# The risk of market-based instruments in SBTi's revised Corporate Net Zero standard

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## Key takeaways

- **Maintaining the integrity of the GHG inventory.** ECOS welcomes the requirement that market-based instruments need to be reported separately from the physical GHG inventory and cannot be used to claim emission reductions.
- **Market-instruments risk disincentivising direct decarbonisation.** Allowing organisations to use market-based interventions as a fall-back risk discouraging efforts to reduce an organisation's own (value chain) emissions.
- **Need for clear claim differentiation.** When implementing the SBTi framework, we invite standard users to make a distinction between reduction claims based on physical emissions reductions on the one hand and system contribution claims based on market-based actions on the other. Such a distinction will mitigate the risk of misleading communications on progress.
- **Feasibility criteria and integrity criteria need to be improved.** Existing criteria leave room for interpretation. We urge SBTi to issue clear guidance on how companies and auditors should assess both.
- **SBTi will prepare guidance on third party verification of market instruments. ECOS calls on SBTi to include stakeholders representing various interests in the development of such guidance** to come up with actionable rules on the use of Chain of Custody models.


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# Introduction

After 2 years of revision, the Science Based Target initiative (SBTi) has released its Corporate Net Zero Standard 2.0 (CNZS 2.0), a framework aiming to guide companies to set their climate transition plan in line with the objectives of the Paris Agreement.

In this version, SBTi has reiterated the importance of the physical GHG inventory[1] but at the same time opened the door for the use of market-based instruments.

**ECOS is supportive of the elevated importance of direct emission reductions and maintaining the integrity of the physical GHG inventory. However, we caution SBTi on opening the door too far to market-based instruments.** This risks its own reputation and any organisation's credibility claiming it is on a net zero pathway.

# What the CNZS says: market-based interventions are recognised in the SBTi framework

CNZS 2.0 acknowledges that organisations want to be recognised for decarbonisation efforts beyond its own emissions and thereby provided recognition to the use of market-based instruments, including Environmental Attribute Certificates (EACs). SBTi's own synthesis report (March 2025) has found "limited consensus on whether or not EACs can be effective in substantiating claims of emissions performance or also emission reductions" (p.12). Despite SBTi's own research, and against the precautionary principle, EACs are now permitted for certain claims, specific targets, and within an implementation hierarchy.

### Implementation hierarchy and claims

In Chapter 4 "target implementation", CNZS 2.0 introduces an implementation hierarchy (CNZS-C21). The organisation is required to prioritise emissions in their own operations at the activity-level, which would be emissions reported in the physical GHG inventory. If activity-level action is not feasible within the required timeframe, based on certain criteria[2], the organisation can then pursue actions at the activity pool (tier 2); Actions addressing emissions that are within a shared system, for example electricity grids or supply sheds. If this is not possible due to structural constraints[3] activities can be taken at the sector level (tier 3).

Within actions taken at pool and sector level, market-based instruments can be used. **These actions need to be reported separately from the physical GHG inventory and cannot be used to achieve absolute emissions targets.** With these actions an organisation can make a system contribution claim. Different from actions taken at the activity level, i.e. within an organisation's value chain or boundary, this would be a company level claim.

ECOS encourage SBTi to **emphasise the importance of distinguishing between claims** and to establish a **clear hierarchy between them.** Though in theory these claims are to be distinct, the distinction needs to be enforced in practice, so that contribution claims cannot visually or rhetorically be used as reduction claims in corporate communications.

Furthermore, **ECOS cautions SBTi on making market-based instruments a fall back when organisations cannot reduce their emissions**. The CNZS 2.0 states that the hierarchy aims to support long-term decarbonisation, however, long-term targets remain optional in the current standard.

Decarbonisation is a challenge, that requires investments and long-term strategic planning. **The CNZS 2.0 allows an organisation default to market-based interventions if it is not feasible to reduce the emissions within the required timeframe** (near term targets are five years). Moreover, the standard recommends for organisations to purchase market-based instruments throughout the timeframe and not defer to the end of the timeframe (R27.1), indicating that an organisation can foresee early on that

it will rely on market-based interventions. It **risks being a perverse incentive for organisations to default on actions at pool or sector level because it is easier before even attempting at the activity level.** Moreover, permitting market-based instruments risks making organisations less accountable to push their own suppliers to drive change.

**The criteria on feasibility still risks being based on subjective decision making.** For instance, low-carbon steel is often a commodity referred to as not yet available even if this is not the case in certain regions[4]. In the case of Europe, low-carbon steel is widely available with the use of recycled steel constituting up to 50% of crude (i.e. virgin) steel production. Breakthrough technologies to decarbonise the primary production - still largely based on the use of coal - are slowly yet steadily maturing in some European countries where the legal and economic conditions allow it[5]. An organisation should not be able to justify purchasing market-based steel EACs instead of purchasing physically recycled or green-H2-reduced steel to reach its Scope 3. The current offering of EACs in the steel industry taint the very meaning of green steel. SBTi should provide clarity on what low-carbon solutions are already available for each sector, targeting the those that are the most scalable and efficient ones to give proper market signals towards these innovations, aligning with the sector specific standards.

## What ECOS thinks: a wide recognition of market-based interventions risks undermining climate action

The key reason why market-based interventions do not fit in the physical GHG inventory is that there is a disconnect from the actual emissions and the activity[6]. It is the purchase of the GHG emissions of a low-carbon characteristic, an emission factor or investment in an activity that does not actually represent what occurs within the organisation.

