



## Carbon Market Watch response to consultation: “Draft Consensus Statement on High Quality Tropical Forest Carbon Credits”

A “[Draft Consensus Statement on High Quality Tropical Forest Carbon Credits](#)” was recently developed by eight organisations: Coordinator of Indigenous Organizations of the Amazon River Basin (COICA), Conservation International, Environmental Defense Fund, Amazonian Environmental Research Institute (IPAM), the Nature Conservancy, Wildlife Conservation Society, World Resources Institute, and World Wildlife Fund US. Once finalised, the document is intended as guidance for companies on the purchase of tropical forestry carbon credits.

The document was open for public consultation until 15 February 2022. Carbon Market Watch’s responses to selected questions from the public consultation are included below.

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### **Question on Background, Rationale & Approach**

#### **1. Is there anything in the Background and Rationale & Approach sections of the document that you believe is mischaracterized or inadequately described? Please elaborate.**

First, we call for full transparency from all the signatory organisations to disclose any interests they may have in forest carbon credits. Are they involved in the carbon credit value chain in any capacity? If so, what is their role? Have they (co-)developed any projects? Do they receive any shares of proceeds from the sale or brokerage of any carbon credits? If so, what amount of finance and/or metric tonnes of CO<sub>2</sub> is at stake for them? If any of the organisations have any interests in forest carbon credits this must be clearly disclosed in the document, including specific answers to the above non-exhaustive questions we have posed.

Second, the title of this guidance document should be changed. Specifically, the word “consensus” should be dropped. The title is misleading since it does not specify “between whom” consensus has actually been reached. Consensus has been presumably reached between the eight signatory organisations. However, this hardly represents consensus among a wider group of NGOs, CSOs or climate think tanks, which is what the title may be interpreted to mean by many stakeholders - including the businesses for whom it is intended - which would be inappropriate.

In fact, many (if not most) NGOs and CSOs fundamentally oppose forestry credits (including



scaling them up) as well as the corporate purchase of such credits for offsetting purposes, given the scientific incompatibility of considering fossil carbon and biological carbon equivalent as well as well-documented and persisting problems regarding permanence, inflated crediting baselines, human/land rights abuses and more (more on all of this in later comments). The fact is that these credits will by and large be used for offsetting claims, including because this guidance, unhelpfully, does not address core issues like corporate claims and does not clearly oppose the practice of offsetting (in fact, it problematically implicitly supports offsetting claims – see recommendation VI and our response to related questions). The fact that this guidance fails to address the question of claims and fails to oppose the practice of offsetting for forestry credits rids it of a lot of its possible value.

Presenting this guidance statement as a “consensus” is hence misleading. The word “consensus” must be dropped in our view. The guidance should actually address the main contentious issues - scientific incompatibility of offsetting with NBS credits, corporate claims, double counting, lack of corporate ambition, inexpensive credits and untransparent distribution of carbon credit revenue - rather than unhelpfully choose not to address them and only present a one-sided view of the main problems regarding forest credits.

A few additional comments on specific points are included below:

The first page states that “our organizations have been engaged in a collaborative process”, but this phrasing is unclear. It should be specified that the collaborative process has been among and between the same organisations that have developed this guidance, if that does indeed reflect the reality. Otherwise, it appears that the organisations have engaged in a collaborative process with a wide group of stakeholders, such as many other NGOs and CSOs who likely have very different views on these subjects. If wider collaboration occurred, then there are no details provided to support that, and if it has not in fact occurred then this process would not actually have been collaborative outside of the group of signatory organisations.

“These dependencies, along with the urgent need for private sector leadership to tackle tropical forest loss, have become more apparent than ever in a post-2020 world, fueling significantly enhanced ambition from companies to help take on the climate change emergency” (p.4, background section).

