



CARBON MARKET WATCH

FAQ

Frequently Asked Questions

CREDIBLE CLIMATE CLAIMS IN A POST-OFFSETTING WORLD

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Why are we starting to see a shift away from carbon offsetting claims?

The voluntary carbon market (VCM) is changing because misleading “offsetting” or “neutrality” claims are coming under increasing scrutiny from campaigners, watchdogs and regulators. The catalysts for this include various [investigations](#) or [reports](#) which have found that carbon credits purchased to offset emissions do not deliver climate benefits that are equivalent to the climate damage caused; a recent spate of [legal](#) and [regulatory](#) actions over the misleading nature of offsetting claims; and a recently agreed [EU ban](#) on product-level (goods and services) offsetting claims that is expected to enter into force in 2026.

This has prompted some companies and other market players to increasingly shift away from “offsetting” or “compensation” climate claims. Some have refocused on internal reductions, and others have moved towards a “beyond value chain mitigation” (BVCM) model, which focuses on providing climate finance rather than buying assumed tonnes of emissions reductions.

What is beyond value chain mitigation (BVCM) and how does it differ from compensating for or offsetting emissions?

While beyond value chain mitigation and offsetting could both involve companies or organisations purchasing carbon credits on the voluntary carbon market, the way in which such credits are subsequently *used* is the differentiating factor.

For offsetting claims, a company purchases carbon credits to offset, neutralise, counterbalance or otherwise compensate for their emissions. Based on this transaction, the company will claim that its product or the company itself is “carbon neutral”, “climate neutral”, etc.

This may give the deceptive impression that a “carbon neutral” product has no associated climate impact because the emissions were simply “cancelled out” through the procurement of carbon credits.

Under the BVCM or contribution model, a company purchasing carbon credits does not claim to have compensated its own climate impact. BVCM claims can be related to, amongst other things, the procurement of carbon credits, but the credits are not used to subsequently claim that harmful climate impact has been “cancelled out”. Companies can use credits to communicate to consumers and shareholders that they have made a financial contribution towards – or an investment in – a particular mitigation project or “towards global climate action”, for example. The difference is how the carbon credits are *used* by the companies who purchase them and lies in the end communication. Each claim sends a very different message to consumers, investors and other stakeholders.

Why are compensation and offsetting claims so problematic?

It cannot be scientifically proven that one carbon credit can reliably neutralise or counterbalance one tonne of CO₂ emitted. Nature-based mitigation solutions, such as tree planting or forest preservation, are prone to risks and have short lifespans relative to emissions that stay in the atmosphere for centuries (see for example this [extensive quality assessment of REDD+ projects](#), which represent a large share of credits on the market).

Moreover, [various surveys have shown](#) that many people do not understand what neutrality and offsetting claims mean and may be misled into believing that their purchases do not harm the climate, when the opposite is true.

Why are BVCM claims less misleading than compensation claims?

Shifting a climate claim away from an offsetting model to a BVCM model may not solve all of the current problems surrounding compensation claims, but it does expose the highly misleading – and scientifically illogical – concept of neutralisation: that emissions – or climate harm – can be counterbalanced or nullified through the purchase of carbon credits.

A person might ask: “why should I take the train when I can take a carbon neutral flight”? After all, it will get me to my destination faster and it is cheaper. And I see here that my emissions are compensated! But if airlines were honest that flying does harm the climate, then consumer purchasing behaviour could potentially shift. This would incentivise a transition to more sustainable modes of transport.

Why is there no standard BVCM model used by all companies?

In short, there is no “one size fits all” approach for every company or organisation. Take for example, a highly-profitable, low-emitting technology company and a less profitable, high-emitting company in a “hard-to-abate” sector (although whether emissions are “abatable” is something that is constantly changing because sectors transition quickly under favourable circumstances). Would it be logical and realistic to require these two extremely different companies pay exactly the same internal carbon fee towards BVCM activities and process claims in the same way? Should the profitable tech company pay more simply because they have more money at their disposal? And is it their responsibility to do so? Or should the low-profit company be expected to pay a higher rate because their footprint is much larger? What if this company can only afford an internal carbon fee that is far below, e.g. the social cost of carbon? And how should the “affordability” threshold be set and by whom?

A singular approach for every company across all sectors is not possible, yet companies can ask the same internal questions before reporting answers to the public, to determine the extent to which its BVCM strategy / claims are credible. These can be found in CMW’s [BVCM Disclosure Template](#). It has been designed as a credibility self-assessment and public disclosure exercise that identifies strong points and potential areas for improvement based whilst considering the particular circumstances of each individual company.

