

TOWARDS A NEW FRAMEWORK FOR CORPORATE CARBON NEUTRALITY



Carbon neutrality is a prerequisite to stabilising global temperatures. Until human-induced net greenhouse gas emissions are eliminated altogether, the concentration of CO₂ in our atmosphere will continue to rise, making it impossible to halt global warming.



Defining the concept of carbon neutrality is easy enough at a global scale: it is defined by a state of equilibrium between global carbon emissions and global carbon sinks. When it comes to individual companies, which represent just a small fraction of humankind and its activities, however, defining this goal becomes a much more complex issue.

Whether they have already achieved it or are simply working towards it, many companies are now aiming to be carbon neutral. Today, in the absence of a globally accepted methodology, everyone has their own understanding of what it means to be individually carbon neutral. Unfortunately, without a common definition of this objective that is aligned with the Paris Agreement, it is difficult to legitimately appreciate efforts that are being undertaken to achieve this neutrality.

There is now a very real need for the development of a generalised framework that could serve as a basis for an ambitious, harmonised and scientifically robust vision of neutrality.

Ideally, this framework should be able to be adopted by any organization, regardless of its size, its sector or industry or of its previous experience in dealing with climate-related issues.

CARBON NEUTRALITY: A SHARED GLOBAL OBJECTIVE, WITHOUT A CLEAR PATH TO GETTING THERE

The concept of corporate carbon neutrality emerged in the early 1990s and received limited support from private players. This is still the case today, with a certain level of scepticism concerning the idea that a zero-carbon future could exist where businesses no longer impact the climate.

A number of different visions of carbon neutrality have emerged and it is currently impossible to compare two companies that both claim to be carbon neutral.

After all, whilst everyone seems to agree on the importance of recognising and applying the 'Calculate, Reduce, Offset' model, each of these three key steps seems to be dealt with in a different manner.

The scope of the greenhouse gas emissions for which a company can claim carbon neutrality is arbitrary.

One thing is certain, too rarely is the full scope of emissions considered within the carbon neutral objective. Many companies are satisfied with only taking into account their own emissions, generated through their direct consumption of energy (scopes 1 and 2), whereas the major issues, which have become synonymous with profound change, often concern indirect emissions sourced along their value chain (scope 3).

The reduction in emissions achieved by a 'neutral' company is at best invisible and at worst insufficient.

As far as current carbon neutrality measures are concerned, a company's emissions are not required to be compatible with a limit to global temperature rise by +2°C, or +1.5°C. Furthermore, as things currently stand, a company can claim to be 'neutral' without necessarily reducing its emissions. Indeed, the emissions generated by a company very often become invisible once they have been 'neutralised'.

Carbon offsetting has lost sight of its primary objective.

Offsetting, which involves claiming ownership of emission reductions by funding low-carbon projects outside of the scope of the organisation, is all too often seen as a way for a company to underplay its own reduction obligations. It also confuses avoided emissions with sequestered emissions, whereas global neutrality requires this distinction to be made in order to separate sources and sinks.

With this in mind, it is important that we (re)define the very notion of carbon neutrality.

Once a common definition has been established, carbon neutrality will represent an extraordinary lever of action and a catalyst for fostering links between the local residents and economic actors in a region and a company's stakeholders (suppliers, service providers, clients, employees, etc.). Indeed, neutrality forces these individuals to consider themselves within a broader physically necessary strategy: the 'zero net emissions' strategy that science advocates.

