SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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FLAG PUBLIC CONSULTATION SUMMARY AND Q&A

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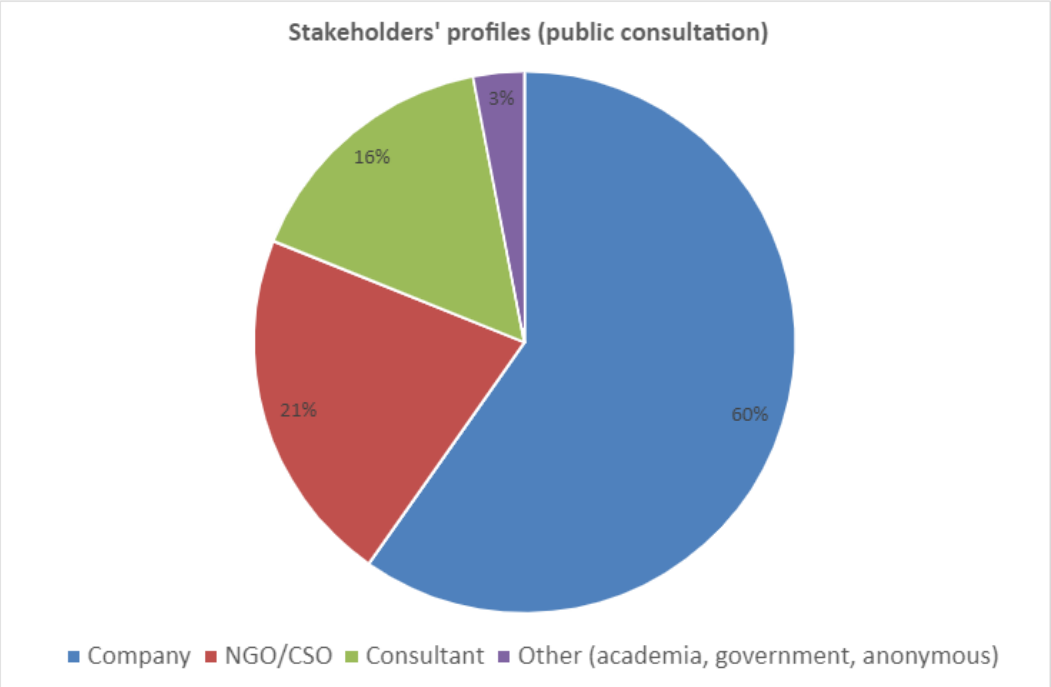
The Forest, Land and Agriculture (FLAG) Science Based Target Setting Guidance underwent public consultation in January and February 2022. This public consultation allowed the FLAG team to receive feedback on a range of issues from a broad group of stakeholders. The FLAG guidance was updated based on public consultation and additional expert judgement, and in line with SBTi principles and precedent.

This document summarizes the volume and kinds of responses received; provides details on major changes made to FLAG based on public consultation; and provides information on additional questions raised in public consultation, along with responses.

1,582 comments were submitted from 165 organizations on the FLAG guidance. Figure 1 shows the breakdown of types of organizations that submitted feedback on the FLAG guidance. The full list of organizations who submitted comments is found at the end of this document.

Figure 1. Stakeholders' profiles



Of the comments received, 61% (959 comments) asked about key SBTi topics, key FLAG-specific topics, or deforestation specifically. These topics are addressed in the detailed responses to public consultation below. The remaining 39% (623 comments) covered issues that we have taken under consideration for future FLAG development; requests for clarity in the guidance document, which we have implemented; and minor organizational or other process questions, which we cover in the updated guidance.

I. MAJOR CHANGES BASED ON PUBLIC CONSULTATION

Five key decisions were made based on public consultation. For the first two issues, the FLAG team specifically requested feedback in the public consultation. The remaining three issues were revised to maintain alignment with SBTi criteria and FLAG expert judgement, while taking account of public consultation comments.

1. **The threshold for requiring a FLAG target is 1) 20% or more of overall emissions are FLAG-emissions,** OR 2) a company is in one of the 'FLAG-required' sectors (Forest & Paper Products, Food Production – Agricultural Production, Food Production – Animal Source, Food & Beverage Processing, Food & Staples Retailing, Tobacco).