Should companies only make BVCM claims after taking concrete internal decarbonisation measures?

Yes. Companies wishing to make BVCM climate claims should demonstrate that their actions are in line with the “[mitigation hierarchy](#)” principle, which states that priority is first given to internal carbon reductions. Implementing effective measures to slash emissions across the entire value chain (scope 1, 2, 3) – as opposed to an overreliance on BVCM – is necessary to limit global warming to 1.5°C, in line with the Paris Agreement.

Implementing concrete measures that will meet cumulative emissions reduction targets over a defined period is necessary to ensure that companies are not simply creating empty promises through unsubstantiated targets.

Companies who are currently taking concrete steps to internally decarbonise can then address their “unabated” value chain emissions by making a financial commitment to activities beyond their value chain. [BVCM should hence only be used as a complement](#) (or “add-on”) to internal decarbonisation and never as a *substitute* for value chain reductions.

A company’s internal climate strategy is therefore key to assessing the integrity of a BVCM claim. If a company’s internal decarbonisation plans are found to be severely lacking, then its entire climate strategy should not be considered credible because no amount of BVCM can “compensate” for a lack of ambition and action in addressing a company’s own emissions. In this case, corporate greenwashing will continue, with various watchdog organisations and regulators justifiably attacking the credibility of these claims, as they currently do with offsetting claims.

Moreover, it is important for companies to fully examine why any emissions are categorised as “unabatable”, and explore ways to extend the decarbonisation frontier as far as possible to increase the possibility that what is unabatable today becomes abatable tomorrow: “unabatable” is not a fixed state. “Unabatable” emissions should be reassessed regularly to determine whether a particular sector has made significant improvements with respect to transitioning.

PREREQUISITES TO MAKING BVCM CLAIMS

Why is accurate climate accounting and disclosure important for BVCM?

Accurate climate accounting is essential for any company that wants to make a credible climate contribution claim because addressing a firm's impact starts with measuring it. Emissions disclosure can be based, for example, on the reporting requirements for scopes 1, 2 and 3 of the [GHG Protocol](#), a standardised framework for measuring and managing greenhouse gas emissions.

In addition, the amount a company invests in BVCM activities may also be adversely affected by insufficient or inaccurate emissions disclosure. If a company excludes, for example, its indirect emissions in its footprint, an internal carbon fee would only be applied to its direct emissions. This would result in the company contributing less than it should towards voluntary climate finance because it leaves out an entire category of emissions.

Companies should therefore include emissions from their entire value chain. At the very minimum, they should provide an estimated range for scope 3 emissions and include the highest estimate in their footprint calculation.

Why is setting proper climate targets important for companies?

It is important for companies to set and publicly disclose credible, science-based climate targets for the short term (3-5 years), medium term (5-10 years) and long term (2050). Companies should commit to reduce at least 90-95% of their real emissions by 2050 to stay in line with the Paris Agreement. It would be difficult for a company to justify their climate

strategy without robust targets. Particular attention should be paid to the short- and medium-term targets because, [as we and others have shown](#), they are sometimes neglected. Since we are currently in the “[critical decade](#)”, urgent climate action is necessary.

Why should a company commit to be deforestation free?

Deforestation is bad for biodiversity, destroys rich and valuable ecosystems and is a significant contributor to global emissions. [Evaluations](#) of corporate action on deforestation reveal a severe lack of ambition. Therefore, in order to increase the credibility of climate strategies and ensure that they do no harm to the planet, companies should implement concrete strategies to be deforestation free by 2025.

Why is it crucial to align corporate lobbying with Paris Agreement goals?

Companies should examine whether their lobbying and advocacy activities support the goals of the Paris Agreement and are not an obstacle to ambitious and effective climate regulation. If a company has an apparently ambitious climate strategy but opposes effective climate legislation, it will completely undermine its credibility and erode the impact of its climate action. This happens frequently. "Corporate net zero or similar targets are rarely matched by support for government climate policy, with 58% of almost 300 companies from the Forbes 2,000 found to be at risk of 'net zero greenwash' due to their policy engagement," a recent [investigation by InfluenceMap](#) found. This highlights why companies need to be particularly mindful of their lobbying efforts.

Companies can help ensure that their lobbying efforts are compatible with the Paris Agreement by [submitting a public statement](#) describing how advocacy activities are

consistent with the principles of the four categories of the [Global Standard on Responsible Corporate Lobbying](#) [GSRCL), according to the VCMI Claims Code of Practice. The GSRCL is a standard for companies to use to ensure their lobbying activities are Paris aligned and, in the event they are not, to help them course correct.

