GLOBAL DAIRY PLATFORM

GDP Analysis of Report:
Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions

Background

In 2022, the UN Secretary General formed a High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. The group was tasked with addressing net zero pledges and commitments from non-state actors including corporations, financial institutions, and local/regional governments.

More than 40 regional and thematic consultations were held with 500 organizations around the world. The group convened a wide range of stakeholders, including through a Business and Finance Roundtable and two Global Public Sessions. More than 300 written submissions were received, including one from Global Dairy Platform.

The report, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions was released during the UNFCCC Climate Change Summit COP27 in November 2022.

Summary of key points for the Dairy Sector

- The focus of the report is for larger corporations, financial institutions and cities and regions, but smaller operations (non-state actors) are recognized for playing an important role and as such will require support and capacity building assistance.
- A recent UN Report indicates that while the global emissions curve is bending, it is not happening quickly enough to achieve the 1.5 degree target. Instead of being on track to reduce emissions by 45% by 2030, emissions are set to increase by nearly 11%.
- Globally, emissions need to peak by 2025 and halve by 2030. Funding needs to move from fossil fuel infrastructure to investments in clean energy and at scale.
- The report emphasizes that non-state actors must report publicly on their progress with verified information that can be compared with peers.

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- The report also specifically addresses core concerns raised by citizens, consumers, environmentalists, and investors regarding net zero pledges that make greenwashing possible.

Recommendations:

- Non-state actors cannot claim to be net zero while continuing to build or invest in new fossil fuel supply. Coal oil and gas account for more than 75% of global emissions. Similarly, deforestation and other environmentally destructive activities are disqualifying.
- The purchase of cheap credits that often lack integrity instead of cutting emissions is not permitted.
- Absolute emissions are to be the focus, not just emission intensity or focusing on a small aspect of emissions as opposed to the full value chain.
- Non-state actors cannot lobby to undermine ambitious government climate policies, directly or through trade associations.
- To tackle greenwashing, non-state actors must move from voluntary initiatives to regulated requirements for net zero. Regulation is called for, initially with the large corporate emitters including assurance on net zero pledges and mandatory annual progress reporting.
- Recognizing the needs of developing countries in the net zero journey, the report states that financial institutions and multinational organizations must work with governments and multi-national development financial institutions to innovate, adopt more risk and set ambitious targets in support of clean energy and climate resilience.

Detail:

- There were 29 climate-fueled disasters in 2022, each costing approximately $1 billion. The toll is not only on humans, but on nature itself.
- Though many are suggesting a slowdown of the transition to net zero with regard to the global challenges being experienced, the report clearly states that now is the time to 'double down' on investments in equitable access to renewable energy and nature protection – especially in developing countries. Efforts by non-state actors in achieving net zero is critical to this also.
- While climate change can be a threat multiplier – well-designed mitigation efforts can be a solution multiplier, enhancing food and energy security, equity and affordability.
- The report sets out five principles to guide net zero targets:
    1. Ambition which delivers significant near- and medium-term emissions reductions on a path to global net zero by 2050
    2. Demonstrated integrity by aligning commitments with actions and investments
    3. Radical transparency in sharing relevant, non-competitive, comparable data on plans and progress
    4. Established credibility through plans based in science and third-party accountability
    5. Demonstrable commitment to both equity and justice in all actions

- Net zero pledges must be a commitment from the entire entity, made public by the leadership and be reflective of the organizations' fair share of the needed global climate mitigation.
- Net zero pledges must contain stepping-stone targets for every 5 years and highlight concrete actions to reach net zero (in line with IPCC or IEA net zero GHG-modeled pathways to 1.5 degrees), with no or limited overshoot. The plan must cover the entire value chain, start fast and not delay action.
- Non-state actors must publish their detailed (see report for required inclusions) net zero transition plans.
- Plans cannot support the new supply of fossil fuels and must consider the decommissioning or cancelation of existing assets.
- Non-state actors must lobby for and not against positive climate action.
- By 2025, organizations (or regions) with significant land-use emissions must ensure their operations and supply chains do not contribute to deforestation, peatland loss and the destruction of natural eco-systems. Financial institutions should develop policies to ensure they do not invest in or finance businesses linked to deforestation and must eliminate agricultural commodity-driven deforestation from their investment and credit portfolios.
- Organizations should report progress publicly every year in a way that can be compared with the baseline originally established. Once verified, reports must be added to the UNFCCC Global Climate Action Portal.
- The report recommends regulators develop regulation and standards, initially with high-impact corporate emitters, including private and state-owned enterprises and financial institutions.

