FAIR CLIMATE FUND

CARBON MARKETS IN MOTION

CARBON NEUTRAL OR NOT?

Introduction

Carbon markets have evolved significantly due to changes in the international climate policy, economic conditions and growing recognition of the need to tackle climate change. FairClimateFund will pay more attention to this in a series of four new articles. In the first part we provided a global overview of the most important developments and in this second part we discuss the changing criteria and standards for making carbon neutral claims by companies using carbon markets.

Emission allowances versus carbon credits

First of all, it is good to make the distinction between the rights of companies to emit CO_2 (emission rights) and the rights of companies to claim already reduced CO_2 (carbon credits). We have previously discussed this in the article 'From 30 euro cents to 25 euros: The price of a ton of CO_2' (2019). Emission allowances are traded on national markets and in the European Emissions Trading System (EU ETS). A company that emits more CO_2 than permitted can buy emission rights from a company that emits less CO_2 than permitted. Emission rights can be traded on international markets, but also 'carbon credits'. A carbon credit represents a (certified or verified) ton of CO_2 previously reduced by a company or emissions reduction project.

Carbon credits are traded on the (international) voluntary carbon market. A company that is not bound by an emissions limit can voluntarily purchase carbon credits to offset its emissions. Until now, this company could - provided sufficient credits were purchased - claim to be climate neutral. The same principle applied to products and services and to the activities of individuals.

Market	**Compliance**		**Voluntary**
Credit Type	Permits to Pollute	Project-based emission reduction credits	Project-based emission reduction credits
Description	A 'certificate to pollute' one tonne of CO_2e	A carbon credit of one tonne generated from an emission reduction project	A carbon credit of one tonne generated from an emission reduction project
Issued by	National Govern-ments/ Agencies	E.g. Clean Development Mechanism **(CDM)**	E.g. Verified Carbon Standard (VCS) or **Golc Standard**
Examples	European Union Allowance **(EUA)**	Certified Emission Reduction **(CER)**	E.g. Gold Standard Verified Emission Reductions **(GS VER)**

Developments that influence the climate-neutral claim

From climate neutral to net zero

The claim 'climate neutral' is now under discussion, for several reasons. First, the replacement of the Kyoto Protocol by the Paris Agreement under the United Nations (UN) Climate Change Convention. The central goal of the Paris Agreement is to limit global warming to 1.5oC. In 2018, the Intergovernmental Panel on Climate Change (IPCC) – the UN scientific organization – confirmed that to achieve this goal, global CO_2 emissions must be halved by 2030 and net-zero emissions must be achieved by 2050 Net-zero refers to the total balance of greenhouse gas emissions produced and then removed from the atmosphere1. In recent years, many companies have expressed the ambition to do business with 'net zero' emissions by 2050. The claim 'net zero' is therefore increasingly used instead of 'climate neutral', where greenhouse gas emissions are compensated and not removed.

Corresponding adjustments

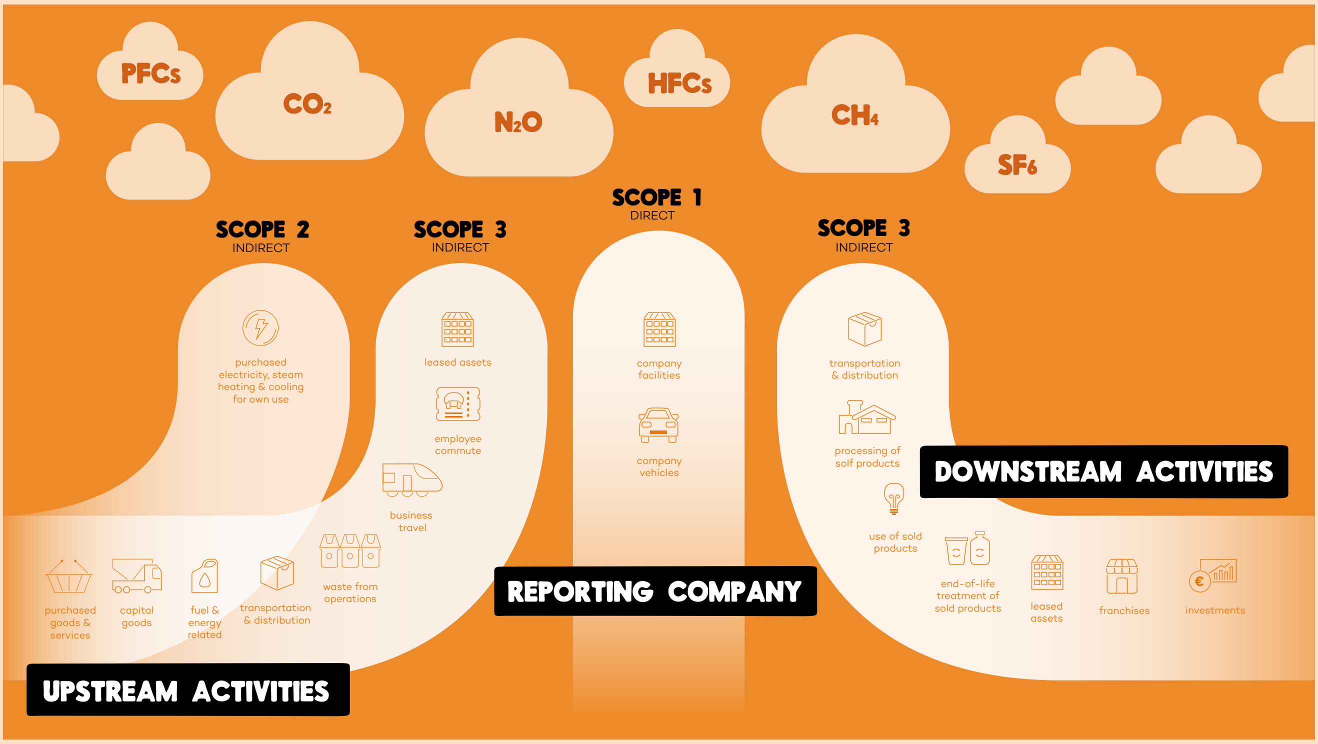
Another reason why the claim 'climate neutral' may no longer be used in the future is because new rules were drawn up during COP26 in Glasgow in 2021 to prevent double counting between emission reductions in different countries. In the future, it may be necessary to apply a so-called 'corresponding adjustment' in the national greenhouse gas inventory of country X where an emission reduction project is being implemented before a company in country Y can claim the emission reduction of country. If there is no so-called 'corresponding adjustment', a company can only claim to have contributed to the emission reduction in country X.

