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In scope but out of line? The SBTi's relaxation of rules round Scope 3 emissions reporting

Background

Last month, the board of trustees of the Science Based Targets initiative (**SBTi**) issued a statement on proposed rule changes concerning the treatment of 'scope 3'¹ greenhouse gas emissions (the **Statement**)².

In the Statement the SBTi proposed to extend the permitted use of "environmental attribute certificates" (**EACs**) beyond the current restrictions to include their usage for "the purpose of abatement of Scope 3 related emissions beyond the current limits".

To the extent that the Statement is implemented, it raises far-reaching questions as to whether and to what the extent companies should be permitted to use EACs (which it appears includes carbon credits derived from voluntary offsetting and/or insetting initiatives) to report lower scope 3 emissions.

The Statement has divided the broader decarbonisation market, including prompting a backlash from the SBTi's own staff³.

Why the SBTi Matters

The SBTi is a preeminent standard-setting and verification body, whose role is built on the foundations of the GHG Protocol Corporate Accounting and Reporting Standard (known as the **GHG Protocol**), which established the whole categorisation system of scope 1 to 3 emissions reporting. The SBTi sets the parameters within which companies can set net-zero targets and it verifies these targets. As such, although it is not an official regulatory body, it is an arbiter of credibility in a field where credibility is king.

Given that scope 3 emissions are indirect, covering a company's entire supply chain, reducing them poses a particular challenge. The SBTi's traditional stance is restrictive when it comes to the use of instruments like EACs to reduce or offset emissions. The SBTi's 'mitigation hierarchy' prioritises GHG emission 'abatement' within a company's own value chain, being internally driven measures designed to reduce that company's scope 1, 2 and (in certain circumstances) 3 footprint. For the most part, the permitted use of EACs has been relegated to either the 'neutralisation' of residual emissions which cannot otherwise be abated or 'compensation' outside the company's own value chain. EACs cannot be used towards meeting interim SBTi-certified targets.

For advocates who view carbon credits and insets as crucial tools to fund the measures necessary to meet the goals of the Paris Agreement, the position of the SBTi has been a major roadblock. However, the Statement indicates that this may soon no longer be the case.

The Potential Impact of the Statement

EACs are not defined in the Statement, although an SBTi call for evidence paper published in September 2023 did define them as "instruments used to quantify, verify and track the environmental benefits associated with climate mitigation activities or projects" where "trading of these certificates may allow buyers to make claims, while also providing financial incentives to interventions that reduce greenhouse gas emissions, promote renewable energy or achieve other sustainability objectives"⁴. While it remains to be seen

¹ "Scope 3" is a term defined by the Greenhouse Gas Protocol to reflect indirect emissions produced in a company's value chain, for the purpose of emissions reporting.

² SBTi, ['Statement from the SBTi Board of Trustees on use of environmental attribute certificates, including but not limited to voluntary carbon markets, for abatement purposes limited to scope 3'](#) dd 9 April 2024.

³ An anonymous letter from SBTi staff indicates that the board of trustees may have pre-empted on-going work by the SBTi's staff in this area.

⁴ SBTi, ['Call for Evidence on the Effectiveness of the Use of Environmental Attribute Certificates in Corporate Climate Targets'](#) dd 21 September 2023.

what the exact scope of EACs will be, they are likely to include voluntary carbon credits and possibly insets.

The Statement indicates that the SBTi may amend its rules to allow the use of such EACs for scope 3 emissions only, not scope 1 or 2 emissions. How and to what extent EACs could be used to reduce or offset some or (however unlikely) all of a company's scope 3 emissions is not clear at this stage – a discussion paper with draft proposals will be published by the SBTi in July. The extent of the backlash from various quarters demonstrates the divide within the decarbonisation field between those who support the use of EACs and those who are deeply, philosophically opposed to the very concept of such instruments.

If the SBTi follows through and does relax its rules, it would represent a significant victory for the voluntary carbon market, which has faced a challenging period of intense scrutiny and criticism, impacting demand and prices.

A Victory for Pragmatism?

More broadly, supporters of the rule change would frame it as victory for pragmatism over idealism, as demonstrated by the SBTi CEO's own response to the Statement, in which he argued that "[not all scope 3 emissions are created equal. Some are more material, some less so](#)"⁵, indicating that companies need to be given greater flexibility to choose how to pursue their net-zero targets, particularly for these 'less material' emissions, howsoever such a determination may be made.

The SBTi's Statement did not occur in a vacuum. For example, it follows a recent announcement from the US Securities and Exchange Commission on proposed rules for mandatory climate risk disclosure by publicly traded companies, which, based on public feedback, will not require disclosure of scope 3 emissions⁶.

Additionally, IETA, another significant private actor, recently published its own guidelines for using carbon credits, which are far more lenient than the existing SBTi position⁷. Therefore, it is not surprising that IETA welcomed the SBTi's Statement as offering "[a practical route for corporates to engage in climate action, fostering demand for trustworthy credits and delivering more climate finance to developing countries](#)"⁸.

Conclusion

As indicated by the proposed consultation process, any change to the SBTi's current position will take time, and the SBTi, aware that its own credibility is on the line, has been at pains to stress that any decision will be based on scientific evidence. Meanwhile, the SBTi's existing restrictive approach on the use of EACs continues to apply, creating a degree of uncertainty both for companies as well as the developers of EACs as to what the future holds for scope 3 emissions. A rule change by the SBTi could help create a new consensus or precipitate a schism along pre-existing fault lines. SH will continue to follow these developments.

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Contact us

We hope that you find this update both useful and interesting. If you have any comments or would like to learn more about this topic, please get in touch with either your usual SH contact or any member of our commodities team by clicking [here](#).

⁵ Statement by Luiz Amaral, CEO of the SBTi dd 19 April 2024: [SBTi is committed to robust governance and will not shy away from debate](#)

⁶ US Securities and Exchange Commission, '[Statement on Final Rules Regarding Mandatory Climate Risk Disclosures](#)' dd 6 March 2024

⁷ IETA, [Guidelines for High Integrity Use of Carbon Credits](#)

⁸ IETA Press Release dd 10 April 2024: [IETA Response to SBTi](#)