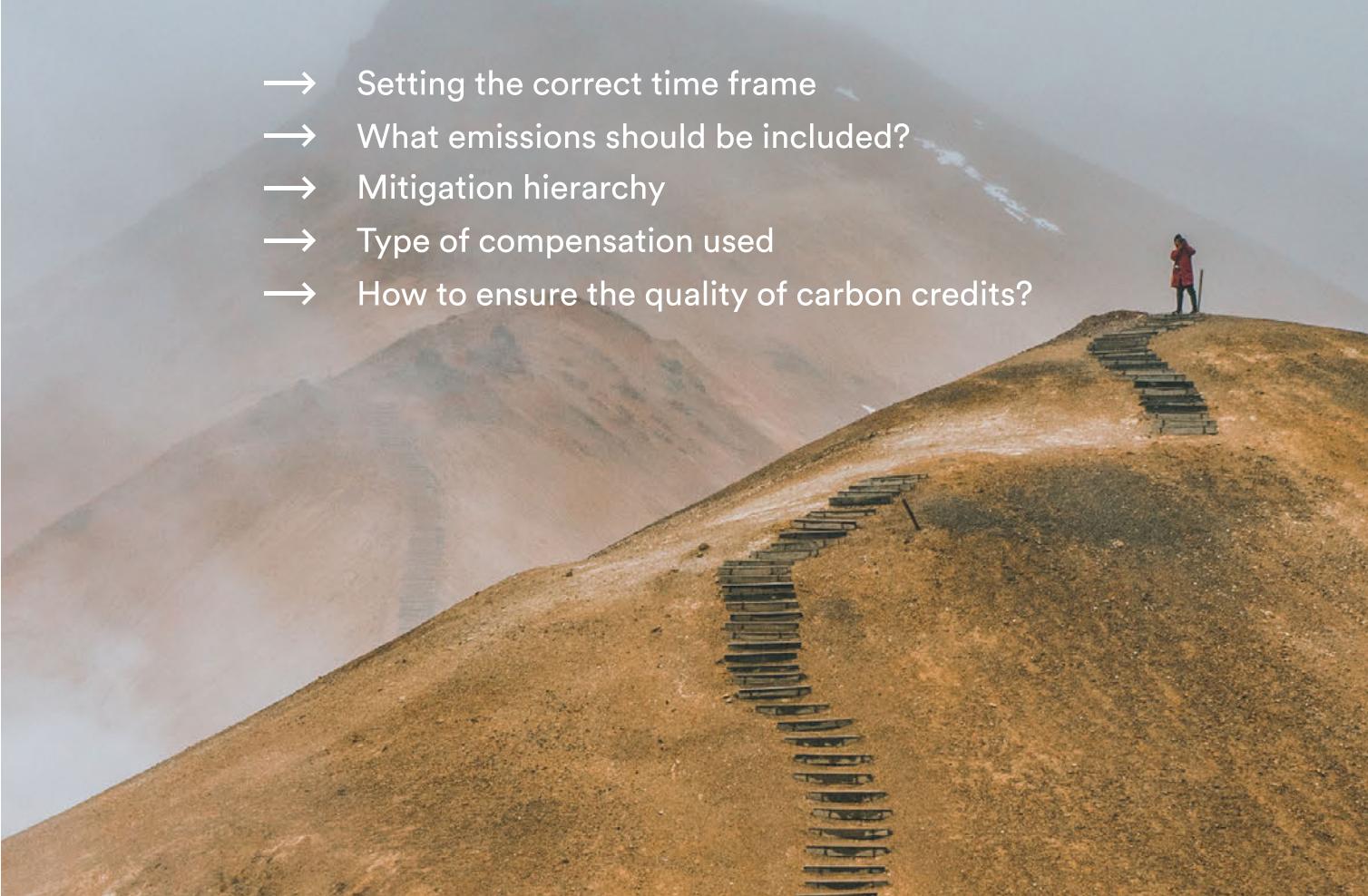
Aligning emission reduction pathways with the goals of the Paris Agreement, as in the Science Based Targets framework, puts compensation “in the right place”, as a last resort solution when all reasonable measures to reduce emissions have already been exhausted.

