

SBTN Corporate Engagement Program Steps 1 & 2 Workshop

April 8, 2021



SCIENCE BASED TARGETS NETWORK
GLOBAL COMMONS ALLIANCE

Housekeeping

- Please rename yourself as First Name (Company Name)
- Please feel free to ask questions and make comments in the chat - we will try to respond as we go, or break to address these as a group

Who is in the Zoom room?

Please go to **menti.com**

Code: **7828 1561**

Workshop objectives:

1. Present further guidance on how to assess impacts (Step 1) and prioritize business activities for inclusion (Step 2) in target setting
2. Gather initial feedback from CEP on (some) proposals and outstanding technical questions
3. Establish process for further feedback

Desired outcomes:

CEP is better able to undertake Steps 1 and 2
and therefore, more ready to set SBTs

**SBTN is able to provide updated guidance to the
CEP and Network**

based on a clear mandate from practitioners of what further guidance is needed, and on an understanding of answers to key questions

Agenda

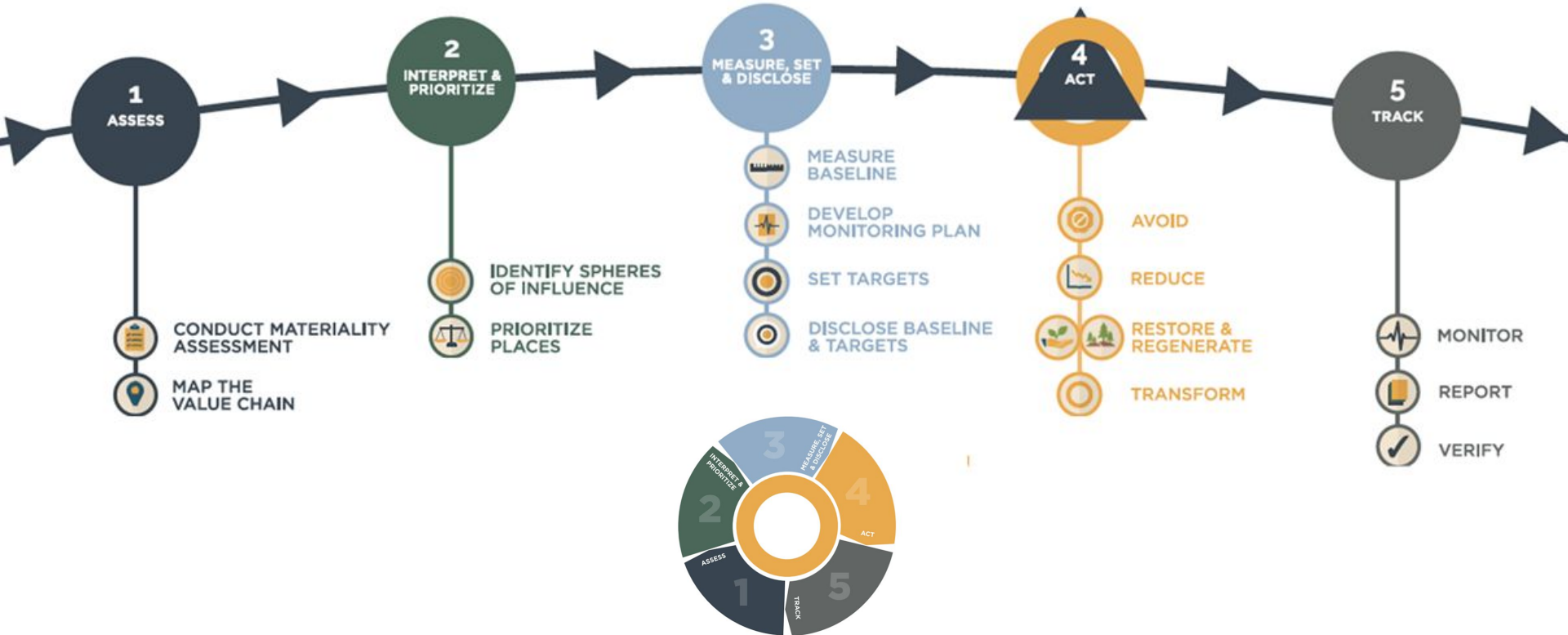
- Intro
- Inform: Step 1 proposals
- Breakout discussion Step 1
- Inform: Step 2 proposals
- Breakout discussion Step 2
- Wrap up

