VCMI Voluntary Carbon Markets Integrity Initiative

Summary of Interviews Conducted During the Inception Phase

July 2021

vcmintegrity.org

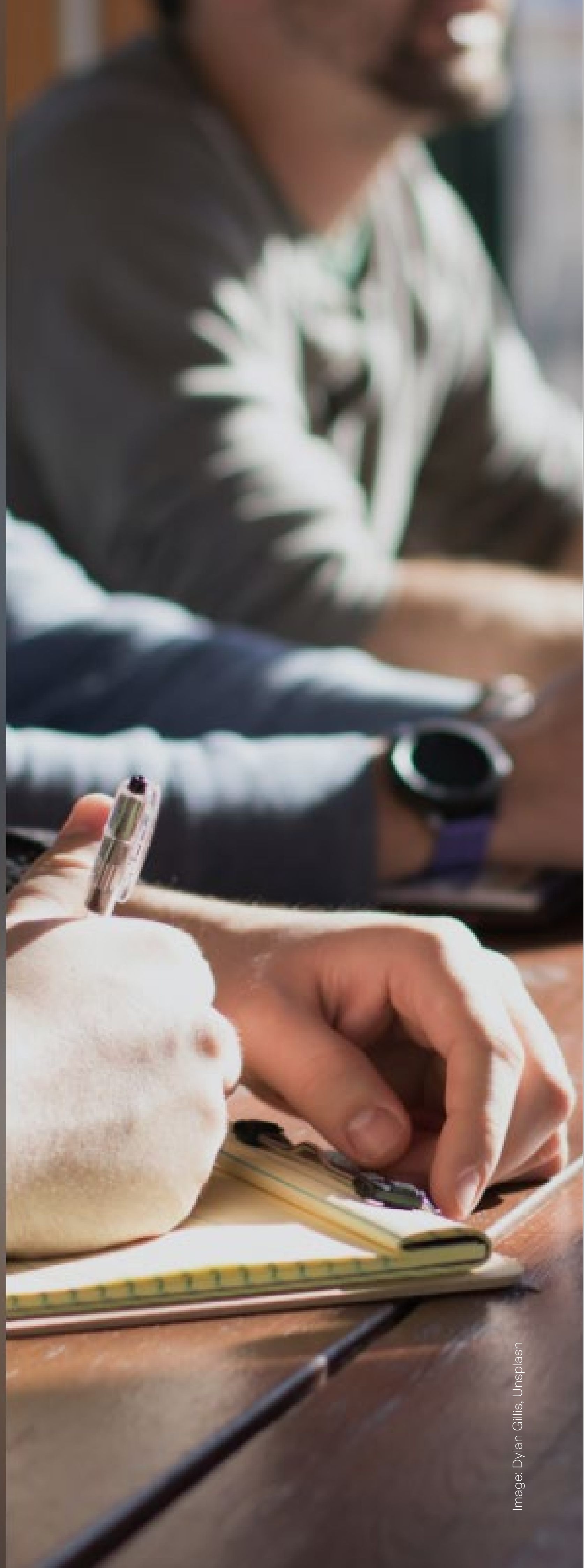
ABOUT VCMI

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multistakeholder platform to drive credible, net zero aligned participation in voluntary carbon markets (VCMs). VCMI's goal is to ensure VCMs make a significant and meaningful contribution to climate action and limit global temperature from rising to 1.5°C above pre-industrial levels, while also supporting the achievement of the UN Sustainable Development Goals (SDGs).

Through consultation with stakeholders from civil society, the private sector, Indigenous Peoples, local communities, and governments, VCMI intends to develop and communicate guidance on how carbon credits can be voluntarily used and claimed by businesses and others as part of credible, net zero decarbonization strategies. It also engages countries to support development of strategies to access VCMs to drive ambitious climate mitigation.

