



Carbon Market Watch response to UK Climate Change Committee's consultation: "Carbon Offsets call for evidence"

The UK Climate Change Committee recently issued a public consultation on the subject of "[Carbon Offsets call for evidence](#)", which closed on 28 February 2022.

Carbon Market Watch's responses to selected questions (400 word limit per question) from the public consultation are included below.

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

"Voluntary carbon offsets", especially when portrayed as "offsets" rather than "credits", pose a number of significant risks. At best, offsetting amounts to a zero-sum game where emissions are reduced/removed in one place, only to be emitted somewhere else. This does not respond to the urgent need to drastically slash emissions.

Offsetting can even lead to an increase in emissions overall when the underlying credit does not represent a real, additional, measurable, verifiable, and truly permanent reduction/removal of CO₂e. Unfortunately, there are numerous documented cases where the underlying credit does not satisfy such requirements. This is due to widespread flaws and challenges, including, inaccurate baseline setting and MRV, impermanence and reversals for NBS projects, (non-)additionality, double counting and more (see sources cited in response to Q13).

Alternatives to offsetting - notably the "contribution" claim - can help better unlock the opportunities presented by crediting projects while curtailing greenwashing claims, but they are not widely enough pursued. Under the contribution claim model, a company still purchases carbon credits, but it does not "assume ownership" of the underlying emission reductions/removals by making claims that it has "neutralised/netted/eliminated" its own emissions. Instead, the company would claim to be supporting, through its purchase of carbon credits, a specific project that is doing X, Y, Z. It's a seemingly small, but ultimately crucial change in communication to more transparently describe the actual impacts of buying credits.



Adopting the contribution claim model does not negate the need for proper due diligence and to select high-quality credits, but it marks a vast improvement to “offsetting” claims, and can better channel much-needed private finance towards mitigation projects in the context of carbon markets.

For any buyer that is purchasing credits via intermediaries, it is crucial to review the underlying projects and to require these intermediaries to disclose how much of the revenue from the transaction actually goes to the project, and where relevant, to the local communities and groups associated with that project. If a broker is selling a carbon credit at \$15, they must clearly disclose the share of the \$15 going to the project versus to themselves. Currently, there is little-to-no transparency regarding such transactions, with reported cases of brokers making significant profits from marked-up credits without the actual project benefitting at all (or commensurately).

Quality and duration of offsets

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?

Publicly available data (eg [Trove](#)) confirms there is a significant supply of credits today, but it is unclear “where” they are located (ie who holds them), which touches on questions of scale and quality. There is no way to uniformly track who holds credits and who actually has retired them, given that this information is problematically not required to be reported in VCM registries. This lack of basic transparency adds obscurity to the market, and could even lead to double use (a form of double counting in which a credit is used multiple times).

With regard to whether credits on offer are of good quality, the available data puts this into question: in 2021, of the 284 million total credits issued on the 4 largest VCM registries, 106 million credits were from REDD+ activities, 105 million were from renewable energy activities, and 30 million were from other nature-based activities (source: Trove Intelligence). These 3 types of activities made up 85% of all 284 million issuances in 2021 (and account for 77% of all 538 million cumulative surplus credits), but it is well documented that such activities often have numerous flaws that undermine their quality or at least call into question their suitability for “offsetting” (see references in Q13).



A major data gap regards lack of pricing transparency on transactions and distribution of revenues to determine if purchasing credits supports the underlying mitigation activities to the fullest. As detailed in the previous question, there is little-to-no transparency regarding pricing and the distribution of proceeds from the sale of credits. Brokers may be keeping most of the additional proceeds from increased sale prices to themselves, rather than supporting the underlying projects. This utter lack of transparency and data has major repercussions for the credibility of the market.

There is also a data gap regarding the claims that buyers are making based on the purchase of credits, including incorrect or misleading claims that can amount to greenwashing. While there is not widespread data on this subject, the analysis that exists suggests that many buyers make inappropriate claims or exaggerate the actual impacts of the credits: see references cited in Q13, namely the [“Corporate Climate Responsibility Monitor”](#), finding that the climate plans of 25 major global companies (including UK-based GlaxoSmithKline, Unilever and Vodafone) are full of inconsistencies and inaccuracies, with most also relying on “offsets” for a large portion of their projected emission cuts.

Voluntary offset market regulation and standards

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?

We would not have specific comments on UK-specific standards, and it would be difficult to provide a comprehensive overview of major international standards in 400 words, but suffice it to say that the widespread absence of regulation and transparency in the voluntary carbon market has led to highly questionable outcomes for environmental integrity and sustainable development.

