VCMI Voluntary Carbon Markets Integrity Initiative

VIEWS ON VISION, PRINCIPLES, CLAIMS GUIDANCE, AND VCMI'S ROLE

Feedback on VCMI Consultation Report

October 2021

vcmintegrity.org

ABOUT VCMI

The Voluntary Carbon Markets Integrity (VCMI) Initiative 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 (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).

Acknowledgments

Kristal Jones, PhD, and Erika Berglund, MS, of JG Research & Evaluation, coded and analyzed all comments received on the Consultation Report and drafted this synthesis report.

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I.
Executive Summary

Executive Summary

Feedback from fifty-two organizations working broadly on topics and issues that overlap with voluntary carbon markets (VCMs) is synthesized in this report. Key takeaways include:

— **There is broad agreement with VCMI's vision and principles for high-integrity VCMs:** In general, there was broad agreement among respondents with VCMI's diagnosis of the key issues for ensuring high-integrity VCMs, both on the supply and demand sides. Much of the feedback, both positive and with suggestions for further revisions, focused on the need for guidance in a changing climate mitigation context, based on outcomes of the Conference of Parties (COP) 26 meetings.

— **Capacity-building and attention to equity are key needs for both demand-side and supply-side integrity:** A key focus in developing demand-side integrity of VCMs is supporting businesses in their engagement with the marketplace and guiding private-sector investment to ensure it is equitable. The majority of feedback regarding supply-side integrity highlighted that capacity-building is key to ensuring that a wide range of countries can access and benefit from VCMs in an equitable and impactful manner.

— **Aligning claims guidance with science requires a focus on abatement:** There is clear consensus that all claims guidance should align with science in a broad sense, from the starting point that science unambiguously points to the need to limit future warming to 1.5°C and the centrality of the mitigation hierarchy in achieving this future. There was not strong agreement among respondents about the utility of distinguishing between commitment and achievement claims. Many respondents highlighted the importance of additionality, permanence, and high-integrity claims of reduction or removal.

— **Aligning claims guidance with regulation and governance mechanisms requires a focus on Article 6 as it is elaborated and finalized through the United Nations Framework Convention on Climate Change (UNFCCC) process:** Most feedback received on any aspect of alignment with regulation and governance mechanisms focused on Article 6 of the Paris Agreement under the UNFCCC. There were diverse perspectives on if and how the finalization of and agreement to Article 6 and its subparts could or should relate to VCMs and claims guidance.

- **VCMs can provide opportunity for climate action in the absence of regulation:** The overwhelming sentiment expressed about alignment is that there is not nearly strong enough nor consistent enough regulatory effort at the national or global levels. Claims guidance associated with high-integrity VCMs is seen by respondents as a crucial market-based way to catalyze action and generate impacts that would not otherwise be achieved given the current lack of climate regulation at every level.

- **Achieving transparency and consistency in accounting and reporting requires agreement on definitions and processes:** Agreed-upon definition and application of terms are a necessary precursor to transparency in accounting and reporting. Improving consistency across the system will then feed into better communication with regulators and the public, and is one important piece of infrastructure—alongside measurement, reporting, and verification (MRV) approaches and governance mechanisms—to increase transparency through improved claims guidance.

- **There is ample and desired opportunity for VCMI to lead and collaborate to improve integrity in VCMs:** VCMI is building on the strengths of existing efforts to ensure supply- and demand-side integrity and is extending these efforts to focus specifically on claims guidance in the context of the UNFCCC process and the potential for new mechanisms and increasingly ambitious nationally determined contributions (NDCs) to the Paris Agreement. The open and engaged approach taken so far provides ample opportunity for both leadership in convening, providing a vision, standardizing guidelines, and collaborating on implementation and ongoing assurances related to ensuring integrity in VCMs.

II. Acronym List

CCS	Carbon capture and sequestration
CO2	Carbon dioxide
COP26	Conference of Parties 26 (to be held in November 2021)
GHG	Greenhouse gas
G30	Group of 30
ISO	International Organization for Standardization
MRV	Measurement, reporting, and verification
NDC	Nationally determined contributions to the Paris Agreement
NGO	Nongovernmental organization
OMGE	Overall mitigation in global emissions
SBTi	Science Based Targets Initiative
SDG	Sustainable Development Goals of the United Nations
SOP	Share of proceeds set aside for climate adaptation
VCM	Voluntary carbon market
VCMI	Voluntary Carbon Market Integrity Initiative
VER	Voluntary emission reductions

III.
Foreword

Foreword

Over the last two years, voluntary carbon markets have begun to take off. After two decades in which credits representing a little over 1 billion tonnes in greenhouse gas (GHG) emissions reductions were issued, nearly one-quarter of this total were issued in the first nine months of 2021 alone. With companies increasingly making commitments that rely, to a greater or lesser extent, on the voluntary use of carbon credits, this trend is unlikely to slow.

Nevertheless, VCMs—and the use of the credits they generate—continue to be mired in controversy. Supporters point to their role in filling gaps in government policy, putting a price on carbon, and enabling new finance to flow to projects that mitigate climate change. Opponents, on the other hand, contend that they are at best a distraction and at worst undermine meaningful climate action by alleviating pressure on companies and governments to adopt and implement more ambitious decarbonization targets. Moreover, they argue that emissions-reduction projects often overstate climate benefits and fail to take into account the needs of—or share benefits with—host country communities.

The Voluntary Carbon Markets Integrity Initiative was established to reconcile these competing views by coalescing stakeholders around a shared vision for high-integrity use of carbon credits for voluntary purposes and working together to realize this vision. Provided that carbon credits purchased are of high integrity, VCMs offer an opportunity to channel private-sector finance into mitigating climate change, protecting nature, and supporting sustainable livelihoods at a time when finance is urgently needed. VCMI is working to build a framework for best practices and boundaries on the claims made by corporations and others to achieve global net zero ambition, while also ensuring that no country is left behind and that developing countries have access to the growing VCMs.

This is no easy task but one that the stakeholders with whom we have consulted agree is essential. They have also stated unequivocally that we will only succeed with credibility if the full range of concerns is taken into account. For this reason, VCMI is committed to engaging with governments, businesses, nongovernmental organizations (NGOs), academics, Indigenous Peoples, and local community (IPLC) representatives throughout our work and to being informed by the feedback we received.

