VCMI Voluntary Carbon Markets Integrity Initiative

Claims Code - Background Document

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Contents

ABOUT THIS PAPER

This document provides additional details and supplementary information in relation to the VCMI Claims Code of Practice released in November 2023. It may be periodically updated to reflect future revisions of the Claims Code.

The Claims Code builds on the provisional Claims Code released in June 2022. It addresses and incorporates key issues and recommendations that were raised through the 2022 consultation and road test. As progress was made, it became clear that far more detail would need to be provided. Therefore, to keep the Claims Code concise and straightforward, supplementary information is provided in a set of accompanying documents. The goal is to ensure that the Claims Code is operable and that users clearly understand the steps required to obtain a VCMI Claim.

A. Principles for high ambition & high integrity for voluntary corporate climate action

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The VCMI Claims Code is informed by the principles listed below, which VCMI developed during a consultation phase in 2021 and refined over a subsequent consultation process. VCMI expects all companies making VCMI Claims to strive to reflect these principles in their voluntary climate mitigation efforts, including those actions that involve investment in carbon credit interventions and participation in carbon market activities.

Science-aligned

Company strategies, targets, activities, and engagement in voluntary carbon markets should be based on the latest scientific consensus on the safe upper limits for global warming. As such, the objective should be alignment with the Intergovernmental Panel on Climate Change (IPCC) model pathway of carbon dioxide (CO_2) emissions reductions that limit global warming to 1.5 degrees Celsius, with no or limited overshoot.

Comprehensive

Companies should base their climate targets and actions on accurate and complete greenhouse gas inventories, in line with the most recent requirements set out by the GHG Protocol (or equivalent, should one be developed).

Net-Positive Benefit

Company climate action should create net-positive benefits to individuals and communities impacted by the supply and use of carbon credits, including Indigenous Peoples, local communities, women, and underserved communities. Such action maximizes social and ecological co-benefits and avoids or minimizes adverse impacts.

Rights-Compatible

Company climate action should respect, protect, and fulfill human rights under international law, without discrimination on the basis of identity, including the rights of Indigenous Peoples, and those associated with health, labour, land, and the principle of Free, Prior and Informed Consent.

Nature-Positive

Companies' climate action should align with the need to slow, halt, and reverse nature loss and move toward a nature-positive state of recovery and renewal.

Additional

Company action, investment, and carbon credit purchases should support emissions reductions and/or removals that are additional to those that would occur in the absence of demand for carbon credits.

Immediate

Companies should prioritize immediate action to reduce their own emissions, including within their value chains. This is aligned with scientific evidence showing that the years leading up to 2030 will be critical to avert environmental tipping points caused by increased concentrations of GHG emissions in the atmosphere.

At Scale

Companies should progressively increase the ambition and significance of their investments in interventions that accelerate climate change mitigation both within and beyond their value chains. They should aim to reflect the value of unabated emissions within their value chains, including projects that generate carbon credits for voluntary carbon markets.

Transparent

Companies should transparently disclose information relating to their climate commitments and activities, including their scope, coverage, underpinning strategies and assumptions, performance metrics, relevant definitions, and the nature of carbon credits and their use. Companies should publicly report on progress and learning as they move toward the achievement of their climate mitigation goals (e.g., net zero targets).

NDC-Enabling

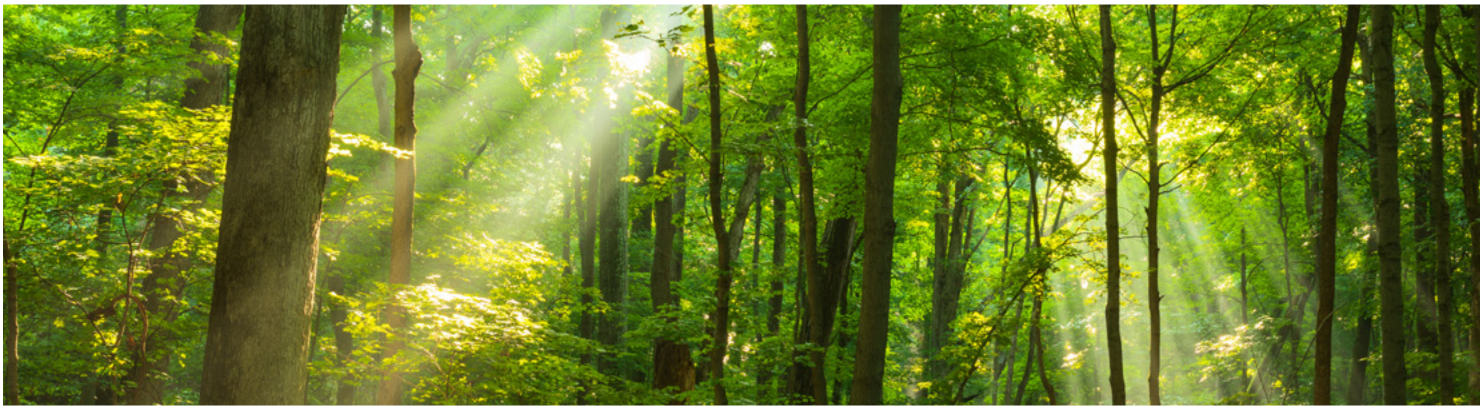
Company actions, investments, and demand for carbon credits should support the implementation of national climate plans, contribute to and help exceed the ambition of countries' Nationally Determined Contributions (NDCs), and avoid potential disincentives to increasing the ambition of NDCs.

Consistent

Company lobbying efforts and membership of industry associations should be aligned with, not contrary to, their climate commitments.

Collective and Predictable

Companies should work together with a diverse and broad range of stakeholders to act on climate change, including by publicly signaling their expected voluntary demand for carbon credits and aggregating demand for carbon credits to increase certainty and help drive systemic change.