That having been said, a company's journey to net zero can start by achieving carbon neutrality by compensating. In order to keep temperature rise below 1.5°C, companies are encouraged to purchase carbon credits in parallel with their emission reduction efforts in line with their net zero targets, to compensate for emissions released during decarbonisation. In the SBTi Net-Zero Standard this is referred to as "*Abatement or removals beyond a company's value chain*".

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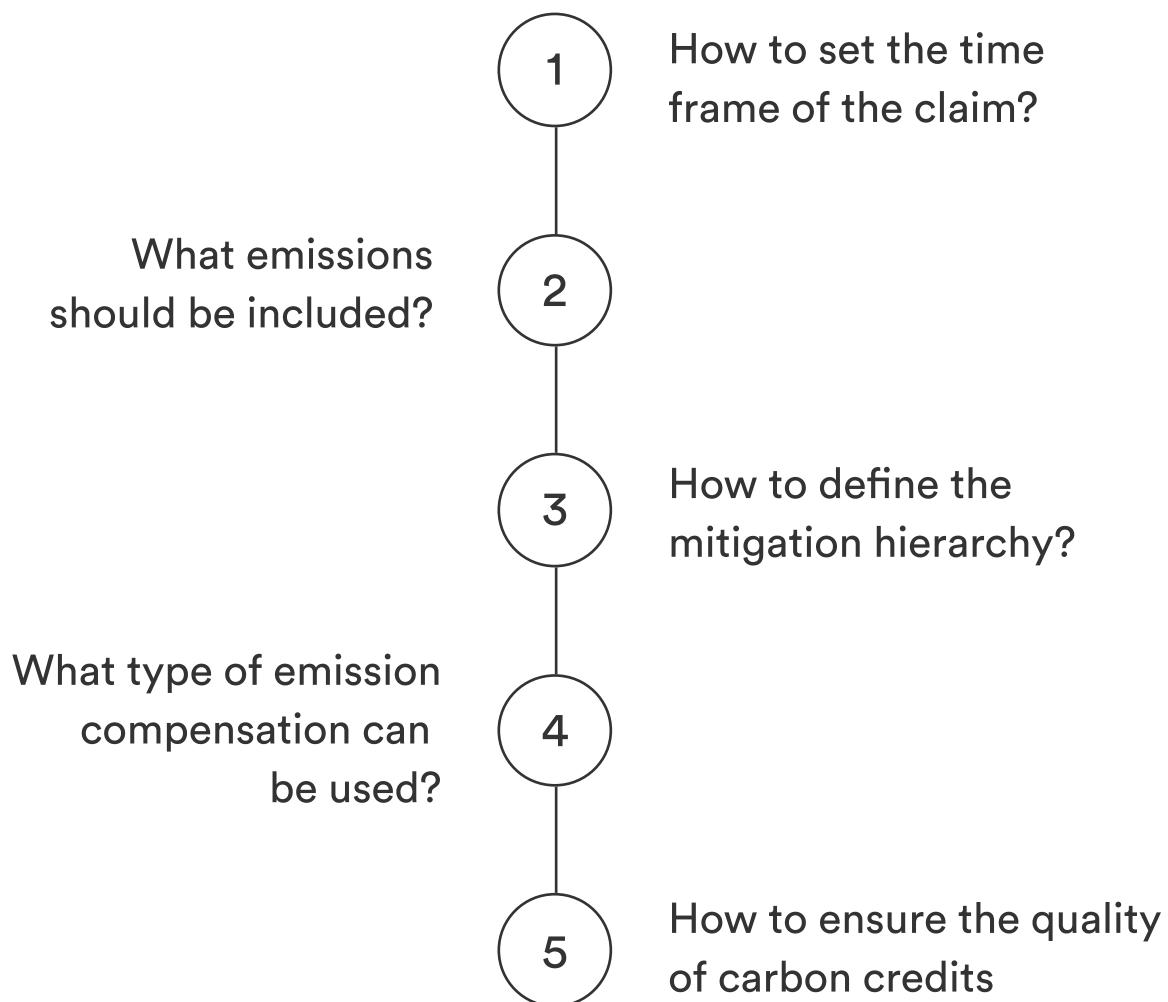
Constructing high integrity net zero or carbon neutrality claims

