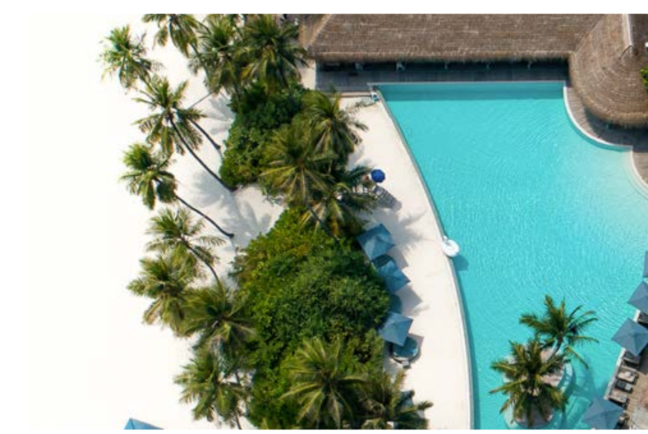
NET ZERO METHODOLOGY FOR HOTELS

2ND EDITION • JUNE 2023

APPENDIX D

EQUITY PRINCIPLES



APPENDIX D: EQUITY PRINCIPLES

The equity principles identified in this methodology are based on the equity principles given in the Race to Zero. The Race to Zero has clearly defined and has embedded the notion of fair share, equity and justice in its lexicon.

According to Race to Zero, **fair share** has been defined as inclusion of (but not limited to) human development, historical emissions, current emissions and social considerations (gender, race etc.) and also advocates for accounting of different actor types such as subnational governments, corporations etc. The definition of **equity** may include:

- Distribution of resources in proportion to circumstances in order to ensure that everyone has the same opportunities.
- Acknowledgement of the historical factors that contribute to inequality.
- Lenses on particular social cleavages, such as gender and youth, in conjunction with an intersectional framing
- Equity in terms of decision-making and access to decision-making structures
- Geopolitical considerations, including the unequal interfacing between national governments, and between subnational and national governments.
- Stronger reference to human rights as a key concern in climate change

Lastly, Race to Zero recognizes **justice** to be central to climate action, accountability, sustainable development and human rights, and is a key element for net zero trajectories.

Based on the above definitions and context given by Race to Zero, this methodology has identified the following 3 equity principles for hotels' net zero goals.

BUSINESS MODEL EQUITY PRINCIPLE

Hotels are located in every country and city across the globe, and the value chain of both real estate ownership and travel translates to cross-border activity for almost the entire industry. Likewise, the business models of hotel companies vary, in particular that of an owner of hotel real estate that buys and eventually sells hotels but does not grow a footprint consistently over time, versus a chain whose business model is based on increasing the number of hotels, rooms, and floor area of operated and/or franchised hotels consistently over time.

The milestones for each category are structured for a **business model equity principle**. **Hotel companies with business models *not* based on consistent floor area growth should be expected to decarbonize the emissions from use of the building more quickly by 2030 and incorporate embodied carbon of the building into their value chain emissions accounting.** They have more control in the short- and long-term investment decisions of the assets, benefit much more from external grid decarbonization, hold more economic value per square meter of the same real estate utilized, derive benefit from general appreciation of the asset value of the property over time, and can decouple economic growth from carbon emissions more easily. This group generally includes hotel owners of private equity or publicly traded Real Estate Investment Trusts (REITs), casino hotel chains, companies with hotels as part of a larger parks and attractions business model, and independent hotel owner-operators.

REGIONAL EQUITY PRINCIPLE & SUSTAINABLE TOURISM EQUITY PRINCIPLE

Equity principles tend to call for consideration of regional differences in a country's level of development, which align with the original principles of the Kyoto Protocol and the concept of sustainable development in general. The challenge for hotels arises when some companies in developing countries are actually further ahead in net zero due to market and business factors such as renewable energy use in India, or due to energy sources such as decarbonization in Costa Rica. Also, as can be seen in the business model equity principle above, owners of hotel portfolios in developing countries should not necessarily have expectations lowered. Likewise, hotel companies commonly have portfolios encompassing developed and developing nations regardless of headquarters. **To address regional differences, the proxy for this expectation is set on the most impactful variable of availability of purchased renewable electricity, which generally overlaps with developing markets, but not entirely.**

As of 2021 a large disparity exists regarding the regulatory environment, market mechanisms for renewable energy purchases, awareness and integration of the value chain and customer base, and purchasing power based on a destination. The EU has cemented net-zero policy, whereas widely available market mechanisms for localized renewable energy purchase, published residual emissions data, and engaged travel buyer value chain seeking net zero, Renewable Energy Certificates (RECs) / Energy Attribute Certificates (EACs) purchases tied to specific grids are unavailable in most of the world. Further limitations exist in methodology in other frameworks such as the RE100, which call explicitly for purchases to be tied to grid markets, but where it is unlikely that a commercial building tenant would be able to negotiate directly with a utility provider some type of renewable energy agreement. Many limitations exist in countries' regulatory frameworks, infrastructure, and awareness among ownership of building stock in countries heavily reliant on tourism, including Southeast Asia and Latin America.

The methodology embeds a **regional equity principle** to approach the milestones based on a designation of **mature markets**[1] and **developing markets.** These markets are not easily defined as there are likely to be transition pathways and stages for countries that evolve in the coming years, but for the purposes of this methodology the **designation is essentially once a viable renewable energy purchase of REC/EAC or direct sourcing of Power Purchase Agreements (PPAs) for all its electricity is readily available for a single hotel to purchase directly at reasonable cost, the location would be considered a mature market**, as the hotel is enabled to immediately purchase and reduce market-based emissions. Future iterations of this methodology will seek to further stipulate, clarify, and denote which countries, provinces, or cities fall within each market category.

In general, hotels located in mature markets should be expected to transition to renewable energy and decarbonize across the value chain more quickly, and the related cost increases should be absorbed more quickly. Conversely, developing markets should be prioritized first in energy efficiency, fuel switching, and then carbon offsetting and other value chain activities in a **sustainable tourism equity principle**, which is further outlined in Appendix K.

1 Note: a mature market is independent of its economy and only considers the ease of procuring RE. For example, India is a mature market for purchasing RE but economically is developing.