B. Claims Code Development Process

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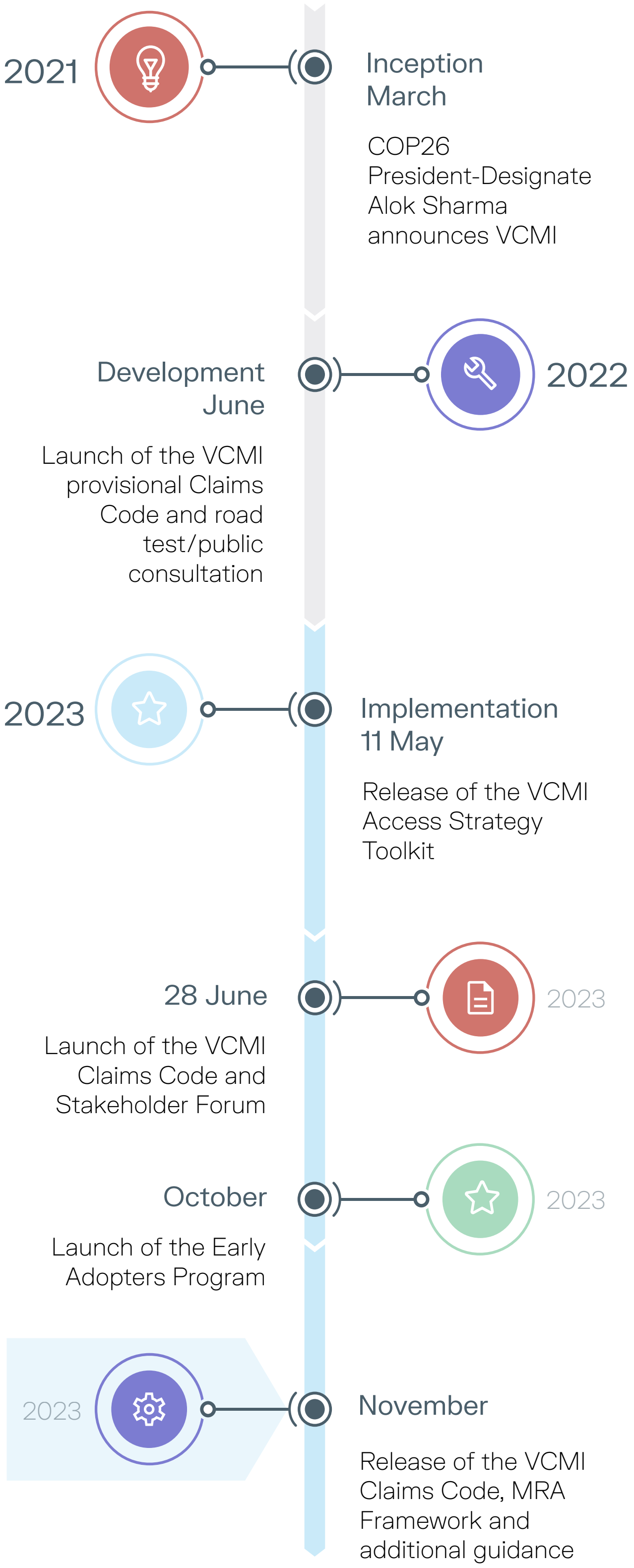
Following the launch of VCMI's provisional Claims Code in 2022, and subsequent comprehensive public consultation and road test, VCMI released an operable Claims Code in June 2023, which was further complemented with the release of additional guidance in November 2023. The timeline of the Claims Code development process to date is illustrated in Figure 1.

Figure 1. Timeline of the Claims Code development



The VCMI Claims Code aims to guide credible voluntary use of carbon credits. It represents the collective judgment of VCMI's Steering Committee, its high-level decision-making body, and has been developed with the guidance and advice of its Expert Advisory Group (EAG).

The EAG is composed of individuals with wide expertise in carbon markets, including on equity and benefits sharing, corporate GHG accounting, accountability, target setting, outreach and communications, consumer protection regulation, Paris Agreement Article 6 and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), legal issues, assurance, and scope 3 emissions.

Improvements to the provisional Claims Code published in June 2022 were based on a combination of analyses of the feedback from the corporate road test and public consultation that followed its publication, consultations with external experts, review of other available standards and approaches, and discussions with stakeholders. These led to significant improvements to both the form and substance of the Claims Code.

The consultation process and road test, conducted by a group of companies interested in potentially following VCMI's guidance, demonstrated a generally high level of acceptance of the document's design and methodology, but also highlighted several areas in which additional work was still needed. These included overall guidance to users, improving clarity of terms and definitions adopted, ensuring the assurability of the required reporting metrics, as well as of specific items such as target setting and public policy statements. These areas were addressed in the June 2023 release of the Claims Code.

The key themes from the feedback obtained during the road test and public consultation are presented in the section below, along with VCMI's approach to addressing them. As part of VCMI's commitment to further improve the Claims Code published in June 2023, and provide further clarity on how to credibly engage with the voluntary carbon market, VCMI's work included several key workstreams in the lead up to November 2023.

As announced in June 2023, VCMI committed to publish additional guidance to complement the Claims Code, and commissioned in-depth research and analysis on many of the challenges raised during 2022 and 2023. The outcome of this work has been extensively tested and subjected to discussions with key stakeholders, including the VCMI Stakeholder Forum and the group of Early Adopters companies.

The VCMI Stakeholder Forum, which was launched alongside the publication of the Claims Code in June 2023, played a central role in the development of the work carried out between June and November 2023, by acting as a sounding board for VCMI, and channeling views and perspectives from a broad range of stakeholders. Companies in the Early Adopters Program, set up in September 2023, also contributed significantly by offering VCMI direct feedback and by providing input and contributing to finding solutions when challenges were identified.

Key to the operationalization of the Claims Code is the Monitoring, Reporting and Assurance (MRA) Framework, launched in November 2023. This Framework provides the clarity needed by companies and other non-state actors (NSA) to pursue a VCMI Claim and is complemented by a digital claims reporting platform. Through this platform, companies and other NSAs making a VCMI Claim can submit evidentiary documentation to prove they have met the requirements outlined in the Claims Code. This includes evidence of independent third-party assurance and public disclosure.