Why is complete divestment from fossil fuels and highly polluting industries important?

While not all companies or sectors invest in fossil fuels or highly polluting industries, the ones which do should examine their investment portfolios and completely divest from these industries. Companies which refuse to implement divestment pathways should not generally be considered to have credible climate strategies.

The banking industry has been found to be particularly problematic in this regard. Various investigations have [found](#) that some of the largest banks in Europe have helped the fossil fuel industry raise more than approximately €1 trillion from global bond markets since the Paris agreement.

What are the pros and cons of applying the social cost of carbon?

The social cost of carbon can be [defined](#) as “a measure of the net damage imposed on society over time from emitting one tonne of carbon dioxide equivalent units (tCO₂e)”, according to NewClimate Institute. Under this approach, a company will apply the social cost of carbon to its emissions. In Germany, for example, the [Federal Environment Agency](#) recommends this cost to be €237 per tonne of CO₂ in 2022, increasing to €286 in 2050. Other countries, however, may estimate the cost to be lower.

One advantage of applying this approach is that there is a greater chance that the carbon price is high enough to prioritise emissions reductions in the value chain and that sufficient funding is available for high quality climate projects. In fact, using a higher carbon price is necessary to [stimulate greater climate ambition](#). In addition, companies who choose to apply a carbon price using the social cost of carbon as a minimum base are employing a less arbitrary and more science-based method compared to market-based approaches. In this way, companies who implement it may end up with a more credible BVCM claim.

There is, however, one distinct disadvantage to this method. It could be out of reach for many companies that simply don't turn a high enough profit to be able to pay such a carbon price. Less profitable, high-emitting companies may refuse to make BVCM commitments based on the social cost of carbon on the grounds that they simply cannot afford to. This raises bigger questions about the massive costs that these companies are willing to impose on society and what right society has to compel them to shoulder this cost.

What are the pros and cons of utilising a company's net income to determine internal carbon pricing?

Here, a company's net income will influence the carbon price which will be applied to its emissions. A company with a higher ability to pay (higher profits) will pay a higher per tonne carbon price than a less profitable company, even if the latter has a higher emissions footprint.

Some advantages to this method are that it may be more realistic to implement and could help to incentivise – rather than deter – BVCM commitments. Ability to pay in this context is an arguably equitable concept: the more profitable companies pay a higher carbon price – simply because they can – to help finance global climate action for the greater good. This would be akin to a progressive taxation system in which wealthy citizens pay higher tax rates because they make more money. In the context of the climate crisis, we need the most wealthy companies to pay more towards climate action due to the catastrophic risks for humankind that the climate crisis represents.

There are also some distinct disadvantages. It may be difficult to establish the “right” carbon price and the less profitable companies would pay so little to make the same BVCM claim as a wealthier company that it could eliminate their incentive to internally decarbonise: higher carbon prices help to ensure that emission reductions in the value chain are clearly prioritised and that sufficient funding is available for high quality projects. If these low profit companies can only feasibly invest miniscule amounts towards climate finance, the most profitable companies may need to pay even more to cover the losses (and some may argue that this is unfair). Furthermore, this approach disregards emissions and focuses more on profits, shifting attention away from the polluters. Lastly, companies may implement ‘creative accounting’ practices to make it appear that they are less profitable than they actually are. As a result, companies will apply a lower per tonne carbon price and end up paying less than they should.

What are the pros and cons of allocating a fixed percentage of profits to BVCM?

Companies may choose to commit to investing a certain percentage of their profits e.g. 1.5%, in BVCM. One advantage of this is that it is straightforward, making it possibly easier to implement and explain than, say, a money-for-tonne approach. This method also ensures that the most profitable companies contribute the most to climate action.

Disadvantages include the fact that it might be difficult to find the “right” percentage and this may be an arbitrary figure that is likely less science-based. Highly profitable companies will pay significantly more than low-profit, highly polluting companies. This is in stark contrast to the Polluter Pays principle. This may result in less polluting companies finding it unfair that they have to pay a similar amount than companies with higher emissions, but the latter can make the same BVCM claims as the cleaner companies. In addition, companies may employ various tax optimisation methods to artificially lower their reported profits and, by extension, their BVCM investment. Furthermore, this method does not incentivise value chain abatement as it is not linked to the volume of unabated emissions.

How should a company address its historical emissions?

It is good practice for a company to take responsibility for its historical emissions (i.e. emissions that resulted from business activities over the lifetime of a company starting from its inception). This is particularly relevant for companies who built highly profitable businesses based on historically high-emitting activities. There are questions, however, on how – and if – this could be applied in practice.

