



The
Food and Land Use
Coalition

Nature for Net-Zero:

consultation document on the need
to raise corporate ambition towards
nature-based net-zero emissions

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Limiting warming to 1.5°C requires the halving of global emissions by 2030 and reaching net-zero emissions by 2050. This depends, in turn, on decarbonising the energy system and protecting and restoring nature, tropical forests in particular.¹ But while progress on decarbonising the energy system is promising, progress on nature is limited. Deforestation rates remain stubbornly high and are trending upwards.² Resources available to boost progress on nature are minuscule relative to the scale of the challenge.

This report focuses on the need to increase corporate action on climate and nature. It sets out actions that NGOs and standard setters; corporates and investors; governments; and the Parties to the Paris Agreement, guided by the COP26 Presidency, should take now to secure a nature-based net-zero future.

The finance gap

The forest and land use sector can deliver 30% of the mitigation required to reach net-zero, some 15 GtCO₂e a year, through activities to reduce emissions and remove carbon.³ These activities also have important co-benefits in terms of building resilience to climate shocks, safeguarding biodiversity and enhancing rural livelihoods and public health. 5 GtCO₂e of the sector's mitigation potential lies in protecting tropical forests. Interventions to restore forests, wetlands and peatlands have the potential to remove a further 4 GtCO₂ from the atmosphere with considerable advantages compared to other negative emission technologies (NETs), such as direct air carbon capture and storage (DACCS).⁴ Such advantages include co-benefits, speed of deployment at scale and substantially lower costs.

Yet finance committed to forest protection and restoration makes up a tiny percentage of overall climate mitigation finance promised so far. Between 2010 and 2017, just \$2.8 billion of public and private finance was committed each year to forests. Public finance for renewables in 2018 alone was 100 times greater (\$280 billion).⁵

FOLU estimates that the amount of finance for forest protection and restoration needs to be increased by \$65 billion a year. Most of this money should be directed at helping forest country governments to deliver the changes in policy, regulations and fiscal incentives that address the root causes of deforestation, and to support businesses and communities in building "forest positive" value chains that enhance local livelihoods.⁶

This investment requirement is a fraction of the value at risk if we fail to act on climate change by protecting and restoring forests. The economic losses associated with temperature rises of 4°C above pre-industrial levels over the next 80 years could mount to \$23 trillion per year⁷ and more than half of global GDP (\$44 trillion) is generated in industries that depend moderately to highly on nature and its services.⁸ Moreover, it is estimated that the cost of preventing further pandemics over the next decade by protecting wildlife and forests would equate to just 2% of the estimated financial damage caused by COVID-19.⁹ The stakes and the leverage from investment in protecting and restoring nature could not be higher.

Public finance – domestic and international – will play a key role in forest protection and restoration. But fiscal constraints, including those related to COVID-19, mean governments can provide only part of the total finance needed. Governments therefore need to focus on creating conditions that incentivise private sector investment. With corporates making up two-thirds of the richest 100 entities on the planet, raising their ambition to invest in nature is key to providing finance at scale.¹⁰ Corporates in food, agriculture and forest sectors can directly invest in nature-based climate mitigation solutions within their value chains, while corporates in other sectors can invest by purchasing offsets on the voluntary carbon market.

Understanding existing corporate ambition

To understand the likely impact of the current level of corporate ambition for climate and nature, FOLU has estimated demand for forest and land use sector offsetsⁱ over the next 30 years given existing corporate net-zero commitments. This is based on the 1,230 companies (of whom less than 70 are in the Global 500) that have set a net-zero target as of December 2020 (see box at end of Executive Summary for methodology). Based on this sample, we estimate total corporate demand for offsets equal to just 50 million tCO₂e per year or \$500 million of financing at an illustrative carbon price of \$10/tCO₂e. While recognising markets are just one of the mechanisms to close the financing gap, clearly this volume falls short of the 15 GtCO₂e of potential forest and land use mitigation or the estimated \$65 billion annual forest finance gap.

ⁱ Here we refer to four projects types: avoided deforestation (REDD+), forest management, sustainable agriculture/agroforestry, and afforestation/reforestation. The first two project categories accounted for 97% of total units issuances between 2017 and 2019.

