Non-offset claims:

How to make a robust climate claim?

Updated 15 August 2023

Compensate Foundation

The Compensate Foundation published this white paper on 8 June 2023. Three weeks later, the Voluntary Carbon Markets Integrity Initiative (VCMI) published its Claims Code of Practice, a key market initiative ensuring the robustness of climate claims.

In July, the Integrity Council for the Voluntary Carbon Market (ICVCM) released the Core Carbon Principles and its complete Assessment Framework for high-quality carbon credits.

In response to these milestone releases, the Compensate Foundation updated this white paper on 15 August 2023 by adding a new info section on pages 37–38 and updates on pages 23 and 36.

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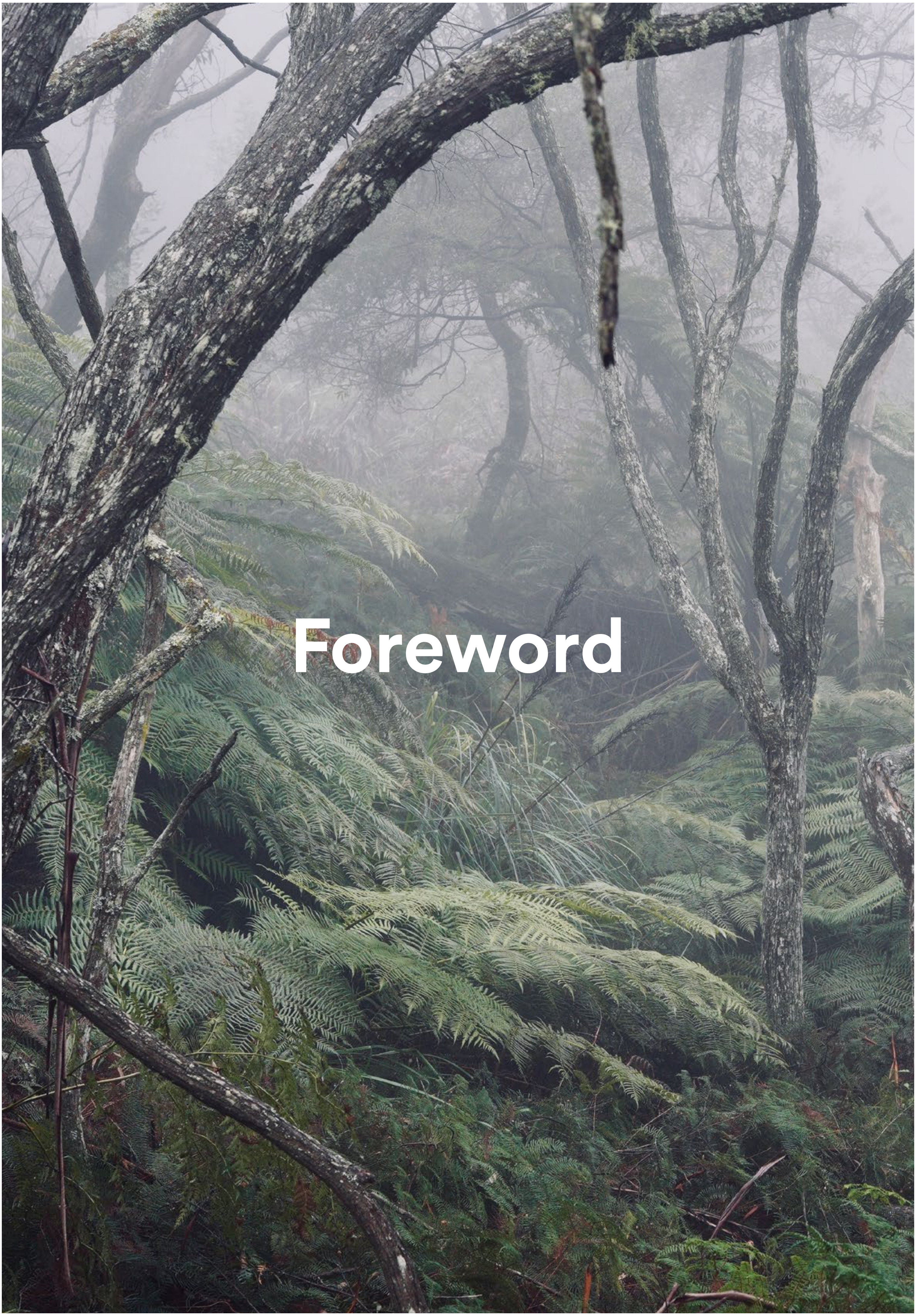

Foreword

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I joined the Compensate Foundation in March 2023. With my professional background in environmental policy research, I started examining the voluntary carbon market. I was overwhelmed by its complexity and controversy around it. I saw the flaws and bad practices in the market were gaining attention, eroding the trust in carbon offsetting.

Also in March 2023, the Intergovernmental Panel on Climate Change published its sixth assessment report with a clear and urgent message: climate change is proceeding fast, and its effects are threatening the well-being of people and nature. Global warming of 1.5 degrees can come as soon as the early 2030s. Extreme weather events are recurring more often and with greater intensity, causing threat to food security and the availability of fresh water. Our existence is at stake.

Governments cannot solve the climate crisis alone. The private sector's voluntary commitments and concrete actions are necessary. Fortunately, many companies have already responded to the challenge. Amid all the turbulence in the voluntary carbon market, companies think about the best ways to support climate actions.

One response to the acknowledged problems is adopting new climate claims, different from carbon neutrality and net zero claims. Some talk about a paradigm shift away from offsetting, while others consider it a parallel or complementary approach. There is a demand for new types of claims and a need to understand what they mean. This white paper aims to fill this knowledge gap.

Also, we want to highlight a crucial aspect that has received too little attention. A different name for a claim does not make it robust. The real impact, high quality, integrity, and transparency should be required from the non-offset claims, as they should be from the carbon neutrality and net zero claims. Otherwise, we repeat the same mistakes with the new claims and, in the worst case, open another door for even more greenwashing.

This white paper was born of the need to present the most common emerging climate claims, their benefits, and shortcomings. We at the Compensate Foundation think this type of information is much needed by different actors and stakeholders in the voluntary carbon market. We hope you find the white paper useful. We encourage you to contact us with any possible comments or feedback.

Janne Rinne
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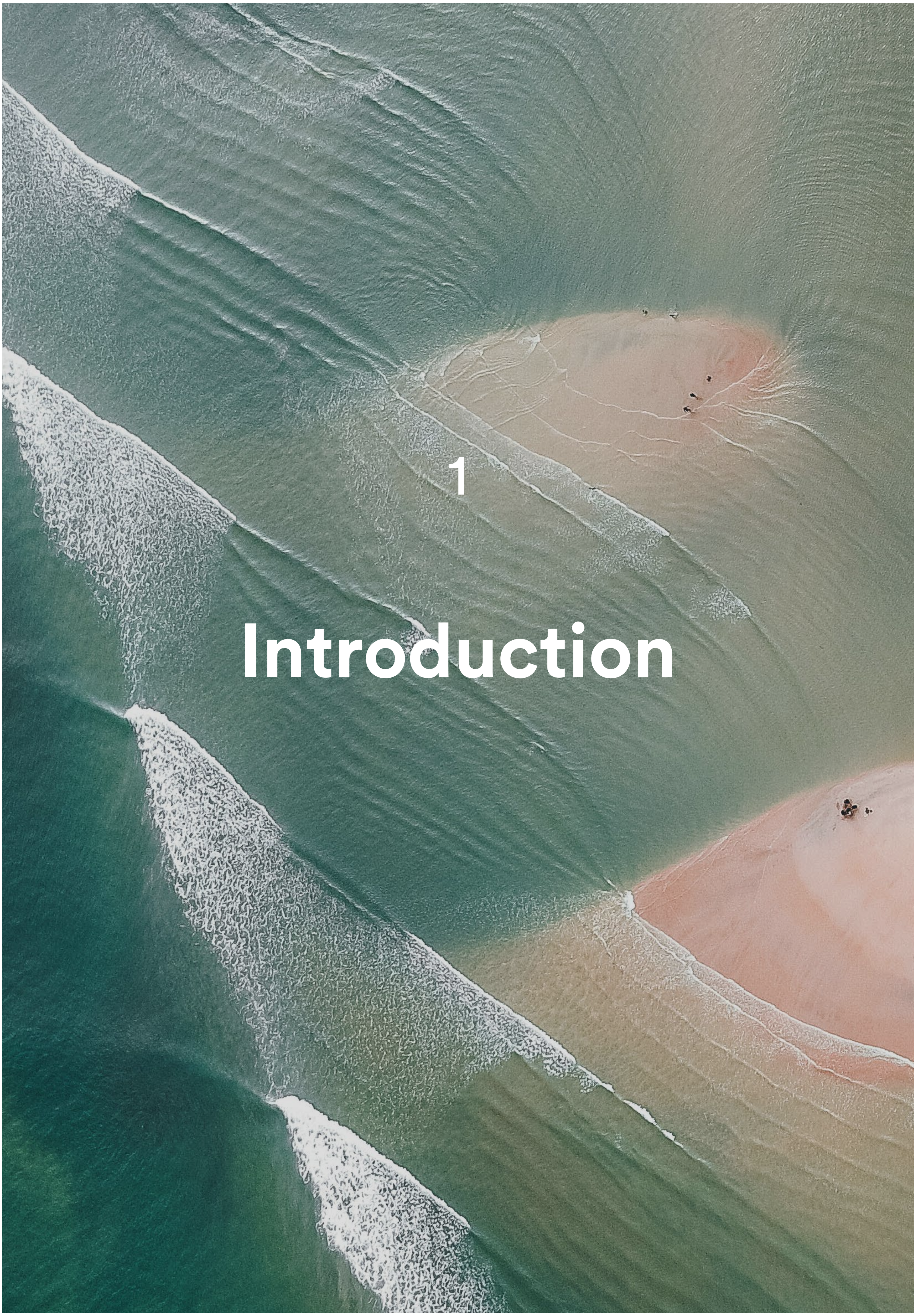

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Introduction

Introduction

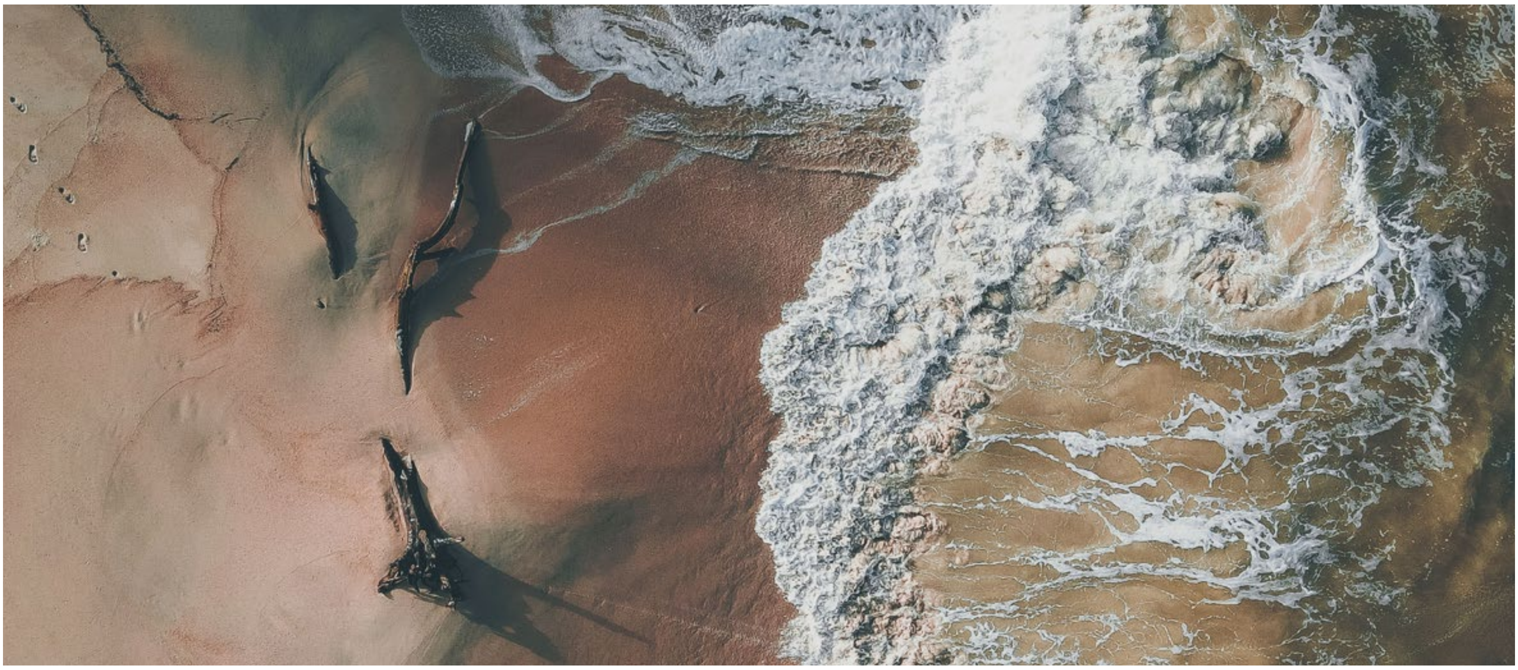
Companies are increasingly contributing to climate change mitigation. Many are setting climate targets and using voluntary carbon markets and carbon offsetting to leverage their carbon neutrality and net zero strategies.

