VCMI Voluntary Carbon Markets Integrity Initiative

Feedback on the Provisional Claims Code of Practice

Summary Report of the Public Consultation and Corporate Road Test for the Provisional VCMI Claims Code of Practice

vcmintegrity.org

ABOUT VCMI

The Voluntary Carbon Markets Integrity Initiative (VCMI) is an independent initiative whose mission is to enable high integrity voluntary carbon markets that deliver real and additional benefits to the atmosphere, help protect nature, and accelerate the transition to ambitious, economy-wide climate policies and regulation.

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.

VCMI is an independent non-profit organisation housed in Rockefeller Philanthropy Advisors. VCMI was announced by COP26 President-Designate Alok Sharma at the Climate and Development Ministerial on 31 March 2021, and has received co-funding from the Children's Investment Fund Foundation, Google.org, the Packard Foundation and the UK Department for Business, Energy and Industrial Strategy (BEIS).

Contents

Introduction

The Voluntary Carbon Market Integrity Initiative (VCMI) was established last year to bring integrity to the demand side of voluntary carbon markets.

VCMI's mission is to help ensure these markets deliver real and additional benefits to the atmosphere, help protect nature, and accelerate the transition to ambitious, economy-wide climate policies and regulation.

In other words, the voluntary use of carbon credits must augment rather than substitute for the decarbonisation needed if we are to curb the climate crisis and keep global temperature increases below 1.5°C.

In particular, VCMI seeks to answer two key questions:

1) When, and under what circumstances, can companies and other non-state actors credibly make voluntary use of carbon credits; and

2) What claims can they credibly make about this use.

After a year of deliberation, consultation and analysis, we published the VCMI provisional Claims Code of Practice ('Claims Code') on 7th June 2022. This was put out for public consultation and road testing by a group of companies interested in potentially using VCMI's guidance. We received responses from over 130 organisations and individuals to the public consultation and over 70 companies participated in the road test.

Feedback was broadly supportive and reiterated the importance of VCMI's guidance to put guardrails around use and claims involving carbon credits.

Detailed and thoughtful contributions have enabled us to identify several priority issues which clearly require further work. We are extremely grateful to all those who provided their feedback, and for raising outstanding issues to be addressed.

To help provide a strong basis for continued dialogue and collaboration, we are publishing this summary of the priority issues for further work identified through the public consultation and the road test.

We are very grateful to everyone that participated, providing their honest feedback on what worked, what didn't and what we need to change. We are grateful, also, to Boston Consulting Group and Climate Focus for their work in helping us prepare this summary.

VCMI's Steering Committee and Expert Advisory Group will now consider the information received, commission additional analysis where needed and engage further with stakeholders, with the aim of finalising the Claims Code in the first half of 2023.

We encourage everyone to keep working with us to help us refine and finalise the Claims Code.

We firmly believe that voluntary carbon markets used with integrity can help channel much-needed finance to accelerate additional greenhouse gas mitigation and support sustainable development, especially in low- and middle- income countries.

Please do sign up to VCMI's newsletter on our website to keep up to date on the progress we are making and receive information on engagement opportunities.

Thank you very much for all your support.

Summary report of the public consultation and corporate road test for the provisional VCMI Claims Code of Practice

This Voluntary Carbon Markets Integrity Initiative (VCMI) report summarizes key issues identified during stakeholder engagement on the provisional Claims Code of Practice (Claims Code) on credible voluntary use of carbon credits.

The report shows the results of a public consultation and a road test with corporations. Both exercises were conducted between June and August 2022 (see annex for a breakdown of respondents).

Responses to the public consultation and road test were generally supportive of the Claims Code and VCMI's goal of driving credible, net zero-aligned participation in voluntary carbon markets (VCMs). To guide further development and finalisation of the Claims Code, respondents flagged issues that need further development. These are divided into five sections in this report:

1. Balancing ambition and accessibility

How the Claims Code can ensure high demand-side integrity while stimulating meaningful participation from companies.

2. Implementation and operability of the guidance

Ensuring use of the Claims Code is readily assurable based on clear and consistent definitions and criteria.

3. Treatment of Scope 3 emissions

What flexibility, if any, should be allowed in the counting and treatment of Scope 3 emissions.

4. Ensuring clarity of claims

Issues related to the clarity and suitability of the VCMI claims. This includes their names, requirements, and interactions with existing claims and terminology.

5. Expanding guidance on credits

The need for further articulation of concepts and criteria on carbon credits, including their nature, attributes, and corresponding adjustments.

In each section, this report provides an overview of the most contentious topics. It also captures potential solutions suggested by respondents.

Detailed reports of feedback from both the public consultation and road test will also be made available on the VCMI website.

Image: Accreditation

1.
Balancing ambition and accessibility

1. Balancing ambition and accessibility

The Claims Code provides helpful initial guidance. To have maximum impact, VCMI guidance needs to be both ambitious and accessible.

Strict criteria for making claims reward higher levels of achievement, but could reduce uptake by companies. Conversely, increasing accessibility could promote broader uptake, but may mean compromising on the level of corporate decarbonisation.

Overly lax rules run the risk of offering an entry point for actors that are not genuinely pursuing climate leadership. This would raise concerns of greenwashing and potentially undermine the credibility of the entire system.

Overall, just over half of the respondents to the public consultation (54%) said that the Claims Code provided incentives for companies to become climate leaders (figure 1). Respondents who disagreed with the statement viewed the guidance either as too lax, or too strict. Meanwhile, some respondents to the public consultation contend that the Claims Code is not ambitious enough and facilitates greenwashing or generates mistrust.[1]

Most respondents to the road test considered the Claims Code ambitious enough (figure 2). However, a significant proportion of demand-side companies (companies which are potential buyers of carbon credits and users of the Claims Code) considered the prerequisites (47%) and claims requirements (36%) to be hard to achieve (figure 3).

Figure 1: Public consultation responses to the statement "the Claims Code provides aspirational goals and incentives for companies that are on the journey to becoming climate leaders"

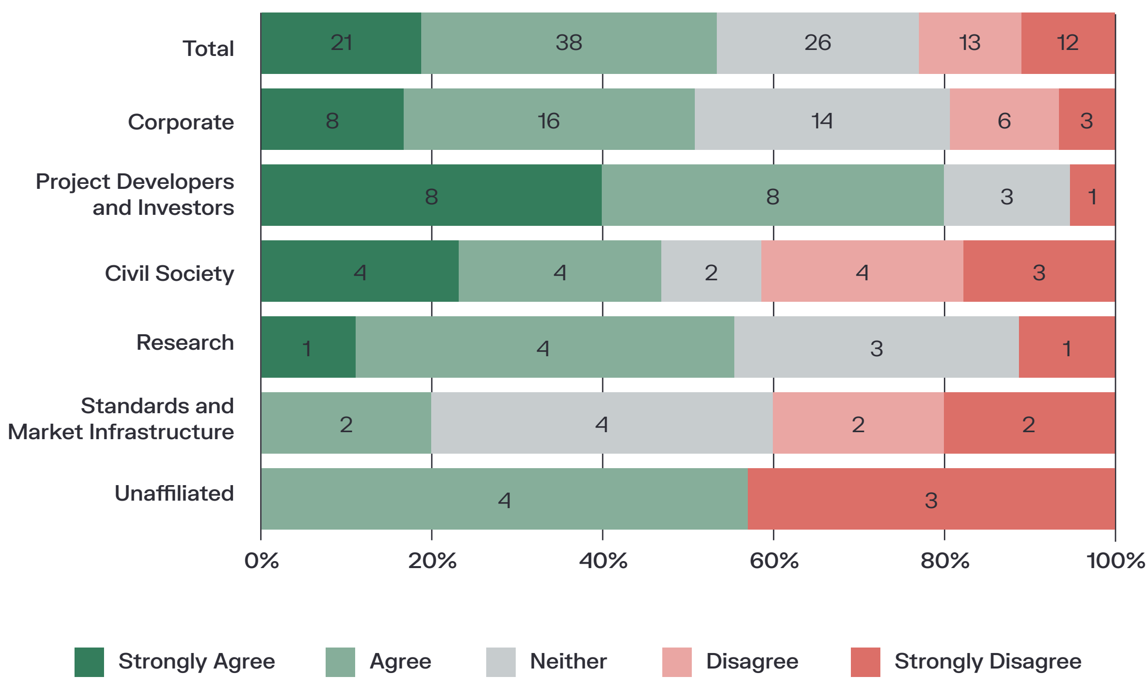
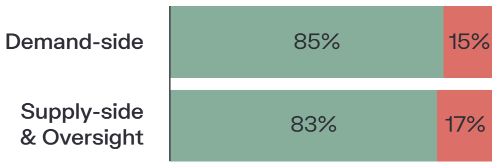
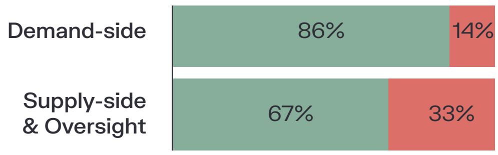