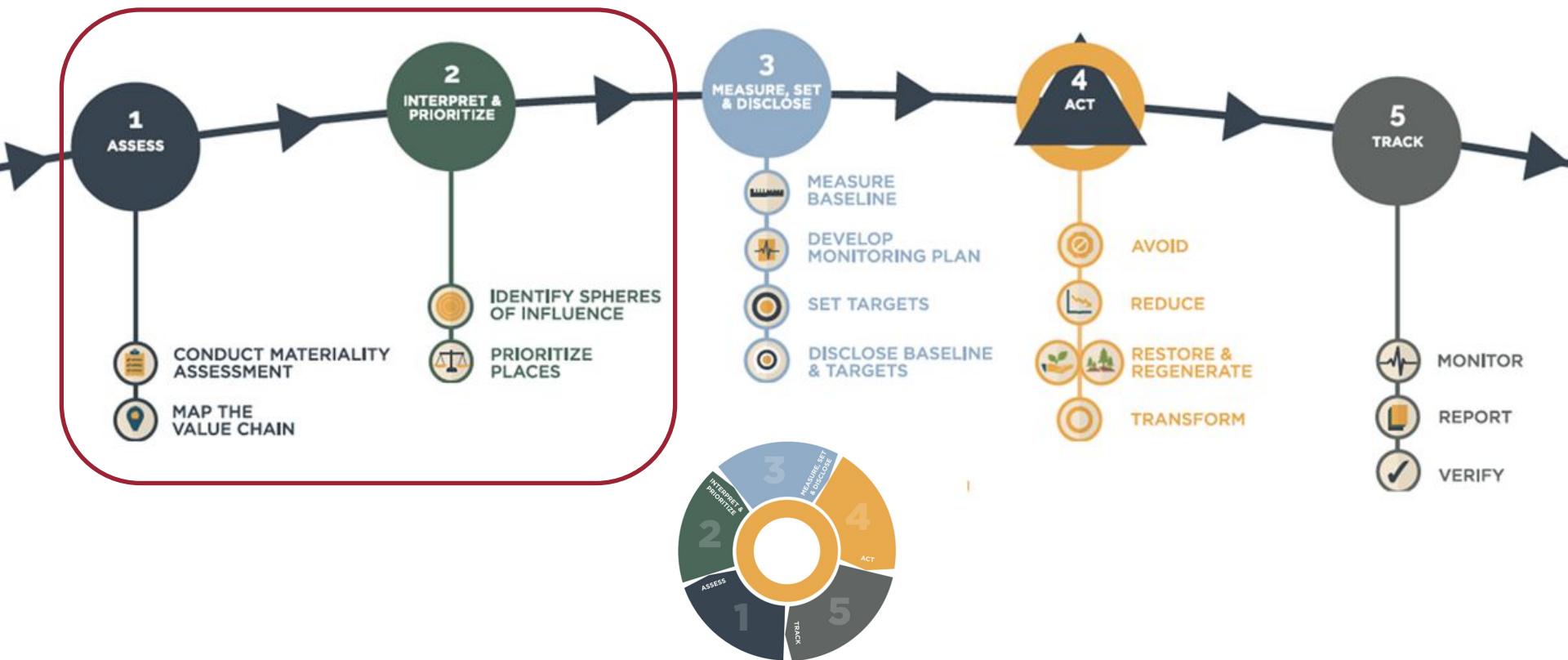
Focus for today

What we're going to share today

- Further proposals based on your questions and updates on our thinking
- Key issues we'll cover:
 - What do about dependencies, downstream
 - Issues around materiality thresholds
 - Guidance on data requirements
 - Factors for prioritization
 - Proposed minimum target coverage requirements
- A variety of information:
 - Answers
 - General options for discussion/ resolution (across issues)
 - Proposed options with issue-specific answers

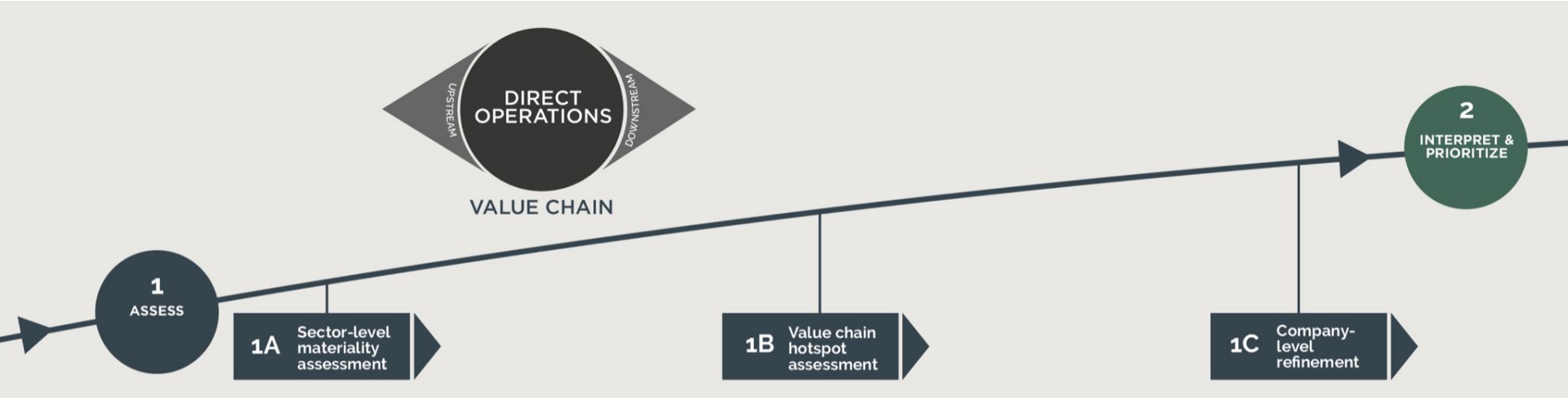
Reminder: process of target setting





Step 1

Reminder: Step 1 subparts



Step 1a: Purpose and description

Purpose

Allows a company to focus on the most important areas of impact for target setting, or can also serve as a gap analysis of existing assessments (if any have been done)

