

# Companies use "hot air" forestry offsets to avoid taxes in Colombia



CARBON MARKET WATCH'S FACT-CHECK OF VERRA'S RESPONSE

June 2021

## Introduction

A new [investigation](#) by Carbon Market Watch and the Latin American Center for Investigative Journalism (CLIP) has found that two large-scale forestry projects in Colombia create more credits than the amount of emission reductions that they are achieving. Fossil fuel companies use these credits to avoid paying a national carbon tax. One of the standards, the task of which is to ensure the quality of offset projects, Verra, published a response to the report. Verra questions the report's findings in its rebuttal, blaming it for using a flawed methodology for arriving at the conclusions. Below are excerpts from Verra's statement<sup>1</sup> with our responses.

**Verra claims that the Colombian carbon tax system includes a "provision that allows companies to use carbon credits from projects in Colombia as a method of paying the tax".**

This misrepresents the Colombian carbon tax policy. Companies do not use credits "as a method of paying the tax", they use credits "instead of paying the tax". Crucially, the money paid by companies goes to various carbon market stakeholders (and some of it is used to actually implement the project), but the money is not going to the government as public revenues. The logic of allowing the use of credits also specifically aims to make it cheaper for

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<sup>1</sup> Throughout our investigation, we engaged in detailed discussions with Verra and collected nine pages of questions and answers. All of the information Verra sent to us was taken into account and reflected in the report.

companies to emit greenhouse gasses since they will only purchase credits if these are cheaper than the carbon tax rate.

**Verra writes that CMW “obscures the reality of very different approaches to setting REDD+ baselines” and states that the CMW methodology is flawed because it rests on the claim “that the project did not use the government’s official reference values (Forest Reference Emission Level or FREL) when setting its baseline (i.e., the expected deforestation rate if the project is not implemented).”**

This is a misrepresentation of the report. While it is true that our quantitative estimates are based on a comparison with the national FREL, we have used three other methods to assess the accuracy of our estimate. First, we compared the baseline of the project to the historical deforestation rate in the department where the project is located (Vichada), i.e. different from the region-wide average used in the FREL. We found very similar results to what we published in the report, and it is stated in footnote 23 on page 11. Second, we did a qualitative assessment of the reference area, where we found several factors which suggest that deforestation rates are higher than what might ever occur in the project area (P.9-10). Third, we have used the official estimates by the Colombian Ministry of Environment and Sustainable Development, which has informed Mataven of what the project baseline should be according to the Ministry. The baseline communicated by the Ministry is actually much lower than our estimates, which implies even higher numbers of ‘hot air’ credits (box on page 13 “demonstrating conservativeness”). In conclusion, we have used various approaches to triple check our evaluation, including site-specific assessments.

**Verra claims that by using regional average baselines across the board for all projects, developers could establish their projects in areas with low deforestation because they would get the same emission reductions with less effort.**

Using averages can indeed be problematic, which is why we have used three different indicators to triple check our assessment, as indicated above. However, we also note that regulation 1447 passed by the Colombian government in 2018 requires projects to use baselines that comply with national reference levels. Regardless of Verra’s views over the appropriateness of using averages, projects must comply with national legislation.

**Verra accuses CMW of a failure “to mention that the Mataven project has requested a “maximum mitigation potential” (MMP), which is the maximum number of credits from the project that can be used under the Colombian carbon tax”.**

This is both misleading and factually incorrect. To clarify: there are two different periods for which the MMP should have been requested: 2016-2017 and 2018-2019. First, Verra was unable to share proof that the project requested the MMP for 2016-2017, and the project developers have confirmed to CMW that they did not request the MMP for this period. Second, the project did request the MMP for the period 2018-2019, and we have noted this in our report (see box on page 13).

**Verra also claims that “CMW’s report indicates that the Mataven project significantly exceeded this MMP, which is simply not true”.**

In reality, this is true. Verra itself sent the MMP documents to CMW, and the MMP shows that the Ministry’s estimate of the project baseline is around ten times lower than the baseline actually used by the project. We mention this in the second paragraph in the box on page 13.

**Verra stresses that the assessment of “Colombia’s FREL by the UNFCCC has not yet been finalized and that any conclusions about Mataven’s baseline are premature”.**

Colombia has submitted two FREL documents to the UNFCCC, i.e. there are two different FRELS, covering different time periods. The first covers the period 2013-2017. This document has been assessed and approved by the UNFCCC, and this is the document we used for calculating our estimates for the years 2013-2017. Colombia also submitted a FREL for the period 2018-2022. This document has not yet been validated by the UNFCCC (as we clearly state on page 8).

As we discuss in footnote 9, there are two essential things to note:

1) The UNFCCC assessment is unlikely to change the baseline values in a way that would drastically change our estimates, given the several order of magnitude difference between the FREL and the project baseline.

2) Our headline numbers are based on 2016-2017 estimates and hence only cover the period for which the UNFCCC had validated a FREL.

**Verra accuses CMW of having a “desire to criticize REDD+ projects, and failure to mention that, under VCS requirements, projects such as Mataven will need to update their baseline when their first 10-year crediting period ends”.**

**Verra also claims that “the project will also need to follow new rules that require the use of a jurisdictional baseline and its allocation to individual projects based on the risks of deforestation. This is essentially the same process that is currently taking place in respect of the MMP.”**

This is again a misrepresentation of our work and also of Verra’s own rules. The new requirements mentioned have to our knowledge not yet been published for project-level REDD+, but only for Jurisdictional Nested REDD+ (JNR). The published rules will not apply to Mataven because they only require projects to nest if the REDD programme is also registered under the Verra standard, which is not the case of the Colombian REDD programme. We cover this on page 5 of our report. We have also exchanged emails with Verra about this, in which they confirmed that the new JNR rules do not apply to Mataven.

**Verra stresses that all VCS projects follow approved methodologies and are validated by independent third-party auditors.**

This is factually correct but irrelevant to our report. As described on page 17, Validation and Verification Bodies VVBs (auditors) have not performed their assessment adequately. The bigger question is how is it possible that these projects have issued so many hot air credits despite the supposedly stringent rules which Verra claims to have in place?

**Verra claims the project ensures “millions of dollars have flowed to 17 different indigenous communities.”**

This is misleading as it mixes up climate finance received by the Colombian government and private finance flowing to the project developers. The project developers do not report the price at which they sell credits, nor does Verra. There is also no transparency or information about the amount of money that ends up with local communities.

The statement that “millions of dollars have flowed to indigenous people” is not supported by any evidence. Even assuming that this was true, it should be put into perspective with the level of profits for project developers.

Finally, as a standard, Verra is supposed to guarantee the environmental integrity of the carbon credits. Claiming that a project has benefited local communities as an excuse for issuing hot air credits is not acceptable. Projects must do both - reduce emissions and benefit communities - not one or the other.

The journalistic investigation accompanying our report describes how indigenous communities have not always benefited from these schemes, and how the Mataven project specifically lacked transparency towards indigenous communities:  
<https://www.elclip.org/el-mayor-proyecto-de-bonos-de-carbono-de-colombia-podria-estar-vendo-aire-caliente/>

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