Climate Change Committee – Carbon Offsets Call for Evidence

IETA & ICROA Response

February 2022

The International Emissions Trading Association (IETA) and the International Carbon Reduction and Offset Alliance (ICROA) appreciate the opportunity to respond to the UK Climate Change Committee (CCC) call for evidence on Carbon Offsets. IETA and ICROA are encouraged to see more activity in the UK to recognize the potential role of carbon offsets in decarbonizing the economy through to 2050, and exploring some of the most pressing issues, including quality; demand-side considerations, including claiming and transparency; and the role of policy and standards.

Created in 2008, ICROA represents the interests of service providers in promoting emissions reductions and offsetting to the highest standards of environmental integrity and in support of the Paris Agreement. ICROA provides an Accreditation Program and supports organizations through advocacy and action-oriented activities aimed at advancing best practice in the voluntary carbon market. We are a non-profit initiative housed within the International Emissions Trading Association (IETA).

IETA represents a broad and diverse group of stakeholders, with nearly 200 members worldwide – with many multi-national companies headquartered in the UK – including carbon offset project developers, assurance providers, standards, investors, banks and financial institutions, law firms, funds, and businesses who invest in projects and purchase credits in order to meet climate targets.

IETA and ICROA members collectively have vast and broad experience in the carbon and climate space, and many have set ambitious climate targets, or are helping others meet both compliance and voluntary objectives. We thank the UK CCC for their work to date on the role of the private sector in reaching climate targets and welcome this future piece of work on carbon offsets.

Carbon Offsets Call for Evidence

1. What are the main risks and opportunities presented by voluntary carbon offsets?

> Voluntary offsetting enables non-state actors to take meaningful action ahead of and beyond regulation and contributes to closing global climate policy gaps. It channels finance to mitigation and adaptation projects through a transparent, third-party verified and results-based approach. For corporate buyers, offsetting unabated emissions puts an internal price on carbon that helps plan decarbonization strategies. Voluntary offsetting helps finance mitigation in countries where costs and a lack of the required expertise are barriers to achieving more ambitious NDCs. Carbon finance through the voluntary carbon market helps governments and the private sector achieve greater climate ambition and therefore accelerates the transition to net zero emissions. Research carried out by Imperial College in partnership with ICROA to measure and value the impact of investing in offsetting beyond

reducing emissions finds that each ton of carbon reduced has additional benefits – such as poverty alleviation, infrastructure development and nature conservation – worth over $660[1].

Over the years, the voluntary carbon market has evolved to become a robust and cost-effective mechanism based on carbon crediting programs. ICROA has developed criteria for reviewing and endorsing these programs. Those that meet the criteria are approved and listed in ICROA's Code of Best Practice as eligible for offsetting. Service providers that are successfully audited annually against the Code's requirements are accredited by ICROA, a stamp of quality.

ICROA also works closely with key initiatives such as the Integrity Council for Voluntary Carbon Markets (IC-VCM) and the Voluntary Carbon Market Integrity Initiative (VCMI) to agree on a sensible way forward for corporate climate action claims that ensure the highest level of quality, integrity and impact. These initiatives could establish new benchmarks on credit quality (IC-VCM) and demand-side integrity (VCMI) and help reduce confusion related to a lack of guidance. Furthermore, IETA forms part of the Executive Secretariat of the IC-VCM, supporting the work at the Board of Directors and Senior Advisory Council in establishing Core Carbon Principles (CCPs) which intend to set a criteria for high quality credits in the voluntary carbon market.

High quality carbon credits enable critical finance, but to raise ambition, they must be used with integrity. Offsets cannot be a substitute for science-aligned carbon mitigation. End users of offsets need to follow the mitigation hierarchy with long term decarbonization plans where offsetting helps address residual emissions beyond a science-aligned pathway. Offsetting along the way helps achieve more ambition and requires appropriate transparency and disclosure. See ICROA's Code and recent high level guidance on corporate climate action for further details.

Examples of comprehensive guidance on science-aligned carbon reduction strategies: Science-Based Targets initiative, Transition Pathway Initiative ,WWF's corporate blueprint on credibility and climate action, IIGCC guidance.

