|Joint Statement on Voluntary Carbon Market: The Claims Side

Recommendations from a like-minded group of EU countries for organisations making climate claims based on the use of carbon credits purchased within the Voluntary Carbon Market.

We stress that rapid and deep greenhouse gas emission reductions are required in all sectors in order to limit warming to 1.5°C at the end of the century, as highlighted in the IPCC Sixth Assessment Report.

We note that voluntary use of high-integrity carbon credits can play a role in supporting faster and more ambitious climate action, delivery of the Sustainable Development Goals and facilitating financial support to climate projects worldwide. The Voluntary Carbon Market can be used to accelerate action (*closing the action gap*) and raise ambition globally (*closing the ambition gap*) in line with the goals of the Paris Agreement.

We emphasize that, without robust standards and safeguards, the use of carbon credits can undermine climate action and can cause environmental or social harm. The voluntary carbon market has suffered allegations that many credits do not deliver the emissions reductions or removals they promise. Low prices and lack of transparency and clear guidance risk delaying the urgent near-term mitigation that the market can provide and that is needed to avoid the worst impacts of climate change.

We stress that it is essential to ensure full transparency, high-quality credits and credible claims to rebuild trust in the VCM.

We support and build on existing integrity initiatives by governments to progress towards a fully transparant, high-quality and credible VCM, such as *the G7 principles of High Integrity Carbon Markets* and the *Call to action for Paris aligned Carbon Markets,* which aim to boost integrity in the VCM and support the elaboration and implementation of high standards aligned with the Paris goals.

To accelerate climate action and raise ambition globally in line with Paris and to be consistent with good practices, we recommend the following to organisations making climate claims based on the use of carbon credits bought within the VCM:

- Calculate and publicly **disclose** all direct and indirect emissions, have a **climate target** in line with the Paris Agreement and a **roadmap** in place to reduce emissions.
- Prioritise **reduction of emissions** across the value chain. Ensure that the use of carbon credits will supplement and not substitute or delay your own emissions reduction measures.
- Formulate **clear claims** in response to the use of carbon credits, while providing sufficient details to **avoid misleading** consumers.
- Indicate whether credits are used towards the organisations' climate goals (**offsetting claim**), or to contribute towards achieving climate goals in the host country (**contribution claim**).
- Buy **high quality credits**; ensure that the credits represent real, additional and permanent mitigation and leakage is prevented.
- Pay attention to the impact in the **host country** (environmental and social impacts, human rights, gender equality, the rights of Indigenous Peoples and other local communities) and consider how purchase of carbon credits contributes to achieving sustainable development goals.
- **Be transparent and report** annually in a publicly available report on the progress in achieving climate targets and the use of carbon credits.

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ANNEX Recommendations

Context

These recommendations are coming out in a time where the EU regulatory framework on corporate sustainability reporting and green claims is under construction (Directive on empowering the consumer for the green transition, Green Claims Directive, Carbon Removals Certification Framework Regulation, Corporate Sustainability Due Diligence Directive). Where appropriate, this guidance will be updated to reflect the outcomes of these discussions.

These recommendations apply to climate claims regarding organisations, not to product claims.

These recommendations are focused on the VCM and the crediting of mitigation action. All claims that are made on the basis of actions which are not credited within the VCM, fall outside the scope of this guidance.

Chapter 1: Quantification of emissions, climate targets and roadmaps

We recommend organisations making climate claims based on the use of carbon credits to:

- Calculate and publicly disclose all of their own direct and indirect (scope 1, 2 and 3) emissions;
- Establish and publicly disclose a climate target in line with the Paris Agreement, using a standard that is Paris Aligned;
- Have a Paris Aligned science-based roadmap in place for reducing their own emissions (including interim targets, measures, monitoring, etc. see box below);
- Implement the abovementioned actions prior to using credits and making climate related claims.