Description

Rapid qualitative assessment to identify relevant issue areas for your company

Company Inputs: sector(s) and industries of relevance to the business

Company Outputs: A list of material issue areas* for further assessment, in different aspects of the business

**e.g., water quantity, ecosystem intactness, GHG emissions*

Step 1a: Updates shaped by feedback

IG - key features	+	FAQs/feedback	➡	New - key developments
Sector-level assessment, using GICS		<i>How to get below sector-level?</i>		Guidance for complex companies Considering alternative activity classification schemes
Materiality matrix		<i>What tools to use?</i>		Criteria and thresholds for determining materiality (tool agnostic)
Impacts and dependencies		<i>How to consider both?</i>		Focus on impacts only
Upstream, direct operations, downstream		<i>How to deal with downstream?</i>		Treat separately...
General guidance on inclusion (for further assessment and target setting) and exclusion		<i>What can be excluded?</i>		More prescriptive guidance on inclusion and exclusion

Some definitions: Materiality

- Issues which are “material” are those which are significant and should be accounted for in corporate target setting and action
- The significance of a company's environmental impacts related to its operations and value chains, in terms of their consequences for meeting societal goals for nature
- The level of materiality may vary across different locations in space and different lines of business
- Parameters used to understand significance (e.g. time frame, geographic distribution, potential severity) should correspond to societal preferences

Preview of changes (Step 1a)

What's currently in the IG:

The key piece of prescriptive guidance we provided for Step 1a is that companies will likely need to focus (in their first round of target setting) impact areas labeled 5/ very high, 4/high, or 3/medium in the materiality matrix

More detailed guidance:

If using levels 1-5:

- issues ranked as 4 or 5 (high likelihood of materiality) *must be included*
- issues ranked as 2 or 3 (medium likelihood of materiality) *should be included* in Steps 1b-1c for further assessment to verify materiality and gather evidence for exclusion (if applicable),
- issues ranked as 1 (low likelihood of materiality) *can be left out* of Steps 1b-1c or included if desirable.

Preview of changes (Step 1a)

More detailed guidance (continued):

Proposed guidance/rule at this stage: It's possible for companies to further assess issues which are not likely to be material from a societal perspective (i.e. issues with a ranking of 1), and set additional targets to cover issues of financial (but not societal) materiality, but these would be additional and should not be considered as substitutes for targets on issues which are societally material.

Technical question for the CEP

Based on your company or the companies you work with, which of the following options would be useful to helping you narrow down the scope of assessment?

Criteria based on spend
(e.g., if >X% of spend is
connected to a given sector)

A

Criteria based on revenue
share (e.g., >X% of company
revenue is from a given
sector)

B

Market share for a given
commodity/product (>50%,
or highest percent
compared to others)

C

Activities with known
(relatively high) impacts

D

Based on sector importance
for nature-positive transition

E

For product types with
known (relatively high)
impacts

F

Question #1

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Step 1b: Purpose and description

Purpose: Understand the relative significance of business activities throughout value chains for the purpose of target setting; identify data gaps, for which further refinement may be necessary

Description: Quantitative (or semi-quantitative) assessment of business activities and issues flagged as material in Step 1a

Company inputs: TBD (pending data quality guidance)

Company outputs: A set of quantitative estimates on impacts for issue areas flagged in Step 1a, associated with different aspects of the business (and ideally, locations) as well as a list of material issue areas not meeting minimum data quality standards, to be assessed further in Step 1c

Step 1b: Updates shaped by feedback

IG - key features	+	FAQs/feedback	⇒	New - key developments
Value chain assessment of impacts and dependencies		<i>How to collect info on dependencies?</i>		Focus on impacts only (for now for Step 1)
Upstream, direct operations, downstream		<i>How to collect data/analyze for different aspects?</i>		Treat separately...
General guidance on data needed for this assessment		<i>What data do companies need to collect?</i>		More prescriptive guidance on acceptable data quality

Preview of changes: proposed principles on data quality (Step 1b)

- ***Standard principle on primary vs. secondary data:*** data quality should correspond to material significance rankings from Step 1a, such that
 - aspects with higher materiality (e.g. 3-5) should be assessed using primary data, where possible*
 - aspects with low materiality (e.g. 1-2) may be assessed fully with secondary data