Quality and duration of offsets

We plan to assess the quality of various voluntary carbon offsets bought by UK companies, or 'produced' in the UK. A range of activities are considered part of voluntary carbon offsetting, from shorter-term emissions reduction measures to long-term removals of carbon.

2. What data/evidence is there on the scale, range, pricing, and quality of offset activities that are being purchased in the UK, and are being produced in the UK? How can we expect this to change in future? What are the data gaps?

- Regarding UK projects, the WCC and the Peatland Code offer a limited volume of certified UK-based projects (https://www.forestcarbon.co.uk/our-woodlands-and-peatlands). In

[1] Imperial College London, ICROA. Unlocking the Hidden Value of Carbon Offsetting, 2019. http://s3-eu-west-1.amazonaws.com/ncp-cdn/downloads/ICROA_Unlocking_the_Hidden_Value_of_Carbon_Offsetting.pdf

terms of UK companies purchasing offsets from international projects, we can expect transactions to increase in line with net zero commitments (https://zerotracker.net/#companies-table).

- WWF/Sky *Corporate ambition meets net zero mission*. Examines the potential contribution to the UK's Net Zero commitment that UK corporates could make, should they set and deliver corporate SBT's. Shows that, at present, only a small proportion of UK corporates (representing only 3% of UK emissions) have set a sbt. Looks at the potential under this framework to unlock finance for NBS in the UK.

Voluntary offset market regulation and standards

We plan to assess how well current standards and policies are working and to evaluate different options for how current standards or policies can be improved. In some of the following questions we mention several existing standards as illustrative examples; this is done to clarify what kind of standard we are referring to and does not indicate any preference for certain standards over others.

3. What is your assessment of the various standards relating to offsets (including UK specific standards such as the Peatland Code, and international verification standards such as Gold Standard and Verified Carbon Standard), including those in development (including UK specific standards such as the UK Farm Soil Carbon Code, and international standards/principles such as the Core Carbon Principle)? What more is needed?

ICROA has assessed standards since 2008. The current list of endorsed standards is available on the ICROA website on this page. Standards are endorsed and listed in ICROA's Code of Best Practice if they meet ICROA's Review Criteria. The only UK-specific Standard endorsed by ICROA is the Woodland Carbon Code, endorsed in 2021. ICROA can share further details on this assessment upon request.

Independent carbon credit ratings are also already available from various companies.

Through IETA, ICROA also participates in IC-VCM, which is currently developing Core Carbon Principles (CCPs) for offsets, i.e., attributes that credible offsets will need to have, a threshold for quality. IC-VCM is also developing a framework for assessing carbon crediting programs both at the program level and methodology level. We believe IC-VCM could legitimately establish the benchmark for offset quality.

WWF, the Environmental Defense Fund and Öko Institut are also planning to deliver independent, user-friendly scorings for the quality of carbon credits through the Carbon Credit Quality Initiative.

4. What are the strengths and weaknesses of monitoring, verification, and reporting (MVR) for offsets produced in the UK and globally? What more is needed?

MVR processes used by key standards meet the expected robustness requirements and are continuously improved, e.g., for some projects through remote sensing for real time data. However, MVR costs can be an obstacle for many micro- and small-scale projects. Certain standards have designed innovative alternative approaches to reduce such costs. Another interesting example is the approach taken by Credible Carbon for poverty alleviating micro-scale projects in South Africa that cannot be certified under "traditional" carbon crediting programs.

5. What does the evidence indicate are the key areas of voluntary offset markets that could benefit from regulation or intervention?

Further disclosure on offset-inclusive net zero pledges is needed to build trust. Regulation that demands further transparency on offsets purchases would contribute to that goal and ensure appropriate traceability.

Harnessing Financial Flows

The growing market for voluntary carbon offsets, and appetite from businesses to support climate objectives, may present an opportunity for significant financial flows to be directed towards priority sustainability outcomes such as biodiversity, nature-based solutions and scaling technologies for carbon removals. We plan to assess this potential opportunity, as well as the associated risks.

6. What is the scale and potential impact of voluntary offset activity on land use and on wider social, environmental and development outcomes, both positive and negative? How would this differ between UK-based and international projects?