The six-week public consultation process on our vision, principles, and proposed areas of work in 2021, which began with the release of our Consultation Report on July 29, 2021, was a key part of his engagement process. This report synthesizes the fifty-two responses we received, and we are extremely grateful to all who took the time to read the report and provide their views. We are also heartened that responses came from a wide range of stakeholders and that comments overwhelmingly demonstrate support for our work. The responses have already informed the Roadmap for our work over the coming months, and the feedback will help guide the work of the VCMI Expert Advisory Group as it begins to grapple with the thorny issues that must be resolved in order for us to develop credible guidance on the voluntary use of carbon credits and associated claims.

However, this is far from the only part of our engagement strategy. Over the coming months, we will continue to reach out to those who have a stake in VCMs and action to mitigate GHG emissions more generally. Please contact the VCMI Secretariat to become involved with our work. We look forward to collaborating with you to create high-integrity VCMs.

— **Tariye Gbadegesin and Rachel Kyte**
VCMI STEERING COMMITTEE CO-CHAIRS

IV. Background on VCMI Consultation Report and Feedback Process

Background on VCMI Consultation Report and Feedback Process

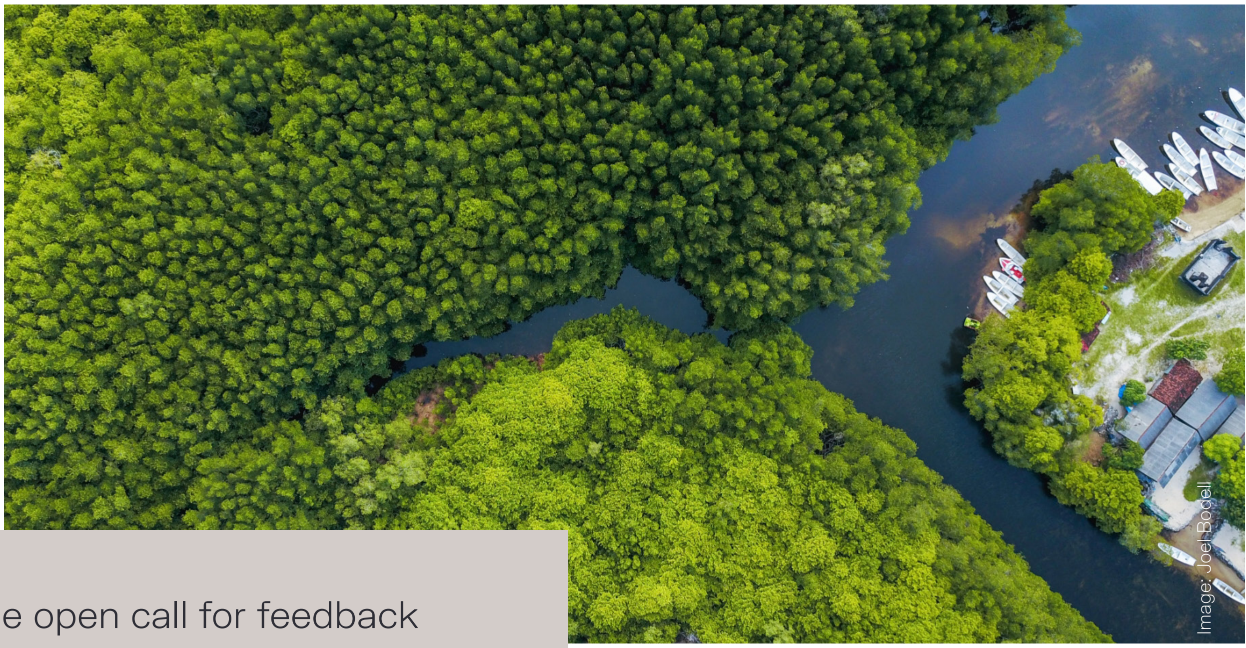
VCMI was announced in early 2021 with support from the UK government. The VCMI Consortium released its Consultation Report, *Aligning Voluntary Carbon Markets with the 1.5°C Paris Agreement Ambition*, along with supplementary documents, in July 2021 as a foundation for the official launch of VCMI and the starting point for an intensive consultation process. The development of these products was led by the Meridian Institute, with support as needed from consultants. (Meridian and its consultants are collectively known as the VCMI Consortium.)

The next phase of the consultation process was to open a feedback period to any interested party; this report summarizes key messages that emerged from the feedback process. The goal of opening a direct feedback process on the Consultation Report was to hear from a wide range of interested parties about VCMI's vision and purpose; observations about key issues to be addressed within the VCM landscape; and ideas about the role that VCMI could play in addressing these issues. The feedback received on the Consultation Report and summarized in this report will be used alongside other dialogues and consultations led by VCMI and its partners, and all of these inputs are considered in the VCMI Roadmap, which details VCMI's path forward.

APPROACH TO SOLICITING AND ANALYZING FEEDBACK

The VCMI Consultation Report was launched in late July 2021, and an open call for feedback was held for six weeks, from early August through mid-September. Feedback was solicited through an open call on VCMI's website, as well as through networks of organizations and individuals who had already engaged with VCMI or who were identified as key actors in the VCM space. Feedback on the Consultation Report could be submitted via a web-based survey form or email to a VCMI contact. In both cases, feedback was solicited through a set of nine open-ended questions that reflected the outline of the Consultation Report. The overarching structure of the feedback form was to generate reactions to the content in the Consultation Report; identify missing content or topics; and gain an understanding of the role that VCMI could play in the ecosystem of organizations and actors already working on VCMs in some way.

Feedback was received and organized by the VCMI Secretariat staff and shared with consultants in raw form for analysis and interpretation. All data were analyzed using qualitative data analysis software, with a structured coding scheme that initially reflected the questions asked in the feedback form and coded themes and subthemes within those questions. Key issue areas of interest emerged through data analysis conducted by consultants, and the structure of this report thus reflects the



The open call for feedback generated responses from fifty-two organizations, over half of which self-described as private businesses or civil society organizations.

breadth of priorities and topics identified externally by the community of actors who provided feedback. All content presented in italics and enclosed in quotation marks reflects respondents' own words and was selected for inclusion in this report as representative of feedback received from several respondents. All other content reflects the consultants' summary of dominant or consistent themes or topics discussed by respondents.

SOURCES OF FEEDBACK

The open call for feedback generated responses from fifty-two organizations, over half of which self-described as private businesses or civil society organizations. Only a few self-identified as conducting work directly related to the management or function of VCMs. Instead, most focus on improving the structure and impact of VCMs for their own needs and those of similar organizations (in the case of businesses) or for the needs of their constituencies (in most cases, for communities, developing countries, and the environment). Agencies from three national governments provided feedback during this process, and VCMI has led country dialogues that inform overall work on the Roadmap but are not included in this report.