At the same time, new forms of corporate climate action are gaining ground. Companies are communicating actions such as climate contributions, beyond value chain mitigation, climate finance, and climate action. New claims accompany the traditional offset, carbon neutrality, and net zero claims.

The demand for new types of corporate climate action is increasing. New service providers, funds, platforms, and labels are emerging, facilitating companies in these efforts. Companies communicate these efforts with new claims, different from the traditional offset claims.

The sprawl of climate claims can overwhelm and confuse an average company or consumer. Commonly agreed definitions of claims are missing, and organizations make claims in ambiguous ways.

The different claims overlap, and it is hard to understand what makes one claim different than the other.



This white paper aims to clarify the claims that have gained a foothold in corporate climate action in recent years. We use **non-offset claims** as the general term for claims not considered conventional offsetting: contribution claims, beyond value chain mitigation (BVCM), climate finance, climate action, and insetting.

The Compensate Foundation believes new forms of climate action contributing to global and national climate targets are needed and welcome. However, one should be cautious using new claims. Any statement about mitigation action should be robust, transparent, and based on actual climate impact.

This white paper highlights that a non-offset claim is not an excuse for bad quality or poor implementation. It is necessary to demand high integrity from non-offset claims, precisely as it is from conventional offset claims. Organizations should avoid repeating the mistakes and flaws in offsetting with new claims. They should set the bar high from the beginning.

As new claims become more popular, all stakeholders must understand what they mean and what they do not mean. Companies, consumers, civil servants, investors, and policy-makers must speak the same language. Otherwise, there is a severe risk of inefficient markets, vague communication, and plain greenwashing.

The white paper explains what the most commonly used non-offset claims mean and their benefits and shortcomings. It guides the reader to employ claims and to ensure high integrity and maximum impact of the mitigation actions.

The legislation, regulations, and quality criteria are changing fast. At the moment of writing this white paper, several EU directives and market standards related to environmental and green claims are being prepared. This white paper provides a snapshot of non-offset claims as the Compensate Foundation sees them in August 2023.

Know your claims!

A company should know the claim it makes.

→ Any responsible company should be **honest about its environmental impact.** Consumers, investors, and civil society demand more transparent information about companies' climate impact. One should **understand what a claim means** before communicating it to the stakeholders.

→ **The use of claims about environmental performance will be subject to new legislation** soon. The EU's Green Claims Directive and amendment of directives protecting consumers against unfair practices are being prepared. These and other regulations require companies to provide detailed information to substantiate their environmental claims.

→ **A misleading claim,** made intentionally or unintentionally, **can lead to accusations of greenwashing** and cause damage to the brand's reputation.

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Offset claims vs. non-offset claims

Offset claims vs. non-offset claims

What are the key differences between the different claims? In this section, we revisit the traditional offset claims, describe the most common non-offset claims, and explain their main differences.

Offset claims

The Voluntary Carbon Market (VCM) provides companies, organizations, and individuals a platform to take responsibility for emissions they cannot avoid.

In the VCM, companies and individuals offset their emissions by funding climate action projects that need financial support. Organizations support environmental projects worldwide to balance out their carbon footprints.

Compensating for emissions happens in practice by purchasing certified carbon credits. One carbon credit equals one metric ton of greenhouse gasses removed from the atmosphere or emissions avoided. One carbon credit, in theory, equals one metric ton of greenhouse gases.

Carbon credits are certified under carbon crediting programs developed by international carbon standards, such as Verra and Gold Standard. The project developers implement projects which reduce emissions or capture greenhouse gasses from the atmosphere. The carbon standards register the mitigation activities and issue carbon credits traded in the voluntary carbon market.

Carbon credits are generated by carbon projects that reduce greenhouse gas emissions, such as forest protection or renewable energy projects, or remove carbon dioxide from the atmosphere, such as reforestation or carbon-storing agricultural practices. The term ‘mitigation outcome’ refers to emission reductions and carbon removals resulting from these projects.

Companies communicate the use of carbon credits with **offset claims**, or **offsetting claims**. The two most common offset claims are the net zero claim and the carbon neutrality claim.

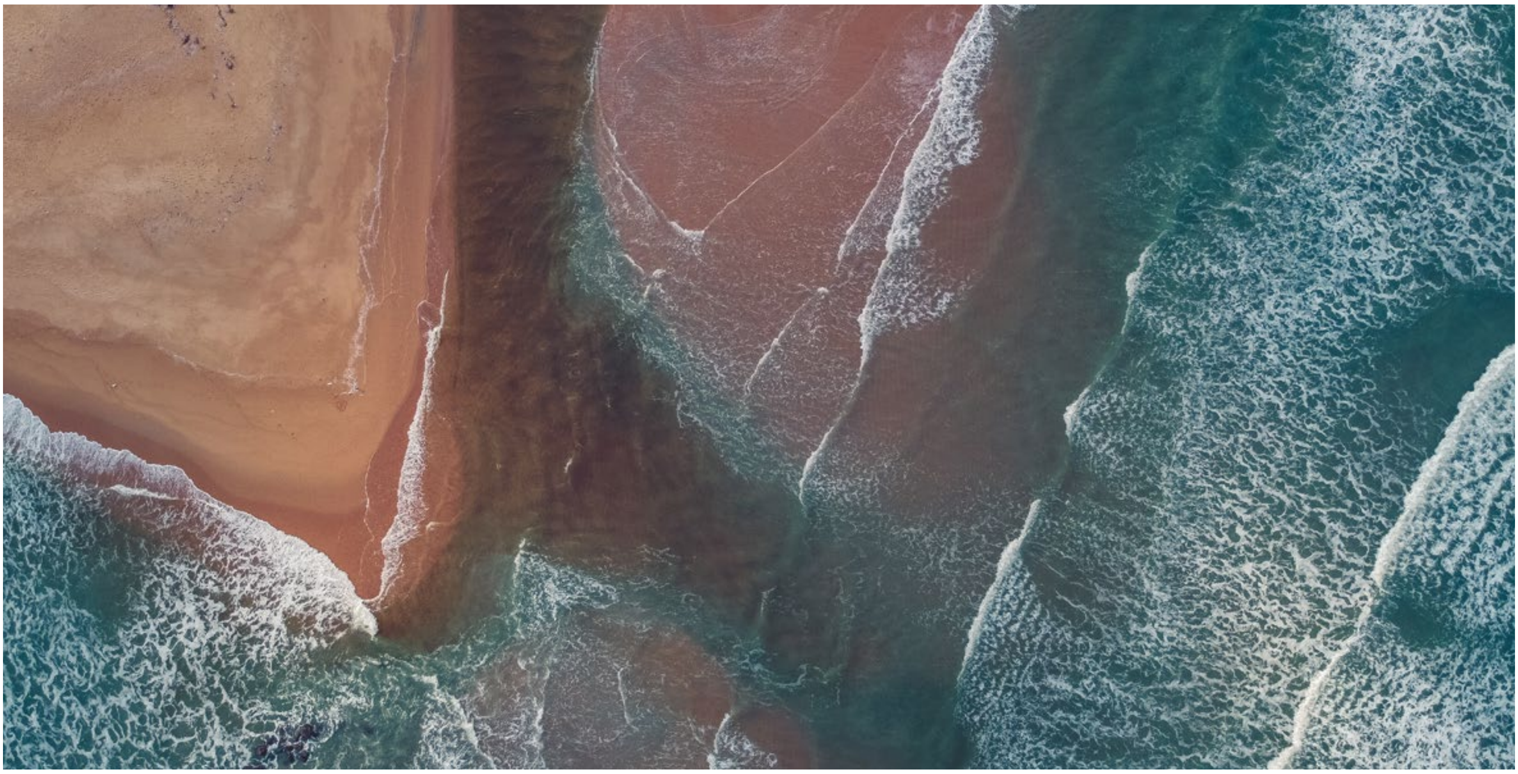
A net zero claim can be made when a company is reducing its direct and indirect emissions in line with the long-term 1.5°C target of the Paris Agreement.

According to the Science Based Targets initiative (SBTi), net zero claims require 90 - 95% emission reductions and neutralization of all residual emissions neutralized, before a claim can be made (see Section 3). A net zero claim may refer only to carbon removals.

A carbon neutrality claim can be made when offset credits are used for counterbalancing the emissions of a product, service, or company in full.

This claim can be made immediately after purchasing high-quality carbon credits.

Net zero and carbon neutrality claims are counterbalancing, as they explicitly state that specific greenhouse gas emissions of a company are being compensated by using carbon credits. The claims require the



emissions are known and these emissions are compensated with an equal amount of carbon credits.

Ideally, robust net zero and carbon neutrality claims should be backed by a science-based 1.5°C aligned pathway. The claim should consider emissions in scopes 1, 2, and 3. Companies should strive to include Scope 3 emissions whenever they are significant and can be reliably calculated. The bare minimum is to be highly transparent about the scopes included.

Offsetting is not a substitute for emission reductions and should be put in the right place in the mitigation hierarchy.

First, all possible emissions should be avoided. Then, all unavoidable emissions should be minimized. The remaining emissions should be offset.

Compensate's white paper Getting the claims right explains how companies and other organizations can construct high-integrity net zero and carbon neutrality claims aligned with the global 1.5°C target.

Non-offset claims

The difference between offset claims and non-offset claims is the notion of equivalence. Offset claims are based on the idea of counterbalancing an organization's own emissions.

Non-offset claims enable companies to take responsibility for their climate impact but do not include a statement about equivalence between specific emissions and the supported climate action. A company may say it finances a mitigation action but does not claim to have compensated for its emissions.

Non-offset claims cover climate action broadly, from financing carbon removal projects to supporting non-governmental organizations. Some claims are made by purchasing certified carbon credits, and others are not.

The funded mitigation activities should be high-quality to have a real climate impact. They also should be additional, meaning they would only have happened with the company's involvement in supporting these climate actions.

A non-offset claim should be proportionate to a company's climate impact to avoid greenwashing.

Small climate contributions, equivalent to a tiny fraction of a company's emissions, do not justify continuing business as usual. That would be counterproductive and misleading, worsening the climate crisis.

While the terminology around net zero and carbon neutrality claims is more or less established, the use of non-offset claims is still incoherent.

This white paper does not provide formal definitions of these terms and claims. It summarizes what is typically meant by each claim in the ongoing discussions in the voluntary carbon markets.

National mitigation contribution and the **contribution claim** refer to situations where the company uses certified carbon credits to help a country to reach its national climate targets. Contrary to offsetting, the company does not claim to counterbalance its emissions. The mitigation outcomes (emission reductions or carbon removals of the project) are counted towards the climate targets of the project's host country, not towards the company's emissions.

The terms **contribution, national contribution, mitigation contribution,** and **climate contribution** are other terms used with the same meaning.