The UK Government is supporting VCMI, as announced by COP26 President-Designate Alok Sharma at the Climate and Development Ministerial on 31 March 2021. To date, VCMI has been led by Meridian Institute, a US-based not-for-profit organization, and supported by consultants (hereafter referred to as the VCMI Consortium).

The VCMI Consortium's role is to refine the scope, governance and processes that will underpin VCMI in its future phases. The Initiative is co-funded by the Children's Investment Fund Foundation (CIFF) and the UK Department for Business, Energy and Industrial Strategy (BEIS).



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ABOUT THIS PAPER

This Working Paper provides a preliminary summary of the prominent themes that emerged in over 50 interviews with nearly 200 stakeholders. This summary focuses on three main categories of stakeholders including civil society organizations (CSOs) and CSO-led initiatives, companies from a wide variety of sectors, and Indigenous Peoples. The Consortium Team is still conducting interviews and will continue to incorporate interview findings in the future, including a wider representation of the views of Indigenous Peoples and Local Communities and CSOs from developing countries.

The approach that was used to generate these preliminary results employs inductive and inference-based methods rather than a more rigorous qualitative data analysis (QDA) methodology. This inference-based analysis was conducted in over 50 semi-structured interviews. Semi-structured interviews were chosen to allow for a conversational approach to best capture the nuance of views regarding voluntary carbon markets (VCMs) and to allow the interviewees to ask questions of the interviewers regarding the purpose and intentions of VCMI. Interviews were transcribed and coded by major themes using Atlas.ti software.[i] The major themes that have emerged thus far are represented in the narrative below.

i) https://atlasti.com/

Image: Atul Loke for Panos Pictures/Food and Land Use Coalition

I. Key Themes Emerging From Civil Society Organization Interviews

ROLE OF VCMS IN CONTRIBUTING TO THE PARIS AGREEMENT TEMPERATURE GOALS

In general, views expressed within CSO interviews on the role of voluntary carbon markets were mixed. Some CSO actors highlighted that voluntary markets could play a significant a role in closing the emissions reduction gap left by the Nationally determined contributions (NDCs), channeling private finance to help countries increase their targets, and driving the development of new technologies. One CSO even stated that the voluntary carbon market could bring us beyond the 1.5˚C goal in the mid-century time period. Others were enthusiastic but cautious, including several who expressed varying degrees of skepticism about the role of voluntary carbon markets.

A subset of those who expressed doubts around the role of the VCM suggested it is much too small to be impactful in its current manifestation. They cautioned that it could distract from the importance of mandatory requirements imposed by laws and regulations, which was considered the primary means by which significant emission reductions will be achieved, along with the need to increase public finance to a much higher level than current levels.

Many CSOs expressed an interest in exploring how voluntary carbon markets can co-evolve with mandatory emission reduction requirements to create the right set of incentives to ensure VCMs make a meaningful and significant contribution to meeting the climate goals of the Paris Agreement.

GOVERNANCE OF DEMAND-SIDE CLAIMS / ROLE OF VCMI INITIATIVE

Across the board, CSOs described a strong need for greater clarity and more clearly defined parameters for the voluntary carbon market, including clear guidance on claims to address the confusion that currently exists among VCM actors. Several respondents underscored the importance of there being a credible authority to govern the market, as integrity will be key for its functioning.

It was suggested that VCMI could serve as a platform in which the existing work of various organizations and initiatives could be aggregated and amplified. Some CSO representatives also pointed to the potential role that VCMI can play as a networking platform, wherein representatives of countries/governments (from the global south in particular) can be in the same room with companies that are both buyers and sellers to gain insights into what types of policy developments will help attract private sector finance.

RECOMMENDATIONS ON HOW TO BUILD CONSENSUS ON SCALING VCMS

Recommendations from CSO representatives on how to grow VCMs included 1) "Jury-rigging" voluntary carbon markets to slowly link to the compliance markets via a "back door" to Article 6, i.e. through a requirement for corresponding adjustments; 2) reintroducing the notion that offsetting is allowed, while remaining cautious that this could undermine efforts to have VCMs effectively help deliver on Paris Agreement temperature goals; and 3) establishing a governance or guidance framework to ensure demand is high quality and is additional to abatement practices in line with science-based targets (SBTs), while acknowledging this may reduce the demand pool.

