Carbon Market Watch's input on the UK Government's proposed framework for voluntary carbon and nature markets

10 July, 2025

Carbon Market Watch (CMW) welcomed the opportunity given by the UK government to provide feedback on its proposed policy and governance framework, "Voluntary carbon and nature markets: raising integrity". CMW has provided responses to selected questions, outlined below.

CMW disagrees with the UK government's commitment to – and reliance on – market-based mechanisms to "support [its] ambitious net zero and environmental targets" in addition to its generally positive view towards the role of "insetting" as a way to "maximise high integrity value chain emissions reductions". CMW is particularly concerned with the UK government's potential endorsement of the VCMI's Scope 3 Action Code of Practice as international best practice, which it sees as a misguided approach. By promoting the use of carbon credits to "close scope 3 emissions gaps", the Code risks disincentivising investment in decarbonising corporate value chains as well as legitimising what is effectively offsetting in all but name, potentially rewarding climate laggards and enabling misleading climate claims.

Selected Consultation Questions and CMW Responses

1. Do you agree with the Government's proposal to recognise VCMI's Claims Code as representative of international best practice?

Carbon Market Watch disagrees with the Government's proposal to recognise the VCMI's Claims Code as representative of international best practice, in large part due to ***VCMI's Scope 3 Action Code of Practice*** *which we do not think represents best practice and* which will be discussed in more detail below.

Carbon Market Match was generally supportive of VCMI's Claims Code of Practice after its initial release in 2023, specifically due to the approach to **shift away from the contentious 'offsetting' or 'compensation' claim model to the 'contribution' or 'beyond value chain**

mitigation model' (BVCM) claim model[1]. Under a BVCM model, companies may purchase carbon credits, but would not claim that they have neutralised or compensated for their emissions, which is critical for a number of reasons, including for consumer protection and significant quality shortcomings observed in most carbon credits[2] making them misleading (and legally risky) and inadequate for compensation purposes[3]. Several of the foundational criteria also include important principles such as the need to demonstrate companies support the goals of the Paris Agreement and to not lobby against climate action.

Even with VCMI's original Claims Code of Practice, we have concerns regarding referring to VCMI as best international practice. This includes but is not limited to the fact that it's possible for companies to set intensity-based greenhouse gas emissions reduction targets instead of absolute ones and that the three possible levels of claim – silver, gold, platinum – could lead to confusion. While introducing a tiered system of claims can help convey a company's level of climate ambition, use of these claims alone may be misleading. For example, due to widely recognised cultural associations with precious metals, a "gold" claim might be perceived by those unfamiliar with the framework as the highest level of ambition despite "platinum" being superior. For example, Platinum, Gold and Silver respectively imply retiring credits in proportion to 100%, 50%, or 10% of unabated emissions, which are significantly different thresholds that would not necessarily be apparent to most people coming across the name of the claim. Moreover, there is only an encouragement to set a long-term emission reduction target.

Beyond these points, Carbon Market Watch also finds that VCMI's recently launched Scope 3 Code of Practice contains significant flaws that rule it out as being representative of international best practice, on which we will elaborate in the next section.

2. Do you have any views on VCMI's guidance for Scope 3, noting that the final version may be published during this consultation period?

Carbon Market Watch *does not support* VCMI's Scope 3 Action Code of Practice.[4] This is because VCMI proposes to recognise companies as climate leaders for retiring carbon credits to "close scope 3 emission gaps" through 2040, including if such emissions are 25% higher than they should be, which not only risks rewarding climate laggards and disincentivising investment in decarbonising corporate value chains but also effectively amounts to offsetting in all but name, which is misleading and risks opening companies to legal risks.

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[1] See "New carbon market code of practice discourages companies from greenwashing" (CMW 2023). The 'contribution' or BVCM model is different from an offsetting model because companies *use* carbon credits differently.

[2] See Systematic assessment of the achieved emission reductions of carbon crediting projects (nature communications, Benedict S. Probst, et. al, 2024).

[3] See Rise in legal challenges ver carbon credit schemes (Guardian, 2025). See also The legal risk in advertising carbon offsets (ClientEarth, 2022).

[4] See "New VMCI guidance risks justifying carbon offsetting and delaying real corporate climate action, NGOs say".

CMW previously submitted a response to VCMI's publication consultation on the Scope 3 guidance draft framework in 2024 and was critical of various elements of the methodology. The final framework – released in April 2025 – is largely the same as the draft framework with a few changes, which have further weakened it. In short, CMW believes that the Scope 3 Action Code of Practice is misguided and will not aid in the acceleration towards global net-zero.

