CARBON MARKET WATCH

Overview of the Carbon Removals and Carbon Farming Certification process

In December 2024, the EU launched its certification framework for permanent carbon removals, carbon farming and carbon storage in products, commonly known as the Carbon Removals and Carbon Farming (CRCF) certification Framework.

As its name suggests, the CRCF aims to certify a variety of practices or processes, namely: permanent carbon removals, carbon farming, and carbon storage in products. Each practice involves specific activities for which tailored methodologies are currently being developed. The methodologies will be published as Delegated Acts, taking on the force of law. Note that the Regulation only offers guidance on the basic rules for developing the methodologies (Articles 4 till 8) and the elements they should contain (Annex I).

Overall, the activities involve:

1. **Permanent removals:** direct air capture and storage (DACCS), biomass with carbon capture and storage (BioCCS) and biochar. Biochar is currently classified as a permanent removal activity - yet uncertainty persists on its storage length. Therefore, a key aspect of the methodology is determining how much of a given biochar batch will be stored for at least several centuries.
2. **Carbon farming (emissions reductions and carbon sequestration):** peatland rewetting and restoration, agriculture and agroforestry on mineral soils, and planting of trees.
3. **Carbon storage in products**, mainly wooden construction elements.

Note that the list of activities is likely to expand.

As established in Articles 4 to 7 of the CRCF, the methodologies will follow the so-called QU.A.L.ITY criteria. These are the quantification of climate impacts (against a baseline), the additionality of the activity, its long-term storage and liability for early release into the atmosphere, and sustainability. The methodologies should set out robust conditions, tests and safeguards that eligible activities need to comply with to be certified under the scheme. However, as a voluntary framework, the decision on whether to participate in the scheme or not rests with the operators and certification schemes.

While the European Commission and its consultants are developing the methodologies, these are also being discussed within the EU Carbon Removals Expert Group (CREG) of which CMW is a member. Note that, in addition to CREG meetings, numerous online workshops, discussing particular sections of (at times specific) methodologies, e.g. quantification in forestry, are held throughout the year.

Unfortunately, the CREG is largely dominated by industry lobbyists, which skews the balance during discussions and diminishes vital voices from independent experts, researchers, and civil society. As an active member of the CREG and the CRCF process in general, CMW has sought to rectify this imbalance by hiring its own consultants to thoroughly review the methodologies and flag pertinent issues.

This document sets out the feedback received for the peatlands draft methodology (published in April 2025) by Öko-Institut. Carbon Market Watch submitted its written feedback to the European Commission through the CRCF EU survey. By sharing this information, we hope to contribute to the debate and shed further light on the numerous issues affecting the methodologies.

Policy Brief | 05.05.2025

Second assessment of the draft technical specifications for certification under the EU CRCF

Peatland rewetting

// Felix Fallasch, Anne Siemons, Lambert Schneider

Summary of key findings and recommendations

This document provides an assessment of the draft elements for an EU certification methodology on carbon farming under the CRCF regulation for the activity type peatland restoration through rewetting, published in April 2025.

Overall, the methodology, in its current form, deviates from important principles of carbon crediting and does not comply with the quality criteria established by the IC-VCM. There is a high risk for over-crediting of emission reductions or removals. Key issues identified include:

- **Overall, the draft methodology in several instances still lacks details on how the requirements shall be operationalised and implemented.** In many sections, requirements are formulated as general principles, but it remains unclear how compliance with these requirements must be demonstrated and will be checked. Further elaboration of the methodology is therefore necessary to turn it into a technical document with clear and unambiguous instructions, which operators can rely upon when developing their activities.

- **Declaring peatland rewetting as a project type with no non-permanence risks undercuts safeguards established by existing certification schemes and is inconsistent with the principles of the CRCF:** The most concerning element of the methodology is that it simply declares that peatland rewetting results in permanent soil emission reductions and that units issued under this methodology therefore “shall” be considered permanent. There is however no uncontested scientific evidence that substantiates this claim. Major existing carbon crediting programmes acknowledge that peatland rewetting has significant non-permanence risks and require project developers to monitor these and account for any reversal events. Would the European Union adopt

this methodology it would unilaterally decide to ignore common practice on carbon markets. Worse, it would lower the bar for other carbon crediting programmes and send a signal that the EU is willing to undercut industry-wide accepted safety standards for minimising non-permanence risks. In its Article 6, the CRCF Regulation further stipulates that soil emission reduction activities shall be subject to appropriate monitoring rules and liability mechanisms. The methodology's approach to simply declare that peatland rewetting will result in permanent emission reductions fails to address this requirement of the CRCF.