Image: Unsplash, Roberto Motoi

"A relative minority of CSO representatives (as compared to company representatives as summarized below) acknowledged there is a lack of consensus on what constitutes either a science-based or even generally agreed upon net zero decarbonization pathway for hard-to-abate sectors."

OFFSETTING

Many CSO representatives emphasized that companies should rely very little, if at all, on the use of offsets as an alternative to concerted efforts to abate their own value chain emissions. Some spoke specifically of physical limits to the type and scale of emission reduction and removal activities that can be used as offsets while still being compatible with the Paris goals, arguing, for example, that land-based offsets are not a viable option due to the limited amount of uninhabited land available for removals. In addition, due to the threat of land grabbing this causes, an ethical challenge was also raised regarding whether the allocation of land as a scarce resource should be left to market forces. In order to guard against companies relying too much on offsets, some suggested there should be requirements for companies to focus first on reducing their own emissions before they can access the carbon market, regardless of intended uses of the carbon credits purchased and/or the claims companies make in association with those purchases. Several CSO representatives encouraged VCMI to look into alternatives to offsets, with a focus on long-term transformative solutions.

A relative minority of CSO representatives (as compared to company representatives summarized below) acknowledged there is a lack of consensus on what constitutes either a science-based or even generally agreed-upon net zero decarbonization path way for hard-to-abate sectors. Some CSO representatives expressed concerns mirroring those voiced by some business representatives-that there may not be sufficient incentives to encourage voluntary private investments in high integrity carbon credits from companies in hard-to-abate sectors.

Image: Partnerships for Forests

Despite being cautious about the role of offsets, one respondent argued that bringing back the narrative that offsetting is possible will be necessary for scaling the market. One CSO representative acknowledged that “the mitigation hierarchy is a principle, not the law”, and that while we should maintain a scheme that prioritizes abatement within a company’s value chain, we should also allow for some flexibility in its implementation. To this point, a representative of a carbon credit standard setting organization suggested offsetting could be used if a company tried but failed to meet its targets, though this would require credible measures to evaluate their efforts. They furthermore argued there should be an incentive for companies to go beyond their targets, to drive more investment, and that offsetting could play a role there as well. In both cases, what types of claims are or are not appropriate were noted as a key component of overcoming this challenge.

TRANSITIONAL NATURE OF VCMS

Regardless of individual enthusiasm the role VCMs can play to meet the Paris Agreement climate goals, the common view among CSOs was that this role must be transitional. For most CSOs, this meant facilitating the expansion of regulated compliance markets and using private sector innovation to drive new approaches, which will diminish VCMs in importance as compliance markets grow. Even among those who were agnostic regarding the scope of VCMs to meet Paris goals, several CSOs described a need for markets to be responsive and evolving, whether by extending the scope beyond CO_2 to encompass “value for nature” and society, or ensuring that corporate strategies account for the changing forms of mitigation needed between now and mid-century.

ROLE OF VCMI

Several recommendations were presented regarding how VCMI could help with coalition building to establish “collective consciousness” around the need for high integrity VCMs and high integrity claims in particular. Recommendations included harmonizing global guidance with regional guidance, such as that being developed by the Nordic Dialogue on Voluntary Compensation, as well as country-level guidance, such as that of the UK working group on VCMs led by Dame Clara Furst and Lord Stern of Brentford, Chair of the Grantham Research Institute of Climate Change at the London School of Economics. The point was also raised that Taskforce on Scaling Voluntary Markets (TSVCM), the Race to Zero, the Science Based Targets initiative (SBTi), and other key initiatives could point to VCMI as the appropriate venue for generating “authoritative guidance” on demand-side integrity. It was also noted, that in order for VCMI to be considered an overarching authority on claims guidance, its status would likely need to be acknowledged and supported at the UN level.