- There’s no question that “private sector leadership” and finance is sorely needed. However, it is striking that little attention in the background section of the document is addressed to the lack of private sector leadership historically - and still currently for many companies - which is largely responsible for much deforestation.
- To be sure, positive corporate engagements should be recognised and encouraged, and



this isn't to suggest the need to "name-and-shame" specific companies in this background section, but it is striking that little mention is made of the private sector activities that are hugely responsible for deforestation. The sentence in the next paragraph hints at this but still remains light in terms of language ("associated with forest loss"): "Many companies have concluded that they can no longer afford the material or reputational risks of being associated with forest loss". Being "a driver of forest loss" is more accurate than simply being "associated with forest loss".

"Our guidance seeks to clarify how companies can use their demand for credits to help stop and reverse the loss of tropical forests and accelerate the development of a high-quality pipeline of credits and outcomes at scale." (p.5, rationale & approach).

- The focus on acceleration/scaling up the development of carbon credits seems out of place here. Previously in the document, the emphasis has been on "improving the integrity, quality and impact of these purchases" and on providing general guidance for identifying "high-quality credits", but not of accelerating or scaling up the number of credits. Focusing simply on scale is not appropriate as this can lead to unintended consequences or loopholes, and potentially sacrifice quality and environmental benefits. Of course, more finance is urgently needed for biodiversity and forest conservation, but when it comes to forestry crediting there is considerable risk of low environmental integrity and shoddy claims that can arise, and so scale should not be an end in and of itself. If the language focused instead on scaling up efforts to finance conservation via non-crediting avenues, this would be more appropriate.

**Recommendation I: Consider including tropical forest carbon credits in corporate beyond-value-chain mitigation strategies. Page 9**

**2. Please specify anything that is particularly unclear or may be subject to widely differing interpretation:**

The recommendation is quite clear but please see below for clarifications to help improve the text and ensure alternative interpretations are not made, namely with regard to what will be claimed based on buying credits.

While the scope of this document does not cover claims arising from the purchase of carbon credits, this subject is crucial to reference in the context of this recommendation. If companies were to use carbon credits in their strategy for "beyond value chain mitigation" to claim they are either offsetting or compensating for their value chain impacts, this would clearly be inappropriate. It would be worthwhile to add an additional clarification at the end of the supporting text of the recommendation along the lines of the following: "A company must not



make any claims that they are offsetting/neutralising/eliminating their value-chain emissions (including Scope 3). In other words, the purchase of such credits serves as a contribution to tropical forest conservation but should not, and cannot, be presented as reducing/avoiding/offsetting the company's own emissions."

In addition, the supporting text of the recommendation refers to cost-effectiveness, which does not appear entirely appropriate and could even undercut the main message of this guidance to help buyers seek out high-quality credits: "Companies seeking cost- and carbon-effective opportunities to mitigate climate change [... should] purchase high-quality tropical forest emissions reductions and removals credits [...]". If companies are purchasing tropical forest credits for beyond-value-chain mitigation, the emphasis on cost-effectiveness seems less relevant than the emphasis on ensuring they are actually purchasing the highest quality credits. Of course it would be questionable for a company to pay exorbitant prices for credits if those increased prices do not actually go towards the project or local communities (e.g. if a carbon credit broker marks up the price of a credit to increase their profit margin without any of the additional revenue going to the project developer). And so in that context it can make sense to be conscious of cost-effectiveness. However, cost-effectiveness should not be a main guiding criterion for selecting carbon credits since this could eliminate credits that are perhaps more expensive but of higher quality or that deliver more co-benefits.

Relatedly, we would propose to drop mention of cost-effectiveness from the sentence: "Companies seeking ~~cost- and~~ carbon-effective opportunities". The pursuit of sustainable development priorities should be added as a key objective. If "cost-effectiveness" remains in the guidance document, then it should at the minimum be reformulated to reflect that it refers to a context of prioritizing the best environmental and social outcomes, rather than having cost-effectiveness be on the same level as "carbon-effectiveness".

