

1 June 2025

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#### Submission on the Public Consultation on Corporate Net-Zero Standard Version 2.0 Views from Business Environment Council Limited 商界環保協會有限公司

Over the last 33 years, Business Environment Council Limited 商界環保協會有限公司 ("BEC") has played a leading role in advocating the business case for environmental excellence, given the importance of sustainable development to Hong Kong. Our members are committed to actively engage with international initiatives such as Science Based Targets Initiative ("SBTi") on issues related to environmental protection and sustainability.

Views expressed in this submission are those of BEC, in line with BEC's Mission and Vision as well as policy position on relevant issues, but may not necessarily be the same as the views of each individual member. BEC is an independent charitable membership organisation comprising over 300 member companies from Hong Kong's major holding companies to small and medium-sized enterprises ("SMEs").

# Background

BEC commends the SBTi for its leadership in driving ambitious corporate climate action and welcomes the opportunity to contribute to the development of the Corporate Net-Zero Standard Version 2.0. We recognise several positive advancements in this drafts such as clear efforts to enhance accountability through a more comprehensive validation model encompassing progress tracking; the introduction of company categorisation to provide more tailored requirements and foster broader participation from SMEs and companies in diverse geographical contexts; and the continued robust stance on prioritising scientific and deep emission reductions within the value chain. The ambition to bring greater clarity and comprehensiveness to complex areas such as scope 3 target-setting is also a valued direction.

In preparing this submission, BEC has consulted with our members and other Hong Kongbased companies with commitment towards or strong interests on SBTi regarding the proposed enhancements to the SBTi Corporate Net-Zero Standard Version 2.0. While we recognise the potential of these updates to strengthen Hong Kong corporates' climate action and align local practices with international standards, we also identify practical challenges in Hong Kong context that may hinder companies from fully meeting the proposed new requirements. As our analysis and response are based on experience and understanding of a wide range of companies in Hong Kong, BEC believes it would be best approach to provide our response as below written submission, reflecting aggregate feedback from the business community.

Our detailed feedback in this submission aims to build upon the strengths of the draft standard. It reflects a commitment from the Hong Kong business community to engage constructively with SBTi. Our objective is to help ensure that the final standard is not only ambitious but also practically implementable across diverse sectors and regional contexts, particularly in Asia.









By addressing the identified issues, we believe the standard can further strengthen its position as the go-to standard for corporate decarbonisation, fostering broader participation instead of stepping back from companies, and accelerating the transition to a net-zero economy. Please refer to our responses below for major issues, while Question 113 provides an overarching summary.

# 1. General requirements

# 1.2 Climate Transition Plan (CNZS-C2)

**Question 28:** Should the provision for transition plans be a mandatory requirement or a best practice recommendation?

Transition plans are increasingly recognised as a crucial element of a credible net-zero strategy and are supported by emerging international standards and regulatory guidance, such as HKEX's Implementation Guidance for Climate Disclosures (April 2024). Their development aligns with a global trend emphasised by standards like International Sustainability Standards Board ("ISSB"), which underscore the importance of climate transition planning. Developing transition plans ensures companies transparently outline the actionable steps and strategies for achieving their decarbonisation targets, thereby enhancing accountability and reducing the risk of greenwashing. The provision for transition plans should naturally be essential for companies on their net-zero journey.

While BEC supports having transition plans for Category A companies, it should be noted that currently in Hong Kong only listed companies are required to disclose any transition plans they have in accordance with HKEX requirements, non-listed companies do not have the obligation to disclose. This may place additional challenges for non-listed companies considering SBTi. For Category B companies, which include many SMEs with limited resources, transition plans should remain a recommendation. To facilitate their adoption, SBTi should consider providing specific support for SMEs, such as simplified templates or guidance tailored to their capacities, and potentially allow for phased compliance timelines.

Making transition plans an effective part of the SBTi framework requires careful consideration of the following, as raised by some of the BEC members:

- A phased approach is suggested by some stakeholders to be more appropriate, such as initial disclosure of the existence of a transition plan, followed by detailed development over a period of 12 months or more. This approach can help manage resource demands.
- Members raised the needed on standarised framework and guidance to support their transition planning (see our comments in Question 30).
- It is crucial to recognise that transition plans are inherently influenced by a range of external and evolving factors - including technological advancements, shifts in public sentiment, regulatory developments, and overall business viability, particularly in dynamic sectors like energy. SBTi's expectations should therefore treat transition plans with flexibility and support companies to establish robust processes for regular review and adaptation of their plans in response to changing circumstances.
- While necessary transition plan revisions ensure a plan's relevance, some members have raised concerns that frequent or significant changes, if not managed transparently, could inadvertently affect investor confidence. SBTi, together with other partners could therefore also address how companies can communicate their evolving transition plans and the rationale for adjustments in a manner that maintains trust and demonstrates consistent strategic direction towards their long-term net-zero commitment.









- For regions like Hong Kong, where scope 2 emissions are main source of emissions of many businesses and strongly dependent on grid electricity, developing meaningful transition plans will largely rely on transition of power utilities beyond companies' own control.
- In sectors such as properties and construction, distributing company-wide targets across multiple projects and stages complicates the development of comprehensive transition plans.

**Question 29:** To what extent do you think it is feasible for category B companies to develop a transition plan within 12 months from the initial validation?

The feasibility for Category B companies, particularly SMEs, to develop comprehensive transition plans within 12 months of initial validation is limited by practical constraints. Although some SMEs may be willing to participate voluntarily, resource limitations and the absence of strong government incentives may pose significant barriers to their participation. At present, there is little external pressure or motivation prompting SMEs to adopt SBTi-aligned transition plans within such a timeframe. This difficulty stems from several factors inherent in the process for many SMEs:

- Robust plans necessitate considerable groundwork, including establishing governance, assessing risks, opportunities, and financial impacts, plus gathering baseline data, all of which demand extensive internal co-ordination.
- For many SMEs, building the required internal ESG familiarity, operational capacity, and securing broad stakeholder buy-in are often prolonged processes that may require external expertise.
- SMEs typically operate with significant resource constraints and must balance plan development against other business priorities. This makes comprehensive data collection, stakeholder engagement, and the iterative refinement needed for a credible plan very challenging within a 12-month window, suggesting a need for a more extended timeline.
- The pace and prioritisation of developing detailed transition plans can also be impacted by external conditions, such as the current absence of strong direct government incentives or significant market pressure on SMEs in certain regions.

Considering these substantial challenges, a period longer than 12 months would appear more realistic for many Category B companies to develop a comprehensive and actionable transition plan.

**Question 30:** Should SBTi introduce any further requirements for transition plans?

It is advisable for SBTi to refrain from introducing entirely new or additional distinct requirements for transition plans at this stage. The current global landscape, with established frameworks like the Transition Plan Taskforce ("TPT") Disclosure Framework (which SBTi itself recommends in R2.2 of the CNZS V2.0 Draft), already provides a substantial foundation for companies to develop their transition plans. Imposing further SBTi-specific requirements at this point could lead to an excessive compliance burden, potential misalignment with other standards, and prove overly ambitious for many organisations.