However, at present, countries in the Global South have not yet established an infrastructure for the administration of corresponding adjustments. We are working on this at different paces. In the future, there will also be policy differences per country, depending on the national climate plan (NDC) and the role assigned to the international trade of carbon credits in achieving the national emission reduction target.

The certification body (such as Gold Standard or Verra) may also apply different rules with regard to corresponding adjustments. It then depends on the country of origin and the CO_2 reduction standard whether a carbon credit can be used for a climate-neutral claim or not. If a company invests in an emission reduction project that has a high priority in the NDC of the country of origin, a new type of certificate can be obtained as proof of contribution. Based on this, a 'mitigation contribution' claim can then be made.

[1] The IPCC defines net zero as the point at which "anthropogenic emissions of greenhouse gases into the atmosphere are offset by anthropogenic removals over a specified period of time" - SBTi 2020 Foundations for Science-based Net zero Target Setting in the Corporate Sector

Scope 1, 2 and 3
A third development that influences the use of the climate-neutral claim is the increasing criticism of these claims because companies cannot sufficiently substantiate these claims in practice. This may be because the CO_2 footprint calculation is not thorough enough. For example, have all CO_2 equivalents been included in the calculation and what is the scope of the calculation, such as the production of purchased raw materials (scope 3 of the GreenHouse Gas protocol) or historical emissions? For example, there are many companies that make a climate-neutral claim based on offsetting part of their own emissions, but do not look at the emissions in the chain and this is no longer considered credible. In a number of cases, the judge has ruled on the use of a climate-neutral claim and the Advertising Code Foundation on its use as misleading advertising.



CO_2 reduction in compensation projects
Finally, there is growing doubt about the reliability of measuring emission reductions in compensation projects. This may concern the so-called 'additionality' of the project, which means that the project would not take place without the financing of carbon credits sold. But it can also involve the quantification of emission reductions through the chosen standard and methodology and in the application of the methodology. Most criticism focuses on forest protection projects, but there is also discussion about cookstove projects.

Make the difference. Drive CO2 neutral.

In 2021, the Advertising Code Committee in the Netherlands ruled that oil company Shell must stop advertising: Make a difference. Drive CO2 neutral. They state that Shell wrongly claims that the environmental damage caused by CO2 emissions from its fossil fuels can be compensated or neutralized. Shell was unable to provide scientific evidence that the company's investments in projects that compensate for CO2 emissions actually compensate for all CO2 emissions released during fuel consumption.

According to the Advertising Code Committee, Shell's amended claim is also misleading: Make a difference. Compensate for CO2. They also see this statement by Shell as an 'absolute environmental claim' and to substantiate it, the company must provide 'solid, independent, verifiable and generally recognized evidence'.

A new standard for claims

The sector is currently working on new criteria and standards for claims through the Voluntary Carbon Market Integrity Initiative (VCMI). In June 2023, VCMI published a preliminary Claims Code of Practice. This code provides 3 levels: silver, gold or platinum. In all cases, the VCMI Foundational Criteria must first be met. This sets criteria for emission reduction objectives in its own business operations, in the chain and for the monitoring of achieved emission reductions. The distinction between silver, gold and platinum concerns the extent of the use of carbon credits and the quality of the carbon credits.

The quality of the carbon credits or CO_2 reduction projects follows criteria from the Integrity Council for the Voluntary Carbon Market (IC-VCM). In July 2023, IC-VCM published a second part of the so-called Core Carbon Principles (CCP). A carbon credit or CO_2 reduction project that sufficiently complies with the CCP will receive a CCP label.

CORE CARBON PRINCIPLES		
Governance	**Emissions impact**	**Sustainable development**
* Effective governance * Tracking * Transparancy * Robust independent third-party validation and verification	* Additionality * Permanence * Robust quantification of emission reductions and removals * No double counting	* Sustainable development benefits and safeguards * Contribution to net zero transition

We are now waiting for the next version of the VCMI, Claims Code of Practice, which is scheduled for the end of 2023, and for further procedures regarding the assessment of the Core Carbon Principles.

Market parties have now also indicated that many companies cannot achieve the minimum criteria for VCMI silver status in the short term2. There is a chance that a lower entry level will be defined.

[2] For more information: https://carbon-pulse.com/210221/ or https://carbon-pulse.com/224005/

Conclusion

Overall, developments in carbon markets reflect a recognition of the importance of market mechanisms in tackling climate change with an increasing role of market regulation. Market mechanisms are being refined and strengthened to better meet the goals of the Paris Agreement and global climate action. It is no longer just about compensation for CO_2 emissions, but mainly about actually (measurably) reducing emissions in one's own business operations and in the chain, and also investing in projects outside the chain that contribute to limiting global warming. the climate. Whether these investments count as 'carbon compensation' or as 'mitigation contribution' depends on the country where the project takes place and the rules applicable there. In both cases it always concerns

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