#### **4. Please specify any areas of strong disagreement:**

It would certainly be strongly encouraged and welcomed for more companies to increasingly finance tropical forest conservation, beyond their value-chain mitigation, including potentially by purchasing high quality tropical forest carbon credits. It should however be made very clear in the recommendation that the purchase of such credits constitutes a "contribution", which is not appropriate for any offsetting/neutralisation claims. Without clear clarification on this point, we cannot agree with this recommendation. The lack of clear opposition to "offsetting" in this recommendation and throughout the guidance, is a significant shortcoming serving as a barrier to agreement with the recommendation and the guidance overall.

Additionally, the emphasis on cost-effectiveness does not seem totally appropriate as this could exclude higher quality credits that are more expensive, for example (see above).



**8. What further guidance does this group need to provide to corporate buyers in order to make the recommendation actionable?**

See above comments on background section. The guidance unhelpfully does not actually give guidance on the main contentious issues regarding forest credits such as its incompatibility for offsetting (e.g. permanence) and the highly problematic nature of corporate claims and double counting arising from the practice of ‘offsetting’. Other far more effective systems exist, such as results-based climate finance models which can deliver support to forest projects but preclude any corporate offsetting claims regarding the underlying emission reductions/removals. The guidance should be clear that there is no room for offsetting claims. It is especially problematic that offsetting is implicitly supported in recommendation VI (see our comments on that recommendation).

Eventually, further guidance on selecting the highest quality credits could be warranted (partially addressed in the other recommendations).

**9. Are there any other comments you’d like to share about this recommendation?**

See comments in background section and in the additional questions section.

**Recommendation II: Prioritize support to programs and projects that reduce threats to standing tropical forests including through purchase of credits. Page 9**

**8. Are there any other comments you’d like to share about this recommendation?**

We support call for companies to include “non-crediting” finance in their approach. We would encourage companies to support results-based climate finance or a “contribution” claim model related to the purchase of credits. However, as stated in other comments, it is incorrect and inappropriate for companies to make “offsetting” or “neutralisation/reduction” claims based on the purchase of such credits - hence, the guidance should clearly oppose offsetting, which it problematically does not and even supports (see recommendation vi).

**Recommendation III: Ensure that essential components of social and environmental integrity are met for all credits purchased by starting with credible accreditation programs and standards and supplementing with targeted due diligence to address known weaknesses and risks. Page 9-11**



**2. Please specify anything that is particularly unclear or may be subject to widely differing interpretation:**

Under the category of social integrity, the following bullet point: “Fair, transparent, and equitable distribution of benefits and revenues is required to recognize IP’s and LC’s vital role in forest conservation.” This is a very important principle. The present guidance has chosen not to cover key issues like prices/intermediaries, but it’s important to note that the terms “fair” and “equitable” could be interpreted differently depending on the stakeholder. Given the near-total lack of transparency regarding most carbon credit transactions involving intermediaries, certain stakeholders will claim “fair and equitable distribution” without really being fully transparent. This high-level principle is good, but there could be differing interpretations on this.

A clear statement is also needed to require better transparency regarding benefit sharing agreements, which should allow observers and buyers to understand how much of the money spent to purchase carbon offsets will actually directly benefit a) the mitigation activity and b) the local peoples and indigenous communities.

Requirements for deductions to account for the risk of non-permanence are inappropriate because they suggest that it is possible to compensate for non-permanence through deductions. Biological sinks are unstable and carbon stored in them is by definition non-permanent. Existing buffer pools cannot solve this in a way that would allow the use of biological carbon to compensate fossil carbon emissions. These work on two different timescales that cannot be credibly reconciled in an offsetting context.

**4. Please specify any areas of strong disagreement:**

We believe there should be further clarification and rewording in the text, notably concerning rights and transparency. There are several instances where the text is phrased as “should”, which is considerably weaker than “must”, and which we suggest to be changed. See below specifically.

The following sentence should be modified: “Distribution of benefits should be directly to IPs and LCs rather than through third party intermediaries requiring administrative fees.” Suggest to change “should” to “must”. “Should” isn’t very strong. Is there any question/debate that the benefits must be mainly directed to IPs and LCs? In addition, when companies plan to acquire credits through a broker they should request the broker to disclose how much of the share of the revenue from the transaction actually goes to the project and the IPs and LCs versus to the



broker. This is a basic component of transparency that is nonetheless largely absent from most carbon credit transactions. Any corporate buyer of credits wants to ensure that the maximum amount of its finance actually goes to supporting the project in question, so they should logically require intermediaries to disclose this information before buying credits from that broker.

“The rights of IPs and LCs to the free use of, and property rights for, the lands, territories, waters and resources according to their customary sustainable use and traditional knowledge should be fully respected”. Suggest to change “should be fully respected” to “must be fully respected”. Otherwise, it’s not a very strong principle.

“Capacity building should be provided to IPs and LCs for their effective participation.” Why is this phrased as “should”? This should be a requirement: a “must”.

“Local consultation protocols should be respected.” Same comment, why only phrased as “should”? Isn’t it a necessity to respect local consultation protocols? Suggest to change “should” to “must”.

See also previous comment on non-permanence and inappropriateness of the suggestion it can be compensated through deductions.

### **9. What further guidance does this group need to provide to corporate buyers in order to make the recommendation actionable?**

For many of the points listed in this recommendation, practically speaking buyers will rely on carbon standards and other bodies having fulfilled the enumerated steps and principles beforehand. In a way, this recommendation serves as a reminder to buyers that the credits must be issued from projects/methodologies satisfying all the above conditions. Corporates can help improve supply-side quality by demanding such principles are respected and only selecting credits from projects that do. Proper due diligence is crucial on the demand-side, since it can signal demand for high quality and can help ensure the supply of credits respects these principles.

### **10. Are there any other comments you’d like to share about this recommendation?**

The guidance already mentions that “distribution of benefits should be directly to IPs and LCs rather than through third party intermediaries requiring administrative fees”. As we’ve detailed above, we suggest this “should” be changed to “must”.

In addition, it would be important to add a bulletpoint concerning transparency and intermediaries/brokers of carbon credits, which could be along the lines of the following:



“Corporate buyers of carbon credits should request that intermediaries/brokers disclose the amount and share of revenue from each transaction that actually goes to supporting the project and benefitting IPs and LCs. Full transparency on transactions serves to guarantee better results for the project, for IPs and for LCs, and it also provides a guarantee to corporate buyers of credits that their financing is having the maximum impact, which they otherwise cannot know unless intermediaries are transparent with them.

**Recommendation VI: Incentivise alignment with Paris Agreement and enhancement and achievement of Nationally Determined Contributions (NDCs). Page 17**

**2. Please specify anything that is particularly unclear or may be subject to widely differing interpretation:**

The first paragraph of the recommendation is not clear enough and the wording should be strengthened especially with regard to the need to apply corresponding adjustments for any transaction where a company claims ownership of the underlying emission reduction/removal (i.e. offsetting/compensation claims).

The recommendation calls for alignment with the Paris Agreement and for supporting the increasing ambition of NDCs, but then seems to indicate that corresponding adjustments are not required if companies purchase carbon credits through the Art 6.4 mechanism: “If the forest carbon crediting activities will be counted towards the host country’s NDC, the company must publicly communicate that the underlying reductions or removals will **also** contribute to the host country’s NDC.” The problematic aspect is ‘also’ in this sentence. ‘Also’ must be replaced with ‘only’ and there should be further clarification that the emission reductions/removals cannot be claimed as an offset by the buyer - another sentence should be added: “the underlying reductions or removals will **also- only** contribute to the host country’s NDC. **They do not represent compensation/offsetting/neutralisation of the company’s own emissions and cannot be claimed as such**”.

The words "as appropriate" should also be dropped from the sentence - '[...] including through issuance of corresponding adjustments, as appropriate [...]' - since it can also be interpreted as supporting double counting. The only exception to when a corresponding adjustment may not be needed is in cases when a company commits to purchasing a credit without claiming the underlying emission reduction/removal as a form of RBCF or contribution claim (see next comment), but the phrasing "as appropriate" is too general and can justify double counting as currently phrased. It should be dropped.



**4. Please specify any areas of strong disagreement:**

Suggest to rephrase the recommendation, from “incentivise” to “ensure”, i.e.: “Ensure alignment with Paris Agreement [...]”.

This recommendation should clearly state that corresponding adjustments are required for all transactions involving corporate purchase of Article 6.4ERs (the only exception may be if a company purchases a credit without claiming the underlying emission reduction/removal, in which case this amounts to RBCF or a contribution claim, which could be specified in guidance). The stated goal of this recommendation is to enhance NDCs - a crucial way of doing this is to make sure corresponding adjustments are applied to all credits, even those purchased by companies in the context of Article 6.4. Not doing so can disincentivise/replace host country action and/or target all the low-hanging fruit in terms of mitigation activities.

Additionally, the first sentence of the second paragraph requires a change in our view such that the word “should” is replaced with “must”: “To achieve transparency, companies ~~should~~**must** report on their use of carbon credits specifying the host country, vintage, project or program, standard-setting body, and whether the credits are associated with a corresponding adjustment.” Disclosing this information is a “must” in order to achieve transparency, and it should not simply be an encouragement. If “should” remains in this text, then it’s necessary to drop the first 3 words of the sentence - “To achieve transparency” - simply because a voluntary encouragement to transparently disclose information cannot be equated with actually achieving transparency.

Also see proposed edits in previous comment.

**6. What is the time frame for, and what will be barriers to, implementation?**

Several actors, standards and countries are already well advanced in securing/providing corresponding adjustments for credits, demonstrating that it is neither impossible nor “fringe” to have adjusted credits even on the VCM.

For example, the Gold Standard already has concrete plans in place that will require corresponding adjustments by 2025 for all GS credits used for “offsetting” purposes on the VCM. Atmosfair, a German project developer, signed agreements with Rwanda and Nepal before COP26 such that those governments will make corresponding adjustments for credits generated by Atmosfair’s projects - notably, these agreements concern credits that will be sold on the VCM, demonstrating the feasibility of already applying corresponding adjustments to VCM transactions. Atmosfair is also currently in discussions with 20 governments, including India, concerning further agreements to secure corresponding adjustments. In summary, efforts to apply corresponding adjustments are indeed already well advanced and possible to implement.



**Recommendation VII: Strongly encourage forest carbon credit standard-setting organizations to drive momentum towards high-integrity, jurisdictional and fully nested credits. Page 17**

**8. Are there any other comments you'd like to share about this recommendation?**

If this recommendation were clearly formulated in the context of contribution claims or RBCF - whereby corporate buyers would categorically not engage in offsetting practices - then we could potentially support it. However, since the recommendation and the guidance more generally currently stand, we are not ready to support them, since they implicitly support the practice of offsetting and the fungibility of fossil carbon with biological carbon. The guidance and this recommendation lack clarity and fail to actually address the elephant(s) in the room - offsetting, double counting, corporate claims - and hence it's not possible for us to support this recommendation.

We welcome the call for companies to do additional due diligence for any project from which they will purchase credits.

**Additional questions**

**1. What changes to the structure or format of the guidance would make it more accessible, useful, or actionable by companies?**

As addressed in our detailed comments on the background section, the title should be changed. Specifically "consensus" should be dropped from the title.