Estimated corporate demand for offsets is low because:

- Only 67 of the Global 500 companies have set net-zero emissions targets.
- 60% of the 1,230 companies committed to net-zero are B-corps, typically small companies with small emissions footprints.¹¹
- With the exception of the B-corps, only 64 companies in the sample have set net-zero targets ahead of mid-century, meaning there will be minimal demand for compensation or neutralisationⁱⁱ from the sample as a whole.

Making the Business Case for a nature-based net-zero future

Raising the missing finance depends on all corporates – particularly large corporates – increasing their ambition by aligning with “nature-based net-zero” strategies. Specifically, that means:

1. aligning corporate strategy with global goals to limit warming to 1.5°C of warming, implying (on average) a halving of their value chain emissions every decade and full abatement by mid-century.
2. contributing to the protection and restoration of nature by compensating for unabated emissions, starting now and continuing through (and potentially beyond) achieving net-zero emissions across their value chains.

Corporates need to see a clear business case if they are to raise their nature and climate ambition in this way. Such a case is not hard to make, though it varies from one sector to the next. In some sectors (most obviously food and agriculture), companies are directly exposed to losses caused by the ongoing destruction of nature, weather-related shocks, increasing pest risks and damage to crop pollinators. Similarly, sectors such as mining are affected when loss of natural capital makes hydrological flows more uncertain. The electricity sector is affected, as seen most recently in California, when periods of extreme drought undermine the physical integrity of grid networks, sparking forest fires that lead to major outages.

Other sectors, perhaps not as directly exposed to nature, also have a strong business case for financing nature now. Airlines, for example, have good reason to enable their passengers to travel on a “zero emissions” basis to avoid the risk of “flight shame”. This risk has likely grown since COVID-19 has forced changes in flying behaviours. Oil and gas companies have similarly strong motives to compensate for emissions which they cannot rapidly eliminate on the basis of their historic (and continuing) role as a major source of greenhouse gas emissions. Even as they transition to clean energy, their licence to operate depends on demonstrating the “polluter pays” principle. Highly profitable sectors whose direct emissions are more limited, such as tech, also have a commercial interest in demonstrating to consumers and regulators that their privileged economic position is balanced by tangible social responsibility.

As well as seeing a clear business case, corporates will look for robust, science-based standards and ratings to ensure they are recognised for stepping up their ambition on nature in this way. Companies that are combining ambitious abatement pathways with upfront, sustained financing for nature are a key part of the solution to our climate challenge.

ⁱⁱ Compensation is defined as measures to prevent, reduce or eliminate sources of greenhouse gas emissions outside of a company’s value chain and neutralisation is defined as measures to remove carbon from the atmosphere in order to counterbalance the impact of a source of emissions that remains unabated.

The potential impact of large-scale corporate investment in nature is massive. If the Global 500 companies committed to compensating 100% of their unabated Scope 1 and 2 emissions by 2025, demand in the voluntary carbon market would soar to 5 GtCO₂e in that year alone. If 50% of that demand were channelled through REDD+ (i.e. avoided deforestation and degradation), it would deliver the majority of potential mitigation available from protecting standing forests in 2025 in scenarios where zero gross deforestation is achieved globally by or before 2030. At an illustrative price of \$10/tCO₂e, this would cost the Global 500 \$25 billion – less than 0.1% of their total revenues and less than 1.5% of total profits. In other words, a 1.5% tax on the world's 500 corporations would be enough to save the forests upon which all life on earth depends.



Action over the 12 months to COP26

Action is urgently needed to align the interests of private (and public) sector actors who want to invest in high-quality natural capital with those of rainforest nations, who need reliable, long-term financial support if they are to effect the massive “people and nature positive” transformation of their rural economies.

Below are the top three actions that NGOs and standard setters; corporates and investors; governments; and the Parties to the Paris Agreement, guided by the COP26 Presidency, should take now.