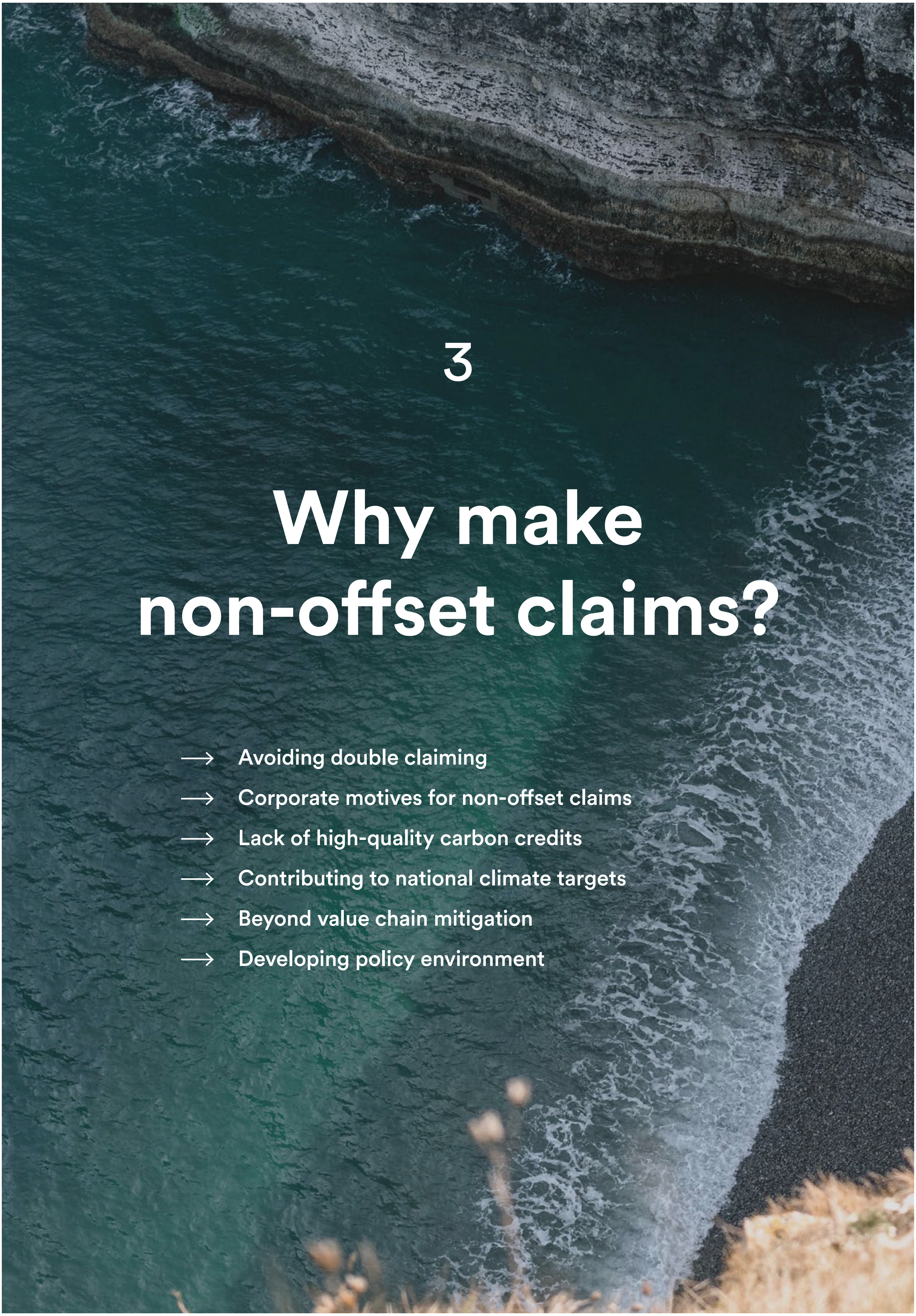
In addition, the term 'contribution' is being used more broadly, covering more indirect support to climate work, such as funding non-governmental organizations and research and development.

This white paper uses the terms 'contribution' and 'contribution claims' to refer to the projects which support countries in reaching their national climate targets. It is indicated in cases where ‘contribution’ refers to something else.

Beyond value chain mitigation (BVCM) refers to a company supporting mitigation action beyond its value chain. By supporting mitigation beyond the value chain, the company can contribute to the global 1.5 °C target before reaching the net-zero target. Beyond value chain mitigation is recommended in the Science Based Target initiatives Net-Zero standard.

Climate finance, climate action, and **donations** are broad terms often used to communicate an organization’s support for climate action. These terms cover diverse approaches: using certified carbon credits to contribute to national or global climate targets, planting trees, financing R&D, or supporting non-governmental organizations, for example.

Insetting refers to financing climate change mitigation across a company’s supply chain, e.g., climate-smart agroforestry, restoration, and environmental protection activities. The concept of insetting is utilized mainly by companies in the agriculture and food industries.



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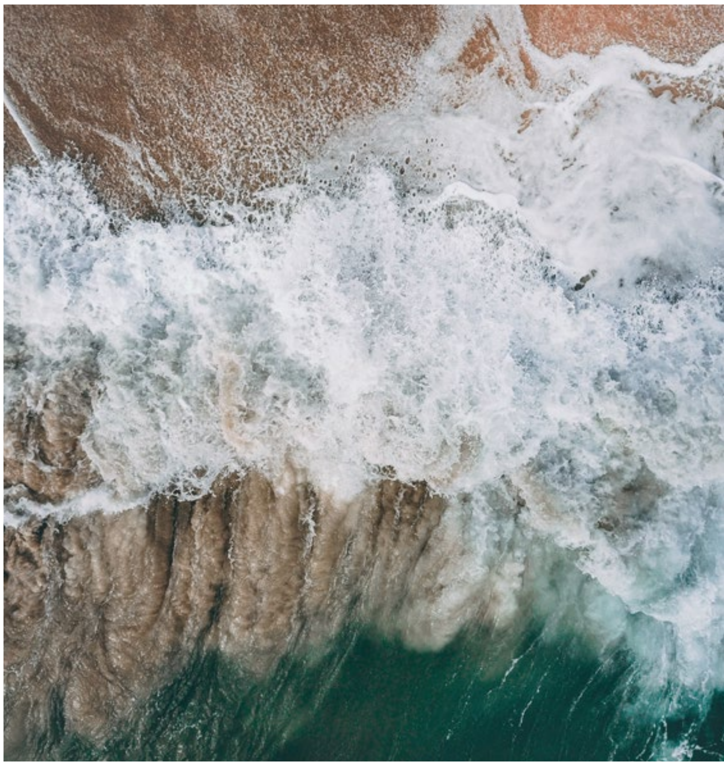
Why make non-offset claims?

- ⟶ Avoiding double claiming
- ⟶ Corporate motives for non-offset claims
- ⟶ Lack of high-quality carbon credits
- ⟶ Contributing to national climate targets
- ⟶ Beyond value chain mitigation
- ⟶ Developing policy environment

Why make non-offset claims?

What are the motives for making non-offset claims? In this section, we discuss why companies and other organizations are considering alternative approaches to traditional offsetting.

Avoiding double claiming



Double claiming happens when two entities claim a carbon credit simultaneously. Commonly, the two claiming parties are an organization offsetting its emissions and the project's host country trying to reach its nationally determined contributions (NDC), or climate target, under the Paris Agreement.

The Paris Agreements' accounting framework puts at risk of double claiming all carbon credits issued from 2021 onwards if the project activity is also overlapping with countries' climate targets.

For instance, most countries in the Global South rely largely on their land use sector to achieve mitigation targets. Reasons include vast forest cover or restoration potential and low implementation costs, meaning the land use sector is the 'low-hanging fruit.'

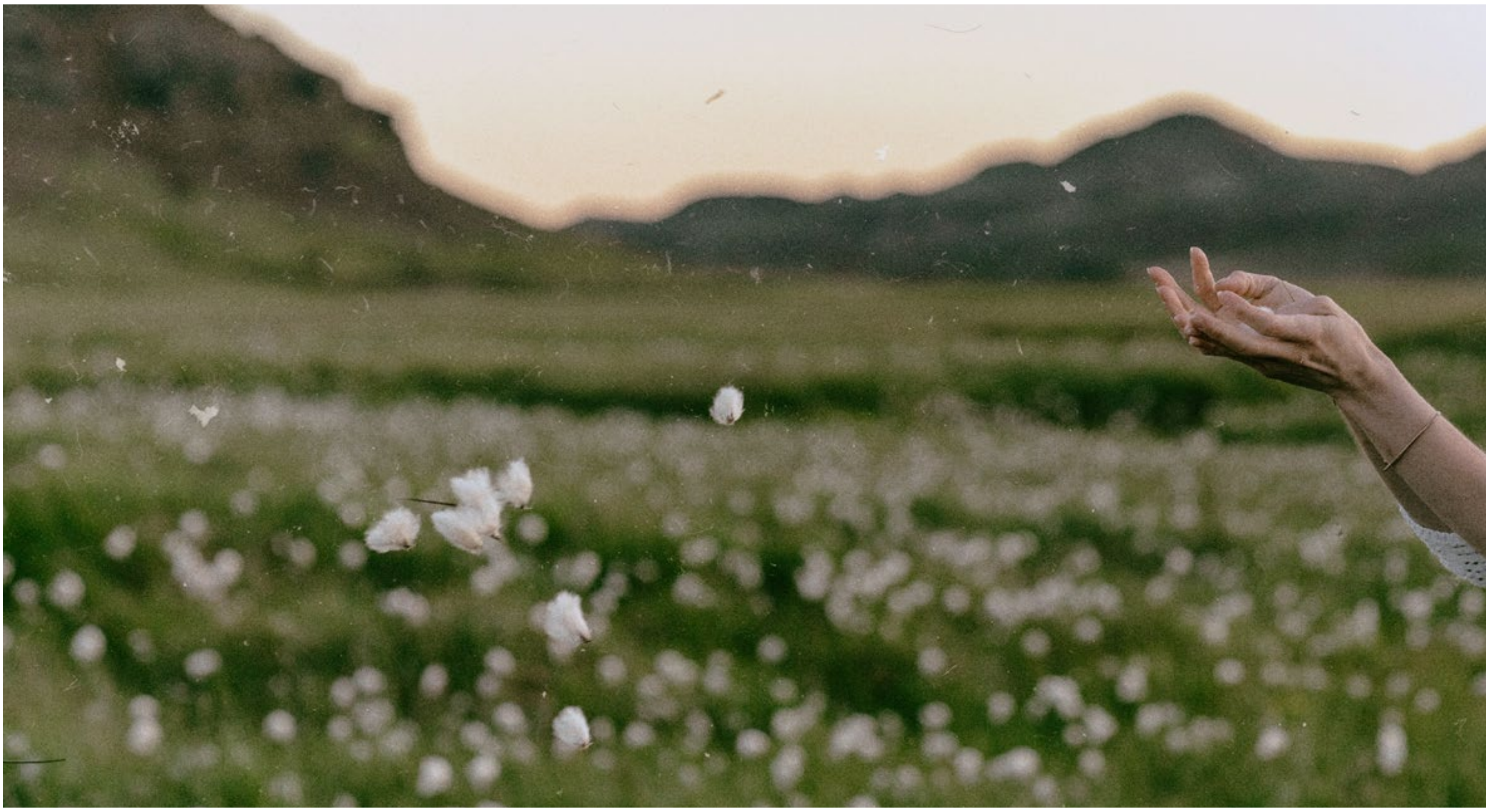
Forestry carbon projects, such as REDD+ and nature-based carbon removal, are very popular on the voluntary carbon market, as in addition to emission avoidance and removal, they also have various community and biodiversity benefits. However, since the land use sector is usually covered in countries' NDCs, most forestry projects have the risk of being double claimed.

REDD+ is a framework created by the UNFCCC Conference of the Parties (COP) to guide activities in the forest sector that reduces emissions from deforestation and forest degradation, as well as the sustainable management of forests and the conservation and enhancement of forest carbon stocks in developing countries.

Double claiming is highly problematic, as two parties cannot claim credit for the same climate action. If a company claims to be carbon neutral through an offset claim, whose impact is also counted into the project's host country goals, the claim is not based on actual, additional emission reductions.

The only way to avoid double claiming and still enable companies to make offset claims is to adjust host countries' carbon inventories and reporting by making a 'corresponding adjustment'. Corresponding adjustment means that the amount of CO_2 reductions or removals claimed by the offsetter by purchasing carbon credits are excluded from the project host country's national greenhouse gas inventory and reporting.

Corresponding adjustments ensure that private climate action goes beyond what is already set in national policies. To be truly impactful, offsetting should always be additional to national climate targets for an increase in overall climate ambitions.



However, most countries do not have the necessary registries, administrative frameworks, and processes for implementing corresponding adjustments. As a result, non-double-claimed, high-quality carbon credits eligible for offsetting issued before 2021 are getting scarce. Once they run out, the new carbon credits used for offsetting must demonstrate that corresponding adjustments in the host country have been made. Or the claim made based on double-claimed credits needs to be different, which largely explains the increasing interest in non-offset claims.