V. Feedback on Vision and Principles

Feedback on Vision and Principles

Respondents' feedback on the overarching vision and principles, as well as the key areas for high-integrity VCMs, was largely supportive, while some noted areas for improvement or further detail. In general, there was broad agreement among respondents with VCMI's diagnosis of the key issues for ensuring high-integrity VCMs, both on the supply and demand sides. Much of the feedback, both positive and with suggestions for further revisions, focused on the need for guidance in a changing climate mitigation context, including the potential for new mechanisms and increasingly ambitious NDCs.

"We agree with the recognition that the way in which carbon credits are used voluntarily will need to change to reflect the new context the voluntary carbon market sits in, with science-based targets, long-term net zero commitments and a new international framework under the Paris Agreement."

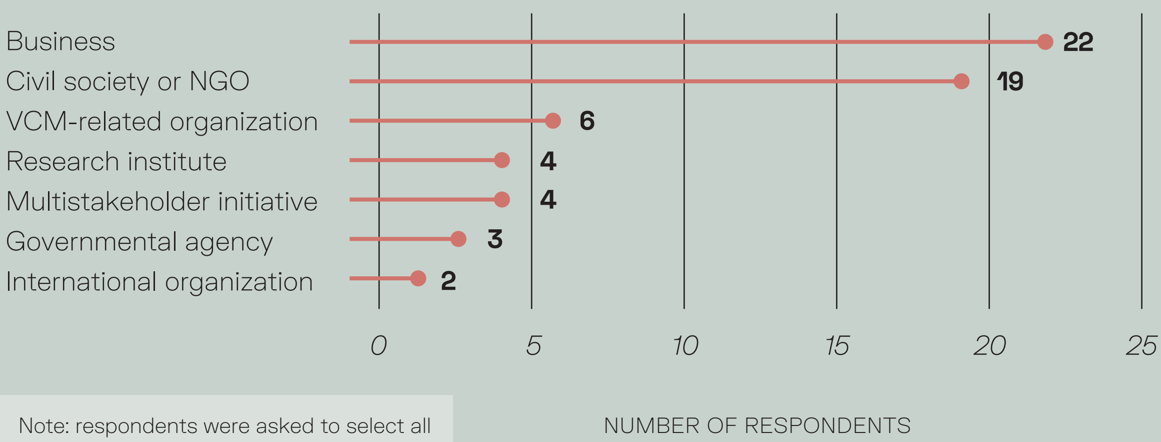
— **VCM-Related NGO Respondent**

VIEWS ON VISION

Overall, feedback regarding the vision for the future of VCMs suggested that it is clearly articulated and appropriate in its ambition and scope. Several respondents expressed their agreement that VCMs *"must play a meaningful role in the global effort to limit warming to 1.5°"* and that ensuring their integrity is crucial to achieving this goal. A number of respondents also appreciated the inclusion of sustainable development goals (SDGs) in the vision and underscored the importance of continuing to align and collaborate with a wide variety of stakeholders. Others noted that the depth of focus on carbon accounting is a strength of VCMI's vision and should be made prominent.

Several respondents, while supporting the vision, highlighted areas where they thought it could be improved, such as: stronger, more explicit language; a narrower focus on the demand-side of VCMs; and a shift in focus from VCMs themselves to *"the actors that engage in these marketplaces and the outcomes of their actions."* Some consistent recommendations for improving the vision statement included: specifying *"high-integrity"* VCMs; adding an outcome-oriented goal; highlighting the role of robust corporate climate ambition in achieving the vision; and specifying that *"net-zero"* claims should be a guiding principle.

Respondent Feedback by Type of Organization



Note: respondents were asked to select all

VIEWS ON TEN PRINCIPLES FOR HIGH-INTEGRITY AND HIGH-AMBITION VOLUNTARY CORPORATE CLIMATE ACTION

Broadly speaking, the majority of respondents were supportive of the ten principles, expressing that they *"essentially reflect what is currently lacking in VCMs"* and provide *"a number of key foundations to underpin ambitious corporate climate action."* Several respondents commented that the principles were high-level and, therefore, lacking in detail in terms of purpose and practical implementation. As such, this subset of respondents felt the rationale and purpose of the principles could be more explicitly articulated and welcomed the development of an implementation plan for the principles.

Image: Filippo Cesarini, Unsplash

COMMENTS ON INDIVIDUAL PRINCIPLES

Looking at each principle individually, some respondents offered specific recommendations to strengthen the language or provide more detail. Of note, Principle 8: NDC-Enabling Action received the most comments and questions by far. Comments are summarized below according to each principle:

PRINCIPLE	SUMMARY OF COMMENTS
1. Science-Based Action	Cannot be emphasized enough how important the *"science-based mitigation hierarchy"* and the emphasis on reductions/abatement as a first priority is to this principle.
2. Comprehensive Action	Include International Organization for Standardization (ISO) standards 14064 series or the future ISO 14068 in addition to the GHG Protocol.
3. Equity-Oriented Action	Include specific reference to human rights. Highlight support of local communities.
4. Nature-Positive Action	Clarify role of/support for avoided emissions in context of nature-positive action.
5. Rapid Action	Short-term actions should also be considered ambitious.
6. Scaled-Up Action	Include mention of *"science-based mitigation hierarchy."*
7. Transparent Action	Amend to "Transparent and Accountable Action."
8. NDC-Enabling Action	Clarify role of corresponding adjustments. Clarify intended mechanisms for businesses to contribute to *"finance flows."*
9. Consistent Action	Combine with Principle 2 for "Comprehensive and Consistent Action."
10. Collective & Predictable Action	Beyond simply aligning, companies should *"use their collective power to push for more ambitious climate action in the countries hosting projects they are supporting."*

ADDITIONAL PRINCIPLES

A few respondents offered suggestions for additional principles that were not included in the list of ten. These suggestions included:

SUGGESTED PRINCIPLE	SUMMARY OF COMMENTS
Ambitious Action	Highlighting ambitious commitments as a cornerstone of high-integrity VCMs, including climate-positive claims.
Durable Action	A commitment to temporal alignment of mitigation benefits with claims, with the goal of permanent sequestration.
Additional Action	Ensuring additionality of credits above and beyond investments that would have otherwise taken place in the business-as-usual context.

KEY ISSUES FOR ENSURING DEMAND-SIDE INTEGRITY IN VCMS

A key focus in developing demand-side integrity of VCMs is supporting businesses in their engagement with the marketplace and guiding private-sector investment to ensure it is equitable. Several respondents offered a number of recommendations for supporting businesses, while some emphasized that equity is an essential prerequisite of high-integrity VCMs.

