



VCMI

Provisional Claims Code of Practice
submission

August 2022





VCMI Provisional Claims Code of Practice

CMI submission

The Carbon Market Institute (CMI) welcomes the opportunity to comment on the Voluntary Carbon Markets Integrity Initiative's (VCMI) Provisional Claims Code of Practice (Code), published on 7 June 2022

This submission is intended to complement CMI's responses to the VCMI's consultation survey, submitted on 12 August 2022.

CMI is an independent, member-based industry association championing best practice for business in the transition to net-zero emissions. CMI's 140+ strong membership includes organisations from across the entire carbon value chain, including primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies. We develop advocacy positions in consultation with, but independent of, our members with a view to ultimately advancing the Paris Agreement goals.

Strategic outlook

CMI endorses VCMI's overarching goal of ensuring that voluntary carbon markets make a significant and meaningful contribution to sustainable development and climate action – this aligns closely with CMI's own mission.

We welcome VCMI's work on the Code as a ground-breaking mechanism to foster greater claims-side integrity in voluntary markets. The Code will serve to complement the important work of the Integrity Council for the Voluntary Carbon Market (**IC-VCM**) in its development of the Core Carbon Principles (**CCPs**).¹

We also support the potential for the Code to unify and clarify the proliferation of guidance for voluntary actors on science-aligned decarbonisation action, alongside the range of other global sustainability guidance currently in development.

To maximise participation in the Code, thereby increasing its impact across international markets, we would encourage VCMI to consider a range of matters in the design of the Code and its corresponding governance framework.

Guidance to foster claims-side integrity in voluntary carbon markets should balance the need to pursue credible at-point decarbonisation plans, underpinned by verified scientific and economic analysis, alongside the broader utility of carbon markets in delivering climate action. Carbon markets enable organisations to address their emissions until at-point decarbonisation becomes technologically and economically viable. By facilitating negative emissions and drawdown, carbon markets will also help ensure the global economy remains within its planetary limits.

Recommendations

Having regard to the VCMI's overarching goal and to maximise participation in the Code, thereby increasing its impact, we recommend the VCMI focus on the following elements in the design of the Code and its corresponding governance framework:

- 1. Adopt terminology that recognises the role of carbon markets in driving and scaling negative emissions technologies and supporting sustainable development;**

¹ See further, ICVCM (2022), *The Core Carbon Principles: Our Work*, available at: <https://icvcm.org/the-core-carbon-principles/>.



2. **Consider increasing flexibility around the implementation of the mitigation hierarchy and use of carbon credits to bring more participants into the Code and ultimately scale its impact towards the VCMI's overarching goals;**
3. **Clarify the relationship between VCMI enterprise claim categories (Bronze, Silver, Gold) and the VCMI Carbon Neutrality category for products, services and brands;**
4. **Provide further guidance to drive best practice on double claiming and the use of carbon credits; and**
5. **Clarify how the governance framework for the VCMI and its Code will mature over time, noting the need for a robust and representative governance framework, as well as the longer-term utility of harmonised international sustainability guidance, that can then be reflected in jurisdictional programs and regulations.**

In putting forward these recommendations, CMI stresses that claims-side integrity in decarbonisation and the use of carbon markets must be understood as a process of continual improvement. CMI supports VCMI's initial trial period for the Code and scheduled review in 2025 to revise the Code in line with strengthened tools and data sources. We would encourage ongoing regular review of the Code to ensure it is aligned with complementary global sustainability standards and remains fit-for-purpose.

We elaborate these recommendations in the **Attachment** over the page.

In preparing this submission and the corresponding responses to the VCMI's public consultation survey, CMI engaged with a broad cross-section of our corporate membership across different sectors. CMI acknowledges our Integrity Taskforce for their support in developing our feedback.

Should you have any questions about CMI's submission, please contact **Gabriella Warden**, Manager, Research and Government Relations at gabriella.warden@carbonmarketinstitute.org.

Yours sincerely

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Attachment

Terminology

- 1. CMI supports the VCMI's use of the term 'carbon credit' and reference to the practice of 'covering' emissions throughout the Code. These terminology choices accommodate the broad range of uses that carbon credits can support, rather than limiting them to the oft-maligned practice of 'offsetting'.**

As voluntary markets continue to scale and mature, clarity on terminology is required to prevent stakeholder biases that may otherwise undermine the ability of carbon markets to support credible climate action.

CMI endorses VCMI's use of the term 'carbon credit' and reference to 'covering' emissions throughout the Code. This reflects a broader understanding of the role that carbon credits and carbon markets can play. By helping to mainstream this more holistic terminology, CMI is optimistic that the Code will help expand public understandings of carbon markets and carbon credits beyond the limiting connotations of the term 'carbon offset'.