Many of the drivers of deforestation and land degradation are coming from consumer goods and services in the private sector, yet there is limited policy and investment to address this gap. The private sector can play a key role in financing avoided emissions and removals activities in the land sector and beyond. It is a matter of urgency that corporations should examine and disclose their forest footprint and work to eliminate deforestation. Climate finance can be channeled through voluntary carbon markets for reduced emissions from deforestation and degradation, alongside investment in adequately safeguarded afforestation, reforestation and restoration activities to support corporate climate strategies.

In addition, there is an annual $700 billion funding gap for nature conservation (https://bit.ly/350cYt1), that could be addressed, at least to some extent, by voluntary carbon markets.

8. What could help concentrate private investment in offsets towards the most effective activities? What role, if any, is there for public funding?

Supporting the development of carbon pricing systems and enabling environments for public and private climate finance and investments to be channeled towards carbon offset projects is an important role for government. Accounting systems that can capture all levels of action in a manner that ensures environmental integrity and prevents double counting are a critical piece of the enabling environment for private action. Furthermore, emissions trading systems that allow for the inclusion of NCS, in particular reduced emissions from deforestation, should be scaled up. This will generate critical financing to curb deforestation and convert the land use sector into a carbon sink.

Governments can also play an important role in funding research and development, e.g. to improve MVR, removals technologies, project development frameworks and infrastructures.

Company Transparency and Targets

We plan to assess the role voluntary offsets play in company and financial institution emissions reduction targets, and in consumer and investor decisions.

9. What do UK companies, financial institutions and/or other institutions (or specifically, your company or institution) consider when making purchasing decisions about offsets? What evidence/information do they/you draw on, and what more information would be useful?

- IETA's GHG Market Sentiment Survey, conducted annually.
- ICROA and UNFCCC 2017 survey on the drivers and benefits of offsetting.

10. What is the evidence on the scale of reliance on offsets for Net Zero targets, for businesses, financial institutions, and/or other institutions and the role that offsets play in affecting emissions reduction ambition? If you are a business/financial institution/other institution with a Net Zero target, what role do voluntary carbon offsets play in your Net Zero target and emissions reduction ambition?

- The Net Zero Tracker, which aims to increase transparency and accountability of net zero targets pledged by nations, states and regions, cities and companies. Collects data on targets set and on many factors that indicate the integrity of those targets — essentially, how serious the entity setting the target is about meaningfully cutting its net emissions to zero. The initiative is a collaboration between Oxford Net Zero, Data-Driven EnviroLab (DDL), NewClimate Institute and the Energy & Climate Intelligence Unit (ECIU).
- Natural Capital Partners' annual study assesses how Fortune Global 500 companies have increased their climate actions and commitments. It provides useful insights into the approach companies choose and their use of carbon credits. It reveals that carbon

neutrality, SBTs and net zero are often being used in combination by companies, and over different time horizons.

- The Global Fortune 500 annual survey.
  Takeaway: Appetite from major corporations for offset inclusive strategies has accelerated significantly in the past 12 (and 24) months. 38% of the Global Fortune 500 now have a commitment (up by 25% year-on-year). Growth in commitment is likely to continue (accelerate further)
  https://info.naturalcapitalpartners.com/reality-check-report

Article 6 and GHG accounting

At COP26, guidelines were agreed for an international carbon market for carbon credits, under Article 6. As we set out on page 8 of our COP26 briefing, this included new guidance for how to avoid double counting through 'corresponding adjustments'. We will analyse the risks and opportunities the new guidelines pose to the role of voluntary carbon offsets in reducing global emissions and assess what role UK policy and company action can play in navigating this.

11. What is the evidence on the key risks and opportunities to sustainability and development outcomes that the updated guidance for voluntary offsetting in relation to Article 6 presents to Net Zero?

- Please refer to ICROA's analysis on Article 6 of the Paris Agreement and its implications for the voluntary carbon market, published after COP26 (*ICROA/IETA to elaborate key messages):*
  - Analysis available here.
  - Recording of public event available here.

Once again, IETA and ICROA appreciate this important opportunity to record our comments. We welcome the CCC to reach out directly with any questions or follow-up requests related to the comments shared above by contacting IETA Senior Policy Associate, Ellen Lourie, at lourie@ieta.org, or ICROA Programme Director, Antoine Diemert, at diemert@ieta.org