

NET ZERO 101

Net zero for businesses differs from net zero at a global level. At a global level, it is achieved “when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period.”¹



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For businesses, it is more complex because of a range of differing definitions, perspectives, and approaches about how it should be achieved. Nevertheless, the emerging understanding of net zero for a company can be guided by three core principles:

- A claim that covers all three emission scopes in the value chain;
- Action that reduces internal emissions in line with the global 1.5°C scenario set by the Paris Agreement (science-informed); and
- At the point of reaching a science-informed reduction target, offsetting all remaining emissions through carbon removal credits – projects like afforestation and engineered solutions that remove carbon from our atmosphere.

This follows UNFCCC's Race to Zero.

Why do we need to achieve net zero?

Every year, we emit around 50 billion tonnes of CO₂ equivalent (tCO₂e) into the atmosphere and we need to get that number down as quickly as possible. As established by the Paris Agreement, we have until 2050 to reduce our annual net GHG emissions to zero to preserve a liveable planet and prevent the worst impacts of climate change including extreme heat, rain, and drought.

Why do companies need to achieve net zero?

By setting net zero targets, companies are acting according to a concept alluded to in the Paris Agreement, and national/supra-national net zero targets now cover 90% of global emissions. In addition, investing in removals moves a company into territory of emerging climate solutions that are going to be a vital part of the world's climate response for decades to come.

A quarter of the world's largest companies have set a net zero target². In 2021, there was a three-fold increase in net zero commitments among the world's largest companies, making it the fastest-growing corporate climate commitment.

Companies can benefit from the reference point that governments are using: 1.5°C and net zero have become the global objectives for climate action. But of the two, net zero is clearer for stakeholders like consumers and employees to understand. That is not to say that compliance to the law is the only story a company tells about its net zero action. It's more about companies using the government/international net zero target as a reference: the tag line “Paris Agreement, but 10 years early” is one such example.

How does net zero differ from other types of climate action targets?

Net zero, carbon neutrality, and science-based targets (SBTs) are sometimes used interchangeably. And although they have some crossover, they are not entirely the same.

The main differences between net zero and carbon neutrality are based on: the scope of emissions, the rate at which companies are required to reduce their emissions, and the type of carbon credit required to counterbalance residual emissions.

First, while carbon neutrality can cover different buckets of emissions such as a product life cycle, company operations, or the entire value chain, net zero must tackle the entire value chain. Second, while carbon neutrality encourages companies to reduce their emissions where possible, net zero requires businesses to reduce their emissions in line with a science-informed target. Finally, to achieve carbon neutrality, a company can compensate for their emissions using carbon avoidance (eg, efficient cookstove or forest conservation projects), reduction, and/or removal credits, whereas net zero requires companies to neutralise residual emissions through carbon removal credits only.

In terms of SBTs, these targets define the level of internal reductions a company must make in order to keep within the goals of the Paris Agreement. Even though a net zero target encompasses science-informed abatement, an SBT does not require a company to neutralise their residual emissions. This makes the two completely different concepts; one is about lessening impact on the climate and the latter is about eliminating it all together.

But this is not an either-or situation. These three different targets can complement one another and be used in tandem to create a robust corporate climate action plan.

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How can a business work towards the “net” in net zero?

There are a number of different approaches to achieving net zero.

One company might procure or invest in carbon removal credits at the point of net zero and onwards with no climate action outside the value chain on the way. Another might choose to become carbon neutral on the way to net zero and compensate for their residual emissions on the journey there.

As well as being carbon neutral, others might go a step further and set a carbon price to finance climate solutions on the way to net zero, putting that finance towards tackling climate change, often in service of a regenerative business beyond the point of net zero. In other words, a company makes additional climate contributions as they work towards net zero, then purchases carbon removal credits to neutralise residual emissions from the point of net zero and beyond.

In March 2022, Climate Impact Partners launched a micro-site to explain net zero, along with a white paper The “Net” in Net Zero: netzeroforbusinesses.com

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1. [The Intergovernmental Panel on Climate Change \(IPCC\), Glossary of Terms](#)
2. Climate Impact Partners, 2021, [Reality Check](#)

