VCMI Request for Proposals

Analysis of the benefits, risks and trade-offs under different scenarios for allowing beyond value chain mitigation (BVCM) through carbon markets as part of broader value chain decarbonization

Introduction

The VCMI Claims Code of Practice, published on June 28th 2023, provides guidance for companies and other non-state actors on how to credibly make voluntary use of carbon credits as part of their climate commitments, and the claims they can make associated with this use of credits. These Claims included in the Code all represent action by companies above and beyond the internal decarbonisation required to meet their science-aligned targets.

Now, with the goal of increasing accessibility while maintaining integrity, VCMI is investigating the need and impact of additional Claims tiers to be developed and added to the full suite of VCMI Claims by carefully examining the benefits, risks, and trade-offs of allowing some use of carbon credits to meet emissions reduction targets and assessing potential scenarios of application.

Background

The role of carbon credits has long been controversial. Supporters claim that the carbon markets allow for cheaper and more effective emissions reductions and removals, with a wide array of additional benefits ranging from capacity-building and technology diffusion in the host countries, to enhancing biodiversity protection, income generation, adaptation, and more productive agriculture overall. However, sceptics argue that carbon markets allow companies to delay the deployment of low-carbon technologies and reduce pressure for ambitious decarbonization policies, as well as highlighting concerns about the additionality and permanence of carbon credits, as well as their potential negative impact on host communities and the issue of double-counting.

Following a mitigation hierarchy with avoiding emissions on the top and compensation with carbon credits at the bottom, most guidance for companies and other Non-State Actors (NSAs) on engaging with carbon markets suggest that carbon credits should only be counted for Beyond Value Chain Mitigation (BVCM). The Science-Based Target initiative (SBTi), UN's Race to Zero guidance, the High-Level Expert Panel (HLEG) on Net Zero Commitments, and the ISO Net Zero Guidelines all reinforce this position, stating that carbon credits should not be counted as emissions reduction but can be used to finance additional climate mitigation beyond reduction targets.

Despite the convergence of norms and guidance on the mitigation hierarchy, there is increasing political momentum behind using carbon markets to drive private sector investment into lower income countries, though the incentives that would encourage companies to do so remain unclear. In the run-up to COP27, the U.S. Department of State, Bezos Earth Fund, and

Rockefeller Foundation convened meetings around a new Energy Transition Accelerator, aimed at driving private investment into country-driven energy transition strategies through a high-integrity voluntary carbon market framework. The U.S. Department of State consulted on allowing companies to temporarily substitute within value chain mitigation through the carbon markets, arguing that this would unlock large-scale climate mitigation and prioritize finance where it is most urgently needed.

In the VCMI provisional Claims Code of Practice, the option of a Bronze Claim was described which, for a limited period, allowed for the purchase of carbon credits to meet up to a maximum of 50 percent of the effort required to meet a company's Scope 3 emissions reduction target. However, in the VCMI Claims Code of Practice released in June 2023, Claims that allow the use of carbon credits to substitute for within value chain mitigation were not explicitly included, with additional tiers due to be announced on the basis of analysis of the potential benefits and risks of allowing such flexibility, along with an assessment of the most appropriate conditions and guardrails.

Scope of Work

The consultant will be responsible for one or more of the following tasks:

1. Literature review of research evaluating the potential of voluntary carbon market to enable greater climate ambition, distinguishing between the studies within the global context from regional ones, e.g., the recent paper "Estimating the potential of international carbon markets to increase global climate ambition" by Pedro Piris-Cabezas, Reuben N. Lubowski, and Gabriela Leslie.

2. Analysis of the main obstacles that prevent companies from adhering to VCMI Claims Code and making a Silver, Gold or Platinum Claim, so that any potential additional tier is designed to address the obstacles identified. The analysis must include an evaluation, which could be sector specific, of the number of companies that would adhere to VCMI Claims if additional claims were to be introduced and the impact expected on climate mitigation (would more companies develop a greenhouse gas emissions inventory and set a near-term emissions reduction target according to SBTi`s requirements and criteria or companies that would adhere to a possible lower tier claim are already well advanced on the decarbonization journey and face very specific difficulties to make the current claims?).