The Report highlights 10 recommendations:

1. Announcing a Net Zero Pledge	**6. Aligning Lobbying and Advocacy**
2. Setting Net Zero targets	**7. People and nature in the Just Transition**
3. Using Voluntary Credits	**8. Increasing transparency and Accountability**
4. Creating a Transition plan	**9. Investing in Just Transitions**
5. Phasing out Fossil Fuels and Scaling up Renewable Energy	**10. Accelerating the Road to Regulation**

1. Announcing a Net Zero Pledge

- Acknowledges the Paris Agreement and the need for a balance between sources and sinks.
- States that in the absence of regulation too many net zero pledges are not aligned with the science and lack the detail required for credibility.
- Deceptive or misleading commitments erode confidence in overall net zero commitments and undermines sovereign commitments.

A net zero pledge should be made publicly by the leadership of the non-state actor and represent a fair share of the needed global climate mitigation effort. The pledge should contain interim targets (including targets for 2025, 2030 and 2035) and plans to reach net zero in line with IPCC or IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and with global emissions declining by at least 50% by 2030, reaching net zero by 2050 or sooner. Net zero must be sustained

More detailed recommendations (page 16)

- Must establish global targets across all jurisdictions and entire value chains.
- Any Net Zero claims are based on actions, not just announcements.
- Must use a robust methodology (SBTi recognized as such, and others noted for finance and transition pathways claims).
- Any omissions in the targets and plans must be clearly and properly reported.
- Any progress reporting must be verified by a credible, independent, third party based on publicly available data.

2. Setting Net Zero Targets

- Organizations must have 1.5 degree-aligned, short-term targets.

More detailed recommendations (page 17)

- Targets to be set within a year of the pledge.
- Must have short term targets of 5 years or less with the first for 2025!
- Targets for every 5 years after 2025.

Non-state actors must have short, medium and long-term absolute emissions reduction targets and, where appropriate, relative emissions reduction targets across their value chain that are at least consistent with the latest IPCC net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and where global emissions decline at least 50% below 2020 levels by 2030, reaching net zero by 2050 or sooner.

- Include all GHG emissions applying internationally approved measures.
- Separate targets for Non $C0_2$ gases, e.g. fossil and biogenic methane.
- Actions relate to full value chain.
- If data missing must detail efforts to get data and what data is being applied to generate interim reports.
- Embedded and land-use related emissions such as sequestration is to be accounted for separately.
- An effort to generate datasets for reporting is encouraged.

Non-state actors must publicly disclose comprehensive and actionable net zero transition plans which indicate actions that will be undertaken to meet all targets, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition. Transition plans should be updated every five years and progress should be reported annually.

3. Using Voluntary Credits

- A carbon credits system to define and ensure standards for both the integrity of the credits themselves and how organizations claim them is not yet in place.
- The Integrity Council for the Voluntary Carbon market (ICVCM) is developing a standard for measuring and assigning GHG emissions to address additionality and permanence.
- Work on incentivizing, recognizing and rewarding high-integrity companies is being undertaken by the Voluntary Carbon Markets Integrity Initiative and SBTi.

More detailed recommendations (page 20)

- Credits purchased for net zero delivery must use a credibly governed standard setting body having the highest environmental integrity with attention to positive social and economic outcomes in the jurisdiction where the project is located.
- Any credit transactions must be transparently reported, and associated claims must be understandable, consistent and verified.
- Land-based activities should be geo-fenced.
- Businesses should invest in projects that prioritize the people and sectors most in need of support, i.e., protecting biodiversity of restoring degraded land.

Non-state actors must prioritize urgent and deep reduction of emissions across their value chain. High integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor's interim emissions reductions required by its net zero pathway.

High-integrity carbon credits are one mechanism to facilitate much-needed financial support towards decarbonizing developing country economies. As best-practice guidelines develop, non-state actors meeting their interim targets on their net zero pathway are strongly encouraged to balance out the rest of their annual unabated emissions by purchasing high-integrity carbon credits.

A high-quality carbon credit should, at a minimum, fit the criteria of additionality (i.e., the mitigation activity would not have happened without the incentive created by the carbon credit revenues) and permanence.

4. Creating a Transition Plan

- An essential tool to build public trust.
- Plan needs to be frequently updated.
- Clear transition plans align both internal and external stakeholders.

More detailed recommendations (page 21/22)

- Disclose short-, medium- and long-term absolute reduction targets by individual gas.
- Detailed third party verification and audited accuracy.
- Reference credible sector pathways to 1.5 degrees with no overshoot explaining any difference between sector pathway and business planning.
- Explain emissions reductions and removal actions with time-bound performance indicators. If removals are needed, explain why.
- Demonstrate how actions across the value chain will meet the targets.
- Disclose how capital expenditure, research and development plans and investments are aligned with all targets and split between new and legacy or stranded assets.
- Outline actions for areas of data limitations.
- Explain governance structure for transition and verification and how this relates to executive compensation.
- Outline the specific policies and regulations, including carbon pricing required to facilitate transition plans.
- Report progress annually.
- Explain how the plan contributes towards a just transition. Plans must consider and address the broader social consequences and impacts of mitigation actions.
- Specify how to achieve and maintain operations and value chains that avoid the conversion of remaining natural ecosystems, eliminating deforestation, wetland and peatland loss by 2025, and the conversion of other remaining natural ecosystems by 2030.
- Disclosure of how lobbying and policy engagement policies are consistent with net zero targets.