Carbon markets will play a fundamental role in driving the emissions reductions and removals required to keep global temperature rise to 1.5°C, including by:

- Supporting organisations to address emissions in the immediate term that cannot be avoided (due to financial and/or technological constraints);
- Scaling climate finance across jurisdictions in accordance with the Paris Agreement and Sustainable Development Goals (SDGs), thereby driving emissions avoiding behaviours and economic decarbonisation that would not otherwise happen, particularly in developing countries; and
- Facilitating negative emissions and drawdown in the long-term to address unavoidable residual emissions in the transition toward net-zero and net-negative emissions across the global economy.²

Enhanced flexibility

- 2. The VCMI should consider introducing flexibility around the application of the mitigation hierarchy to allow greater coverage of emissions with high-quality carbon credits by entities that are unable to achieve significant at-source emissions cuts in the short term. To ensure these entities are committed to legitimate long-term decarbonisation outcomes, this should be contingent upon participants transparently reporting the barriers they face and their long-term strategies.**

CMI considers that credible decarbonisation strategies including science-aligned interim targets are vital to individual organisations' transitions.

On the other hand, we also recognise that at present, it is not technically or economically feasible for some entities in certain sectors to achieve deep at-source emissions cuts, including for the following reasons:

- Applying a strict mitigation hierarchy to decarbonisation presents acute challenges for some entities and sectors, particularly in circumstances where investment in technically avoidable emissions is currently cost prohibitive; and

² Given the world's dwindling carbon budget, emissions removals are now required to limit warming to 1.5°C with "no or limited overshoot". As the IPCC Special Report made clear, net global greenhouse gas emissions need to fall by about 45% from 2010 levels by 2030 and reach "net zero" by around 2050. This means that by the middle of this century, the CO₂ emitted by human activities needs to be matched by the CO₂ deliberately taken out of the atmosphere through negative emissions technologies and drawdown.

See further, Intergovernmental Panel on Climate Change (IPCC) (2018), *Special Report on Global Warming of 1.5 °C*, available at <https://www.ipcc.ch/sr15/>.



- A strict mitigation hierarchy approach also implies that decarbonisation pathways progress in a linear manner for all entities. In reality, transition trajectories in many sectors will include flat lines balanced out by big drops in emissions as new technologies and practices come to market and facilitate step changes over time.

To accommodate the varying technological and economic particularities of different sectors and to maximise participation in the Code, CMI would encourage VCMI to consider building greater flexibility into the enterprise-level VCMI Claims, particularly at the VCMI Bronze and Silver levels. CMI notes that the VCMI Bronze Claim intends to be flexible and achievable – with the Provisional Code acknowledging the prohibitive cost associated with full Scope 3 emissions coverage for entities in oil & gas especially.³ However, even at this more flexible level, we consider that these sectors may not be able to participate in the Code. Cost constraints aside, sourcing and procuring the required quantity of high-quality carbon credits may be difficult.

In particular, we would encourage further consideration of the following options:

- Exploring on-ramping options that could provide a pathway onto the Code for these entities. Such a model should do so while encouraging entities to confront the challenge of transitioning their business models towards a decarbonised economy;⁴
- Allowing a greater proportional use of carbon credits to cover fiscally or technically un-abatable emissions; and
- Enhanced verification in circumstances where greater flexibility is introduced into the Code, to provide assurance that entities unable to cut their absolute emissions at present are committed to the long-term goal of net zero. Assurance of corporates' commitments to at-source decarbonisation as solutions come to market could be provided through increased transparency and reporting requirements.

3. The VCMI should clarify the relationship between entity-level VCMI Bronze, Silver and Gold Claims and product/service/brand VCMI Carbon Neutrality, and the purpose of having these two categories when the focus is so heavily on the entity-level VCMI Claims.

CMI considers that the relationship between the proposed VCMI Carbon Neutral product/service/brand certification and VCMI Bronze, Silver and Gold Claims for enterprises needs to be clarified.

In relation to the VCMI Carbon Neutral category for products, services and brands, CMI notes that some brands may have higher greenhouse gas footprints than some entities – making the differentiation between brands and entities redundant or at least not one-size-fits-all appropriate.

CMI recommends considering how the VCMI Carbon Neutral category could be signposted as an on-ramping solution for certain entities on route to making a VCMI Bronze Claim and above. Following on from this and to maximise participation from corporates across the economy, CMI suggests VCMI consider supporting on-ramping to VCMI Bronze through the use of existing standards.

