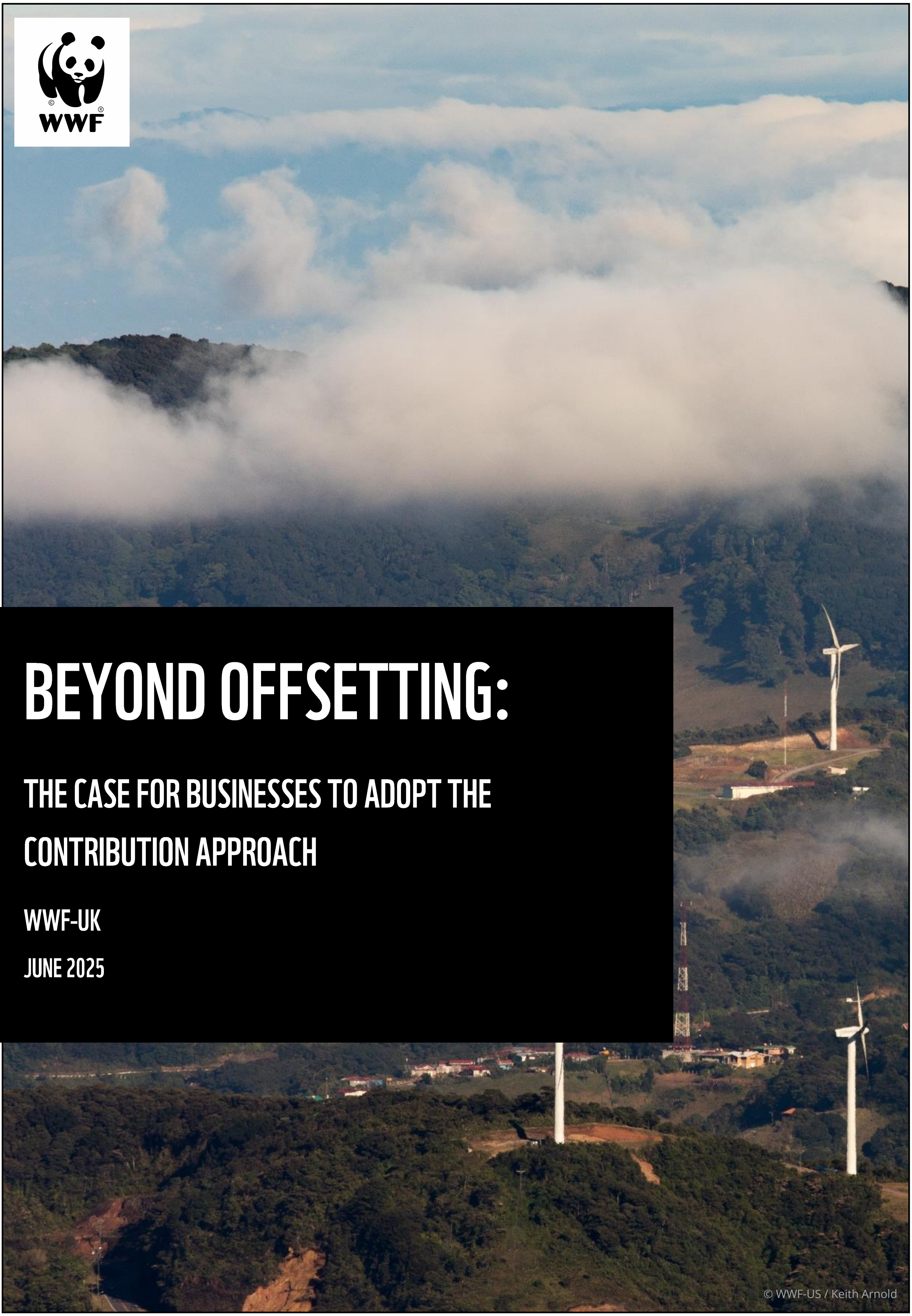

BEYOND OFFSETTING:

THE CASE FOR BUSINESSES TO ADOPT THE CONTRIBUTION APPROACH

WWF-UK

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CORPORATE CLIMATE ACTION

A growing number of businesses and financial institutions have recognised the climate emergency and set science-based emission reduction targets towards net zero. That is the first priority, but on the way to achieving their targets, companies will continue to be responsible for climate warming emissions.