*Where primary data is not possible to gather, secondary data is acceptable

Preview of changes: proposed principles on data quality (Step 1b)

- ***Standard principle on spatial granularity:*** Data should either be derived at country-level (from a tool) or be able to be translated to this level by the company/consultant applying the guidance.
 - Depending on the impact types identified in Step 1b, companies may be advised to improve the spatial granularity of data to verify impact significance in Step 1c. For instance, sub-national or landscape scale is strongly suggested for activities / commodities known to be frequently associated with ongoing deforestation in areas of critical habitat (e.g., palm oil), or for highly water-intensive activities. Coarser granularity (e.g., country-level) is sufficient for impacts with less significance from a societal perspective and will not be [required] to be refined in Step 1c.

Technical question for the CEP

- What types of activity data are companies likely to have?
 - List of physical activities
 - Country-level location data for physical activities (though sub-national location preferred, particularly for direct operations)
 - Spend data, by commodity and maybe geography
 - List and volumes/masses of inputs and outputs (ideally by geography)
 - List of products/services (desirable to have LCA for these when possible)
 - Sector averages for commodity and location data (e.g., from LCI databases)
 - Clear map of activities and breakdown between upstream, direct operations and downstream
 - Other?
- Of the above, which types of data may be challenging to collect in your sector?

Question #2

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Step 1c: Purpose and description

Purpose: Ensure assessment outcomes are appropriate to specifics of the business setting SBTs; ensure data quality standards met for issue areas which were missed or insufficiently assessed in initial phases of assessment

Description: Refine and revise estimates of impacts from earlier Steps

Inputs: Specific assessments of material issue areas not covered by generic tools, or not covered with sufficient detail.

Outputs: A final, refined assessment of material issue areas and key value chain components for consideration in Step 2

Overview of updates: Step 1c

IG - key features	+ FAQs/feedback	⇒ New - key developments
General description of refinement	<p><i>Are there more stringent criteria on exclusion and inclusion in the step of company refinement?</i></p> <p><i>How to move from location-based business activities to sector-level company-refined activities?</i></p>	<p>Guidance on when to refine assessment of different impacts</p> <p>Guidance on data needed for refinement</p>

Further guidance: refinement

 **In general, refinement needed when data quality standards not met in Step 1b**

In addition, our teams propose that outputs from Steps 1a-b should be refined when they meet certain criteria for significance, e.g.

- Criterion A: Refinement is required for activities whose associated impacts exceed certain absolute thresholds, e.g., >X area of land-use.
- Criterion B: Refinement is required for activities whose associated impacts exceed thresholds relative to a company's overall impact (e.g., impacts >Y% of a company's total impact).

Questions to the audience

- *What, if any, further guidance would you need to be confident at the end of Step 1 that you have a robust understanding of your company's impacts?*

Question #3

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Code: **7828 1561**

Overview of updates: Step 1 (overall)

IG - key features	+	FAQs/Feedback	⇒	New - key developments
Toolbox		<i>What tools are available/recommended?</i>		Specific guidance on which tools to use in different contexts
Impacts and dependencies		<i>How should impacts and dependencies be considered?</i>		Focus on impacts only (for now for Step 1)
Upstream, direct operations, downstream		<i>Should upstream and downstream be considered separately?</i>		Treat separately...
Decision tree		<i>How to use?</i>		Data collection guide

Break Outs

Please discuss as a group and capture your conversation in the template below.
You have about 30 min.

How well do these updates address any challenges you've encountered while trying to carry out an assessment or benchmarking your current work?	What further clarifications are needed on the content presented today?	What further guidance is needed from SBTN on this step?
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Step 2

Reminder

Step 2 = narrowing down the scope (i.e. coverage) of targets for each material issue

Interpret the outputs of Step 1, in order to prioritize key issues and locations within the value chain (upstream and operations for now...) for taking action

This step is necessary for two reasons:

1. Companies can't take action on everything (there are feasibility limitations); and
2. from a societal/environmental perspective, some *impacts* and *places* are more critical to address quickly than others.

As an output, the company will have a list of sites/inputs/suppliers, etc. for which baseline data needs to be collected in Step 3.

Step 2: Purpose and description

Purpose: Ensure areas of impact that are most relevant for meeting societal goals will be covered by targets, i.e. ensure targets cover critical impacts

Description: Company applies SBTN target coverage rule(s) to determine which locations or products will be the focus of its targets

Inputs: Information from Step 1; further inputs TBD pending SBTN guidance on minimum coverage rules (see coming slides)

Outputs: list of locations to prioritize for baseline data collection and target setting in Step 3

Step 2: Key Concept: 'Minimum Coverage'

Within an issue area, a 'minimum coverage rule' defines which part of the impacts estimated in Step 1 must be included in the baseline (target).



