August 2022

Public Consultation on VCMI's Provisional Claims Code of Practice

IETA and ICROA Response

The International Emissions Trading Association (IETA) and the International Carbon Reduction and Offset Alliance (ICROA) appreciate the opportunity to respond to the public consultation on VCMI's Provisional Claims Code of Practice (Claims Code).

Voluntary claims are a key topic for IETA and ICROA which represent nearly 240 organizations actively participating in carbon markets and involved in the supply, certification, intermediation, advisory or demand for carbon credits. One of our roles is to promote best practice in voluntary carbon management and offsetting through ICROA's Code of Best Practice and Accreditation Program. We stand for high integrity and for recognizing companies that commit to responsible and ambitious climate action. We therefore welcome the Claim Code.

The purpose of this document is to consolidate and complement comments made in the dedicated feedback form. It provides greater clarity on our main feedback points. We chose not to use the star rating system to better convey the nuances in viewpoints from the many organizations that make up IETA and ICROA. The document is based on the feedback form's structure, with: positive statements and general comments, comments on the prerequisites, claims, carbon credit quality, and transparency and reporting requirements.

We very much hope this feedback will inform the next version of the Claims Code, and we look forward to working together with VCMI.

The IETA & ICROA Secretariat.

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About IETA and ICROA

IETA is a non-profit business organization created in 1999 to establish a functional international framework for trading in greenhouse gas emission reductions. Our membership includes nearly 240 leading international organizations from across the carbon trading cycle: energy and industry businesses, carbon offset project developers, standards, consultants, assurance providers, law firms, banks and financial institutions, investors, exchanges and brokers who are all active participants in compliance or voluntary carbon markets. IETA members seek to develop an emissions trading regime that results in real and verifiable greenhouse gas emission reductions.

Created in 2008, ICROA is a non-profit initiative representing the interests of voluntary carbon market (VCM) service providers in promoting emission reductions and offsetting to the highest standards of environmental integrity and in support of the Paris Agreement. ICROA runs an Accreditation Program based on a Code that aims to define international best practice for carbon management and offsetting and represents the minimum requirements that all ICROA-Accredited organizations must meet. ICROA effectively builds on key quality and integrity requirements and complements them with a standard that enables the market to find, use and trust service providers to the VCM. ICROA is housed within IETA.

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1. Positive statements and general comments

Positive statements:

i. We welcome guidance on claims that strive to align definitions and terminology globally.
ii. The Claims Code helps legitimize the use of carbon credits to achieve global net zero and the contribution that the private sector and other non-state actors can, and must, make.
iii. We welcome the inclusion of 'carbon neutral' brand-, product- and service-level claims alongside enterprise-wide claims. Companies have a big opportunity to decarbonize and offset value chain impacts.
iv. We support the position that carbon credits with or without corresponding adjustments can be used to underpin VCMI claims. Emission reductions and removals resulting from projects whose credits are not correspondingly adjusted may therefore count towards a Host Country's nationally-determined contributions (NDC).
v. We welcome the need for transparent reporting on targets and use of carbon credits, as encouraged by ICROA.

General comments:

- We praise VCMI for trying to provide an "unimpeachable" framework that all stakeholders can trust, without room for "greenwashing" or use of carbon credits to delay decarbonization, while also trying to be inclusive and balanced. The proposed requirements create an important framework for standardizing and recognizing the transformational efforts undertaken by climate leaders, paving the way for other companies, and incentivizing meaningful action altogether. We support the formal contextualizing of carbon credit use as part of a Paris[1]-aligned internal abatement target, which is an essential principle we advance. The Claims Code should strive to provide confidence to consumers, investors, and broader stakeholders that a company making a claim is a responsible climate actor. Our comments aim to support this objective.

- However, we believe there are elements which don't work. As a consequence, the Claims Code could end up being one of several best practice frameworks, as opposed to being a universally accepted one. In particular, our members from hard-to-abate sectors (and to a certain extent SMEs) will find it difficult to use the Claims Code in its current form primarily due to the requirement for Scope 3 inclusion in the pre-requisites and due to the extent of BVCM required to achieve the Claims. One consideration is a sector-specific approach that recognizes what is most feasible to address in the short- vs long-term.

[1] Referring here to the global emissions mitigation and adaptation goals of the Paris Agreement.