Chapter 2: Prioritisation of emissions reductions

We recommend organisations making climate claims based on the use of carbon credits to:

- Prioritise urgent and deep reduction of emissions across their value chain;
- Ensure that the use of carbon credits will supplement, not substitute or delay, their own emissions reduction measures;
- Demonstrate they are on track towards meeting their near-term emissions reduction targets through regular and transparent reporting;
- Not to count carbon credits toward an organisation’s interim emissions reductions required by its Paris aligned climate targets and roadmap.

To be consistent with good practices, we recommend a **climate roadmap** to at least indicate:

- Interim targets (i.e. near-term emissions reduction target): steps towards achieving the organisation's climate target through reducing its own emissions as much as possible
- Description of how the targets are aligned with the Paris Agreement goals;
- The base year for the organisation's emissions calculation and the baseline level of emissions against which the organisational emissions reductions are calculated;
- Description of how the organization monitors its emissions, including the exact scope and any international or national standards that are applied.
- The emissions reduction measures already implemented, planned and further required by the organisation to meet the climate targets;
- What types of voluntary mitigation action the organisation has supported or plans to support in addition to its own emissions reduction measures and how;
- What international or national standards the organisation applies and how, and the extent to which it makes use of independent verification;
- How the organisation ensures that it will prioritise its own emissions reduction measures and that voluntary mitigation action will supplement, rather than substitute or delay, its own emissions reduction measures;
- How the roadmap will be regularly assessed and updated and how the performance of overall emissions reduction measures will be monitored.

Chapter 3: credible claims for international use of carbon credits[1]

- Organisations making climate claims based on the use of carbon credits should:
    - Make claims sufficiently clear and detailed to ensure that it cannot be understood in any other way than intended.
    - Avoid giving the misleading impression that the organization does not generate emissions.
- We recommend organisations making climate claims based on the use of carbon credits to clarify whether their claim is a contribution claim or an offsetting claim.
- *A contribution claim (closing the action gap)* enables organisations to publicly declare their climate efforts in a credible way, without using carbon credits to compensate for emissions (offsetting). A contribution claim refers to the use of carbon credits that represent mitigation outcomes counted towards national climate targets of the host country, helping to achieve a previously agreed level of ambition. Organisations can credibly claim they have contributed to meeting national climate targets under the Paris Agreement.
- *Double claiming* is avoided as the claimant does not count the mitigation outcomes towards offsetting the climate impact of its own emissions.
- *An offset claim (closing the ambition gap)* enables organisations to claim the mitigation outcomes towards offsetting the climate impact of its own emissions. The carbon credits represent mitigation outcomes that are not counted by the host country (as part their national climate targets). This means a corresponding adjustment is done by the host country.[2]
- *Double claiming* is avoided by only claiming the mitigation outcome towards the organisation making the offsetting claim.
- Contribution claims are considered the most appropriate channel for financial support to mitigation projects. There are several approaches that can be taken when making contribution claims. For example:

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[1] This chapter applies to the international use of carbon credits by organizations, where a climate claim is made based on carbon credits from outside the jurisdictional borders/the borders of the NDC. While noting that for national schemes, where credits are sold and used domestically, national regulations may take precedence.

[2] A corresponding adjustment: the government hosting the project adjusts its international accounting so as not to count the mitigation outcomes.

  - Tonne for tonne: Organisations meeting their interim targets can counterbalance, the rest of their annual unabated emissions (residual emissions) by purchasing high-integrity carbon credits.
  - Budget for tonnes: impose a price per unit of emissions, based on a price signal aligned with the Paris Agreement. Purchase high-integrity carbon credits with the funds generated.
  - Share of profits: Investing a share of your profits in high-integrity carbon credits.
- When a claim is made, whether contribution or offsetting claim, the credit should be canceled/retired to prevent it is resold (and double counted).