Financial Institutions must:

- Demonstrate how all parts of the business align with net zero targets.
- Include engagement targets that include strategies in line with decarbonization and escalation policies, including carbon credits and offsets.
- Demonstrate alignment to funding and enabling real-world decarbonization and contribute to financing net zero goals in developing markets.

5. Phasing out of Fossil Fuels and Scaling up Renewable Energy

- There is no room for new investment in fossil fuel supply and a need to decommission existing assets.
- It is imperative to scale up the mobilization and provision of finance for renewable energy, especially in developing countries.

All net zero pledges should include specific targets aimed at ending the use of and/or support for fossil fuels in line with IPCC and IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, with global emissions declining by at least 50% by 2030, reaching net zero by 2050.

The transition away from fossil fuels must be just for affected communities, workers and all consumers to ensure access to energy, and avoid transference of fossil fuel assets to new owners.

The transition away from fossil fuels must be matched by a fully funded transition toward renewable energy.

More detailed recommendations (Page 24)

- End coal exploration and extraction related activities by 2030 in OECD countries; 2040 for the rest of the world.
- End oil and gas exploration and expansion of existing oil and gas reserves and production.
- Renewable energy procurement targets need to be part of net zero transition plans.

Methane specific recommendations:

- Methane emissions from the energy sector should be reduced by at least 64% by 2030 (from 2020 levels) to be aligned with a 1.5 degree pathway with no or limited overshoot. Assessed by IPCC 6th assessment report.

6. Aligning Lobbying and Advocacy

- By working with Governments to create strong standards, business actors leading on climate action can ensure a level playing field for ambitious net zero pledges to further de-risk a speedy transition and maximize the economic benefits of net zero alignment.

Non-state actors must align their external policy and engagement efforts, including membership in trade associations, to the goal of reducing global emissions by at least 50% by 2030 and reaching net zero by 2050. This means lobbying for positive climate action and not lobbying against it.

More detailed recommendations (page 25)

- Disclose trade association affiliations, encouraging these associations to advocate for climate positive action.
- Disclose how stakeholder (all) engagement is contributing to net zero and how greenwashing is being tackled.
- As part of both transition plan and annual disclosures, businesses should outline the specific policies and regulations they require to cut emissions in line with a 1.5 degree scenario, specifying the emissions reductions possible if these requirements were in place.

7. People and nature in the Just Transition

- Deforestation by land-use change and agriculture contributes around 11% of global annual GHG emissions.
- This reduces the effectiveness of carbon sinks.
- Deforestation must end by 2025 to achieve net zero by 2050.
- Businesses involved in the forest, land and agriculture sectors are critical in achieving net zero, protecting and restoring nature.
- Data suggests the need to protect 30% of the natural world by 2030.
- This is more than an environmental issue, it is a social and justice issue also.
- Healthy and sustainable ecosystems can provide huge potential including economic benefits for communities and especially for women who are often disproportionately impacted.
- Attention should be given to marginalized groups living in biodiverse areas.

As part of their net zero plans, businesses, cities and regions with material land-use emissions must achieve and maintain operations and supply chains that avoid the conversion of remaining natural ecosystems—eliminating deforestation and peatland loss by 2025 at the latest, and the conversion of other remaining natural ecosystems by 2030.

Financial institutions should have a policy of not investing or financing businesses linked to deforestation and should eliminate agricultural commodity-driven deforestation from their investment and credit portfolios by 2025, as part of their net zero plans.

More detailed recommendations (page 26)

- Businesses should invest in the protection and restoration of ecosystems beyond just the emissions reductions in their own supply chain to achieve 'global' net zero.
- Contributions may be payments for ecosystem services, including the purchase and retirement of high-integrity carbon credits. But these credits cannot be used to meet the business's interim decarbonization targets.
- Businesses, especially financial institutions, should anticipate the final guidance of the Taskforce on nature-related Financial Disclosures, by factoring in nature risks and dependency to all elements of their net zero transition plans.

8. Increasing Transparency and Accountability

- Generating clear, accessible, comparable data can bring enormous benefits.
- Leading entities can credibly demonstrate progress allowing citizens, consumers, and investors to reward them accordingly.
- Publicly tracking progress helps to build trust, showcases successful strategies and encourages other players to make ambitious commitments.
- Regulators are increasingly requiring these disclosures.

