

Fit for Paris

Replacing Kyoto-style CO₂ offsetting: How companies should finance additional climate action

Introduction

The science is clear: If we want to limit global warming to a maximum of 1.5 degrees, we must act decisively. We need to curb global greenhouse gas emissions now, halve them by 2030 and reduce them to net zero by 2050 at the latest.

Business has a key role to play. To help businesses play their part in global climate action, WWF has published several key guidance documents¹, one of which is the "Fit for Paris" guide in 2021 – a co-production of WWF DACH². According to this guide, the key elements of a credible and effective climate strategy are (see Figure 1):

- Transparent accounting and annual disclosure of all GHG emissions in the value chain
- Reduction of all GHG emissions in the value chain in line with a science-based 1.5 °C climate target
- Taking (financial) responsibility for any remaining GHG emissions on the way to net zero
- Committed public advocacy for ambitious climate protection and the necessary framework

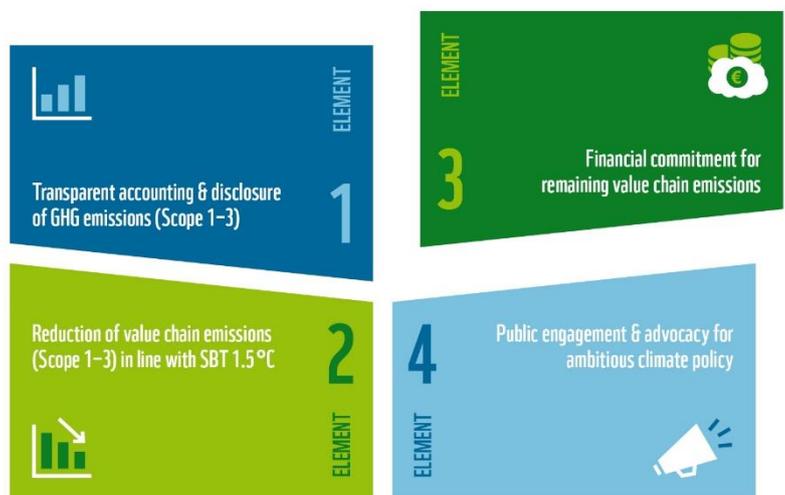


Figure 1: Central elements of corporate climate strategies.

In sync with intensifying debates around “beyond value chain mitigation”³, this new guidance zooms into the crucial third element and specifies its operationalization by answering the following key questions: **How exactly shall companies take financial responsibility for the remaining emissions on the way to net-zero? How shall they quantify this commitment? And how shall they invest it with maximum impact for people, nature and climate?**

Thereby, this guidance further develops what has become known as the “contribution model” for additional climate finance for beyond value chain mitigation – contrasting an alternative “money for ton” approach with the conventional and widely used “ton for ton” compensation approach (see Figure 2).

Step 1: Quantifying additional investments

The emissions that continue to be generated on the way to net zero are priced, and determine the budget for additional climate finance beyond the company’s own value chain. Ideally, a company assumes full financial responsibility by directly pricing all emissions including those from upstream and downstream value chain activities (Scope 3), using the social costs of carbon as

¹ These key guidance documents include: *Beyond Science-Based Targets: A Blueprint for Corporate Action on Climate and Nature*; *Beyond carbon credits: A Blueprint for High-Quality Interventions that work for People, Nature and Climate*; *Beyond Net-Zero: A Business Pathway to spur urgent climate action towards 2030*.

² DACH stands for Germany (D), Austria (A) and Switzerland (CH).

³ See for example the blog series from the SBTi: *Going above and beyond to contribute to societal net-zero; Net-Zero: Urgent beyond value chain mitigation is essential*.

reference price. A company can deduct emission levies from compliance schemes as well as value chain emissions already covered by a science-based reduction target (minus 50%) or follow an approach to additional climate finance, which is similar to our proposed model (minus 100%).

However, it is likely that despite these deductions, many companies will not be able to raise the funds necessary to take full financial responsibility for emissions throughout their entire value chain– especially in the early years of continued high emissions. Therefore, our approach allows for a "phase-in" of both covered emissions and applied carbon prices:

- Direct cost-effective pricing of scope 1 and 2 emissions.
- Shadow pricing of scope 3 emissions until 2030 to steer investments and management decisions towards reduction and cost-effective pricing of scope 3 emissions after 2030.
- Introduce national or regional CO₂ pricing schemes (at least 100 EUR/t CO₂-eq) and gradual increase to 219 EUR/t CO₂-eq by 2030 as recommended by the German Federal Environment Agency (UBA).

