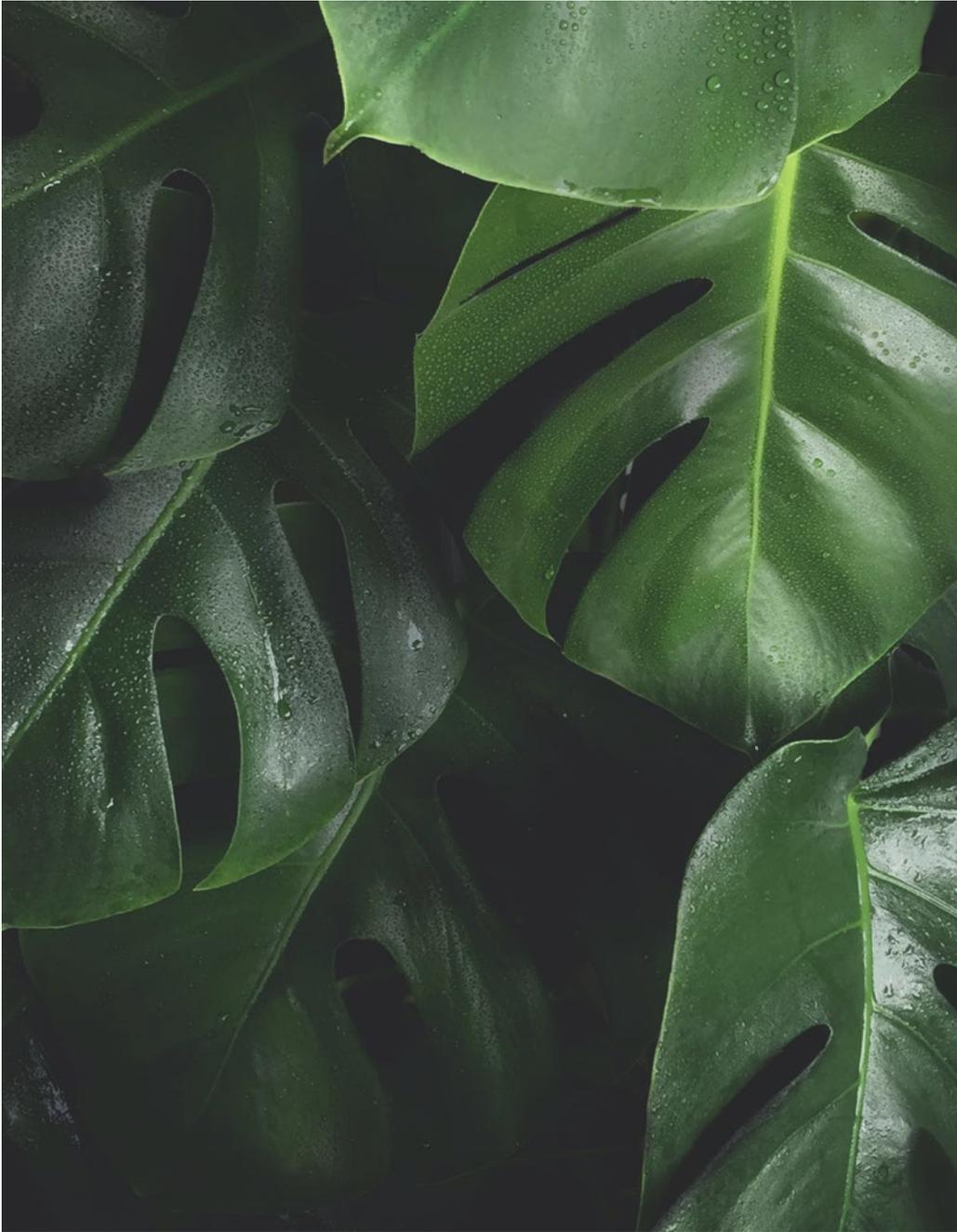


From Crisis to Confidence

Rethinking Integrity in the Voluntary Carbon Market



Compensate
Foundation



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Systemic flaws in the market

The VCM is riddled with a lack of transparency and robust quality standards. Various independent investigations have revealed that the market is flooded with low-quality credits with little to no impact on the climate. The Compensate Foundation has reached the same conclusion using its project evaluation criteria.

Investigations into transparency are equally concerning - in most cases, buyers are unaware that only a tiny fraction of the money they pay for the carbon credits reaches the project.

The VCM is in turmoil. Growth projections, locked by corporate carbon neutrality and net-zero targets, have yet to be realized. Negative press on nature-based carbon projects has eroded trust among buyers and investors.