While further requirements should be avoided, SBTi has a crucial role in providing enhanced clarity regarding its expectations for the transition plans that companies will submit for validation. Members have expressed a need for this clarity. SBTi could more effectively support companies by clearly affirming suitable frameworks like TPT Disclosure Framework,







highlighting core components needed for SBTi validation, and providing practical assessment guidance on how core elements will be assessed by SBTi during validation process.

# 2. Determining performance in the base year 2.1 Organisational boundary (CNZS-C3)

**Question 32:** Which approach do you most support for companies to follow when setting their organisational and operational boundary?

- Option 1: Companies establish organisational boundaries according to the Greenhouse Gas Protocol Corporate Standard: A Corporate Accounting and Reporting Standard
- Option 2: Companies set organisational boundaries consistent with the boundary in their consolidated financial statements
- Option 3: Companies can choose either of the two approaches

Option 3. Allowing companies the flexibility to choose either of the two approaches is considered most appropriate. This recognises that a single method may not be practical or suitable for all organisations. The choice of boundary-setting approach should depend on the nature of the business; for example, financial institutions may find the boundary based on their consolidated financial statements more relevant. Allowing this choice also enables companies to select a methodology that can accurately reflect their sustainability efforts and align with existing, robust internal data collection systems. Furthermore, aligning with frameworks already in use by a company can support consistency across disclosures and prevent the significant burden of re-baselining and revising targets purely for methodological alignment reasons if they are already using a credible existing approach. It is important that companies are required to clearly disclose and justify the approach chosen and how their organisational boundaries have been set accordingly, to ensure transparency.

Several challenges and considerations underscore the need for this flexibility:

- Applying a fixed approach can be burdensome for companies with subsidiaries and joint ventures across multiple jurisdictions, such as China and Southeast Asia.
- Accurate regional emission quantification is often costly and technologically challenging.
- Not all assets need to be fully consolidated, making the definition of organisational boundaries complex.
- Fluctuations in ownership structures can complicate target setting and progress update when using the equity share approach.
- The landscape of GHG accounting is also evolving. Ongoing standard reviews by the Greenhouse Gas Protocol, and its evolving relationship with financial accounting standards like International Financial Reporting Standards ("IFRS") concerning equity share and control approaches, suggest that mandating a single, potentially soon-tobe-updated, approach now might be premature or necessitate future readjustments for companies.

Supporting the choice of either approach offers flexibility to accommodate diverse organisational structures and circumstances.

# 2.3 GHG emissions inventory (CNZS-C5)

**Question 34:** GHG emissions reporting at activity level should be required:











- For scope 1 and 2
- Across scope 1 and 2 and for emission-intensive activities in scope 3
- Across all scopes

Reporting at an activity level for scope 1 and scope 2 emissions is generally considered feasible and is recognised as important for detailed operational management and transparency. For scope 3 emissions, omitting significant emission-intensive activities ("EIAs") would result in incomplete emissions picture and could lead to material emissions being overlooked. While the principle of activity-reporting for material scope 3 EIAs is supported for its potential to enhance transparency and pinpoint key emission sources for targeted action, its implementation presents significant practical challenges that need to be carefully addressed by SBTi:

- Data availability and quality particularly in Asia: A primary concern remains the considerable challenge and resource intensity of acquiring accurate, detailed activity-level data for scope 3. This is especially true regarding data from suppliers in Asia, who may not yet possess the maturity in ESG data quality and reliability required for such granular reporting.
- **Resource intensity for companies:** Requiring detailed level of granularity across potentially numerous EIAs (as listed in Annex D) would be highly resource-intensive for many companies, particularly conglomerates or those with complex global supply chains.

Given substantial data and resource challenges, referring also our stance on questions related scope 3 significance thresholds (Question 41, 43, 44) and mandatory activity-level targets for EIAs (Question 67, 68), a careful approach is warranted. If SBTi moves to require activity-level reporting for material scope 3 EIAs, this must be accompanied by:

- Clear guidance on methodologies for materiality screening for EIAs with major emissions.
- Acknowledgement of, and potential accommodations for, regional data availability issues.
- Support for data improvement initiatives within value chains.

While understanding of EIAs at an activity level should be highly mainstreamed, a more flexible approach to the external disclosure requirements for such data may be more practical for many at this initial stage, allowing companies to build capacity.

# 2.5 Identification of relevant scope 3 emissions sources

# (CNZS-C8.2)

**Question 41:** To what extent do you think that the 5% significance threshold for scope 3 categories is a meaningful way to identify relevant emissions sources to be included in scope 3 targets?

The proposal to use a 5% significance threshold relative to total scope 3 emissions for including individual scope 3 categories in near-term targets is viewed with different perspectives across the business community, reflecting different operational realities and emissions profiles.

On one hand, it is understood that such a threshold aims to ensure comprehensive coverage of scope 3 emissions, which often constitute the largest part of a company's footprint. Thus a 5% contribution from a single category and cumulative impact from multiple categories









represent a substantial absolute quantity of emissions for many organisations as suggested by SBTi. However, on the other hand, feedback from many businesses highlights significant practical challenges for implementation and raises questions regarding meaningfulness of a 5% threshold based solely on a category's proportion of total scope 3 emissions. A primary concern among BEC members is that this threshold, while aiming for comprehensive coverage, may lead to an inefficient allocation of corporate resources. It risks compelling companies to address a broader array of emission sources, including categories which, despite contributing over 5% individually, might be minor in absolute terms or possess high mitigation complexity relative to their impact (such as employee commuting or business travel). This could divert attention and resources from more substantial emission hotspots, thereby potentially diluting overall decarbonisation effectiveness and increasing compliance costs. Members also highlight inherent uncertainty in scope 3 estimations can make such percentage cut-off an imprecise tool. A category's calculated percentage can fluctuate due to data refinements rather than actual changes in emissions, impacting its inclusion or exclusion from targets.

The impact of the 5% rule does vary considerably across different sectors.

- For entities where scope 3 is a smaller proportion of their total company emissions (e.g., utilities), a category representing 5% of their scope 3 might equate to a small, potentially non-material fraction (e.g. 1-2%) of their overall footprint. For such organisations, a materiality assessment referenced against total corporate emissions might be more indicative of true significance.
- Conversely, for businesses with vast and diverse scope 3 emissions (e.g., conglomerates), the 5% rule may bring numerous categories into scope, leading to significant management complexity. Alternative prioritisation mechanisms, such as focusing on a defined number of top contributing categories that collectively achieve high coverage, have been suggested by some as potentially more manageable.
- Corporate GHG accounting and target-setting practices would impact financed emissions of financial institutions. A stringent and consistently applied significance threshold (as 5% proposed) for scope 3 categories across all corporates could be seen as beneficial in driving more comprehensive emissions accounting and more ambitious reduction efforts within the companies financed and invested in, thereby enhancing the quality, granularity, and ultimately the decarbonisation performance their portfolios.