Corresponding adjustment is still a novel concept for the actors in the voluntary carbon market, and its necessity is being debated.

The Paris Agreement and double claiming

Offsetting is based on emission reduction and carbon removal projects not included in countries' national emission targets. Many countries, especially in the Global South, did not have national climate targets under the Paris Agreement until 2021. Most carbon credits used for offsetting until now come from these countries.

The implementation of the Paris Agreement is heavily changing the scene. The agreement, signed in 2015 and entered into force in 2016, introduced national climate targets for all countries which are signatories to the Agreement. The countries began accounting and reporting their progress on achieving Nationally Determined Contributions (NDCs) in 2021.

From the viewpoint of carbon offsetting, this is a significant change. The countries which, until recently, did not have national climate targets do now. As offsetting should go beyond national NDCs, many of the project types previously fit for offsetting are not anymore.

The reason is double claiming. When a project removes a given amount of CO_2 from the atmosphere or reduces emissions, it should be accounted for only once. Double claiming happens when the same mitigation outcome is claimed twice, towards the country's carbon accounting and the credit buyer's climate targets.

To avoid double claiming, the project's host country can make corresponding adjustments in their NDC. The mitigation outcomes 'exported' as offset credits in the voluntary carbon market should be excluded from the country's NDCs.

The Article 6.4. allows, but does not require, the host countries to implement corresponding adjustments. Currently, most countries are not implementing them due to the lack of necessary carbon accounting processes. There is also hesitation due to fear of the administrative burden with reporting, tracking, and capacity building involved. However, some countries like Ghana, Indonesia, Kenya, and Tanzania are already developing accounting for making corresponding adjustments. And in June 2023, Pakistan became the first country to provide a corresponding adjustment for a large-scale nature-based project restoring mangrove habitats.

The 27th Conference of Parties (COP27) of the Paris Agreement acknowledged a new voluntary mechanism supporting countries to reach their emission reduction targets. COP27, held in Sharm el-Sheikh in 2022, acknowledged a new type of carbon credit, known as 'mitigation contribution' under Article 6.4 of the Paris Agreement. A mitigation contribution credit differs from offsets and is expected to clarify double claiming and countries' corresponding adjustments.

Verra – the leading carbon market standard, does not require corresponding adjustments stating that corresponding adjustments are needed only between countries.

Unlike Verra, in its Claims Guidelines, Gold Standard recommends that users understand and comply with any regulation or guidance in place within the country in which the project occurs, related to the voluntary use of carbon credits that are also accounted towards that country's NDC and that to avoid double claiming carbon credits used should receive a corresponding adjustment. Gold Standard is also one of the first actors promoting alternative claims, such as contribution to global net zero efforts by funding climate action.

Different market integrity initiatives also have mixed views on the need for corresponding adjustments.

The Integrity Council for the Voluntary Carbon Market (ICVCM) is an independent governance body for the voluntary carbon market. ICVCM published the Core Carbon Principles (CCPs) that aim to guarantee the high quality of carbon credits used in corporate climate action. The CCP framework, published in 2023, considers double-claimed carbon credits as CCP-eligible – with a possibility to indicate corresponding adjustments in Attribute 1.

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multi-stakeholder platform to drive credible, net zero-aligned participation in voluntary carbon markets. VCMI's Claims Code of Practice does not require corresponding adjustments (see pages 37–38).

The Nordic Code's criteria for high-integrity carbon offsetting, developed as part of the Nordic Dialogue, require corresponding adjustment for credits used toward carbon neutrality and net zero claims.

The concept of corresponding adjustment is not clear for project developers either, many of whom believe that if the project is implemented on private land, double claiming is not occurring. What complicates the issue even more is that most host countries lack the readiness to implement corresponding adjustments and that the carbon standards do not require them either.

Thus, project developers are in a difficult position – having a carbon project underway and not having certainty on whether carbon credits will be double-claimed or not in the future, which also represents an investment barrier.

Buyers of carbon credits who follow the discussions on double claiming are becoming aware of the need for corresponding adjustments for making robust carbon neutrality and net-zero claims.

However, the market is getting depleted from the pre-2021 carbon credits, which are not affected by the Paris Agreement accounting rules, leaving companies the only option to postpone carbon credit purchases for their net-zero targets for the future when countries start implementing corresponding adjustments.

Even though consensus around the need of corresponding adjustments has recently arisen, some market actors still debate the necessity, which may confuse buyers.

The recent VCM Access Strategy Toolkit by the Voluntary Carbon Market Integrity Initiative helps policymakers engage with voluntary carbon markets. The toolkit helps countries in addressing double claiming and implementing corresponding adjustments in nationally determined contributions.

Corporate motives for non-offset claims

Corporate responsibility strategies, communications, and brand reputation determine the type of claim companies want to make.

There is a growing interest in considering alternative approaches to offsetting. Companies are searching for ways to support initiatives with the maximum measurable climate impact, regardless of their eligibility for conventional offsetting.

Suppose a company does not want to make carbon neutrality or net zero commitments but still wants to support global or national 1.5°C aligned targets. In that case, an alternative claim provides a means for that.

A company may have a specific climate project they want to support due to the project's geographical location, socio-economic benefits, biodiversity impacts, or suitability to a company's brand image. For example, a specific afforestation project may not be certified by voluntary carbon market standards but can be supported through non-offset claims.

Non-offset claims can be used to kickstart new markets and technologies. Financing the development of new technologies and pre-purchases of carbon credits from emerging solutions are a way to create new markets for industries, in the field of carbon removals, for example.

Lack of high-quality carbon credits

One reason behind the industry's shift towards non-offset approaches is the fact that high-quality carbon credits are scarce. The problem of low-quality credits has existed as long as the voluntary carbon market.

The Compensate Foundation has developed quality criteria that go beyond international standards.

Since 2020, the Compensate Foundation has evaluated 176 projects. More than 90 % of these have failed to pass the criteria.

The white paper Reforming the voluntary carbon market explores the integrity of carbon offsets in detail.

Since the recent negative media exposure regarding low-quality offset credits, carbon credit buyers have become aware of the problem. They want to avoid risks associated with offsetting programs. Carbon credit buyers do not have direct control over the projects but still bear the reputational risks of low-quality carbon credits. As awareness about the magnitude of the problem increases, committing to claims dependent on low-quality credits is seen as risky.

Contributing to national climate targets

The Nordic Dialogue on Voluntary Compensation acknowledges 'national mitigation contributions' as a means to support science-based emission reduction targets. The Nordic Dialogue was an initiative promoting the high integrity, coherence, and transparency of the voluntary use of carbon credits and related claims among Nordic and international stakeholders. The final report was published in 2022.

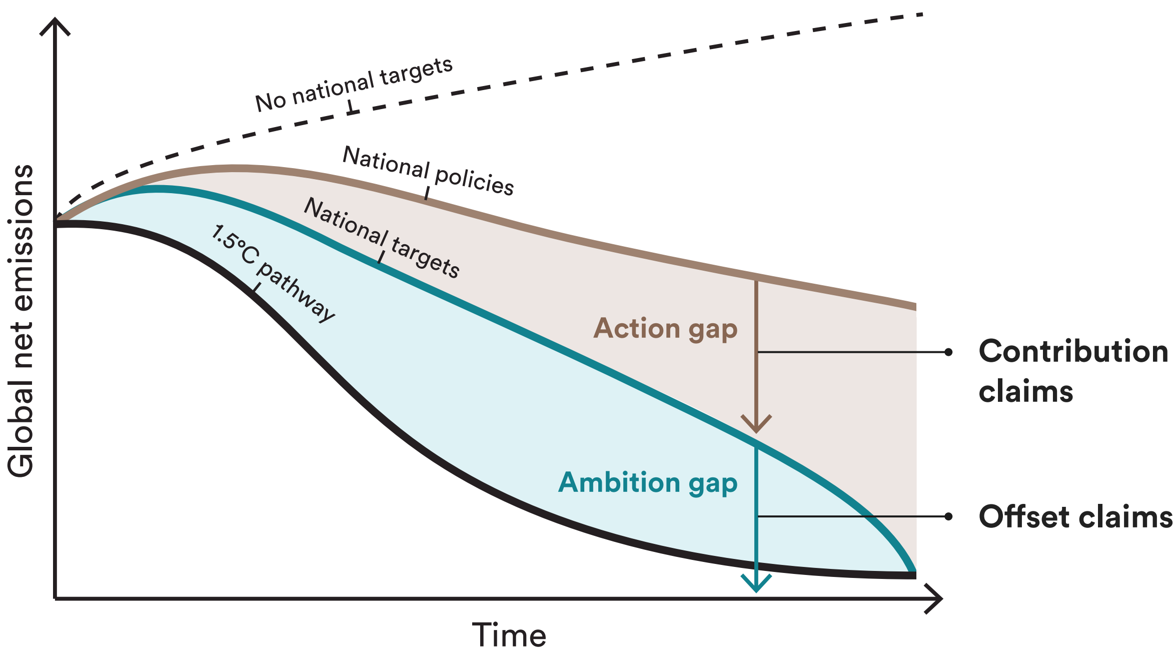
The guide to good practices for voluntary carbon markets by the Finnish Government (2023) acknowledges contribution claims as a way to support countries in reaching their national targets. Contribution claims may be based on the high-integrity mitigation projects not eligible for offsetting due to being double-claimed.

The Finnish guide provides a precise definition of the **contribution claim:**

> **"A contribution claim refers to supporting voluntary mitigation action by means of carbon credits, which are based on mitigation outcomes counted as part of tracking and accounting of a country's national climate targets, helping that country achieve its climate targets. Double claiming is avoided by only counting the mitigation outcome towards the country's national climate targets. [...]"**

On other occasions, 'contributions' may refer to a broader range of climate actions, contributing to achieving global 1,5°C targets. Here, the contribution claim refers to a claim based on carbon credits.

Offset claims and contribution claims



Source: Guide to good practices for supporting voluntary carbon markets. Supporting voluntary mitigation action with carbon credits (Finnish Government, 2023)

The main difference between offset and contribution claims is their relation to countries' national climate targets.

Offset claims target the **ambition gap** between national climate targets and the global 1,5°C pathway by supporting emissions reductions and carbon removals beyond the existing national climate targets.

Contribution claims target the **action gap** between national targets and national policies by supporting emissions reductions and carbon removals, which contribute to achieving the climate targets of the host country of the project.

The Compensate Foundation believes that both ways to support mitigation actions are necessary. However, the claim must correspond precisely to the action behind it.

If the carbon removal or emission reduction project is not additional to the national climate targets of the host country, an offset claim should not be made. Instead, the contribution claim is the one to be used.

Another option is that the project host country employs corresponding adjustments in its national carbon accounting and excludes the carbon credits exported from its NDCs.

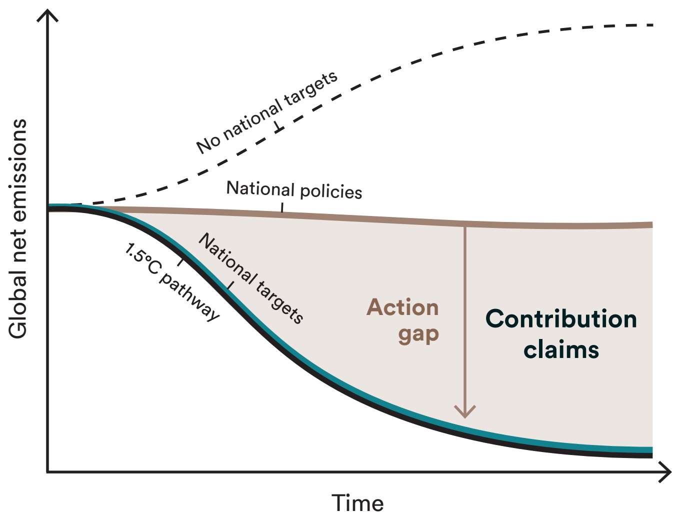
Offsetting or contributions?

When should one choose the offset claim, and when the contribution claim? Again, one should look at the level of ambition of the national climate targets in countries that host carbon removal and emission reduction projects.

If the country's climate targets are ambitious, a contribution claim has more potential for impact.