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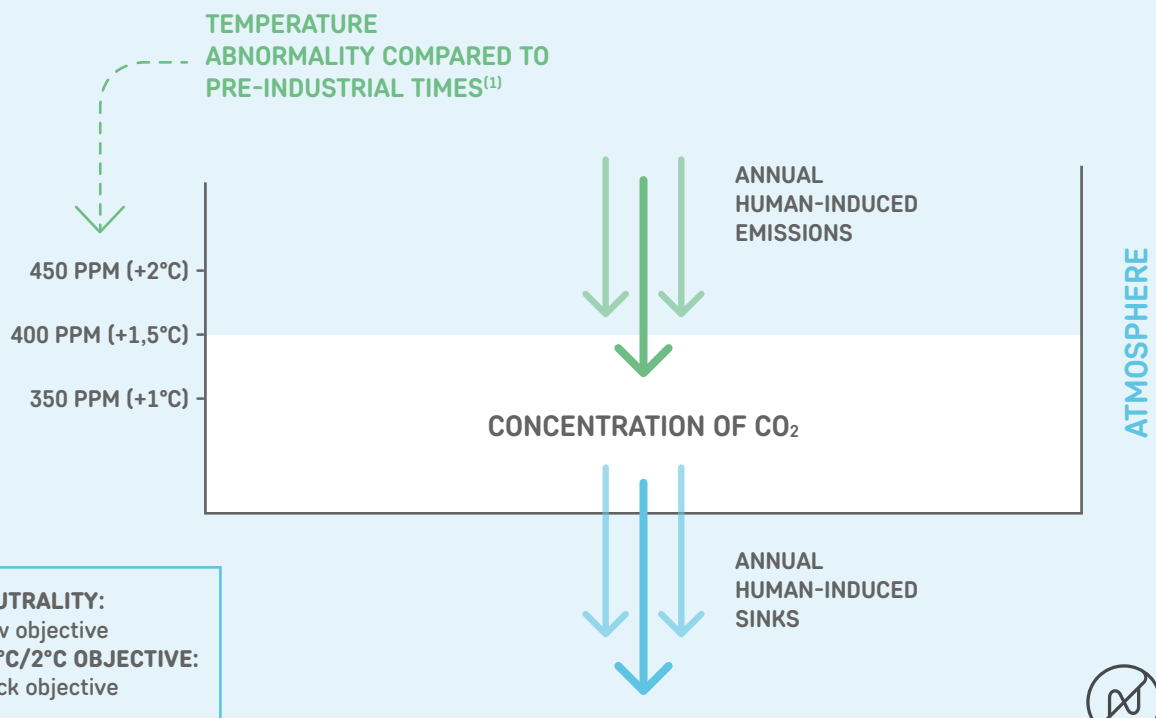
USING SCIENCE TO BOOST THE CREDIBILITY OF A COMPANY'S CARBON NEUTRALITY MEASURES

Net Zero Initiative aims to give companies' carbon neutrality goals new impetus that reflects the global issues we are facing. This involves proving that an organisation that is committed to achieving 'its own neutrality' is also contributing to achieving 'neutrality' at a global scale.

But what does this global neutrality mean, exactly?



Balancing sources and sinks to stabilise CO₂ concentrations in the atmosphere



The IPCC, in its Special Report “Global Warming of 1.5 °C”⁽¹⁾, published in late 2018, claimed that the following two criteria must be met in order to achieve neutrality:

- Net zero CO₂, that is a balance between human-induced CO₂ emissions and sinks, must be achieved over a given period of time; and
- Non-CO₂ gas emissions must be sufficiently reduced over a given period of time.

Furthermore, Article 4.1 of the Paris Agreement defines carbon neutrality as follows:

“In order to achieve the long-term temperature goal set out in Article 2, Parties aim to (...) achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century (...).”

In light of these definitions, it would seem that the objective of neutrality is inseparable from, and even dependent upon, the so-called ‘temperature’ objective, that is the aim of limiting global warming to +2°C or even +1.5°C.

THE 2°C/1.5°C OBJECTIVES relate to greenhouse gas concentrations, that is the CO₂ stock in the atmosphere.

THE OBJECTIVE OF NEUTRALITY relates to the balance between CO₂ emissions and sinks, that is the flows of CO₂ entering and leaving the atmosphere every year.

With this in mind, it is vital that we achieve neutrality ‘early enough’ to ensure that CO₂ concentrations do not have time to exceed the thresholds dictated by the temperature objectives in the meantime. This being the case, the IPCC has outlined a number of avenues for reducing emissions and increasing sinks by 2100. In any event, a significant increase in natural sinks that store and sequester carbon is required in the Land Use, Land Use Change and Forestry (LULUCF) sector is to become a net sink.

It is also important that we introduce negative emissions-based technological solutions to some extent, in the majority of scenarios, depending on the rate at which the economy decarbonises.

(1) <https://www.ipcc.ch/sr15/>



CDP, SBTs, ACT and carbon neutrality

The work undertaken in the framework of the Net Zero Initiative is intended to complement existing initiatives.

Organisations...