The procedures and criteria set out in the MRA Framework are the result of extensive engagement with a diverse set of stakeholders, including the VCMI Stakeholder Forum, Expert Advisory Group, Early Adopter companies, and MRA experts. Additionally, VCMI has engaged in a substantial number of conversations with stakeholders from a broad range of sectors, including NGOs and academia. The outcome is a clear and operable framework to guide companies and other NSAs on how to obtain a VCMI Claim.

The extensive engagements with external stakeholders that took place between June and November 2023 gave VCMI the opportunity to understand in detail the practical challenges faced by companies and other NSAs in meeting the requirements set out in the Claims Code in June. As such, the Claims Code was improved in November 2023 to address some of the challenges raised and provide even more clarity to companies and other NSAs on how to achieve a VCMI Claim.

An important milestone that comes with the November 2023 release of the Claims Code is the definition of the claim names and branding for Carbon Integrity Claims. VCMI has undertaken an extensive research, consultation, and design exercise to identify an appropriate brand for its claims. A dedicated creative agency was employed to develop the brand and ensure it meets the highest standards for companies making a claim. A market research and insights firm was also employed to support this consultation and gather information and evidence. The outcome of this work is the ‘Carbon Integrity’ brand, which is delivered alongside dedicated brand guidelines to support companies in making a claim.

Furthermore, to ensure the guidance VCMI provides in the Claims Code is sound from a legal perspective, VCMI commissioned a legal comparative review of this document against relevant law and regulations in key jurisdictions (England, France, Germany and California). This review resulted in appropriate amendments and disclaimers being applied to the Claims Code and accompanying documents, to enhance its wide applicability.

A fully operable version of the Claims Code has now been released, taking into account the inputs provided by the Stakeholder Forum and Early Adopters Program, in addition to the Expert Advisory Group, and the results of the additional analyses and research commissioned by VCMI.

1. Balancing ambition and accessibility

Summary of feedback	Enabling the Claims Code to ensure high demand-side integrity while stimulating meaningful participation from companies: — Overall, 54% respondents to the 2022 public consultation said the Claims Code provided incentives for companies to become climate leaders. Others responded that it is too stringent for SMEs. — Most respondents to the road test considered the Claims Code to be sufficiently ambitious. However, demand-side companies (potential buyers of carbon credits and users of the Claims Code) cited difficulties in meeting the requirement to set science-aligned targets and include scope 3 emissions. — Stakeholder Forum members and a survey conducted by The Climate Board (unpublished report) made it clear that the minimum threshold of 20% of high-quality carbon credits to be purchased and retired for a Carbon Integrity Silver Claim did not provide enough accessibility for companies and posed a barrier to entrance.
How it was addressed	— VCMI acknowledges the accessibility challenges faced by some organizations in meeting the Foundational Criteria and claim-specific requirements. It therefore intends to address these through the development of special provisions for specific sectors, including those that are: hard to abate; based in less economically developed countries; and SMEs, including startups that intend to scale and thus expect to have increasing emissions over time. For the financial services sector, given the specificities of setting targets and accounting for emissions for assets under management and for other indirect emissions, specific guidance may be needed to support the uptake of the Claims Code. — VCMI has thoroughly assessed the requirements set out in the Claims Code, including the Foundational Criteria, through robust stakeholder engagement and research. VCMI believes the improved criteria represent a balance of ambition and accessibility, considering current best practice, as well as an assessment of opportunities and challenges faced by companies on their decarbonization journey. — In order to provide more accessibility, building on the feedback provided by Stakeholder Forum members and based on the recommendations from The Climate Board, the minimum required carbon credit use threshold from Carbon Integrity Silver Claim has been repositioned to 10% of all remaining emissions. — VCMI envisages the development of a full set of claims, ranging from new entrant companies that are at the beginning of their decarbonization journey and that VCMI acknowledges may initially find it challenging to meet the Foundational Criteria, to companies that are at the vanguard of sustainability and are taking full responsibility for their climate impact by meeting their emissions reduction targets and undertaking additional mitigation measures to support the goals of the Paris Agreement. — As an initial attempt to provide more accessibility, a new Claim has been designed to address companies that face challenges in meeting scope 3 emission reduction targets. However, important methodological gaps within voluntary carbon markets accounting frameworks have been identified. VCMI has designed a roadmap to address these gaps in partnership with other standard setting organizations. VCMI also intends to further expand this assessment to include companies that face challenges in meeting scopes 1 and 2 emissions reduction targets or the Foundational Criteria. — Supplementary Guidance on communication provides guidance for credible enterprise-wide claims that companies may incorporate in the development of their climate claims. In this document, VCMI also flags the rapidly evolving regulatory landscape around claims. Companies are advised to take independent legal advice on the application of the relevant legal and regulatory framework to their claims in the jurisdictions where they intend to make them.

2. Guidance implementation and operability

Summary of feedback	**Ensuring use of the Claims Code can be independently assured, based on clear and consistent definitions and criteria:** — Almost two-thirds (65%) of public consultation respondents agreed that the requirements are "clear and comprehensive". — Almost a quarter of road test respondents highlighted issues with operability. In 2022, all auditors found the Claims Code guidance insufficient to verify VCMI Claims. — Building on the feedback received, the Claims Code released in June 2023 was operable. Between June and November 2023 the MRA Framework was developed. 91% of the Stakeholder Forum established alongside the release of the Claims Code in June 2023 agree that the MRA Framework will enhance transparency. — More guidance was required for companies to track progress towards near-term emissions reduction targets and to report it transparently.
How it was addressed	— VCMI has worked intensively with its EAG, leveraging its expertise, as well as engaging with other key partners within voluntary carbon markets. In addition, consultation with country-level contacts helped to improve clarity and the operability of the Code. In an effort to deliver even more clarity on how to operationalize the Claims Code, VCMI released the MRA Framework, providing more guidance for transparent reporting, as signaled in the 2022 public consultation. — VCMI has worked to provide more detail to help companies understand what needs to be done to make a VCMI Claim. The Foundational Criteria outlined in the Claims Code are framed as requirements, recommendations and supporting guidance, based on current best practice. Additionally, the MRA Framework provides clear procedures on what, how, when and where companies need to submit information to make a VCMI Claim. This is complemented by the launch of a secure digital VCMI Claims Reporting Platform, which companies can access to submit evidentiary information to prove they have met VCMI's requirements. This digital platform has been tested by external stakeholders, including VCMI's Early Adopter companies. The MRA Framework provides clear step-by-step user instructions on how companies should access and navigate the VCMI Claims Reporting Platform. It also includes an Evidence Checklist, to make it easier for companies to ensure they have met all key VCMI requirements prior to the final step, which is to submit information to the VCMI Claims Reporting Platform. Additionally, to help give clarity to assurance providers, the MRA Framework contains specific guidance on accepted assurance standards and the competency levels of assurance providers. To compliment this, there is an assurance provider guidance checklist in the Appendix of the MRA Framework. — Feedback on the graph as a visual representation of the claims has also been taken into account. In June 2023, VCMI provided improved visuals and infographics to better explain Carbon Integrity Claims, which were well received by companies. Stakeholder Forum members suggested to visualize new claims in graph which has also been taken into account.