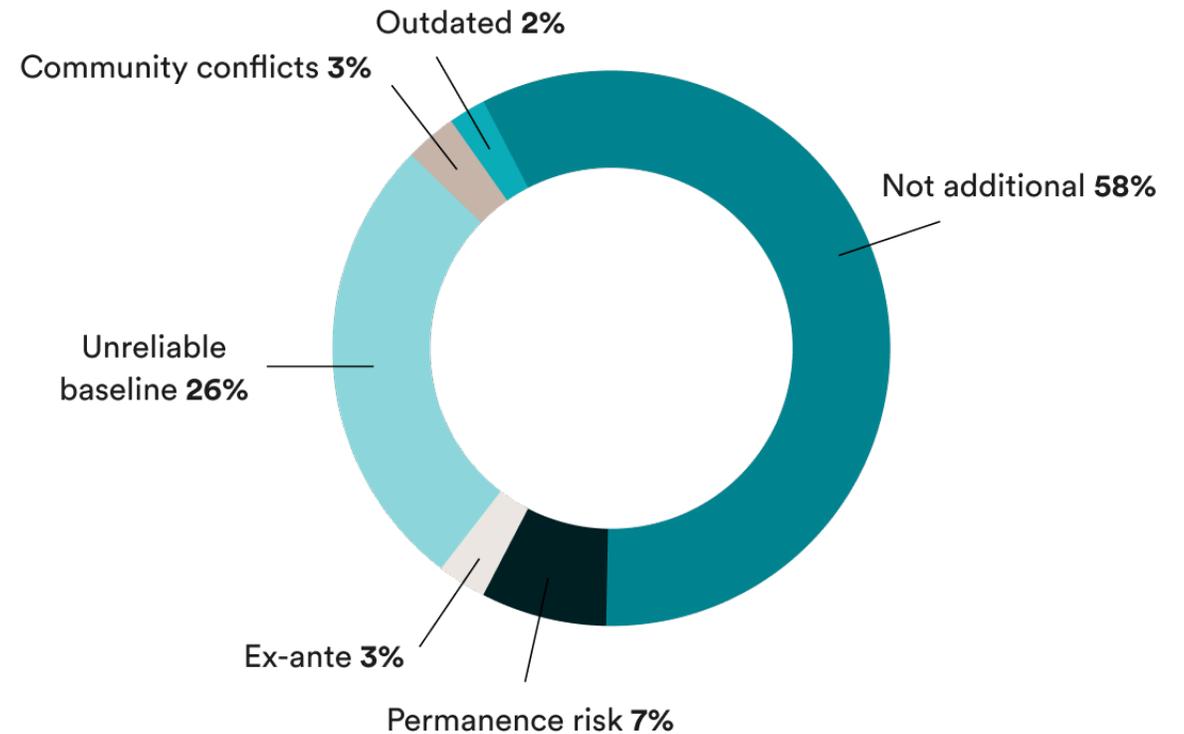


Why do 90% of evaluated projects fail?

In early 2020, the Compensate Foundation, in collaboration with its Scientific Advisory Panel, developed a set of project evaluation criteria that go beyond prevailing international standards. The criteria cover **climate integrity**, **community well-being**, and **biodiversity**.

Using the criteria, Compensate has screened and evaluated 175 nature-based projects - 94 conservation projects, 72 Reforestation/Afforestation projects, 5 Improved Forest Management projects (IFM), 2 Agroforestry projects, and two soil carbon projects.

The most significant weaknesses of nature-based projects are lack of additionality and unreliable baselines, resulting in overcrediting.



