Getting Started with the SBTi’s Net-Zero Standard

Version 2.0, for public consultation

September 2021
<table>
<thead>
<tr>
<th>Version</th>
<th>Release date</th>
<th>Purpose</th>
<th>Updates on earlier version</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>15.07.2021</td>
<td>Road test</td>
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<tr>
<td>1.1</td>
<td>23.07.2021</td>
<td>Road test</td>
<td>Clarification on 5-10 year timeframe for near-term SBTs, timeline updates, minor updates to spelling and grammar, minor updates to Appendix III.</td>
</tr>
<tr>
<td>2.0</td>
<td>20.09.2021</td>
<td>Public consultation</td>
<td>Updated to remove references to the road test. Renamed to “Getting Started”.</td>
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</table>
GETTING STARTED WITH THE SBTI’S NET-ZERO STANDARD

The SBTi does not currently assess targets for cities, local governments, public sector institutions, educational institutions or non-profit organizations. However, we still encourage these stakeholders to use the science-based target setting methods detailed in the SBTi Corporate Manual and the Net-Zero Corporate Manual. Cities can register their interest in setting targets through the Science Based Targets Network (SBTN).

The SBTi Guidance for Financial Institutions outlines requirements for near-term SBT-setting for both scope 1-2 and scope 3 near-term targets for financed emissions. The SBTi’s Financial Sector project is developing separate Net-Zero resources for financial institutions.

The SBTi recommends that companies submit targets at the parent or group level. Parent companies must include the emissions of all subsidiaries in their target submission, in accordance with boundary criteria detailed in the SBT Criteria and Recommendations and the Net-Zero Standard Criteria. See the Target Validation Protocol for more details.

The SBTi defines a non-subsidiary, independent company with fewer than 500 employees as a Small and Medium-Sized Enterprise (SME). SMEs must submit their near-term targets through the dedicated route for SMEs using the Target Setting Letter. There is no SME route for Net-Zero at the moment, however we recommend that interested SMEs set near-term targets aligned to 1.5°C to align with updated Net-Zero Criteria. See our SME FAQs for more information.

The first step in committing to Net-Zero is setting a near-term SBT. To meet the requirements of the NZ Standard, near-term SBTs must be 1.5°C-aligned and the target year must be 5-10 years from submission. Detailed information on all near-term SBT criteria can be found in the SBT Criteria and Recommendations (see Net-Zero Criteria and Net-Zero Corporate Manual for additional requirements). See our SBT How-to-guide for the step-by-step process.

 LNG, other public organization, etc.

Financial Institution

Company or state-owned enterprise

Are you a parent company or a subsidiary?

Subsidiary

Are you in the Oil & Gas sector?

Companies in the Oil & Gas sector must wait for upcoming guidance in order to submit targets for validation but are welcome to commit to setting SBTs. See the SBT Oil & Gas webpage for the latest information.

How many employees are in your organization?

Fewer than 500 employees

More than 500 employees

Have you set near-term science-based targets?

Do you wish to set targets aligned with the Net-Zero Standard?

Do your near-term SBTs align with the updated criteria within the Net-Zero Standard?

See next page

Not sure

Check page 3 to see if your current near-term SBTs are aligned with the updated criteria (following the Net-Zero Standard). If you wish to commit to net-zero, and your current near-term SBT does not meet the Net-Zero criteria, complete the Target Ambition Update form to increase the ambition of your target.
GETTING STARTED WITH THE SBTI'S NET-ZERO STANDARD

A company-wide scope 1 and 2 emissions inventory must be completed as defined by the GHG Protocol Corporate Standard and the GHG Protocol Scope 2 Guidance. Companies must complete a scope 3 screening for all relevant scope 3 categories considering the minimum boundary of each category per the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Companies may use the GHG Protocol Scope 3 Guidance, Scope 3 Evaluator, and CDP Supply Chain Program as resources.

FLAG emissions are emissions from Forestry, Land and Agriculture. Emissions from FLAG follow a separate emissions reduction pathway. Because of this FLAG emissions must be disaggregated within the rest of the GHG inventory and will have a separate reduction target. See GHG Protocol and FLAG project websites for more information.