Image: The Climate Reality Project, Unsplash

II. Key Themes Emerging From Corporate Interviews

Key Themes Emerging From Corporate Interviews

ROLE OF VCMs

The views of company representatives interviewed regarding the role of VCMs ranged from implied acknowledgement that VCMs should play a constructive role in helping meet the Paris Agreement climate goals to explicit acknowledgement that VCMs can and must make a meaningful and significant contribution to those goals. Many interviewees from business noted there is great untapped potential to channel private finance into both climate change mitigation and broader development goals. Several expressed the view that voluntary action by companies has catalytic potential to support projects that governments are unlikely to finance. Appealing to the competitive nature of CEOs and corporations, several respondents pointed to the importance of tracking competitor involvement in the VCM, emphasizing that participation in VCMs neither harms the "bottom line" nor creates an unreasonable reputational risk.

Many interviewees from companies acknowledged a need for a complementary relationship between VCMs and regulatory markets, with one stressing that VCMs cannot solve the climate crisis alone and should primarily be used to support governments and policy that move toward mandatory emissions reductions.

REGULATION OF CLAIMS

There was widespread support among the corporate respondents for standardization of claims, but with varying degrees of formality. The greatest enthusiasm came from financial actors, with more ambivalence in responses from representatives of energy companies. One interviewee differentiated between three levels of regulation: transparency between company and consumer; industry-wide standardization of practice and guidance; and formal regulation, favoring something in the middle. At the more skeptical end, there were concerns raised about trade-offs with cost and difficulty for corporations that would result from the regulation of claims. At the other end, however, and more commonly, a mix of public and private regulation was broadly welcomed to introduce clarity for companies, with the hope this would lead toward greater public credibility for claims related to the use of carbon credits as part of a well-designed and well-executed climate mitigation strategy.

OFFSETS AND MITIGATION HIERARCHY

Among corporate interviewees, views on the role of carbon offsets were mixed, but on the whole positive. Many, cited the use of offsets as a crucial part of their climate mitigation strategy, regardless of their level of ambition. There was a common view that skepticism towards offsets was misdirected, and that proper rigor regarding their integrity could ensure they play a major role in galvanizing the private sector. One finance sector interviewee said offsets should be a critical stepping stone for businesses in hard-to-abate sectors while they undergo challenging transitions. This view was echoed by a representative from the Information Technology (IT) sector who explained that a large share of their emissions are difficult to reduce, and therefore – in their view – the only alternative to offsets was to do nothing. In the interim between now and when a net zero pathway is feasible, use of offsets would enable finance to flow towards climate mitigation and sustainable development or other public goods that might not otherwise receive support. Other corporates emphasized that, while there should be a role for offsets, they should never take precedence over mitigation efforts within company value chains that are in line with the goals of the Paris Agreement. However, one respondent who supported the latter view raised the concern regarding whether the prioritization of mitigation could result in low integrity reductions within value chains that take place without third party certification taking precedence over arguably higher integrity offsetting.

Views on the availability of high-quality offsets were more mixed. On the one hand, there was the view that integrity of the market had improved massively since Kyoto, and the high integrity use of offsets was a more significant concern than the availability of high integrity carbon credits. On the other hand, some skepticism was voiced about supply-side integrity, with one interviewee claiming 85% of offsets available through the big four carbon credit standard setting agencies had "no carbon benefit associated with them at all".

GREENWASHING

There was widespread concern reported from corporate interviewees over greenwashing, regarding malpractice by competitors and accusations that might be levied on their companies. In general, current or recent greenwashing was not seen as the result of ill intentions, but rather as ignorance and stemming from a lack of clear guidance. Several respondents mentioned that the perceived difficulties in selecting viable, high integrity investments in carbon credits can lead to corporates purchasing low quality offsets, despite good intentions. Others worried that the presence of greenwashing in any part of their sector would undermine consumer trust in high integrity claims - regardless of their validity - and underpinned the need for greater clarity and standardization of claims.