How it was addressed	— The four steps that were previously included in the provisional Claims Code have been improved to reflect the role of the MRA Framework and were published as an additional guidance in November 2023. The MRA Framework ensures that for each VCMI Claim issued, underlying information is appropriately evaluated and evidenced. Furthermore, to ensure the integrity and rigour of VCMI Claims, third-party assurance is required over certain metrics. This level of assurance, and assurance requirements more broadly, was the subject of numerous discussions and engagements between June and November 2023. This included extensive engagements with the VCMI Stakeholder Forum, EAG, and the companies within the VCMI Early Adopters Program. VCMI took all the feedback received from these external stakeholders and worked with MRA experts to develop the VCMI MRA Framework. The level of assurance (reasonable versus limited assurance), as well as the requirements for public disclosure, were discussed in detail and an assessment of the climate-related disclosure frameworks was also conducted to understand how VCMI requirements compare to current and upcoming corporate reporting requirements. This assessment is presented in the Appendix of the MRA Framework. — To ensure that VCMI does not place an unnecessary reporting and/or cost burden on companies, the procedures outlined in the MRA Framework are designed to leverage reporting and disclosures to other major reporting platforms and standards (e.g., CDP). Through interviews with companies, VCMI was able to identify the most relevant assurance standards used in the corporate sector today, such as ISO 14064-3, which is an addition to the standards outlined in the Claims Code launched in June 2023, under Step 4. VCMI intends to update the MRA Framework and its procedures in the coming years to align with the upcoming regulatory frameworks. — To address insufficiency and lack of clarity around VCMI Claims and how they will be verified, VCMI will continue to work with external consultants to ensure the Claims Code is assurable. An initial set of key indicators that companies must report to comply with VCMI requirements to obtain a VCMI Claim was provided. These key indicators are an integral part of the full MRA Framework. — To address issues relating to tracking progress towards targets, VCMI has provided more clarity by outlining a set of indicators (listed in Foundational Criterion 3) that it deems representative of whether a company is making progress towards its target, which complements the emissions reduction assessment performed under Step 2. VCMI acknowledges that there is currently no widely accepted definition or methodology for such an assessment and will continue to develop the issue.

3. Treatment of Scope 3 emissions

Summary of feedback	**The flexibility, if any, that should be allowed in the counting and treatment of scope 3 emissions:** — Most respondents to the public consultation considered that SBTi requirements for scope 3 were appropriate and suitable. — In contrast, a significant portion of road test respondents believed that the Claim Code's treatment of scope 3 posed practical difficulties; 20% of the respondents said scope 3 is a key adoption barrier to making a VCMI Claim.
How it was addressed	— Treatment of scope 3 emissions has been the subject of intensive discussions and engagement with various stakeholders, including VCMI's EAG. Through Foundational Criterion 2, which relates to target setting, VCMI had required companies to set near-term science-based targets in line with SBTi's requirements and criteria, considering that SBTi has undertaken extensive work on defining 1.5 degrees Celsius-aligned pathways for companies. However, acknowledging that sectoral target-setting methodologies have been developed and adopted, VCMI has extended Foundational Criterion 2 to consider the possibility that other target setting frameworks are adopted by companies when setting near-term emission reduction targets, provided that they are also robust enough. Further assessment of other potential frameworks to be considered will be conducted in 2024. — VCMI does not require companies to set net zero targets. Acknowledging the rapidly evolving landscape of net zero target-setting standards, and to focus on immediate action to meet near-term targets, the requirement is that companies publicly commit to a long-term net zero target no later than 2050, as well as publicly disclose their definition of net zero. — VCMI is not a target-setting standard, and therefore aims to work closely with key initiatives such as SBTi to further address the concerns raised during the 2022 public consultation and road test. This includes further work around accounting for scope 3 as part of the Scope 3 Flexibility Claim. The work builds on the in-depth research conducted between June and November 2023 to explore whether allowing some use of carbon credits towards meeting interim targets, for a limited period, would increase and accelerate – or reduce and delay – overall mitigation, and the associated benefits, risks and trade-offs with different approaches, as well as the current and upcoming legal requirements relevant to this area. Evidence shows that providing flexibility over the usage of carbon credits with robust guardrails can accelerate corporate climate action and finance (Ecosystem Marketplace, 2023). VCMI is committed to taking the results of this research into account while developing further claims, with the aim of unlocking climate mitigation at scale. — Furthermore, VCMI will continue investigating potential measures to incentivize companies to keep making progress in reducing GHG emissions to meet near-term emission reduction targets and minimize cumulative emissions, in line with a science-based pathway (acknowledging corporate decarbonization pathways are not always linear). — Another important area of work that needs to be tackled regards determining companies' trajectories to their near-term emission reduction targets, and especially to disaggregate these between scopes 1, 2 and 3.