Given these diverse implications, we suggest SBTi considering introducing more nuanced and tiered approach to the application of significance threshold for scope 3 categories to ensure that corporate efforts are prioritised on the most impactful emission sources. This could involve:

- Allowing for supplementary materiality assessments, where companies can justify the exclusion of a >5% of scope 3 category if it is demonstrably non-material in the context of total company emissions, or if its inclusion demonstrably displaces effort from far more significant sources.
- For companies with emissions profiles with scope 3 being a small fraction of total emissions, exploring whether an alternative or supplementary materiality test based on a category's contribution to total company-wide emissions could be more reasonable.
- Exploring prioritisation mechanisms for companies with highly fragmented scope 3 emissions (e.g., focusing on the top 3-5 categories that ensure substantial overall coverage).
- Emphasising the use of qualitative criteria alongside quantitative thresholds to • determine the relevance of emission sources for target setting, as suggested by some members.









#### (CNZS-C8.4)

**Question 43:** To what extent do you think the 1% significance threshold for emission-intensive activities is meaningful in identifying relevant emissions sources to be included in near-term scope 3 targets?

The proposed 1% threshold for an emission-intensive activity relative to total scope 3 emissions to be included in near-term targets is viewed with considerable concern among members. This level is perceived as stringent and could lead to similar issues of resource misallocation, diverting corporate efforts towards activities that, while "emission-intensive" by definition, might still be minor contributors for that specific company, yet complex and resource-heavy to address at such a granular level.

Given the inherent data quality challenges and uncertainties in scope 3 emissions accounting, a 1% threshold can often fall within the margin of error of the inventory. This makes its application potentially unreliable for genuinely distinguishing materiality and may add unnecessary complexity to the target-setting process.

The justification provided in Annex D3 of the Net-Zero Standard Draft with Narrative for such a low threshold appears to be taking some reference to PEP Ecopassport standard, which uses a 5% materiality cut-off for various life-cycle assessment flows. If this footnote is a key basis for the 1% figure, the argument does not seem robust enough, and we suggest SBTi should provide more explanation on this point.

Given that explicitly identifying, collecting data for, and targeting scope 3 and listed emissionintensive activities (Tables D.4 and D.5) represents a new layer of requirement and effort for many companies, a 1% threshold may be counterproductive initially. It could risk superficial compliance or disengagement due to the perceived burden versus impact. This is particularly so if the broader 5% category significance threshold or a more holistic materiality assessment approach (as discussed in Question 41) would already ensure the most critical emissionintensive activities are appropriately addressed without adding another fixed-percentage rule. Alternatively, taking reference to the same significance threshold percentage (as in Question 41) for screening material emission-intensive activities provides clarity and reduces complexity in the process.

**Question 44:** To what extent do you think the  $10,000 \text{ tCO}_2\text{e}$  significance threshold for emission- intensive activities is meaningful in identifying relevant emissions sources to be included in near-term scope 3 targets?

Regarding the absolute threshold of 10,000 tCO<sub>2</sub>e per year for an emission-intensive activity, the SBTi's rationale, linking this to the definition of a "small" business or "microscale" projects under other standards provides a clearer justification.

While this absolute figure is suggested to act as a useful failsafe to capture significant emissions that might be missed by a percentage rule, its meaningfulness still depends on the overall context. If a company has numerous, relatively small emission-intensive activities that each exceed 10,000 tCO2e but are minor in the grand scheme of its total footprint, the cumulative resource burden could still become an issue. The appropriateness of this absolute threshold might also vary by company size and sector. It could be a reasonable backstop, but its interplay with the percentage threshold and the overall number of listed emission-intensive activities needs careful consideration to avoid overburdening companies. It should also be noted that many companies take percentage-based emission significance a more representative indication to a corporate operation which is better aligning with capacities and











identifying the priorities to address the most impactful emission sources.

# (CNZS-C8)

**Question 45:** Should SBTi set a cumulative limit (as a percentage of total scope 3 emissions) on the exclusion of value chain and emission sources from the near-term target boundary? (Note: a higher percentage allows for more exclusions)

Regarding whether SBTi should set a cumulative limit on the exclusion of scope 3 emissions from the near-term target boundary, BEC's view is contingent upon the final calibration of the primary rules for identifying material scope 3 emissions sources as addressed in Question 41, 43, and 44.

The primary objective should be to refine these 'bottom-up' thresholds (i.e., for significant categories and emission-intensive activities) so they are both meaningful in capturing genuinely material emissions and practical for companies to implement without undue resource misallocation towards too many individual categories. SBTi's analysis suggests the current draft criteria would lead to over 90% coverage, which in principle offers a strong scientific rationale for comprehensiveness.

However, if these primary identification thresholds are adjusted in response to widespread feedback concerning their current stringency—which suggests they might be too low and could divert focus from the most impactful decarbonisation efforts—then the resulting natural coverage might indeed fall below the 90% level. In such a scenario, a modest cumulative cap on exclusions could serve as an important failsafe mechanism while gradually moving towards the 10% limit (as specified in current standard on long-term scope 3 emission targets) as scope 3 management becomes more mature. This would ensure that increased flexibility in the primary rules does not inadvertently lead to a significant reduction in overall scope 3 ambition and coverage.

# 2.7 Assurance of GHG Emissions Inventory

# (CNZS-C9)

**Question 46:** To what extent do you support the requirement for companies to obtain thirdparty assurance of their GHG emissions inventory?

Given the support for third-party assurance as a means to enhance the credibility of GHG emissions inventories, BEC supports the requirement. Limited assurance, particularly for scope 1 and scope 2 emissions, is increasingly seen as a fair expectation for credible disclosure, and the practice can promote better data calculation and help prevent greenwashing.

While supporting the principles, we also acknowledge concerns consistently raised by members regarding the resource demands, verification limitations, and associated costs. These concerns are particularly prominent when considering assurance of scope 3 emissions. Specific challenges highlighted for the region include:

- The current limited maturity of market resources and standardised methodologies for robust scope 3 accounting that go beyond spend-based methods, including a lack of widely available localised emission factors.
- The reality that obtaining limited assurance for full scope 3 coverage is not yet a common practice, with current assurance engagements often restricted to only a few selected scope 3 categories, even for companies with validated SBTi targets.
- A perceived lack of clear guidance on the underlying data quality requirements that









would form the basis for effective scope 3 assurance.

We recommend adopting a balanced and pragmatic approach for implementation especially regarding scope 3 inventory. It should be noted that the cost of obtaining assurance could increase compliance burden to companies subject to SBTi's proposal on tightening some of the requirements such as significance threshold regarding scope 3, separating scope 1 and 2 reporting, etc.