First, finding accurate historical emissions data could be challenging, particularly for companies that have been in existence since before climate accounting practices truly took hold. There may also be a risk that companies who have kept sufficient records of their emissions could feel they are being penalised for their transparency in this regard. Second, even if there was enough historic emission data on record, it may be so expensive that it could dissuade a company from making BVCM commitments.

If we were to use an approach other than applying a per-tonne carbon fee, companies without sufficient historical data may still be able to take responsibility for these emissions. For example, they could identify an estimated emissions footprint range based on comparisons with other companies in the same sector that were operating during the same time period. It may be even more straightforward for companies in sectors where their high-polluting histories are common knowledge. Not applying a per-tonne carbon fee might also help address concerns that taking responsibility for historical emissions is simply too expensive and therefore unrealistic.

One possible option is for companies to make small, incremental BVCM contributions over time, akin to paying a mortgage, over a 10-15 year period. Companies could set aside a small percentage of their profits to cover this, in addition to the carbon price they would set to address their current emissions.

Is buying carbon credits a good way of channelling finance to climate action?

Companies purchase carbon credits on the voluntary carbon market to make various kinds of offsetting claims about their products, services or the firm as a whole. With the shift away from a tonne-for-tonne offsetting claim model towards the contribution claim model, what kind of role should carbon credits play? To what extent should companies rely on carbon credits as a basis for their BVCM claims?

Some advantages of credits are that they can arguably be a more “straightforward way for companies to invest their climate contributions, [particularly those with limited resources and expertise to identify suitable initiatives to fund](#)”, explains NewClimate Institute. In addition, carbon credits can potentially provide at least some degree of quantification of impact or outcome; and they are already part of an established VCM infrastructure, albeit one plagued with low quality carbon credits, so the mechanisms are already in place.

There are, however, distinct disadvantages to the procurement of carbon credits in this context. The VCM is riddled with problems related to quality and climate impact. Many of the available carbon credits do not represent the climate impact they claim and often cause other forms of environmental or social harm. The overhead costs of issuing credits could be considered another drawback, which are then passed on to buyers. If a company wants to purchase credits, it will have to use a standard, a verifier, and very often one or multiple consultants to help guide it through the process. [Other concerns](#) include a [lack of transparency](#) on money flows; and [human rights](#) and [benefit sharing concerns](#) with respect to indigenous peoples and local communities.

How important is carbon credit quality under a contribution model?

Typical carbon credit quality concerns that currently exist for offsetting and compensation claims continue to be relevant under a BVCM or contribution model, albeit in a slightly different way.

Additionality remains an important quality criterion under this model in a similar way that it does with offsetting. If a mitigation project would have occurred anyway without the revenue generated from the sale of the carbon credits associated with the project, it does not provide any additional benefit to the climate and so makes the finance behind it irrelevant.

However, the permanence of emissions reductions becomes slightly less significant under the newer approach. Companies should still be encouraged to invest in solutions that have a durable impact and deliver emissions reductions or removals on a timescale that is relevant to the climate system (at least several centuries). At the same time, action to protect and restore existing ecosystems and natural sinks in the short term is needed, and this can be done, even if the durability of the impact cannot be guaranteed with the same level of certainty, as long as this is identified as temporary storage or, better still, as nature restoration or conservation. Most importantly, it must not be used for offsetting or compensation claims.

Companies which chose to purchase carbon credits must perform proper due diligence that takes account of these issues. Companies should also follow a set of criteria to ensure that necessary safeguards are in place. For example, companies may not want to invest their entire BVCM allowance into carbon credits and opt, instead, for a maximum investment of 50% to avoid too much focus on short-term measures. Carbon credit transactions could also be limited to a maximum number of trades per credit, in order to reduce the number of intermediaries that divert money away from actual mitigation projects.

What are the pros and cons of impact funds?

Climate impact funds are gaining traction as an alternative to carbon credits and are meant to funnel climate finance – or contributions – to a variety of initiatives beyond the voluntary carbon market. Some examples include those offered by the [Landscape Resilience Fund](#), [MilkyWire](#), the [Frontier Fund](#), and the [1% for the Planet initiative](#), to name a few, are gaining traction. MilkyWire, for example, offers a wide range of projects related to nature conservation, carbon removal, decarbonisation or even financial support for NGOs working towards effective climate action, including a [Carbon Market Watch initiative](#).

These funds claim to truly maximise climate impact. One of the advantages of impact funds is that they offer a high degree of flexibility. They are also arguably better suited to fund higher risk, yet potentially transformative, [high-hanging fruit projects](#).