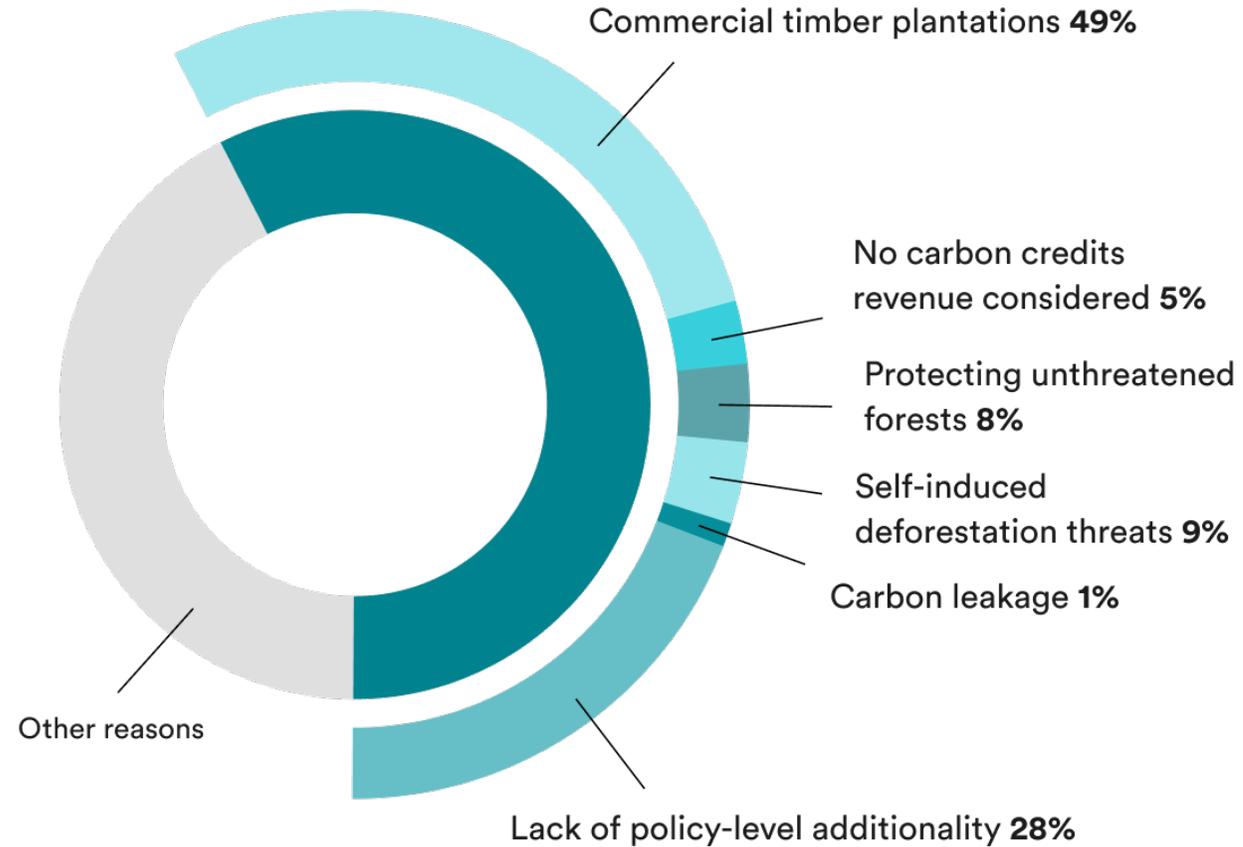
Not additional



- **Commercial timber plantations:** Often orchestrated by logging or timber companies, entailing the harvesting of trees upon reaching maturity.
- **Lack of policy-level additionality:** Project activities are already included in national statutes and regulations.
- **No carbon credits revenue considered:** This indicates a lack of financial additionality as project activities would have happened in the business-as-usual scenario.