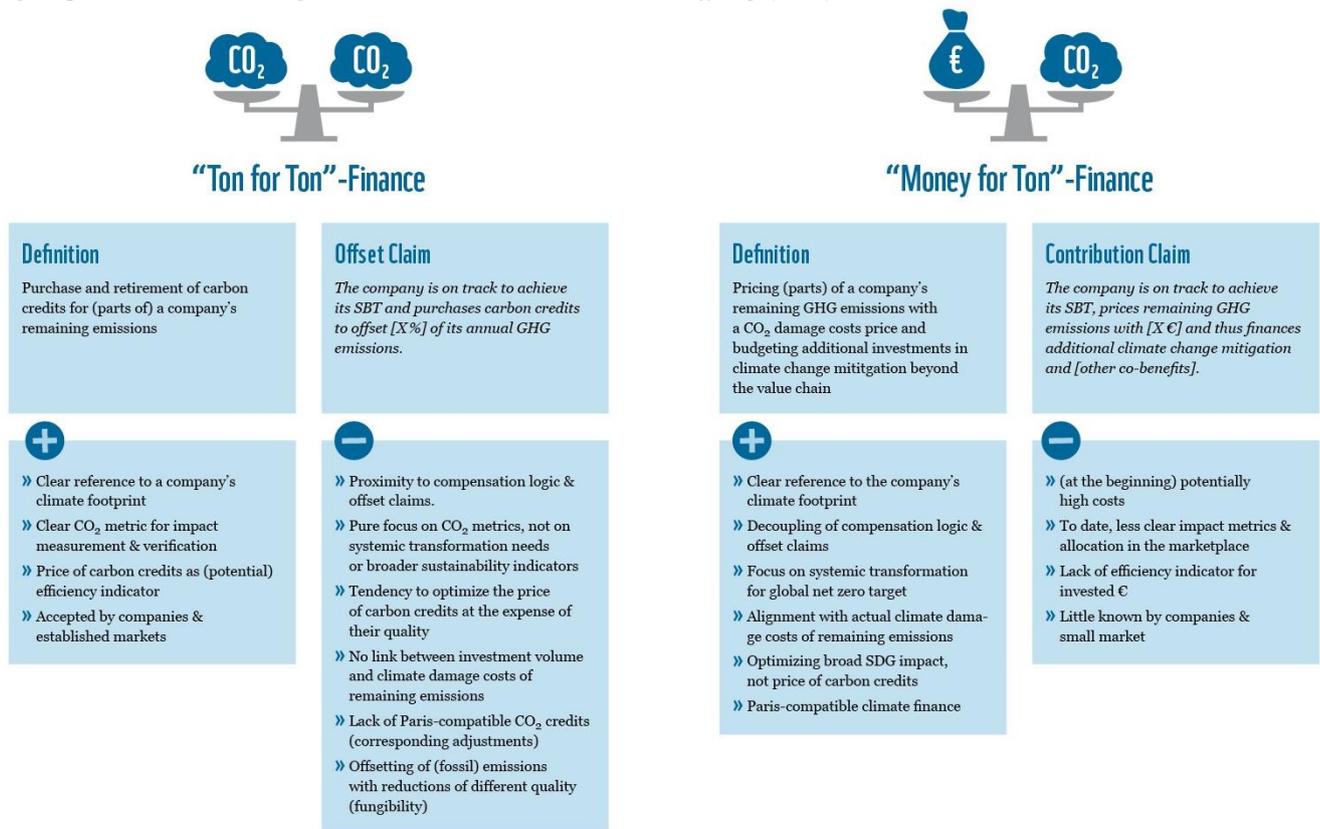


Figure 2: Mechanisms for Climate Finance: “Ton for Ton” vs. “Money for ton”.

Calculation examples in the guidance show:

- For most companies, the lion's share of emissions is in scope 3, so the way that scope 3 emissions are included in the calculation (directly or after 2030) and the speed of their reduction is absolutely central.
- As soon as scope 3 emissions are added (in 2030 at the latest), the budget increases significantly. This increase is steeper the higher the proportion of scope 3 emissions within a company's GHG inventory.
- Ambitious management of partners in the value chain pays off and can significantly reduce the burden of additional climate finance.

