Carbon180

To:
Acting Chair Allison Herren Lee
U.S. Securities Exchange Commission
1400 Independence Ave., S.W.
Washington, DC 20250

June 13, 2021

VIA ELECTRONIC SUBMISSION

Attn: Securities Exchange Commission, Division of Corporation Finance
RE: "Public Input Welcomed on Climate Change Disclosures"

Carbon180 respectfully submits the following comments to the Securities Exchange Commision, Division of Corporation Finance ("SEC") regarding a notice for "Public Input Welcomed on Climate Change Disclosures." Carbon180 is a DC-based NGO on a mission to build a prosperous economy that removes more carbon from the atmosphere than we emit. We develop and advocate for equitable, science-driven federal policy ideas that advance carbon removal solutions, such as agriculture, forestry, and direct air capture.

Companies are making net-zero pledges right and left.

On the surface, this is great news for advocates of climate action. Emissions modeling assessed by the IPCC shows that we need to achieve net-zero emission by midcentury (with net-negative not far after that), if we want to avoid the worst impacts of climate change.

But dig deeper and this flurry of net-zero pledges becomes worrying, as the actual substance of most pledges appears far from what is required to achieve net-zero in reality.

The trouble is in the "net." When making "net" pledges, companies are often unclear as to:

- What degree "absolute" emissions will be reduced and by when
- Which "residual" emissions will be counterbalanced (i.e. "netted" out) with carbon removal activities:
  - pursued by the entity directly in its supply chain (i.e. not as a traded offset)
  - as a traded offset, with explicit distinction from other types of avoided emissions offsets)
- Which removal approaches (i.e. nature-based forestry and soil carbon approaches, or technology-based approaches such as direct air capture) will be utilized, to what degree, and when; and
- What standards and protocols the company plans to use to account for lifecycle emissions and removals

Furthermore, there is an increasing possibility that companies may (1) become regulated to achieve net-zero emissions, and/or (2) have to include net-zero pledges as part of customer contracts. A lack of specificity and transparency on the above questions poses challenges to the increasing number of investors screening for companies with robust climate action strategies. As a result, the reputational and/or regulatory penalties that follow from a failure to deliver on net-zero commitments in a robust way could unexpectedly impair the valuation of companies. Investors need to know what they are getting into when they are including a net-zero claim in a corporate valuation.

Fortunately, the United States is already equipped with the regulatory capacity to give investors the information and oversight required to ensure these commitments are met via the Securities Exchange Commission (SEC). Our team at Carbon180 was pleased to see the SEC ask for public comment on developing a rule making related to corporate climate disclosures. In the sections below, we provide recommendations for improving the reliability, consistency, and transparency of corporate climate commitments. While there are many elements associated with comprehensive climate disclosure, Carbon180 has been thinking about the specific role that carbon removal can play in achieving net-zero emissions since our inception.

What follows is our recommendations to the SEC based on what we believe is required to provide investors with the information they need to accurately evaluate climate action pledges made by public companies. **We focus specifically on how the SEC can ensure that companies provide sufficient information for investors to evaluate their carbon removal activities, distinct from efforts to reduce emissions directly and to offset from non-carbon removal sources.** Our recommendations focus on two main suggestions that the SEC should: (1) mandate transparent and differentiated ***disclosure*** of removals alongside emissions reductions and standardize a format for goal-setting claims and emissions reporting, and (2) create robust ***standards*** for quantifying and publishing carbon removal claims.

Disclosure

Evaluating progress towards a future goal is predicated on clear accounting of actual emissions today. As a result, every company making a climate pledge should be required to disclose GHG emissions annually using the EPA Guidance (Scope 1) and Greenhouse Gas Protocol Guidance (Scopes 2 & 3). Annual disclosures should include a review of activities and practices that have led to direct emissions reductions in these categories. Companies should follow the Oxford Offsetting Principles to transparently distinguish between fossil fuel, land use, and other emission sources (e.g. embedded emissions in supply chains). While the Principles provide a number of best practices for corporate offsetting, the first principle stresses the importance of disclosure and transparency as a necessary underpinning for high-quality net-zero commitments.

Below in *Table 1*, we outline a proposed framework for disclosing Scope 1-3 emissions, supply chain emissions reductions and removals, as well as offsets.