   Companies outside of core FLAG sectors must set a FLAG target if FLAG emissions are >20% of overall emissions. Public consultation specifically asked for feedback on whether to use threshold for requiring a FLAG target from a company of either A) 20% or more of overall emissions are FLAG-based or B) more than 20% of overall revenue is FLAG-based. 58 comments were received on this topic, with the majority of those comments requesting using option A) (more than 20% of overall emissions are FLAG-based). Thus, the FLAG guidance includes this threshold and does not include a revenue-based threshold.

2. **No deforestation commitments. Revise deforestation commitment language to specify scope and adjust from 'cut off year' to 'target year'.**

   Public consultation specifically asked for feedback on the deforestation commitment. 133 comments were received on this topic, primarily focused on support for the inclusion of the target and requests for clarity in the target, especially related to scope and 'cut off year'. (A few comments requested removing the deforestation target requirement, but most supported the target, with clarification.) The target language has been updated as follows, with additional details in the SBTi FLAG Guidance document, section 3.2.

   New version:
   "[Company X] commits to no deforestation across its primary deforestation-linked commodities, with a target date of [year, no later than 2025]."

   Old version:
   ~~"[Company X] commits to no deforestation across the value chain throughout the SBT target period, with a cutoff date of 2020."~~

Additionally, companies are recommended to align commitments with the Accountability Framework initiative (AFi) guidance including a 2020 cut-off date, no conversion commitment and no peat burning commitment.
For more detail on this decision please see our blog.

3. **Timeline for requiring FLAG targets.** Based on significant feedback in public consultation received in 70 different comments, FLAG has revised the timeline for when FLAG targets are required better aligning with the Greenhouse Gas Protocol timeline. No FLAG target setting will be required prior to April 2023, with the release of the GHG Protocol Land Sector and Removals Guidance. This is the issue which received the greatest volume of feedback in public consultation. Additional details on the timeline for required FLAG targets are elaborated in the two figures below.

The Draft Guidance for Pilot Testing and Review is available publicly from the Greenhouse Gas Protocol and should be used to guide current accounting.