4. Ensuring clarity of VCMI Claims

Summary of feedback	Ensuring clarity and suitability of VCMI Claims relating to claim names, requirements, and interactions with non-VCMI claims and terminology: — Respondents to the public consultation were broadly positive towards Gold and Silver Claims, but responses to the Bronze Claim were mixed. — Most respondents (59%) also considered that additional guidance was needed on claims for brands, products, and services.
How it was addressed	— Further consultation on the claim names suggested that, while some felt that the Gold, Silver, and Bronze claims in the provisional Claims Code provided an intuitive ladder that encouraged continuous improvement, others felt that, although clearly a starting point, Bronze was not attractive enough to be adopted. — VCMI acknowledges the important role that claim names have in influencing consumer behaviour and in the marketability of an organization. VCMI has therefore commissioned market research to determine marketable, understandable, and informative claim names and branding. The outcome of this research resulted in changing the name 'VCMI Claims' to 'Carbon Integrity Claims', and, while maintaining the metallic theme, changing the tiers to Silver, Gold, and Platinum. Further research and market testing is still needed for the Scope 3 Flexibility Claim, which is yet to be given a definitive name and brand. A shortlist of potential claim names has been appraised by VCMI stakeholders, including participants in the Stakeholder Forum. — In June 2023, VCMI provided descriptions and definitions of the top tier claims, specifically those that require companies to take action beyond the achievement of their science-aligned targets. The new Claim has now been designed given evidence that allowing companies some flexibility in the use of carbon credits as part of their net-zero transitions is beneficial for the climate. It builds on the Bronze Claim, presented in the provisional Claims Code, taking into consideration all feedback received and additional research conducted. The design of this new flexibility tier, however, has proven that it is difficult to be both practicable and acceptable to a broad range of stakeholders. At the same time specific methodological gaps have been identified within the voluntary carbon markets for accounting in interim years, before company's target end date. These gaps cannot be resolved by VCMI on its own and require a collaborative work with other standard setting organizations. As a result, VCMI decided to move forward with a Beta launch of the new Claim in November 2023, acknowledging that future improvements can still be made and incorporated and inviting companies to trial its implementation. VCMI will define the remaining claims so that companies are provided with a full set of VCMI Claims, including possible ways of recognizing companies at the beginning of their decarbonization journey and who may not yet be able to meet the Foundational Criteria. — In June 2023, VCMI launched three claims with varying levels of ambition. These were subsequently released with their finals names and branding in November 2023: Carbon Integrity Silver, Gold and Platinum. VCMI acknowledges the varied emission profiles of companies in different sectors and the diverse challenges and opportunities companies face in reaching their climate mitigation goals, as well as the uneven ability to pay for beyond value chain mitigation (BVCM). — In the provisional Claims Code, VCMI established guidance and a set of requirements that companies need to meet to make VCMI carbon neutral product-, service-, and brand-level claims. Feedback from the public consultation pointed out that VCMI should not allow such claims without a rigorous framework to assess impact down to the product-, service-, and brand-level. VCMI has decided not to pursue this, or to conduct a more thorough evaluation of such claims for the moment, given the extensiveness of the work required and the methodological gaps acknowledged in the voluntary carbon markets regarding enterprise-wide claims which pose a challenge for the new Claim uptake and will need to be addressed. — To help address confusion around commonly used non-standardized claims (e.g., carbon neutrality), VCMI has developed a Supplementary Guidance document to provide additional guidance for communicating Carbon Integrity Claims. Specific guidelines about how to communicate the new Claim will follow. The Supplementary Guidance outlines a set of clear Principles for Climate Mitigation Claims Credibility.

5. Expanding guidance on carbon credits

Summary of feedback	**The need for further articulation of concepts and criteria regarding carbon credits, including their nature, attributes, and corresponding adjustments:** — Overall, there appeared to be a lack of consensus regarding the clarity of high-quality carbon credits requirements. — Fewer than half (46%) of road test companies considered the Claims Code sufficient to determine whether credits are high-quality; 38% said it was insufficient. — In addition, almost two-thirds (62%) of road test respondents agreed with the treatment of corresponding adjustments in the Claims Code, but three-quarters (75%) want claims to be differentiated based on credit type, especially for net zero claims.
How it was addressed	— In June 2023, VCMI stipulated that companies shall purchase Core Carbon Principles (CCP)-approved credits (i.e., carbon credits that pass screening under the Integrity Council for the Voluntary Carbon Market [ICVCM] Assessment Framework), which assesses credit quality at the carbon crediting program and carbon credit category level. This is detailed under Step 3 of the Claims Code. — ICVCM intends to launch the CCP-approved credits from CCP-eligible carbon-crediting programs in early 2024, after which companies will be able to comply with this step to make a VCMI Claim. — To assist companies in making carbon credit due diligence and purchasing decisions, for VCMI Claims made prior to 1 January 2026[1], VCMI will accept CORSIA-eligible credits as well as credits that have gone through an existing due diligence process in alignment with all ICVCM's CCPs. This is a transitional phase while CCP-approved credits are not yet widely available in the market.

For more information about feedback on the provisional Claims Code from the public consultation and road test, please visit the VCMI website.

1 VCMI reserves the right to revise this date, subject to changes in the availability of CCP-approved carbon credits. Any revisions to this date will have no effect on the validity of pre-existing VCMI Claims.

6. The Scope 3 Flexibility Claim development process

At the launch of the Claims Code in June 2023, VCMI committed to explore and develop additional claims that – for a limited time and with appropriate guardrails - could allow companies some flexibility in the use of carbon credits while on the path to meeting their near-term emission reduction targets.