#### 3. Target-setting: General requirements 3.1 General target-setting criteria (CNZS-C13)

**Question 54:** To what extent do you agree that companies should be required to set a midterm target (e.g. a 10-year target) in addition to their 5-year near-term target?

Many companies consider that requiring an additional mid-term target, such as a 10-year goal, is unnecessary, as they already set both near-term and long-term targets, whereas the near-term targets will also get updated and revalidated during the course. The emphasis should be on effectively achieving existing targets, rather than introducing further complexity that could divert attention or resources from current commitments.

**Question 55:** Should the use of sector-specific pathway be an option or a requirement for companies?

We recognise the scientific value of sector-specific pathways in providing tailored decarbonisation trajectories, especially for a company's core scope 1 and scope 2 emissions. However, requiring their widespread use, particularly across numerous emission-intensive activities ("EIAs") in scope 3, raises practical challenges. Clarity is sought on, beyond the company's industry sector, if each identified material EIA with target needs to apply distinct sectoral pathway as this would take numerous efforts given distinct complexity.

Currently, SBTi is still developing the application of these pathways at a granular activity level (as referenced in the CNZS V2.0 Draft with Narrative regarding Annex F), and some members note existing sector-specific guidelines can occasionally lead to contradictory concern when compared to cross-sector approaches.

Therefore, for this iteration, we recommend Option 2 (Companies can choose between sectorspecific pathways and cross-sector pathway) as the most pragmatic approach at the moment. This offers essential flexibility, allowing companies to use mature sector-specific pathways where clearly applicable and most impactful, while retaining the cross-sector pathway for complex scope 3 areas with data / control challenges or where specific sectoral guidance is still evolving. Companies should still be encouraged to adopt suitable sector-specific pathways for material emissions where feasible, supported by clear SBTi documentation. We anticipate that as SBTi further develops and clarifies its sector and activity-level guidance, a broader application of specific pathways could be considered in future standard revisions.

# 3. Target-setting: Addressing operational (scope 1) emissions 3.2 Addressing operational (scope 1 and 2) emissions

# (CNZS-C14.4)

Question 57: Which option do you prefer for calculating scope 1 targets (per Appendix 1, p.9)?





The preferred option by many is Linear Contraction approach, where target ambition levels are not influenced by past performance but focus solely on reducing emissions to achieve netzero by 2050 in orderly manner. This method is considered more practical and actionable, as it simplifies the process and allows for gradual, consistent emission reductions. Although acknowledging this approach does not reward directly past performance or address earlier overshoots, it is easier to implement, particularly in light of recent challenges such as political instability, tariffs, and budget constraints faced by companies over the recent years. It may not be realistic to ask corporates to advance their net-zero years in regard to the budgetconserving contraction approach, which may deter companies from renewals.

# (CNZS-C14)

Question 58: To what extent would you support or oppose including alignment metrics and targets for scope 1 in addition to emission reduction metrics targets?

Regarding scope 3, the alignment method was introduced to address challenges with aggregated scope 3 indicators and to diversify ways to align value chain activities with global climate goals. Since corporates have direct control over their scope 1 emissions and thus also direct actions to meet their reduction metrics targets, additional alignment metrics may seem not necessary.

# (CNZS-C14)

Question 59: To what extent do you support or oppose including measures to address underperformance against near-term scope 1 targets when targets have been missed by a limited amount?

Our perspective is that for a voluntary framework such as SBTi, fostering widespread participation and sustained ambition is paramount. Consequently, the primary focus should be on incentivising and recognising companies that meet or exceed their targets. While accountability for commitments is undeniably important, the introduction of measures that are perceived as primarily punitive, especially for limited shortfalls, could inadvertently discourage organisations from making ambitious commitments in the first place, or from participating in the SBTi process at all. A more constructive approach would likely involve understanding the underlying reasons for any minor deviations and fostering a supportive environment to continuously reduce emissions and address underperformance. Therefore, SBTi could caution against measures that could act as a disincentive and suggest an emphasis on positive reinforcement for target achievement. Companies are also aware there are new requirements proposed by SBTi around decarbonising scope 1 emissions, such as scope 1 targets and no fossil fuel commitments, while companies would work towards meeting the requirements, they are facing increased burden on disclosure and prioritising resources and reducing the complexity of the requirements and framework would be welcomed.

Question 60: At what level of underperformance should SBTi allow companies to continue to claim conformance with the standard in the next cycle, and be eligible for corrective measures to address that underperformance?

We believe it is vital to strike a considered balance. The SBTi standard must unequivocally maintain its scientific credibility and alignment with the 1.5°C pathway. This means that a very high threshold for permissible underperformance could risk undermining this fundamental integrity. However, for a voluntary initiative aiming to encourage broad and sustained corporate action, an overly stringent, zero-tolerance approach to deviation might also prove counterproductive. It could deter companies that face genuine operational challenges despite their best efforts to meet ambitious targets. We advocate for SBTi to establish a modest













threshold for limited amount of underperformance. This threshold should be set sufficiently rigorously to ensure it does not excuse significant shortfalls in ambition, thereby upholding the scientific underpinning of the targets. A 10% level is a good starting point to evaluate feasibility. Allowing companies whose performance falls within this predefined margin to continue their engagement with SBTi and proceed to the next validation cycle is important for fostering long-term commitment and enabling continuous improvement.

**Question 61:** What option would you prefer for companies to address underperformance of scope 1 targets?

Firstly, we believe option 1 (Budget-Conserving Contraction approach) could be counterproductive. Its mechanism of significantly steepening future targets due to past shortfalls may be perceived as overly challenging and likely punitive, potentially deterring continued engagement in this voluntary initiative.

Option 2 Linear Contraction approach is favoured by many corporates as it allows them to maintain a focus on their forward-looking decarbonisation pathway without immediate penalties for minor past deviations. If SBTi manages to enforce a modest overshoot limit, corporate targets for the next cycle can be set using option 2.

To address the actual emissions impact of the past, limited shortfall, the principle of using permanent removals to counterbalance historical underperformance, option 3 is even better. However, given that explicit removal requirements are a relatively new feature in SBTi's proposals, and considering the current general lack of mature, globally standardised guidance on carbon removal measurement, validation, and accounting, mandating this immediately could be challenging or lead to low-integrity removals. For this current iteration of the standard, we propose that employing permanent removals to address limited shortfall should be encouraged and recognised by SBTi as a best practice. This initial phase of encouragement would provide essential time for the removals market, associated methodologies, and international guidance to develop and mature. Contingent on advancements in the removals landscape, SBTi would be better positioned to evaluate making this compensatory removal measure a requirement in subsequent versions of the standard.

# (CNZS-R14.2)

**Question 62:** Should the provision for companies with equipment or assets powered by fossil fuels to develop a fossil fuel policy in which they commit to end the consumption of fossil fuels in line with a net-zero pathway be a mandatory requirement or a best practice recommendation?