There may also be less potential for greenwashing compared to carbon credits or projects connected to carbon crediting mechanisms and may therefore be "safer" for companies to invest. This is because it is easier for companies to communicate about a range of effects, thereby moving away from claims that are focused only on GHG reductions measured in tonnes of CO₂e.

There are some characteristics of impact investments that could be perceived as drawbacks. For example, some companies may not feel comfortable investing in projects with less quantifiable outcomes. In addition, it may be difficult to properly assess how credible a particular fund is and how thoroughly it has vetted the projects, organisations or partner organisations it supports. That said, credible impact funds appear to be one of the better options for companies looking to invest in BVCM activities.

What are the pros and cons of direct financing?

Companies can also choose to directly finance or develop climate projects. This allows companies complete control over and flexibility with their BVCM commitments. There are certain drawbacks, however, to direct investments. First, they are more suited to large companies, [while potentially leaving out SMEs](#), who tend to lack the resources and access to expertise. Second, it is not clear how – or even if – these investments would be assessed, potentially resulting in no external or independent oversight. Thus, companies which wish to directly finance BVCM activities should only do so in combination with other kinds of investments (such as impact funds, for example) and should commission an independent impact and quality assessment of funded projects and make this assessment public.

Should decarbonisation-related research and development (R&D) be considered BVCM?

By definition, BVCM activities must lie outside a company's value chain. One question that arises in this context is whether investing in R&D projects that might lead to internal decarbonisation in the long term constitutes BVCM or simply internal decarbonisation measures. It would be problematic if a company, for example, makes a contribution claim that is tied to a particular R&D project, while simultaneously claiming that this project is related to part of its internal decarbonisation strategy (double claiming).

On the one hand, a company could invest in R&D that is not currently contributing to internal emissions reductions but could eventually result in internal decarbonisation. This investment could arguably be considered as a BVCM activity until the point at which the

technology is fully realised and contributes to internal emissions reductions. After this point, a company would no longer make the same BVCM claim. On the other hand, even though a value-chain R&D technology may not yet be fully realised, the primary objective of the project is to decrease internal emissions. Thus, it could be more difficult for this to be considered “beyond value chain mitigation” and any associated BVCM contribution claim could lack credibility.

The issue is, therefore, not binary and R&D investments should be independently assessed on a case-by-case basis. Companies that share the results of their research with their peers could more credibly claim their R&D investments as BVCM, since the results of those investments would have an impact beyond the companies’ own footprints and value chains.

Does intellectual property (IP) influence whether R&D is BVCM?

Yes. Many R&D breakthroughs are likely to benefit multiple companies, or possibly an entire sector. If a company keeps the technology only for itself (e.g. by patenting it), then it would not count as BVCM because it would only benefit the company responsible for inventing or commissioning the technology. However, if the company instead makes the technology available to others for free or at a low cost, then it would help decarbonise other companies, and hence have an effect beyond its own value chain. Making determinations about this whilst the R&D is ongoing and before the company knows whether they will find any solution is challenging, but proactively communicating about the research and its results could be a concrete way of ensuring that a wider range of actors benefit from the investment.

How should companies decide where to invest their BVCM contributions?

SBTi has proposed four principles that companies should take into account when choosing their BVCM investments. These include upscaling, urgency of financed mitigation, climate justice and co-benefits.

Consideration of all these proposed principles is generally a good start. Some companies may also choose to prioritise some principles over others or even create new principles. The most logical principle to prioritise, however, would be “urgency”, in order to avoid tipping points and lock-in. Some examples could include: primary forest conservation, ecosystem restoration for wetlands and peatlands, shifting towards regenerative agricultural practices, promoting a shift in dietary habits, decarbonisation of buildings, roll-out of low-carbon transport, or possibly support for grid development to facilitate increased electrification and renewable sources. “Financing need” would also be a logical choice to prioritise and could funnel much-needed finance to “high-hanging” fruit projects. “Voluntary climate finance is especially well suited to support global ambition raising [through the identification and implementation of innovative and emerging solutions for the hardest-to-abate sectors](#),” according to NewClimate Institute.

What kind of wording should companies use for their BVCM claims?

Claims must be credible, clear, unambiguous, informative and complete.

Some frameworks, such as the Voluntary Carbon Market Integrity Initiative’s (VCMI) claims guidance, or the SBTi’s BVCM framework, offer valuable examples of the types of approaches that companies can adopt for their climate-related communications. Some examples could include the following:

- “We are proud to have invested \$XX in initiatives XYZ. We expect that this will make a significant contribution to global climate action, by achieving ABC”.
- “We are proud to have made a financial contribution towards global climate action through our commitment to support initiatives XYZ”.



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