Figure 2. Expected evolution of FLAG target setting

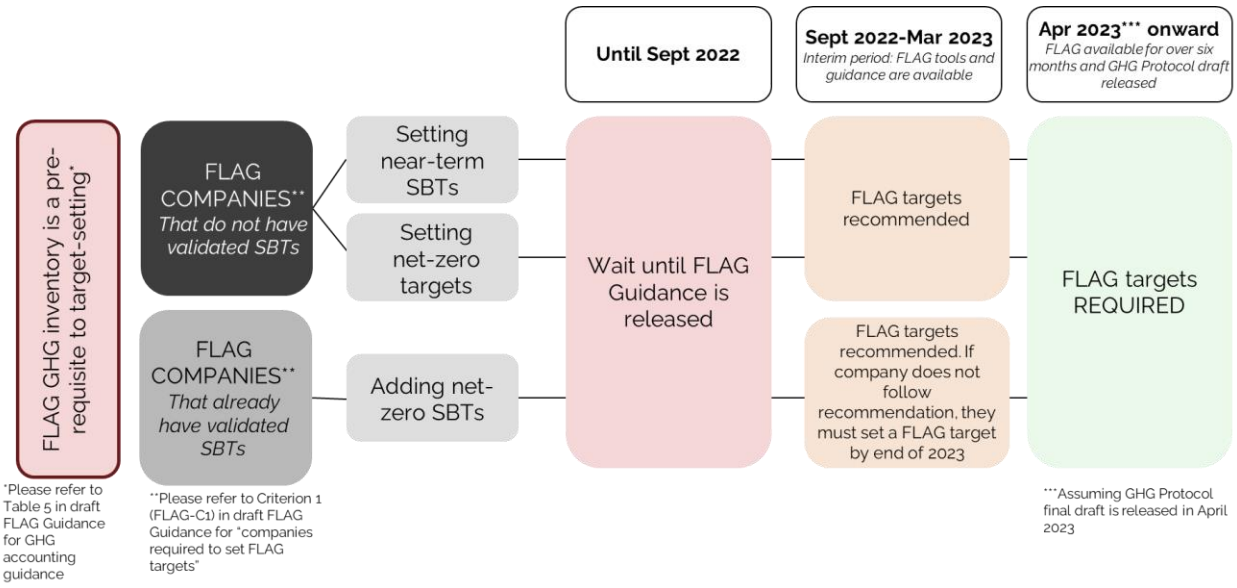
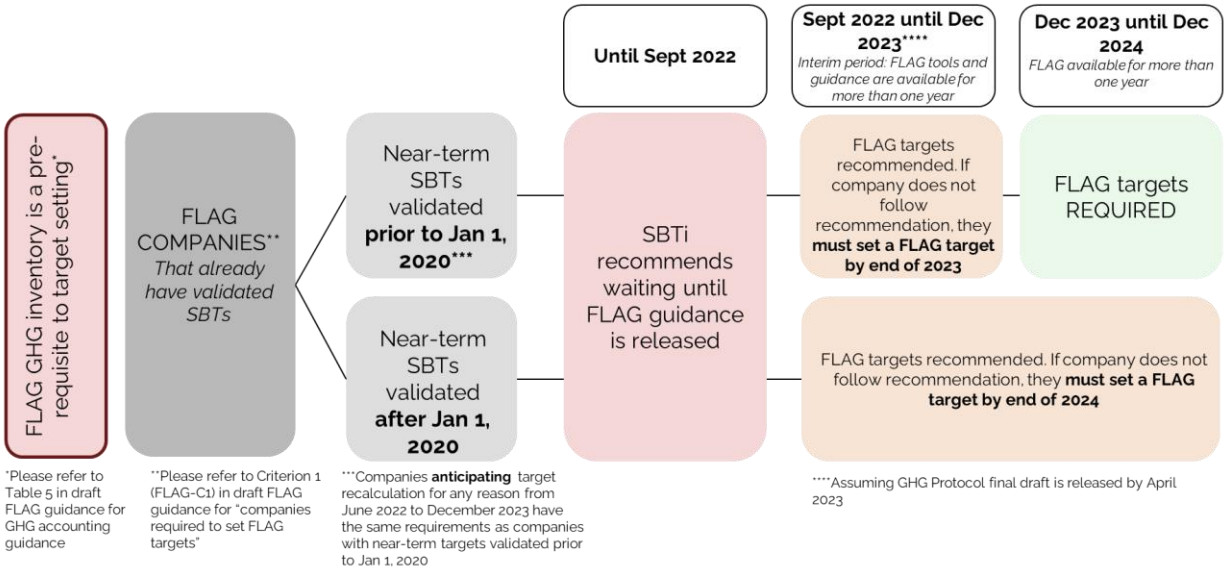
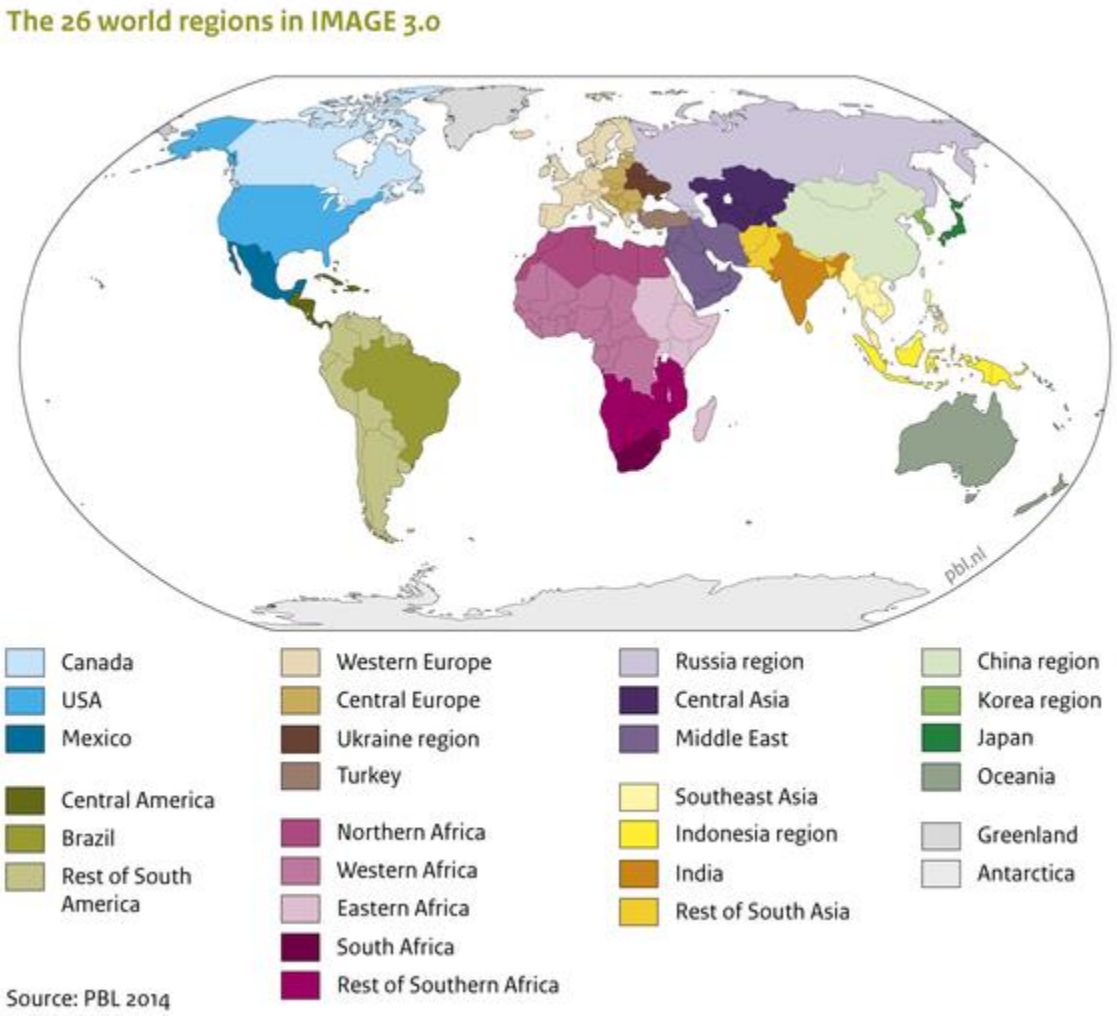