Figure 2: Road test responses on the ambition of the Claims Code's prerequisite and claims requirements

Do you consider the prerequisite requirements ambitious enough? (N=25)



Do you consider the "VCMI Carbon Neutral" claim requirements ambitious enough? (N=19)



Do you consider the "VCMI Enterprise-wide" claim requirements ambitious enough? (N=26)

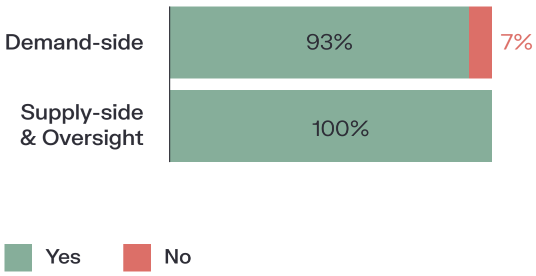
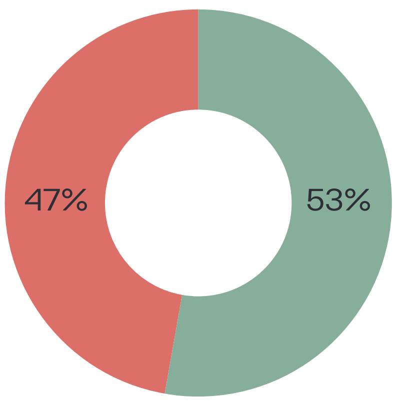
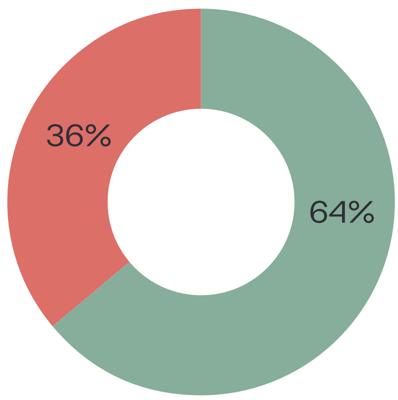


Figure 3: Road test responses on the feasibility of meeting Claims Code requirements

Do you consider the prerequisite feasible? Asked of each prerequisite in turn and aggregated (N=22)



Do you consider it feasible to purchase and retire carbon credits to cover at least 20% of your remaining unabated emissions? (N=13)



Critiques related to balancing ambition and accessibility are summarized in three key considerations covered in the following section:

1) **The Claims Code is too stringent or lacks sufficient provisions for small and medium-sized enterprises (SMEs)**

2) **Purchasing the required volume of high-quality carbon credits will be unaffordable for some companies**

3) **The Claims Code lacks ambition and may lead to greenwashing**

Image: Accreditation

1.1 Key considerations for balancing ambition and accessibility

Apart from some technology companies, the majority of corporates think the prerequisites are too stringent. Many also think they lack sufficient provisions for sectoral differences and small- and medium-sized enterprises (SMEs).

Respondents highlighted that requirements to set science-aligned interim targets and long-term net-zero commitments will be especially challenging.

They cited several reasons:

— Some sectors are currently excluded from existing science-based target methodologies, for example fossil fuel companies

— Measurement, reporting, and control issues on Scope 3 emissions can hinder corporate ability to set and meet short-term targets

— Uncertainties regarding future business growth and decarbonization technology

— Difficulty setting emissions reduction targets without clarifications on the use of intensity emissions reduction targets, especially for high-growth companies

Across stakeholder groups, respondents highlighted that prerequisite requirements related to third-party verification would be prohibitively expensive, especially for SMEs.

Respondents highlighted that it will be unaffordable for companies in hard-to-abate or high-value chain emitting sectors to purchase the required volume of high-quality carbon credits.

Corporates from these sectors indicated that purchasing the required volume of carbon credits to meet the requirements of VCMI Bronze (>20% of unabated emissions) claim would be too costly, and could divert finances away from vital value chain decarbonization investments.

Having different criteria for enterprise-wide claims for firms relative to their emissions footprint may not reflect their level of climate achievement, but rather just how much they are willing to spend, corporates said.

Conversely, other respondents – particularly civil society stakeholders – argued that the Claims Code is not ambitious enough and will likely lead to accusations of greenwashing.

Some respondents highlighted that the omission of an explanation for the scientific foundation of 'net-zero' creates greenwashing loopholes. Some criticized the VCMI Bronze claim for not respecting the mitigation hierarchy and rewarding companies that are not on track to meet their targets.

Several respondents disagree with the use of carbon credits in principle. They argue that it assumes a false fungibility between environmental impacts that is unrealistic and risks undermining the achievement of the 1.5°C temperature goal of the Paris Agreement.

1.2 Participant suggestions for balancing ambition and accessibility

Improving the accessibility of the prerequisites and claims hierarchy:

— Introduce a widely accessible 'on ramp' claim recognizing companies working towards meeting the prerequisites and headline claim requirements, or recognizing companies who cannot meet the prerequisite and headline claim requirements

— Increase flexibility of prerequisite and headline claim requirements on Scope 3, including focusing only on direct emissions or allowing a grace period for companies to meet requirements

— Introduce tailored prerequisite and claims requirements for specific sectors or emissions profiles

— Redesign enterprise-wide claims schedule to reward absolute contribution, rather than contribution indexed to emissions footprint (please see section five for more details)

— Acknowledge other types or forms of 'beyond value chain mitigation'

— Reduce the burden or frequency of third-party verification

Increasing ambition and reducing the risk of greenwashing:

— Align further with other standards such as the Science Based Targets initiative (SBTi) to improve investor and consumer confidence

— Remove Bronze level to ensure claims are consistent with science-based and meaningful climate action

— Redesign the Claims Code to focus on incentivizing within supply chain emission reductions

2. Implementation and operability of the guidance

2. Implementation and operability of the guidance

Respondents largely considered the Claims Code 'clear and comprehensive' but highlighted challenges relating to implementation and operability.

Issues raised included clarity of definitions, governance and assurance processes, as well as relationships with third-party standards and frameworks.

Almost two thirds (65%) of public consultation respondents agreed the requirements are "clear and comprehensive" (figure 4). Although road test respondents generally agree with the prerequisite and claim requirements, most said they need further guidance and clarity to operationalize the Claims Code.

Although many are still working through the full implications, half of demand-side companies considered the Claims Code guidance sufficient to verify compliance with the prerequisites, while just a third were able to determine whether they were on-track for their interim emission reduction targets (figure 5).

In addition, most companies think making a claim will require significant additional resources. All auditors involved in the road test considered the current guidance insufficient to verify VCMI Claims. Almost a quarter of road test respondents highlighted issues with operability, while a fifth highlighted issues with resource intensiveness as a key adoption barrier that would prevent them from making a claim under the Claims Code.

Figure 4: Public consultation responses to the statement: "The requirements are clear and comprehensive."