Companies can try out the intensity and Absolute methods in the Net-Zero Tool and decide which to use. The Absolute Contraction method is recommended for all companies except those in power generation or forestry sectors. The sector/activity-based method can also be used by:
- Companies in heavy-emitting sectors
- Companies with a significant proportion of emissions that can be allocated to relevant activities (see Net-Zero Corporate Manual, Tables 2 & 3)

Have you completed a full and recent GHG inventory/screening?
- Yes
- Not sure
  - Have you included all relevant Scope 3 activities?
    - Yes
    - No
    - Does your inventory include any of the following?
      - Offsets
      - Avoided emissions
      - Bioenergy
      - Optional scope 3 emissions

Does your company have significant FLAG emissions?
- Yes
- No
  - Will you use the Physical Intensity Convergence method to set your long-term SBTs?
    - Yes
    - No

All relevant scope 3 sources must be calculated before submitting targets to the SBTI. See Table 6.1 (page 61) of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard for criteria to identify relevant scope 3 activities.

Offsets should be reported separately in the annual GHG inventory. Offsets do not count towards emission reductions.

Avoided emissions must be excluded from inventory and do not count towards your emissions reductions.

Direct emissions from bioenergy must be reported separately from inventory. See the Target Submission Form and the Target Validation Protocol for details.

Optional scope 3 emissions, e.g. indirect use-phase emissions in “Use of Sold Products, must be reported separately from emissions in the minimum boundary of each scope 3 category in the Target Submission Form. See Table 5.4 (page 35) of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard for a definition of optional emissions for each scope 3 category.

Model long-term SBTs using the Intensity Convergence method in the Net-Zero Tool. Targets can be submitted for validation starting in January 2022.

Model long-term SBTs using the Absolute Contraction method in the Net-Zero Tool. Targets can be submitted for validation starting in January 2022.

See “Setting Long-term SBTs for Net-Zero” for more info

Getting Started Guide for the SBTI's Net-Zero Standard

sciencebasedtargets.org @ScienceTargets /science-based-targets info@sciencebasedtargets.org

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PLANNED 1.5°C PATHWAYS FOR NEAR-TERM SBTs

The SBTi is planning to launch various 1.5°C pathways for near-term science-based targets in high-emitting sectors before COP26. Additional 1.5°C pathways will be published after COP26 or are still in the scoping phase.

<table>
<thead>
<tr>
<th>IPCC Sector</th>
<th>SBT Sector Guidance</th>
<th>2021</th>
<th>2022</th>
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<td>OTHER SECTORS</td>
<td>ICT</td>
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<td>Apparel and footwear</td>
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<td>AFOLU</td>
<td>Flag sector</td>
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<td>Flag pathway</td>
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<td>Commodity pathways</td>
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<td>BUILDINGS</td>
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<td>INDUSTRY</td>
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<td></td>
<td>Cement</td>
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<td></td>
<td>Chemicals</td>
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<td>TRANSPORT</td>
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<td>Maritime transport</td>
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<td>Aviation</td>
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<td>OTHER ENERGY</td>
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<td>ELECTRICITY AND</td>
<td>Power generation</td>
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<tr>
<td>HEAT</td>
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15°C sector pathway(s) available at Net-Zero Standard launch
Guidance complete

15°C sector pathway(s) planned
Draft Guidance available

Sector uses mixed pathway
Guidance planned, no timeline available
SETTING NEAR-TERM SCIENCE BASED TARGETS FOR NET-ZERO

To align with the Net-Zero Standard, your company’s current near-term (5-15 year) science-based targets must meet the near-term SBT criteria in the Net-Zero Corporate Manual. These criteria are more ambitious than the current SBTi Criteria (version 4.2) to ensure that the right actions are taken in the short term to limit warming to 1.5°C and reach net-zero by 2050. These criteria will apply to all companies setting science-based targets, regardless of whether they aim to align with the Net-Zero Standard, from July 2022.