³ VCMI Provisional Claims Code of Practice (2022), p. 27, available at: <https://vcmintegrity.org/wp-content/uploads/2022/06/VCMI-Provisional-Claims-Code-of-Practice.pdf>,

⁴ Here, we note that although the SBTi Net-Zero standard is referenced by the VCMI in its Provisional Code, there is currently no SBTi aligned net zero pathway available to the oil and gas sector, whose decarbonisation is critical if the global economy is to limit warming to 1.5°C in accordance with the Paris Agreement goals – and the aspirations of the VCMI. CMI recognises the significance of the SBTi Corporate Net-Zero Standard and notes that the SBTi is currently developing target-setting methods for the sector. Its guidance on beyond value chain mitigation for oil and gas will be pivotal for companies in the sector looking to participate.



Developing best practice guidance in an evolving market

4. The VCMI could provide further guidance to drive best practice on double claiming and the use of carbon credits, even while the Paris Agreement ‘Rulebook’ is being operationalised.

CMI recognises the inherent challenges in establishing best practice guidance in the still-evolving voluntary carbon markets, where there remain a range of uncertainties – not least, how the voluntary carbon markets and various jurisdictional compliance markets may interact and converge in the post-Paris regime as Article 6 arrangements are operationalised.

However, given that the ‘Paris Rulebook’ was established through COP26 clarifying rules to support the international transfer of carbon credits and financial/technological expertise to scale mitigation, we consider there is some scope for the Code to provide guidance and certainty for voluntary actors.

In this regard, we welcome the Code requirement for transparent reporting on whether carbon credits used in a VCMI Claim are associated with a corresponding adjustment.

We also consider that the Code could provide further guidance in the context of overlapping claims of players within the same value chain, such as where one company’s Scope 3 is another’s Scope 1 and carbon credits are co-financed by these two companies. This would provide practical guidance to drive best practice across international markets, even while these markets and the international rules that underpin them continue to evolve.

CMI supports the Code’s guidance on what constitutes a ‘high-quality carbon credit’, including reference to maximising SDG co-benefits in line with a just transition. We support the proposed alignment with the IC-VCM’s still-evolving CCPs and the work of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) offering specific criteria for credit integrity. As these initiatives mature, we would encourage further clarity on how VCMI intends these initiatives to interact with its Code.

Governance

5. The VCMI should clarify how the governance framework for the VCMI and its Code will mature and evolve over time.

CMI endorses VCMI’s view on the need for a functional and reliable governance and assurance system to ensure the integrity and value of VCMI claims.

Whether this governing role remains with the VCMI itself or is adopted by an existing body such as the IC-VCM, to drive a just and inclusive transition, it is important that representatives from developing countries are involved in Code governance. Representation should also be extended to the Indigenous groups and local communities that are directly involved in or impacted by carbon projects. This is the best way to ensure that their views and experiences are heard in the governance framework. Significant volumes of high-quality carbon credits traded on the voluntary markets are and will continue to be sourced from developing countries. It therefore makes sense that these countries are involved in decisions on what constitutes credible, high-integrity use of these credits by voluntary actors going forward.

Longer-term, the obligations contained in the Code should be streamlined into harmonised international sustainability guidance to ensure a consistent approach by organisations to voluntary carbon market procurement, alongside their net zero commitments and associated decarbonisation and transition plans. This would ensure that organisations’ strategies are cohesive in supporting the Paris Agreement goals and effectively manage the multi-faceted risks associated with climate change to their shareholders, communities, and the broader environment and economy in which they operate. It would also serve to ratchet up collective corporate climate ambition by leveling the playing field, mitigating the risks of greenwashing, and reinforcing the competitive advantage of accelerated transition.



We note a range of complementary initiatives that VCMI should look to engage with, including the Taskforce on Climate-Related Financial Disclosures' (TCFD) work in developing guidance on transition plans and the International Sustainability Standards Board's (ISSB) work to establish a comprehensive global baseline of sustainability disclosures. Harmonised international guidance can then be used to inform legal standards in domestic jurisdictions. Here CMI notes that government agencies in certain jurisdictions have already indicated their intention to refer to the VCMI when updating domestic programs. For example, an August 2022 review by the Australian Climate Change Authority recommended that the Australian Government consider updating its technical guidance for its Climate Active carbon neutral program in line with the eventual Code.⁵

⁵ See further, Climate Change Authority *Review of International Offsets* (August 2022), p. 58, available at: <https://www.climatechangeauthority.gov.au/sites/default/files/2022-08/Review%20of%20International%20Offsets%20-%20Report%20-%20August%202022.pdf>



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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