**The only permitted market-based intervention to date has been in Scope 2 by the GHG Protocol in 2015** and has been adopted by SBTi in both versions. Since the introduction of market-based in Scope 2, there has been extensive critique; organisations making greenwashing claims by claiming 100% clean electricity procurement based entirely on purchase of certificates that are completely uncorrelated to actual electricity consumption. Furthermore, there has been minimal proof of these certificates increasing the share of renewables in the market or emission reductions[7]. **Despite the critics, the CNZS 2.0 allows organisations to reach Scope 2 targets through market-based instruments (i.e. purchase of energy certificates), with only slightly tighter guidance**. ECOS strongly encourages SBTi to improve the Scope 2 guidance by at least requiring hourly matching. Market-based instruments in Scope 2 should be a cautionary tale; ECOS is concerned that CNZS 2.0 opening the door to the use of market-based beyond electricity is following the Scope 2 road.

### Not all market-based instruments are equal

**The integrity criteria are essential, because market-instruments differ in quality.** Not all send the right signal to markets, and poor-quality instruments can actively undermine decarbonisation as seen with Scope 2. The only reason for the inclusion of any market instrument in the standard is that it needs to have an impact, towards mitigation that would eventually lead to reductions in the physical GHG inventory and thereby reaching scope targets in the net zero pathway. Market-based interventions that will not do this risk becoming nothing more than creating misleading claims and waste of resources.

**The CNZS 2.0 provides a list of integrity criteria for actions and market instruments (4.2) and more will be developed.** Of the current quality criteria in the standard, ECOS is concerned about the margin of interpretation around the minimum and integrity criteria. One in particular is attribute preservation C27.4[8] – an action done when using market-based Chain of Custody models[9]. This can be interpreted in two ways: either the every single output of a specific process are to be strictly proportionally attributed compared to the inputs ; or the proportional relationship only applies to the product type and within every product type the attributes can be assigned to whichever part (think about a cow

whose production leads to various output types: meat, milk and leather, in this case, within the meat, you could stack all EACs into one single steak and sell this steak as 'net zero meat.')[10]. **This risks emphasising the issue of organisations not taking proper action to decarbonise their value chain.**

## The way forward – ECOS recommendations

SBTi aims to elaborate further on the integrity criteria for market-based instruments and the relevant claims. These will be provided in future guidance. ECOS recommends for the further guidance to incorporate the following, and be developed with close consultation from stakeholders with a balanced representation of interests:

- **Separation from the physical GHG inventory**. The importance and integrity of the physical GHG inventory and the hierarchy of scope targets and claims to those that rely on market-instruments.
- **Sector-specific guidance on low carbon products**. Each sector will differ in the technologies and thereby the feasibility. SBTi should also consider what is considered feasible for different regions and should be explicitly aligned with its own sector standards.
- **Improve the integrity criteria on Chain of Custody.** SBTi need to provide explicit guidelines on attribution to make sure no creative accounting occurs. ECOS strongly recommends that when using credit-based Chain of Custody models relying on attribution, a strictly proportional approach is followed.

## References

[1] The physical GHG inventory is where an organisation reports all its quantified direct (Scope 1) and indirect emissions (Scope 2 and Scope 3) and both its short term and permanent removals. SBTi requires an organisation to account and report its GHG inventory based on the GHG Protocol Standards, thus becoming basis for an organisation to quantify and show emission reduction in reaching its Scope targets.

[2] "Feasible refers to what is technically and commercially achievable on reasonable terms relative to sector norms, considering available technologies, market conditions, and credible leading practices." SBTi, CNZS 2.0 p.48.

[3] "A condition external to a company that materially limits the availability of options to take action at the activity or activity pool level within the target timeframe, including infrastructure, technological maturity, regulatory, market structure, or supply limitations. Structural constraints do not include internal preferences, procurement choices, or cost considerations alone." SBTi, CNZS 2.0 p.93

[4] On cement and concrete, see ALLCC Factsheet on Supplementary cementitious materials: Factsheet-on-SCMs-in-making-low-carbon-cement-and-concrete-a-reality-October-2023-final.pdf

[5] Somers J. Technologies to decarbonise the EU steel industry. 2022.

[6] The only permitted market-based intervention to date has been in Scope 2 by the GHG Protocol in 2015 and permitted by SBTi in version 1 of the CNZS. Since its introduction, there has been extensive critique at its use, organisations have been reporting minimal emissions and making greenwashing claims. It allows organisations to claim 100% clean electricity procurement based entirely on purchase of environmental attribute certificates that are completely uncorrelated to actual electricity consumption.

[7] Langer L, Brander M, Lloyd SM, Keles D, Matthews HD, Bjørn A. Does the purchase of voluntary renewable energy certificates lead to emission reductions? A review of studies quantifying the impact. Journal of Cleaner Production. 2024 Nov 1;478:143791.

[8] "Emissions attributes at the point of instrument generation shall be allocated in proportion to physical flows across processing stages. These attributes shall not subsequently be stacked, non-proportionally redistributed, or concentrated on a subset of products in a way that overstates the outcomes beyond what physically occurs (e.g., "carbon bank" models)" SBTi, CNZS 2.0. page 52.

[9] See ECOS factsheet on Chain of Custody models: https://ecostandard.org/wp-content/uploads/2025/07/Cemented-in-reality-July-2025-final.pdf

[10] See ECOS factsheet on the different Mass Balance approaches: https://ecostandard.org/wp-content/uploads/2025/11/Trade-low-carbon-steel-not-credits-November-2025.pdf