The project facilitates filling the action gap between a country's targets and actions. Going beyond the national target is not a priority because the national target is sufficient for reaching the global 1,5°C pathway. However, the climate crisis is global, and mitigation actions beyond the 1.5°C aligned pathway should not be rejected only due to the high ambition of a host country.

Example A: **Country with ambitious national climate targets**



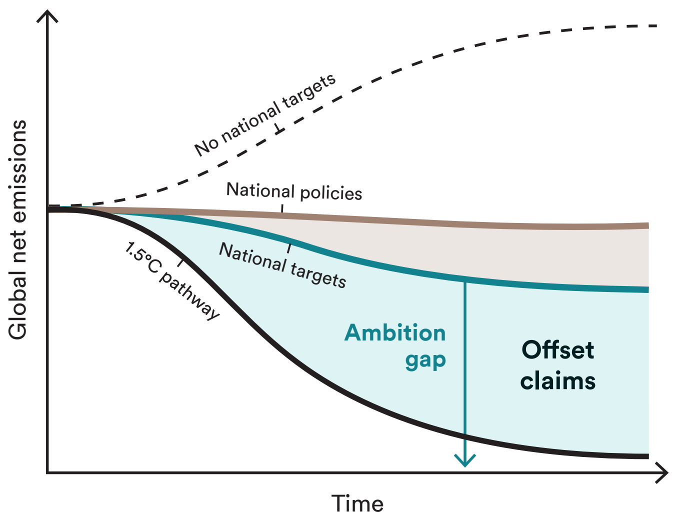
→ The national targets are aligned with the global 1.5°C pathway

→ There is no ambition gap or it is very small

→ The supported climate action should help the country to reach its targets (filling the action gap)

Contribution claim has a big potential for climate impact.

Example B: **Country with unambitious national climate targets**



→ The national targets are insufficient for the global 1.5°C pathway

→ The ambition gap is big

→ The supported climate action should have an impact beyond the national targets (filling the ambition gap)

Offset claim has a big potential for climate impact.

If the country's target is unambitious, an offset claim has more potential for impact.

The project facilitates filling the ambition gap between the national targets and the global 1,5°C pathway. Going beyond the national target is necessary because the national target is insufficient for reaching the global 1,5°C pathway.

Currently, only a few countries have national targets aligned with the science-based 1.5°C pathway. Finland is one of those countries, with its carbon neutrality target of 2035 outlined in its Climate Change Act.

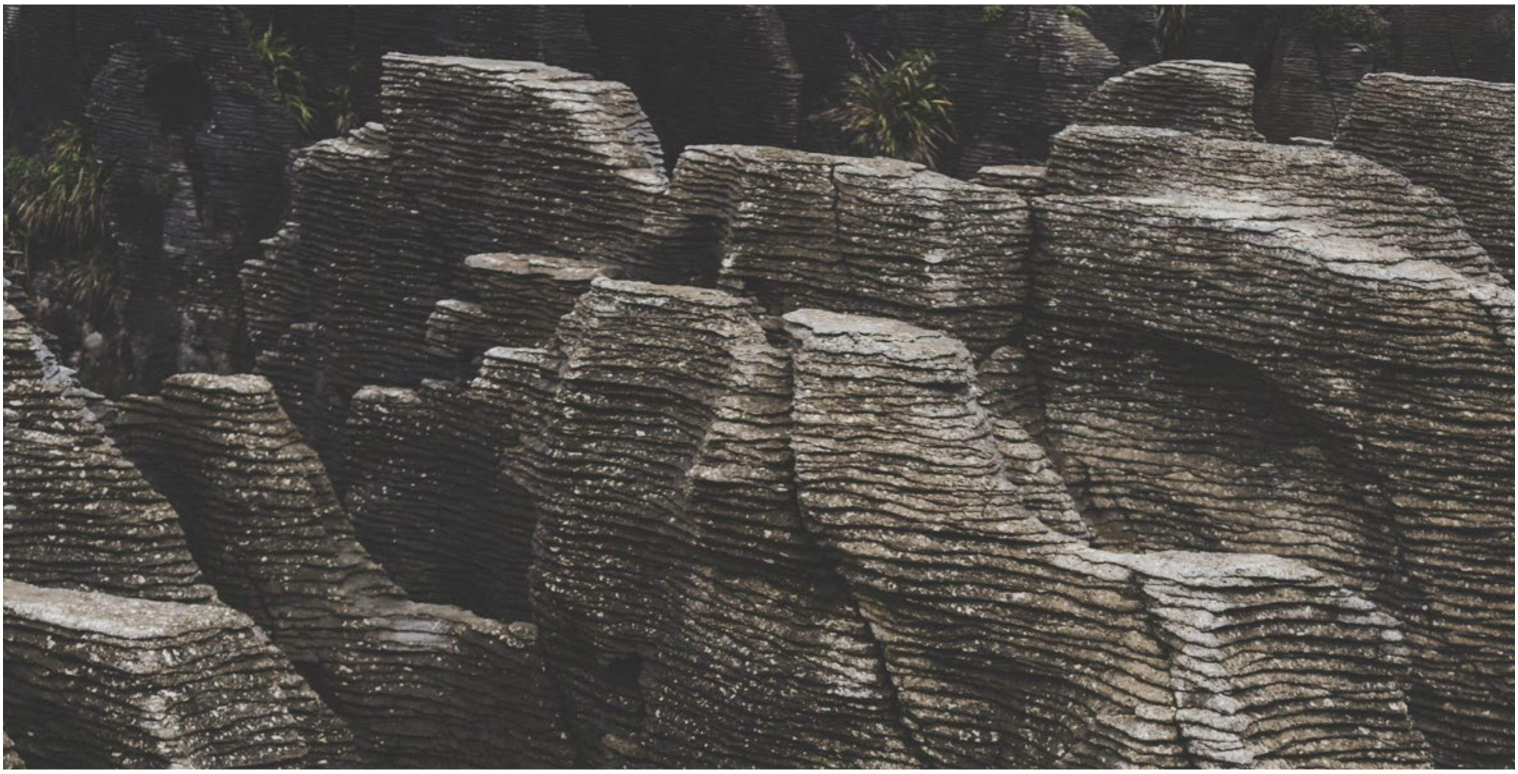
However, the whole picture is more complex. There are historical reasons why national climate targets in the Global South are less ambitious than in the Global North. It is fair to demand more ambitious targets from industrialized countries, which are relatively affluent and whose per capita emissions are very high, both today and historically.

Also, there is a concern that companies in the Global North will start favoring domestic climate contribution projects in their own countries. As a result, countries in the Global South will lack funding for much-needed climate and nature projects, although in many cases, the value chain emissions and other environmental impacts take place in the Global South.

Beyond value chain mitigation

The Science Based Targets initiative (SBTi) is a widely adopted framework for corporate climate action, in line with the latest climate science. SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

The SBTi's Net-Zero Standard advises companies to prioritize rapid emission reductions with near-term and long-term targets and neutralize



residual emissions. In addition, the standard advises companies to take climate action beyond their value chain emissions.

Beyond value chain mitigation (BVCM) refers to actions or investments outside a company's value chain. It allows organizations to take even more responsibility than included in their carbon neutrality or net zero targets and to further support the global 1.5°C target.

SBTi recommends beyond value chain mitigation to prioritize securing and enhancing carbon sinks (terrestrial, coastal, and marine) and to invest in nascent GHG removal technologies (e.g., direct air capture and storage).

SBTi's Net-Zero standard recommends following the mitigation hierarchy:

1. **Prioritize rapid, deep emission reductions by setting near-term targets:** Rapid, deep cuts to direct and indirect value-chain emissions are the most effective, scientifically-sound way of limiting global temperature rise to 1.5°C. Halving emissions by 2030 must be the overarching priority for companies.

2. **Set long-term targets:** The Net-Zero Standard also requires companies to set long-term science-based targets to cut all possible emissions

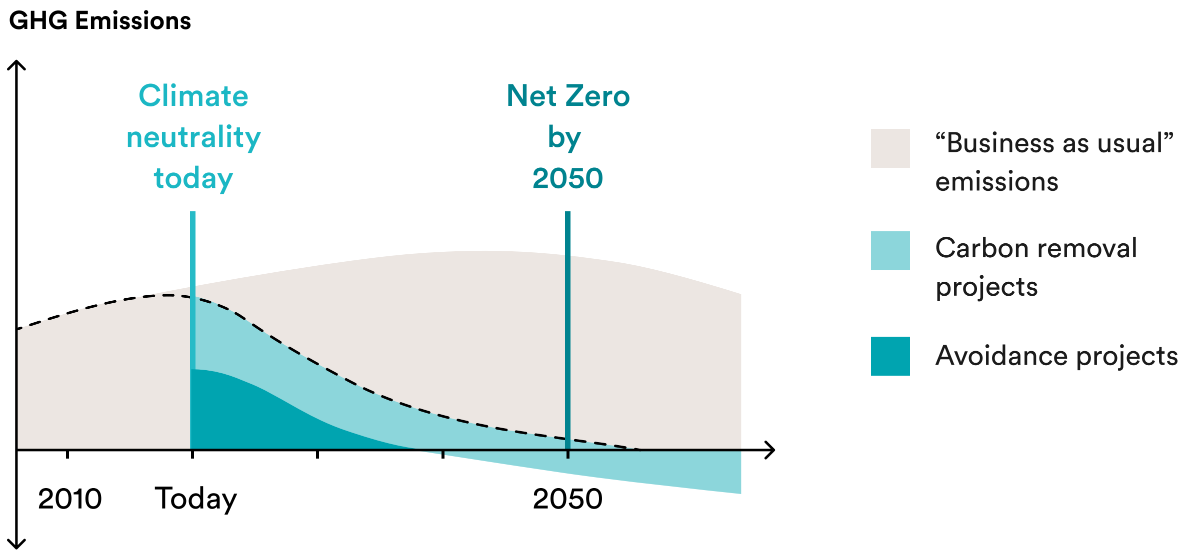
before 2050. Most companies must reduce emissions by more than 90%.

3. **Neutralize residual emissions:** After a company has achieved its long-term target and cut emissions by >90%, it must use permanent carbon removal and storage to counterbalance the final <10% of residual emissions that cannot be eliminated. A company is only considered to have reached net zero when it has achieved its long-term science-based target and neutralized any residual emissions.

4. **Climate finance beyond the value chain:** The SBTi wants to incentivize and catalyze as much climate finance as possible from the private sector. There is an urgent need to scale up near-term climate finance to achieve net zero before 2050. Companies should follow the mitigation hierarchy and make these investments in addition to deep emissions cuts, not instead of them.

Before a company achieves its net zero target, purchasing carbon credits is considered something that 'supports society to achieve net-zero emissions by 2050', according to the SBTi.

The corporate net zero pathway



When the net zero target has been reached, companies are expected to neutralize any residual emissions within their value chain with an equivalent amount of carbon dioxide removals at their net-zero target date, and these removals can be sourced from carbon credits.

As net zero targets are set decades away, companies keep creating harmful emissions in the meantime. Companies should simultaneously work with radical emission reductions and offset those emissions that they currently cannot avoid or reduce. The Compensate Foundation recommends implementing beyond value chain mitigation due to the urgency of the climate crisis

Developing policy environment

While companies are increasingly voicing their climate efforts through different claims, consumers' trust in climate claims and labels remains low. There is confusion among companies about available sustainability frameworks and their applicability across certification schemes and national requirements.

The policy landscape of the voluntary carbon market is changing fast. The evolving COP Article 6 negotiations highly influence the development of national regulation.

At the EU level, directives regulating the certification of carbon removals, using green claims, and empowering the consumers for the green transition are being prepared.

The EU Carbon Removal Certification Framework is underway, although it has received critique from non-governmental organizations, such as Carbon Market Watch. The main concerns are ambiguity about the role of carbon removals, risking that the certification framework can harm the climate by delaying deep emission cuts.

THE ECONOMIST GROUP

Beyond value chain mitigation

The Economist Group took climate action beyond their value chain by purchasing high-quality carbon credits in 2023. The group does not make a carbon neutrality claim, but instead applies the beyond value chain mitigation approach based on guidance from the science-based targets initiative (SBTi).

The Economist Group is committed to a 1.5°C aligned target, and has a SBTi validated near-term target more ambitious than the reductions required under the Paris Agreement. Its ambition is to reach science-based net zero by 2045. The Group's priority is on rapid emissions reduction, however it recognises that reduction alone will not achieve the Intergovernmental Panel on Climate Change (IPCC) target of limiting global warming to 1.5°C, as has been covered extensively in The Economist newspaper.