Overall risk of VCMI's Scope 3 code of practice:
The VCMI's Scope 3 guidance risks *rewarding* laggard companies who are not making sufficient efforts to reduce scope 3 emissions by allowing them to exaggerate – and communicate about – their inadequate actions to the disadvantage of legitimate climate leaders. As a result, companies with increasing emissions in the near-to-mid term may greenwash their inaction and deteriorating performance, preserving business-as-usual while unduly getting recognition for being a climate leader[5].

Achieving value chain targets with beyond value chain action (i.e. offsetting)
Allowing companies to retire carbon credits in proportion to 25% of their total scope 3 emissions trajectory until 2040, in order to bridge the scope 3 "emissions gap" encourages companies to treat the purchase of carbon credits from beyond their value chain as synonymous with value chain decarbonisation. Even if terms such as "offsetting/compensating/neutralising" are not specifically used in VCMI's Scope 3 action code of practice, the guidance supports companies putting internal decarbonisation on the same footing as carbon credit retirement (i.e. offsetting): "The Scope 3 Action Code of Practice guides companies on how to use high-quality carbon credits to close their scope 3 emissions gap as they implement measures to meet their emission reduction targets. Companies should take action to address their emissions gap each and every year, retiring high-quality carbon credits to close any remaining gap." (page 6, Scope 3 Action Code of Practice). Moreover, the code of practice creates a perverse incentive for companies to not reach their targets, or to not try hard enough to do so, since in-house decarbonisation is likely to be far more expensive than purchasing carbon credits: companies that are not decarbonising at the scale and urgency required are afforded the possibility to purchase significantly less expensive mitigation unrelated to their value chains (in the form of carbon credits) and treat this as comparable to in-house decarbonisation, for which they will receive positive recognition by being associated with VCMI's Scope 3 code of practice. This undermines incentives for companies to make direct efforts to reduce Scope 3 emissions.

Terms such as "closing their scope 3 emissions gap" and "address their emissions gap" can be understood to be synonymous with offsetting/compensation/neutralisation, even if such

[5] For instance, the 2024 Corporate Climate Responsibility Monitor (CCRM) highlights various companies, such as Volvo Group, who have heavily invested in – and implemented – ambitious climate actions along their value chains. According to the CCRM's lead authors at NewClimate Institute, the Scope 3 Claim could "enable[...] laggard companies that have *not* undertaken similar efforts to misleadingly appear to be making similar progress towards ambitious-sounding targets".

terms are not explicitly used. Moreover, VCMI's Scope 3 code of practice does not even require the retired carbon credits to be related to the company's scope 3 emissions, whether in terms of location or sector, further reinforcing the priority given by VCMI to treating unrelated mitigation action as comparable to value chain decarbonisation. This appears to be a highly misleading practice that risks delaying corporate Scope 3 decarbonisation, misguiding the public and regulators, and landing companies in legal trouble.

Emissions gap declining over time:
The 2040 phase-out date (up from 2038 in the draft framework) is another issue with the Scope 3 Framework as it allows companies to rely heavily on carbon credits for an extended period of time before resuming a science-aligned decarbonisation pathway. In practical terms, this means that companies would be allowed to pollute more than their annual decarbonisation target – for scope 3 – by 25% until the 2040 phase-out date.