- **The methodology currently does not include requirements for accounting for leakage emissions:** It notes however that the Commission is currently in the process of investigation different options to address leakage due to indirect land use change. It is very important to add robust provisions to account for leakage emissions due to activity shifting or market leakage. Rewetting the activity area is very likely to lead to the shift of agricultural activities to other areas. Such shifts can lead to substantial increases in emissions elsewhere, including from indirect land-use change, and thus to large over-crediting. Ignoring leakage emissions would be inconsistent with common practice in carbon markets. Both the UK Peatland Code and the German MoorFutures standard require operators to account for leakage emissions. The VCS peatland methodology (VM0036) exempts operators to account for leakage, but only because operators cannot register lands that have been used for agriculture in the last two years unless they demonstrate that the level of activity will remain the same on the project site.

- **Multi-layered exemptions for demonstrating additionality create high risks to register projects that do not need CRCF funding to become viable:** There are many exemptions that the methodology provides for project operators to demonstrate additionality of their peatland rewetting activities. Operators must demonstrate that the activity is not legally imposed on them. However any activity remains additional during the entire activity period, even if it became obligatory for the operator under national legislation. Including renewals, which the methodology treats as "prolongations" of the first activity period (see next bullet), an activity period can last up to 30 years. This means that if an activity e.g., becomes legally imposed after 5 years, operators would be entitled to up to 25 years of non-additional soil emission reduction units under the methodology. Such an approach creates unfairness and arbitrariness in treating different peatland owners. An owner who did not register an activity with the CRCF before peatland rewetting became obligatory under national legislation would have to bear the full cost to fund the necessary activities for complying with such a law. An owner who did register with the CRCF would be subsidized with up to 25 or more years' worth of CRCF units to fulfil the same legal obligations as the other owner.

  Operators must further demonstrate that the activity is not financially viable without the incentives created by the CRCF. For this they must conduct either a simple cost analysis or an investment comparison analysis. However, under the methodology activities are exempt from conducting these financial viability tests if they already receive state aid or public subsidies. Automatic exemption only applies if public subsidies have a "claw-back" mechanism (i.e. must be repaid once CRCF revenues become available) or do not cover the same aspects as the activity proposed for CRCF funding (e.g., smaller area, different eligible costs, smaller number of practices). For the latter it is however sufficient to demonstrate that incentives through the CRCF create more sustainability co-benefits while the type of practice can be the same. These multi-layered exceptions create an enabling environment for adverse selection in the type of activities that will apply for

registration under the CRCF. Not having to conduct a financial viability test provides a competitive advantage for activities that already receive public subsidies. This bears substantial risks that CRCF revenues replace public subsidies in already on-going activities instead of incentivising new activities. This will only result in additional climate action if these subsidies in turn are appropriated to additional peatland rewetting activities. If they are returned to state budgets and appropriated for other purposes, CRCF funding will not lead to any additional peatland rewetting activities.

Finally, the methodology requires that activities must not start before the time of submission of the activity plan to the certification scheme for the certification audit. This would be a very robust rule for ensuring that only those activities will receive CRCF funding that need its incentive effect (prior consideration). The methodology allows however an exemption for any activities that started between 1 January 2023 and 31 December 2027. These "early movers" would be eligible to apply for certification under the CRCF until 2030. Considering that the CRCF regulation only entered into force on 26 December 2024, this exemption would allow registration of legacy actions that already successfully operated before the CRCF has been adopted.

Overall, the additionality rules should be further revised and more closely aligned with best practices of existing carbon crediting programmes.

- **Treatment of activity period renewals as "prolongations" of the first activity period inconsistent with CRCF rules:** The revised methodology includes a provision that exempts all peatland rewetting activities from the rule enshrined in Article 4.11 of the CRCF Regulation to update baselines at the beginning of each activity period. It does so by treating activity period renewals as "prolongations" of the first activity period. Consequently, project operators do not need to update the baseline when they "prolong" the activity period. This means that operators can use the initial baseline for 30 years without having to reflect any changes in baseline conditions during implementation of the activity. "Prolonging" a crediting period is uncommon in carbon crediting and we recommend deleting the term from the methodology. If the EU Commission is of the view that baselines should be valid for the entire project duration, the activity period should be set to 30 years without options for renewals. While Article 4.11 of the CRCF Regulation allows methodologies to establish exceptions from the requirement to update the baseline, it does not include an option to "prolong" initial activity periods. This means the proposed provision in the draft methodology is also inconsistent with CRCF rules.

- **References to "onboarding" of existing certification schemes should be deleted from the methodology:** In its additionality provisions, the methodology stipulates that activities carried out under other certification schemes than the CRCF automatically meet the prior consideration requirements discussed in the above bullet. However, only units issued after an official recognition of that scheme by the Commission will be eligible for certification. We recommend deleting these provisions from the methodology. There should be a separate delegated act, which will outline the detailed rules for transferring an activity from another certification scheme to the CRCF. These rules should be the same for all project types and there is no need to have such rules included in a methodology for an individual project type such as peatland rewetting. Further, assuming that these activities automatically meet the prior consideration (or incentive effect) provisions of the methodology might be misguided. If the other certification scheme did not require operators to demonstrate that they meet these requirements, this might not be the case.