3. Development of a set of scenarios in which companies are allowed to substitute internal decarbonization action (as defined by an SBTi 1.5ºC pathway) with the purchase of carbon credits. For example, each scenario could differ in terms of the extent to which it is:
    a. Price-bound e.g., with a minimum price per tonne of in value chain abatement substituted with beyond value chain mitigation. This would work to ensure climate finance isn't dramatically reduced;
    b. Quantity-bound e.g., to ensure an acceptable level of within value chain mitigation takes place or to create a buffer pool in case of reversal risk;
    c. Time-bound i.e., to reduce the risk of delaying/preventing long-term systemic transition towards net-zero;
    d. Transitional e.g., each year price increases (similar to declining cap in a cap-and-trade system) or proportion allowed decreases;

e. Sector-bound e.g., there may be some keystone sectors which are so systemically important to the decarbonization of the economy that they would not be able to substitute internal abatement for beyond value chain mitigation;
f. Scope-bound e.g., only allowing substitution for Scope 3 to mitigate the risks of unintended consequences;
g. Discounting of carbon credits to be used to substitute for within value chain mitigation e.g. to account for risks and uncertainties associated with carbon crediting projects and/or to ensure additional mitigation.

The scenarios could then be assessed and compared to a BAU scenario where no substitution is "allowed" in terms of:

a. The total tCO2e of climate mitigation delivered (as well as the geographic implications);
b. The average tCO2e of climate mitigation delivered per company;
c. The total amount of climate finance delivered (as well as the geographic implications);
d. The average amount of climate finance deployed per company;
e. The extent to which technology lock-ins are avoided;
f. The extent to which climate tipping points are avoided.

The scenarios should consider and address whether to allow flexibility only at the end date of a climate target or annually throughout the target period, noting that it will be necessary to determine when annual checks are done for determining when a company is on or off track.

Given the assumptions that would need to be made in the context of this scenario analysis (for example, projections of technology cost curves), we recommend that sensitivity analysis is conducted to give an indication of uncertainty and that a survey, questionnaire, interviews or other methodology is applied to test the result of the scenarios with a sample of representative companies in each sector analysed so that the results and final recommendation of the additional tier(s) that VCMI should add to the Claims Code is evidence based.

4. Providing an analysis of the overall benefits, risks, and trade-offs of substituting within value chain mitigation to meet emissions reduction targets through the use of carbon credits, and recommendations on how an appropriate application can be translated into a VCMI Claim, or Claims. If such claims are provided, would the ultimate result be of additional and substantial increase in climate mitigation or would companies delay the implementation of decarbonization measures.

Proposal Requirements

Proposals should include:

- A clear indication of which topic the proposal is designed to address.
- Detailed description of the methodology to conduct the evaluation to provide options for substituting within value chain mitigation with beyond value chain mitigation through carbon markets.
- Qualification and experience of the consultancy and consultants assigned to the project in conducting similar evaluations and scenario analyses.

- Detailed budget, including all costs associated with the work.
- Detailed timeline for the project.

Proposed Timeline

VCMI expects a first draft of options and recommendations to be delivered by September 12th to prepare and inform two workshops to take place in August and September to pilot the findings with a selected group between the months of August and September. The claims framework should be further developed, drawing on lessons learned and feedback from the pilot phase, to provide a final set of deliverables by October10th.

Item	Due Date
Proposal submitted to VCMI	August 5th
Project kick-off call	August 12th
Initial options and recommendations submitted to VCMI	September 12th
Reviewed set of options and recommendations submitted to VCMI based on the feedback received from the Expert Advisory Group	September 19th
First workshop with VCMI Technical Team + VCMI Stakeholder Forum + Expert Advisory Groups members	September (specific date to be defined within the New York Climate Week)
Reviewed set of options and recommendations submitted to VCMI based on the feedback received from VCMI and the Stakeholder Forum	September 30th
Final deliverable submitted to VCMI	October 10th

*To be considered for this funding opportunity, applicants must submit a proposal including proposal requirements mentioned above to **info@vcmintegrity.org** by 5 pm ET on Saturday, 5th of August. Please use the subject line: '**Impact and Implementation Research Proposal**.' We only accept electronic submissions.*