- Version 4.2 of SBTi criteria
- Near-term SBT criteria within Net-Zero Criteria

For more details see:
1. Foundations of SBT Setting
2. SBTi Corporate Manual
3. SBTi Criteria
4. Target Validation Protocol
5. SBT Tool
6. Sectoral Decarbonization Approach (SDA)
7. Sector specific guidance

Well-below 2°C minimum

In V4.2 of SBTi criteria, companies could use the Absolute Contraction approach to set well-below 2°C targets.

Companies in the following sectors could use the SDA to set well-below 2°C targets:

1.5°C minimum

Any company can use the Absolute Contraction approach to set 1.5°C targets.

Only companies in the Power sector may currently use the SDA to set 1.5°C targets. See Planned 1.5°C Near-term Pathways Table below for more details.

What is the target timeframe for your near-term SBTs?

- 5-15 years from submission
  - In V4.2 of SBTi criteria, it was possible to set SBTs with a 5-15 year timeframe from the submission.

- 5-10 years from submission
  - Near-term SBTs must have a 5-10 year timeframe from submission. Companies that already have validated SBTs are not required to update targets to meet the reduced timeframe requirement.

What temperature goal should your company align its scope 3 targets to?

- 2°C minimum
  - In V4.2 of SBTi criteria, it was possible to set scope 3 targets consistent with the level of decarbonisation required to keep global temperature increase to 2°C.

- Well-below 2°C minimum
  - Near-term SBT scope 3 targets must be aligned a with well-below 2°C or more ambitious reduction decarbonization scenarios. Supplier engagement targets remain eligible.
# Setting Long-term Science-based Targets for Net-zero

## What Method is your company planning to use to set scope 1 and 2 targets?

For more details see:
2. Net-Zero Standard Criteria

## Absolute Contraction

Companies can use the Absolute Contraction approach to set long-term SBTs except for companies in power or timber/forestry sectors.

## Intensity Convergence

The Physical Intensity Convergence method is recommended for companies in heavy-emitting sectors, or companies with a significant proportion of emissions that can be allocated to activities in heavy-emitting sectors.

## What Type of Scope 1 and 2 target do you wish to set?

**Scope 1 + 2**

Scope 1 and 2 must meet Absolute Contraction or Intensity Convergence minimum ambition requirements.

**Scope 1 + Renewable Electricity**

Scope 1 must meet Absolute Contraction or Intensity Convergence minimum ambition requirements.

Scope 2 targets must meet 100% RE requirement by 2030.

Net-Zero Criterion 12: The boundary of long-term science-based targets shall cover company-wide scope 1 and scope 2 emissions, as defined by the GHG Protocol Corporate Standard. Exclusions in the GHG Inventory and target boundary must not exceed 5% of total scope 1 and 2 emissions.

## Is a Scope 3 target required?

All companies must set scope 3 targets. They can use the following approaches:

- **Absolute**
- **Intensity**
- **Combination**

Net-Zero Criterion 14: The boundary of long-term science-based targets shall cover at least 95% of total scope 3 emissions. Exclusions in the GHG Inventory and target boundary must not exceed 5% of total scope 3 emissions.

## What Activity pathways are available for my company to use?

**Available activity pathways**

- Aviation
- Cement
- Iron and steel
- Marine transport
- Passenger cars

**Available FLAG activity pathways**

- Power generation
- Residential and service buildings
- Trucks

- Beef
- Chicken
- Dairy
- Pork

- Maize
- Soya
- Palm oil
- Rice
- Wheat

- Aluminium
- Other industry
- Roundwood

See Table 2 & 3 of Net-Zero Corporate Manual for more details.
Near-term vs. long-term science-based targets requirements

The table below is a summary of the target boundary, the target timeframe, and the method eligibility and minimum ambition requirements for near-term and long-term SBTs. For more detail on absolute activity pathways and physical intensity coverage pathways see Table 2 & 3 of SBTi Net-Zero Corporate Manual.