- ... **calculate their emissions** using the GHG Protocol, the Bilan Carbone method or the ISO 14064 standard;
- ... **set emission reduction objectives** in order to be aligned with a 2°C or 1.5°C global warming limit under the aegis of the Science Based Targets (SBT) initiative;
- ... **report their climate-related initiatives** through the CDP;
- ... **implement their respective low-carbon strategies** through the ACT initiative.

The Net Zero Initiative frame of reference aims to ensure that the aforementioned commitments are indeed met with regards to the emissions that a company generates. Most importantly, the neutrality framework also aims to complement these initiatives so that companies can rightly claim avoided and negative emissions.

There are two main avenues that must be pursued in order to achieve this state of global 'neutrality' by 2050, which would mean limiting global warming to 1.5°C:

A reduction in the greenhouse gas emissions generated by today's societies, notably by encouraging:

- Energy management (or energy sobriety)
- The 'technical' decarbonisation of the energy system, the transport sector, the construction sector, the agricultural sector and industrial processes.

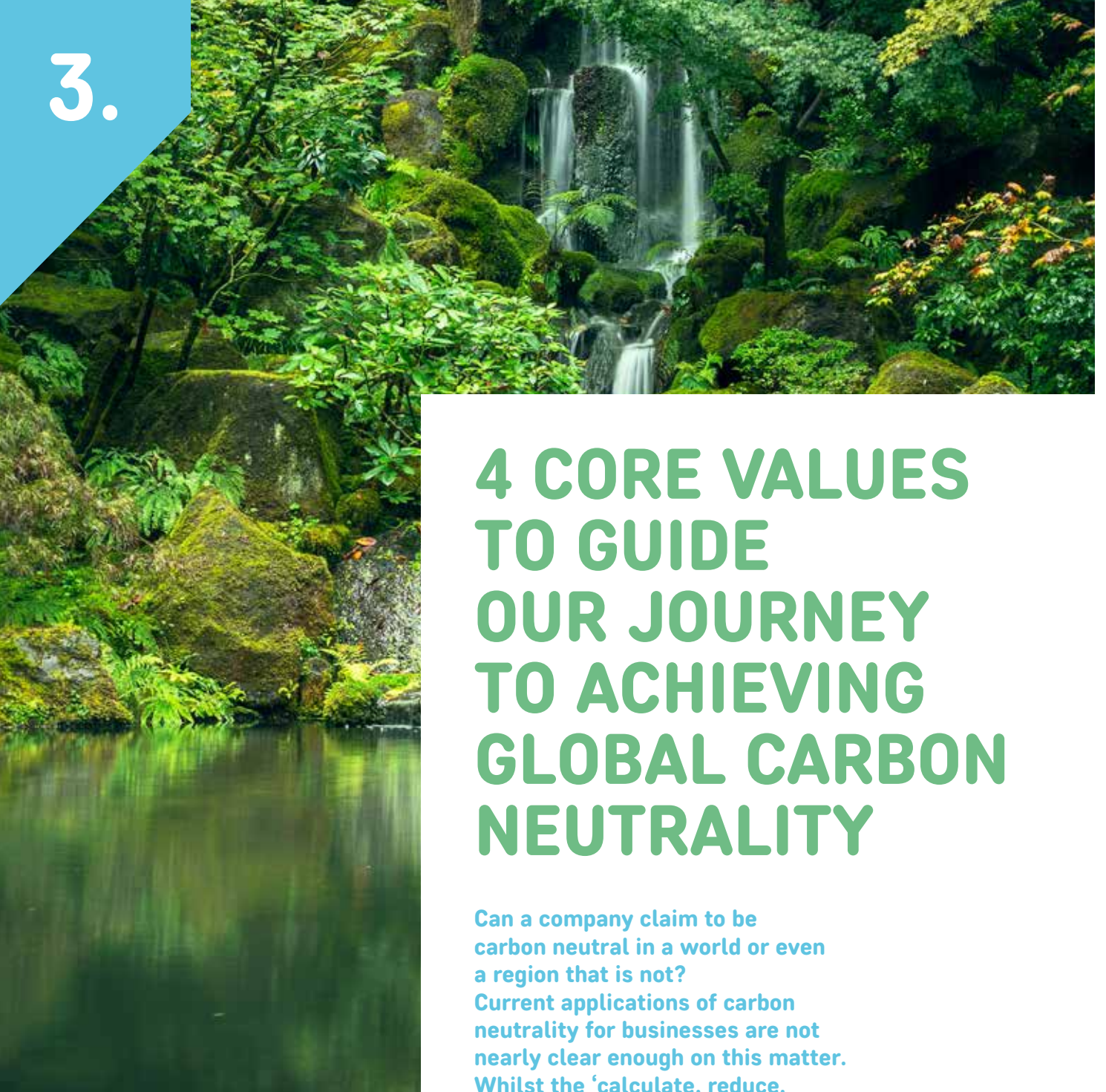
An increase in the capturing and sequestration capacities of carbon sinks, be they...