Chapter 4: using high-quality carbon credits

We recommend organisations making climate claims based on the use of carbon credits to:

- Use credits associated with a credibly governed standard-setting body that has the highest environmental integrity with attention to positive social and economic outcomes where the projects or jurisdictional programmes are located.
- Demonstrate that the carbon credits that are used, meet quality criteria, and that an independent auditor has assessed how those criteria are met.

Internationally established **quality criteria** consistent with good practices require mitigation outcomes to at least:

- Be real; robust and conservative baselines in line with NDCs and the Paris Agreement have been applied. Robust and science-based quantification methodologies have been applied;
- Be additional; the mitigation activity would not have happened without the incentive created by the carbon credit revenues
- Be permanent: Potential reversals, for example, due to a natural disaster or project mismanagement, should be addressed in full.
- Be unique; double counting (where a mitigation outcome is counted more than once towards achieving mitigation targets or goals) is avoided. Double counting can occur through double issuance, double use and double claiming.
- Have measures in place to prevent carbon leakage (when a project displaces emission-creating activities to outside the project boundary).
- Be traceable (tracked transparently in a public registry);
- Do no significant harm (DNSH).
- Involve verified co-benefits
- Where land-based activities are concerned, be geo-referenced

Chapter 5: Consider the impact in host countries

We recommend organisations making climate claims based on the use of carbon credits to:

- Ensure that:
  - Negative impacts on sustainable development are avoided, prevented or minimized using internationally recognized standards.
  - Appropriate tools or approaches are applied to ensure sustainable development impacts (such as social and environmental impacts) are identified, publicly disclosed, and addressed through robust safeguards, including monitoring.
  - Human rights, gender equality and the rights of Indigenous Peoples (as set out in the UNDRIP) and other local communities are respected.
  - For projects affecting Indigenous Peoples, Free Prior Informed Consent (FPIC) has been ensured.

    - Lock-in of high emissions pathways is avoided.
- Strive to align positive impacts on sustainable development with host country objectives.
- In the case of offsetting claims, ensure the mitigation outcomes are shared with the host country. This means only part of the achieved emission reductions or removals is transferred as correspondingly adjusted carbon credits to the buyer. This ensures that host countries can use part of the mitigation outcomes to achieve their climate targets. It thereby addresses concerns that host countries may need to pursue more costly efforts in the future to achieve their climate targets.
- Invest in projects or jurisdictional programmes that prioritise the people and sectors most in need of support (for instance, those that protect biodiversity or restore degraded land, build resilience to climate impacts, accelerate distributed energy projects for energy access and livelihoods, or projects that advance technologies for hard-to-abate sectors).

Chapter 6: Regular and transparent reporting

We recommend organisations making climate claims based on the use of carbon credits to report annually in a publicly available report on their progress in achieving their climate targets, including information on:

- The organizational residual greenhouse gas emissions, reported as a time series from the base year to the most recent year for the relevant coverage (scope 1, 2 and 3);
- A summary of the methodological approaches used to determine the organizational residual greenhouse gas emissions;
- A summary of the emission reductions measures implemented during the reporting period and any further planned measures to meet the climate target(s); and an explanation how all possible measures have been undertaken.
- The use of carbon credits, including:
    - An description of the role of carbon credit use as part of its climate strategy
    - The ways in which the organization ensures that the credit use does not displace or delay their own emissions reduction measures;
    - The types of claims that are made in association with the carbon credits (contribution claims, offsetting claims)
    - A description of how carbon credit use will continue in the future;
    - Information on which carbon credits have been used, including identification of the relevant projects (through their reference numbers), the total volume of carbon credits used, and, in order to avoid double use of carbon credits, a listing of the specific serial numbers of carbon credits cancelled for this purpose;
    - An explanation of the criteria used in choosing the carbon credits;
- The extent to which the reported information they have reported has been verified by an independent third party.
- This information should be made publicly available, easily accessible to the public and provided as part of reporting on the voluntary use of carbon credits and the related claims and marketing efforts, to allow for public accountability.