Below is a non-exhaustive list of elements that currently undermine the integrity of international standards:



- Imperfect additionality tests (e.g. modeled on flawed CDM practices)
- Flawed baseline methodologies (e.g. using reference areas for REDD+ projects)
- Crediting of inappropriate activities (e.g. project-level REDD+ and soil organic content, both of which are subject to very high levels of uncertainty)
- Lack of information regarding retirement (who retired a credit? On behalf of whom? For what purpose?)
- Lack of claims guidance (e.g. non-fungibility of biological and forest carbon; risk of double claiming)
- Flawed methods to hedge against reversal risk of non permanent storage (e.g. lack of scientific basis on choice of risk factors to determine the share of credits to be allocated to buffer pools)

There is a clear need for much stronger government regulation to deliver actual transparency and robust outcomes in the market. For instance, this would mean coming up with strong rules regarding the supply of domestic credits from UK projects, or regulating what businesses are allowed to claim based on their purchase of carbon credits. Several countries and jurisdictions, like France and the EU, are beginning to work on regulating green claims (see response to Q11).

Finally, in a context where demand for and supply of nature-based credits are exploding on the VCM, the UK should clearly issue guidance, or regulation, on the scientific reality that is not possible to compensate for fossil emissions with the purchase of nature-based credits due e.g. to impermanence. This is important since UK-specific standards under development or in place relate to nature-based crediting.

We are not suggesting to ban or condemn nature-based crediting projects, but rather stressing the need to impose regulation to stop buyers from making inaccurate and misleading claims. Businesses can instead make “contribution claims” and still buy credits from such projects without claiming to be reducing/compensating for their emissions (see Q1). However, given that inappropriate and unscientific claims are ballooning based on the purchase of all types of credits, the government must step-in and impose regulations (also see Qs10-11).

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

Please see answers to Qs 1, 2, 3, 10, 11 and 13.



Major areas requiring government regulation and intervention include:

i) regulating corporate claims associated with carbon credits including by banning “net-zero” and “carbon neutrality” claims. See our recommendations on this subject here:

<https://carbonmarketwatch.org/publications/regulating-corporate-green-claims/>

ii) requiring carbon market intermediaries located in the UK, such as brokers, to disclose information regarding their transactions. Notably it should be mandatory for brokers to publicly disclose on their website and on carbon standard registries what entity has purchased which credits (including serial numbers) for what reasons (what are they claiming). They must also publicly publish details regarding how they disburse revenue from the sale of carbon credits (i.e. what % of the final sale price goes to the broker versus to the actual project).

Harnessing Financial Flows

7. Are there specific activities or regions where directing funds for offsetting might have a particularly positive impact? Please consider the UK and/or the international context, depending on experience.

See Q9 comment for a partial response to this question. What’s most important for buyers of credits is to do proper due diligence on crediting projects, and to make “climate contributions” without any compensation/offsetting claims, which will help companies maximise positive impacts.

Using carbon markets to channel finance towards least developed countries is important. Bearing this in mind, it is also important to not confuse carbon finance with development aid. First because climate finance generally should come in addition, not instead of, development aid, but also because it is not appropriate to justify lower quality carbon credits on the basis that projects have development benefits. Projects with co-benefits should undoubtedly be prioritised and encouraged, but not at the expense of environmental integrity.

For a given level of environmental integrity and co-benefits, projects in regions that are in most dire need of finance should be prioritised, e.g. least developed countries.



Finally, carbon finance should not be considered the only, not even the main, channel to provide climate finance. Countries should continue to provide significant financial support through grants to developing countries. Carbon credits can only play a limited role in this.

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

The UK government and/or UK CCC could produce detailed guidance on how to conduct effective due diligence on carbon crediting projects. The government and CCC should call on private companies to conduct thorough due diligence, select highest quality credits, and then only buy credits without making offsetting claims (i.e. adopting the contribution claim model).

The UK could also work to identify “high hanging fruits” within the country. These are mitigation activities which the government cannot implement on its own (e.g. due to cost, or other capacity constraints). This is where carbon finance is most impactful, i.e. pushing the frontier of what is considered inaccessible or unabatable. Beyond this, the government could also work with other host countries, in particular developing countries, to help them identify their own “high hanging fruits”. This could be a list of specific activities, and/or specific sectors, and/or specific practices, etc.

Company Transparency and Targets

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?

A variety of factors go into such purchasing decisions, but as detailed in our responses throughout this consultation, companies/institutions by and large seem to be motivated to purchase credits as an easy “solution” to offset their emissions.

As a result, they tend to prioritise buying the lowest cost carbon credits, which are often either not the best quality credits or may represent low-hanging “fruit” (i.e. governments in developing countries in particular will be left with paying for the high-hanging “fruit”). In addition, if a company can get away with making nice-sounding carbon-neutrality/net-zero



claims based on purchasing carbon credits, then it disincentivises them to do what's actually urgently needed, which is to drastically cut their own emissions.