- Natural (forests, soils, wetlands, etc.); or
- Technological: Bio-Energy Carbon Capture and Storage (BECCS), Direct Air Capture (DAC), enhanced weathering, etc.

Any specific individual initiatives designed to achieve neutrality must be in line with this double need of reducing global emissions and developing carbon sinks.



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4 CORE VALUES TO GUIDE OUR JOURNEY TO ACHIEVING GLOBAL CARBON NEUTRALITY

Can a company claim to be carbon neutral in a world or even a region that is not?

Current applications of carbon neutrality for businesses are not nearly clear enough on this matter. Whilst the 'calculate, reduce, offset' is certainly a step in the right direction (it is always good to reduce one's emissions), it appears to be neither specific enough nor ambitious enough at this point in time.

A company that is committed to achieving carbon neutrality should be guided by four core values



AMBITION

A company's carbon neutrality commitment must be coherent with the global carbon neutrality objective, which is expected to be achieved by 2050 at the latest. Carbon neutrality must reflect a common desire to collectively protect our climate.



TRANSPARENCY

A company's carbon neutrality must be a journey that requires the company to commit to a long and transformational process rather than a temporary and static mind-set that is synonymous with isolation. It is important that this ambitious commitment be managed and monitored thanks to a set of appropriate and standardised indicators.



INTEGRITY

Neutrality must place the emphasis on reducing emissions across a broad scope (scopes 1 + 2 + 3). The climate emergency we are facing requires us to immediately activate all levers, including decarbonising third-party players and the increase in global carbon sinks.



SOLIDARITY

It is important that the credibility of voluntary offsetting be restored. The transparent use of carbon credits, in terms of both supply and demand, must be prioritised in order to foster low-carbon development in southern States and support the ecological transition in the North. The very term 'offsetting', which implies purchasing credits in order to gain a right to pollute, should be replaced by the more positive term 'contributing', which puts the emphasis back on our global effort to reduce emissions.

CREDIBLE CARBON NEUTRALITY: THREE KEY INDICATORS

A company's aim to become carbon neutral must first and foremost be dynamic since it must reflect the route that the planet is taking towards zero net emissions.

With this in mind, companies should be in a position to effectively manage this sort of climate-related performance.

Just like a conventional balance sheet, the Net Zero Initiative framework consists of a neutrality dashboard comprising three completely separate accounts that cannot be merged:



INDUCED EMISSIONS

by the company across its full scope. It is vital that these be reduced to levels that are compatible with a 2°C or even 1.5°C pathway.



AVOIDED EMISSIONS

These emission reductions are achieved outside of the company's full scope, by other entities, regions or players.



NEGATIVE EMISSIONS

that the company helps to sequester both within and outside of its scope.

How can we complete these three carbon neutrality indicators?

INDUCED EMISSIONS

This account includes all of the emissions that the company has generated across all scopes and its annual progress with respect to the 1.5°C/2°C-compatible objective that has been set. Existing methodologies and frameworks such as the GHG Protocol, Bilan Carbone, Science-Based Targets and even ACT can be used here.

AVOIDED EMISSIONS

This indicator must be maximised via the following:

- **Providing funding** for certified (carbon credits) or verified emissions reductions

- **Becoming involved in the construction of new low-carbon electricity production capacities** to replace coal or gas by means of Power Purchase Agreements (PPAs)
- **Offering 'low-carbon' products and services** to replace (rather than supplement) existing products and services.