Since then, VCMI has commissioned research that suggests that:

- There is an emissions gap between company targets levels in the claim year and their most recent reported emissions which, if filled through voluntary carbon markets, could generate demand for carbon credits. The emissions gap for sscopes 1 and 2 emissions are estimated to be 378 MtCO_2e today, increasing to 2.1 GtCO_2e in 2030 when compared with a 1.5°C target. The gap to reach scope 3 emissions targets is around 1.4 GtCO_2e today and over 7 GtCO_2e by 2030 (MSCI Carbon Market formerly Trove research, 2023)
- In a scenario where companies are allowed to use carbon credits to meet 50% of their total emissions targets (scope 1, 2 and 3) we could expect to see around 1,000 more companies setting ambitious climate targets representing some $10 trillion in market capital. 400 of these new firms would be expected to set SBTi approved targets. If these new targets are achieved the average Implied Temperature Rise of companies with climate targets would reduce by 0.5°C from 2.5°C to 2.0°C (MSCI Carbon Market formerly Trove research, 2023)
- Companies that are material users of carbon credits reduce their emissions at a median rate of 6% per year, compared to only 3% per year for companies not using credit (Trove Research, 2023)[2]; and
- Companies that make use of carbon credits are 3.4 times more likely to have an approved science-based target than companies that do not, and 3 times more likely to include scope 3 emissions in their target. The evidence shows that providing flexibility over the usage of carbon credits – with robust guardrails – can accelerate corporate climate action and finance (Ecosystem Marketplace, 2023).

VCMI has developed the criteria for the Scope 3 Flexibility Claim and collected feedback from different stakeholders, including government representatives, partners and companies, the EAG, Early Adopter companies, and the Stakeholder Forum. While most stakeholders agree with the principle that substantiates the proposal – i.e., granting some degree of flexibility for a limited time and focused on scope 3 emission reduction targets, challenges were still faced in delivering a solution that is both technically and politically satisfactory, given different and polarized views on the matter.

More specifically, one of the main issues that needs to be dealt with in the near-term so that the market can scale up is that there is no commonly defined methodology for assessing whether companies are on-track to meet their targets or making enough progress towards them. It is difficult to determine what constitutes adequate, or "enough", progress and to define the scope 3 emissions gap in a way that is widely applicable across companies, sectors and regions, without reverting to an arbitrary straight line emissions trajectory.

2 Trove Research, 2023. "Corporate emission performance and the use of carbon credits".

The table below summarizes feedback received from different stakeholders regarding the Scope 3 Flexibility Claim:

Origin	Feedback	Category	How it was/will be addressed
Direct feedback	It's not clear how the calculation of the emissions gap will be assessed.	Operational	Clearer guidance has been given based on metrics companies already use and standards known by companies. VCMI will continue to investigate the issue in 2024.
Direct feedback	Illustrations of the Scope 3 Flexibility Claim are helpful (especially tables), but they can have additional labels and design adjustments. Strong visuals would help. Maybe something simpler than graphs will be needed.	Design and content	VCMI has worked with designers to develop simpler visuals that can be helpful for companies to better understand the Scope 3 Flexibility Claim.
Direct feedback	It might be helpful to put in some examples of the different pathways that could exist from the Scope 3 Flexibility Claim to higher level claims.	Design and content	This is an important issue that will be further considered.
Direct feedback	Scope 3 coverage on short term targets is 67%. It should be put this somewhere in the text.	Design and content	The text has been included.
Direct feedback	Scope 3 coverage on short-term targets is 67%. It should be put this somewhere in the text.	Design and content	The text has been included.
Direct feedback	Make it very clear that company decarbonization will need to happen in scopes 1 and 2 to make anyone eligible for the Scope 3 Flexibility Claim.	Design and content	Adjustments have been made to make it clearer.
Direct feedback	Companies have a lot of difficulties dealing with scope 3 because it is beyond their internal control. This should be very explicit and supported with facts.	Design and content	Reference will be made to recent published data that supports it.
Direct feedback	Make clear that market evidence shows that scope 3 flexibility will lead to more emission reductions by more companies.	Design and content	Reference will be made to recent published data that supports it.
Direct feedback	Scope 3 flexibility of the new Claim implies they would not be adhering to Foundational Criterion 3 'Demonstrate that the company is on-track towards meeting a near-term emissions reduction target and minimizing cumulative emissions over the target period.' If a company needs to 'bridge the gap' it is not on track. This might need clearer communication.	Operational	Acknowledging the current methodological gap to assess whether companies are on-track, Foundational Criterion 3 has been reworded and the assessment of companies progress on emissions reductions is now concentrated on Step 2.

Origin	Feedback	Category	How it was/will be addressed
Direct feedback	The 2035 deadline might be problematic for many. There may be companies in hard to abate sectors that may not be able to meet this deadline. Many are likely to continue 'bridging the gap' after this and it could have the effect of removing an incentive for some of the biggest purchasers of credits to carry on doing so from 2035.	Operational	Several stakeholders have reaffirmed the importance of keeping a time-bound guardrail to incentivize companies to be able to fully decarbonize.
Direct feedback	Limiting the purchase of credits [to 50%] can remove incentives to purchase credits for some companies if they have a bad year.	Operational	The limit ensures that the mitigation hierarchy takes place. Emissions can go up, but it is important to make sure that the flexibility is being provided to companies making serious efforts to reduce emissions.
Direct feedback	Framing the Scope 3 Flexibility Claim as 'not counting towards your target' presents both risks and opportunities. One of the big opportunities is that it tries to avoid the "offset" implicit interpretation. The major risk is that companies will be less interested and, thus, have less incentives to invest more in global climate action.	Reputational & Comms	Explicit phrasing has been removed and the language to be used has been discussed with communication strategists.
Direct feedback	The Scope 3 Flexibility Claim proposal would support the general idea/argument that credits can substitute for scope 3 emissions reductions (offsets), likely to facilitate the status quo of lower ambition.	Reputational & Comms	Evidence was presented to prove that the current behaviour of companies does not reflect this risk. Flexibility is very likely to increase overall climate action and accelerate a global net zero.
Direct feedback	The criteria "Credits used to bridge emissions gaps should not displace internal emissions reductions which would otherwise happen today" is not very verificable/assurable.	Operational	The criteria has been removed.