We acknowledge that establishing a fossil policy is a crucial demonstration of a company's commitment to the fundamental principle of phasing out fossil fuels, a necessary step for any credible net-zero transitions and in line with wider energy transition scenarios, and companies with equipment or assets powered by fossil fuels are recommended to develop such policies. However, mandatory requirement at this stage presents several practical challenges that need careful consideration by SBTi, particularly for businesses operating in this region:

 Availability and viability of alternatives: A significant concern is the current limited market availability, practical feasibility, and affordability of viable alternatives to fossil fuels in many parts of this region. This makes it challenging for some companies to formulate immediately actionable and meaningful fossil fuel phase-out policies. For instance, commitments regarding no new installations of fossil fuel for heating and cooking by specific near-term dates can be very difficult due to challenges to change the design and build of new buildings already in the pipeline, the prevalence of tenantcontrolled installations (e.g., commercial kitchens where there's a strong operational









preference for gas), and contexts where premature electrification with a still carbonintensive electricity grid could inadvertently lead to higher operational emissions.

- **Materiality considerations:** The current SBTi consultation draft does not clearly address how materiality should be applied to this policy requirement. Some companies may have fossil fuel-powered equipment or assets where the associated emissions are not material compared to their primary operations or other significant emission sources. A policy mandate without considering materiality could divert limited resources from more impactful decarbonisation initiatives.
- **Clarity on policy expectations:** For such a policy to be effectively implemented, SBTi may in the future need to further define its expectations regarding the scope, detail, and timelines anticipated within these corporate fossil fuel policies.

# 3. Target-setting: Addressing operational (scope 2) emissions 3.2 Addressing operational (scope 1 and 2) emissions

# (CNZS-C15.1)

**Question 63:** To what extent do you support the requirement for companies to have a locationbased target as well as a market-based or zero-carbon electricity target?

The current consultation seems not specifying further, beyond companies shall have both a location-based target "and" a market-based or zero-carbon electricity target, e.g. to what extent the location-based target can be applied if there is real challenge in local grid decarbonisation. Many companies opposed and raised practical implementation concern regarding location-based target. The primary concerns centre on the feasibility and practicality of the mandatory location-based component, especially a 2040 zero-emission goal that is unrealistic for many, especially in regions with slower grid transitions or developing economies. Earlier practice of giving each company the option to set either a market-based or a location-based target while also requiring it to report emissions using both approaches for full transparency is appealing to most members. Key reasons include:

- Lack of corporate control over grid decarbonisation: Companies cannot dictate the pace of local grid decarbonisation, which is influenced by regional policies and infrastructure, particularly in areas (e.g., some Asian countries) with state-controlled power providers. China has committed to carbon neutrality by 2060, and India by 2070. These regional variations will place an undue and disproportionate burden on factors beyond direct corporate influence in some parts of the world. Conversely, companies that do manage to achieve zero emissions location-based targets in jurisidictions with zero emissions grids (e.g., Norway) will do so largely thanks to their grid emissions profile, and not their own efforts. SBTi's targets should carefully consider and account for regional differences.
- **Risk of non-compliance and reduced SBTi adoption:** Such a mandate could lead to widespread non-compliance or deter companies, particularly in challenging regions like developing Asia, from adopting or maintaining SBTi targets, despite their efforts with market-based instruments.
- Unclear rationale for requiring location-based target: If it is to ensure that companies will not rely inordinately on renewable energy to decarbonise and will also pay attention to energy use intensity, this concern can be addressed more explicitly and directly by also mandating energy efficiency or energy use intensity targets for each sector (here too SBTi should account regional and climate differences). It will send a clearer policy signal to communicate energy efficiency expectations directly than to do so indirectly through reference to locational grid emissions factors.









Finally, in jurisdictions that have developed mature renewable energy market mechanisms, market-based accounting is more accurate than location-based accounting. While location-based reporting relies on average emissions factors, market-based reporting is specific to suppliers. For instance, in China, the green power policy framework accounts for all electrons and associated green attributes through power exchanges on the blockchain. In recognition of the maturity of the market structure, Green Electricity Certificates ("GECs") from China are now fully recognized by RE100. Companies procuring energy through power purchase agreements in China are aligning with government policy in China and sending an important demand signal that is helping to speed the energy transition away from coal-fired generation. Companies should be encouraged to do their part to help speed the transition. In short, we recommend a more flexible, regionally nuanced approach that encourages companies to be active enablers of the energy transition. This approach will also help ensure that targets remain ambitious yet achievable.

**Question 64:** To what extent do you support the transition from renewable electricity targets to zero-carbon electricity targets?

Support for transitioning from renewable electricity targets to zero-carbon electricity targets is generally favourable, as it aligns with long-term climate ambitions and encourages diversified pathways to accelerate decarbonisation efforts in current available technology. SBTi may also provide more definitions or explanation regarding zero-carbon electricity. In locations where renewables are more favourable they should first be prioritised.

# (CNZS-C15.5)

**Question 65:** To what extent do you support the requirement for companies to contribute to zero-carbon electricity in other grids as an interim measure to address scope 2 emissions where sourcing within the grids in which the company powers its operations is not possible?

The underlying principle of providing a practical interim solution for companies genuinely facing such constraints is understandable, and this provision could garner support. Many businesses, particularly those operating in regions with less developed renewable energy markets or significant regulatory barriers, find direct sourcing of zero-carbon electricity challenging. However, concerns have been raised regarding the current lack of clarity and detail surrounding CNZS-C15.5. For this measure to be effective and credible, several aspects require urgent definition by SBTi:

- The term 'interim measure' needs a clear timeframe or set of conditions for its application and any phase-out consideration.
- It is crucial to define precisely what constitutes an acceptable 'contribution to zerocarbon electricity in other grids.' The specific mechanisms, instruments, or investment types that would qualify, and how these would be robustly verified to ensure they result in 'real abatement measures' and genuine grid decarbonisation efforts (as per C15.5.3), are currently unclear.

This ambiguity leads to considerable uncertainty about how this provision relates to the standard's broader, and seemingly more restrictive, stance on unbundled energy attribute certificates ("EACs"), including renewable energy certificates ("RECs"). Corporates may perceive a potential inconsistency: if the draft standard intends to tighten requirements for EACs used in a company's primary market-based scope 2 accounting (e.g., through CNZS-C15.4 promoting temporal/geographical matching, and CNZS-C23.3 potentially limiting certain unbundled EACs), it is unclear how 'contributions to other grids' – which could conceivably involve similar instruments – would be assessed differently yet still count towards scope 2









targets. This apparent conflict needs explicit reconciliation to ensure a consistent approach. To support the development of robust and practical criteria, particularly for aspects like temporal and geographical matching of EACs as mentioned in CNZS-C15.4, we suggest that SBTi should reference and consider interoperability with established criteria from other relevant frameworks, such as those already developed by initiatives like RE100. This could help ensure a harmonised approach across the ecosystem.