I. NGOs and standard setters such as the Science Based Target initiative should:

- a. Define a gold standard for nature-based net-zero corporate climate leadership that incentivizes and supports companies to adopt maximum ambition in setting aggressive emission reduction pathways consistent with 1.5°C (i.e., net-zero by mid-century) and compensating for their unabated emissions along the pathway by investing in nature-based climate solutions. Standards must also ensure high-integrity on the supply side by requiring compensation and neutralisation measures to (a) apply robust baselines, (b) ensure additionality, (c) have measures to ensure permanence, (d) minimise and account for leakage, (e) avoid double-counting and (f) ensure social safeguards.
- b. Develop clear methodologies for corporates to set science-based targets for nature.ⁱⁱⁱ This should be linked to the promotion of sector-specific business cases for corporate action on nature.
- c. Facilitate aggregation or “clubbing” of corporate demand in the voluntary carbon market to help drive systemic change.



II. Corporates and investors should:

- a. Commit to and enforce deforestation-free supply chains and financing by 2025 at the latest.
- b. Commit to the gold standard for corporate climate leadership described under 1a) above.
- c. Commit to paying a minimum carbon price of \$10/tCO₂e for high quality post-2020 REDD+ emission reductions. Where possible they should publicly signal their estimated demand for offsets into the future so that rainforest countries can prepare to scale supply.

ⁱⁱⁱ In September 2020, the Science Based Targets Network (SBTN) issued initial guidance on science-based targets (SBTs) for nature as a first step toward integrated SBTs for all aspects of nature: biodiversity, climate, freshwater, land, and ocean (expected in 2022).



III. Tropical forest countries should:

- a. Communicate clear plans and strategies around reaching zero deforestation and large-scale restoration activities to signal near term supply of jurisdictional REDD+ emission reductions.
- b. Adopt the highest standards for independent accreditation and verification of forest emission reductions, for example, the Architecture for REDD+ Transactions (ART).
- c. Establish high-integrity investment frameworks and credible funding mechanisms to direct finance received by emission reduction sales transparently and in line with international standards. Investment should benefit local and indigenous communities who play critical roles in forest stewardship, and both enforce and incentivize forest protection and restoration.



IV. Non-tropical forest countries should:

- a. Commit to paying a minimum carbon price of \$10/tCO₂e for high quality post-2020 REDD+ emission reductions. Where possible they should publicly signal their estimated demand for offsets into the future.
- b. Provide Official Development Assistance (ODA) for lower income countries to develop policies, capacity, and enforcement so they can reduce tropical deforestation, increase restoration and also support investments to address drivers of deforestation and forest degradation.
- c. Promote deforestation-free supply chains through demand-side measures, public procurement and market access.



V. Parties to the Paris Agreement, guided by the COP26 Presidency:

- a. Support and give a platform to the actions described above.
- b. Encourage and support a coalition of ambitious countries and companies to launch 4–6 jurisdictional REDD+ deals at COP26 to be implemented over the next five years by channelling at least \$2.5 billion of private sector finance towards such deals, delivering at least 250 million tCO₂e of mitigation.
- c. Ensure that there are clear monitoring and reporting protocols that allow a transparent assessment of non-state actors' contributions to country Nationally Determined Contributions (NDCs).

Methodology

Our calculations are based on the following data sources and assumptions:

- a. Sample size: we assess 1,230 companies that have set a net-zero target as of 6th December 2020. There is no single repository for net-zero commitments and the total number varies between sources. Our main source is the Race-to-Zero campaign, covering 1,101 corporate commitments. The others have been gathered through online research.
- b. Emissions data: 2019 emissions data is sourced from CDP and company websites or estimated using average emissions per unit of revenue for each sector.
- c. Emissions trajectory: Estimates of corporate Scope 1 and 2 emissions to 2050 are based on the Science Based Target initiative's decarbonisation scenarios. Estimates of emissions from companies with 1.5°C commitments are based on a 1.5°C pathway. Estimates for all other companies are based on a well-below 2°C pathway. Scope 3 emissions were excluded to avoid double counting.
- d. Mitigation hierarchy: we assume that corporates follow a high integrity approach, prioritising emission abatement and then compensation and/or neutralisation of any remaining emissions at their set net-zero date. We assume 100% of offsets will be purchased from the forest and land sector.



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