Origin	Feedback	Category	How it was/will be addressed
EAG	The following criteria should be removed: Claim must not give impression that credits are equal to internal reductions or are being used to “meet” science-based interim emissions targets and; must align with the SBTI target-setting – the “what” - while providing time-limited flexibility in use of credits to bridge the gap. VCMI should not be prescriptive on that matter, which is an SBTi realm to rule, and this flexibility is to give some reward for companies that do not meet their target in current year but want to be able to use carbon credits to make up the difference, while keeping the integrity of demand.	Operational	The criteria has been removed.
EAG	Companies should be transparent about what they’re doing and the types of calculations they’re using to demonstrate progress towards their science-based targets, including the methods and assumptions. Disclosure should be both on the actions they’re taking internally and on the number of credits that they’re using and where those come from. Additional disclosure requirements and elements can be added, maybe from a framework that already exists with some kind of guidance for this type of disclosure.	Operational	The criteria has been added.
EAG	The upper limit of credits that can be used to bridge the emissions gap should be equivalent to 50% of reported scope 3 GHG inventory emissions in the current year, in order to be more easily quantifiable.	Operational	The methodology has been updated accordingly.
EAG	The company’s expected scope 3 GHG emissions trajectory calculations methodology, to be used against actual emissions to calculate the emissions gap, should be simpler: “trajectory consistent with company’s science-based target”.	Operational	The methodology has been updated accordingly.
EAG	Phaseout calculation should avoid the necessity of the estimation of another linear trajectory.	Operational	The methodology has been updated accordingly.

Origin	Feedback	Category	How it was/will be addressed
Stakeholder Forum	There is a confusion on how and why the Scope 3 Flexibility Claim meets all Foundational Criteria, while FC3 is about being 'on-track'.	Design and content	Foundational Criterion 3 and Step 2 have been updated accordingly, given the current methodological challenge to assess if a company is on-track as well as to concentrate the assessment of progress made in emissions reductions and how the purchase of carbon credits is related to it for each claim.
Stakeholder Forum	Need clarification on whether the new Claim use carbon credits towards emissions goal, to avoid any offset confusion.	Design and content	Discussions on narrative have taken place with communication strategists as well as with Stakeholder Forum members.
Stakeholder Forum	Companies may perceive that they can avoid doing the internal mitigation on scope 3 through credits purchases until the target year, facilitating the scenario of lower ambition.	Design and content	Evidence was presented to prove that current behaviour from companies does not confirm this risk. The conclusion is that providing flexibility leads to increase of overall climate action and accelerate global net zero.
Stakeholder Forum	Unfairness of companies that buy different amounts of credits having the same new Claim badge.	Operational	Transparency criteria has been added.
Stakeholder Forum	Difficulty of quantifying the use of credits ahead of time under the bridging mechanism. Companies using credits to cover short term short falls will be more effective, specially in finance and energy sector that have heavy scope 3 emissions.	Operational	Companies know their trajectory and can estimate emissions trend. By using GHG emissions inventory, they will base calculation on the most recent data available.

7. Foundational Criterion 2

Summary of feedback	**In the Claims Code released in June 2023, companies were required to set and disclose validated science-based near-term targets, following SBTI requirements and criteria for near-term emission reduction targets.** SBTi is currently the most widely adopted science-based target setting standard. Some companies, however, have non-SBTi targets or are within a sector for which SBTi does not yet provide a pathway: — Through engagements and surveys conducted between June and November 2023, it was understood that many companies did not set SBTi targets because there is currently no sector specific methodology for them to follow. These companies have aligned their targets with other existing frameworks. For example, the bank industry is focused on the Net Zero Bank Alliance (NZBA).
How it was addressed	— VCMI acknowledged SBTi is the only organization that provides validation of SBTs. — VCMI acknowledged the diverse landscape of target setting methodologies, whilst encouraging companies to increase their ambition and set science-aligned targets. — VCMI has acknowledged that sector-specific target setting methodologies are applied by sectors for which SBTi does not currently provide guidance, by stating that companies must follow the "most up to date criteria for setting near-term emission reduction targets from SBTi, or equivalent". — Companies will be able to demonstrate they have committed to set a science-aligned target in line with the timeframes and formal commitment process outlined by SBTi. If their science-based emission reduction target has not been validated by SBTi, the company will have 24 months to submit a target to SBTi for validation

Summary of feedback	Assessing how companies are making progress towards their near-term emission reduction targets is complex. There is no common definition and methodology to determine whether a company is on or off-track to meet the target, or to make a precise evaluation of the target in interim years before the target end date. Challenges have been identified in defining and measuring 'on-trackness' towards meeting a near-term emission reduction target, given that companies' emission reduction trajectories are unlikely to follow a linear pathway: — Both EAG and Stakeholder Forum members stated that providing a single, comprehensive definition for companies to use to assess whether they are on-track towards meeting their near-term emission reduction targets is unfeasible in the short term. — Literature review of how existing frameworks, including CDP, SBTi, WMB, UK TPT, Race to Zero, GFANZ and others, define 'on-track', reveals an absence of clear definition, metrics, or process to track companies' progress towards targets.
How it was addressed	— VCMI has commissioned further research to ensure any definition of on-track reflects the various considerations a company may be incorporating as part of taking genuine and meaningful action to mitigate GHG emissions, but this is a fundamental methodological gap in voluntary carbon markets that will not be solved by VCMI on its own. It requires a thorough assessment as part of a joint effort. — Foundational Criterion 3 has been improved to reflect that the indicators laid out, derived and aligned with several corporate accountability frameworks (please refer to the MRA framework for more information), are used as proxies to assess whether companies are making progress towards meeting their near-term emissions reduction targets. — The assessment of emission reductions has been concentrated in Step 2 of the Claims Code – *Select a VCMI Claim to make*, with the support of 82% of Stakeholder Forum members, so that the requirement around the use of carbon credits by companies that have either met their target, are on the right path to make progress towards it, or are bridging the emissions gap, is concentrated in only one step of the Code.