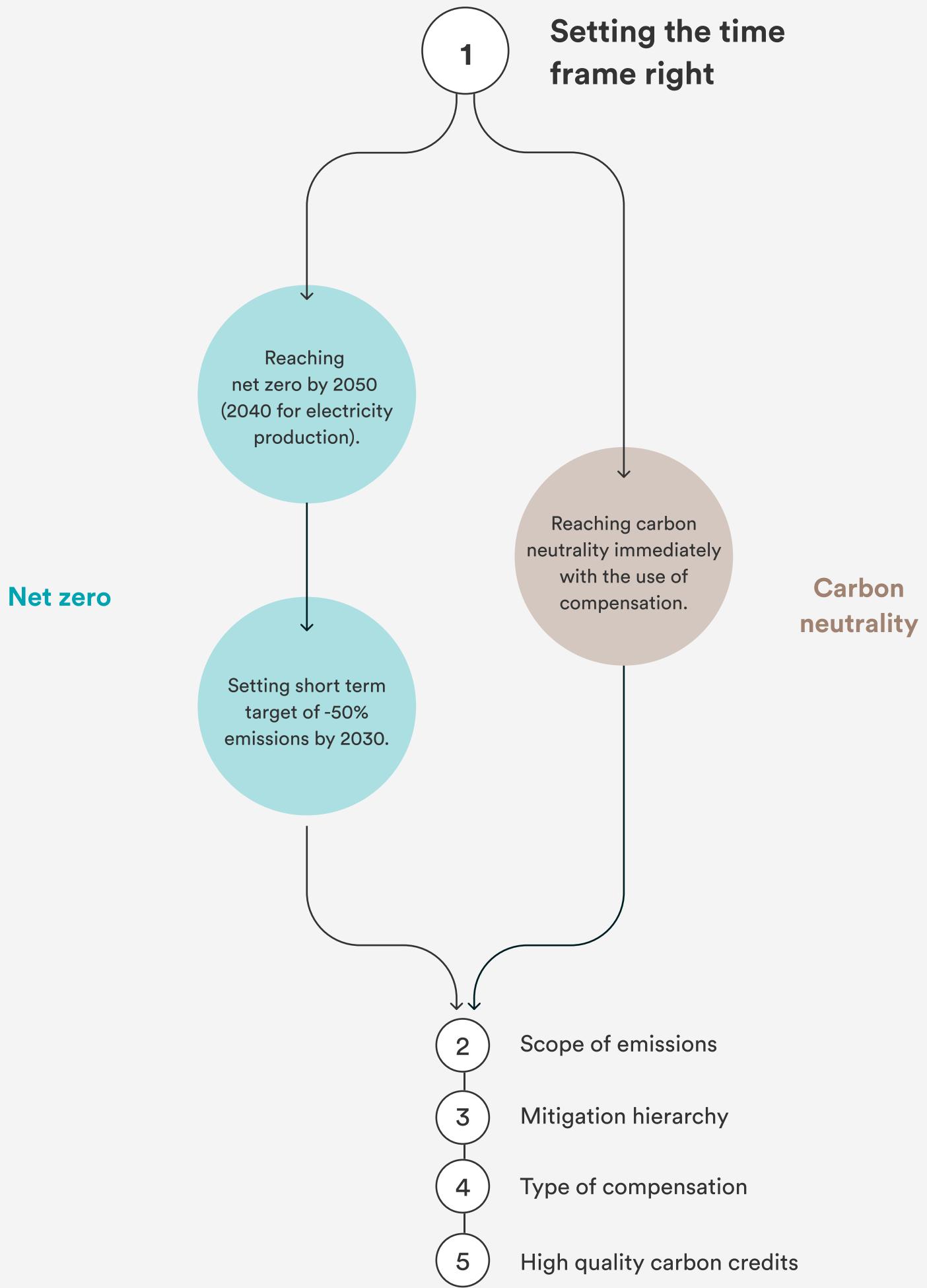
- Setting the correct time frame
- What emissions should be included?
- Mitigation hierarchy
- Type of compensation used
- How to ensure the quality of carbon credits?