CARBON CREDIT STANDARDS

There was a common feeling of dissatisfaction from corporate actors on carbon credit standards and standard setting agencies. The most common was a feeling that they lacked consensus and coordination, but concerns were also voiced about available quality and a lack of guidance for buyers. Beyond the less common view that third-party agencies lacked rigor, frustration was raised that the processes those agencies follow are opaque and difficult to penetrate for corporate sustainability teams, let alone non-specialists. Some suggested that many firms do not have dedicated sustainability research teams and therefore are unable to conduct necessary research to determine the quality of the credits available. This was exacerbated by the high cost in terms of reputational risk in being seen as investing in poor quality credits. This was a concern shared by many interviewees, some of whom felt that has been largely passed on to the buyers, rather than being owned by the credit issuing agencies.

There was widespread support for standardization of carbon credit standards, with greater guidance available for buyers, more robust guardrails on quality, and better access for corporates to communities of practice and "safe spaces" for learning.

INDEPENDENT ADVICE WITH NO "SKIN IN THE GAME"

There was a common frustration among corporate interviewees at a lack of reliable and independent advice on carbon credits and the carbon integrity of projects. They suggested this only compounds the anxieties felt by corporates at the expectation that they should be experts in the extraordinarily complex task of choosing between standards, different types of credits, and the many available types of ancillary investments. On several occasions, a strong wish was expressed for independent advice which did not have "skin in the game" – that is to say, it did not come from sources who are not also sellers of carbon credits themselves. Ideas on how this could be achieved varied. One suggestion was that the coordination and governance of standards should take place at the UN level; another was that of a platform for scientists and other experts to review and rank the integrity of projects.

"THE PERFECT IS THE ENEMY OF THE GOOD"

An argument especially prevalent among interviewees from the energy sector was that "the perfect" risked becoming "the enemy of the good". The suggestion was that a preoccupation with quality of the credits and the integrity of the claims is slowing down the flow of finance, diminishing the impact of the market, and prohibiting additional investment outside of jurisdictions like the EU. One actor also said that the overly strict requirements placed on companies (i.e., internal abatement) is squandering an enormous North-South finance opportunity.

TRUST AND DATA INTEGRITY

Trust was frequently brought up in the interviews with company representatives. Whether public trust in corporate claims, corporate trust in the integrity of standards, or trust of NGOs in the potential of VCMs and the good intentions of companies, trust was widely described as being pivotal to holding the VCM together.

One respondent noted there is a third critically important aspect of integrity in relation to voluntary carbon markets, aside from supply-side integrity and demand-side integrity, which is data integrity. This respondent made the point that, in many respects, the data integrity of the reporting on abatement that occurs within corporate value chains is far less rigorous and reliable than the data that is used to establish the integrity of many – although it was acknowledged not all – carbon credits.

ROLE OF GOVERNMENTS IN "LEVELING THE PLAYING FIELD"

While there were mixed feelings about the extent to which formal regulation of the market was desirable in general, several corporate actors acknowledged the importance of interaction between voluntary and compliance markets. Among these views, government regulation was seen as best placed to rapidly raise the cost of carbon, and pivotal to "leveling the playing field" in terms of rules and regulations across a very diverse corporate landscape. This would be one way to ensure public accountability and bridge otherwise incommensurable sectoral differences.

INTERNAL ABATEMENT VS. GLOBAL GOALS

The view was often expressed that corporate commitments should not be treated as separate from a larger global ecosystem. This is a loosely defined point – encompassing both corporate opportunities and obligations – which nevertheless reveals potential tensions with the idea that corporate mitigation should focus on internal abatement.

A strongly held counterpoint to this view, shared by numerous corporate interviewees, was that purchases of carbon credits by companies that are domiciled outside of the host country where the carbon credits originate as a matter of well-established international law as well as accepted accounting principles should not require a corresponding adjustment, as that term is defined under Article 6 of the Paris Agreement.