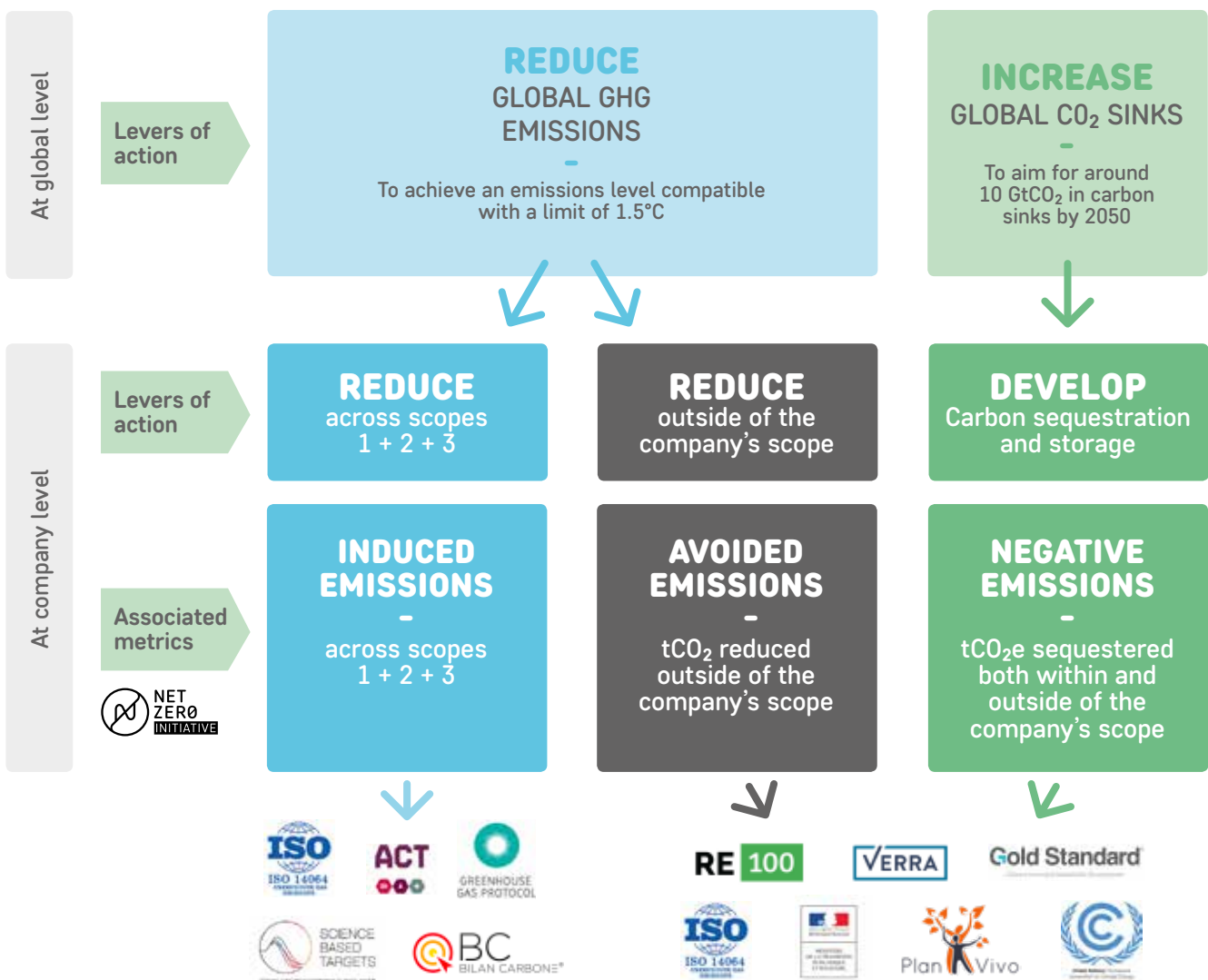
NEGATIVE EMISSIONS

This indicator must be maximised via the following:

- **Providing funding** for certified (carbon credits) or verified **negative emissions** that stem from projects designed to capture and store carbon by either natural or technological means

- **Offering products and services** that sequester emissions
- **Using wood products** in building construction and retrofit.

The Net Zero Initiative is not intended to discredit the positive measures already put in place, but rather to give some sort of meaning to what has been done in the past and allow companies to speak the same language when it comes to carbon neutrality. This will then make it possible to scientifically compare their respective performance levels.



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The present document was written by Renaud Bettin and César Dugast, both members of the Carbone 4 Neutrality division, and formatted by Havas Paris, media and communication partner to the Net Zero Initiative.

A  carbone 4 initiative

contact@netzero-initiative.com
www.netzero-initiative.com
@_NetZero_