CREDIBLE CORPORATE CLIMATE COMMITMENTS AND THE ROLE OF CARBON CREDITS

In general, respondents agreed that the *"lack of a common understanding of key terms and concepts that underline [corporate] climate commitments"* leads to confusion and, ultimately, delayed corporate climate action. Therefore, the development of *"clear and unambiguous measures"* and terminology is key to ensuring demand-side integrity. Several respondents commended the inclusion of Science Based Targets Initiative's (SBTi) mitigation hierarchy and the assessment of *"traditional offsetting"* in the Consultation Report.

Other consistent feedback regarding this section of the report suggested that net zero could be further clarified. In particular, parameters should be set regarding the role of carbon credits in contributing to net zero commitments, with a focus on abatement before credits are used to counterbalance continued emissions. A handful of respondents also encouraged the development of an annual reporting standard to ensure that companies are accountable to their commitments and transparent regarding their carbon activity.

CAPACITY-BUILDING FOR HIGH-INTEGRITY DECISION-MAKING BY THE PRIVATE SECTOR

Based on the feedback received, the top priority for demand-side integrity is ensuring that companies engage in transparent communication and robust accounting regarding commitments and claims. It follows that the three most frequently discussed priority areas for supporting business were: (1) education and outreach about high-integrity VCMs; (2) rigorous claims standards; and (3) investment guidance. Other common areas for support included: sound VCM policy and regulations; supply-side transparency; and incentives and consistent standards for reporting.

Over a third of respondents felt that education on high-integrity VCMs is key to encouraging businesses to meaningfully engage in the market. This included not only educating, and even training, businesses so they feel *"empowered to act"* and communicate their action, but also ensuring that the media is well-informed of *"the difference between high- and low-quality VCMs and reinforces market integrity through 'differentiated reporting.'"*

As discussed in further detail in the following section, respondents frequently mentioned that in order for companies to transparently communicate their engagement with VCMs, they *"need reliable and credible guidance [and] standards for such communication."*

Several respondents also mentioned that businesses would benefit from reputable and consistent guidance for investment in VCMs. This may include supporting businesses in the creation of their corporate climate commitments and ensuring that they invest in *"carbon credits that have strong climate and SDG impacts"* to meet those commitments.

EQUITY AND PRIVATE-SECTOR INVESTMENT

There was consistent feedback from many respondents that the use of VCMs by the private sector is a source of funding and momentum for much-needed climate mitigation actions, and thus there are equity implications for making guidance for VCMs either too stringent or too lenient. Claims guidance that discourages a diversity of investments could remove a major source of climate financing. On the other hand, claims guidance that is too lenient raises all of the concerns that VCMI is currently trying to address—a lack of integrity in the use of VCMs and the potential for complacency if claims are not actually achieving the impacts they purport to achieve.

In addition to balancing these concerns, several respondents highlighted the equity implications of *"commodifying nature-based approaches,"* especially because of the potential for negative impacts on local communities and human rights. One specific concern voiced by a few respondents is the time frame of many net zero commitments, which suggests that neutralization will not begin for another decade and thus VCMs do not need to ramp up offering these credits, potentially undermining the science-based imperative to begin and continue removals as quickly and as comprehensively as possible. A few respondents noted that if removal credits are limited due to a lack of market demand today, there will be equity implications for small businesses and companies without deep pockets that cannot fully abate but might need to be net zero to comply with future national or global policy, or simply to compete in the market.

KEY ISSUES FOR ENSURING SUPPLY-SIDE INTEGRITY IN VCMS

The majority of feedback regarding supply-side integrity echoed key issues highlighted in the Consultation Report, namely that capacity-building is key to ensuring that a wide range of countries is able to access and benefit from VCMs in an equitable and impactful manner.

REAL AND VERIFIED CARBON CREDITS

Several organizations underscored the importance of ensuring that credits are real, verified, and of high quality by adhering to robust standards for monitoring, verification, and reporting. A handful of respondents also expressed that more scrutiny should be placed on the developers of carbon credits to ensure that carbon projects and the use of proceeds align with the Paris Agreement and SDGs.

Some less frequent but notable feedback from respondents included:

- Some said the Consultation Report is implicitly biased toward nature-based credits, and that VCMI should be explicit about its view on the role of removal and avoided credits, especially in the context of different types of claims.
- A distinction should be made between nonpermanent and permanent credits; permanence should be considered a top priority for high-integrity supply of credits and, at a minimum, temporal alignment of credits and claims should be required.

CAPACITY-BUILDING FOR HIGH-INTEGRITY SUPPLY-SIDE ENGAGEMENT BY HOST COUNTRIES

When asked what is needed to enable countries to access high-integrity VCMs, nearly half of respondents reiterated the importance of capacity-building through funding mechanisms and technical assistance. Other topics that were mentioned with some frequency included clear and ambitious NDCs; a registry that allows countries to track investments and carbon projects; and education regarding high-integrity VCMs, and particularly about the relationship between compliance markets and VCMs. A handful of respondents also mentioned the value of host countries developing priority lists to signal *"where they most need investment, what sustainable development benefits should be prioritized, what sources of investment they seek, and the terms under which they wish cooperation to proceed."*

Many respondents felt that supporting countries' capacity to support active VCMs will not only increase engagement in VCMs but also ensure that host countries are benefiting from carbon credit projects in a meaningful way. As one NGO respondent pointed out, *"many countries are not aware of their mitigation opportunities and how the private sector can finance them."* Ensuring that countries understand the opportunities in VCMs and how they interact with increasingly ambitious NDCs through financial support and technical assistance will be key. Another NGO respondent further explained that, through capacity-building, integrity can be built by ensuring *"host countries do not sell low-hanging fruits to private companies, but rather reap the benefits of VCMs by approving projects which deliver clear, sustainable development benefits in the country."*

EQUITY FOR INDIGENOUS PEOPLES AND LOCAL COMMUNITIES

Several organizations agreed that capacity-building will be instrumental to supporting the integrity of supply and achieving the vision set forth in the Consultation Report. A handful of comments highlighted the importance not only of building the capacity of governments to support VCMs but also local businesses, nonprofit organizations, and communities, suggesting that such a level of engagement *"is arguably more critical in the near term to jumpstart supply and building high-quality pipelines of credible projects and credits"* than engagement with national governments. Engaging local communities in the context of VCM transactions is also an equity issue, and more than one respondent highlighted the economic justice and human rights aspects of commodifying local actions for sale to global markets.