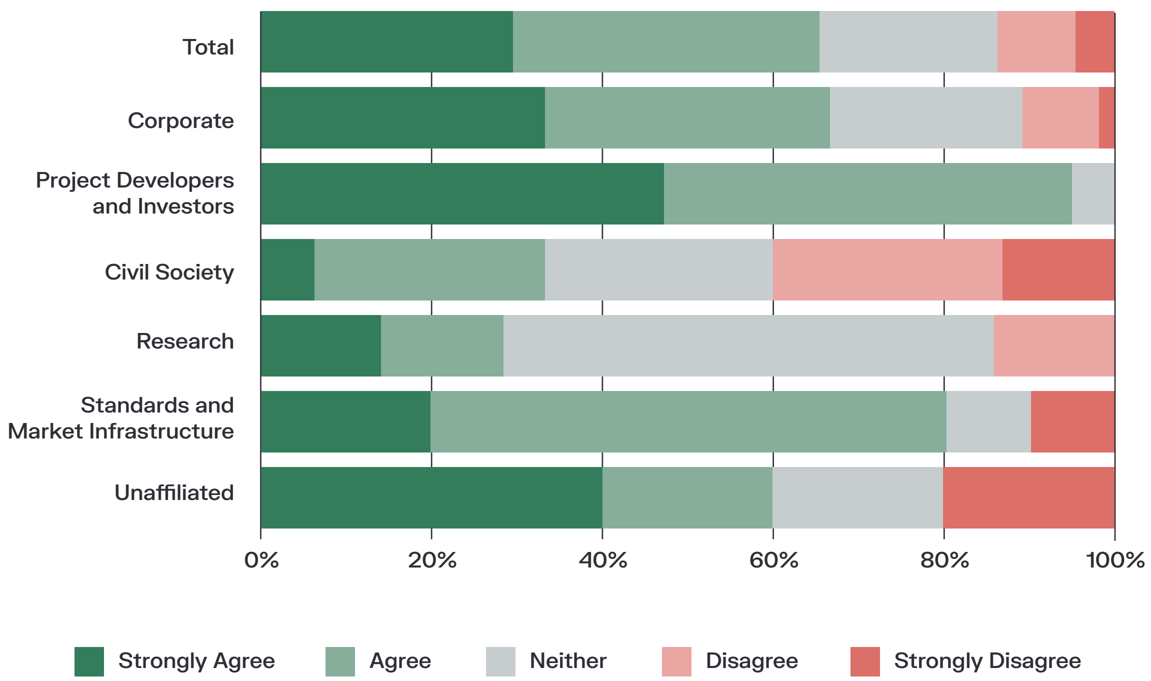
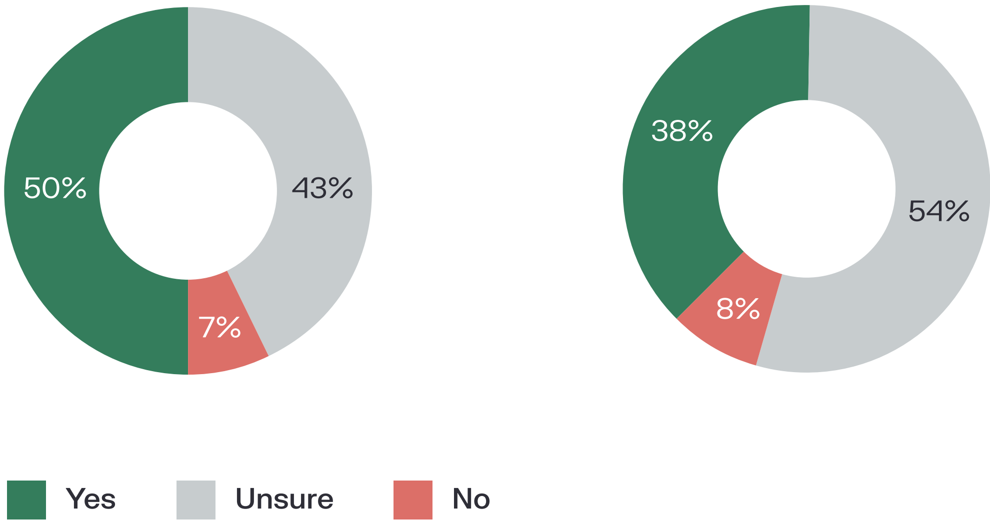


Figure 5: Road test responses on the operability of two key aspects of the Claims Code

Do you consider the requirement to confirm your compliance with all the prerequisites with a credible, independent third party feasible? (N=14)

Are you able to determine whether you are on track for your next interim emission reduction targets? (N=13)



Feedback on implementation and operability from both the public consultation and the road test are summarized in four themes in the following section:

1) **Claims Code guidance is not sufficient to determine and verify compliance**
2) **More guidance is required on determining progress towards interim targets**
3) **Transparent reporting requirements are overly stringent and impractical**
4) **Making a claim will require significant incremental resources**

2.1 Key considerations for implementation and operability of the guidance

Companies and auditors want tighter definitions of what constitutes compliance with prerequisites, and how they will be verified.

Across the public consultation and corporate road test, respondents highlighted that the Claims Code prerequisites were not sufficiently clear for companies or auditors to determine and verify when a requirement had been met.

Respondents indicated the following prerequisites as most difficult to assess compliance against:

- Interim and long-term targets, with most respondents indicating a lack of clarity around the definition of 'science-aligned'
- Disclosing detailed plans and strategies
- Paris-aligned advocacy activities

Respondents frequently said that there was a need for requirements for claims for brands, products, and services to go beyond standard business practice to avoid creating a false impression.

All auditors highlighted that prerequisites must be objective, with clear definitions or frameworks to audit against, before third parties can independently verify compliance with any level of certainty.

Companies and auditors require further guidance on how to determine or verify progress towards interim targets.

Demand-side companies in the corporate road test overwhelmingly indicated that they would like to make annual claims. However, all stakeholder groups highlighted a lack of clarity on how their progress towards interim targets would be determined or verified.

Respondents and auditors highlighted that determining progress towards interim targets on an annual basis will not be trivial. This was due to the uncertainties in emissions methodologies and data especially for Scope 3, non-linearity of progress, and availability of technology and decarbonization levers.

Auditors raised concerns that, while determining whether targets have been met is a factual process, determining progress towards those targets will always be hard to assure with any level of certainty.

Respondents to the public consultation highlighted that the Claims Code is unclear about the level of assurance required to make claims, the timelines associated with assurance, and the required oversight. In addition, respondents emphasized a need for further clarity on how the Claims Code will be enforced and how non-adherence will be sanctioned.

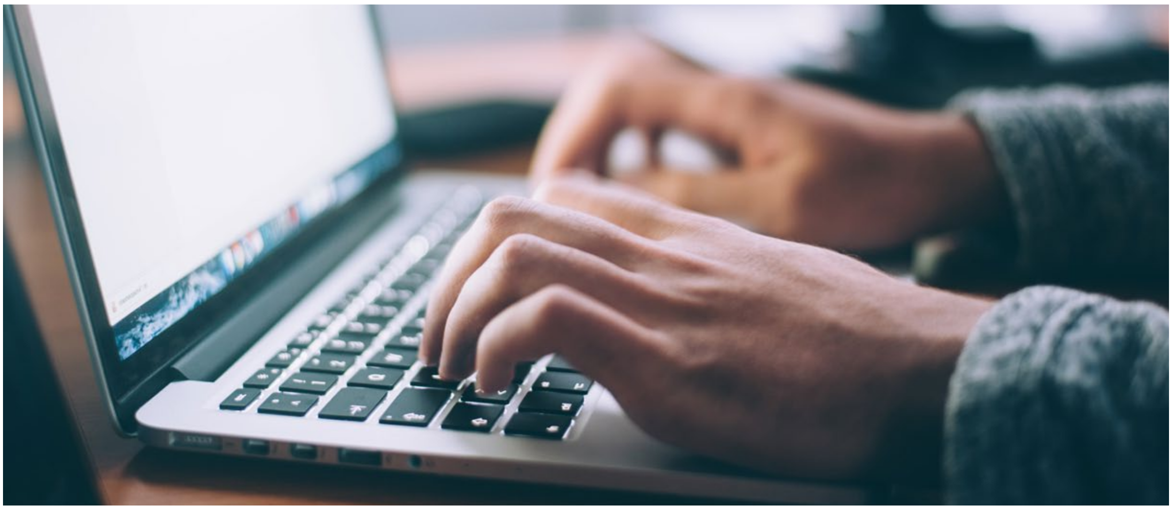


Image: Glenn Carstens | Unsplash

Respondents were concerned that the Claims Code's transparent reporting requirements are excessively stringent and impractical.