<table>
<thead>
<tr>
<th>Near-term SBTs</th>
<th></th>
<th>Long-term SBTs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope 1 and 2</strong></td>
<td><strong>Scope 3</strong></td>
<td><strong>Scope 3</strong></td>
</tr>
<tr>
<td><strong>Target boundary</strong></td>
<td>95% coverage of scopes 1 + 2</td>
<td>If your scope &gt;40% of total emissions: boundary to cover min. 67% of scope 3.</td>
</tr>
<tr>
<td><strong>Target year</strong></td>
<td>5 – 10 years from date of submission</td>
<td>5 – 10 years from date of submission</td>
</tr>
<tr>
<td><strong>Method eligibility and minimum ambition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Method</td>
<td>Absolute Contraction</td>
<td>Physical Intensity Convergence</td>
</tr>
<tr>
<td>Eligibility and min. ambition</td>
<td>• 4.2% linear annual reduction (l.a.r)</td>
<td>• Depends on activity and company inputs (SDA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Target boundary</strong></td>
<td>95% coverage of scopes 1 + 2</td>
<td>95% coverage of scope 3</td>
</tr>
<tr>
<td><strong>Target year</strong></td>
<td>2050 or sooner</td>
<td>2050 or sooner</td>
</tr>
<tr>
<td><strong>Method eligibility and minimum ambition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Method</td>
<td>Absolute Contraction</td>
<td>Physical Intensity Convergence</td>
</tr>
<tr>
<td>Eligibility and min. ambition</td>
<td>• 90% reduction overall (mixed pathways)</td>
<td>• Depends on sector</td>
</tr>
</tbody>
</table>
# Sector-Specific Requirements for Setting Long-Term Science-Based Targets

Sector-specific guidance and methods for long-term SBTs are currently available for many sectors. All new sector-specific guidance that becomes available will be uploaded to the sector development page on the SBTi website. The SBTi has sector-specific requirements related to the use of target-setting methodologies and minimum ambition levels.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Eligible methods</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Generation</strong></td>
<td>The intensity convergence method must be used by power generation companies, as specified in the Guidance for Electric Utilities.</td>
<td>Companies in the power sector with scope 3 emissions that represent 40% or more of overall emissions must set an intensity target covering all sold electricity (including purchased and resold electricity in scope 3 category 3), in addition to a target covering power generation in scope 1.</td>
</tr>
<tr>
<td><strong>Forest, Land-use &amp; Agriculture (FLAG)</strong></td>
<td>Some companies will be required to set FLAG targets that are separate from their SBTs covering all other emissions. FLAG targets must use the FLAG-sector pathway (absolute targets) or a commodity pathway (intensity targets). Commodity pathways will be available for beef, dairy, pork, chicken, roundwood, rice, soy, palm oil, maize, and wheat. Forestry and timber companies will be required to use the intensity convergence method for roundwood.</td>
<td>The FLAG sector guidance is planned for finalization in March 2022.</td>
</tr>
<tr>
<td><strong>Oil &amp; Gas</strong></td>
<td>The SBTi is developing target-setting methods for oil &amp; gas companies and cannot validate targets for this sector before the guidance is completed.</td>
<td>For target validation by the SBTi, “Oil &amp; Gas” includes, but is not limited to, integrated Oil &amp; Gas companies, Integrated Gas companies, Exploration &amp; Production companies, Refining and Marketing companies, Oil Products Distributors, Gas Distribution and Gas Retailers. The SBTi will assess companies on a case-by-case basis to determine whether companies will be classified as Oil &amp; Gas companies for SBTi validation, and if so, reserve the right not to move forward with their validation until after the SBTi Oil &amp; Gas sector development has been completed</td>
</tr>
<tr>
<td><strong>Fossil Fuel Sale/ Transmission/ Distribution</strong></td>
<td>In addition to guidance for the primary sector, scope 3 targets must be set on scope 3 category 11 “use of sold products” emissions using absolute contraction.</td>
<td>Targets must be set for scope 3 category 11, irrespective of the share of these emissions compared to the total S1+S2+S3 emissions of the company. Separate scope 3 targets may need to be set in this case.</td>
</tr>
</tbody>
</table>