A few respondents noted specific equity challenges for Indigenous communities in terms of their ongoing protection of forest sinks, and the fact that VCMs are *"ill-suited"* to facilitate transactions that value these types of carbon credits. Other respondents highlighted the lack of discussion of gender in the Consultation Report and suggested referencing a white paper from W+, a standard that quantifies women's empowerment, on the role of gender in VCMs.[1]

> "One overlooked issue is transparency on pricing and use of proceeds. To maximize the impact of the VCMs and improve their credibility, we need to minimize costs along the value chain. Today, there is little or no information regarding pricing and use of proceeds. This must change. Both buyers and sellers of carbon credits needed to disclose prices paid and received, and those entities issuing the carbon credits reported on use of proceeds received."
>
> — **NGO Respondent**

1 Jeannette Gurung and Rebecca Pearl-Martinez, *Accelerating Investments in Women through Certification: A White Paper of the W+ Standard (2015)*, available at https://www.wplus.org/wp-content/uploads/2019/08/W-White-Paper-Final.pdf.

VI.
Feedback on Claims Guidance: Alignment with Science

Feedback on Claims Guidance: Alignment with Science

As highlighted in the above section on feedback about VCMI's vision, there was strong and consistent feedback about the need for the kind of leadership and guidance that VCMI has proposed in the Consultation Report. Specifically, many respondents highlighted the gap on the demand side in terms of moving from principles to action and expressed excitement about an overarching set of protocols or guidelines that bring together the work that has been done on science-based standards and corporate accountability.

There is clear and unsurprising consensus that all claims guidance should align with science in a broad sense, from the starting point that science unambiguously points to the need to limit global temperature rise to 1.5°C. SBTi was often cited as an important starting point for aligning claims guidance with existing scientific consensus; at the same time, some respondents noted ambiguity in SBTi language as well as the possibility of changing definitions of which VCMI should be aware. SBTi's mitigation hierarchy was noted as an especially important core element of science-based claims and an appreciated starting point for VCMI's guidance. At the same time, operationalizing the mitigation hierarchy as well as other concepts in the context of high-integrity mitigation action and claims reporting will, as noted by one NGO respondent, *"inevitably require taking an unambiguous position on certain topics—such as the risk of double-counting—rather than simply describing it as a potential unresolved issue."*

Taking a position on certain topics is part and parcel of providing explicit standards and guidance, and there was strong agreement among respondents about the central role that VCMI can play by providing clear and precise definitions about types of claims and the content of those claims. Underlying many of the specific definitions discussed in the following section, as well as the general goal of aligning with science, is a question about expectations and requirements for abatement before high-integrity claims can be made. Several respondents brought up this question, and a few questioned the proposal in the Consultation Report that companies without net zero transition pathways could still make some type of climate mitigation claim. As one VCM-related multistakeholder respondent summarized, *"this position from VCMI risks contradicting and confusing the mitigation hierarchy, which is appropriately referenced as a core principle throughout the report. Abatement within companies' value chains should be a pre-condition for any claims related to additional voluntary offset utilization."*

> "In particular, I like a lot the way this document deals with the high-integrity demand and explains that carbon claims are the other side of the coin of carbon credits in a voluntary market."
>
> — **Business Respondent**

CATEGORIZATION

Respondents appreciated VCMI's efforts to begin to develop a shared vocabulary in the Consultation Report Glossary, *"since establishing a typology of claims will require a lexicon of common terminology and definitions."* Key definitions that respondents felt are crucial to clarify in order to categorize claims and are not yet fully resolved in the Consultation Report include: commitment versus achievement; neutralization versus compensation; net zero; on a pathway to net zero; climate neutral; and climate positive. Several respondents highlighted concerns related to the danger of imprecise language in the context of claims; these concerns related to double-claiming, greenwashing, and ultimately complacency in taking action that will truly generate needed climate impact.

COMMITMENT VERSUS ACHIEVEMENT

There was not strong agreement among respondents about the utility of distinguishing between commitment and achievement claims. Many respondents noted that a move toward these two claim categories could help *"ensure corporates are sharing their planned and completed climate-related actions in an accurate manner."*

Other respondents noted that commitments that do not align with science in terms of being embedded in a pathway to net zero would not meet the definition of high integrity: *"I fear we are seeing increasingly hollow commitments made without any underpinning. Should a company be able to make a commitment claim without a feasible pathway defined and available for shareholder/ public scrutiny?"* To address these concerns, one NGO respondent suggested *"a holistic framework in which companies have a long-term commitment claim and can make achievement claims that are directly linked to their progress towards their commitment claim."* Working across definitions could further strengthen the definitions of commitment and achievement claims by explicitly linking claim types to the goals they are intended to address.

Some respondents took a stronger position out of concern that further separating claim types at best *"is unnecessarily confusing"* and at worst undermines accountability by giving too much credit to commitment claims that are not backed by action. Distinguishing between commitments and claims would be aligned with the MRV approach to confirming that climate mitigation activities align with the science on necessary climate action.

> "Our starting position in this regard is that the term 'claim' should be reserved for what is described in the consultation document as 'achievement claims.' These constitute an actual claim that reductions and/or removals have occurred and are being used in a particular way. This reflects our priority that claims should be grounded in robust, ex post and verified measurement of impact, and clarity of how this impact is used by the companies or other actors (such as host countries)."
>
> — **VCM-Related Agency Respondent**

NEUTRALIZATION VERSUS COMPENSATION

The terms neutralization and compensation are clearly defined in the Consultation Report, in alignment with the SBTi usage in past guidance for corporate climate commitments. Respondents provided a range of feedback, all oriented toward building upon and refining the existing definitions of both terms. Some respondents felt that compensation should be the overarching category, with compensatory claims associated with either reduction/removal credits or neutralization credits and noncompensatory claims as those that support *"global decarbonization efforts."* Related feedback contrasted neutrality claims, related to an individual company's balance sheet, with contribution or *"counterbalance"* (to the global balance sheet) claims.

Using a hierarchy of claims for accounting purposes dovetails with other feedback related to mitigation claims and would buffer against the concern about claims of financial contribution being conflated with true emissions reductions or removals. A summary of the proposed hierarchy of claims that reflects the existing mitigation hierarchy and many of the respondents' feedback follows:

— Neutralization Claim: carbon removed from the atmosphere through insetting (counterbalances within a company's own value chain) or purchase of carbon credits (counterbalancing) that could contribute to a company's claims about their net zero pathway.

— Compensation Claim: reduced or avoided emissions through purchase of carbon credits (counterbalancing) that could contribute to a company's carbon neutrality claims.

— Mitigation Contribution Claim: investments in reduced, avoided, or removed emissions to counterbalance emissions on the global balance sheet (as measured in tonnes of carbon equivalents) and cannot be included in company carbon neutrality claims.