For example, SBTi defines two criteria on 'target boundary':

- > 95% of Scope 1 and 2 emissions (Criterion 2)
- > 66% of Scope 3 where Scope 3 is relevant (>40% of est. impact) (Criteria 17 and 18)

Assumed fungibility of all Scope 3 categories (upstream = downstream)

Reminder: Minimum coverage rules will apply for validated SBTs but companies may road test methods with less coverage

Overview of updates: Step 2

IG - key features 	FAQs/Feedback 	New - key developments
<p>General guidance on how to prioritize, based on seven factors:</p> <p>A: Contribution of location to total impact of company</p> <p>B: State of nature</p> <p>C: Relative contribution of business to total impact at site</p> <p>D: Needs of local stakeholders</p> <p>Interests of company-level stakeholders</p> <p>E: Needs and capacity of value chain partners and/or subsidiaries</p> <p>F: Policy environment</p>	<p><i>How should location information be analysed and prioritized after the geographical mapping?</i></p> <p><i>How do we define where to set boundaries across the value chain?</i></p>	<p>Prescriptive guidance on how to prioritize, based on an issue-specific minimum coverage 'rule'</p> <p>Prioritization factors relevant for this step are narrowed down to two, other five are considered more relevant for Steps 3-4</p> <p>Whether targets can be separated out into different 'tiers' such that for instance, Tier 1 impacts/targets are associated with one type of action/ambition level, and Tier 2 with another</p>