Figure 3. Expected evolution of FLAG in target recalculation



4. **Regional commodity pathways.** Based on significant feedback in public consultation received via 21 comments as well as al letter of request to the SBTi, the global commodity pathways have been disaggregated to 26 world regions. Regionalized pathways allow for companies to set FLAG commodity targets that are specific to the region of the world in which the commodity is produced, and therefore allow for more granular targets. Companies who set commodity targets will be required to use regional pathways according to sourcing location, though the global pathway can be used in cases where it is more ambitious than a company's particular regional pathway. See regionals included in the commodity pathways below, and additional information in the SBTi FLAG Tool. Note this update will generally increase ambition on behalf of the companies.



5. **Demand side mitigation measures.** The demand side mitigation levers of 1) diet shift and 2) reduction of food loss and waste are included explicitly in the FLAG sector pathway. As these demand side activities are included in the FLAG sector pathway, it is most appropriate for demand side companies to use the sector pathway for setting absolute targets to ensure proper incentives are aligned. 13 comments were received on this topic, and the SBTi FLAG Guidance has been updated to recommend that demand side companies (for example, those that sell directly to consumers) use the sector pathway.

   The commodity intensity pathways will be reviewed for inclusion of demand side actions in the next update of the SBTi FLAG Guidance v2.0. Thus, companies considered 'demand side' who set their FLAG targets using commodity intensity pathways from FLAG version 1.0 to set their targets, would need to supplement targets with demand-side mitigation targets within 12 months of FLAG version 2.0, which may be before the

standard five-year review cycle. Companies considered ‘supply side’ would not need to supplement targets except following the usual SBTi Criteria and five-year review cycle. See more information in the FLAG guidance document, section 3.1.3.