Constructing high integrity net zero or carbon neutrality claims

In order for net zero or carbon neutrality targets and claims to be relevant in tackling the climate crisis, they need to be properly defined. Answering these five questions will help companies set a high integrity pathway to net zero or carbon neutrality:





1 Setting the correct time frame

Net zero

Although the typical target year for net zero targets in 2050 is rooted in the 1.5 degree IPCC report published in 2018, in practice the target years set by companies vary depending on, among other things, the industry.

According to the Science Based Targets criteria, net zero must be reached by 2050 at the latest, although electricity generation will have to reach net zero by 2040. [Climate Action 100+](#), which represents investors in climate action, has also announced that it expects electricity companies to set a net zero target by 2040. Similarly the Race to Zero sets 2050 as the latest date when net zero has to be reached.

Companies also need to establish a base year to track emissions performance consistently and meaningfully over the target period.

According to SBTi, the following considerations are important for selecting a base year:

- Scope 1, 2, and 3 emissions data should be accurate and verifiable.
- Base year emissions should be representative of a company's typical GHG profile
- The base year should be chosen such that targets have sufficient forward-looking ambition.
- The base year must be no earlier than 2015.

Setting a net zero target that is decades in the future runs the risk that the target remains a one-time declaration or campaign promise that won't lead to any practical action in the near future. This would obviously undermine the urgency of mitigating the climate crisis. Thus setting intermediate targets are essential for the net zero target to have a direct impact on emissions.

Science Based Targets requires that corporations aiming at reaching net zero emissions by 2050 at the latest, must also commit to short term measures that reduce emissions by 50% by 2030. The same baseline year should be used for the net zero target year and for the short term target.