On the other hand, a handful of companies are prioritising transparency and seeking to maximise better outcomes from purchasing carbon credits, rather than simply buying up low-cost credits and making bad claims. For example, Klarna has adopted the contribution claim approach, whereby they will invest in mitigation (or biodiversity) projects without claiming to be compensating for their own impact: <https://www.giveone.com/>.

Opting for such an approach is not only more responsible, but it also allows a company to select projects that align with their priorities or which might have a greater impact than buying cheap offsets for PR purposes: for example, by using this approach a company could support projects employing promising approaches/technologies that may not yet be scalable, or it could select a project with high sustainable development co-benefits even if it has relatively “low” CO₂e reduction benefits.

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 scale of reliance on offsets troublingly appears very high for net-zero targets set by businesses and other institutions.

The recently published “Corporate Climate Responsibility Monitor” assesses the climate plans of 25 major global companies having made net-zero/carbon-neutrality pledges, including UK-based GlaxoSmithKline, Unilever and Vodafone. The investigation found the climate plans of all 25 companies to be full of inconsistencies and inaccuracies, with most problematically relying on “offsets” for a large portion of their projected emission cuts: https://carbonmarketwatch.org/publications/ccrm_2022/

10 of the 25 assessed companies in the report currently use offsets to claim to neutralise all, or part of, their actual emissions. Moreover, all offsetting claims identified were found to be highly contentious and sometimes misleading. For example, companies either used credits from



nature-based solutions – which are in need of financial support but not suitable for claiming the neutralisation of emissions – or purchased credits from projects with highly questionable additionality.

The findings of this investigation are very troubling and show that the scope of the problem is massive. If 25 of the world's largest companies that present themselves as “climate leaders” are not actually setting good precedents, what example does that set for others? And what more is yet to be uncovered? What we're seeing may only be the tip of the iceberg, and hence requires urgent government intervention.

11. What would be the strengths/weaknesses/considerations of:

1) Regulation, guidance and/or incentives which could encourage and/or require businesses to only use offsets where emitting activities cannot currently be reduced?

1) Even if well-intentioned, one challenge with trying to identify where offsets could be permitted comes down to definitions and how businesses could loosely interpret “where emitting activities cannot currently be reduced” to suit their interests.

It would be more effective to regulate green claims and advertisements, ensuring that the focus of communications is placed on companies' own actions, and that any support provided to climate action outside of the companies' value chain is unambiguously separated from the company's own impact. The key objective is to communicate that the company is still on a journey to decarbonise, rather than having achieved a steady-state of net-zero. They could still buy credits of course, and could even be encouraged to do so as long as it is on a strictly “contribution basis”. Regulating corporate green claims and advertisements would only be a strength in our view, as it would curb greenwashing and better empower consumers, among other benefits.

Countries are already beginning to act on and regulate green claims, with the French environment agency having stated that “net-zero” is not a suitable corporate target, and the European Commission having started developing legislative initiatives to stop greenwashing



claims and empower consumers through better requirements for transparency. Other countries are also in the process of developing regulations and guidance on this subject.

2) Consumer protection standards for low-carbon products and offset purchases that accompany products?

2) As indicated throughout our response to this consultation, these are crucial and represent an area where government intervention could lead to much improved outcomes. Please see previous comments as well as our recent policy recommendations on regulating green claims: <https://carbonmarketwatch.org/publications/regulating-corporate-green-claims/>

3) Regulation on business Net Zero targets' reliance on offsets?

3) This is also critical. Please see the "[Corporate Climate Responsibility Monitor](#)" cited in Q10 as well as the link to the policy recommendations on green claims in the previous paragraph. It is also vital for companies to report absolute emission reductions separately from emission reductions financed outside of their value chain, rather than reporting one aggregate number.

4) Including specification of offset use for investment product labelling?

4) Ensuring that investment products are not marketed as greener than they are is important. Therefore, any product that contains carbon credits should be described in a way that clearly distinguishes between the climate-harming elements of the product, and any climate-positive elements. Presenting a net balance can be misleading, especially when the positive impacts are highly uncertain, which is the case for carbon credits.

5) Any other interventions?



5) see also our points throughout on transaction transparency, fossil vs biological carbon, double counting and corresponding adjustments for A6.4ERs and VCM credits.

Article 6 and GHG accounting

12. 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?