Prioritization: Coverage vs. Action

Factor A: Contribution of location to total impact of company

Factor B: State of nature

Factor C: Relative contribution of business to total impact at site

Factor D: Needs of local stakeholders

Factor E: Interests of company-level stakeholders

Factor F: Needs and capacity of value chain partners and/or subsidiaries

Factor G: Policy environment

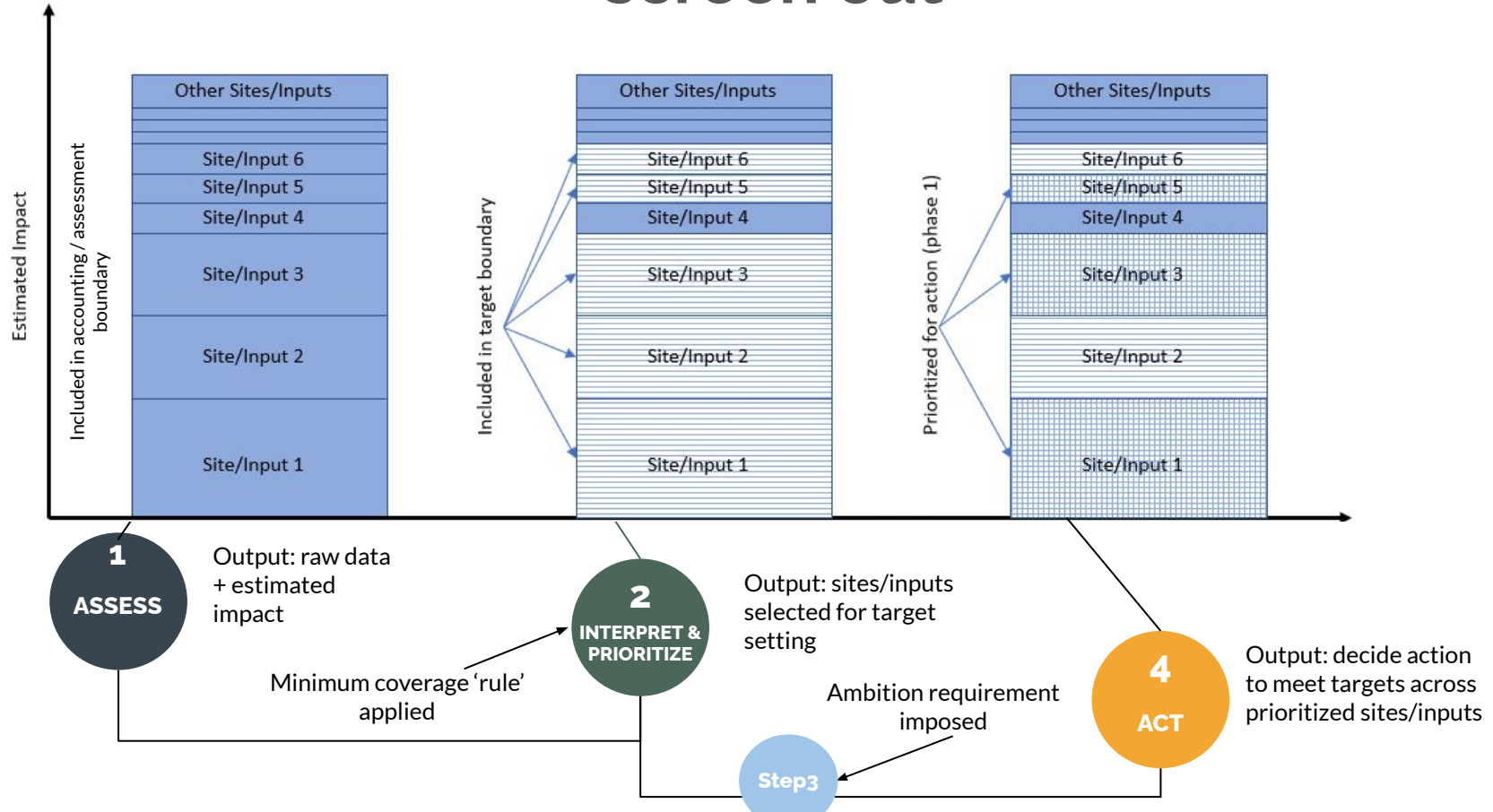
2
INTERPRET &
PRIORITIZE

Factors to
prioritize which
sites/inputs to
include in target

4
ACT

Factors to
prioritize where to
take which types
of action (in
addition to
Factors A and B)

Filters applied across steps to screen in and screen out



Guidance developments for Step 2

We are still actively working on defining the 'minimum coverage rule' for each issue

- There is some potential to have multiple levels of coverage rules, e.g. one at company level to ensure the majority of all impacts on nature covered, and then one at issue level to ensure critical contributions to specific impact areas are covered

We can highlight today two of the options for the rule, Option A is in line with the approach taken by the Water Hub, Option B is in line with the approach taken by SBTi.

- Both rule options preferred by our teams use Factor A: Contribution to overall impact of the company; and to a lesser degree, Factor B: State of nature

Guidance developments for Step 2

- Option aligned with draft water methods

Option A: Minimum coverage rule informed by materiality ratings determined in Step 1, as well as Factor A (contribution to total impact) + Factor B ('state of nature').

Data on impacts for different locations/activities from Step 1 are weighed again in Step 2 the context of:

- the level of degradation of the ecosystem
- the biodiversity significance of the location
- the climate significance of the location
- degree of dependence of local population on NCPs/ecosystem
- Data availability for state of nature (Factor B)

Guidance developments for Step 2

- Alternative option, aligned with SBTi/GHGP:

Option B: Minimum target coverage is determined primarily by Factor A (proportion of overall impact), such that in their first phase of target setting,

- All companies should cover at least 95% of the total pressure occurring in the value chain aspect/product lines with the highest materiality ratings identified in Step 1. For some companies this will be direct operations, for others it will be upstream or downstream. ['Primary targets']
- All companies should cover at least 66% of their total impact/pressure from other business activities (in the less material portions of their value chain/product lines). ['Secondary targets']

Break Outs

Step 2

Please discuss as a group and capture your conversation in the template below.
You have about 16 min.

If you've had to prioritize when setting out environmental strategies in the past, how have you defined where to set targets?	What factors do you see as most important for prioritizing within the value chain? Does it vary by issue area?	What other feedback do you have on the options and updated guidance?
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Summary + next steps

Sharing Step 1 & 2 updates with the CEP

- Will send a longer version of these slides with greater detail by the end of this week
- Feedback on the updates desirable by the end of April, but is not mandatory--feel free to comment on only those most important to your business
- Please provide feedback through [this Google Form](#)

Note: We will be sharing this more broadly with SBTN partners (NGOs, consultants, coalitions) so that they can use to with their corporate partners, in May

Nov 2020 Dec 2020 Jan 2021 Feb 2021 Mar 2021 Apr 2021 May 2021 Jun 2021 Jul 2021 Aug 2021 Sep 2021 Oct 2021 Nov 2021 Dec 2021 2022

Technical Development

CEP

Products

SBTN Partners

"Sense check" on Steps 1 & 2

Internal memo on Steps 1 & 2

(once revised)

Step 1 & 2 Session w/ CEP

Beta testing with companies via SBTN partners

Methods 101 doc (internal)

Water method v.0

Land method v.0

STAR guidance?

Extended guidance (external)

Next steps for CEP

- 2 Tools focus groups (April-May)
 - Aligning with current practices (1.5 hours)
 - Validation and prioritization (1 hour/session)
- CEP learning session (May 18, 9-10:30 AM ET)
 - Send questions ahead of time
 - Show and tell
- Step 3 feedback session (tentatively June 3, 8- 10 ET)