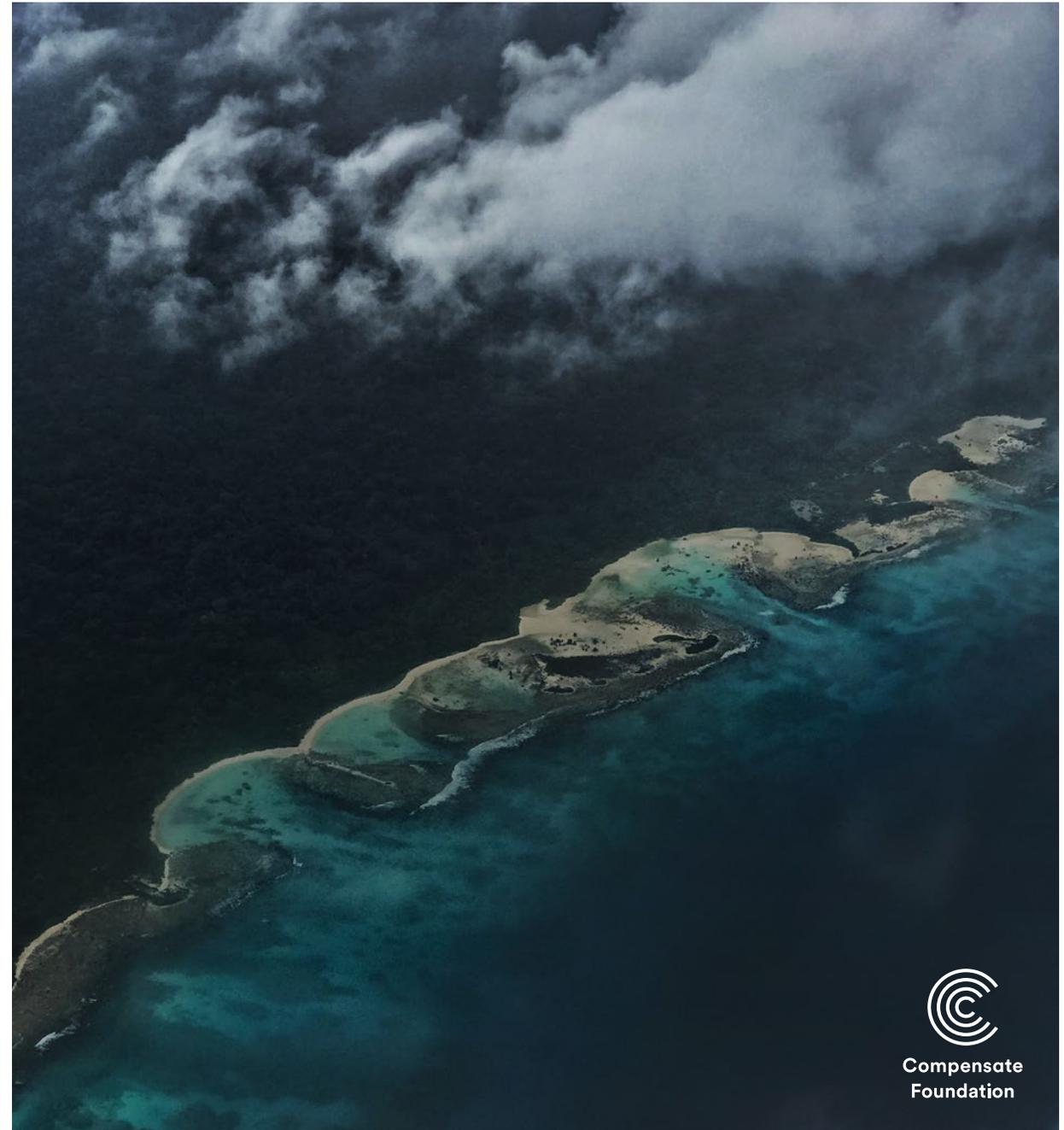
- **Protecting unthreatened forests:** Safeguarding forests that had previously been managed similarly, e.g., same land owner or municipal forests managed sustainably.
- **Self-induced deforestation threats:** Landowners threatening to deforest their forest or timber companies acquiring logging permits to preserve the forest instead.
- **Carbon leakage:** Displacement of deforestation outside of the protected area.

Why projects fail additionality?



Unreliable baseline

- **Overestimated deforestation projections:**
Overcrediting is particularly problematic for REDD+ projects, where carbon credits are issued based on counterfactual baselines. Project developers often choose the baseline that generates the most carbon credits, maximizing profits. This can involve selecting a heavily deforested reference area near cities or coasts to predict extensive deforestation in a remote, sparsely populated project area over the next thirty years.