The UK should make absolutely clear that double counting in all its forms cannot be tolerated. Two separate entities cannot be claiming the same emission reductions, and corresponding adjustments must hence be applied for any credit that is used to meet a target or otherwise make compensation/offsetting claims. The UK should bring clarity on these points in its own domestic context, for example by endorsing the San Jose Principles Coalition Statement which, *inter alia*, commits governments to applying corresponding adjustments to corporate purchases of A6.4ERs and of VCM credits:

<https://cambioclimatico.go.cr/following-cop26-climate-talks-the-san-jose-principles-coalition-recommends-to-principles-for-high-integrity-carbon-markets-pledges-to-act-on-them-together/>

Applying corresponding adjustments to A6.4ERs and VCM credits used for offsetting or to meet mitigation targets is crucial because not doing so can disincentivise or replace host country action. Applying adjustments will encourage collaboration between host countries and project developers - as developers will need to seek authorisation from host countries - and hence will help the country direct private finance from carbon markets towards its “high hanging fruit” activities. Requiring the application of corresponding adjustments, and facilitating the process for developers to receive authorisations, is a major opportunity for governments to take control of the impact of carbon market finance, and channel it where it is most needed.



Other

13. Please submit any further evidence that you would like us to consider.

References relating to methodological problems:

- Carbon Plan analysis on overcrediting in forestry projects:
<https://carbonplan.org/research/forest-offsets-explainer>
- PNAS article, “overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon”: <https://www.pnas.org/content/117/39/24188>
- Australia Institute report estimating that 20% of Australian Carbon Credit Units are not additional:
<https://australiainstitute.org.au/report/questionable-integrity-non-additionality-in-the-emissions-reduction-funds-avoided-deforestation-method/>
- CMW report on “hot air” forestry credits being used to avoid carbon tax in Colombia:
<https://carbonmarketwatch.org/publications/two-shades-of-green-how-hot-air-forest-credits-are-being-used-to-avoid-carbon-taxes-in-colombia/>
- CMW discussion on buffer pools not being adequate:
<https://carbonmarketwatch.org/2020/10/22/up-in-smoke-california-fires-once-again-high-light-dangers-of-forest-offsets/>
- Grist analysis of buffer pools, explaining why they are unscientific:
<https://grist.org/wildfires/california-forests-carbon-offsets-reduce-emissions/>
- Carbonplan analysis of increasing reversal risks for forest credits due to climate change:
<https://carbonplan.org/research/forest-risks-explainer>
- Carbonplan analysis of reversals at project-level:
<https://carbonplan.org/research/offset-project-fire>
- Carbon Plan analysis of soil carbon methodologies, finding that no existing protocol is robust enough overall to guarantee good outcomes:
<https://carbonplan.org/research/soil-protocols>



- Bloomberg investigation into non-additional credits:
<https://www.bloomberg.com/news/features/2020-12-17/the-real-trees-delivering-fake-climate-progress-for-corporate-america>
- Oeko Institute et al. report on non-additionality of most CDM projects:
https://www.atmosfair.de/wp-content/uploads/clean_dev_mechanism_en.pdf
- CMW report on proper CO₂ removal accounting:
<https://carbonmarketwatch.org/publications/respecting-the-laws-of-physics-principles-for-carbon-dioxide-removal-accounting/>

References related to problematic claims from purchase of carbon credits:

- “Corporate Climate Responsibility Monitor”, finding that the climate plans of 25 major global companies are full of inconsistencies and inaccuracies, with most also relying on “offsets” for a large portion of their projected emission cuts:
https://carbonmarketwatch.org/publications/ccrm_2022/
- CMW policy recommendations on regulating green claims:
<https://carbonmarketwatch.org/publications/regulating-corporate-green-claims/>
- Open letter to European Commission on regulating green claims:
<https://carbonmarketwatch.org/publications/open-letter-to-the-eu-commission-on-green-claims/>
- European Commission study finds that “half of green claims lack evidence”:
https://ec.europa.eu/commission/presscorner/detail/en/ip_21_269
- French environment agency states that “net-zero” is not a suitable corporate target:
<https://presse.ademe.fr/2021/04/avis-de-lademe-tous-les-acteurs-doivent-agir-collectivement-pour-la-neutralite-carbone-mais-aucun-acteur-ne-devrait-se-revendiquer-neutre-e-carbone.html>
- CMW investigation and debunking of so-called “carbon neutral fossil fuels”, i.e. oil and gas companies’ greenwashing tied to purchase of carbon credits:
<https://carbonmarketwatch.org/publications/net-zero-pipe-dreams-why-fossil-fuels-can-not-be-carbon-neutral/>



- Bloomberg investigation and debunking of so-called “carbon neutral LNG”:
<https://www.bloomberg.com/news/features/2021-08-11/the-fictitious-world-of-carbon-neutral-fossil-fuel>
- CMW report on alternatives to “offsetting” claims:
<https://carbonmarketwatch.org/publications/above-and-beyond-carbon-offsetting-alternatives-to-compensation-for-climate-action-and-sustainable-development/>
- NGO recommendations on forest credits in VCM:
<https://carbonmarketwatch.org/publications/recommendations-on-forests-in-voluntary-carbon-markets/>