The *contribution approach* guides companies on how they can also take responsibility for their remaining emissions on the way to net-zero. The approach provides an alternative to conventional offsetting and WWF recommends this approach to create credible corporate claims and drive long-term investments essential for the transition to a net-zero, nature-positive economy. It can help businesses manage risk and play a leading role in that transition.

WHAT IS THE CONTRIBUTION APPROACH?

The *contribution approach* is the next generation model for companies to reduce their emissions while also funding climate solutions. There are five steps for a business to take:

1. Account and disclose their emissions across the value chain.
2. Reduce value chain emissions, in line with an ambitious science-based, 1.5°C target pathway.
3. Make a financial commitment to further climate action based on the application of a carbon price on remaining greenhouse gas emissions (see Box 1).
4. Invest that financial commitment in a portfolio of high-impact climate and nature projects.
5. Transparently and separately disclose emission reductions and removals from any beyond value chain mitigation, and use contribution claims instead of compensation claims (more below).

This his approach is compatible with the guidance from the Science Based Targets Initiative on Net Zero, and the ISO guidance on net zero. It is also compatible and complementary to guidance on Net Zero Transition Plans (see Box 2.) For more detail, see the full WWF position on the corporate climate finance.

Box 1: **How to price your emissions**

There is no one internal carbon price mechanism that will work for all businesses and sectors. Each company will need to assess the best approach relevant to their sector and their stage of transition, and WWF recommends that companies disclose its pricing approach with justification for transparency and to boost credibility. The end goal should be an internal carbon price that reflects the full social cost of carbon and that covers all emissions across scopes 1, 2 and 3. However, WWF recognises that this will not be a feasible starting point for all companies and if that's the case then a roadmap towards this end goal should be laid out.

For example, a business may start with application of a carbon price for scopes 1 and 2, adding scope 3 over time. It may begin with a lower interim price, rising over time – ensuring the price is high enough to incentivise mitigation action. The interim carbon price should be guided by relevant compliance market prices (e.g. UK or EU Emission Trading Schemes) and analysis of the necessary carbon price in their sector transition and geography (e.g. World Bank models.) The pricing mechanism and financial commitment that follows can also take account of the objectives and costs set out in a company's net zero transition plan.

It is crucial to develop a pricing model that prioritises further greenhouse gas (GHG) emissions reductions within a company's supply chain. As a company's remaining emissions reduce, so too will its financial commitment, creating a clear link between progress on emissions reductions and financial commitments.

HOW IS IT DIFFERENT FROM BUSINESS AS USUAL?

Some businesses are already working applying several of the steps in the *contribution approach*, while others are just beginning – and the first step remains the essential starting point. Many companies have taken a different approach and focused on achieving "carbon neutrality" by purchasing carbon credits, which may or may not be accompanied by a clear emissions reduction target. For those businesses, adopting the *contribution approach* involves three key shifts:

- Moving from offsetting the company's annual emissions to contributing to a broader, economy-wide transition to net zero.
- Treating carbon credits as one option of many potential climate investments.
- Replacing *compensation* claims (e.g. "carbon neutral") with *contribution* claims (see details below), until the point of residual emissions has been reached.

Importantly, businesses like these have already successfully built an internal business case for budget to invest in carbon credits. This provides a foundation to evolve the model and the business case towards a potentially larger, more flexible budget that reinforces emissions reduction efforts and funds impactful solutions. This briefing paper is designed to support that business case.

WHAT ARE THE BENEFITS OF THE CONTRIBUTION APPROACH?