Permanence risks

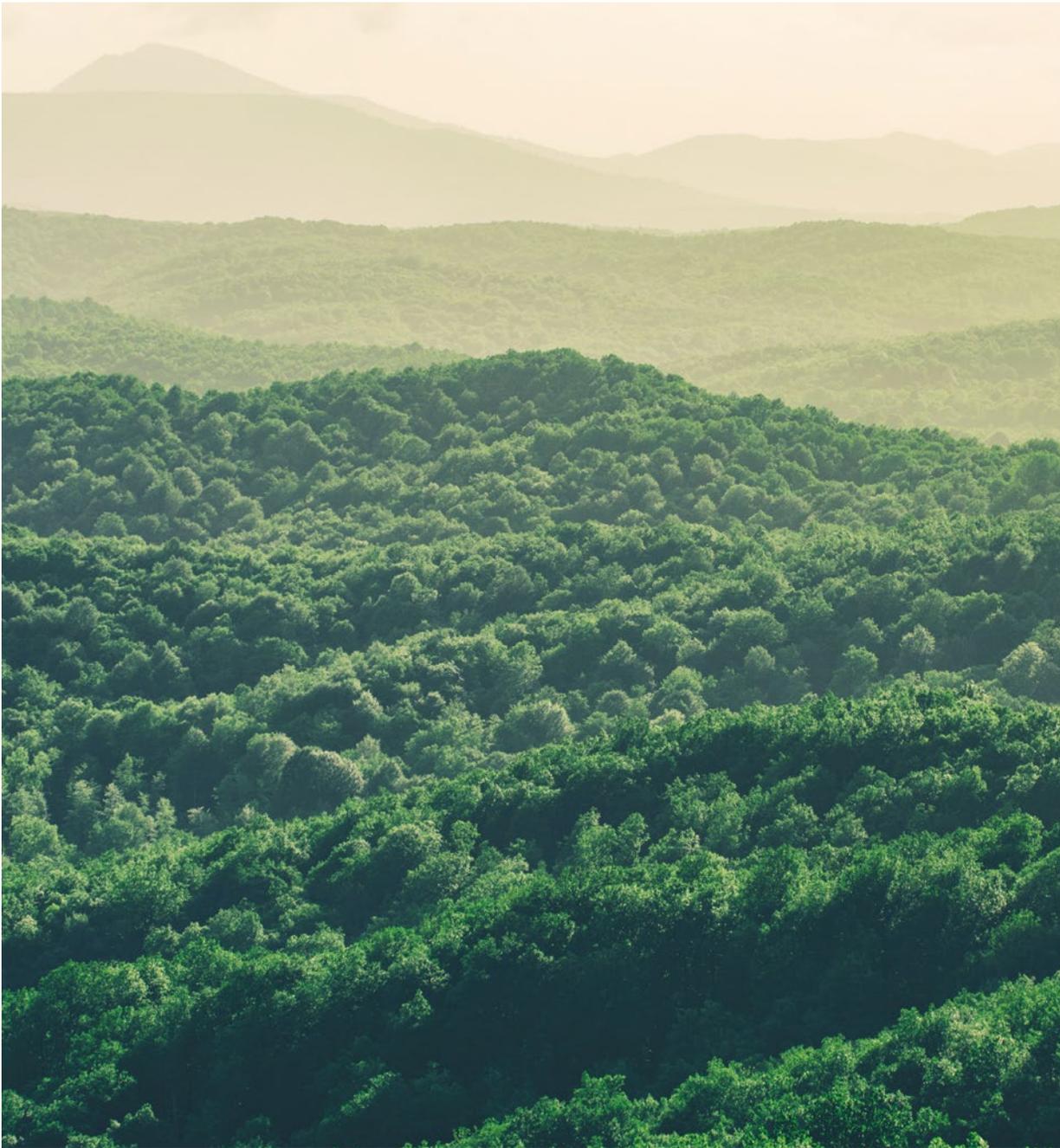
- **Challenge of illegal logging:** Despite conservation efforts, projects sometimes struggle to effectively curtail deforestation, with illegal logging persisting as a significant concern.
- **Political Instability and Forest Preservation:** In regions with cattle grazing, soy, and palm oil production, a looming concern arises – the government may grant logging and land use permits to companies post-project, jeopardizing forest preservation.
- **Natural disaster risks:** Nature-based projects globally are at risk from natural disasters, including forest fires, floods, rising sea levels, and hurricanes.



Community conflicts

- **Human rights abuses and displacement:**
In pursuing carbon credit-generating projects, landowners, including governments, may forcefully evict residents from the project area.
- **Unfulfilled promises of project benefits:**
Instances arise where projects fail to deliver on their pledges, such as the construction of schools, or when community members express dissatisfaction with benefit-sharing processes.





Ex-ante

- **Delayed climate impact:** Ex-ante credits involve planting a sapling and selling carbon credits based on the anticipated CO₂ sequestration as the sapling matures over 50–60 years. Using them to make claims is problematic due to uncertainties like tree survival and future logging risks.