— Financial Contribution Claim: investments that are intended to lead to reduced, avoided, or removed emissions to counterbalance emissions on the global balance sheet but are not measured or reported in tonnes of carbon.

Respondents' feedback on how neutralization and compensation should be included in science-based targets and claims reflects the challenge in creating definitions that include the action, the accounting purpose, and the reason for a claim. As noted by one respondent, SBTi is currently defining a Net-Zero Standard[2] and has not yet determined if and how neutralization or compensation will be included in net zero accounting.

2 "The SBTi Net-Zero Corporate Manual: Version 1.1 for Company Road Test," *Science Based Targets Initiative* (July 2021).

CLAIMS OF REDUCTION AND REMOVALS ALIGNED WITH SCIENCE

The centrality of abatement to science-based net zero targets and pathways carries through to respondents' feedback on aligning reduction and removal claims with science. Many respondents highlighted the importance of additionality, permanence, and high-integrity claims of reduction or removal. In terms of removals as a part of neutralization or compensation claims, guidance should include MRV approaches to assess permanence and the temporal alignment of the claim being made about the role of the removal on a balance sheet: *"The permanence of any carbon capture needs to be assessed. Logically, when pledging to be 'net zero by […],' the methodology underlying the chosen credit would need to ensure carbon capture at least until this point."*

Currently, the supply side of VCMs does not necessarily align with science, creating *"the incongruous issues of CO2 emissions from fossil fuels persisting for 800 years or more whilst VERs [voluntary emission reductions] often guarantee their credibility for no more than 30 years."* In terms of accounting and making high-integrity claims, there remains a *"large discrepancy and difference between different types of removals, especially with regards to temporal boundaries of sequestration."* Some respondents proposed making a distinction in neutralization and compensation claims between permanent and nonpermanent removals.

Related to permanence and additionality are questions about different amounts of *"credit"* or claims coming from the impact of emissions reductions versus removals. The majority of respondents noted that the mitigation hierarchy remains the most important starting point for making these calculations. First and foremost, respondents noted, should be abatement, and emissions reduction should perhaps be given more credit on balance sheets than removals in order to fully align with science.

One NGO respondent summarized it well: *"Additionally, the asymmetry in the effect of emissions and removals on the climate system should be accounted for in the crediting system. Recent research shows that CO2 removal is not equal and opposite to reducing emissions" (Zickfeld et al 2021, Nature Climate Change).* A few respondents proposed incentivizing abatement to allow neutralization claims only for removals that are permanent, and one NGO respondent suggested pricing credits well above costs for abatement. *"High-integrity demand is perhaps only possible when a price is set well above this cost and truly reflects a permanent removal via CCS [carbon capture and storage], etc."*

VII. Feedback on Claims Guidance: Alignment with Regulation and Governance Mechanisms

Feedback on Claims Guidance: Alignment with Regulation and Governance Mechanisms

Most feedback received on any aspect of regulation and governance mechanisms focused on Article 6 of the Paris Agreement. There were diverse perspectives on if and how finalization of and agreement to Article 6 and its subparts could or should relate to VCMs and claims guidance. Aside from Article 6, the overwhelming sentiment expressed about alignment is that there is not nearly strong enough nor consistent enough regulatory effort at the national or global levels, and claims guidance associated with high-integrity VCMs are seen by respondents as a crucial market-based way to address the current lack of climate regulation at every level.

ARTICLE 6

The overarching concern expressed by many respondents related to Article 6 (which is yet to be finalized) is the potential for two governments to claim the same reduction or removal achievement, leading to double-counting and ultimately to negative climate impacts. Some respondents felt that VCMI should wait for further United Nations outcomes on Article 6 before taking any specific position on how to include corresponding adjustments in claims guidance. Related to this point was one brought up by several respondents who pointed to the regulatory and policy challenges associated with corresponding adjustments and worried that requiring corresponding adjustments in VCMs would dampen investments.

Others felt that corresponding adjustments should not be considered or included in VCMs, and that credits purchased by the private sector should always be counted on the balance sheet of the country in which the credits originated. From this perspective, there is a win-win associated with companies getting to report their carbon credit purchase in their corporate sustainability reporting, while providing finance for developing countries to help meet their NDCs. However, others reported concerns about additionality, double-claiming, and the possibility that carbon credits utilized in claims being transferred from a host country to a company could displace NDC-related climate action by incentivizing the sale of carbon credits that are easier to generate and leaving difficult action to meet NDCs. Disagreement also remains over whether a company should be able to make a claim about neutralization or compensation if the credits are counted by a host country rather than the country in which a company is based, with the suggestion instead that in this situation a mitigation claim is more appropriate.

Many respondents highlighted the need to align VCMs with Article 6 guidance once it is agreed at the UN level, both from a regulatory point of view and to remain aligned with the science of limiting temperature increases to 1.5°C. From this perspective, some respondents stated that high-integrity VCM claims should include corresponding adjustments to maximize the climate impact by minimizing the possibility of double-claiming. A few respondents noted that the language in the Consultation Report downplays the risk and the role of double-claiming in the context of GHG accounting. Some respondents pointed specifically to the need for *"contributions to SOP [share of proceeds] and OMGE [overall mitigation of global emissions] should also be required attributes [of claims], but at a minimum need to be recognized as additional attributes."* There was also some discussion of discounting or cancelling to contribute to OMGE, and the inclusion of these mechanisms in VCMs as at least an optional attribute of credits.

NDC PROCESS

Feedback on the NDC process was much sparser, with most of the focus on how to develop guidance on mitigation, contribution, and/or finance claims for investments in host countries' climate mitigation activities. A few respondents noted that NDCs generally include large proportions of conditional actions, and that credits associated with supporting countries to implement those conditional actions should not necessarily be used as offsets or for neutralization by purchasing companies. Other respondents felt that, while the emissions reduction or removal claim should only be made on the host country's ledger (and thus contributing to its NDC), a purchasing company could claim neutralization or compensation on its own ledger for the purposes of reporting on its net zero pathway.

Other feedback highlighted the *"challenges of impermanent nature-based approaches"* to emissions reductions and removals, which often make up the bulk of developing countries' NDCs. A few respondents noted that NDCs can be used as a starting point to induce or require the private sector in each country to mitigate their GHG emissions, with the idea that NDCs, and thus expectations of all actors within a country, will become more ambitious over time.