WWF advocates for this approach because it is the best way for a company to contribute to the necessary economic transition needed towards net zero. But the approach also has benefits to individual businesses. These benefits fall into three categories:

1. **Building a diverse funding portfolio.** The *contribution approach* encourages companies to think beyond carbon credits and explore a wider range of impactful investments. There are advantages to investing in carbon credits, for example the concrete nature of the reported impact. However, there are many essential climate actions that are part of the economic transition that cannot be credited and which also benefit a business. The *contribution approach* creates flexibility to build a relevant and impactful portfolio considering a wider range of options.
2. **Risk reduction.** Climate change creates physical risks to a business, its assets and its supply chain, including, for example, damage to assets from extreme weather events or supply insecurity due to water scarcity. Climate funding can also bring reputational risks if it is not well managed, for example recent criticism of carbon credit projects issuing overestimated credit volumes or causing negative social impacts. A business must also consider transitional risks and how it can support a policy environment that enables its transition. The *contribution approach* encourages consideration of investment options that can help avoid or manage these risks as part of a contribution to the wider economic transition. In this way, the *contribution approach* connects to an effective Net Zero Transition Plan (see Box 2).
3. **Credibility built through transparency.** The *contribution approach* supports a high integrity claim which is up front on a company's intent to transition as well as what it has left to do. It ensures that its progress on reducing emission reductions and its investment in other climate action are separated and visible. Recent high-profile rulings by the UK Advertising Standards Authority have demonstrated the consequences of misleading green claims, resulting in reputational and financial damage for the companies involved. Similarly, the EU Green Claims Regulation of 2023 signals a tightening regulatory landscape, which other markets may soon follow. On the other hand, through clear impact claims,

companies can communicate measurable contributions to climate action and their benefits for people and nature.

Box 2: **The contribution approach and Net Zero Transition Plans**

A Net Zero Transition Plan is "an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions" (IFRS S2 Appendix A.) According to the guidance documents of the Transition Plan Taskforce and IFRS, amongst the overall structure of a good transition plan, the following considerations are included and are highly relevant to the *contribution approach*: accounting and disclosing greenhouse gas emissions, carbon pricing, identifying climate related risks and opportunities, resource deployment, purchasing of credits, as well as engagement with governments, communities and civil society, including voluntary commitments. As such, a company or financial institution could use the contribution approach to guide parts of its transition plan as well as reflect in its transition plan its application of the contribution approach.

WHAT SHOULD A COMPANY INVEST IN?

With emission reductions on track, and a financial commitment made using a carbon pricing mechanism, a company has the opportunity to consider a range of relevant and impactful investments. The focus should remain on clear impact objectives and the emphasis on driving further emission reductions or removals. Below are listed five different types of investment the company could make, some of which might generate quantifiable emission reductions or removals, while others might unlock the pipeline of future climate solutions and reduce risks. All of them are essential parts of the economic transition to net zero. Company leadership will want to see results delivered for its investments, placing added importance to investments that can quantify and verify results. High-quality credits can still play a role in the *contribution approach*, but there are also other means of verifying results. Equally, investments in innovation or policy advocacy may have less guarantee of success or quantifiable results, but their influence may be greater overall if successful and make the company's transition smoother. So, a portfolio that combines high certainty, quantifiable options with less certain, higher reward options would be beneficial.

1. **Further emission reductions and removals in the supply chain.** If a company has the opportunity to use its financial commitment to go beyond its targets, this should be the first priority. Examples of such investments include the use of renewable power, alternative fuels, more sustainable raw materials and insetting. Nature-based solutions when used for insetting also offer the

opportunity to deliver resilience co-benefits to a business (e.g. improving water quality or availability through ecosystem restoration in and around a production site) as well as biodiversity benefits.

2. **High quality carbon credits.** This remains an option under the *contribution approach*, when used with a compatible claim. Emphasis should be placed on high quality and on an appropriate price (i.e. representing the full cost of the intervention), rather than quantity and low price. For land sector projects and nature-based solutions, there are a number of important factors to consider including scale, rights-based approaches, prioritisation of landscape needs over maximising credit issuances, and considering trade-offs amongst different land uses. WWF has outlined these and other key principles for corporate climate finance for high quality nature-based solutions.
3. **High quality nature-based solutions.** There are other interventions that can deliver robust climate benefits alongside nature and social benefits without carbon credits. For example, through other robust, transparent monitoring of carbon removals, verified wildlife or biodiversity credits, and verified adaptation benefits (e.g. the African Development Bank Adaptation Benefit Mechanism.) This could include investing alongside other businesses in an integrated landscape or jurisdictional initiative and making a contribution to shared impact through that initiative (see below). As noted above, when linked to sourcing sites for a business, nature-based solutions and integrated landscape initiatives can further build resilience of a supply chain and strengthen the company's social license to operate in this sourcing region.
4. **Climate innovation.** Funding climate innovation helps accelerate new technologies and approaches for decarbonisation, advancing scalable solutions that address climate challenges more effectively. Potential areas for investment include new efficient technologies, material and energy feedstocks, and direct air carbon capture, among others. Here, investments could be made that unblock a barrier to a company meeting its own targets in the future and the sector wide transition.
5. **Advocacy for ambitious climate policies**. Supporting climate advocacy promotes policy changes and public awareness, driving broader societal shifts and regulatory frameworks that support ambitious climate action. Examples include supporting the advocacy work of independent civil society actors, taking part in business associations engaged in climate advocacy, contributing to scientific studies feeding into science-based positions and decarbonisation pathways, campaigns pushing for ambitious climate policy agendas. It can also include advocacy to create the enabling environment for the *contribution approach* itself to become expected practice amongst businesses, thus supporting a race to the top.