Non-state actors must annually disclose their greenhouse gas data, net zero targets and the plans for, and progress towards, meeting those targets, and other relevant information against their baseline along with comparable data to enable effective tracking of progress toward their net zero targets.

Non-state actors must report in a standardised, open format and via public platforms that feed into the UNFCCC Global Climate Action Portal to address data gaps, inconsistencies and inaccessibility that slow climate action.

- The Global Stocktake (GST) is at the heart of the Paris Agreement and its 5-year ambition cycle. This will take into account the role of business in achieving the long-term goals of the Paris Agreement.

More detailed recommendations (Page 29)

- Net Zero initiatives must adopt best practice governance and processes for developing criteria and accountability by:
  - Having reporting templates in line with recommendations.
  - Verifying that all information is provided and in the correct format.
  - Encouraging independent evaluation of disclosures and set timelines for mandatory independent evaluations.
  - Reporting annually to the UNFCCC Global Climate Action Portal on progress and any changes made, plus overall assessment of 'members' performance.
  - Have a transparent process for removal of members who do not deliver on their commitments. Before removal, a genuine effort to secure compliance is required.
  - Working with policymakers and standard setters to align and implement standardized reporting to ensure comparability of disaggregated GHG emissions data from the pledges they cover and to enable public access to disclosure of target delivery.

Non-state actors must have their reported emissions reductions verified by independent third parties. Special attention will be needed to build sufficient capacity in developing countries to verify emission reductions.

Disclosures ought to be accurate and reliable. Large financial and non-financial businesses should seek independent evaluation of their annual progress reporting and disclosures, including opinion on climate governance, as well as independent evaluation of metrics and targets, internal controls evaluation and verification on their greenhouse gas emissions reporting and reductions.

For other stakeholders:

- Net zero Financial Service Providers Alliance should commit to support SME's and other businesses in developing countries with limited resources to develop high-quality data and have their net zero pledges and transition plans verified.
- A global, open-source central digital repository of climate disclosures that encompasses all reporting data points is needed.

9. Investing in Just Transitions

- Just transitions incorporate the need for transformative development pathways that allow developing countries to both provide for minimum needs and industrialize with the latest clean technologies.
- Any net zero actions must integrate climate justice, including supporting and empowering women.

To achieve net zero globally, while also ensuring a just transition and sustainable development, there needs to be a new deal for development that includes financial institutions and multinational corporations working with governments, Multilateral Development Banks and Development Finance Institutions to consistently take more risk and set targets to greatly scale investments in the clean energy transition in developing countries.

More detailed recommendations (Page 31)

- Financial institutions and multi-national companies should participate in developing country-led initiatives to decarbonize and provide renewable energy access.
- All businesses with activity in developing countries should demonstrate how their net zero transition plans contribute to the economic development of regions where they are operating, incorporating juts transition elements such as skills development, resilience, inequality, gender, and energy access issues.

Governments should:

- Forge knowledge sharing partnerships with the private sector.
- Play a greater role in an advisory capacity to developing countries to engage with the private sector through their extensive network of field officers.
- Substantially increase the quality and quantity of adaptation finance. Adaptation, resilience, and vulnerability must be at the heart of their operations.

10. Accelerating the Road to Regulation

- 2/3 of the largest listed businesses lack a net zero pledge.
- Of the 1/3 that have pledges, only a portion have committed to an independent voluntary initiative.
- The majority of privately listed businesses and state-owned enterprises have no net zero target at all.
- Regulation is needed to level the playing field and transform voluntary commitments into ground rules.
- Net zero regulation is growing quickly in areas like claims, transition plans, procurement, product standards and disclosure.
- Jurisdictions that are phasing in some degree of mandatory reporting account for ~ half of world GDP.

In order to ensure rigor, consistency and competitiveness, regulators should develop regulation and standards in areas including net zero pledges, transition plans and disclosure, starting with high-impact corporate emitters, including private and state-owned enterprises and financial institutions.

The challenge of fragmented regulatory regimes should be tackled by launching a new Task Force on net zero Regulation that convenes a community of international regulators and experts to work together

More detailed recommendations (page 34)

- A collaborative effort is necessary to agree on ground rules that can be applied, especially across borders, while drawing on third party verification.
- Efforts to publicly track corporate climate action in the interim should continue.
- All of the above support governments in adopting rigorous regulations around net zero.
- Governments must ‘make good’ on their own net zero commitments.
- Governments must provide appropriate enabling environments that support regulations including the development of sector emission reduction pathways and assurance standards for net zero verifiers and reporting systems.
- Cities have regulatory and procurement powers and should incorporate new regulations that reduce emissions into climate action plans.
- Governments should support cities in achieving national ambitions, including the requirement of business and others to deliver on their net zero commitments.