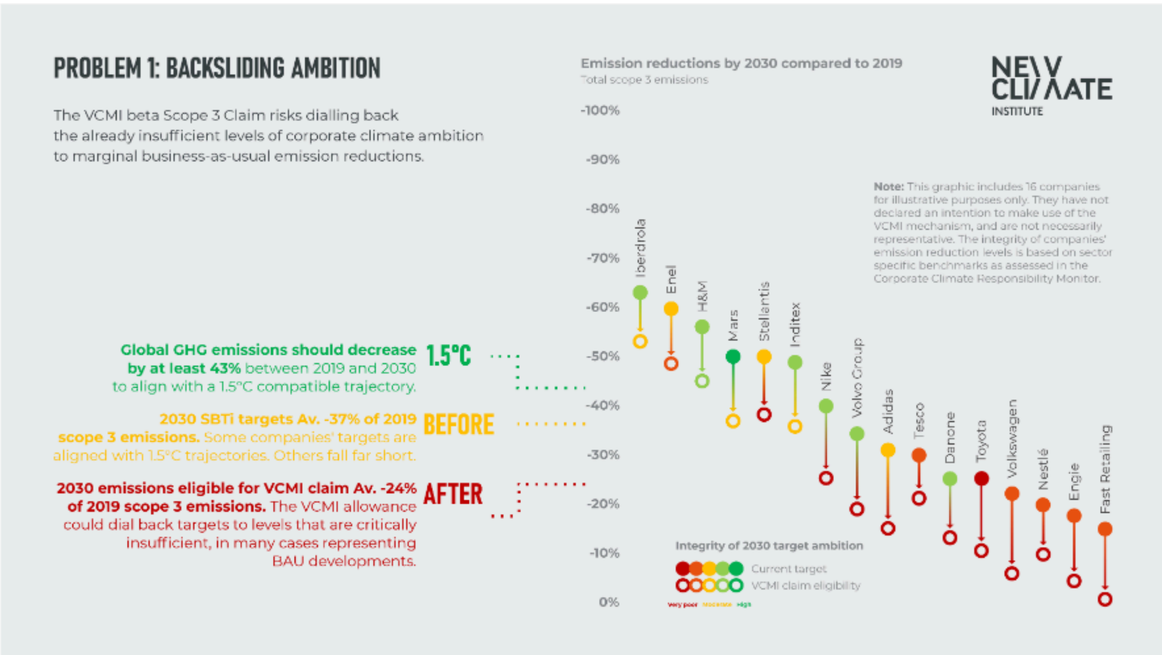
Moreover, the Scope 3 code of practice also permits companies to use a carbon budget approach, which introduces further risks. Under a carbon budgeting approach, companies could increase their Scope 3 emissions substantially within the first few years and still be in compliance with the code of practice. While a limit on being offtrack is established for this approach, it is set at a high 40% threshold on an annual basis. Under the carbon budget approach, companies could thus substantially increase their Scope 3 emissions for several years, claiming compliance with VCMI's Scope 3 code of practice during this time, only to then drop out without facing consequences: while some companies may drop out from a genuine realisation they wouldn't comply with the code of practice after several years, others may know from the outset they wouldn't comply at the end date but still use the Scope 3 code of practice for several years to benefit from the name recognition of being associated with VCMI.

The 2038 phase-out timeline was originally based on VCMI calculations which estimate how long it will take for the hardest-to-abate sectors to get back on track with pathways compatible with a "well below 2°C" trajectory. However, in the new Scope 3 Action Code of Practice, VCMI has unfortunately increased the timeline by two years, to 2040, "to acknowledge and account for uncertainties and fluctuations". Based on VCMI's original analysis, only hard-to-abate sectors (aviation, shipping and trucking) would not be on a Science Based Targets initiative (SBTi)-aligned pathway by 2038 (now 2040), with other sectors able to reach it much sooner, such as aluminium (2031), chemicals (2033), steel (2033) and cement (2037).

Given that the VCMI framework is voluntary, there is a risk of adverse selection such that companies in sectors that are comparatively easier to decarbonise will opt to implement the new scope 3 rules which have been designed for the harder-to-abate sectors.

Problematic 25% flexibility allowance:
Another critical flaw in this framework is the allowance for a 25% annual overshoot of scope 3 emission reduction targets. 25% is much too high of an allowance, especially for companies who are already underperforming. If companies were to embrace this level of flexibility instead of decreasing their scope 3 emissions, it would severely threaten our global climate goals.

A concrete illustration of how this 25% flexibility allowance can affect, for example, VCMi-certified scope 3 corporate 2030 targets can be found in a graph published by NewClimate Institute (NCI)[6]. NCI tested the application of VCMi's beta Scope 3 allowance on 16 companies analysed in the 2024 Corporate Climate Responsibility Monitor and found that the "Scope 3 Claim could further weaken the already insufficient 2030 targets of most companies [and that the 24%] allowance could reduce scope 3 targets to levels that are critically insufficient for achieving sector-specific trajectories needed to limit global warming to 1.5°C"[7] (*note: NCI's analysis was of the beta claim, hence why the flexibility figure is 24%, rather than the actual 25% in VCMI's final Scope 3 Code of Practice*).



Note: This graphic includes 16 companies for illustrative purposes only. They have not declared an intention to make use of the VCMI mechanism, and are not necessarily representative. The integrity of companies' emission reduction levels is based on sector-specific benchmarks as assessed in the Corporate Climate Responsibility Monitor.