It is important to note that many companies currently rely on unbundled EACs as a primary means to support renewable energy and meet scope 2 objectives, especially where direct procurement options are immature or unavailable. A complete exclusion of these instruments without widely accessible and viable alternatives is a significant concern and against by business community, as it may also further disincentivise their further investment into expansion of renewable energy. The approach in CNZS-C15.5 should be developed in a way that complements, rather than contradicts, a pragmatic and evolving framework for all scope 2 market-based instruments.

# 3. Target-setting: Addressing value chain (scope 3) emissions 3.3 Addressing value chain (scope 3) emissions

# (CNZS-C16.1)

**Question 66:** To what extent do you agree companies should be required to set long-term scope 3 targets in addition to the commitment to reaching net-zero emissions by 2050?

Since achieving net-zero emissions inherently involves addressing overall scope 3 emissions, long-term scope 3 targets are already considered embedded / mandatory for Category A companies (and optional for Category B companies), whereas companies are required to prioritise scope 3 targets on the most emission-intensive activities within their value chain and those where they have the greatest influence. Another important perspective is the need of including robust revalidation of near-term targets to ensure companies are on track to net-zero, and provisions about defining and handling residual emissions to ensure that the overall net-zero commitment remains credible and achievable.

# (CNZS-C16.2)

**Question 67:** To what extent do you agree activity-level targets should be mandatory for emission- intensive activities?

Whilst it is recognised that identifying specific emission-intensive activities ("EIAs"), as detailed in Annex D of the Draft, could in principle aid focused decarbonisation, making activity-level targets mandatory for all such EIAs gives rise to practical concerns currently. These primarily involve the potential for resource misallocation if significance thresholds are set too low, the considerable data collection and management burden associated with such granular targeting. This concern is amplified by feedback highlighting that current scope 3 data availability and quality issues make detailed near-term scope 3 target setting, including for specific emissionintensive activities, potentially a premature use of resources at this stage, whereas efforts may better be spent on robust baseline understanding and disclosures and long-term target setting. Furthermore, the fact that the explicit EIA lists (Tables D.4 and D.5) are a new framework element may require further sector-specific alignment on data availability and methodology before mandatory activity-level targets are broadly feasible. A more pragmatic initial strategy might involve a phased introduction, perhaps prioritising only the most material EIAs for a company or sector or employing less stringent initial thresholds (as in Question 68). This would allow organisations time to adapt and for SBTi to gather more sector-specific feedback on this new framework before considering wider mandatory application.









**Question 68:** If you agree, what do you think is the significance threshold for requiring an emissions-intensive activity to have its own specific activity-level target?

The choice of threshold is critical for ensuring this new requirement to be effective and practical. As detailed in response to Question 43 the proposed 1% of total scope 3 emissions (Option 1) is overly stringent and subject to margin error of inventory. This low percentage risks diverting significant resources to activities that may be minor in a company's overall Scope 3 footprint, without proportional climate benefit. The justification provided in Annex D.3 of the Draft narrative (referencing Footnote 33) appears to refer to 5% product-flow cut-off used in the cited PEP Ecopassport standard, which may cause confusion. SBTi should clearly explain how the 5% product-flow cut-off in the PEP Ecopassport standard specifically informs or justifies the proposed 1% threshold for corporate scope 3 emission-intensive activities. A more pragmatic initial threshold higher than 1% is essential for this new requirement. This may also be considered together with the significance threshold in proportion. If activity-levels targets are to become mandatory, a higher threshold like 5% will ensure focus on more genuinely significant EIAs, and help manage the initial implementation burden. Alternatively, instead of a threshold-for-all approach, some members suggesting starting to address the top few more emission-intensive activities.

# (CNZS-C16.4.3)

**Question 69:** Which of the following options do you support for determining that the procurement of an emission-intensive activity is net-zero aligned? (select all that you agree with):

In general, an outcome-based approach reflecting direct emissions (option 1 and 2) would be most supported. Option 3 taxonomy and option 4 third-party certification are also welcome with more provision / explanation required. Option 5 focusing on just technology means seems less directly connected to emission reduction outcomes.

For these options to be broadly meaningful and implementable by companies procuring various EIAs, there needs to be:

- Clear, SBTi-recognised 1.5°C-aligned sectoral pathways and associated physical emissions intensity benchmarks for a comprehensive range of relevant emission-intensive activities (which would require expanding upon the current Table E.2).
- Widely accepted and credible green taxonomy criteria specifically applicable to these activities.
- Robust and broadly recognised third-party certification schemes capable of verifying alignment for these varied activities.

There is member feedback highting for certain critical emission-intensive activities (e.g., natural gas and related services), these activity-specific benchmarks, and sector-relevant certification schemes are not yet adequately developed or integrated within the current SBTi framework (for instance the SBTi Oil and Gas Standard development is being paused at the moment). Without these enabling components, it becomes challenging for both procurers and providers of such activities to follow the net-zero alignment approach proposed, risking overlooking the role of certain activities in specific regional energy transitions

# (CNZS-C16.5)

**Question 70:** To what extent do you support or oppose the proposal for indirect mitigation to count towards scope 3 target achievement, under the condition that it is only used as an interim









measure if direct mitigation is not possible, delivers measurable comparable outcomes to direct mitigation and is reported separately to direct mitigation?

It is generally supportive of the proposal to allow indirect mitigation to count towards scope 3 target achievement, provided all the specified conditions are rigorously defined and met. This approach could offer valuable flexibility for companies addressing their complex scope 3 emissions, especially in value chains where direct influence or immediate abatement options are limited. For this provision to be truly effective and credible, and to prevent it from becoming a loophole, it is paramount that SBTi provides a clear definition of what constitutes an 'interim measure' including its intended duration or phase-out criteria. Robust guidance on eligible indirect mitigation activities and methodologies to assess comparable outcomes to direct mitigation could help ensure this flexibility genuinely supports, rather than dilutes, overall decarbonisation efforts.

# (CNZS-C16.7)

**Question 71:** How do you think tier 1 supplier engagement targets should be incorporated into the standard?

Regarding how Tier 1 supplier engagement targets should be incorporated into the standard it is suggested making these targets an optional method for companies to use when addressing relevant emissions within their target boundary. This preference stems from anticipated practical, resource, and commercial challenges associated with a mandatory requirement especially for highly fragmented supply chains that involves small suppliers, which are also detailed further below in Question 73. Therefore, incorporating supplier engagement targets with flexibility is viewed as essential to ensure the standard is broadly actionable and effective.

**Question 73:** To what extent do you think it is feasible for companies to achieve 100% of spend on tier 1 suppliers providing emission-intensive activities to be going to suppliers that are "transitioning" (i.e. have set an SBT) by 2030?