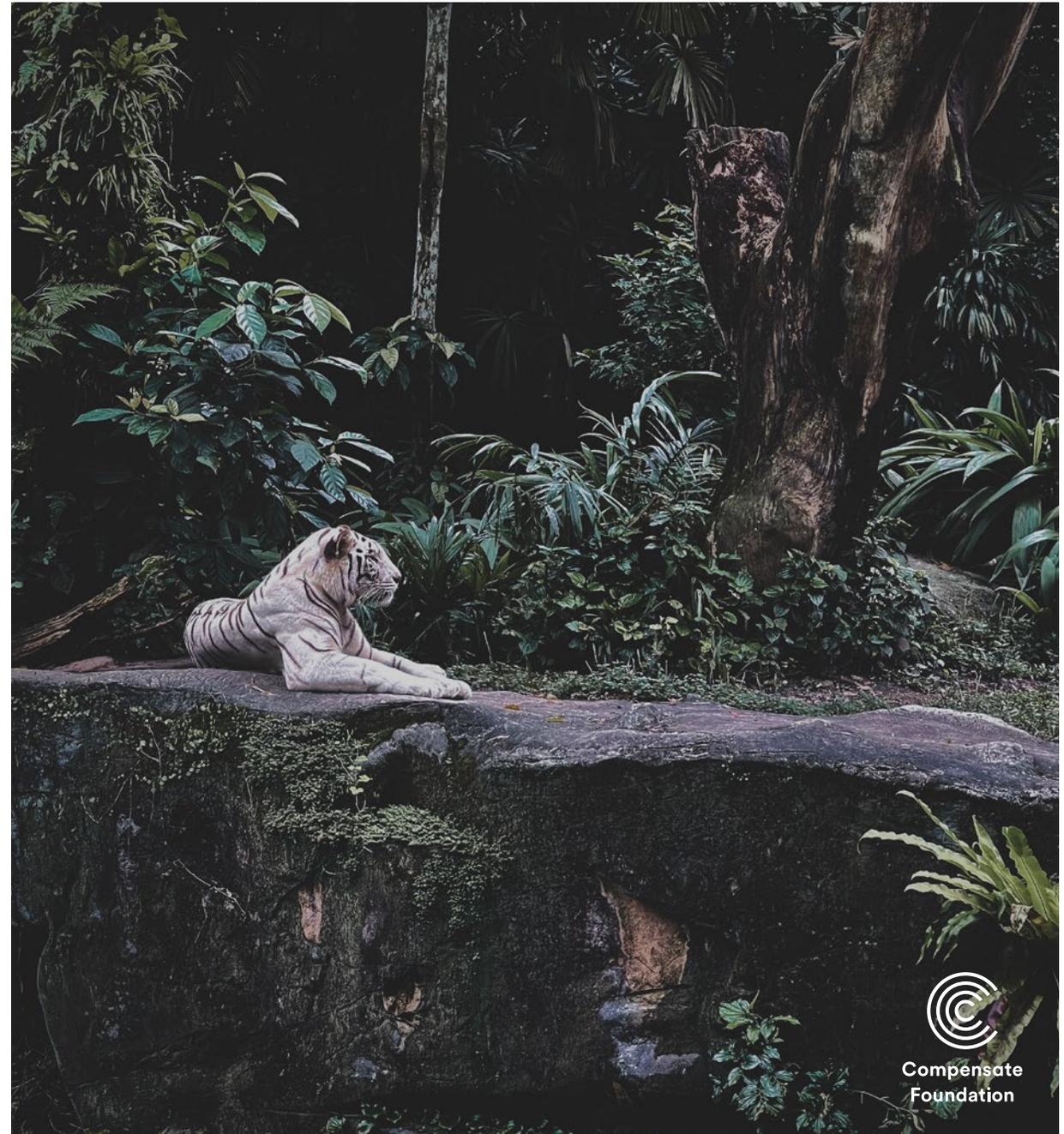
Offsetting current emissions with distant-future sequestration isn't valid compensation, despite the importance of creating new carbon stocks for climate mitigation.



Outdated documentation

- **Outdated documentation:**
Some evaluated projects had outdated documentation, such as monitoring and verification reports completed 6–10 years ago.

Gaps in recent monitoring and verification reports raise questions about project activity and effectiveness in stopping deforestation or maintaining new tree cover.



Recommendations for ensuring **climate integrity**



- **Additionality:** Financial, policy, environmental, and technological additionality should be evaluated by questioning whether the carbon sink would exist without the project's intervention.
- **Reliable baselines and carbon calculations:** Overcrediting is one of the market's current pain points; thus, to avoid it, the core assumptions and data of the project need to be independently evaluated.

- **Assessing Permanence:** Projects should successfully tackle the risks of illegal logging, political instability, and exposure to natural disasters. As permanence and buffer pool requirements are likely to weaken, projects should strive to go beyond them. Projects deterring planned deforestation carry heightened permanence risks.
- **Preventing double claiming:** Carbon credits issued from 2021 onward are at risk of double claiming if the project activity overlaps with a country's climate targets. This can be prevented by implementing a 'corresponding adjustment.'

Recommendations for ensuring **positive impact beyond climate**



- **Social and environmental co-benefits:** Providing tangible benefits for local communities. This assessment involves scrutinizing the project's benefit-sharing principles and assessing potential social disparities. A community-led reforestation approach, rewarding locals with cash payments, should be promoted to replace the widespread, large-scale timber plantations that negatively impact local communities.
- **Stakeholder engagement and grievance mechanisms:** Implementing transparent and inclusive stakeholder consultation processes, where local communities provide their free, prior, and informed consent and hold decision-making authority over sustainable development activities.
- **Enhancing Biodiversity:** Carbon projects should show a net-positive effect on biodiversity by improving habitats, promoting species diversity, and countering poaching through monitoring. Large-scale timber plantations, known for non-native monocultures harvested every 10-20 years, result in water contamination, biodiversity loss, and soil pollution due to chemicals.