Respondents to both the public consultation and road test agreed that transparency is key to creating trust in the market, but were concerned that the Claims Code requirements are excessive and impractical.

Some public consultation respondents considered the disclosure of information such as the carbon credit project's name, ID, certifying standard, issuing registry, and the actual volume of carbon credits purchased to be unnecessary as well as competitively sensitive.

Furthermore, a small number of road test respondents suggested it would not be possible to meet the requirement to disclose detailed plans and strategies, as these include commercially sensitive information such as business growth estimates.

A subset of public consultation respondents – mostly project developers and investors, civil society groups, and standards and market infrastructure stakeholders – noted a need for further guidance on the reporting requirements, in particular related to carbon credit location and whether the credits were retired for voluntary or compliance purposes.

Most companies expected making a claim with VCMI will involve significant incremental resource requirements.

Requirements to set targets, disclose plans, make an enterprise-wide brand-, product-, or service-level claim, and obtain third-party assurance were expected to be particularly resource intensive, although some of these concerns arose from the lack of clear compliance definitions.

Many demand-side companies have invested significant resources in obtaining a 2030 SBTi interim target and are reluctant to repeat this lengthy and costly process to obtain a further 2025 target.

Respondents from across the public consultation and road test emphasized the importance of aligning the Claims Code with other well-established standards, and integrating assurance requirements as far as possible with regulatory requirements.

Conversely, some civil society actors suggested that aligning with other third-party organizations would contribute to the propagation of standards without incentivizing an increase in climate ambition.

2.2 Participant suggestions for implementation and operability of the guidance

Improving clarity of what constitutes compliance with prerequisites:

— Include explicit definitions or parameters for each prerequisite (e.g. “a company that meets this requirement will have done one of the following…”)

— Provide a template/process that companies can implement and publicly disclose (e.g. a step-by-step guide to meeting the requirement)

— Point to specific audit methodologies/ standards that auditors should use to validate each requirement

Determining corporate progress towards interim targets:

— Leave assessment of progress to other initiatives (e.g. SBTi, which is developing a framework on measurement, reporting and verification of targets)

— Develop, curate, and implement a framework to determine company progress in the interim that accounts for macroeconomic factors (e.g. mergers and acquisitions, business growth), the lag between implementation and outcome, and the availability of decarbonization levers

— Assess progress at each target date and assume/trust companies are on-track between target dates. This would be easier to determine and assure as meeting targets is objective and based only on quantifiable emissions data

Improving practicality of reporting requirements:

— Only require disclosure of carbon credit information at an aggregated level to protect commercially sensitive information

— Introduce provisions for commercially sensitive data sharing within VCMI

— Introduce basic report templates and reporting guidelines

Reducing resource intensity to making a claim:

— Align 2030 interim target date requirements with SBTi or permit the use of a projected pathway back to 2025

— Integrate Claims Code assurance requirements as far as possible with existing or upcoming regulatory requirements

— Provide explicit guidance on actions that are sufficient to meet VCMI’s requirements and/ or outline the additional requirements that will be needed as a bridge

— Reduce the frequency of requirements for third-party assurance to every two years

Ensuring auditors have sufficient guidance and clarity to verify requirements in a standardized way:

— Conduct road test with key assurance providers to simulate the full process of verifying a company’s claim

— Partner with assurance providers, as is done by SBTi and CDP

3.
Treatment of Scope 3 emissions

3. Treatment of Scope 3 emissions

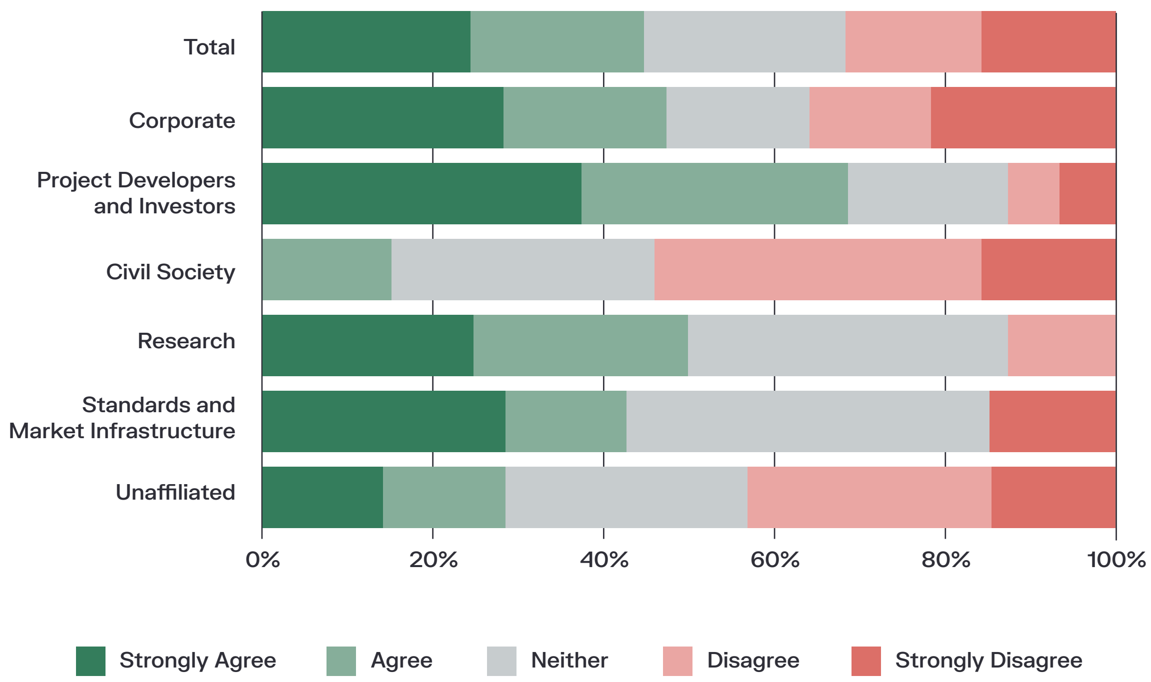
How the VCMI Claims Code should address Scope 3 emissions was a major point of contention both in the public consultation and the road test.

Discussions and views revolved around a desire for a more flexible and inclusive approach in advancing climate action, versus the need for fast and steep decarbonization through stringent Scope 3 requirements.

Respondents to the public consultation were especially split on whether SBTi requirements for accounting for Scope 3 emissions were appropriate. Overall, just under half (45%) agreed they were suitable (figure 6).

Looking at the stakeholder groups, project developers and investors showed the greatest belief that the requirements were appropriate (69%). Next came researchers (50%), followed closely by corporates (48%). Only a small proportion (15%) of civil society respondents thought the requirements were appropriate.

Figure 6: Public consultation responses to the statement: "SBTi requirements for accounting for Scope 3 emissions are appropriate."



While most road test respondents agreed with the aspirations of the Claims Code's treatment of Scope 3, a significant proportion across all stakeholder groups, as well as all eight auditor respondents, highlighted practical difficulties associated with meeting the Scope 3 requirements across each step of making a claim.

A fifth (20%) of road test respondents highlighted Scope 3 as a key adoption barrier that would prevent them from making a claim under the Claims Code.