The world will need to remove about 10bn tonnes of CO_2 annually by mid-century, and 20bn tonnes of CO_2 per year by 2100. The Economist also wrote at the end of last year that there is a clear financial case for safeguarding biodiversity and natural ecosystems to control emissions and climate change. So it is taking action beyond its value chain to accelerate the net-zero transition by supporting initiatives that scale innovative carbon removal and protect natural carbon sinks.

Compensate Operations supported The Economist Group with the selection of high-integrity carbon credits from projects that pass strict criteria. The Economist Group's purchase included 8914 carbon credits from projects with a focus on innovative climate technology (e.g. biochar) and high-quality nature-based solutions (e.g. restoration of mangrove forests). A portfolio approach to selecting projects mitigates potential risks from individual projects.

Setting a net zero ambition helps The Economist Group mitigate and reduce its environmental impact, and prepare for a world where stricter regulation of carbon emissions is inevitable.

The proposed Green Claims Directive covers green claims broadly, including environmental labels. It requires companies to verify their environmental claims and provide the necessary evidence to substantiate them. The proposed directive says climate claims are particularly prone to greenwashing.

The Proposal for a Directive on empowering consumers for the green transition aims to prevent greenwashing by banning practices that mislead consumers on the true sustainability of products. In a bold move, the EU Parliament approved a negotiating mandate that foresees banning the use of general environmental claims like 'environmentally friendly,' 'natural, 'biodegradable,' or 'climate neutral' if these do not come with detailed evidence. The goal is also to ban environmental claims that are based solely on carbon offsets.

National regulations are beginning to take a more strict stance towards climate claims, particularly carbon neutrality claims. In the UK, the national Advertising Standards Authority's (ASA) will ban adverts that claim products are carbon neutral using offsets unless companies can prove they work.

Two important market initiatives are under development.

The Core Carbon Principles, published by ICVCM in July 2023, aim to ensure the high quality of carbon credits used for climate claims. The first CCP-approved credits will appear in the market by the end of 2023. The VCMI's Claims Code of Practice, released in June 2023, outlines requirements for robust climate claims (see pages 37–38). Together, the two initiatives will cover integrity 'end-to-end' – from the quality of credits to the credibility of claims.

In addition, the International Organization for Standardization (ISO) is developing a Carbon Neutrality Standard. Overall, the draft is quite ambitious about increasing disclosure and transparency. Companies must publicly disclose a long list of information in the Carbon Neutrality Report, incl. the carbon neutrality management plan, which emissions are covered by the claim – unabated or residual emissions, a baseline for the footprint, and reference to footprint quantification methodologies. Concerning carbon credits used, entities should disclose the GHG program, project name and ID number, methodology, and the number of credits used.

Overall, it is clear that all climate claims will be subject to more regulation and quality requirements. Better transparency will be required from any climate claims, primarily via the upcoming EU directives.

VCMI Claims Code of Practice

The Voluntary Carbon Markets Integrity Initiative (VCMI) published its long-awaited Claims Code of Practice on the 28th of June, 2023. The Code aims to provide requirements, recommendations, and guidance to organizations on using carbon credits in their near-term emissions reductions and long-term net-zero commitments. It guides the employment of climate claims made by using carbon credits. The Code includes a four-step process for making robust company-wide claims.

VCMI states the lack of clarity in carbon neutrality claims undermines confidence in the voluntary carbon markets. VCMI proposes three tiers of claims, which represent a company's ambition of their climate commitments:

⟶ **VCMI Silver** is the most accessible tier, requiring the purchase and retirement of high-quality credits in an amount equal to or greater than 20%, and less than 60%, of a company's remaining emissions once it has demonstrated progress towards its near-term targets;

⟶ **VCMI Gold** requires the purchase and retirement of high-quality carbon credits in an amount equal to or greater than 60%, and less than 100%, of a company's remaining emissions once it has demonstrated progress towards its near-term targets;

⟶ **VCMI Platinum** is the most aspirational tier, requiring the purchase and retirement of high-quality carbon credits equal to or greater than 100% of the remaining emissions.

The Claims Code requires the claimants to maintain and disclose annual GHG inventories, set validated emission reduction targets (near-term and net zero by 2050), and demonstrate that the organization is on track to meet the near-term targets.

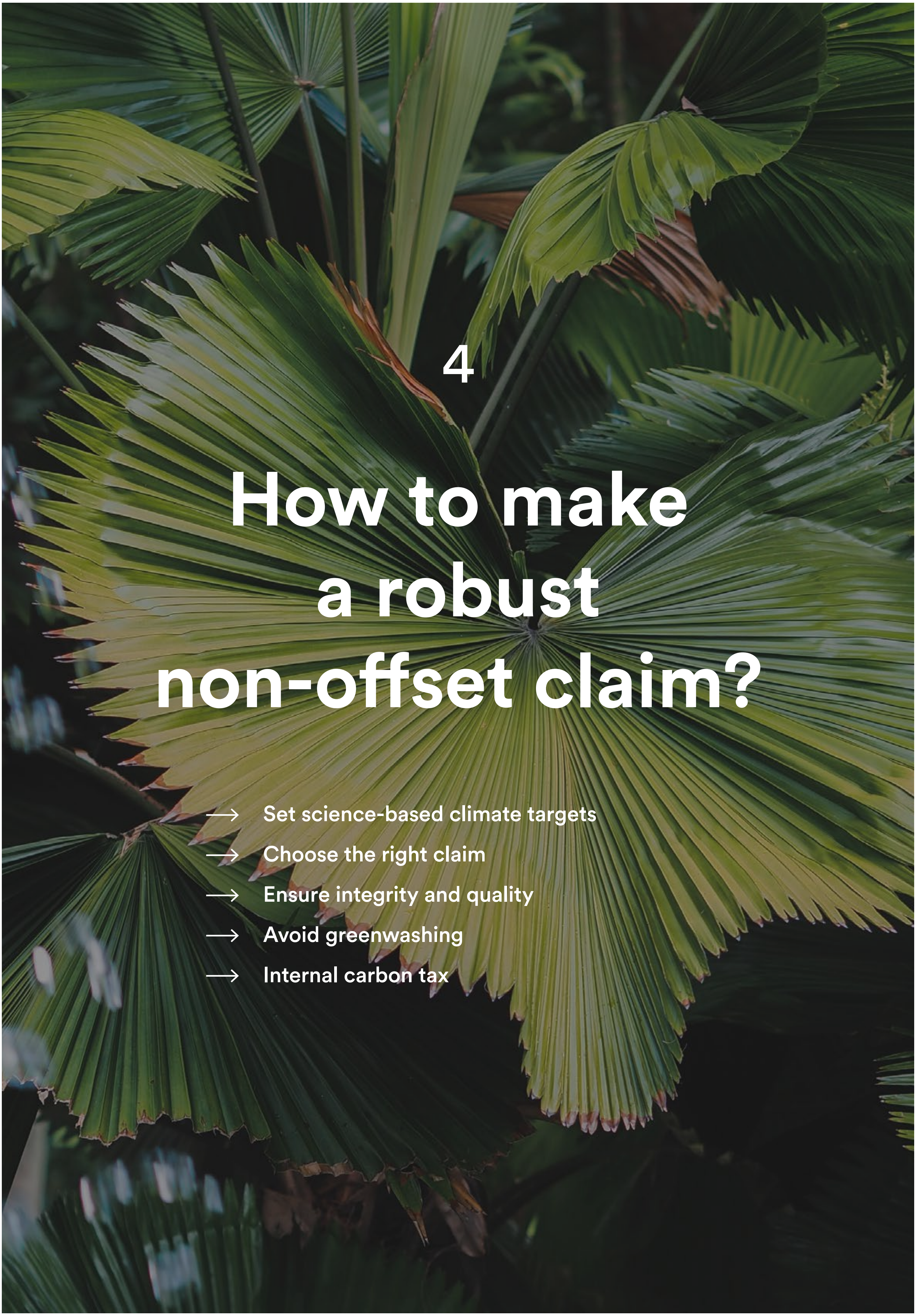
Disclosing emissions, emissions reduction targets, and use of credits ensures that offsetting is in the right place in the mitigation hierarchy.

It enables assessing the proportionality of carbon credits compared with caused emissions.

The Claims Code drives a shift away from carbon neutrality claims towards company-wide climate claims. The net zero will remain as the backbone of the VCMI-approved claims.

The Claims Code allows the use of double-claimed carbon credits. However, the claimant must disclose whether the carbon credit is associated with a corresponding adjustment under Article 6 of the Paris Agreement. As double-claimed credits are considered valid, a VCMI-approved claim may rely on mitigation actions that do not go beyond the host country's NDCs but contribute to reaching the country's climate targets. Therefore, the Claims Code is leaning towards the 'national mitigation contributions' and contributions approach.

Overall, the Code is an improvement in demanding better integrity and transparency of climate claims. Whether the Code succeeds in improving the integrity and transparency of claims also depends on other actors, such as project developers, carbon market standards, and independent third parties responsible for the quality of carbon credits offered on the market.



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How to make a robust non-offset claim?

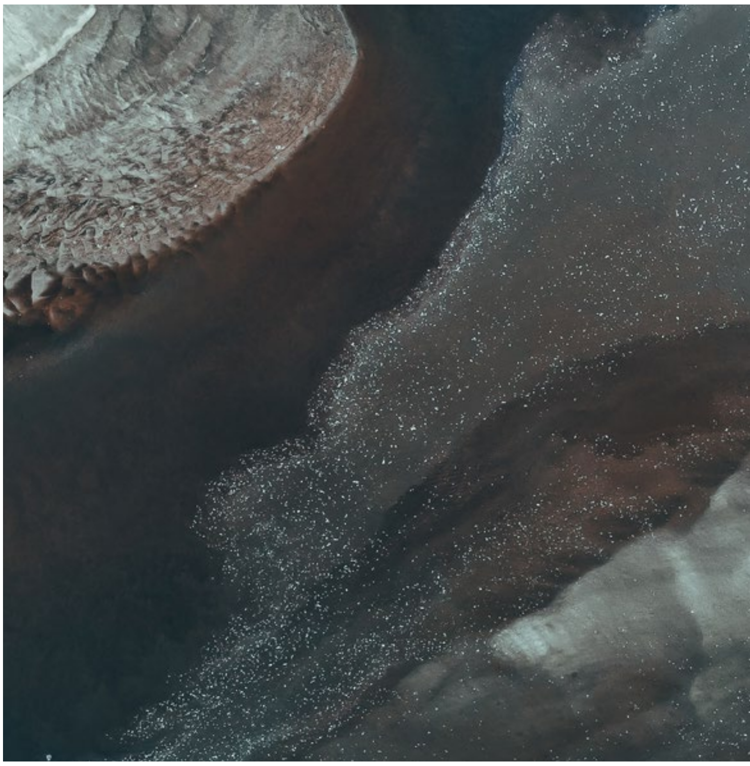
- ⟶ Set science-based climate targets
- ⟶ Choose the right claim
- ⟶ Ensure integrity and quality
- ⟶ Avoid greenwashing
- ⟶ Internal carbon tax

How to make a robust non-offset claim?

Making a robust non-offset requires similar actions as offset claims. This section highlights the key points to remember when making a non-offset claim with high integrity.

Set science-based climate targets

Any robust offset or non-offset claim made today should be aligned with a science-based net zero commitment, with a deadline no later than 2050. Ambitious interim targets, for example, 50% emission reductions by 2030, should be set. Emissions in scopes 1, 2, and 3 should be included. SBTi's Net Zero standard provides a framework for setting ambitious targets.



The priority should be avoiding and reducing emissions in the company's value chain. The use of carbon credits should be disclosed. Only high-quality offsets should be used to compensate for the unavoidable emissions. The use of non-offset claims should not blur these priorities.

A claim should be proportionate to a company's emissions. Understanding how big the emissions are compared to the claimed climate action is crucial. Ideally, detailed information about emissions, short and long-term emission reduction pathways, the use of carbon credits, and other mitigation actions should be available to the public. Otherwise, it is impossible to understand the scale of the mitigation effort.

It is not justified to draw attention to mitigating minor sources of emissions while not implementing robust commitments to rapid emission reductions. It would be pure greenwashing.

Choose the right claim

With the many different claims available, it is crucial to understand what each of them really mean.