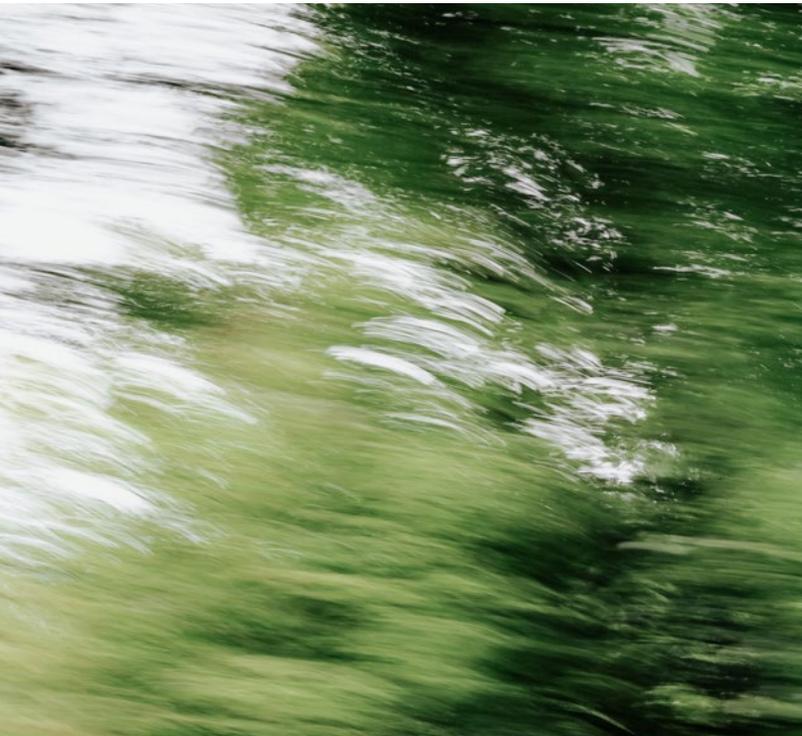


Uncertainties stemming from **evolving regulation**



- Under pressure from corporate buyers and investors to avoid double claiming, project developers negotiate corresponding adjustments (CA) with project host countries.
- While some countries worry that CA might hinder their NDC goals, others view it as a chance. Progressive nations like Indonesia, Kenya, Ghana, and Tanzania have begun initial moves to implement CA, even introducing **fees on gross revenue – a precedent in the VCM that has stalled numerous investments.**
- **Most countries cannot implement CA yet.** This partially explains the mounting corporate interest in alternative claims, such as the contributions approach.
- Access to the compliance market and more robust demand from countries could incentivize project developers to adopt the more ambitious methodologies and quality criteria anticipated under Article 6.4 or the EU carbon removal certificate.