Closing

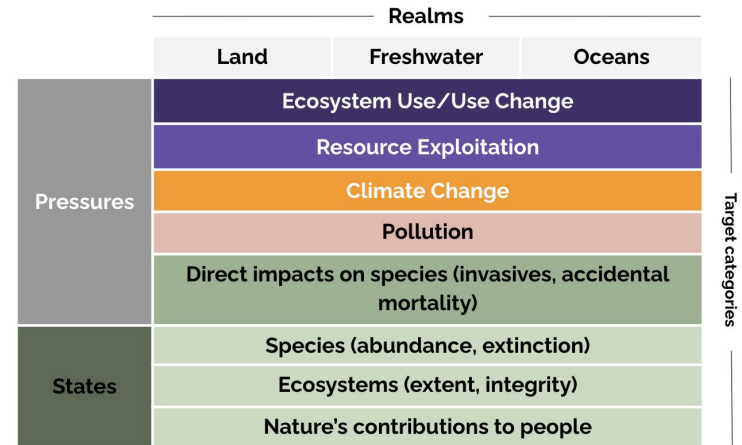
Appendix

Finding common ground

Some definitions: Issue area

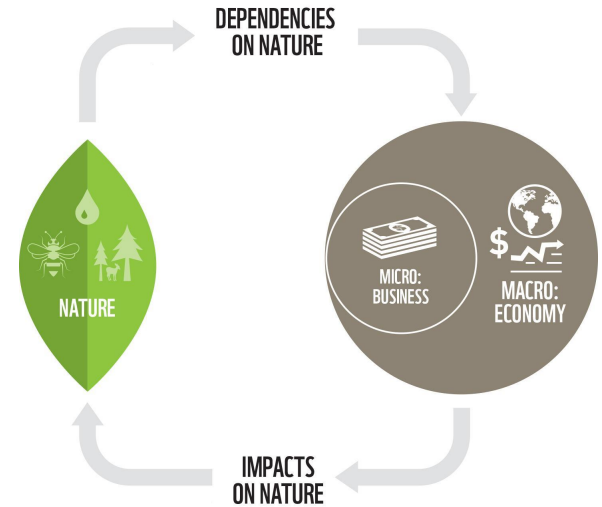
- The environmental issues or aspects on which companies will set SBTs
- Specific to land, freshwater and the ocean ('realms')
- Categories correspond to the study of nature and biodiversity loss

Example: Pollution can be broken down into three issue areas, by realm: soil pollution, water pollution, and marine pollution



Some definitions: Impacts and dependencies

- Impacts: positive contributions or negative effects of a company or other actor toward the state of nature
- Dependencies: Aspects of nature's contributions to people that a person or organization relies on to function



Step 1a: Sector-level Materiality Assessment

Step 1a: Purpose and description

Description

Rapid qualitative assessment to identify relevant issue areas for your company

Purpose

Allows a company to focus on the most important areas of impact for target setting

Can also serve as a gap analysis of existing assessments (if any have been done)

How to carry out Step 1a (as in the IG)

We recommended companies use our draft materiality matrix

- Based on ENCORE + EXIOBASE
- Covers impacts only, specifically

Terrestrial ecosystem use	Freshwater ecosystem use	Marine ecosystem use	Water use	GHGs emissions	Non-GHG air pollutants	Water pollutants	Soil pollutants	Solid waste	Disturbance
Land/Sea Use Change			Resource Exploitat'n	Climate Change	Pollution				Invasives and Other

- Covers upstream and direct operations; data gaps for downstream
- Sector data provided using GICS, sector-level and industry-level

Further development of the sectoral materiality assessment, based on your FAQs

- Developing general materiality criteria so that assessment can be tool agnostic (+ to facilitate comparison of tools)
- Considering classification scheme alternatives to GICS (for Step 1a + SBTN work in general)
- Developing additional criteria and thresholds to help complex companies assess materiality across sectors / sub-sectors
- Developing criteria on when exclusion of material issue areas (e.g. score of 2 or higher (slide 27) can be excluded from further assessment + target setting

Updates prompted by FAQs: tools

- Materiality matrix
 - Activity/industry classification schemes still under discussion
 - Downstream likely to be dealt with separately
 - Dependencies to be excluded
 - *Full update postponed until tools workstream complete
- Data Collection Guide instead of the decision tree
 - Will need further updating to match guidance and address FAQs

Step 1b: Value Chain Hotspot Assessment

Step 1b: Purpose and description

Description


Quantitative (or semi-quantitative) assessment of business activities and issues flagged as material in Step 1a

Purpose


Understand the relative significance of business activities throughout value chains for the purpose of target setting

Identify data gaps and determine where further refinement may be necessary

How to carry out Step 1b (as in the IG)

- 
- For this sub-step, companies are expected to focus on the aspects of their business, thought of in terms of product lines, value chain aspects, or other relevant units, which were identified in Step 1a as a source of material impact. For those aspects of their business, companies should aim to gather spatially-explicit and quantitative information on impacts.
 - In the guidance and data collection guide, we rely heavily on ENCORE as the primary resource for explaining how this step should work, however there are a number of drawbacks with this.