- On Claims, we would like to see a wider range of claims available to corporates, widening the spectrum of Claims options, to acknowledge and reward additional credible ways to take action. See Point 3 further.

- The drivers for brand-, product- and service-level claims can be very different from those for enterprise-wide claims. We suggest avoiding making brand-, product- and service-level claims exclusive to companies that have a net-zero target. As they stand, the Code's requirements could deter companies from launching new, potentially substantial low carbon offerings (some product footprints are significantly larger than some SME's), if they are not yet able to set a net-zero target, and therefore potentially slowing down action.

- We applaud VCMI for road-testing the Claims Code with a group of companies alongside this consultation, a pragmatic approach to understand how workable the proposals are. We strongly encourage hard-to-abate sectors to be included in the road-test.

- We urge VCMI to work with ISO[2], BSI and Race to Zero ([Our 2050 world]() collaboration) who are developing net-zero guiding principles through the launch of an International Workshop Agreement (IWA 42), to ensure aligned global guidance on the meaning of 'net zero' and use of carbon credits in support of voluntary climate action. We strongly encourage complementary and convergence of frameworks to the extent possible, even if national rules change from one country to another and therefore certain notions are not universal (e.g. where national rules on GHG accounting differ, the notion of residual emissions also differs).

- On existing frameworks, we further suggest that VCMI utilizes the four principles from *The Oxford Principles for Net Zero Aligned Carbon Offsetting,* https://www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf.

- Finally, we would welcome guidance on reduction vs removal credits to reduce confusion. We believe both should be used to make high integrity claims but that increasingly removals should be used toward the net zero attainment year. VCMI could guide companies by recommending a percentage of removals required over time. We suggest that VCMI frames the inclusion of reduction and removals and the shifts over time similar to Principle 2 and 3 (pages 8-11) from *The Oxford Principles for Net Zero Aligned Carbon Offsetting.*

2. Step 1: Prerequisites

The proposed prerequisites are an ambitious approach to spurring action now and on the pathway to net-zero. Making users accountable for their Paris-aligned target is fundamental. However, we believe the prerequisites are too onerous for certain companies which are trying to do the right thing. It is important that the Claims Code is an enabling framework, creating entry points for action for as many ambitious companies as possible whilst providing guardrails to avoid "greenwashing".

[2] Also included here: ISO 14068 (carbon neutrality)

The requirement to follow SBTi guidance for setting target boundary and emissions coverage means that certain companies from hard-to-abate sectors, with extremely large Scope 3 footprints and for which credible sectoral guidance is not yet available[3], could fail to achieve Step 1. An alternative could be to amend the prerequisite to '*Make a public commitment to achieve science-aligned long-term net zero emissions no later than 2050, covering Scopes 1, 2, and* <u>*strive to include*</u> *scope 3'.*

Companies should be allowed to set out a pathway to have a clear calculation of Scope 3 within [5] years but this should not prevent them from starting to be recognised for credible action on Scopes 1 and 2 in that period. Further, we suggest establishing a list of industries that would fall into the hard-to-abate sector category, with specific prerequisites for that category.

Additionally, an organization's Scope 3 emissions are another organization's Scope 1 or 2 emissions, and companies can have limited influence over large parts of their Scope 3. Fundamental shifts in Scope 3 emissions will require large cross-sector transformation and government intervention, particularly for the largest emitters. Overall, this risks alienation and likelihood of the largest emitters avoiding participation in the Claims Code, rather than creating an inclusive environment.

SMEs also risk exclusion calculation of scope 3 is difficult and costly, as are annual audits and validation by a credible, independent third party. The cost of an external audit could, in some instances, be greater than the purchase of carbon credits. We suggest simplifying where possible. This could include: more flexibility in the calculation of scope 3 (but with an obligation to publish the reason for divergence and rational for the method followed), a less frequent third -party audit obligation or no independent review required until the first interim target year and finally, more guidance provided via templates.

We note that VCMI may recalibrate targets and pathways in the future. Whilst now drawing primarily on the SBTi framework, VCMI should work with other target setting bodies that establish best practice for net zero pathways. This is welcomed. The SBTi has a strong emphasis on removal carbon credits. We believe VCMI should consider that reduction carbon credits are equally important on the pathway to net zero whilst removals are essential to achieve net zero (i.e. in the net zero target year).