A key step in choosing the right claim is to decide whether a company wants to counterbalance its own emissions or not. Offset claims include a statement of counterbalancing specific emissions. Non-offset claims contribute to reaching national or global climate targets.

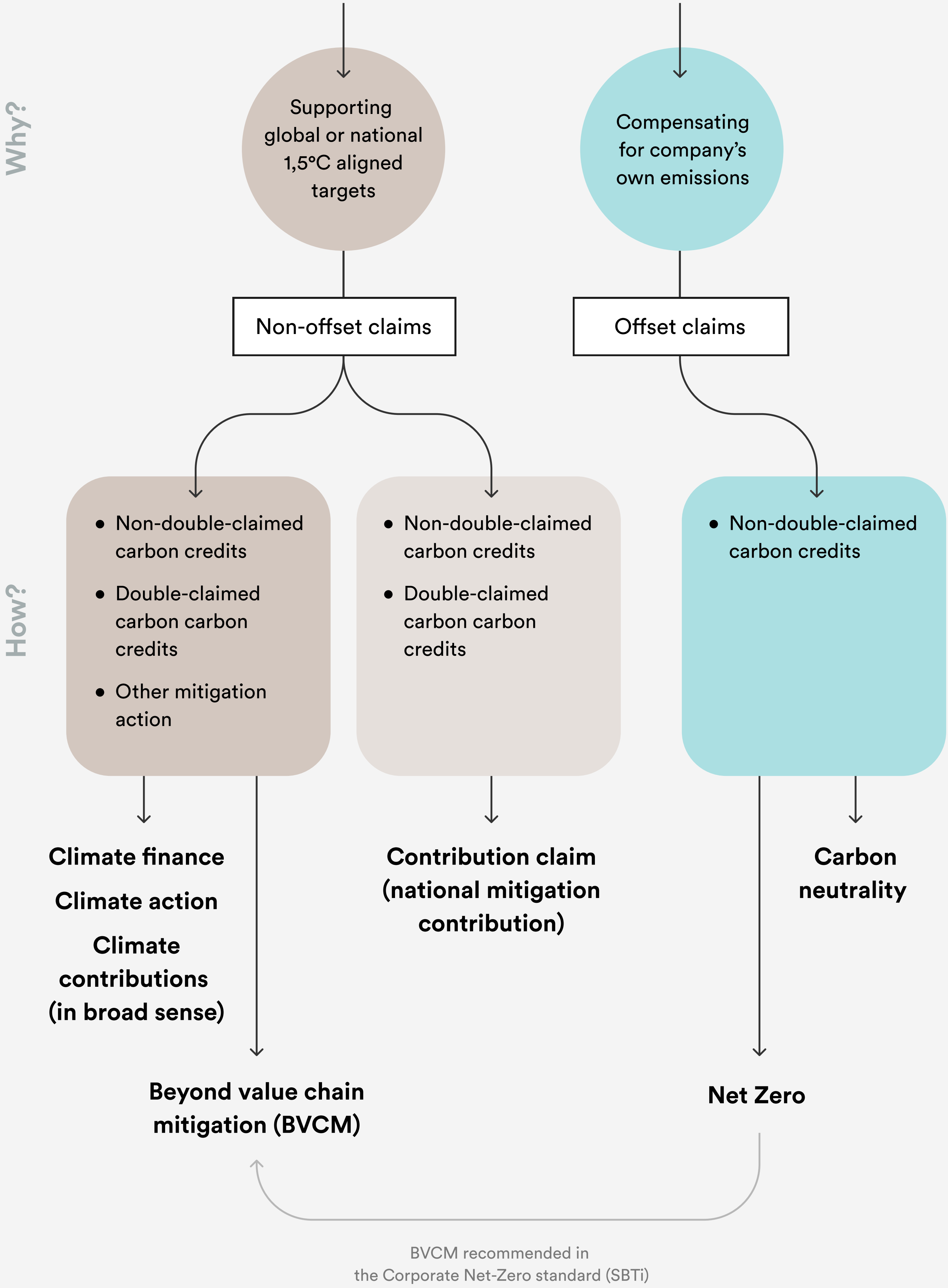
The claim depends on the type of climate action a company supports or finances.

Offset claims should be based solely on non-double-claimed carbon credits.

There is an ongoing debate in the industry about whether double-claimed carbon credits should be used for offset claims.

In situations where the host country of the project has not made corresponding adjustments in their emissions accounting (Nationally Determined Contributions or national/EU climate targets), a contribution claim can be made as credits are double-claimed.

Choosing the right climate claim



Beyond value chain mitigation (BVCM) claims may be based on non-double-claimed carbon credits, double-claimed credits and on actions not certified by carbon crediting programmes, such as support to NGOs, nature protection and afforestation projects.

Climate finance, climate action (and contributions in a wide sense) are broad claims. They can be founded on certified carbon credits or on less measurable actions, in the same way as BVCM claims.

The voluntary use of certified carbon credits is not limited to offset claims, as highlighted by the Nordic Dialogue's Code of Best Practice. The same credits can be used for making non-offset claims.

Claim	Benefits	Shortcomings
Net zero claim	· The pathway of deep decarbonisation is laid out. · Caused emissions are counterbalanced. · Focus on emission reductions, only residual emissions compensated. · Beyond value chain mitigation recommended.	· Insufficient short-term emission reductions (if interim targets are vague or absent). · Lack of high-quality and non-double-claimed carbon credits.
Carbon neutrality claim	· Caused emissions are counterbalanced.	· Lack of high-quality and non-double-claimed carbon credits. · Risk of 'locking' the emissions (in the absence of ambitious reduction targets). · Product- and service-level claims are particularly prone to be misleading.
Contribution claim / **Beyond value chain mitigation** / **Climate finance** / **Climate action**	· No double claiming by credit buyers and host countries (as the credit buyer does not claim to have counterbalanced its emissions). · Possibility of supporting high-quality projects not eligible for offsetting. · Supporting global climate targets. · Supports climate action beyond a company's own value chain.	· Risk of avoiding emission reductions (if 1,5°C aligned targets are not set). · Risk of greenwashing due to the insufficient proportionality of contribution / BVCM / Climate finance / Climate action claims compared with emissions. · Risk of concentration of climate action in the industrialized countries (at the expense of the Global South). · Lack of high-quality and additional credits or project activities. · Risk of making unsubstantiated claims, in the absence of formal quality and transparency requirements. · Challenge of quantifying impacts of certain project types.
Insetting	· Reducing emissions in a company's own supply chain. · Supporting vulnerable small-scale farmers in the Global South. · Taking responsibility for company's caused emissions and negative climate impacts.	· Risk of avoiding emission reductions (if 1,5°C aligned targets are not set). · Risk of greenwashing due to the insufficient proportionality of insetting claim compared with emissions. · Risk of making unsubstantiated claims, in the absence of formal quality and transparency requirements. · Challenge of quantifying impacts of certain project types.

Ensure integrity and quality

It is necessary to require high integrity, regardless of the type of claim employed. A different claim is no excuse to support low-quality projects without real climate impact.

The same quality criteria used for offsetting should be applied to other types of mitigation action, too:

- **Additionality:** The project would not have happened without carbon credit revenue, or other financial support, in the business-as-usual scenario.

- **Reliability:** Projects should not be based on unrealistic and exaggerated predictions of the potential deforestation threat, for example.

- **Permanence:** Permanence refers to the stability of the carbon sink or the duration of carbon storage in the project. The longer the permanence, the better the quality of the carbon credit.

- **Double counting:** All forms of double counting should be avoided. In double claiming, two parties (i.e. the host country and the buyer of the credit) claim the same carbon removal or emission reduction. It is prevented by making corresponding adjustments in the host country's carbon accounting or making a contribution claim instead of an offset claim. Double issuance and double retirement are other forms of double counting, and they are prevented by using a carbon credit registry recording all transactions.

- **Realized climate impact:** The claim should be made ex-post, meaning that the carbon removal or emission avoidance occurs before the claim is made. Using ex-ante credits and related claims is not recommended, as their realized impact is uncertain.

- **Net positive social, biodiversity, and environmental impacts:** For carbon projects to be sustainable, they should have net positive impacts on local communities, biodiversity, and the environment.

- **Diversification:** Risk diversification is one of the best ways to mitigate risks related to the projects. This means a carbon credit should be based on a portfolio of various carbon projects.

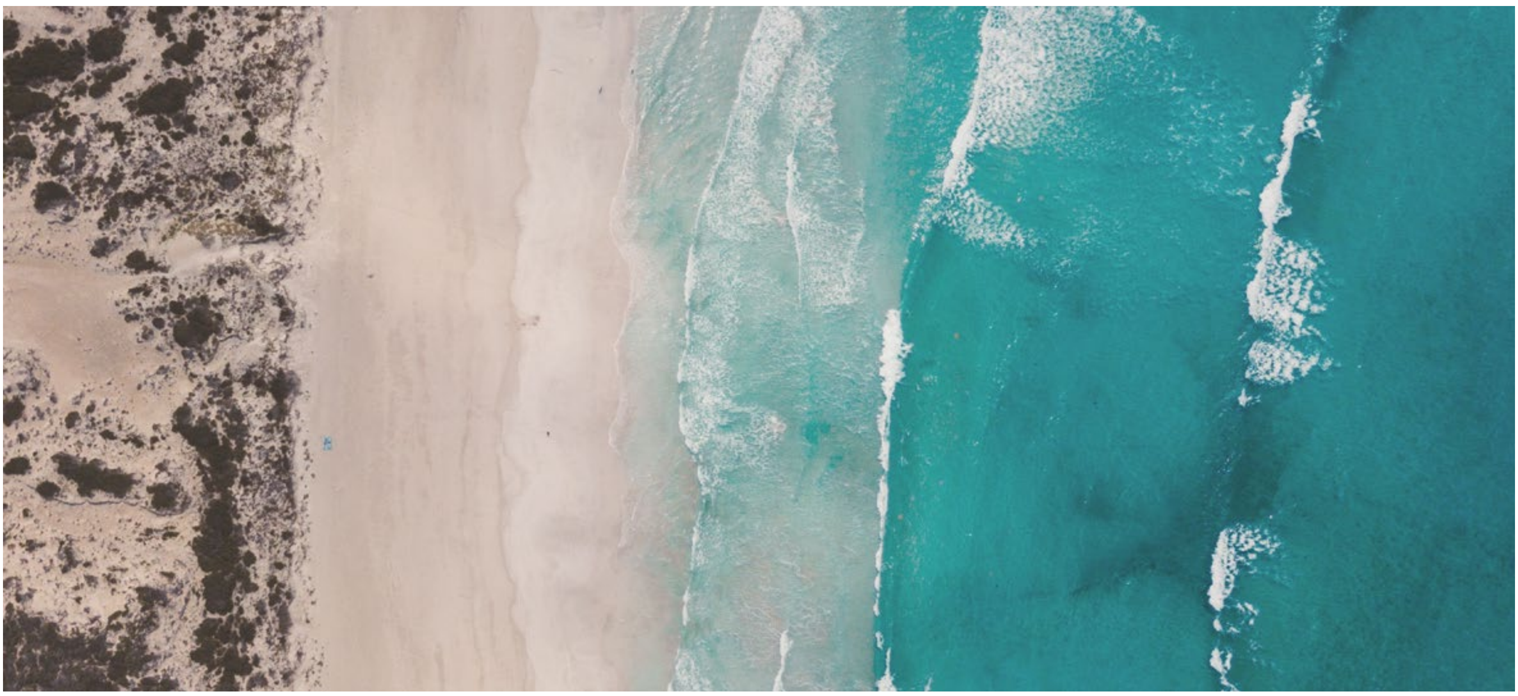
The Oxford Principles for Net Zero Aligned Carbon Offsetting, or Oxford principles, outline how carbon offsetting must be approached to ensure it helps achieve a net zero society. The principles, also, provide a valuable framework for non-offset project portfolios.