Achieving this target by 2030 is considered highly challenging due to factors like types of procurement, supplier locations, SBTi's popularity in different markets, etc. It is potentially unfeasible or not commercially viable for many companies in this region considering below factors:

- Limited pool of aligned suppliers: There is currently a restricted global pool of suppliers, especially in emission-intensive sectors (e.g., manufacturing, transportation, raw material extraction), that have already set SBTs or are demonstrably "transitioning".
- **Resource intensity:** The proposed increase in overall scope 3 coverage (from ~67% to ~90%) already adds a significant burden to supplier engagement. Engaging with a large number of Tier 1 suppliers, even if focused on emission-intensive activities, and tracing necessary data across supply chains, is resource-intensive e.g. data collection, personnel, time spent.
- **Commercial and supply chain risks:** Companies may face supply chain disruptions, increased costs, or a severely limited choice of suppliers if forced to switch to only those with SBTs by 2030. This could compromise supplier diversity and economic resilience.
- **Impact on SMEs:** SMEs within supply chains often lack the resources, expertise, and capacity to set SBTs quickly. A rigid 100% requirement could lead to their exclusion, which is detrimental to both the SMEs and the broader economy.







While the ambition to decarbonise supply chains is supported, the prescriptive nature and timeline of this specific target are viewed as needing reconsideration to balance ambition with practical achievability.

# (CNZS-R16)

Question 74: Should the following policies be included as a requirement or recommendation?

- Sourcing policy to progressively align sourced products and services with net-zero
- Policies to minimise the use of emission-intensive activities
- Transport policy to optimise transport activities and prioritise zero-emitting transport options
- Energy efficiency policy for buildings
- Policy to progressively align sold products and services with net-zero (i.e. electrification)

The focus should be on SBTi encouraging alignment with existing local and international standards rather than proposing a distinct list of policies. Some of the stated policies related supplier engagement may also be difficult to fully complied in this region in near-term. While robust internal policies are crucial for driving tangible decarbonisation actions, companies, particularly those in jurisdictions like Hong Kong with existing ESG governance and disclosure requirements (e.g., HKEX), already operate under various frameworks. Therefore, SBTi should aim to reduce compliance burdens by referencing or ensuring interoperability with these established standards. This approach respects diverse operational contexts and resource limitations, emphasising that policy frameworks should primarily support and verify concrete emission reduction measures.

# 3. Target-setting: Addressing residual emissions

# (CNZS-C18)

**Question 75:** To what extent do you think that the proposed approaches could present a barrier to entry for companies seeking validation against SBTi standards?

- Option 1: Require removal targets
- Option 2: Recognise removal targets
- Option 3: Residual emissions addressed through additional abatement or removals

Option 3 is broadly seen as presenting the lowest barrier and is therefore more welcome. This preference stems from its approach of encouraging companies to prioritise ongoing emission reductions first, while offering practical flexibility for managing unavoidable residuals to support the 1.5°C target. While it is welcome that SBTi is attempting to have more provisions on removal targets, due to the current lack of clear, standardised guidance on the measurement, validation, and accounting of carbon removals, it could make mandating removal targets challenging at this stage.

# 4. Addressing the impact of ongoing emissions

# (CNZS-C21)

**Question 86:** To what extent do you think that the proposal for opt-in recognition on SBTi dashboard and the enabled claims will incentivise companies to take action to address ongoing emissions?

Our fundamental position is that a company's primary responsibility and resources must first be directed towards achieving its validated science-based targets through direct emission reductions across its scope 1, scope 2, and relevant scope 3 emissions. This is then followed









by commitments to neutralise any unavoidable residual emissions with high-quality permanent removals at the net-zero target date. Within this context, the proposal for opt-in recognition on BVCM could provide an incentive for some companies to take additional climate action addressing their ongoing emissions, actions that go beyond their science-based targets for abatement and neutralisation.

It is crucial to clearly articulate the nature and limitations of BVCM. BVCM contributions do not reduce a company's own GHG inventory emissions. Therefore, while recognition might encourage these supplementary actions, its main value would be in transparently showcasing efforts that are strictly beyond the company's own decarbonisation pathway. For this incentive to be meaningful, credible, and to avoid any potential greenwashing concerns, the SBTi needs to ensure that the communication and claims around BVCM explicitly reinforce this distinction, ensuring it does not distract from substituting for the imperative of deep value chain emission reductions. As long as these principles are upheld, SBTi could be more generous and inclusive in other opt-in recognition aspects to encourage companies on BVCM contributions as additional good will.

# (CNZS-C21.4)

**Question 89:** To what extent do you support or oppose adopting the following elements from SBTi's BVCM report's (p.41) best practice method for determining the scale of BVCM contribution in CNZS V2.0?

**Coverage of Emissions (regarding full responsibility for ongoing emissions i.e. total scope 1, 2 and 3):** Given the existing complexities, data challenges, and ongoing consultations related to defining the boundary and ensuring robust accounting for scope 3 emissions within abatement targets, extending a BVCM expectation to cover 100% of all ongoing scope 1, 2, and 3 emissions may deter participation in such voluntary initiatives (as mentioned in Question 86 flexibility should be provided to companies considering BVCM). On the other hand, companies may rightly feel their corresponding resources are better prioritised otherwise for supporting direct mitigation efforts, e.g. investing to research and development within their own value chains.

**Method (Money-for-tonne as the method to determine BVCM budget):** As the "sciencebased carbon prices" is the pivotal factor in determining the financial investment required under this proposed methodology, clear, consistent, and broadly accepted approaches to derive these carbon prices as basis are needed to support the credibility and comparability of BVCM contributions calculated in this way.

# (CNZS-C21.6)

**Question 90:** Which threshold for target progress should companies meet to be eligible for optional recognition?

Some members suggest that recognition for BVCM could be linked to 'meaningful progress' against science-based targets (Option 2), rather than being strictly contingent upon the outright 'achievement of their science-based targets' (Option 1). The rationale could be that an inclusive and more generous approach in process, types of claims allowed, and visibility etc. might encourage broader participation in voluntary BVCM activities, acknowledging corporate efforts to address ongoing emissions, particularly given the recognised challenges in areas such as scope 3 target achievement.

While we understand the desire to incentivise wider BVCM engagement, this must be carefully balanced with the fundamental position articulated in response to Questions 86: a company's











foremost responsibility is the achievement of its science-based targets through direct value chain decarbonisation, and BVCM actions are supplementary, not substitutive, as they do not reduce a company's own reported emissions inventory. In this aspect, option 1 is more reasonable.

If SBTi does consider BVCM recognition based on meaningful progress, several critical conditions and clarifications would be essential to uphold the primacy of target achievement and avoid any perception of diluting core commitment, including differentiated / higher recognition to those achieved already their science-based targets, robust definition of meaningful progress, and ensuring communication in accordance with suggestion in Question 86.

**Question 94:** Beyond the reporting elements outlined in CNZS-C22, which of the following reporting elements, if any, do you consider important to ensure transparent and credible communications of companies' BVCM efforts? (Select all that apply)

While BEC supports the consideration of all listed elements, we believe these three elements are of particular importance.