How to carry out Step 1b, more detailed guidance

- 
- Companies with prior LCA, other assessments they can draw on:
 - Companies starting from scratch:

Further development of the value chain assessment, based on your FAQs

- Developing guidance on minimum data requirements for Step 1b
- Developing further guidance on tools to be used for Step 1b; trying to ensure connections between tools used for Step 1a, 1b, 1c, 2, 3, etc. are clear

Step 1c: Company Refinement

Step 1c: Purpose and description

Description



Refine and revise estimates of impacts from earlier Steps

Purpose

Ensure assessment outcomes are appropriate to specifics of the business setting SBTs (e.g. tailor to company's impact profile as opposed to typical sector profile; assess additional issue areas depending on business objectives)

Ensure data quality standards met for issue areas which were missed or insufficiently assessed in initial phases of assessment

Step 1c: How it works

-  **1. A gap assessment of Steps 1a-b** -- in order to understand what may have been missed in your company's assessment due to issues with the tools used for the assessment or data availability
-  **1. Refinement of outputs from Steps 1a-b** -- according to criteria to indicate significance, e.g.
 - Criterion A: Refinement is required for activities whose associated impacts exceed certain absolute thresholds, e.g., >X area of land-use.
 - Criterion B: Refinement is required for activities whose associated impacts exceed thresholds relative to a company's overall impact (e.g., impacts >Y% of a company's total impact).

Step 1c: How it works

- 3. **A tailoring of the assessment to capture unique aspects of the company's activities** -- in order to adequately reflect how the company setting targets might differ from other companies in its sector
 - This should balance potential issues related to tools, as well as sector specific guidance

- 4. **A consideration of additional issues for inclusion** -- in order to capture your business' priorities, and existing efforts

Step 2: Interpret and Prioritise

Purpose and description (as in the IG)

Description

Interpret the outputs of Step 1, in order to prioritize key issues and locations for taking action, using seven key criteria

Purpose

Companies can't take action on everything (there are feasibility limitations)

From a societal/environmental perspective, some impacts are more critical to address quickly than others

Purpose and description (updated)

Description

Company applies SBTN target coverage rule(s) to determine which locations or products will be the focus of its targets

Purpose

Ensure areas of impact that are most relevant for meeting societal goals will be covered by targets

Ensure coverage of critical impacts in targets

Step 2: How it works (as in the IG)

- Companies use an array of prioritization criteria when deciding for which locations they should collect baseline data and set targets. These factors included:
 - Factor A: Contribution of location to total impact of company
 - Factor B: State of Nature
 - Factor C: Relative contribution of target setter to the total impact at site
 - Factor D: Needs & Capacity of Local Stakeholders
 - Factor E: Interests of company-level stakeholders
 - Factor F: Needs and capacity of value chain partners and/or subsidiaries
 - Factor G: Policy environment

Step 2: Updated guidance

- To make this step less arbitrary, we will propose a minimum coverage 'rule' to ensure that a company's SBTs capture their most significant impacts (assessed from a societal perspective of materiality)
- Today, we are fairly confident that the key factors introduced in the guidance, which are still relevant for a more prescriptive Step 2 are Factor A: Proportion of company's overall impact and Factor B: State of nature
- We are also fairly confident that the factors initially introduced in the IG as part of Step 2 are more appropriately considered in Step 4 (with some updates), when companies are determining what types of action to take in order to meet targets

Focus groups with the CEP: Session outline

Purpose	Overarching question(s)	Invited Participants	When
Group 1. Aligning with current practices	How can we align the toolkit with practices that are already being carried out by companies such as data collection, analysis, target-setting, and reporting?	Representatives from CEP member companies whose daily tasks include sustainability decision-making, target-setting and reporting	Mid-late April
Group 2. Validation and prioritisation	<p>Explore 3 dimensions of requirements identified to date:</p> <ul style="list-style-type: none">- Essential vs nice-to-have- Immediate vs long-term need- How well fulfilled by existing tools <p>Are there any other requirements or requirements that should be discarded?</p>	Toolkit users from CEP member companies, with representation from companies with differing degrees of data for their operations and sourcing	Early May

Group 1: Aligning with current practices

What existing practices can be linked to tasks in SBTN's 5-step process?



Group 1. Aligning with current practices

This focus group will explore current practices relating to SBTN steps 1-5.



- **Length:** 1.5hrs
- **Desired number of CEP participants:** 7-15
- **Workstream participants:** 5-7 total (1 facilitator, 1 note taker, 1 logistics, 2-4 workstream members)
- **Structure:** Overall question addressed by working through a series of targeted sub-questions. Open discussion around each question encouraged, but with Miro board set up to guide discussion and so participants can add their inputs in this format if preferred. Time at end for each participant to summarise their conclusion with regards to the overall session question.



Sample questions:

- Which of these processes do you currently carry out?
- What resources do you use to complete these tasks?
- What kinds of data/information do you use as inputs?
- What are the major challenges in completing these tasks?
- What collaborations underpin completion of these tasks?
- What data formats and outputs are involved?

Group 2: Validation and prioritisation

- **Length:** 1hr per session
- **Desired number of CEP participants:** 7-15
- **Workstream participants:** 5-7 total (1 facilitator, 1 note taker, 1 logistics, 2-4 workstream members)
- **Structure:** Miro board with identified user need requirements on post-its. Group discussion encouraged, structured around positioning the requirement post-its on three axes:

