CARBON MARKET WATCH

Brussels, 11 May 2023

CMW input for South Pole consultation on corporate claims for Funding Climate Action

For reference:

- *The new proposed Claim: "Funding Climate Action".*
- *The new proposed tagline: "with Verified Climate Contributions".*
- *Read more about the proposal here.*

CMW answers in bold green

Do you agree that the private sector should significantly contribute to funding climate action?

Strongly disagree 1 2 3 4 5 6 **7** Strongly agree

Do you agree with aligning the corporate claims for funding climate action with the reality of the Paris Agreement?

a. **Yes**
b. No
c. I don't know

If not, please specify what other existing frameworks you would prioritise?

Are you supportive of the proposed claim "Funding Climate Action - with Verified Climate Contributions"?

Strongly disagree 1 2 3 4 5 6 **7** Strongly agree

What are the 3 main challenges that the voluntary carbon market (VCM) needs to tackle in the short term?

Credible use of credits

Claims based on credits

Perceived compatibility of VCM + Paris agreement

Quality

Price

Other:

Does the 'A Paris-aligned corporate claim for Funding Climate Action' provide the necessary response to the challenges described above?

Not at all	1	2	3	**4**	5	6	7	Completely

Which challenges are not addressed? (multiple responses are possible)

Credible use of credits

Claims based on credits

Perceived compatibility of VCM + Paris agreement

Quality

Price

Other:

Please list 2 areas of improvement so that the claim can better address the above challenges.

Financial transparency in credit use

Carbon credits are supposed to be a tool to channel finance into climate action. However, the exact amount of money reaching climate projects and local communities is often undisclosed by intermediaries involved in the trading of carbon credits. Changing the claim from “carbon neutral” to “verified climate contribution” is a step in the right direction, and one which CMW has long promoted. But it does not address the lack of financial transparency on the market, and this contribution claim should also include total transparency about revenues and use of proceeds. See for reference the [Carbon Market Watch briefing]() on intermediaries in the VCM.

Quality

Even if the type of claim that can be made with a carbon credit is reformed, quality remains an issue. South Pole's new claim proposal should complement efforts to improve the quality of credits. Some credits will be inappropriate for use, such as all credits from non-additional projects. For other cases, projects need to better measure their impact, and make more realistic and robust efforts to ensure the durability of these effects. This implies better quantification of mitigation outcomes (more conservative baseline setting as well as uncertainty quantification) and more attention given to the measurement and addressing of reversal risks.

Is the 'A Paris-aligned corporate claim for Funding Climate Action' discussion paper understandable?

Not clear 1 2 3 4 **5** 6 7 Very clear

Does the 'A Paris-aligned corporate claim for Funding Climate Action' provide clarity for businesses on meaningful ways to address climate change and engage in the VCM beyond their science-led decarbonisation journeys?

Not at all 1 2 3 4 5 **6** 7 Fully

Does the 'A Paris-aligned corporate claim for Funding Climate Action' provide clarity that voluntary climate action by the private sector is supportive of the overall goals of the Paris Agreement and the countries' responsibilities as Parties to the agreement?

Not clear 1 2 3 4 **5** 6 7 Very clear

Does the 'A Paris-aligned corporate claim for Funding Climate Action' provide a future-proof approach for carbon markets to accelerate the scale needed to stay on the 1.5 degrees pathway?

Not at all 1 2 3 4 5 **6** 7 Completely

Does the 'A Paris-aligned corporate claim for Funding Climate Action' provide the necessary transparency and a viable solution to create a shared language to address criticism of unsubstantiated or unclear corporate claims and tackle greenwashing?

Not at all	1	2	3	4	5	**6**	7	Completely

Does the 'A Paris-aligned corporate claim for Funding Climate Action' influence an organisation's decision-making with regards to purchasing decisions, climate strategy and action?

Not at all	1	2	3	4	5	**6**	7	Completely

Do you agree with the 3 fundamental criteria outlined in the discussion paper?

Not at all	1	2	**3**	4	5	6	7	Fully

Would you add further fundamentals to the list?

Below, we recommend further elements that should be reflected in the list. In addition to these, we would like to highlight that using a tonne-for-tonne approach to measure the volume of the necessary contribution is inappropriate. While we welcome the change in the claims that can be made, we also emphasise that this must be more than just semantics. The practice should move away from tonne-for-tonne, because this incentivises a race to the bottom, a race to the cheapest credits, which tend to correlate with lower quality. Additionally, tonne-for-tonne leads (at best) to a zero-sum, whereas a drastic cut in global greenhouse gas emissions is needed to address climate change.

We encourage South Pole to embrace a different approach, such as the "dollar for tonne" method described by VCMI, whereby a company prices its internal unabated emissions, and spends the levied funds on mitigation projects (such as through the purchase of carbon credits).

Below are further elements that should be reflected:

1. The firm must clearly demonstrate why and how its activities - i.e. the products and services it offers - are unavoidable, non-substitutable, beneficial for society and most crucially, aligned with pathways to limit global warming to below 1.5°C.

2. The firm must accurately calculate its emissions (footprint). This would include all direct and indirect emissions across the entire value chain (scope 1, 2, 3 upstream and downstream). Since indirect scope 3 emissions can be more difficult to determine, an estimated range should, at a minimum, be provided and included in the calculation. Complete exclusion of indirect emissions should be avoided in all circumstances.

3. The firm must then minimise its full value chain GHG emissions: scopes 1, 2 and 3 (upstream and downstream). The firm should also explore abatement options through material and energy efficiency, product substitution, waste reduction and circularity along its value chain. Any residual emissions that cannot be further reduced - e.g. by technological means or product substitution - could be considered "unabatable" for the moment, until new technologies or practices emerge and as long as a clear explanation is provided.

4. The firm must explain why residual emissions are "unabatable". For example, it may not be technologically possible yet to reduce emissions from a given product or service further. It is vital to provide a clear explanation, such as why current technologies cannot be utilised, in order to improve transparency and allow for objective third-party review if needed (the burden of proof falls on firms, to be clear). In addition, the firm should provide convincing evidence to demonstrate that it is working to push the decarbonisation frontier, i.e. investing in relevant research and development, to increase the chances that what is unabatable today will be abatable tomorrow. "Unabatable'' emissions cannot be considered a steady-state situation, but a dynamic concept which needs frequent revision.

5. After completing these first steps, the firm may then tackle any residual emissions through financing activities that remove atmospheric CO2 or reduce/avoid the release of GHG emissions, as long as such removals and/or reductions are truly measurable, verifiable, permanent and additional (i.e. over and above what would have happened without this finance). These activities could be financed by buying carbon credits - representing reduced or avoided emissions from an existing or planned activity, or CO2 that has been permanently removed from the atmosphere.

6. A clear transaction path must be disclosed by all actors involved in the carbon credit transaction, as discussed above. From issuance to retirement all links and money flows need to be publicly available in order to boost the credibility and integrity of the market as a climate finance mechanism.

Would the 'A Paris-aligned corporate claim for Funding Climate Action' be applicable for your company?

Yes
No
I don't know

Would the 'A Paris-aligned corporate claim for Funding Climate Action' be applicable for your products and services?

Yes
No
I don't know

Would you like to leave any other inputs / comments that were not addressed above?

Carbon Market Watch has been advocating for a move away from carbon neutrality claims for a long time and welcomes this change in marketing to the “contribution” claim model. Below is our analysis of the remaining strengths and weaknesses in this proposal and in the accompanying criteria.

- The main shortcoming we see is the principle of keeping the tonne for tonne approach. We encourage a shift to something else, such as the “dollar for tonne” approach, described above, whereby a company prices its internal unabated emissions, and spends the levied funds on mitigation projects beyond its value chain.
- Limiting claims to the use of carbon credits is too restrictive. It is important to have an assurance model in place to guarantee the impact of financed activities, but claims should be allowed for non-credited activities, too. This will broaden the range of activities that are accessible to companies, including some that might not deliver large short-term benefits but could be transformational in the long term.
- Even if a contribution is based on the procurement of credits,it should be a levy and fund approach. For example, a firm can price its internal unabated emissions and levy the funds to purchase carbon credits which will fund a particular mitigation project or projects. Otherwise the tonne-for-tonne approach continues to support the idea of a race to the bottom in terms of prices, and hence also of quality. That said, as previously

expressed, quality is still an issue regardless of the claim and also needs to be addressed.

- South Pole refers to the role the private sector (through carbon markets) needs to play on the pathway to reach net zero in 2050. It is also mentioned that current levels of climate finance need to increase by at least sevenfold to be in line with the 1.5°C degrees pathway by the end of this decade. What is missing in the proposal is a distribution of climate finance contributions. What share/proportion of climate finance should come from carbon markets? What is the guarantee that the purchase of carbon credits truly delivers finance to mitigation projects, as opposed to intermediaries and consultants? What evidence of this exists? Market transaction volumes are not indicative of impact.

- How is the quality of contributions assured (since low quality credits can be considered wasted money)? Or in other words: if carbon markets cannot deliver high quality carbon credits, climate finance through carbon markets does not contribute to the 1.5°C degree pathway. The same problems that are present with carbon neutrality claims could arise with contribution claims. South Pole provides three fundamental criteria which also regard credit quality, but a mention of this risk of wasting money should appear in the discussion paper.

  - Are ICROA-endorsed and ICVCM-approved standards and programmes ensuring high quality carbon credits? The quality of some credits is too low even to be considered as contribution claims and changing the claims should not mean setting a lower bar for integrity. For example, non-additional renewable energy credits are worthless regardless of the claim that is being made.

- Compatibility with the Paris Agreement needs to be guaranteed. This means that firms must avoid investing in activities that lead to carbon lock in, and ensure that baselines are compatible with the long-term temperature goals of the Paris Agreement (e.g. by decreasing to zero by 2050 at the latest).

- Does a definition of unabated emissions exist? A definition of unabated emissions should exist, accompanied by regularly updated justifications of why emissions are, in fact, unabated (as previously discussed). The term “unabated" should be a dynamic concept, i.e. what is unabatable today should be abatable tomorrow (see fundamentals above).

- Companies should spread their investment opportunities to go beyond carbon markets

- What exactly does “fully funded” mean? The wording and the place in the text suggest several interpretations:
  - The money paid is going to the projects in full.
  - The company buying the credits has "fully funded" action at a scale commensurate with the company's remaining climate impact (i.e. tonne for tonne).
  - The project has only been funded through credits (which would be a good way to increase the likelihood of additionality).

Carbon neutrality as a claim is false and misleading, and therefore not credible. The market can't scale on the back of neutrality claims. Shifting away from the “offsetting” claim model to the “contribution” claim model is a better way to try to position the VCM as an actual tool to grow climate finance. However, this needs to come with quality of credits and transparency in financial transactions.

Would you be open to publicly endorse this new narrative and partner with South Pole to drive adoption across the board?

Yes

No

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