To further align FLAG commodity pathways with demand side mitigation measures, one addition was made to the SBTi FLAG Tool. For companies using the commodity / intensity-based pathways, no targets are permitted that increase absolute emissions in the target year compared to emissions in the base year. The SBTi FLAG Tool produces a warning message for intensity targets that would increase absolute emissions.

Lastly, the above is not applicable for companies in the forest products sector or with emissions related to timber & wood fiber accounting for 10% or more of their total (gross) FLAG emissions. Those companies are required to use the commodity pathway for timber & wood fiber available in the commodity approach.

II. ADDITIONAL ISSUES RAISED IN PUBLIC CONSULTATION WITH RESPONSES

What is the rationale for SBTi's scope 3 coverage of 67%?

For near-term targets (5-10 years), the SBTi requires a company to cover 95% of their scope 1 and 2 emissions and to set a scope 3 target when that company's emissions account for 40% or more of a company's total emissions. Under this criterion, most companies are required to set scope 3 targets. In recognition of the fact that scope 3 emissions are assigned to more than one entity for responsibility and are categorically more difficult to track and control, the SBTi has required coverage at 67% across all of the absolute and sector specific target guidance. In the SBTi Net-Zero Standard and for long-term targets (20+ years), requirements are increased such that companies need to cover 90% of scope 3 emissions, in recognition of the need to reduce all emissions in order to have a credible net-zero target.

The SBTi has stringent sector-specific boundary requirements (e.g., all use-phase emissions from sold or distributed fossil fuels; well-to-wheel emissions from sold vehicles). For companies in heavy-emitting sectors, this means they are effectively required to cover much more than 67% of emissions.

Why is there a separate no deforestation commitment but not a no conversion (wetland, peatland, grassland, etc.) commitment?

All land conversion, including wetlands, grasslands, peat burning and forest degradation, are included in the FLAG sector pathway as a part of required mitigation to achieve 1.5°C, and these emissions reductions are a significant part of how the rate of reduction was calculated over time for the FLAG sector targets. The decision to include a categorical criterion requiring that companies have a no deforestation commitment, covering all scopes of emissions, was made given the prevalence of existing 2020 deforestation commitments and to ensure that companies could not use FLAG to go back on these commitments. There was significant support for this criterion being included in the guidance during the public comment and also support from the Accountability Framework Initiative Steering Committee.

In the FLAG commodity pathways, only deforestation is included, as a proxy for all types of land use change, because adequate data to globally and regionally characterize mitigation of each type of land use change were not available for the models used. Additional data to characterize all land use change by commodity is one of the items FLAG is following for future improvements to the models. Again, this is only to calculate the rate of reduction. As companies align with the draft Greenhouse Gas Protocol Land Sector and Removals guidance or any best practice guidance for inventory accounting – all land use change events (deforestation, conversion, etc.) should be included in the company's inventory and thus included within their target, including with a 20 year period of integrating LUC in emission inventories.

Finally, SBTi FLAG is focused on GHG emission reductions and removals, and therefore deforestation commitments are included because emissions from deforestation cover a large share (80%) of global emissions (~11%). Other kinds of land conversation are critical for biodiversity goals and other reasons, however we are prioritizing actions related to climate mitigation within the SBTi.

Why are gross emissions used to determine thresholds for requiring a FLAG target and using a commodity pathway?

If net instead of gross emissions are used in determining whether companies need to set a FLAG target and/or whether they are eligible to use a commodity pathway, then companies with significant FLAG removals may end up with a netted FLAG emissions balance near zero, confusing the criteria.

What kind of carbon removals are included and how are they covered in FLAG?

Carbon removals in FLAG are associated with in-supply-chain mitigation options in both agriculture (e.g., soil carbon sequestration and agroforestry) and in forestry (e.g., forest carbon sequestration from forest management practices like extending rotation length). Most of the mitigation expected by FLAG is still from emission reductions, but companies have the opportunity and obligation to meet needed mitigation from carbon removals.

As is standard for the SBTi, no company can purchase offsets to meet its near-term FLAG or fossil/energy target. The removals that are included in FLAG target pathways are (nature-based) carbon removals opportunities derived from best management practices on land that is within the supply chain of a company.