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[6] See "VCMI's revised Scope 3 proposal could distract from and delay immediate climate action, undermining front-runners' efforts" (NewClimate Institute, 2024).
[7] 2024 Corporate Climate Responsibility Monitor (NewClimate Institute in collaboration with Carbon Market Watch, 2024).

While CMW acknowledges the challenges that companies face in addressing scope 3 emissions, the VCMI Scope 3 code of practice falls short of offering the most effective or innovative approach. For example, under the Corporate Net-Zero Standard the SBTi is proposing "alignment metrics/targets" for Scope 3, which offers a promising approach that attempts to ensure a company's activities are meaningfully aligned with global climate objectives. Alignment targets that concentrate on specific, sector-relevant actions could increase clarity and accountability, in areas where traditional aggregated GHG metrics may lend themselves to obfuscation. In any case, Scope 3 alignment targets should come in addition to emission reduction targets rather than in replacement of them.

Confusion on the concept of "mitigation hierarchy":

VCMI states that the Scope 3 framework encourages companies to prioritise internal decarbonisation in alignment with the mitigation hierarchy principle by "requiring companies to publicly disclose the measures they have adopted to reduce scope 3 emissions and the outcomes of these actions, as well as investments in future reductions"[8]. However, endorsing the use of carbon credits to "address" scope 3 emissions that can be annually off-track by 25% (or even by 40% in the carbon budget approach), is instead undermining this principle. This point was raised in an open letter on the use of carbon credits to meet Scope 3 targets signed by various civil society organisations and the scientific community: "Scope 3 emissions are inherently part of a company's footprint. Disaggregating that footprint into categories does not make it more acceptable to meet internal reductions targets with external reductions. This approach is counterproductive, and largely backed by actors with direct financial interests in allowing this flexibility"[9].

Absence of an actual claim leads to overall confusion

VCMi has essentially created a claims framework without an actual claim. This creates confusion and a lack of clarity for all stakeholders, particularly for companies. This, coupled with the fact that VCMI's Scope 3 code of practice effectively encourages companies to treat the purchase of carbon credits unrelated to a company's value chain as comparable with mitigating their actual value chain emissions, risks opening companies to significant legal and regulatory risks.

3. Should the UK Government explore this concept further?

"*We [the UK Government] recognise that most companies and organisations are not yet able to meet the requirements of VCMI's Claims Code, however there would still be potential benefits in them using high-integrity carbon credits. Given this, the Government also invites views on whether it would be useful to have a broader potential interim claim or means to recognise organisations' use of high integrity carbon credits in respect of emissions reductions from Scopes 1-3 that cannot be feasibly achieved in the short term, alongside an explanation of why this is not feasible*".

[8] VCMI's Scope 3 Action Code of Practice.
[9] See "Open letter on the use of carbon credits to meet scope 3 GHG targets".

No, the UK Government should not explore this concept further. Market-based mechanisms must *not* play a role in 'addressing' Scope 3 emissions – as discussed above – and doing so could result in decreased climate ambition, highly misleading claims and the setting of a dangerous precedent that market-based mechanisms can act as a 'silver bullet' that can solve the world's Scope 3 problems.

4. Do you have views on the proposed criteria above and others that could apply?

N/A, see previous responses.

5. Is there alternative language to 'towards Paris alignment' that could recognise the above actions in a way that is attractive, accurate and understandable? [Context: see explanation for question 3 on the possibility for an additional interim claim].

No, not in the context described above by the UK government above since the Government proposes relying on a market-based mechanism "in respect of emissions reductions for Scopes 1-3". These principles are not Paris aligned and, even if this were the case, use of the phrase "Paris aligned" for a corporate claim should not be considered best practice. Temperature alignment claims are a better alternative.

Temperature-alignment claims, with a specific reference to 1.5°C, were suggested as an option under the recent draft of SBTI's Corporate Net Zero Standard, which we view as more credible than Paris alignment claims. Under the Paris Agreement, the headline target is 2°C with an encouragement to reach 1.5°C, which can be interpreted as 2°C alignment being acceptable. This can result in decreased ambition and potentially misleading climate communications. In addition, the Paris Agreement includes many other goals not related to mitigation (e.g. adaptation, loss-and-damage), making this claim unspecific. In addition, some have used the phrase "Paris alignment" to argue for weaker firm enforcement dates since the Paris Agreement doesn't mandate 2050 as a net-zero target date explicitly and there is debate around which countries need to reach it when (which is sometimes extrapolated to companies). It is therefore important to be as precise as possible and using a Paris alignment claim is too vague. Temperature alignment claims, with a specific reference to 1.5°C are thus more precise and preserve a higher level of ambition that leaves less room for confusion. Inherently, such high-level claims still retain ambiguity, but this claim is preferable to Paris-alignment claims or net-zero alignment claims.