WHAT CLAIMS CAN A COMPANY MAKE?

The contribution approach shifts focus from *compensation* claims (e.g. buying credits to claim carbon neutrality or net-zero before reaching the residual emissions stage), to celebrating transparent and impactful *contributions*. The credibility of a corporate claim will be judged by a range of stakeholders including customers, investors, regulators, and civil society. To meet these evolving and wide-ranging expectations, a company can make two parallel and transparent claims - firstly on their progress in decarbonisation, and secondly on the wider contribution they are making. At an overarching level, this could read as something like: "*While we work on and prioritise reducing emissions in our business and supply chain, we are also investing in climate and nature solutions beyond our value chain, to support the global transition and deliver positive impact today. Including…*"

This type of claim enables companies to communicate their role in addressing the climate crisis while maintaining clarity about their actual progress toward net-zero. It avoids potential confusion or overstatement and helps foster trust with stakeholders by being open about both achievements and ongoing efforts. There are three primary claim types:

1. **Input or Finance Claims:** focused on financial contributions to climate goals (e.g. "*While we progress towards our emission reduction targets, we contribute to global climate goals by investing [amount] in climate projects annually*"). Ideally, these include an emissions price (e.g. "*we price our emissions at [£/tonne]*") or other credible rationale for the size of the finance commitment. Through some climate finance mechanisms, it is possible to officially count these contributions towards the New Collective Quantified Goal for climate finance under the UN convention on climate change.
2. **Outcome Claims:** specific and attributable to a company's climate finance portfolios, that include but often extend beyond direct emissions reductions or removals to also include biodiversity and social impacts (e.g. "*Our support removes an estimated X tCO2-eq per year while improving the lives of Y families.*")
3. **Landscape contribution claims:** where a company invests alongside others into a landscape or other collaborative initiative and shares the results of that scheme with others (e.g. "*In [Year], we contributed US $X to support the protection of Z hectares of tropical forest in [Y jurisdiction], through a jurisdictional approach aligned with global climate and nature goals.*") As above, these can cover social and biodiversity outcomes too. In certain conditions, these claims could be attributed to the business and may be made as a more direct outcome claim, and iSEAL has provided guidance on when and how to make these claims.

What is the contribution approach?	Why is it different?	How does it help businesses?
Account, disclose and reduce GHG emissions on a science based pathway	From a compensation commitment to a financial commitment	Flexibility to invest in a wider range of solutions
Apply an internal carbon price to remaining emissions and set a financial commitment	Considering carbon credits as one option among many	Potential to reduce reputational, physical and transitional risks
Invest in a portfolio of projects for further climate action	Embracing a contribution claim	Building credibility through transparency

Figure 1: **The contribution approach in a nutshell**

CONCLUSION

Additional climate finance is an integral part of any effective and credible climate strategy for a business. The *contribution approach* offers a fresh, impactful framework that can reduce risks to the business and support its transition to net zero. It enables businesses to move beyond traditional offsetting, to finance climate action, deliver social and nature benefits too, and address systemic barriers to decarbonisation. By adopting this model, companies not only enhance their climate credibility but also play a vital role in shaping a sustainable future and creating the conditions for their business to thrive in a net zero economy. This approach raises the bar for wider business engagement, encouraging a race to the top at a time when bold action for climate and nature has never been more critical.

For more information

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