Feedback on treatment of Scope 3 emissions is summarized in two themes in the following section:

1) **Current Scope 3 requirements are prohibitively difficult for companies and auditors to verify**
2) **Current Scope 3 requirements are not rigorous enough**

3.1 Key considerations for treatment of Scope 3 emissions

Compliance with the Scope 3 prerequisite and claim requirements would be prohibitively difficult, according to most corporate and market infrastructure respondents.

The lack of sufficient guidance from SBTi, methodological complexities in quantifying emissions, and the high risk of overreporting will hinder companies' abilities to set science-aligned targets. The limited control over upstream or downstream actors will hinder a company's ability to make progress against these targets, particularly for companies with primarily indirect emissions.

Furthermore, companies from hard-to-abate or high value chain emitting sectors will be unable to afford to purchase the volume of carbon credits required to cover unabated Scope 3 emissions.

Several corporates noted that, without further calibration and flexibility over Scope 3 requirements, there would be little incentive for those entities with large Scope 3 emissions to adhere to the Claims Code. These large emitters may, at best, achieve VCMI Bronze but become unable to progress to Silver or Gold, even when they are perceived to be leaders within their sectors.

Some respondents also raised the risk of alienating SMEs due to the difficulties and costs of setting Scope 3 inventories and having these annually verified by independent auditors. Most auditors in the road test highlighted that verification of compliance with Scope 3 requirements is prohibitively difficult and risky as data and methodologies change too frequently.

In contrast, most respondents from the civil society and research groups advocated for more rigorous Scope 3 requirements.

They highlighted that the greater Scope 3 flexibility in the Bronze claim undermines the mitigation hierarchy principle and dilutes corporate accountability towards their stakeholders.

They also highlighted that the Bronze claim requirements would not be aligned with emerging EU disclosure standards that prohibit the disclosure of carbon credits as a means of achieving corporate greenhouse gas emissions targets.

Image: John Simmons | Unsplash

3.2 Participant suggestions for treatment of Scope 3 emissions

Increasing the flexibility of the treatment of Scope 3 emissions:

- Reduce the scope of the prerequisite and claim requirements to cover direct emissions footprint only
- Introduce a grace period or a more granular approach to claims progression that would allow more time for companies to meet full Scope 3 requirements
- Sector-specific criteria, including minimum Scope 3 categories to be addressed by each sector, could also be provided
- Provisions for SMEs to reduce the cost of compliance and verification. For example, relaxing the requirements or reducing the frequency of third-party auditing requirements

Improving the rigor of the treatment of Scope 3 emissions:

- Require companies to include their full Scope 3 emissions in their interim targets and long-term commitments
- Require companies to set interim targets using an absolute emissions reduction methodology
- Remove the flexibility on Scope 3 that permits the use of carbon credits while a company is off-track from meeting internal emissions reductions

Image: Jilbert Ebrahimi | Unsplash

4.
Design and clarity of headline claims

4. Design and clarity of headline claims

Well-designed claims will reward companies for their climate achievements and efficiently incentivize further ambition.

Responses to the public consultation and inputs to the road test addressed several issues connected to the proposed VCMI headline claims, including the requirements and marketability of each claim and coherence between enterprise-level claims, as well as claims associated with brands, products, and services.

Overall, public consultation respondents provided mixed feedback on VCMI claims and the related requirements.

Sentiments towards Gold and Silver claims were broadly positive, while those towards Bronze were more divergent. When asked whether the thresholds for use of carbon credits in Gold, Silver, and Bronze were appropriate, a third of respondents across stakeholder groups agreed, while over a third (41%) of respondents disagreed (figure 7).

A quarter of respondents neither agreed nor disagreed. This underscores the diverse set of opinions that stakeholders hold over the thresholds for use of carbon credits within the headline claims.

A majority of respondents across stakeholder groups (59%) also considered that additional guidance is needed on the claims for brands, products, and services claims (figure 8).

Almost all civil society respondents (93%) agreed that additional guidance is needed, followed by over half of research (63%) and corporate (55%) respondents.

Across all stakeholder groups, road test respondents generally agreed with the requirements for each of the VCMI headline claims (Figure 9) and considered the claim names suitable.

However, a subset of respondents, mainly companies from hard-to-abate and high value chain emitting sectors, disagreed with the design of the enterprise-wide claims. Respondents from across stakeholder groups raised issues with the marketability of the enterprise-wide claims hierarchy.

Some 32% of road test respondents disagreed with the requirements for the brand, product, and service-level claims.

Feedback on headline claims is summarized in four themes in the following section:

1) **Acknowledging a wider spectrum of claims**
2) **Enterprise-wide claims may be challenging to communicate to consumers**
3) **Claim requirements for brands, products and services are too onerous**
4) **Clarity on the link between claims for brands, products and services and claims at the enterprise level**

Figure 7: Public consultation responses to the statement: "Thresholds for use of carbon credits in VCMI Gold, Silver and Bronze are appropriate."

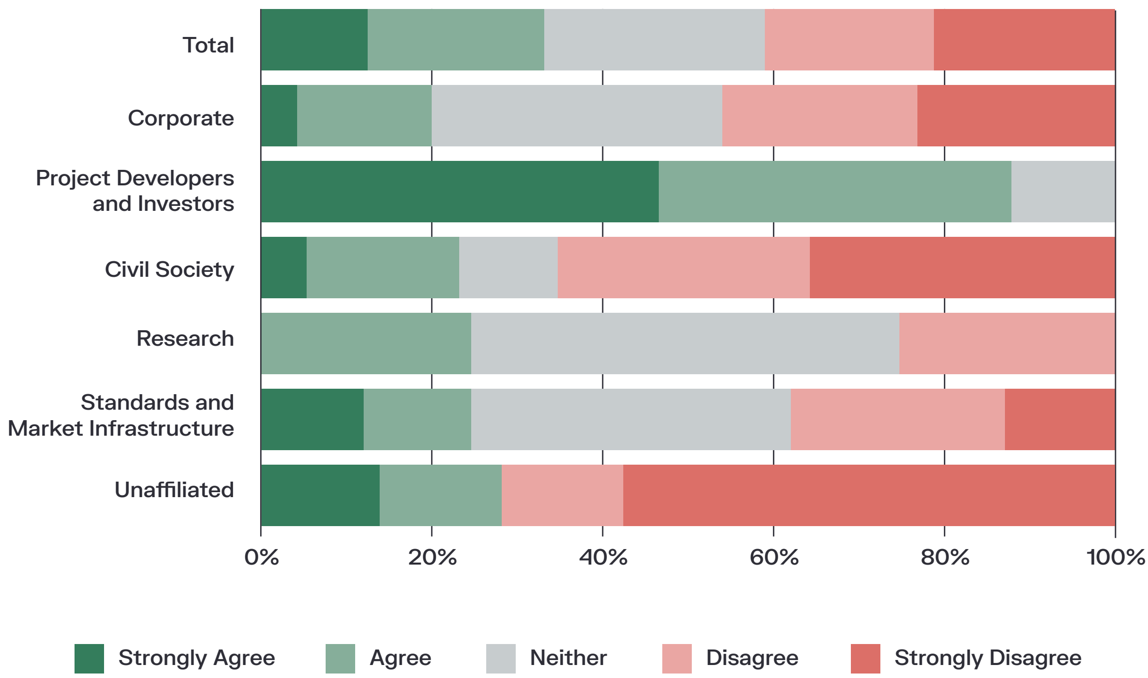


Figure 8: Public consultation responses to the statement: "Additional guidance is needed on the brand, product and service claims."

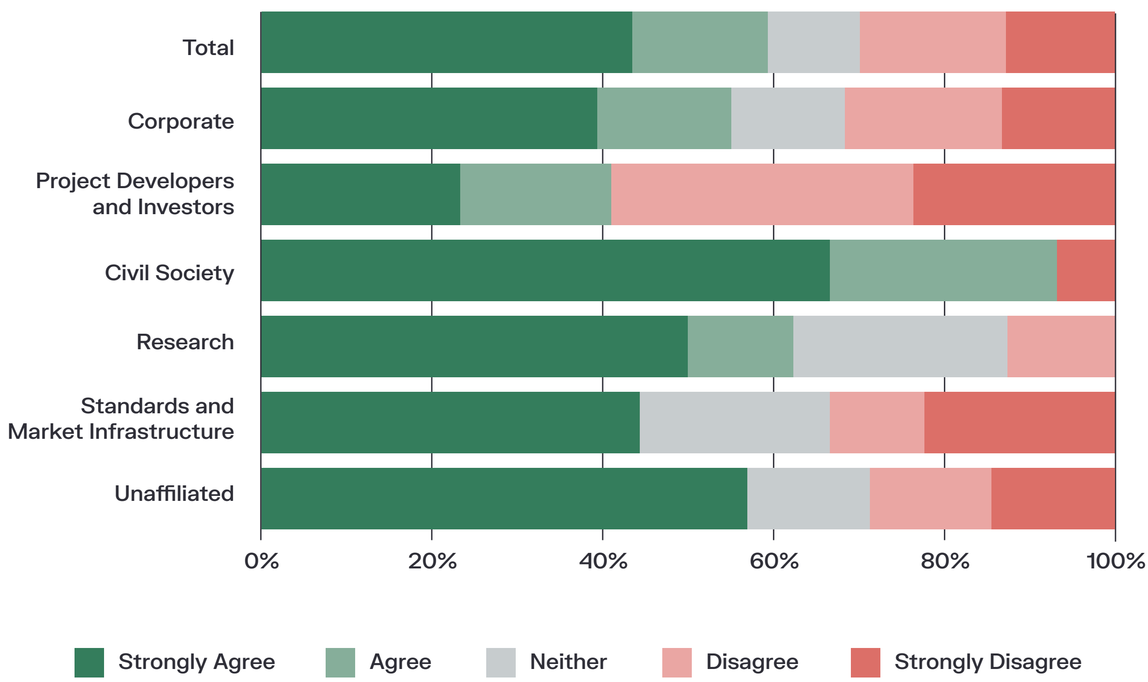


Figure 9: Road test responses to the Claims Code requirements

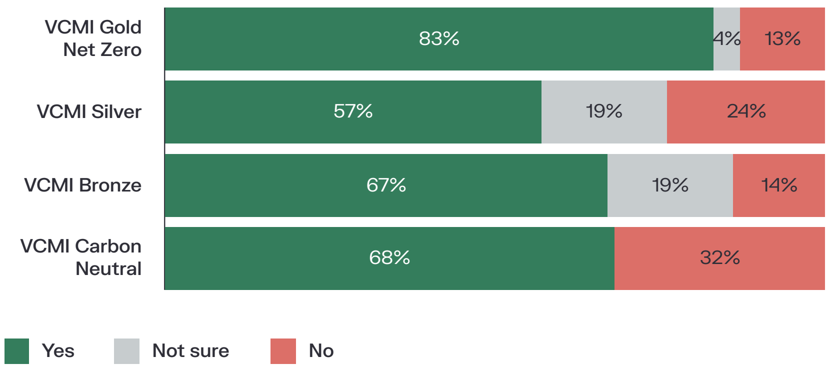


Image: Accreditation

4.1 Key considerations for design and clarity of headline claims

Respondents from across the public consultation and corporate road test highlighted the importance of acknowledging and rewarding a wider spectrum of claims.

Road test companies, primarily from hard-to-abate or high value chain emitting sectors, highlighted that the claims hierarchy doesn't sufficiently reflect or reward their level of climate effort and achievement – because it differentiates only based on credit spend relative to emissions footprint, without any provisions for their sectoral challenges.

Many respondents in the public consultation from diverse stakeholder groups, including civil society, research, standards and market infrastructure, and project developers and investors, noted the absence of climate contribution claims in the VCMI claims hierarchy.

These respondents stressed the necessity of establishing a pure contribution claim that captures and communicates non-compensatory forms of climate action, such as:

- Contributions to meeting the goals of the Paris Agreement
- Achieving the host country's Nationally Determined Contribution (NDC) or broader climate goals
- Eliminating deforestation from supply chains

Many respondents were concerned that the headline claims are inconsistent with already well-established concepts and could be difficult to communicate effectively to consumers.

A subset of respondents to the road test highlighted that while the names of the headline ratings, Gold, Silver and Bronze, are intuitive, they don't naturally connect to existing claims or clearly articulate the level of achievement they represent.

Many corporates, business associations, and project developers and investors highlighted that the VCMI claims would compete with more established claims such as 'carbon or climate neutral', which many respondents consider to be much simpler and more marketable.

Respondents from across the public consultation criticized how the full name of a Gold claim is "Gold Net Zero", as the definition in the Claims Code departs from the SBTi's and IPCC's use of the term 'net zero', which could generate confusion and mislead consumers.

Two thirds of supply-side companies and observers (66%), and a third of the demand-side companies (33%) in the road test did not believe that "Gold Net Zero" could be credibly associated with net zero, principally because net-zero is assumed to be the endpoint and this claim name suggests that it had already been achieved.

Most demand-side companies in the road test considered the claim requirements for brands, products and services to be too onerous.

All demand-side companies were against the inclusion of an additional requirement that would require companies to make an enterprise-wide claim before they can make a claim for a brand, product or service.

On the other hand, project developers and investors from the public consultation observed that the proposed claim for a brand, product or service may be insufficient to preserve demand-side integrity, as the claim doesn't require that the entity behind these claims is on track to achieve interim targets.

Several respondents in the public consultation sought clarity on the relationship between a claim for a brand, product or service, and a claim for an enterprise.

In particular, a subset of business associations highlighted that certain brands have a carbon footprint much larger than most other entities, making such a distinction redundant.

4.2 Participant suggestions for design and clarity of headline claims

Rewarding a wider spectrum of corporate achievement:

— Establish contribution claims that capture and communicate non-compensatory forms of climate action or reward spend on high-quality carbon credits calculated in absolute terms or relative to revenue, rather than indexed to emissions footprint

— Include a more accessible 'on ramp' claim that increases flexibility of claim requirements on Scope 3, including focusing only on direct emissions or allowing a grace period for companies to meet requirements

— Recognize contribution to beyond value chain mitigation other than that from carbon credits

Improving marketability of the enterprise-wide claims hierarchy:

— Change the claim name of 'VCMI Gold Net Zero' to 'VCMI Net Zero – On Track' to reflect that the company is on track for net zero

— Introduce and distinguish between 'VCMI Net Zero', to be used only when net zero has been achieved, and 'VCMI Carbon Neutral', to be used for companies that are fully compensating all their emissions but without having yet achieved net zero

Image: Accreditation

5. Need for further carbon credit guidance

5. Need for further carbon credit guidance

The level of guidance on carbon credits offered by the Claims Code was another salient theme among respondents.

Extensive comments and inputs were submitted on topics related to the definition of high-quality, permitted carbon credit type, treatment of corresponding adjustments (CAs), and provisions for nascent credit types.

Going forward, the VCMI will need to decide whether there is a need to further elaborate on the supply-side aspects of its guidance. Or, alternatively, whether it will remain at a higher level – which would reduce the risk of duplication of efforts and further fragmentation of carbon markets.

Overall, there appeared to be a lack of consensus between respondents to the public consultation on whether the criteria outlined in the Claims Code regarding high-quality carbon credits were clear and comprehensive. Just over a third of respondents agreed they were clear, while just under half disagreed (figure 10).

Project developers and investors showed the most agreement (58%), followed by corporates (43%). Respondents in research indicated the highest disagreement.

Overall, while just under half (46%) of road test companies considered the Claims Code sufficient to determine high-quality credits, 38% said it was insufficient (figure 11).

In addition, approximately two thirds (62%) of road test respondents agreed with the treatment of CAs in the Claims Code, but three quarters (75%) want claims to be differentiated based on credit type, especially for net-zero claims.