57 comments received about removals requested clarity about the removals considered under FLAG. Thus, the SBTi FLAG Guidance includes a detailed description of GHG emissions and removals sources covered under FLAG (see guidance document, section 3.1). Additionally, the FLAG team published a blog about removals, exploring the questions received during the public consultation.

What is the difference between removals in Net-Zero and FLAG? Why is there no cap or limit on the use of removals in FLAG targets?

Under Net-Zero 'neutralization', neutralization is expected to come largely from outside of supply chain activities to compensate for residual emissions in a company's supply chain that cannot be abated. Under FLAG, removals may only be included from within supply chain, so they are self-limited by this criterion and a 'cap' is not needed. We expect the Greenhouse Gas Protocol accounting guidance to ensure accurate accounting of removals based on currently available data and understanding.

Why is the target for the FLAG sector pathway 30.3% reduction from 2020 to 2030 if the science says we need to halve emissions by 2030?

This target is based on the best available literature. While as a global average, we need to half emissions by 2030, some sectors are expected to decarbonize faster or slower than others, which is why not all sectors have a 50% by 2030 rate of reduction.

Why aren't there targets for specific gases rather than CO_2e combined?

The current practice of SBTi is to allow aggregated targets across gases, using GWP100 to sum gases to a CO_2e measure, in line with the IPCC.

How were the commodities chosen for the commodity intensity pathway?

The FLAG commodity pathways are based on Smith et al. (2016) which developed a method and tool to set science-based targets for nine key agricultural commodities (beef, chicken, dairy, pork, maize, palm oil, rice, soy, and wheat), and to qualitatively assess one forestry commodity (roundwood). These ten commodities together cover over 50% of global GHG emissions from the AFOLU sector.

The FLAG project updated the Smith et al. (2016) pathways to include land use change and soil carbon sequestration in the existing pathways; to fully incorporate timber & wood fiber alongside the other commodity pathways; and to add a new commodity (leather) building on the data from the beef commodity pathway.

Below is a list of the top requests for additional commodity pathways based on public consultation feedback. Updates to the commodity list will be considered as the commodity pathways are revised and as additional data become available.

Barley, cocoa, coffee, cotton, perennial crops, sheep/lamb/goat and wool, sugar/sugarcane, and sunflower.

How do timber & wood fiber targets work?

A typo in the public consultation draft guidance made the timber & wood fiber targets difficult to understand. In addition, in review after public consultation, and error in the timber & wood fiber pathway was identified: additional mitigation-related removals were included, but baseline removals had been inadvertently excluded. This bug is fixed in the updated tool.

The pathway for timber & wood fiber is not expressed in percentage terms because the volume of removals is much higher than the volume of emissions. Mathematically, the numerator is very small compared to the denominator, so division yields very high numbers that aren't relevant to a

company's targets. Instead, targets are expressed in absolute reductions. Please see the SBTi FLAG Tool for full details including underlying data and formulas.

Below is an example of a timber & wood fiber target. Please see further details are in the SBTi FLAG Guidance and Tool.

Example emission reductions and removals for timber & wood fiber

	Units	Starting emissions + removals, 2020 (tCO2e)	Target emissions + removals, 2030 (tCO2e)**	Emission intensity, 2020 (tCO2e/ m3 solid under bark	Emission intensity, 2030 (tCO2e/ m3 solid under bark**
Timber & wood fiber intensity target*	$tCO2e/m^3$	5,936	-158,524	0.06	-1.59

*Reduction rates listed here include emissions and removals and assume starting with global average emissions intensity for 100,000 m^3 of production. Production is held constant Intensity is calculated as tons of CO2e per ton of product. Actual targets depend on starting emissions intensity, projected company growth in production, and location of production/sourcing.
**Timber & Wood Fiber pathway is not calculated with % values because the primary mitigation lever is removals. Large negative (removals) values make percent calculations volatile and non-representative.

Do FLAG scope 3 targets and non-FLAG scope 3 targets have to cover 67% of emissions separately?