3. Step 2: Claims

<u>Requirements:</u>

The claims hierarchy is well defined in terms of three levels of performance, but they do not reflect the complexity behind each, and therefore will not be easy for stakeholders to understand what each means. If the Bronze, Silver and Gold claims hierarchy applies to all companies without distinction, some risk being excluded or penalized due to substantially different starting points.

Under the current claims requirements, companies in hard-to-abate sectors whose Scope 3 emissions are in the 10s or 100s of millions of tons of CO2 could de facto be excluded. The document acknowledges (Box 3) differences between company types (consumer good, tech, food and beverage, oil and gas, cement), and demonstrates the prohibitive cost of addressing Scope 3 emissions through carbon credit purchases in certain sectors. We suggest using it as a basis to define differentiated,

[3] E.g. SBTi does not yet have an oil and gas standard in place.

sector-specific requirements for each claim (e.g. minimum Scope 3 categories that need to be covered).

A company with a large Scope 3 could achieve Bronze but may never be able to progress to Silver, which is a disincentive. Further, a company who may qualify for Bronze may view this as an underwhelming claim, especially where they may be regarded as a climate leader within their sector. For the successful uptake of claims, they must fairly recognize and reward ambition relevant to the sector of the company. What is considered ambitious climate action in one sector may not be regarded as ambitious in another. Compensating 20% of Scope 3 emissions to achieve VCMI Silver is a very low bar in some sectors whilst extremely high in others. Rather than a blanket percentage threshold, VCMI should recognize a stepped approach which accommodates sectoral differences. For example, a company may be creating awareness in their supply chain; embedding low carbon procurement contracts; supporting suppliers to achieve their net-zero targets and even supplying products (which may be high carbon) to critical industries for the energy transition (e.g. steel for wind turbines). All these actions should be recognized.

A stepped approach to making a claim would be more inclusive. However, this approach must have edge and there should be minimum requirements to achieve for each step. An example is reducing and offsetting business travel which is a simple act all companies could immediately take. Further to a stepped approach, we recommend a wider range of claims as stated in the General comments. The range will expand both the top end – higher achievement – as well as the 'bottom end' providing more on-boarding options.

At the top end, it is applicable for companies who wish to exceed VCMI Gold requirements (e.g. using removal carbon credits only, addressing historical emissions, etc.), whilst at the other end it creates an additional entry point for corporates that may not have a confirmed Science-Based Target in place but follow guidance from reputable carbon neutrality standards like PAS2060. IETA members also request an SME claim at the 'bottom-end'. An SME would have to graduate up the range towards a more comprehensive approach but a simplified approach (e. simplified scope 3 accounting), will assist them to get going.

Finally, we see a risk that temporary underperformance against an interim science-aligned target, due to the complexity of delivering decarbonization, would result in a company not qualifying for a VCMI claim, therefore dissuading carbon offsetting. We should encourage offsetting to continue in the event of a company missing an interim target, if all other prerequisites are met (but no VCMI claim should be permitted to be made in this case).

Terminology:

Terminology is critical and we know the importance that companies place in strong claims. The proposed Bronze, Silver and Gold terminology, while globally understood as a hierarchy, is abstract and a marked departure from existing claims that companies and countries are already extensively using. Companies want to be able to make claims about their progress. Existing claims are popular for their simplicity, link to greenhouse gas inventories and resonance with consumers (e.g. carbon neutrality). While we agree there is a need for global definitions of existing claims, the proposed claims will need substantial explanation and interpretation of the underlying climate delivery to be understood. The underlying distinctions between Gold, Silver and Bronze requires a fairly sophisticated level of baseline understanding and company accounting, particularly for Scope 3. We therefore recommend claims that communicate what companies are doing e.g 'Net Zero Aligned', 'Gold Carbon Neutral', 'Silver + 10% offset'.

If the industry shifts towards new claims, it will be critical to have a clear strategy in place to socialize them amongst big brands, reporting standards, and stakeholders. We urge VCMI to put together a fund to run a sustained communication campaign.

In summary, we are concerned that the current proposals are too abstract and not compelling. VCMI Gold, Silver and Bronze do not directly tell key stakeholders what a company is doing the way that existing claims (e.g. carbon neutral, net-zero aligned) do, providing clear, transparent and marketable terms to companies. The road-testing phase underway will provide valuable responses.