Some interviewees identified voluntary markets as an opportunity for corporate investments to address critical interconnected global issues like sustainable development or biodiversity. In this view, the instruction for businesses to focus on atmospheric integrity misses an opportunity to invest in a more holistic public good.

Others saw engagement beyond the supply chain as critical to their own mitigation efforts. For example, representatives from the energy sector used the term "in step with society" to describe their mitigation pathways, suggesting their ability to meet targets rested on a broader societal move towards a net zero ready world (i.e., tech innovations, appropriate regulatory landscape, and consumer demand).
One suggested this necessitates active engagement by corporations with consumers and society in raising awareness and inciting demand for higher standards. The latter view was shared by other interviewees, who see consumers as key drivers of change.

Finally, some dissatisfaction was expressed regarding a framing that the global goal of limiting global warming to 1.5°C could be reached via the sum of companies merely addressing their own internal emissions. Some spoke of a need to be motivated by shared global goals and collective effort, rather than individual efforts and specific claims. These respondents indicated that this idea resonated with certain government actors who describe global "shared temperature goals".

Image: Anton Eprev, Unsplash

Image: © RLU

III. Key Themes Emerging From Indigenous Peoples Interviews

Key Themes Emerging From Indigenous Peoples Interviewed

Image: Partnerships for Forests

ROLE OF VCMs

Interviewees noted that voluntary carbon markets are a sensitive topic for many Indigenous Peoples and that there are different perspectives around this topic. While some Indigenous Peoples are interested in exploring what voluntary carbon markets could offer, other groups are not and are cautious around or critical of concepts such as “voluntary” and “markets”. In this sense, it is very important to identify and engage with Indigenous Peoples interested in the VCM, as the inception of these initiatives, participating in their design, and establishing links with existing initiatives are related.

A commonly expressed view is that it is equally important to establish transparent processes that clearly lay out how and when Indigenous Peoples will be involved.

RECOGNITION OF RIGHTS

It was also highlighted that, while some national legislation has made progress in the recognition of Indigenous Peoples’ rights, in some cases the lack of implementation and enforcement against violations generate mistrust. It was suggested that new projects or initiatives should closely monitor the implementation of pilot projects to understand the rights of Indigenous Peoples and local communities in different national contexts.

OTHER THEMES TO FURTHER EXPLORE

Interviewees suggested focusing on the following themes: scope of the VCM (beyond forests), nature-based solutions, territorial governance, supply-side integrity, equity, geopolitical dimension, FPIC (Free, Prior and Informed Consent), Indigenous Peoples’ engagement with the government and businesses, social and environmental safeguards, human rights, land tenure rights, natural resource rights of IPLCs and Afro-descendants, and verification frameworks.


Image © Stuart Clouth/Partnerships for Forests

IV.
Forest Solutions Dialogue: Environmental Integrity in VCMs - Forest Country Perspectives

Forest Solutions Dialogue: Environmental Integrity in VCMs - Forest Country Perspectives

SUMMARY

This country dialogue focused on environmental integrity for forests in the voluntary carbon market (VCM) in the context of the Paris Agreement. The two sessions of the Dialogue, held on 14 April 2021 through Zoom, were hosted through the Forest Solutions Dialogue and coordinated by the United Nations Development Programme (UNDP) and partners of the New York Declaration on Forests (NYDF) Global Platform. "The Dialogue" is an initiative of Climate Advisers to provide a neutral space to share experiences, discuss common challenges, and identify solutions to accelerate action in the forest sector through the implementation of "cooperative approaches" under Article 6 of the Paris Agreement.