In addition to disclosing Scope 1-3 emissions, companies should be required to disclose aggregate details of supply chain mitigation activities and the offsets they are purchasing and counting towards their net-emissions. This should include distinct accounting of *ex post facto* activities and credits (that have already occurred and been verified) and *ex ante* activities and credits (that are expected to be delivered based on the implementation of a not yet verified project). In order to evaluate the robustness of these offsets in an apples-to-apples manner, companies should also disclose the type of offsets purchased by sector and by abatement mechanism. Consistent with the Oxford Offsetting Principles, companies should be required to disclose absolute annual emissions by scope, as well as a more detailed assessment of progress by:

- avoided emissions of fossil CO2
- avoided emissions of biogenic CO2
- avoided non-CO2 emissions
- captured emissions of CO2 with geological storage
- carbon removal with biogenic storage
- carbon removal with geological storage

To contextualize emissions reduction and removal disclosures, every company making a climate pledge should also be required to disclose their strategy in a standardized format with at least the following information:

- The baseline year from which net-emissions reductions will be calculated (with associated disclosure along the terms outlined above).
- A percent reduction from those baseline emissions by each target year
- Clear explanation of what scope (e.g. 1-3) of emissions are covered within the goal.

Possibly the most critical piece of any corporate climate pledge will be to explain what fraction of their emissions reductions efforts will be:

- Absolute direct emissions reductions
- Avoided emission offsets
- Carbon removals, directly within supply chains or as traded offsets

For offsets, commitments should be mandated to further specify which fraction of offsets are nature-based versus technology based. In addition, companies need to ensure that high quality offset measurement, reporting, and verification standards and protocols are used, as described by the section that follows.

Table 1: Idealized goal-setting format (by target year):

	Supply Chain Management		Offsets	
	Avoided emissions	Carbon removals	Avoided emissions	Carbon removals
Biogenic Carbon Emissions	Tonnes avoided and percentage of total by Scope 1-3	Tonnes removed and percentage of total by Scope 1-3	Tonnes procured (by project types)	Tonnes procured (by project types)
Non-Biogenic (Fossil) Carbon	Tonnes avoided and percentage of total by Scope 1-3	Tonnes removed and percentage of total by Scope 1-3	Tonnes procured (by project types)	Tonnes procured (by project types)

Standards

The SEC should set clear standards for making both avoided emissions and carbon removal claims. We have seen major issues recently -- whether with additionality, permanence, and/or community engagement -- with voluntary and compliance market offsets. Independent review of compliance programs such as California's Cap and Trade program demonstrate that existing protocols systematically overcredit projects. In the example of improved forest management offsets alone, estimates indicate that projects may be over credited by as much as 20.1-37.8%. These lax standards not only justify additional emissions in other sectors, but also waste funds that could be applied to more effective mitigation efforts. Voluntary efforts are often much worse, with significantly less transparency and often conflicts of interests arising from incentives to originate more projects. While many offset projects do provide tangible benefits to emissions reductions, the low-quality offset projects create a giant loophole for entities to claim they are achieving net-zero without actually achieving net-zero in practice.

To address the issues with offsets, the SEC should create a list of approved protocols that companies can use to make offset claims for both carbon removal and avoided emissions projects. The SEC should also develop a process for approving new protocols swiftly, with low cost to project developers, and in a way aligned with robust science and community engagement. To do so, the SEC should work with other federal agencies such as the Department of Energy, Department of Agriculture, and the Environmental Protection Agency, to solicit technical input on the criteria they should use for rigorous protocol evaluation. These other agencies have deep expertise with best practices for lifecycle carbon accounting, including additionality and permanence for land-sector offset and removal projects. Working with these other agencies, the SEC should strive to set a bar where offset protocols provide a reasonable assurance that avoided and/or removed emissions credibly result in the outcomes they promise.

Finally, it is possible that some companies may elect not to make climate commitments altogether. When corporations do not make climate commitments, investors should still be entitled to information on climate related risks. Therefore, if a company chooses NOT to make a climate pledge, they should be required to submit a publicly-viewable explanation of why climate change is not material to their business.

We believe that these recommendations would pose only a small compliance burden on companies. Groups like Carbon Plan and Carbon Direct are already working with publicly-traded entities to provide clarity on net-zero efforts. Microsoft published their efforts, as did privately-held companies like Stripe. Stripe has publicly stated that they are paying at total of $8M for removals that cost between $200/ton and $2,000/ton CO_2 sequestered. The transparency and voluntary disclosure of these initiatives is largely novel; however, to ensure net-zero commitments are realized, similar efforts will be needed across sectors and corporations.

And the impact of protecting investors -- and catalyzing robust climate action -- would be significant. It will help capital flow to businesses with the best climate strategies, and will create the transparency and oversight needed to boost investment into well-regulated carbon removal and abatement efforts.

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