- **Improved definition of eligible activities but could be better formulated:** The first draft of the methodology used an open formulation in defining eligible activities ("may include", "but not limited to"). The new version now clearly defines two eligible activities as follows:
    - *Peatland rewetting and restoration by removing aboveground structures causing the drainage or modification of natural water flows and de-poldering.*
    - *Decreasing water table fluctuations to improve the hydrological conditions by altering the pumping regime or using structures allowing for an increase of water levels and a reduction of fluctuations in water tables.*

  This formulation could be improved by moving the phrase "peatland rewetting and restoration" out of the first numeral and put it ahead of the two numerals. This would make it clearer that the activities under numeral 2 would have to take place in the context of peatland rewetting and restoration. Again, this should be a small, uncontroversial fix.

- **No attribution of units incentivised by public funding:** The eligible mitigation activities may also be funded through public funding. If mitigation activities receive both public subsidies and CRCF units, this could artificially lower CRCF unit prices and implicitly subsidise continued fossil fuel use by the buyers of the units. The methodology should either exclude mitigation activities that receive public funding or proportionally attribute the emission reductions to the financial support provided.

- **Vague definition of greenhouse gas assessment boundary:** In several instances the methodology contains the term "Yes, where applicable" in answer to the question whether a carbon pool or emission source must be included in the greenhouse gas assessment boundary for determining the net mitigation effect of activities. The intention for this is clear, in the sense that an operator whose land e.g., does not include living above-ground biomass cannot account for it. A methodology whose aim it is to set an accounting standard should however not leave it to the discretion of project operators to decide when inclusion is "applicable" or not. The term "where applicable" should therefore be deleted in all instances of the methodology. This will not negatively affect operators but increase clarity of the methodology. In the example of owners whose land does not include living above-ground biomass they can simply fill in "zero" to fulfil their accounting obligation for this carbon pool. Overall, this should be a non-controversial, but important fix to the current draft.

  Treating CH_4 and N_2O soil emissions as carbon pools: The methodology treats CH_4 and N_2O soil emissions as carbon pools. The idea behind this is likely to align the carbon pool structure with respective LULUCF categories in national inventories. Methodologically cleaner would be to treat these as project emissions, because project activities cause the increase in these emissions.

- **High flexibility to choose between different models, methods and approaches is not a robust approach to quantification:** The draft methodology provides five different options that operators can chose from to quantify the emission reduction impact of their peatland rewetting activities. These options include tier 3 models, other models, ground-based measurements, data calibration models using remote sensing data, and tier 1 and tier 2 models. The latter however may only be used for the quantification of associated GHG emissions. Experience from improved forest management and avoided deforestation projects in the voluntary carbon markets have shown that such flexibility

makes methodologies vulnerable to adverse selection as operators will likely apply those models that result in highest emission levels in baseline scenarios. This has led to considerable overestimation of emission reductions.

- **Important to apply appropriate emission factors for dry and rewetted peatlands:** There are high differences between emission factors for dry and wet peatlands. In its definition section the methodology stipulates that emission factors must appropriately reflect the emissions or removals of a gas per unit activity under a given set of environmental conditions. Most models will also likely include different emission factors. Nonetheless, the methodology could have more explicit requirements in this regard.
- **Not all causes of uncertainty included in requirements for determining the level of uncertainty deductions:** The methodology prescribes that operators must consider measurement errors in sampling of the data used and data processing when determining the uncertainty deduction. It is however important to also include uncertainty associated with the assumptions made to quantify emission reductions.
- **Methodology should more clearly require accounting for weather-dependency of soil emission reductions:** Soil emissions from peatlands have a high responsiveness to fluctuations in groundwater tables. Emissions are higher in dry years, while lower in years with high rainfalls. Although the extent of fluctuations decreases after successful rewetting of a peatland area, it is important that this dynamic is considered when quantifying the mitigation impact of a rewetting activity. Germany for example started in 2024 to use annual weather data when estimating emissions from its organic soils for reporting in its inventory. Under the CRCF operators should therefore be required to use models that allow for water table heights being used as an input parameter for calculating emission reductions. The methodology already requires monitoring water table depths at least every 15 days. These data can be used to construct a robust time series as an input for the quantification.
- **Monitoring requirements now more comprehensive:** The revised draft of the methodology now includes a comprehensive set of parameters that operators must monitor during implementation of the rewetting activity.
- **Improved section on sustainability minimum requirements:** The section on minimum sustainability requirements is now better structured and cites relevant directives and regulations that the activities must comply with. It is however still unclear how these requirements will be operationalized as there is no standardized process prescribed (i.e. an environmental and social impact assessment or similar).

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