If the UK government wishes to explore an additional interim claim in this context, it can do so, but by following the beyond value chain mitigation (BVCM) / contribution claim model (discussed in more detail in various sections throughout this consultation response).

7. Is there an appetite amongst stakeholders for further standardisation of the high-integrity insetting approaches for industries, particularly the FLAG sector?

Insetting is a relatively new concept that is poorly defined and understood, so it would be understandable that companies who rely – or plan to rely – on this practice want some added clarity. Carbon Market Watch, however, does not generally support the concept of insetting because it is essentially a rebranded form of offsetting in which companies compensate for their emissions by implementing projects within their own value chain[10]. Some of the problems that arise when corporations rely on insetting include low credibility corporate climate claims, the double counting of emission reductions, and potential issues regarding independence of methodologies and verification (e.g. if company self-certifies)[11].

In the recently published 2025 iteration of the Corporate Climate Responsibility Monitor (CCRM), co-produced by NewClimate Institute and Carbon Market Watch, agrifood companies' climate strategies were assessed, including their reliance on insetting to achieve targets[12]. One of the main conclusions from this report is that agrifood companies' climate targets were weakened by the undefined role of land-based CDR, with three of five companies depending on unspecified amounts to claim progress towards achievement of their targets.

The GHG Protocol's (GHG-P) draft Land Sector and Removals guidance requires companies to set separate targets for reduction and removals. The draft Guidance requires companies to report Scope 1 and 3 emissions associated with land management, while reporting of removals remains optional. However, if removals are reported, they must be disclosed separately from emissions, which is a positive step toward improving transparency in emission inventories and supporting clearer assessment of progress toward emission reduction targets.The same is true for targets: The draft guidance requires companies to set emission reduction targets that are independent of any removals. If net or removal targets are used, they must be separate and supplementary to the core emission reduction targets.

Separate targets are the only credible approach for the forest land and agriculture sector because they improve transparency and clarify a company's climate strategy by distinguishing between reducing emissions at the source and monitoring removals on land. Merging land-based removals with emissions to reach emission reduction targets is misguided not only because it hampers interpretation of a company's emissions trajectory,

[10] Combating corporate greenwashing through regulation: Policy Implications of the 2023 Corporate Climate Responsibility Monitor (Briefing by Carbon Market Watch, 2023).
[11] 2023 Corporate Climate Responsibility Monitor (NewClimate Institute in collaboration with Carbon Market Watch).
[12] 2025 Corporate Climate Responsibility Monitor: Food and Agriculture Sector Deep Dive (NewClimate Institute in collaboration with Carbon Market Watch).

but also because land-based removals are by no means sufficient to neutralise fossil emissions, as research has shown.[13]

8. What other support could help reduce barriers to, or facilitate, insetting?

Since Carbon Market Watch does not support the concept of insetting, we do not support reducing barriers to, or facilitating, insetting.

16. Does your organisation use the ERG to guide engagement with voluntary markets? If so, could it be improved, and how?

"The UK Government's existing Environmental Reporting Guidelines (ERG) were last updated in 2019. They are designed to guide best practice approaches to voluntary reporting across a broad range of environmental impacts, including GHGs, water, waste, biodiversity and ecosystem services. They set out criteria for identifying carbon credits from international sources and UK that are suitable for using to support voluntary carbon claims. The ERG state that, where organisations purchase carbon credits, they should report: the tonnage reduction per year, crediting programme, methodology, supplier name, project documentation, date of retirement, proof verification and validation, and how credit quality criteria listed in the ERG were met."

Carbon Market Watch does not use the ERG. From the description provided above, it appears that the ERG only encourage companies buying carbon credits to disclose information, rather than require this: "The ERG state that, where organisations purchase carbon credits, they should report: the tonnage reduction per year, crediting programme, methodology, supplier name, project documentation, date of retirement, proof verification and validation, and how credit quality criteria listed in the ERG were met."