Figure 10: Public consultation responses to the statement "The criteria for high quality carbon credits are clear and comprehensive."

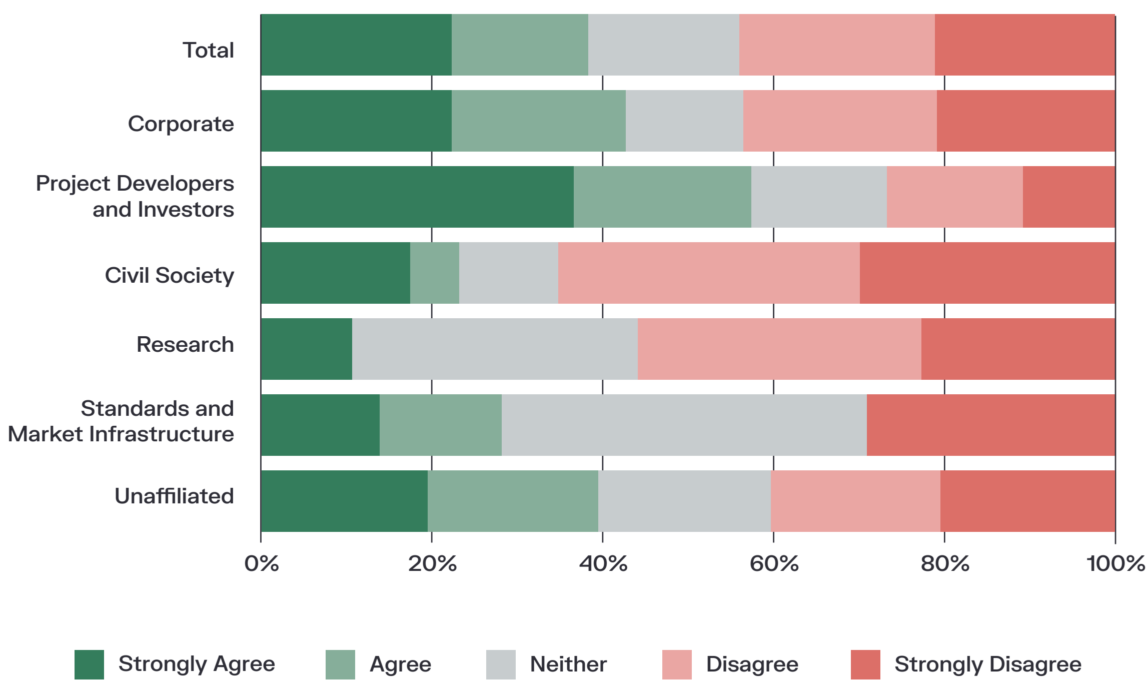
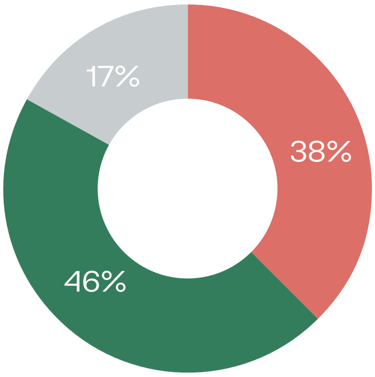
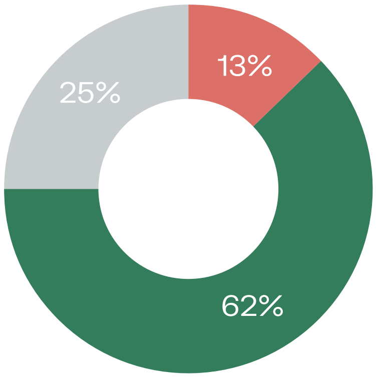


Figure 11: Road test responses to the Claims Code guidance for high-quality credits, CAs and differentiating claims based on credit type

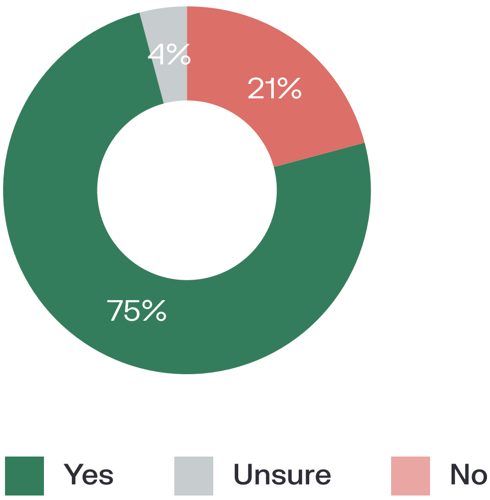
Is the Claims Code sufficient to determine high-quality credits? (N=20)



Do you agree with treatment of CAs in the Claims Code? (N=24)



Should claims be differentiated based on credit types? (N=24)



Feedback on the need for further carbon credit guidance is summarized in four themes in the following section:

1) Guidance inadequate for high-quality carbon credits

2) The divisive issue of CAs

3) Differentiating claims based on credit type

4) Nascent credit types

5.1 Key considerations for further carbon credit guidance

Respondents indicated that the Claims Code guidance is not sufficient to make high-quality carbon credit purchase decisions.

Road test respondents highlighted that the Claims Code was unclear on how to combine basic criteria for high-quality with references to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and Integrity Council for the Voluntary Carbon Market (ICVCM). This is especially challenging because IC-VCM has yet to finalize its guidance, and it may not be aligned to the basic criteria.

Auditors and environmental NGOs highlighted that an explicit definition of the term 'high-quality' and 'meeting basic criteria' is required. This is so companies know what they are required to demonstrate and auditors know what to verify companies against.

Environmental NGOs stressed that the guidance around environmental and social attributes is not sufficiently operable. Furthermore, a subset of road test demand-side respondents asked for specific clarifications to define 'credible standard-setting body', or include a list of eligible bodies and what constitutes compliance with the social criteria.

Most companies agree with the treatment of CAs in the current Claims Code. However, it remains a divisive issue.

Just under two thirds of respondents to the road test and half of respondents to the public consultation agreed with the treatment of CAs in the Claims Code.

In particular, corporates, project developers, and investors generally agreed with the Claims Code's approach of accepting both adjusted and non-adjusted credits, arguing that it is a good solution provided there is transparency on whether credits carry CAs.

Some of those who agree with the current treatment of CAs acknowledged that the required international systems and mechanisms are not yet in place to justify CA requirements at this point in time. Nevertheless, they encourage VCMI to return to this issue when the credits associated with CA are available in VCMs.

Many of those who disagreed with the current treatment argued that credits should be associated with CAs to avoid double claiming.

Most companies think that claims should be differentiated based on credit type, especially for net-zero claims.

There was no clear consensus from road test respondents on whether the Claims Code should restrict permitted credit types, vintages or geographies. Three quarters (75%) wanted claims to be differentiated based on credit types (e.g. removals vs reductions).

Respondents advocated for differentiated claims because of perceived different mitigation outcomes associated with removal and reduction credits. Those opposed to differentiation emphasized that both types of credits are required to get us to net zero, highlighting that not all companies had the funds or access to retire removals credits.

A small number of road test companies want additional provisions for nascent credit types that don't currently meet the eligibility criteria.

Emerging or nascent credit types often rely on finance flow from demand-side companies to get off the ground and develop a carbon credit methodology – a lengthy and costly process. Respondents highlighted that the Claims Code requirement for eligible credits to be associated with a credible standard may limit this flow of private finance. They advocate for support for emerging technologies and credit types in the Claims Code.