9. Foundational Criterion 4

Summary of feedback	Feedback from companies and expert advice made it clear that compliance with the Global Standard on Responsible Corporate Lobbying (GSRCL) has proved to be a considerable lift for companies, especially as it was only released at the beginning of 2022: — GSRCL is not yet widely adopted by companies, despite being a credible global framework to ensure global corporate advocacy activities are aligned with global climate goals. — Companies already disclose advocacy activities under CDP and would like to avoid reporting duplication.
How it was addressed	— Companies are requested to demonstrate their advocacy activities consistent with the Paris Agreement, in alignment with the CDP questionnaire (C12.3) and other frameworks. — The GSRCL has been provided as guidance for companies, so that they can demonstrate in a public statement how their advocacy activities align with each of the 14 indicators, outlined in four categories.

C. Corresponding adjustments

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What are they?

Article 6 of the Paris Agreement creates a pathway – but not an obligation – for the use of 'corresponding adjustments' within voluntary carbon markets. Corresponding adjustments are an accounting tool used to avoid double-counting. They do not change the quality of the underlying emission reduction or removal.

When are they required according to Article 6 guidance?

Article 6 enables host countries to authorize mitigation outcomes as internationally transferred mitigation outcomes (ITMOs) for use towards other countries NDCs, other international mitigation purposes, or other purposes. For all mitigation outcomes a host country authorizes, and for first-transfers, the host country must apply corresponding adjustments to its emissions balance, to prevent these mitigation outcomes from being counted towards the host country's

NDC authorization also commits the host country to ensuring the environmental integrity of the mitigation outcomes, to recording and tracking their transfers and use, and reporting these to the Paris Agreement.

According to Article 6, countries that wish to use mitigation outcomes achieved in other countries towards their NDCs are required to only use ITMOs for this purpose. They will apply corresponding adjustments to their emissions balance to count these mitigation outcomes towards their NDC. Mitigation outcomes from other countries that are not authorized as ITMOs for use towards NDCs cannot be used as such. Similarly, only ITMOs authorized for international mitigation purposes can be used towards international mitigation purposes (e.g., the CORSIA).

Article 6 also allows, but does not require, voluntary carbon market participants to request authorization and corresponding adjustments for their mitigation outcomes, and to use these ITMOs for voluntary purposes. Voluntary carbon market participants can use ITMOs to voluntarily support mitigation beyond NDCs.

In the absence of a host country's authorization, and subsequent corresponding adjustment, companies must publicly communicate that the mitigation underlying the carbon credit may also be counted towards the host country's NDC, or whether the host country has authorized the use of the associated emission reductions or removals for other international mitigation purposes, as specified in the countries' letters of authorization, to avoid those credits being double counted.

However, the Article 6 framework also established a different type of unit in cases where a unit is not authorized. These are referred to as 'mitigation contribution units'.

Are credits with corresponding adjustments available?

Most countries are not ready to grant authorizations and implement corresponding adjustments because they are still developing and refining their administrative, transparency, and accounting practices. Once this infrastructure is in place, it is possible that authorizations could be granted and corresponding adjustments applied retroactively to prior transfers.

D. Further guidance on carbon credit quality

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Additional project-level due diligence

By adopting an ethos of continuous improvement, carbon crediting programs have improved the methodologies that project developers use to quantify carbon mitigation impact. They have also enhanced systems that verify satisfactory adherence to quantification methodologies and other safeguards, ensuring that climate mitigation is lasting and that the activities credited don't have other adverse impacts. Yet, even after years of improvement, some emission reductions or removals issued as carbon credits do not deliver the positive climate impact they promise.

This highlights an ongoing need for buyers to conduct their own detailed independent due diligence. That being said, not all buyers have the means to do so. In response, carbon credit rating initiatives and due diligence providers have emerged in recent years to provide a second opinion to corporate buyers. For buyers with fewer financial resources, the Carbon Credit Quality Initiative (CCQI) offers a free tool to assess the quality of carbon credits from some crediting programs and project types. But, as CCQI acknowledges, additional due diligence is still highly recommended. Companies may wish to view other resources that can help with the due diligence process, including the Business Alliance for Climate Solutions' Primer on Corporate Process for Purchasing Carbon Credits, the Greenhouse Gas Management Institute, and the Stockholm Environmental Institute's educational materials on carbon credits.

Emissions reductions or emissions removals?

Recent reports from the IPCC say that the world must reach net zero emissions by mid-century and go carbon negative thereafter. As a result, humanity will have to remove carbon from the atmosphere at substantial levels and store it durably. Acknowledging this, many corporate buyers have also shifted from activities that avoid emissions towards those that remove them (particularly those that also promise long- term storage) in pursuit of their own net zero goals. A fierce debate continues to be waged over whether emissions reductions credits or emission removal credits more deserve to be financed for us to keep warming to below 1.5 degrees Celsius. On one side of the debate, permanent carbon removal advocates argue that the carbon removal industry needs finance immediately if we are to reach net zero by mid-century; carbon removal advocates also highlight a potentially higher likelihood of additionality for technological removals. On the other hand, those opposing a full swing towards removal credits argue that the market is still mostly delivering reduction credits and that there are still many highly additional carbon avoidance projects that need financing.

While it may be true that many companies will need removals to meet their single-year net zero targets (if companies follow the literal definition, as presented in the Claims Code Glossary), this singular focus ignores the period between now and the target end date. For example, if a company commits to being net zero by 2040, the company must net out any residual emissions in the 2040 target year, and indefinitely thereafter, if it wants to maintain its net zero status. However, until the point at which it hits net zero in 2040, this company should purchase and retire carbon credits to the extent its ability to pay allows[3]. During the period between a net zero target start date and end date, these can be credits from emission reduction projects or programs or from emission removals. From VCMI's perspective, companies may invest in carbon credits issued either by emission reduction or removal projects for the global transition and should prioritize projects based on the quality of the climate mitigation and co-benefit impacts they may deliver.

3 See SBTi, Final Report: Beyond Value Chain Assessment (Dec 2021) and Public Consultation on Beyond Value Chain Mitigation (June 2023).

The Voluntary Carbon Markets Integrity Initiative is an international initiative to drive credible, net zero-aligned participation in voluntary carbon markets.

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