Carbon Market Watch suggests the ERG to be updated so that it is a requirement ("shall"/"must") for companies purchasing carbon credits to disclose the listed information. It is not strong enough for this to only be an encouragement ("should"). In addition, the retirement purpose should also be disclosed.

20. What role, if any, could the use of voluntary carbon and nature credits play in net zero aligned transition plans?

High-quality carbon credits can play a role in supporting beyond value chain mitigation (BVCM), but should never be considered equivalent to emissions reductions, or used to meet emission reduction targets (including interim targets), or as a means to "get back on track" if a company is not reaching its in-house decarbonisation targets, or as a way neutralise, offset, counterbalance or otherwise compensate for emissions more generally. Any use of carbon credits should follow the contribution / BVCM model rather than the offsetting / neutralisation model.

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[13] Durability of carbon dioxide removal is critical for Paris climate goals. Brunner et al. (2024).

While carbon credits *can* play a role in a BVCM approach, they should not be considered an *essential* element of a net-zero aligned transition plan. In addition to heavily investing in internal decarbonisation and research & development (in order to overcome barriers to internal reductions), companies can also invest in alternatives to carbon credits such as, e.g. climate or environmental impact funds, to take responsibility for their unabated emissions. These impact funds offer a variety of initiatives beyond the voluntary carbon market[14].

23. Outside of any pre-existing disclosure requirements you might already be subject to, do you see value in making 'net emissions' claims and/or 'contribution' claims in respect of your use of carbon credits, and if not, why?

Currently, we do not see any value in 'net emissions' claims, but do see a value in contribution (or beyond value chain mitigation) claims. We have touched on claims based on this model in previous sections. These claims are already on the market and they have support amongst a wide range of actors[15]. For companies or organisations making these kinds of claims, key steps of the contribution claim can include the following:

- Calculate and disclose its GHG footprint , including scope 1, 2 and 3 emissions;
- Determine a budget to be allocated to beyond value-chain climate action (e.g. through an internal carbon price, a share of revenues, etc.);
- Undertake due diligence to decide on a beyond value-chain climate portfolio that will direct finance to the most impactful climate initiatives;
- Finance the identified initiatives;
- Publicly communicate about each of the first four steps, clearly separating beyond value-chain funding from internal decarbonisation efforts.

It should also be noted that "net emissions" claims such as neutrality claims at product-level have recently been banned in the EU's recent revision of its consumer protection law – its anti-greenwashing legislation – ("Empowering Consumers for the Green Transition" that amended the "Unfair Commercial Practices Directive")[16] due to their inaccurate and misleading nature. These rules will apply from September 2026. There have also been a plethora of legal and regulatory actions and decisions that challenge the concept of offsetting and how it is used to make highly misleading corporate climate claims that breach consumer protection laws.[17] Many of these judgments refer to the national implementing legislation of

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[14] Some of these funds can include MilkyWire, Pinwheel and 1% for the Planet, amongst others.
[15] See: "Dozens endorse statement on alternative approach to climate action outside corporate value chains".
[16] See Directive (EU) 2024/825 'Empowering Consumers for the Green Transition' (ECGT) and Directive 2005/29/EC 'Unfair Commercial Practices Directive' (UCPD).
[17] See "Rise in legal challenges over carbon credit schemes". See also: *Breaking: Court judgment in first Dutch greenwashing class action - marketing claims KLM are considered to be misleading | Loyens & Loeff; Swedish court bans Arla's net-zero advertising claim; Deutsche Umwelthilfe siegt vor Gericht: HelloFresh darf sich nicht mehr „klimaneutral" nennen – Deutsche Umwelthilfe e.V.; German court bans Lufthansa's alleged 'greenwashing' ads, Marketing & Advertising News, ET BrandEquity; Coordinated EU consumer regulatory action is pending regarding offsetting claims. Press corner | European Commission; Settlements and regulatory rulings also relate to the Australian Consumer Law and Corporations Act, and the requirements governing listed company reporting.*

the EU Unfair Commercial Practices Directive (UCPD) which continues to apply in the UK as the Consumer Protection from Unfair Trading Regulations of 2008. Net emissions claims are therefore highly risky – both legally and reputationally – for companies.

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EnergyAustralia apologises over claims of 'greenwashing' with Go Neutral products - ABC News; AFM annual report 2022: a call to keep an eye on the long term; REP 763 ASIC's recent greenwashing interventions | ASIC.