- Volume of mitigation outcomes achieved from BVCM efforts.
- Geographical and/ or sectoral relevance of intervention (to demonstrate alignment with climate priorities)
- Carbon-price and rationale for chosen carbon-price.
- Social and environmental safeguarding principles for BVCM investments

# **Overarching input**

**Question 113:** If you have any additional feedback, insights, or considerations that you believe would contribute to the development of CNZS V2.0, please share them below.

Business Environment Council ("BEC") acknowledges the SBTi's comprehensive efforts in developing the Corporate Net-Zero Standard Version 2.0 and appreciates the opportunity to provide consolidated feedback reflecting the perspectives of our members and other Hong Kong-based companies. Our overarching input focuses on ensuring the revised standard is ambitious yet practical, globally applicable yet considering regional contexts, and ultimately effective in driving meaningful corporate climate action and wider adoption. Below aspects summarised our feedback on areas we believe material:

# 1. Balancing ambition with regional practicalities

Scope 2 target setting: The proposed mandatory location-based scope 2 targets and the significantly tightened restrictions on unbundled EACs/RECs present substantial challenges in many Asian markets. These regions often feature regulated energy markets, slower grid decarbonisation pathways beyond individual company control, and limited availability of direct renewable energy procurement options like PPAs. Unbundled EACs and Green Energy Certificates ("GECs") from China, with introduction of more robust quality criteria, may remain a vital near-term instrument for many companies to demonstrate demand and support renewable energy generation and investment. In addition, restricting market-based mechanisms for renewable energy runs against the spirit of RE100's recent announcement: whereas previously RE100 only conditionally accepted GECs from China, it now does so unconditionally. The recent RE100 announcement recognises the mature green electricity market that is in place in China. We recommend a dialogue between SBTi and RE100 for closer alignment on this issue. Avoiding a blanket exclusion is crucial to avoid disincentivising









SBTi adoption in these regions. Clear guidance is also needed on CNZS-C15.5 ("contributions to other grids") to ensure it is a credible, well-defined interim option and not contradictory to the overall stance on EACs.

Separation of scope 1 and 2 targets: This is a significant concern debated among members. While separate targets might be perceived by some as enhancing transparency by distinguishing direct operational reductions (scope 1) from those related to energy procurement (scope 2), the practical implications, particularly for companies in regions like Asia, are problematic. The primary issue is the inflexibility this introduces for companies pursuing electrification as a key scope 1 decarbonisation strategy. Electrification inherently reduces scope 1 emissions through potential energy efficiency measures, however it may increase scope 2 emissions due to electricity consumption, particularly in regions with carbon-intensive grids and where options for procuring credible renewable electricity are constrained (potentially exacerbated by new EAC/REC criteria). It makes a standalone scope 2 target challenging in this case. The aspiration is that any such increase in scope 2 emissions from electrification would be mitigated in the short-term through rapid grid improvements, this remains a hurdle for many in the region that depends on fossil fuels for grid electricity, which are beyond their control. We urge SBTi to carefully consider pros and cons of these factors and explore more flexible approaches, especially for companies undertaking significant electrification in challenging grid environments where the interconnectedness of these scopes is operationally paramount.

# 2. Complexity and thresholds for scope 3 emissions

- **Significance thresholds:** The proposed 5% significance threshold for scope 3 categories (Q41) and the 1% threshold for "emission-intensive activities" ("EIAs") (Q43) are widely viewed by members as potentially stringent / challenging given current practicalities. There are strong concerns that this risks diverting corporate resources to categories or activities that may be minor in absolute terms or possess high mitigation complexity relative to their impact, especially when considering the inherent uncertainties in scope 3 data. We advocate for more pragmatic initial thresholds, nuanced application considering materiality relative to total company emissions for certain sectors with smaller scope 3 emissions, and potentially prioritisation mechanisms (e.g., top 3-5 categories for highly fragmented scope 3 profiles) rather than a rigid application of percentage cut-offs for all.
- Activity-level targeting & supplier engagement: Mandating activity-level targets for a predefined list of EIAs (Q67) and imposing stringent supplier engagement targets (e.g., 100% Tier 1 EIA supplier alignment by 2030) (Q71, Q73) are seen as significant new and resource-intensive requirements. We recommend these are introduced with greater flexibility, possibly as optional methods or with phased requirements, supported by extensive sector-specific consultation on data availability and practical implementation, particularly considering the impact on SMEs within supply chains.
- 3. Data, assurance, and the need for clear guidance
  - **Data quality and availability:** Consistent concerns exist regarding ESG data maturity, quality, and traceability, especially for scope 3 emissions and granular activity-level data in Asia.
  - Assurance costs and practicality: While supporting the principle of third-party limited assurance for credibility, implementing this for the entirety of scope 3 inventory at this stage could be problematic due to high costs, verification limitations, and the underdeveloped state of scope 3 accounting methodologies and localised data in the region. A balanced, pragmatic, and potentially phased approach to scope 3 assurance is recommended.









- Clear clarification or guidance from SBTi: Across numerous areas—including transition plan expectations (Q28, Q30), the definition and application of "interim" measures (Q65, Q70), methodologies for carbon removals and BVCM (Q75, Q89), sector-specific pathway application (Q55), and materiality screening for scope 3 EIAs (Q34)—clear, consistent, and actionable guidance from SBTi is repeatedly highlighted as essential for effective and credible implementation of the standard.
- 4. Pragmatic approach to target setting, progression, and removals
  - **Target setting and underperformance:** There is a clear preference for the Linear Contraction approach for scope 1 targets (Q57) due to its simplicity and practicality in the current challenging global environment. For underperformance (Q59, Q60, Q61), SBTi should prioritise incentives and constructive support over punitive measures. A modest, clearly defined allowance for limited underperformance (Q60) is seen as pragmatic for a voluntary scheme, allowing continued engagement. If underperformance is within this limit, future targets should use Linear Contraction (Q61 Option 2) as preferred approach by many, with removals to cover the past shortfall being an encouraged best practice initially rather than a mandate, given the current state of removal markets and guidance.
  - **Removals and BVCM:** The introduction of more detailed provisions for carbon removals and BVCM is noted and appreciated. For residual emissions, flexibility in using further abatement or removals is preferred as the lowest barrier. However, mandating removal targets faces challenges due to the lack of mature, standardised global guidance on measurement, validation and accounting. Regarding BVCM and claims, the primary corporate focus must remain on direct value chain abatement before considering BVCM. BVCM recognition should be handled carefully to ensure it does not detract from this core principle.

In conclusion, BEC and its members are committed to ambitious climate action. We believe that by addressing these considerations related to practicality, regional context, clarity, and flexibility, the SBTi Corporate Net-Zero Standard V2.0 can become an even more effective and widely adopted framework for driving global decarbonisation. We remain eager to engage further with SBTi in this important work.

# Enquiries

For queries related to this submission, please contact our Chief Executive Officer, Mr Simon Ng at <u>simonng@bec.org.hk</u>.

Yours sincerely,

Kevin O'Brien Chairman Business Environment Council Limited