Uncertainties on corporate claims



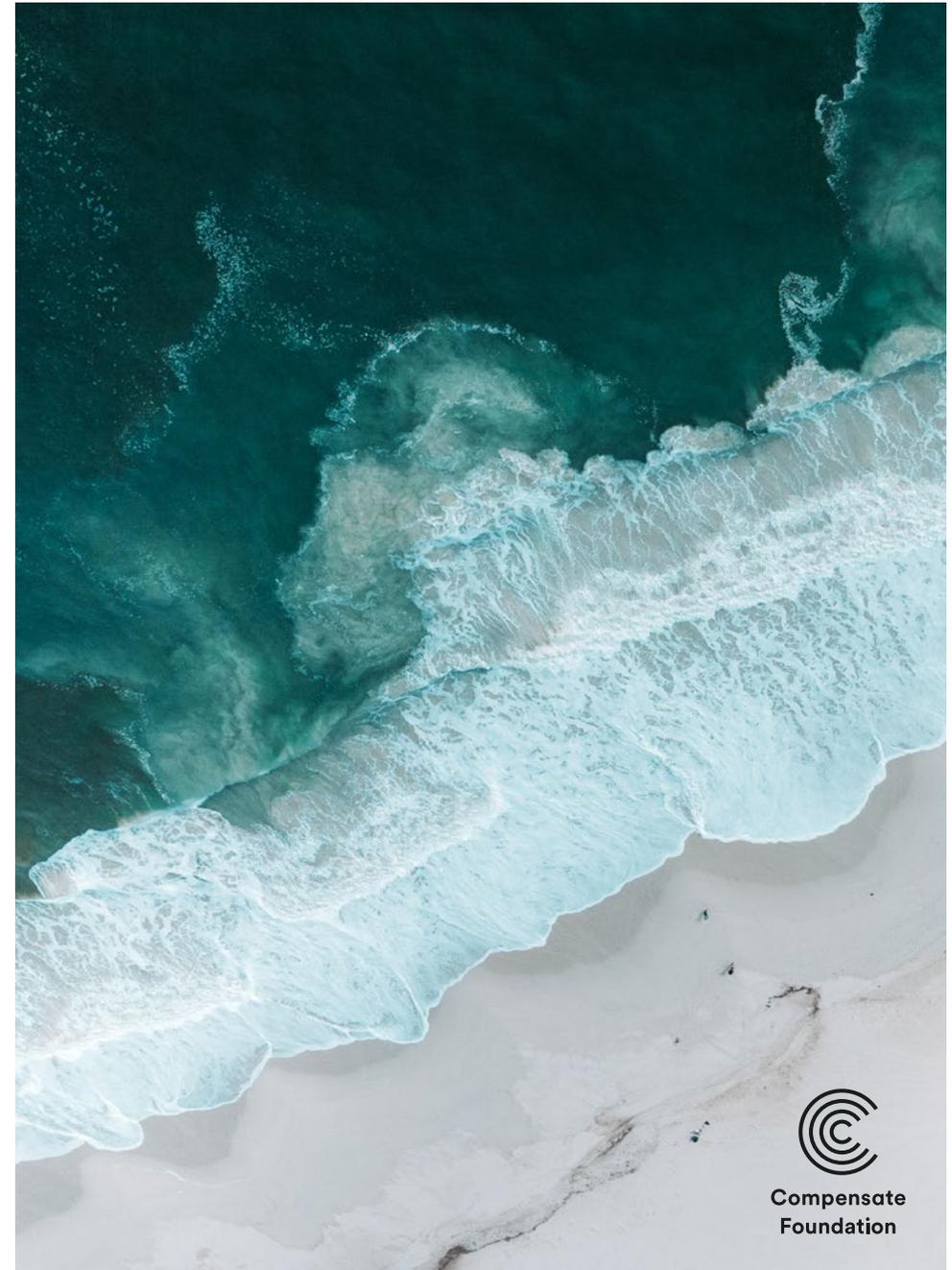
- Recent criticisms of corporate offset claims have resulted in a **shift toward contributions and beyond value chain mitigation claims**.
- The EU's proposed Directive on Empowering Consumers for the Green Transition aims to stop greenwashing by **banning misleading environmental claims** like “environmentally friendly” or “climate neutral” without evidence. The upcoming Green Claims Directive will mandate companies to provide comprehensive data to substantiate their environmental and climate claims.
- The Voluntary Carbon Markets Integrity Initiative's (VCMI) recent Claims Code of Practice demands better integrity and transparency of climate claims, placing offsetting correctly in the mitigation hierarchy. The Code is seen as a shift from carbon neutrality towards company-wide climate claims.



Core Carbon Principles and Assessment Framework by ICVCM

ICVCM's Core Carbon Principles and Assessment Framework are seen as a landmark effort to “fix” the voluntary carbon market by establishing a quality threshold for carbon credits. However, the current version may not fully resolve the underlying issues of the VCM.

- The unresolved challenge is ensuring robust quantification and preventing overcrediting if the projects' data and core assumptions cannot be trusted.
- Weak additionality, permanence requirements, and allowing double claiming risk that projects are not doing much beyond the business-as-usual scenario.





Conclusions

- The critical enabling factor for upscaling the voluntary carbon market is restoring the trust of corporate buyers, consumers, investors, and climate experts.
- Efforts to restore the voluntary carbon markets' reputation have led to initiatives setting integrity benchmarks for credit quality and corporate claims. The industry has high hopes for the Core Carbon Principles and Assessment Framework, which are seen as the silver bullet to save the reputation of the VCM. Still, in its current shape, they are not strict enough to solve the fundamental problems of the VCM.
- Corporates relying on offsets in making climate claims have two options: proactively going beyond existing market requirements to ensure carbon credits' genuine climate impact or shifting from offset claims to non-offset claims to avoid increasing scrutiny.
- The fundamental market flaws need to be confronted without delay, even if it requires rejecting many of the current prevailing practices for quality assurance. This will only happen if the whole industry is ready to demand better integrity.





**Compensate
Foundation**

The Compensate Foundation is a Finnish non-profit organization working to improve the integrity of the voluntary carbon market.

This is the summary of the white paper **From Crisis to Confidence: Rethinking Integrity in the Voluntary Carbon Market**, published by the Compensate Foundation.

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6th of September 2023