However, the reduction rate of the company's own emissions clearly has the greatest influence. The faster and more ambitiously emissions are cut, the smaller the annual and accumulated budgets companies will have to spend on additional climate finance.

Step 2: Investing the financial commitment for maximum impact on people, nature and climate

Investing the financial commitment defined above should make a maximum contribution towards achieving global net zero – and creating co-benefits for other sustainable development goals. Generally speaking, such a contribution is best realized by investments in climate projects, climate innovation and climate advocacy. Investments should be results- and practice-oriented and use a holistic set of performance indicators – going beyond a pure focus on CO₂ metrics. The exact investment and project portfolio should be designed in line with the guiding question: How can a company best support the global net zero and SDGs?

Climate Projects

Climate projects should focus on the sustainable transformation of our energy and land use systems, e.g. nature-based solutions, developed in integrated landscape programmes, rather than in isolated small-scale projects.

Collectively fundable examples include Southpole's and WWF's *Landscape Resilience Fund* or WWF's *forest forward program*, all of which contain high quality projects implemented within an integrated landscape approach. Figure 3 summarizes some guiding principles for the design and selection of such projects.



Figure 3: Principles for projects, e.g. nature-based solutions.

Climate Innovation

Innovations are clearly necessary to achieve the global climate goals. This concerns robust technological innovations in key areas. Companies should use additional climate finance to invest in technologies that have the potential to make a significant contribution to global climate protection, while they are having difficulties raising the necessary capital. Proximity to the company's own business is not necessarily a decisive criterion. In addition, technological innovation often faces commercial and institutional barriers. To allow for the quick scaling of technologically innovative solutions, companies should also invest in commercial innovation - translating technological innovation into marketable products and sustainable business models. In addition, institutional innovation for climate change mitigation also needs to be supported, i.e. regulatory, normative and cultural change shaping mental and behavioural patterns. Innovations at all levels should be supported and enabled through high-quality projects.

Example projects range from awareness and behaviour change campaigns, to direct investment in start-ups, from (co-)financing third-party research programmes, to supporting innovation infrastructure, such as incubators, accelerators etc. Figure 4 highlights some guiding principles for selecting innovations.



Figure 4: Principles for innovation.

Climate advocacy

Institutional frameworks are central to climate action, including the regulatory environment, which must make investment in climate action attractive and promote and enable rapid, deep decarbonisation. Companies should invest part of their additional funds in third-party advocacy work for ambitious climate policies.

Examples include supporting the advocacy work of independent civil society actors, taking part in business associations engaged in climate advocacy, contributing to scientific studies feeding into science-based positions and decarbonisation pathways, promoting and supporting transparency initiatives, lobbying associations or campaigns pushing for ambitious climate policy agendas. The principles by which these investments should be made are summarized in Figure 5.



Figure 5: Principles for advocacy.

Conclusion

Additional climate finance is an integral part of any effective and credible climate strategy in line with the Paris Agreement. While companies reduce their emissions along a science-based reduction pathway, they take responsibility for remaining emissions on the way to net-zero and engage in climate action at all levels. To close the financing gap for achieving the global net-zero target, companies should invest in climate protection outside of their own value chain – not instead of but as a supplement to cutting their own value chain emissions

This guide provides companies with concrete recommendations for this necessary corporate commitment beyond their own value chain. It suggests a “money for ton” approach for additional climate finance that prices remaining value chain emissions with the social costs of carbon, instead of offsetting them, following a traditional “ton for ton” way of thinking. Its main advantages are:

- It suggests a Paris-compatible climate finance model for beyond value chain action.
- It grounds companies’ financial commitment in their actual footprint, while avoiding the impasse of traditional offsetting.
- It sensitizes companies to the actual social costs of their emissions and incentivises rapid and deep emission cuts.
- It specifically incentivises science-based target setting, ambitious emission reduction and additional climate finance beyond a company’s value chain
- It assures funding for high-quality, nested climate projects equally delivering benefits for people, nature and climate and focusses on systemic transformation for global net zero and the SDGs.
- It generates funds for innovation beyond technology and impactful climate advocacy, creating the conditions for ambitious climate change mitigation.



Our Mission

Together, we protect the environment and create a future worth living for generations to come.

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