Yes, the scope 3 67% threshold needs to be met separately in the FLAG target and the non-FLAG target. This is to ensure that the minimum 67% threshold is met in both types of targets, and to ensure that validation of the separate targets is straightforward. Mitigation measures are needed for both the FLAG and non-FLAG targets to meet the temperature rating, so clear separation is needed. For companies with a majority of scope 3 emissions coming from FLAG, simple non-FLAG scope 3 targets may be set using absolute reduction pathways.

Do SMEs set FLAG targets?

No. SMEs should continue to use the SME guidance.

If a company is not required to set a FLAG target according to the FLAG criteria, are any FLAG-related emissions still included in their non-FLAG target?

Yes, all FLAG emissions must be included in a science-basde target even if a separate FLAG target is not required. Companies who are not required to set FLAG targets are still encouraged to set FLAG targets, and may only count FLAG removals against a FLAG target.

Why does the SBTi use/allow supplier engagement targets?

The greatest proportion of a company's GHG emissions usually fall within their value chain, and within a company's value chain emissions, supply chain emissions are on average 11.4 times larger than its direct emissions from operations. To achieve net-zero and the Paris Agreement goal, widespread engagement is necessary to ensure that everyone reduces their share of emissions. By engaging suppliers, companies enable emissions reductions across the economy and in high emitting sectors, and accelerate climate action in countries where it would otherwise not be a high priority.

Note that engagement targets are eligible for near-term science-based targets but not long-term science-based targets, which are intended to show that a company's entire value chain has reached a 'residual emissions' level aligned with net-zero.

Can 'FLAG companies' continue to use the supplier engagement approach?

Supplier engagement targets are not included as a mode for FLAG target setting at this time. Companies can still consider supplier engagement targets for their fossil/energy (non-FLAG) scope 3 targets. Please see additional information on Supplier Engagement targets in the most recent SBTi Target Setting Manual.

Why does the SBTi use/allow intensity targets?

The sector-specific intensity convergence method is intended to help companies in homogenous sectors (that can be described with a physical indicator) to align their emissions reduction targets with a 1.5°C-aligned pathway. These sectors include energy supply sectors, transport sectors, industry sectors including cement and steel, the buildings sector, and sectors with significant land-based emissions. Intensity targets are also important for smaller companies that are growing quickly, since they take into account production growth. However, the absolute reduction method is the method most commonly used by companies setting science-based targets - four out of five companies with approved science-based targets use the absolute reduction method. In some cases, the SBTi allows companies to use economic intensity methods for scope 3 targets, but economic intensity targets have some clear disadvantages, so their usage is more restricted. Learn more about the methods for science-based target setting here.

Under FLAG, intensity targets for the agricultural commodities (all pathways except timber & wood fiber) may be used by a company when their FLAG emissions are 10% or more associated with the given commodity. Intensity targets must be set including regional data to ensure that targets are matched to emissions intensity for the sourcing region since these values vary significantly.

What is the rationale associated with thresholds (e.g. target boundaries) in the SBTi framework?

The thresholds included in SBTi guidance and criteria are based on expert judgment following deep internal discussion and analysis by the technical team. This includes consideration of best practices and/or tradeoff between full coverage and flexibility. Before implementation, proposed thresholds follow a transparent multi-stakeholder consensus-based process in order to ensure robustness and applicability.

Why are indirect land use change (iLUC) emissions not required in a FLAG target?

While indirect land use change (iLUC) can be included in a FLAG target, it is not required. This is to align with the draft GHG Protocol Land Sector and Removals guidance, which requires one of three land-tracking metrics (iLUC, land occupation, or carbon opportunity cost), but does not require iLUC. In addition, iLUC emissions remain among the most difficult FLAG emissions to track over time, so they are not included. Direct land use change (dLUC) is a required component of FLAG targets for scope 1, and when statistical land use change (sLUC) is used to estimate dLUC for scope 3, iLUC is also approximated as part of that calculation. Additionally, iLUC is a mathematical function of dLUC and will not change the response options that a company would take to reduce LUC in their supply chains (i.e., the only way they can reduce iLUC is by reducing their dLUC). Inclusion of iLUC would be more relevant for product comparisons than enterprise targets.

Do maritime fishing operations need to set FLAG targets?