Two sessions were held to accommodate different time zones: Session 1 included country participants from Latin America, the Caribbean and Africa, and Session 2 was for Asia-Pacific countries. French, Spanish, and Bahasa interpretation were provided. The sessions featured a discussion on challenges and opportunities related to the environmental integrity of forest emission reductions and removals in the context of voluntary carbon markets. Participants included country-level focal points for various processes such as the United Nations Framework Convention on Climate Change (UNFCCC), REDD+, and NYDF from countries that have submitted forest reference levels to the UNFCCC. The approach and outreach efforts facilitated the attendance of several REDD+ country participants at the Forest Solutions Dialogue for the first time, expanding the reach and participation of the Dialogue. Overall, the two sessions gathered a combined total of 85 participants from 32 countries.

Each dialogue session opened with an introductory presentation by UNDP and panel discussion with four senior technical experts on land use, forests, climate change, and carbon markets, followed by an open dialogue with participants.

BACKGROUND

Carbon markets are expected to play an important role in the implementation of the Paris Agreement to the UNFCCC. If designed and implemented in a way that ensures high integrity, carbon markets can mobilize significant private sector finance, raise ambition by lowering climate change mitigation costs, and contribute to the achievement of the Paris Agreement goals.

The concept of high integrity in the carbon markets context often refers to environmental integrity, understood as the supply of emission reductions and removals being real, additional, quantifiable, and verifiable, with issues of leakage and permanence sufficiently addressed, and units tracked through robust carbon accounting to avoid double counting. However, there are broader aspects when considering high integrity voluntary carbon markets, including, for example, the relationship between the VCM and Nationally Determined Contributions (NDCs) under the Paris Agreement, as well as demand-side considerations to ensure access and use of carbon markets are aligned with credible corporate climate change mitigation strategies.

There are currently several other related processes underway which also focus on the environmental integrity associated with the VCM, including the development or application of sets of principles, such as the Task Force on Scaling of Voluntary Carbon Markets and the Natural Climate Solutions (NCS) Alliance. VCMI was also initiated this year to develop guidance on how voluntary carbon credits can be used by corporates and other non-state actors as part of credible, net zero decarbonization strategies.

At the time of hosting these sessions of the Forest Solutions Dialogue in April 2021, there were not yet opportunities for engagement with a focus on the supply-side of forest emission reductions and removals in a carbon market context, specifically tropical forest countries. Recognizing that the high integrity of forest emission reductions and removals has been a major focus of international negotiations on REDD+, this process was designed to be informed by and build upon that wealth of REDD+ experience. The intent was also to have these initial dialogues and related future discussions as part of this process recognize the UNFCCC context, including the related issues of the NDCs, transparency and finance, and ensure this is integrated as critical context for carbon market integrity discussions, without prejudging the outcome of the Article 6 negotiations. The following key messages were considered the main "takeaways" based on the expert presentations and contributions by country participants:

KEY MESSAGES:

1. After more than ten years progressing through REDD+ readiness and implementation, developing countries have learned important lessons that can be built on to operationalize the high integrity of forest emission reductions and removals in the context of VCM.
2. For country participants, meeting the NDC targets or goals is a clear priority, but there was the perception that demand-side discussions and expectations (regarding quality of emission reductions and others) tend not to consider NDCs when defining environmental integrity. This highlighted the need for further dialogue between the private sector and supply countries.
3. Countries signalled their interest and willingness to actively engage in discussions with potential buyers of REDD+ units.
4. While countries recognize that VCM and the UNFCCC may have links, it was acknowledged that the principles and practices on how the VCM relates to NDCs will likely be defined outside the UNFCCC, by the "court of public opinion".
5. There are unresolved technical matters that warrant further discussion and clarification, such as corresponding adjustments to the NDC and approaches for nesting carbon projects within jurisdictions.
6. There is overwhelming agreement that the price of carbon does not reflect the true cost of forest protection, particularly in the long-term. Countries have mentioned the lack of transparency on carbon market transactions and prices as a key challenge.
7. There is significant country interest in tools to assess risks and opportunities of engaging in carbon markets in the context of countries' prior experiences, existing systems, and climate policy and finance priorities.

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multi-stakeholder platform to drive credible, net zero aligned participation in voluntary carbon markets (VCMs).

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