DOMESTIC REGULATION

Respondents did not provide much feedback on either specific domestic regulations relevant to VCMs or on ways that claims guidance within VCMs could push domestic climate regulation. Most feedback revolved around the lack of regulatory infrastructure that currently exists in most host countries to manage corresponding adjustments or prioritize NDC actions, especially those listed as conditional and thus open to receiving investment.

Highlighting the lack of regulation and capacity to oversee the host side of managing carbon credits underscores the opportunity for impact, both positive and negative, of VCMs. Respondents also emphasized the need for claims guidance to include equity issues, since there are not necessarily regulatory safeguards to ensure integrity on the supply side. A few respondents did note that some agencies in the United States and European Union are exploring regulatory approaches to avoid greenwashing, which offer an opportunity to collaborate as claims guidance is developed, especially related to corresponding adjustments. Other respondents noted the lack of domestic climate regulation overall and the need for VCMs and the demand side to drive mitigation activities in the absence of regulation.

TRANSITION FROM VOLUNTARY ACTION TO COMPREHENSIVE CLIMATE REGULATION

In general, respondents highlighted the lack of comprehensive climate regulation at the national level and the as-yet-unsettled aspects of Article 6 as ways in which regulation currently lags behind what is required for a 1.5°C world. As one VCM-related agency respondent noted, *"certain governments and countries could be frontrunners and set an example in how to handle 'export' of carbon credits."* Respondents' feedback on the role of VCMs in accounting for and achieving NDCs also raised the point that VCMs can be used as tool to envision and define increasingly ambitious NDCs, with the possibility that those ambitions will eventually become regulation.

Image: Anton Eprev, Unsplash

"VCM activities are vital for many developing countries in providing finance and other support to enable their mitigation action, shift onto low-emission development and net zero pathways, achieve their NDCs, and accelerate the ambition of their NDCs over time."

— **VCM-Related Agency Representative**

VIII.
Feedback on Claims Guidance: Transparency and Consistency in Accounting and Reporting

Feedback on Claims Guidance: Transparency and Consistency in Accounting and Reporting

Overall feedback on transparency and consistency in accounting and reporting reflects themes seen through respondents' feedback on other aspects of claims guidance. Consistent and agreed-upon definition and application of terms are a necessary precursor to consistency in accounting and reporting. There are existing guidelines that are generally accepted by the community, and respondents urged VCMI to engage with and build upon those guidelines when possible. Improving consistency across the system will then increase transparency with regulators and the public and is one important piece of infrastructure, alongside MRV approaches and governance mechanisms, to increase transparency through improved claims guidance.

SCOPE OF CLAIMS

There was very little explicit feedback from respondents on claims related to emissions reductions and removals in different Scopes, likely because there was not much focus on this topic in the Consultation Report. However, feedback presented throughout this and preceding sections speaks to the need to clearly differentiate mitigation efforts across Scopes, in both accounting and reporting. Feedback related to the role of abatement and alignment with the science-based mitigation hierarchy underscores the expectation that companies invest their own resources and planning in reducing emissions as much as possible in Scopes 1 and 2. Per respondents' feedback, there will likely not be standardized guidance for assessing when abatement is no longer *"feasible"* and the decision to make claims using VCMs is a necessary or legitimate decision.

INCLUDING CARBON CREDITS IN GHG ACCOUNTING PROTOCOLS

As discussed in the above section on aligning claims guidance with science, many respondents noted the need to make abatement foundational to all other actions and claims (per the mitigation hierarchy). Several respondents raised the question of if and how claims guidance and high-integrity VCMs should evaluate a given company's need to purchase offset credits, and whether statements about abatement not being feasible are legitimate. A few respondents noted the opportunity to link GHG accounting protocols to VCMs through these questions, with more explicit reporting on the total proportion of emissions in Scopes 1 and 2 that are reduced, avoided, or captured versus offset through credits. In terms of related standards and guidance, several respondents pointed to the Greenhouse Gas Protocol's forthcoming guidance on reporting on removals and the land sector, which is expected in early 2022.[3]

REPORTING ON CLAIMS TO REGULATORS AND THE PUBLIC

As noted in the previous section on regulatory alignment, respondents did not provide much feedback on what is needed or expected in relation to making claims for the purpose of meeting regulatory requirements. Because VCMs are driven by private companies with an interest in building market share through sustainability claims, in many ways the public seems to be the more important audience for reporting and explaining claims.

For example, respondents highlighted the allure (for a company) of applying a

3 Information on the draft and consultation process can be found at https://ghgprotocol.org/land-sector-and-removals-guidance.

company's carbon-neutral statements (and associated claims) to specific products or brands, and one business respondent highlighted the potential for *"substantial multiplication effect of total amounts of claims that can be stated, potentially leading towards an overflow of claims and labels that hinder transparency and thereby impede the simplicity with regards to interpretation from stakeholders."* Detailed claims guidance could include linkages to the appropriate business unit for a given claim and could also require that claims are clearly differentiated by scope and overall contribution (to carbon neutrality, net zero, a net zero pathway, etc.).

INFRASTRUCTURE REQUIRED FOR TRANSPARENCY AND CONSISTENCY IN REPORTING

Respondents provided feedback on three key elements of infrastructure for transparency in reporting: MRV technology that provides science-based evidence of impact; consistent and accepted definitions and use of terms; and a governance structure that can ensure compliance with claims guidance and standards. Although there were only a few comments on MRV, those who did reflect on it pointed to the role that technology can play in providing detailed and accurate information on the supply side of VCMs. Respondents specifically mentioned the need to better measure the carbon cycle from air to soil.

Feedback on many of the definitions provided in the Consultation Report glossary appreciated that VCMI is drawing on accepted definitions when possible, and that respondents see the need for additional precision to be provided by VCMI on several terms that are not currently settled in terms of usage. Agreeing on definitions then requires their adoption and consistent use by the community that VCMI is currently engaging, and the amount of positive feedback and interest in further engagement (see the following section) received through the consultation process suggests a community interested in the leadership role that VCMI is proposing to take on in this space. A related specific piece of feedback from several respondents is that any guidance should include clear and concrete examples so that principles and standards are accessible and applicable to a wide range of demand-side actors.

Finally, feedback on the governance structure needed to implement and ensure fidelity to claims guidance and related standards points to some division among respondents. Several respondents felt that a rules-based system is the only way to *"remove any ambiguity when it comes to using carbon credits,"* in part because there are already many principles-based frameworks in existence that not all actors have been induced to adopt. The majority of respondents who provided any reflection on governance structure favored a hybrid approach, which *"improves clarity for corporates but avoids being overly bureaucratic."*

Similar comments focused on the strengths of the rules-based approach, which is the development of clear and precise guidance, while avoiding the need to create another certification and standards body. One concern raised by a few respondents is the need to not duplicate the rules-based systems already in place to ensure supply-side integrity. Finally, many respondents noted that to fully operationalize any guidance and governance of demand-side claims, some type of claims registry will need to be established. As highlighted below, there is not agreement on which actors and organizations should provide assurance on those claims and host such a registry, and this remains an open question for VCMI leaders and stakeholders.

