NorthPeak Advisory

Net Zero

Setting a Credible Target

From ambition to science-based commitment: a practical guide

A guide for ESG & sustainability teams

Corporate Sustainability Guide Series

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1. What Does 'Net Zero' Actually Mean?

Net zero means achieving a balance between the greenhouse gases emitted and those removed from the atmosphere. It is not the same as 'carbon neutral' – a term that can be achieved largely through offsetting without deep emissions reductions.

Key distinctions

Carbon neutral: Emissions are balanced by offsets, but deep reductions are not required. Often a near-term marketing claim.

Net zero (corporate): A Science Based Targets (SBTi) net zero target requires reducing emissions by at least 90% by no later than 2050, with any residual offset by carbon removal.

Climate positive / carbon negative: Removing more carbon than you emit. Some leading companies (e.g. Patagonia, Interface) aspire to this.

2. The Science Behind the Target

The 1.5°C pathway established by the IPCC requires global CO_2 emissions to reach net zero by around 2050. Science Based Targets translate this global budget into corporate targets using recognised methodologies:

Approach	What It Is	Best For
Absolute Contraction	Reduce absolute emissions by a % aligned to the 1.5°C budget	Most sectors – simple and transparent
Sectoral Decarbonisation	Aligns to a sector-specific pathway (e.g. steel, cement, power)	Heavy industry with specific decarbonisation trajectories
1.5°C Aligned (SBTi FLAG)	Forests, Land and Agriculture specific methodology	Food, agriculture, forestry companies
Temperature Rating	Scores your target against a temperature outcome	Used in portfolio analysis by investors

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3. The SBTi Framework

The Science Based Targets initiative (SBTi) is the leading standard for corporate net zero commitments. Targets validated by SBTi carry the most credibility with investors, customers, and regulators.

Two-Tier Target Structure

SBTi's Corporate Net-Zero Standard requires companies to set targets at two horizons:

Target Type	Timeframe	Scope Required
Near-term target	5–10 years from now	Scope 1, 2, and material Scope 3 (>40% of total footprint)
Long-term / net-zero target	By 2050 at latest	Scope 1, 2, and all material Scope 3
Residual emissions	After 90%+ reduction	Must be addressed by carbon removal (not avoidance offsets)

The Commitment Process

1

Commit

Sign the SBTi commitment letter. This gives you 24 months to submit your targets for validation. Public commitment creates accountability.

2

Develop Targets

Use the SBTi target-setting tools (absolute contraction or sector-specific) to calculate your required reduction rates. Targets must cover both near and long term.

3

Submit for Validation

Submit targets to SBTi for review against the Corporate Net-Zero Standard. SBTi checks ambition, scope coverage, and methodology.

4

Communicate & Disclose

Announce your validated targets. Report annually on progress through CDP, CSRD, or your sustainability report.

5

Deliver

Implement the transition plan. Update targets if business model changes significantly.

4. Building a Transition Plan

A target without a plan is just a wish. Your transition plan should explain how you will actually achieve your emissions reductions. CSRD (ESRS E1) requires this as a disclosure if climate is a material topic.

What a Transition Plan Should Cover

- Base year emissions and the breakdown by Scope 1, 2, and key Scope 3 categories
- Interim milestones (e.g. 2025, 2030) with specific reduction targets
- Key decarbonisation levers – electrification, renewable energy, efficiency, supplier engagement, nature-based solutions
- Capital expenditure required and how it is funded
- Dependencies and risks (e.g. technology availability, policy, supplier readiness)
- Governance: who is accountable, how is progress tracked, how does it link to executive remuneration

Common Decarbonisation Levers

Lever	Scope Addressed	Typical Impact
Switch to renewable electricity (PPAs, RECs)	Scope 2	Can eliminate Scope 2 market-based emissions
Electrify fleet and machinery	Scope 1	Replaces diesel/petrol combustion with (low-carbon) electricity
Energy efficiency in buildings & operations	Scope 1 & 2	Reduces overall energy demand
Sustainable procurement / supplier engagement	Scope 3 Cat. 1	Largest lever for most companies – supplier decarbonisation
Shift freight to rail/sea	Scope 3 Cat. 4 & 9	Rail emits ~8x less than road per tonne-km
Sustainable product design	Scope 3 Cat. 11 & 12	Reduce emissions during customer use and end-of-life
Nature-based / technological carbon removal	Residual	Last resort for hard-to-abate residual emissions

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5. The Role of Offsets

Offsets are controversial – and for good reason. SBTi is clear: offsets do not count toward near-term or long-term science-based targets. They can only be used for residual emissions at net zero, and only then through carbon removal (not avoidance).

Avoidance vs removal

Avoidance offsets (e.g. preventing deforestation): Do not remove CO_2 from the atmosphere. Do not count toward SBTi targets. May be used voluntarily for 'beyond value chain' mitigation.

Carbon removal (e.g. direct air capture, reforestation, soil carbon): Physically removes CO_2. Required for SBTi net zero residual emissions. Quality standards include ICROA, Gold Standard, Verra VCS.

6. Governance & Accountability

Ambitious targets fail without strong internal governance. Best practice includes:

- Board-level oversight of climate risk and the transition plan
- Executive remuneration linked to emissions reduction milestones
- A dedicated sustainability or climate function with clear mandate
- Regular (at least annual) reporting to leadership and the board
- Independent external assurance of emissions data and progress

Where to start

If you haven't already, submit your SBTi commitment letter – it's free and sends a public signal of intent. Then complete your Scope 1 and 2 inventory, identify your top 3 Scope 3 categories, and begin the target-setting process. Most companies find SBTi validation takes 6–12 months from start to finish.