5.2 Participant suggestions for further carbon credit guidance

Ensuring sufficient information to make eligible carbon credit purchasing decisions:

— Include an explicit definition of 'high-quality', or outline the due diligence process companies should use to determine credit quality

— Further articulation of the basic criteria, including building more clearly on the work of the University of Oxford's Oxford Net Zero initiative

— Clarify how to combine the supply-side standards mentioned in the Claims Code (CORSIA and IC-VCM) to form a threshold definition for 'high quality' (including how to handle areas of divergence)

— Align with one supply-side standard (typically IC-VCM), and state that credits meeting this standard are eligible

Differentiating claims based on credit type:

— Allow only removals credits to be used towards neutralization claims

— Reward the cost premium associated with purchasing removals credits by introducing a higher, more exclusive claim (e.g., VCMI Platinum)

— Gradually ramp up the minimum proportion of removals required to meet all VCMI claims, increasing to 100% at the net-zero target year

Supporting flow of private finance to emerging and nascent credit types:

— Develop, or align with, a framework that sets a high-quality threshold for credits before they are associated with a credible standard

— Introduce an annual allocation that can be used by companies to purchase emerging or nascent carbon credits (for example 10% of total volume of credits retired)

Annex

Respondents to the public consultation and corporate road test

A total of 127 respondents provided their feedback to the public consultation via an online survey and nine wrote comment letters.

Respondents to the public consultation were classified into the following categories (figure 12):

i) Corporates

ii) Project developers and investors

iii) Civil society

iv) Research

v) Standards and market infrastructures

In addition, a small number of respondents were categorized as ‘unaffiliated’ because they either did not provide an affiliation with a specific organization, or responded to the public consultation in their own name.

Only one respondent fitted the ‘government’ category. As such, the views of this stakeholder group were not presented in this report but will be captured in the more detailed feedback report. Where relevant, we also make use of a third categorization and distinction based on VCM market perspective: demand-side; supply-side; oversight; observer.

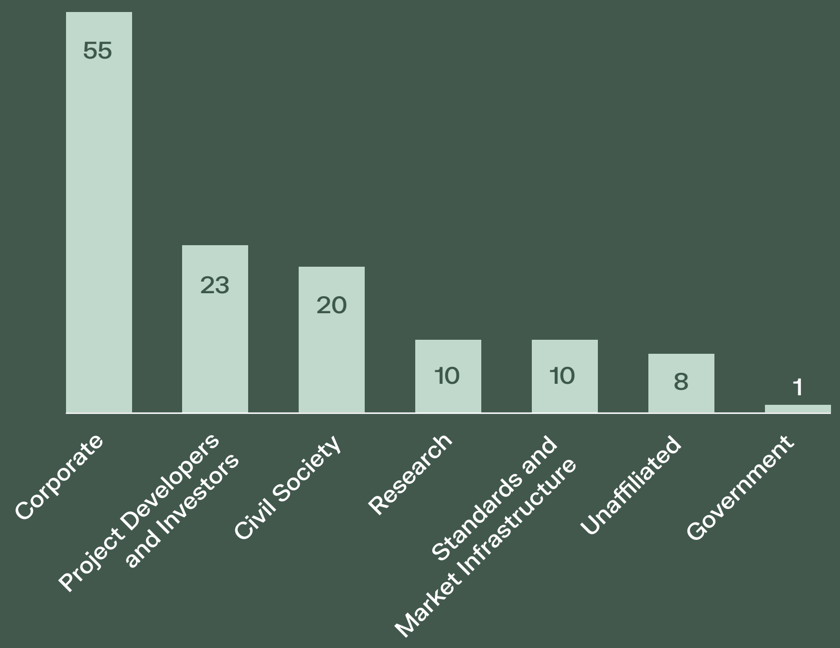
During the corporate road test, 76 companies were asked to simulate the implementation of the Claims Code and attend four webinars to discuss each step.

31 companies provided structured feedback via an online survey and 28 registered their comments via interviews. In addition, eight independent auditors provided oral feedback.

Respondents to the road test were classified in three categories: demand-side companies; supply-side companies; and observers, i.e. other voluntary carbon market stakeholders.

Please note that the 76 companies in the corporate road test may not be a representative view of the sector.

Figure 12: Summary of respondents to the public consultation classified by category (left) and market perspective (right)



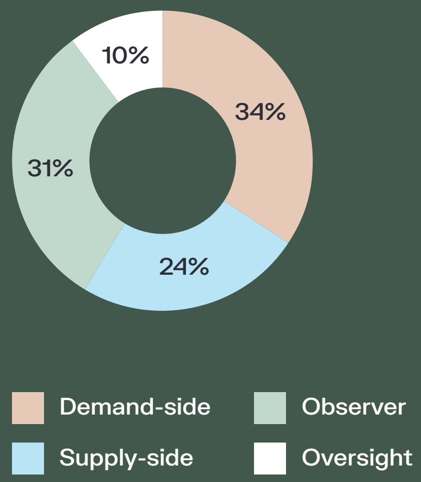
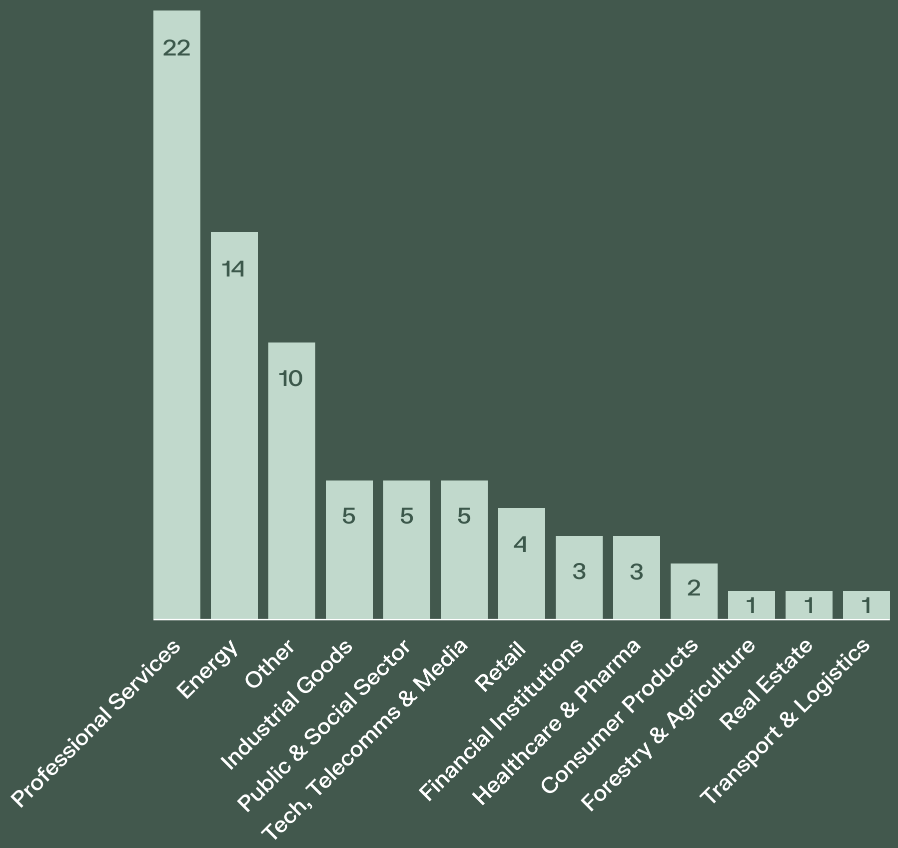
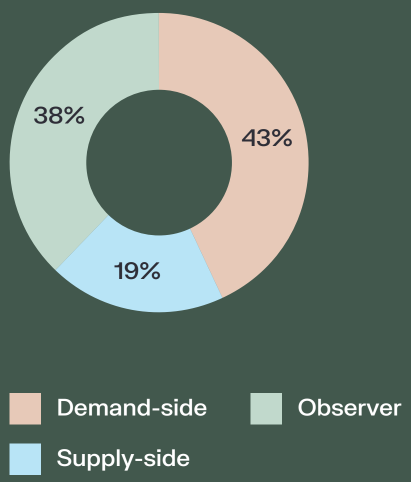


Figure 13: Road test respondents classified by industry (left) and market perspective (right)





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

Designed by Jory&Co