IX.
Feedback on Role of VCMI

Feedback on Role of VCMI

A big picture summary of the feedback from respondents on the vision and principles includes convergence on and appreciation for several key points: VCMI is building on the strengths of existing efforts to ensure supply- and demand-side integrity and is extending these efforts to focus specifically on claims guidance in the context of post-2020 NDCs and the upcoming Conference of Parties (COP) 26. The open and engaged approach taken so far provides ample opportunity for both leadership and collaboration going forward. Specific feedback focused on three areas: where VCMI should lead and what is needed of visionary leadership; where VCMI should collaborate so as not to undermine established pieces of the VCM oversight puzzle; and where VCMI should minimize focus and let other organizations lead.

> "The VCMI can have a pivotal role in significantly enhancing the precision, transparency, and assurance by developing clear, standardized, and sufficiently specific definitions and guidance on claims and seeking broad endorsement for them."
>
> — **Business Respondent**

WHERE VCMI SHOULD LEAD

Respondents made it clear that VCMI's vision, principles, and guidance for high-integrity claims are a welcome contribution and an under-emphasized aspect of overall governance of VCMs. Many respondents noted myriad organizations and standards that already exist and touch on some elements of demand-side integrity, with one business respondent characterizing the current field as a *"crowded and confusing alphabet soup of overlapping initiatives."* Although there are many opportunities to collaborate and build on existing efforts to set out standards for various aspects of emissions accounting and counterbalancing, the majority of respondents saw a specific and unique role for VCMI to play in engaging at the global scale to drive convergence, acceptance, and implementation of guidance for high-integrity demand-side claims.

Many respondents highlighted the consultative approach taken so far by VCMI as crucial to the leadership style that they support. They noted that convening stakeholders and seeking to harmonize and push forward a shared vision and principles are creating a big tent with substantial buy-in across organizations, which will improve *"moral authority"* and trust in the guidance that emerges. The consultative approach can also directly address equity concerns by engaging underrepresented voices on both the supply and demand side, including host countries and local communities in the Global South, and small and medium-sized companies across the globe that will need to engage VCMs to ensure a 1.5°C world.

Several respondents noted both the challenge and the necessity of working across such a diverse set of stakeholders; as one VCM-related agency respondent put it, the *"confluence of interests between corporates and host countries has always been at the center of the VCM."* VCMI's leadership should continue to balance these needs with the ultimate goal of ambitious global climate action, and respondents pointed to the need for both pragmatism and bold stance-taking in order to achieve this type of leadership.

An additional leadership role that several respondents highlighted for VCMI relates to translating and communicating the technical aspects of VCMs in general, and claims guidance in particular, to the public. Some respondents pointed to the need for public education to drive both pressure on companies from shareholders and growing demand in the marketplace for climate-ambitious products, brands, and company commitments. Other respondents noted the need for increased public and regulatory education on climate claims to minimize the potential for greenwashing and ultimately for worse climate outcomes.

WHERE VCMI SHOULD COLLABORATE

While pointing to the clear need for VCMI to take a leadership role in global conversations about integrity in VCMs, respondents also identified several ways that VCMI should collaborate to maximize engagement and impact. The most specific piece of feedback was to continue the convening approach already undertaken by VCMI in order to integrate and build on existing standards *"rather than developing a new set of standards or separate assurance system. As highlighted, further fragmentation of the developing ecosystem, etc., should be avoided."* This includes working with existing initiatives and organizations, a summary list of which is provided in this section. Respondents also specifically noted the need to collaborate with existing research efforts to create and enhance technical MRV and accounting tools in order to fully align with the scientific evidence base. A few respondents pointed out that demand-side claims guidance will need to align with existing supply-side certifications when applicable and noted that VCMI should collaborate with leading supply-side organizations to ensure this alignment.

Many respondents made a distinction between developing and communicating clear and precise standards and guidance and assuring that demand-side claims follow these standards. Collaboration with new and existing assurance efforts will be key to the successful adoption of VCMI claims guidance, and several respondents raised the question of how best to ensure that claims are, in fact, high integrity. Some pointed to existing bodies that focus on both demand- and supply-side standards, while others suggested that emerging governance structures like the Group of 30 (G30)-recommended "Carbon Councils" could be the appropriate assurance entities. In focusing on the collaborative nature of assurance, several respondents echoed points made about spaces in which VCMI should lead, pointing to the need for a convening body with a global vision and interest in making that vision concrete, and contrasting that to the technical aspects of assurance.

KEY EXISTING INITIATIVES AND ORGANIZATIONS

Respondents mentioned the following as key existing initiatives and organizations that can play a key role in supporting the integrity of VCMs:

- Gold Standard
- ISO, including carbon neutrality standards currently in development
- Taskforce on Scaling Voluntary Carbon Markets (TSVCM)
- UN Framework Convention on Climate Change (UNFCCC)
- REDD+
- Natural Climate Solutions Alliance (NCSA)
- The International Carbon Reduction and Offset Alliance (ICROA)
- Science Based Targets Initiative (SBTi), including corporate net zero standards currently in development
- The Oxford Principles for Net Zero Aligned Carbon Offsetting
- ClimateSeed
- Lowering Emissions by Accelerating Forest (LEAF) Finance Coalition
- National regulations regarding corporate claims, such as those in France, the Netherlands, New Zealand, Sweden, the United Kingdom, and Australia

WHERE VCMI SHOULD STEP BACK

For the most part, respondents did not see the current and possible future roles for VCMI suggested in the Consultation Report as too big or too far afield. There was little feedback that any part of the vision, principles, or operationalization through claims guidance that are proposed as next steps for VCMI are spaces that are already too crowded or in which there is already sufficient leadership and collaboration. The one exception to this observation was in the context of high-integrity supply-side certifications, where there are already several standards and assurance bodies that generally align with VCMI's principles. As noted above, there is opportunity for collaboration with those bodies in the development of shared definitions and language, but from an assurance point of view, VCMI should not consider adding any new standards or processes for applying those standards.

Image: Sumarji, Partnerships for Forests

The Voluntary Carbon
Markets Integrity Initiative is a multistakeholder platform to drive credible, net zero aligned participation in voluntary carbon markets.

vcmintegrity.org