No. Even though maritime / wild-caught fishing often falls under a 'required' FLAG target sector, maritime fishing / wild-caught fishing operations are not required to set FLAG targets because there are not generally FLAG-related emissions are associated with this activity. Please see this guidance document for the seafood industry developed by SBTi partners.

Is it possible that FLAG will incentivize large agri-business to steal carbon rights from farmers/forest owners?

While beyond the scope for FLAG, we have added a section on implementation guidance within the SBTi FLAG Guidance document outlining the best practices when engaging your supply chain to reduce emissions and increase removals. These practices include fairly compensating farmers/forest owners for their work, respecting human and land rights, informing them of their carbon rights and ensuring that farmers have access to carbon markets to choose how they are compensated for this commodity.

ANNEX I. LIST OF STAKEHOLDERS PROVIDING FEEDBACK ON FLAG DRAFT GUIDANCE DURING PUBLIC CONSULTATION

Anonymous
2050 Consulting AB
ACT Commodities
ActionAid USA
Adidas
ADM
Altria
AMAGGI
American Carbon Registry and Architecture for REDD+ Transactions
American Forest & Paper Association
anonimous
Anthesis Group
Arla
Attria
Avieco
AW
Beef + Lamb NZ
Blonk Consultants
Bonsucro
Brazilian Tree Industry - Ibá
BTG Pactual Timberland Investment Group
Canopy
Carbon Intelligence
Carbon Quota Limited
Carbon Trust
Ceres
Ceres (Additional comments from Allianz Global Investors)
Ceres (Additional comments from Allianz Global Investors)
CF Industries
Changing MArkets Foundation
Citrosuco
Clarmondial AG
Clif Bar & Company
Climate Positive
Coca-Cola Europacific Partners
Conservation International
Corbion
Countamos.com
Danish Crown
Danone
Danone
David Cockburn
Deloitte
Descartes Lab
Drax
DSM
EcoAct
Environmental Paper Network
Enviva
EPN
Eric Wakker
Essity
Estonian Fund for Nature
Estudio Walsh/AIDIS
Farming of the furture - Milk & Beef"
Fokus
Fonterra
FPAC
General Mills
Genus Plc
Global Canopy
Global Witness
Griesson
Grow Well Consulting
Guidehouse
Heineken
High Carbon Stock Approach
Hilton Foods Group
HM
I Care
IATP
Indigo Ag

Innovation Center for U.S Dairy
Innovation Center for U.S Dairy (additional)
International Paper
JBS
JBS 2
JDE Peet's
Kernel
Klabin
KPMG
Lactalis
Land O'Lakes
Lenzing AG
Lestari Capital
LGIM
Lisa Braun
Louis Dreyfus Company
Manulife Investment Management
Michael Succow Foundation
Mondelez International
Mullion Group
My Climate
National Wildlife Federation
NCX
Nestle
New Forests
NFU
Nippon Paper
NordZucker
Nutrien
Ocean Spray Cranberries Inc., and as an individual contributor
OFI
OH
Ontario Ministry of Northern Development
Orkla
Pernod Ricard
Philip Morris International
Pollination Group
Positive Scenarios Consulting
PROFOREST
Quantis
Rabobank
Radicle
Rainforest Alliance
Rainforest Allinace/AFI
Rainforest Foundation Norway
Raiph Lauren Corporation
Rayonier
Republic Services
Research Institute for Organic Agriculture
Resolute Forest Products
REWE GROUP
RFC
RFRFC
Sappi Southern Africa Limited
Scottish and Southern Electricity Networks - Transmission
SG
SIG Cmbibloc
Socicana
Sodexo
Stora Enso
Sudzucker AG
Sumitomo Forestry
Suntory Holdings
SustainCERT
Sustenance Asia
Swedish Meat
Sylvamo Brazil
Syngenta Ggoup
Systemiq
The Delphi Group
Toitu
Tori Wong
Trimble Inc.
Tyson
Unilever
UW
Verra
Vinedos Emiliana
Viterra
Wap Sustainability
Wecanintl
Wellington Management
Wetlands International
Weyerhaeuser
Winrock International

World Animal
WRI
WSP USA
WWF Austria
WWF Colombia
WWF Germany
WWF-BRAZIL
YARA