

CIVIC EXCHANGE 2023 RESEARCH REPORT

Carbon Added Cost and Carbon Net Zero Viability proposals for consideration by ISSB and other standard setters



The objective of the proposed market mechanisms:

1. Accelerate decarbonisation.
NB: Stopping Earth's long-term equilibrium temperature increasing requires global Net Zero emissions.
2. Raising money to pay for the massive Carbon Dioxide Removal (CDR) which IPCC & IEA say is needed for Net Zero.

Proposal 1 Carbon Added Cost (C-AC)

This aims to impact current transactions as:

- Paying for CDR Credits incentivizes making low carbon Products (Goods & Services)
- Including the cost of CDR Credits in Product cost leads to lower carbon Products being preferred.
- Getting Net Zero Products > Net Zero companies > Net Zero economies.

Proposal 2 Carbon – Net Zero Viability (C-NZV)

This aims to get companies making and publishing substantive, assurable plans for how operations they plan to keep when they are Net Zero will be viable.

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Carbon Added Cost (C-AC) and Carbon Net Zero Viability (C-NZV) proposals for consideration by ISSB and other standard setters

Market Mechanisms which accelerate decarbonisation of Products (Goods & Services)

J Robert Gibson | March 2023



Proposal 1 C-AC: (Carbon Added Cost)

VAT type accounting to incentivize low carbon Products and pay for CDR needed to offset residual emissions.

Per Polluter Pays Principal companies buy Carbon Dioxide (CDR) Credits covering the removal of their net emissions. The cost of the CDR Credits will:

1. Motivate companies to reduce the carbon intensity of their Products.
2. Motivate everyone to purchase less carbon intense Products.

And money is raised to pay for CDR

Incremental implementation:

1. Stages:
 1. Start with accounting for quantities.
 2. Then give shadow pricing for the CDR cost.
 3. Then start paying, say, 5% of the CDR Credits cost with this % increasing annually till 100% is reached.
2. Implement by Industry Sector starting with simple, carbon intense Products such as cement, concrete, fertilizer, hydrogen and steel.
3. Implement initially in high income jurisdictions with, if necessary, Carbon Border Adjustment Mechanisms covering imports which do not bear CDR Credit cost.

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GHG Protocol consultation response

Amendments enabling Market Mechanisms which Accelerate Decarbonising Products



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Amendments enabling Market Mechanisms which Accelerate Decarbonisation of Products

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GHG Protocol amendment enabling C-AC (Carbon – Added Cost) by moving emissions from Scope 3 to Scope 2 where there is unique abatement responsibility

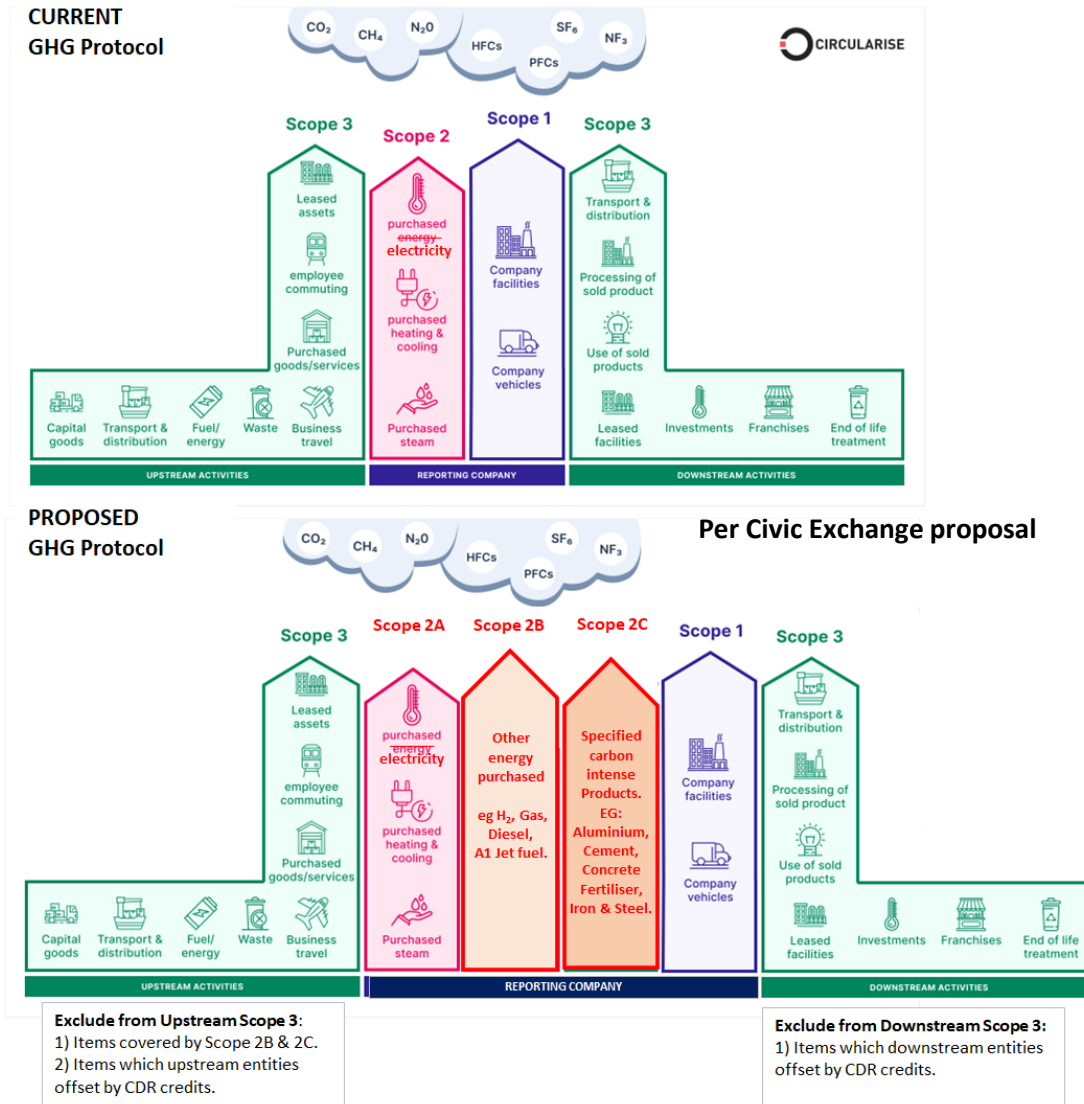
Four GHG Protocol amendments:

Two moves from Scope 3

- I. Reclassify emissions embodied in specified carbon intense Products from Scope 3 to Scope 2
- II. Exclude from Scope 3 upstream and downstream emissions, including those occurring when End Products are used, if these have been offset by buying Carbon Dioxide Removal (CDR) Credits.
NB: NSAs reporting this way must have reasonable, assurable grounds to believe the CDR Credits have been purchased.

Moves enabled by:

- III. Define End Products.
- IV. Environmental Product Declarations (EPDs) giving both their 'gross' (total emissions) and 'net' (after offset by CDR Credits.) embodied emissions.



The move of emission out of Scope makes the amendments to the GHG Protocol worthwhile even if the C-AC market mechanism is not introduced.

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Proposal 2 C-NZV (Carbon – Net Zero Viability) Causing substantive, assurable, long-term planning for Net Zero.

Many companies have committed to a year by which they will be Net Zero.

Some plan to buy CDR Credits to offset their residual net emissions.

Few, if any, have disclosed their estimate for the cost of these CDR Credits.

Proposal:

A) Use CPPI's proposed 'abatement capacity reporting' framework to split current carbon footprint into:

1. Proven abatement capacity (Greening electricity; efficiency, known tech)
2. Under development abatement capacity (Would be viable at US\$150/tCO₂)
3. Residual emissions for which they must either (A) Buy CDR Credit; or (B) Shut business. Estimate the sales price at which End Products they contribute to making must be sold to cover the cost of the CDR Credits.

B) The C-NZV review of price at which Products must be sold to cover cost of CDR Credits. Hence expected sales volume and viability.

Result:

- Companies must provide substantive, assurable plans for how they will operate at Net Zero.
- Better information to guide investors on where to place their money.

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GHG Protocol consultation response

Amendments enabling Market Mechanisms
which Accelerate Decarbonising Products



GHG Protocol amendment to enable Proposal 2: C-NZV by providing a forward cost curve for CDR Credits

Three GHG Protocol amendments required

Two of these are already mentioned for C-AC

III (Define End Products)

IV Environmental Product Declarations (EPDs) giving both their 'gross' (total emissions) and 'net' (after offset by CDR Credits.) embodied emissions.

Additional amendment

V The GHG Protocol provide a CDR forward cost curve in 'chained' US\$ of a recent calendar year.

There is great uncertainty about forward CDR cost curve BUT

- Having a 'standard' provides consistent reporting. Companies must use if they do not have a 'locked-in' source of credits.
- Auditors can assure standard use rather than considering whether a company's own view is reasonable.
- Investors can compare relative ease with which companies can get to Net Zero.

Forward CDR Credit markets will develop. These will guide revisions to the cost curve in the GHG Protocol.