Carbon neutrality

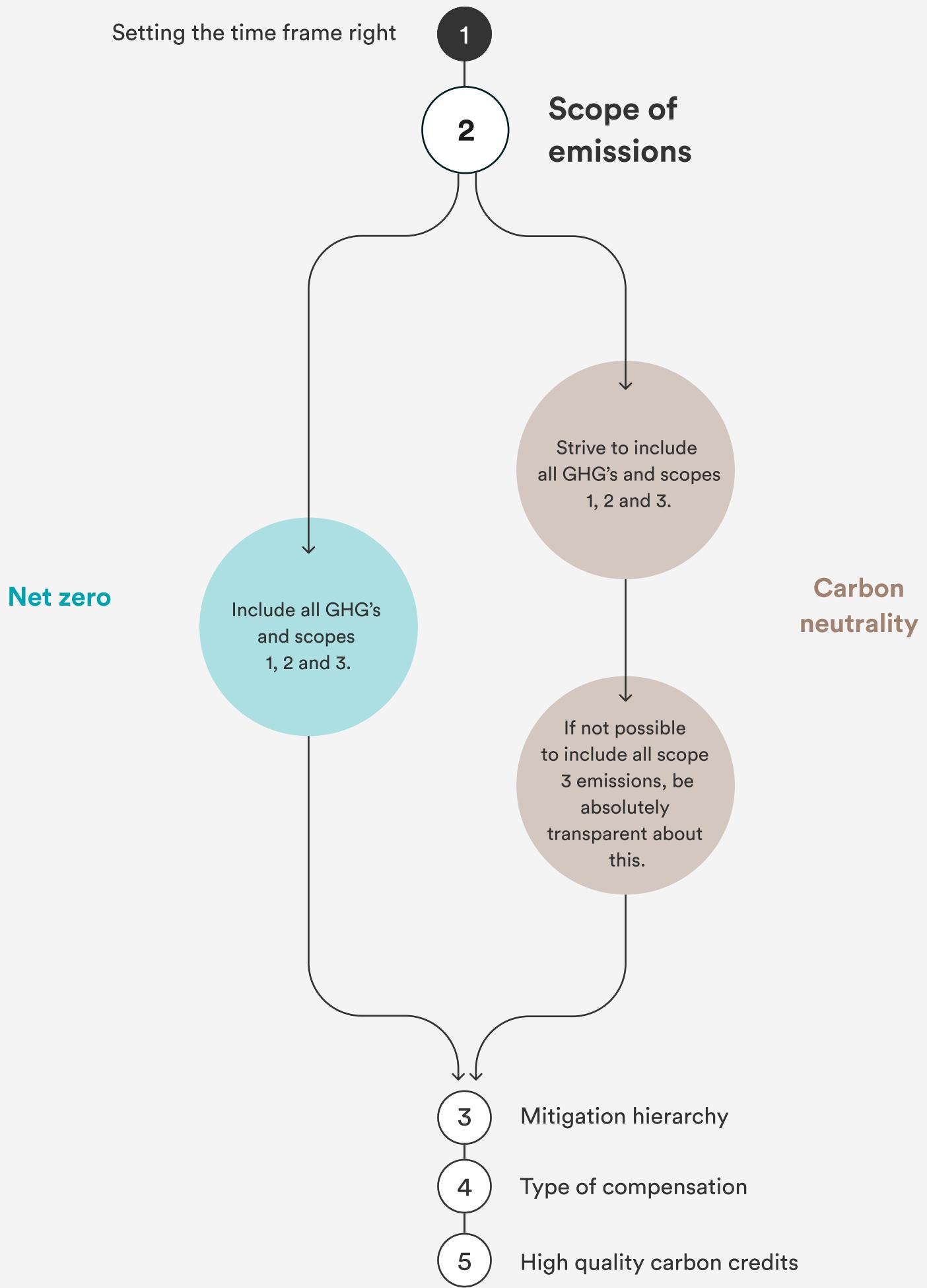
There is no set date for when a carbon neutrality target should be reached. Given the urgency of the climate crisis,

Compensate firmly believes that carbon neutrality should be reached immediately with the appropriate use of compensation.

If we are allowed to add CO₂ into the atmosphere, the least we should do is take responsibility for those emissions. There is already too much CO₂ in the atmosphere. 'Safe' CO₂ levels were surpassed in 1987 and humanity has since accumulated a carbon debt of 2500 gigatons. Why wait to reach carbon neutrality years from now, if we already possess the means to do it today?

But compensating can't be the only measure with which we can reach carbon neutrality today.

More on that when we dive into the mitigation hierarchy in the following sections.



2 What emissions should be included?

Net zero

It is essential for the credibility of a net zero target to define what is meant by emissions. Both the Science Based Targets initiative and Race to Zero are clear that the net zero target should cover not only just CO₂ emissions, but all six greenhouse gases covered by the Kyoto Protocol: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), and sulphur hexafluoride (SF₆). Additionally nitrogen trifluoride (NF₃) emissions should also be included.

It is also very important to define which emissions fall within the target. In the case of corporate emissions, scope 1, 2 and 3 emissions under the so-called GHG protocol are typically referred to. Scope 1 covers direct emissions from company-owned or controlled sources, Scope 2 indirect emissions from the generation of purchased energy, and Scope 3 all other indirect emissions from the company's value chain.