According to the Oxford principles, companies should:

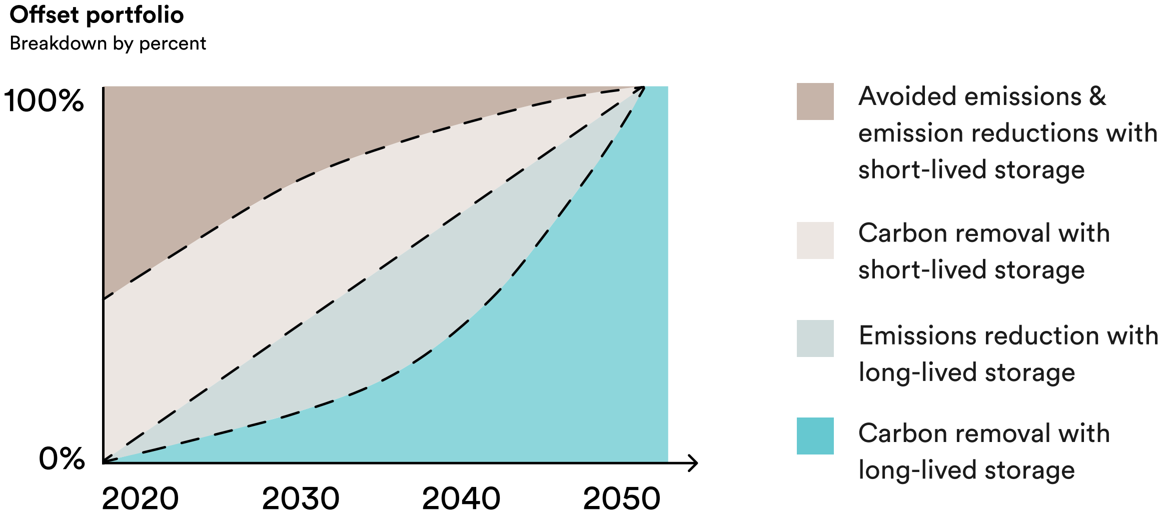
⟶ Shift offsetting towards carbon removal, where offsets directly remove carbon from the atmosphere;

⟶ Shift offsetting towards long-lived storage, which removes carbon from the atmosphere permanently or almost permanently; and

⟶ Support the development of a market for net-zero aligned offsets.



The Oxford Principles for Net Zero Aligned Carbon Offsetting



The Compensate Foundation strongly encourages companies to focus on carbon removals with long-term carbon storages in offsetting and other climate contributions, finance, and climate action claims.

Avoid greenwashing

Making a high-integrity claim requires disclosing the emissions and the carbon credits used. This way, consumers, investors, and other stakeholders understand the magnitude of compensated emissions and the scale of the claimed mitigation action.

The practices of employing non-offset claims are still evolving. Without minimum requirements and established procedures, non-offset claims are prone to greenwashing.

Typical cases of **greenwashing** include:

- ⟶ Making vague claims without information substantiating the claim
- ⟶ Highlighting a small detail that only accounts for a small amount of a company's total climate impact
- ⟶ Referring to vague sustainability labels, rankings, or certificates with low transparency
- ⟶ Communicating about long-term goals, such as a net zero target for 2050, and not clarifying which actions take place in the meanwhile

Climate claims have been under debate, with arguments in favor and against offset and non-offset claims.

Many non-governmental organizations, such as Carbon Market Watch and Greenpeace, call for a ban on offset claims, particularly the carbon neutrality claim. They argue the carbon neutrality claim allows companies to continue emitting business-as-usual without immediate emission reductions.

Carbon standards, offset providers, market integrity initiatives, and some non-governmental organizations argue that offsetting enables companies to take responsibility for their emissions. Instead of switching to new claims, the flaws of offsetting should be fixed. There is a concern that the paradigm shift towards non-offset claims, which are less subject to scrutiny than offset claims, will lead to even more greenwashing.

The Compensate Foundation believes there is room for both offset and non-offset claims if they are robust, aligned with ambitious emission reduction targets, and communicated transparently.

A **robust claim** should:

- ⟶ Disclose its direct and indirect emissions (scopes 1-3) and mitigation actions separately.
- ⟶ Specify whether the claim addresses the whole company or only a specific product or service.
- ⟶ Provide complete information about the carbon credits used (i.e., number of credits, proportion used to cover the claim, certification standard, project name, ID, issuing registry, project host country, project type, etc.)
- ⟶ Provide necessary evidence to support the claim in a way that is easy to reach (i.e., packages, websites, or QR codes).

Internal carbon tax

An internal carbon tax, also called internal carbon price or fee, is often coupled with beyond value chain mitigation. With an internal tax, companies can fund their climate action and steer their strategies and operations toward emission reductions.

The Corporate Climate Mitigation Blueprint, developed by the World Wide Fund for Nature (WWF) and Boston Consulting Group (BCG), introduced a framework for companies to place climate action in their core business strategies. The Blueprint was published in 2020.

The logic is to set an internal tax on the company's value chain emissions. The funds generated by internal carbon pricing are invested in climate action. The money may be used for further emission reductions, unlocking new climate solutions, or high-quality carbon credits.

The Blueprint recommends the companies to:

1. **Account and disclose their emissions** across the value chain

2. **Reduce value chain emissions** in line with an ambitious science-based target pathway.

3. **Make a financial commitment** that internalizes the external costs of any remaining greenhouse gasses, and disclose all assumptions, including the implicit carbon price.

4. **Invest the financial commitment** in a portfolio of potential high-impact climate and nature actions.

The actions may include investing in quantifiable emission reductions, removing carbon from the atmosphere, or unlocking the pipeline of future climate solutions. These solutions can consist of nature-based solutions, new emissions capture technologies, and business innovation and transformation efforts that can further society's move toward a net-zero economy.

Conventional offsetting has been criticized for enabling a company to continue emitting greenhouse gasses business-as-usual. An internal carbon tax incentivizes a company to reduce its emissions.

Corporate Climate Mitigation Blueprint

1. **Account and disclose emissions**
2. **Reduce value chain emissions** in line with an ambitious science-based target pathway
3. **Quantify financial commitment** by pricing remaining emissions
4. **Invest the financial commitment** for climate and nature impact

The fee increases organizations' internal motivation and stakeholder commitment to emission reductions. The approach helps the company to future-proof its business strategy for the low-carbon future and critically review emissions in its value chain.

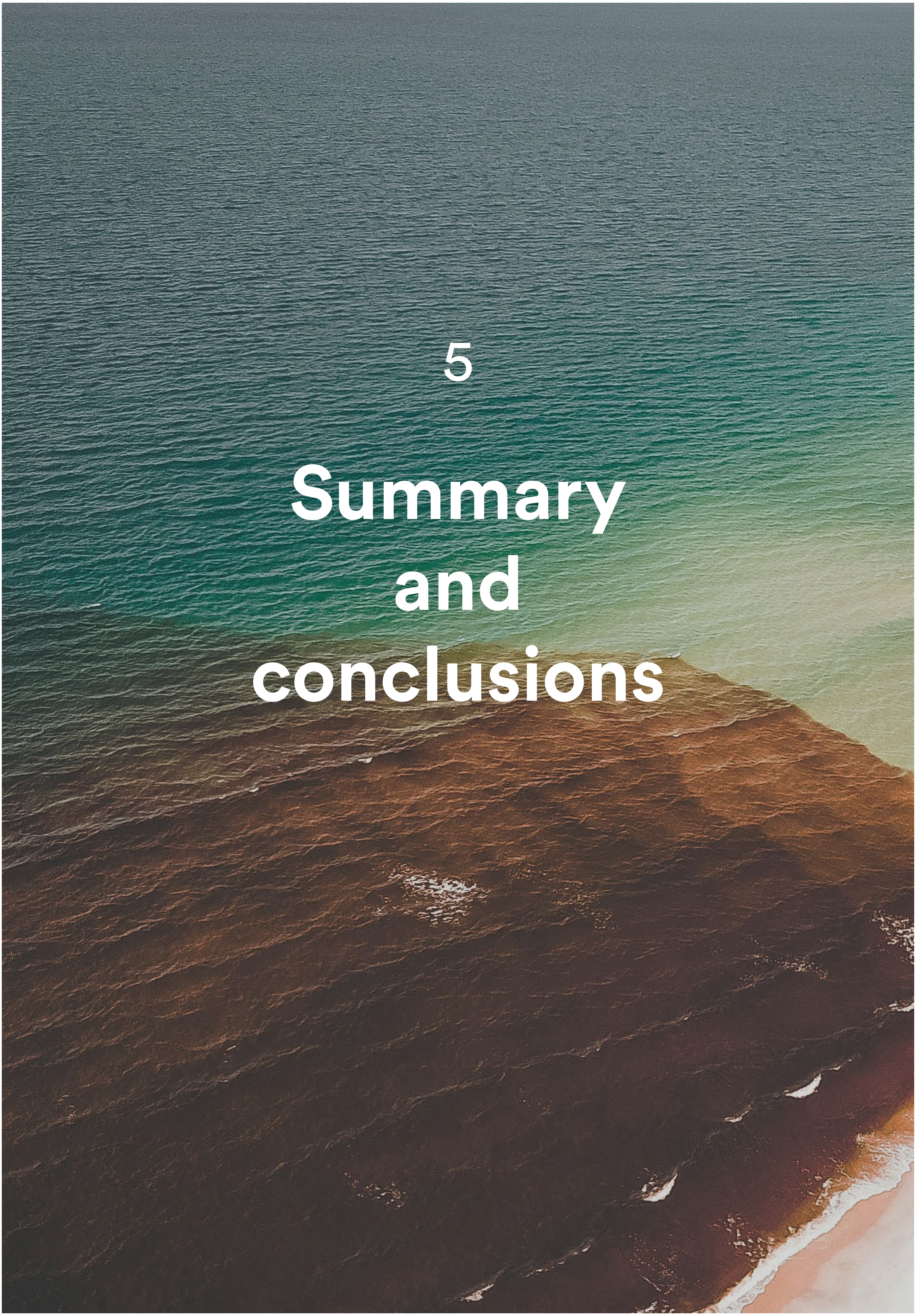
The Blueprint requires the company to reduce value chain emissions in line with the science-based 1.5°C pathway, meaning that carbon tax is not a substitute for ambitious emission reductions but a tool and an incentive for reaching it.

MILKYWIRE

Funding climate contributions with internal carbon fee

Milkywire is a tech platform enabling companies to address their environmental footprint. Milkywire's approach is based solely on contributions, understood in a broad sense. Their Climate Transformation Fund enables companies to make non-offset contributions in selected climate change mitigation projects in three categories: carbon removal, restoring and protecting nature, and decarbonization. Several Nordic tech companies, including Spotify, Klarna, Avanza, Northzone, Mentimeter, and BioGaia, have committed to donating to the fund.

Some companies donating to the fund are implementing internal carbon fees. According to Milkywire's whitepaper, the tech company Klarna has set a 100 USD fee for scopes 1, 2, and travel emissions and 10 USD for the rest of scope 3. In 2021-2023, Klarna's internal fee generated 5,07 million USD, used to contribute to projects in the fund.



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Summary and conclusions

Summary and conclusions

The Compensate Foundation believes new forms of corporate climate action are needed and welcome. Non-offset claims provide companies and other organizations with new ways to contribute to climate change mitigation and to communicate this action to their stakeholders.

The voluntary carbon markets are starting to acknowledge the issue of double claiming, creating two types of new demand.

First, there is increasing demand for carbon credits with corresponding adjustments implemented. Second, there is a growing demand to make new kinds of climate contributions, accompanied by new claims.

Non-offset claims are a means for companies to raise ambition in their climate actions. But new claims are no silver bullet that would automatically fix the flaws in the market.

The Compensate Foundation welcomes these new means in the companies' climate toolbox. Still, it emphasizes that no emission reductions, or high-integrity offsetting, should be replaced with vague claims with no measurable impact.

One should make non-offset claims carefully. A different claim should not compromise the quality. The quality criteria and requirements developed for carbon offsetting projects should apply to non-offset projects, too.

The integrity of claims should not be compromised either. Changing the paradigm from offsetting towards new claims, which might be under less scrutiny than current offset claims, may open the door for vague, unsubstantiated, and misleading climate claims.

In the worst-case scenario, new claims may lead to even more significant opportunities for greenwashing. Giving up on counterbalancing specific emissions can lead to a situation where the projects companies support outside their value chain receive even less scrutiny than offset projects get today.

Regardless of the type, climate claims should be robust, transparent, and based on actions with real climate impact.

The claim should be proportionate to the company's value chain emissions and aligned with science-based climate targets. The claim should be substantiated with sufficient information available for verification.

This white paper aimed to clarify the most common non-offset claims as we see them in June 2023. Corporate climate action and voluntary carbon markets are evolving fast. The Compensate Foundation continues to follow them closely and will provide updates on the latest developments.

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Sources and further reading

Sources and further reading

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