In particular, we request that VCMI considers the continued use of carbon neutrality, in conjunction with VCMI Gold, when 100% of a company's emissions are covered through the retirement of high-quality carbon credits.

It is important to note, that our view of Carbon Neutrality is offsetting all residual emissions through either reductions or removals, and we therefore differ from the SBTi definition. Clarity on definitions is clearly required.

Further, the use of the term VCMI Gold "Net-Zero" is misleading and not aligned with the definition of net-zero which is the end-goal when a company has achieved its long-term target and is compensating remaining unavoidable emissions with removals (only). Using this term for an interim claim is problematic and likely to lead to confusion in the market.

The introduction of the "Beyond Value Chain Mitigation" concept for the purchase and retirement of high-quality carbon credits is also not as simple as the well-established terms "offsetting" and "compensation". While many do not like the term "offsetting", it is already well established and frequently used not only by companies but in many policies and regulations. It has become the de facto accepted terminology. We urge VCMI not to increase complexity by changing commonly accepted terminology but to ensure a consistent definition.

Brand-, product- and service-level claims:

IETA and ICROA welcome the inclusion of carbon neutral brand-, product- and service-level claims alongside enterprise-wide claims. However, as mentioned in the general comments above, we suggest avoiding making these claims exclusive to companies that have a net-zero target for the reasons already stated. Again, the road-testing phase will provide valuable feedback. It is important to note that certain jurisdictions may decide to constrain the use of carbon neutral brand-, product- and service-level claims.

4. Step 3: High-quality carbon credits

ICROA has been assessing carbon crediting standards against a set of comprehensive criteria since 2008. Standards that meet the criteria are endorsed and listed in ICROA's Code of Best Practice as a guarantee of high quality. The full list of criteria and questions used for any assessment is available here. The list of approved standards is available on this page. ICROA regularly updates its criteria to ensure adequate levels of stringency and to support innovative mitigation/adaptation approaches of new standards, in support of the SDGs. We are disappointed that this work was not acknowledged in your draft and request recognition of ICROA endorsed standards alongside that of IC-VCM[4] and CORSIA

The availability of high-quality carbon credits for voluntary use across the private sector will increasingly depend on Host Countries. Creating favorable conditions for a global dialogue between Governments and VCM stakeholders is key. In that respect, the work of VCMI's Country Contact Group (CCG) is critical to ensure:

(i) Good understanding by Host Countries of the role of the VCM and options to use it as mechanism to support their own climate ambitions, and

(ii) Greater visibility for project developers, VCM service providers and final users of carbon credits.

It is important that Host Countries are aware of VCMI's work to build trust and create a favorable environment for long-term investments and demand. IETA and ICROA stand ready to support the work of the CCG.

5. Step 4: Transparency and reporting

IETA and ICROA strongly support the transparency and reporting requirements. Detailed and publicly available information to substantiate a claim is essential, full disclosure is the starting point for any credible voluntary action. We need a common set of requirements for comparing how carbon credits are used globally, and the Claims Code has the potential for establishing the benchmark. Full transparency on the use of instruments will help build further trust and help carbon markets thrive.

However, it is important to bear in mind while the volume of carbon credits retired in a reporting year should easily be published, the actual volume purchased is usually regarded as proprietary, competitively sensitive and strategic information that companies may not disclose. The primary concern should be how a company is claiming their use of carbon credits, not necessarily the volume the company may be holding in its inventory. Basic templates and reporting guidelines will be helpful and make it easier for SMEs to participate.

6. Governance and Future work

We are concerned by the layers of governance coming into the VCM and the challenge this poses on speed of implementation and transaction costs. New transaction costs are also being considered by some host countries for VCM activities. This cost burden will reduce the available finance for emission reductions. We highly recommend the VCMI uses existing assessment bodies including ICROA's Accreditation programme, best practice guidance such as the GHG Protocol and SBTi and/or rating agencies such as Sustainalytics and MSCI.

In considering on-going work, we believe VCMI could start with the suggestions offered by The Oxford Principles for Net Zero Aligned Carbon Offsetting, in particular Principle 4. A number are suggested, for example - Market signaling, aggregating demand and supply, forming sector-specific alliances. IETA-ICROA would welcome the opportunity to use our convening capability with buyers and sellers to explore ways to accelerate deliver of net zero.

[4] IETA is an IC-VCM Secretariat organization.