**2. What, if anything, is missing that seems appropriate to include in the final version of this Consensus Statement?**

See earlier and below comments on several points that are not clear or that we think could be improved upon. Notably, the guidance fails to actually provide useful guidance on the key contentious points such as the practice of offsetting, corporate claims, double counting, transparent and equitable distribution of revenues from carbon credit sales, to list a few.

**3. Are there any other comments you would like to provide on the draft statement?**

See also below answers to questions 4 and 6.



Generally speaking, we do not support carbon credit fungibility of fossil carbon and biological carbon, and hence are opposed to use of forestry credits to “offset” fossil emissions or to extend BAU. Offsetting is simply scientifically inaccurate and inadequate, especially when substituting fossil carbon with biological carbon.

Being opposed to “offsetting” and to the fungibility of fossil and biological carbon is not to suggest that we do not support NBS projects, but rather to stress the point that misleading and incorrect claims should not be made by companies purchasing such credits. It is certainly ok, and could even be encouraged, for a company to purchase carbon credits on a “climate contribution” basis, as long as they are selecting high-quality credits and are not claiming the underlying emission reductions/removals (ie claiming to be offsetting/neutralising their emissions). Companies can express that they are contributing to tropical forestry conservation (and they can even reflect how much money they have spent, via purchase of carbon credits, to contribute to specific projects), but they should not under any circumstances make offsetting claims. Failing to address the question of claims in this guidance rids it of a lot of its possible value.

This document also fails to provide useful guidance on the question of double counting, by suggesting that it is acceptable for companies and countries to rely on the same mitigation outcome to make climate related claims.

This “consensus statement” is not actually addressing the main pain points within the environmental community and presents a one-sided view of the issues (see also responses to background section and to questions 4 and 6).

#### **4. In a second phase of work, regarding what additional issues or questions would it be helpful for our group to provide guidance to companies?**

The cover note of the guidance says that critical issues such as claims and pricing are not within the scope of the guidance. However, these points are crucial and cannot be ignored. There is little value in proposing a “consensus statement” that actually avoids the most contentious questions. There is no doubt that forest protection initiatives should benefit people, the environment, and be robust. These are not the issues creating uncertainty within the environmental community.

The questions of claims, cheap credits, lack of corporate ambition, and double counting, are the key topics. They must be addressed.

At times we have suggested that these points should be partially addressed in the above



recommendations, since they are inextricably linked in many cases. For instance, the discussion about how corporate entities can support the Paris Agreement should necessitate reflection on the claim they can make and on corresponding adjustments. Similarly, the discussion indicating that IPs and LCs should primarily benefit from the sale of carbon credits requires a reflection on pricing of carbon credits and notably on the transparency needed regarding these transactions notably on behalf of the intermediaries.

A separate area of work on intermediaries such as brokers of carbon credits would be helpful to address in further guidance, but this should already be addressed in the current guidance. This is an area that urgently requires more transparency but which is unlikely to change unless corporate buyers of credits themselves actually push for more transparency in these transactions or governments impose regulations. There is virtually no public information on pricing in carbon credit transactions, which serves as a disservice to the success of the project and to the IPs and LCs associated with such a project, not to mention it's also a disservice to the company buying credits. What company, or entity, would not want to know the full picture about how much of the amount they're paying for carbon credits actually goes to the project/IPs/LCs versus to the intermediary?

**5. On a scale from 1-5, how likely would your organization be to endorse this Consensus Statement when a final version is produced if it does not change substantially from its current form? (1= not likely, 5= very likely).**

1 = not likely

**6. What changes or additions to the Statement would make it more likely for your organization to endorse?**

The following additional elements/changes would be required for us to consider signing this statement:

1. Clear guidance against using forest credits for offsetting, and instead promoting a results based finance model.
2. Clear clarification that, notwithstanding the preceding point, corresponding adjustments are essential for any offsetting claims.
3. Clear recommendation on the publication of benefit sharing agreements with local communities and more price transparency from all actors involved in the issuance and trading of carbon credits