*This information is only applicable to companies that receive less than 50% of their revenue from fossil fuel sale, transmission, or distribution. For companies that receive 50% or more of their revenue from these activities, please refer to the Oil & Gas section above.*
## SECTOR-SPECIFIC REQUIREMENTS FOR SETTING LONG-TERM SCIENCE-BASED TARGETS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Eligible methods</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Institutions</strong></td>
<td>The SBTi is developing a Net-Zero Standard for financial institutions and cannot validate targets for this sector before the guidance is completed.</td>
<td>The initiative defines a financial institution as one that engages in investment activities as part of its core functions. These include, but are not limited to, the following: · Asset management/asset owners · Retail and commercial banking activities · Insurance companies (when functioning asset managers) · Mortgage real estate investment trusts (REITs) In addition, if at least 5% of a company’s revenue comes from activities such as those described above, they would be considered a financial institution.</td>
</tr>
<tr>
<td><strong>Transport (Original Equipment Manufacturers/ Automakers)</strong></td>
<td></td>
<td>Refer to the SBTi Transport guidance for a description of all transport sub-sectors covered by the SDA Transport tool and to learn about best practices in target-setting for transport activities.</td>
</tr>
<tr>
<td><strong>Transport services (Aviation/ shipping/ trucks/ cars)</strong></td>
<td>When setting long-term SBTs, companies in these sectors are recommended to set absolute or intensity targets using the aviation pathway, maritime transport pathway, or mixed pathway (absolute targets only). The target boundary must cover well-to-wheel emissions (WTW), as specified in the SBTi transport resources.</td>
<td>Well-to-wheel boundary (transport services and OEMs): Companies setting targets for transport-related emissions should cover well-to-wheel emissions (WTW) in their target boundary to accurately capture emissions shifts between the tank-to-wheel (TTW) and the well-to-tank (WTT), for example, due to changes in power train technologies. Tested vs. Real emissions (OEMs): Original equipment manufacturers must convert their base year emissions figures for the use-phase of their products into real emissions with the use of global standards when available (e.g., Worldwide Harmonized Light Vehicle Test Procedure -WLTP). In the absence of a normalized test procedure for certain vehicle types, companies are invited to present and justify their own estimates/simulations based on fuel consumption-specific duty cycles to the SBTi.</td>
</tr>
<tr>
<td><strong>Buildings</strong></td>
<td>When setting long-term SBTs, companies in these sectors are recommended to set absolute or intensity targets using the residential buildings pathway, service buildings pathway, or mixed pathway (absolute targets only).</td>
<td>Real Estate Investment Trusts (REITs) wishing to set targets must specify if they are a mortgage-based REIT or equity-based REIT. Equity REITs must pursue the regular target validation route for companies. Mortgage REITs must instead utilize the Financial Institutions guidance for setting SBT. The SBTi is in the scoping phase of developing guidance for companies and sectors of the built environment.</td>
</tr>
<tr>
<td>Sector</td>
<td>Eligible methods</td>
<td>Notes</td>
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</tr>
<tr>
<td>Iron and Steel</td>
<td>When setting long-term SBTs, companies in these sectors are recommended to set absolute or intensity targets using the iron and steel pathway, cement pathway, or mixed pathway (absolute targets only).</td>
<td>The SBTi is in the scoping phase of developing guidance for companies in the cement and steel sectors.</td>
</tr>
<tr>
<td>Cement</td>
<td></td>
<td>Companies should allocate emissions to relevant activities as per the Greenhouse Gas Protocol, where guidance is available. Emissions in scopes 1, 2, or 3 allocated to activities with a sector-specific pathway (e.g., steel production) may be covered by a sector-specific absolute or intensity target, except for upstream scope 3 categories where supply-side mitigation is important and not reflected by the pathway.</td>
</tr>
<tr>
<td>All other sectors</td>
<td>When setting long-term SBTs, companies in all other sectors are recommended to set absolute targets using the mixed pathway. Sector-specific absolute or intensity targets may be used instead for emissions allocated to a relevant sector.</td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>See “All other sectors”</td>
<td>The SBTi is in the scoping phase of developing guidance for companies in the chemicals sector.</td>
</tr>
<tr>
<td>Information and Communication Technology Providers</td>
<td>See “All other sectors”</td>
<td>Optional guidance is available for companies in the ICT sector</td>
</tr>
<tr>
<td>Apparel and Footwear</td>
<td>See “All other sectors”</td>
<td>Optional guidance is available for companies in the Apparel and Footwear sector</td>
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</table>