

A better alternative to offsetting

An introduction to climate contributions

Presentation to the Financing Mechanism Working Group of the Climate and Ozone Protection Alliance (COPA)

Juliette de Grandpré, 6 June 2024



Agenda

- » Kyoto to Paris
- » Climate contributions
- » Claims
- » Climate contributions vs. SBTi BVCM





Kyoto to Paris

Kyoto to Paris



Paris Agreement

- **all** Parties expected to contribute, peak their own emissions as soon as possible, reduce emissions thereafter, and decarbonize their economies this century
- to **allow for higher ambition** in their mitigation and adaptation actions and to promote sustainable development and environmental integrity

Kyoto Protocol

- Annex I and non-Annex I world
- Flexibility mechanisms were to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments
- To assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention



VCM in the context of the PA

- » The Paris Agreement **changes the context** in which the voluntary market operates:
 - On the supply side: new challenges that come on top of the existing concerns about the lack of environmental integrity and adverse social and environmental effects
 - On the demand side: high reputational risk that the VCM is used as a substitute for own climate action (greenwashing)
- » The Paris Agreement sends **contradictory signals** to the VCM:
 - Clear net-zero path means companies must act on climate change
 - Plethora of corporate net-zero targets, large role for carbon offsetting
 - Global scope of the Paris Agreement creates a new risk: double claiming
 - This risk must be avoided

Trends in the VCM – high reputational risks

Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows

Investigation into Verra carbon standard finds most are 'phantom credits' and may worsen global heating

- **'Nowhere else to go': Alto Mayo, Peru, at centre of conservation row**
- **Greenwashing or a net zero necessity? Scientists on carbon offsetting**
- **Carbon offsets flawed but we are in a climate emergency**



KLIMAZERTIFIKATE

Macht Bäume pflanzen ein Kohlekraftwerk klimaneutral?

von Benedikt Dietsch
03. Februar 2023

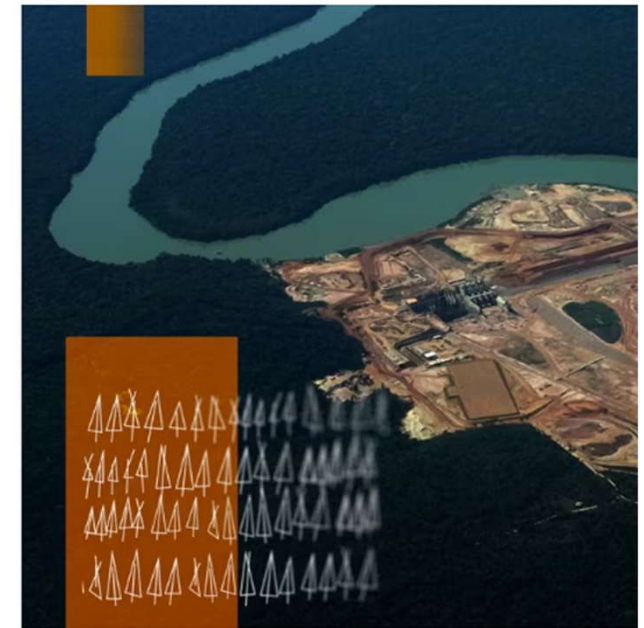
WirtschaftsWoche



Grünes Gewissen: Machen Millionen Bäume ein Kohlekraftwerk klimaneutral?
Bild: Getty Images, plainpicture

Im Onlineshop der Vereinten Nationen kann man günstig seine CO₂-Emissionen ausgleichen. Doch hinter dem Versprechen steckt ein kaputtes System. Eine Spurensuche in Kalifornien und Brasilien.

Revealed: top carbon offset projects may not cut planet-heating emissions

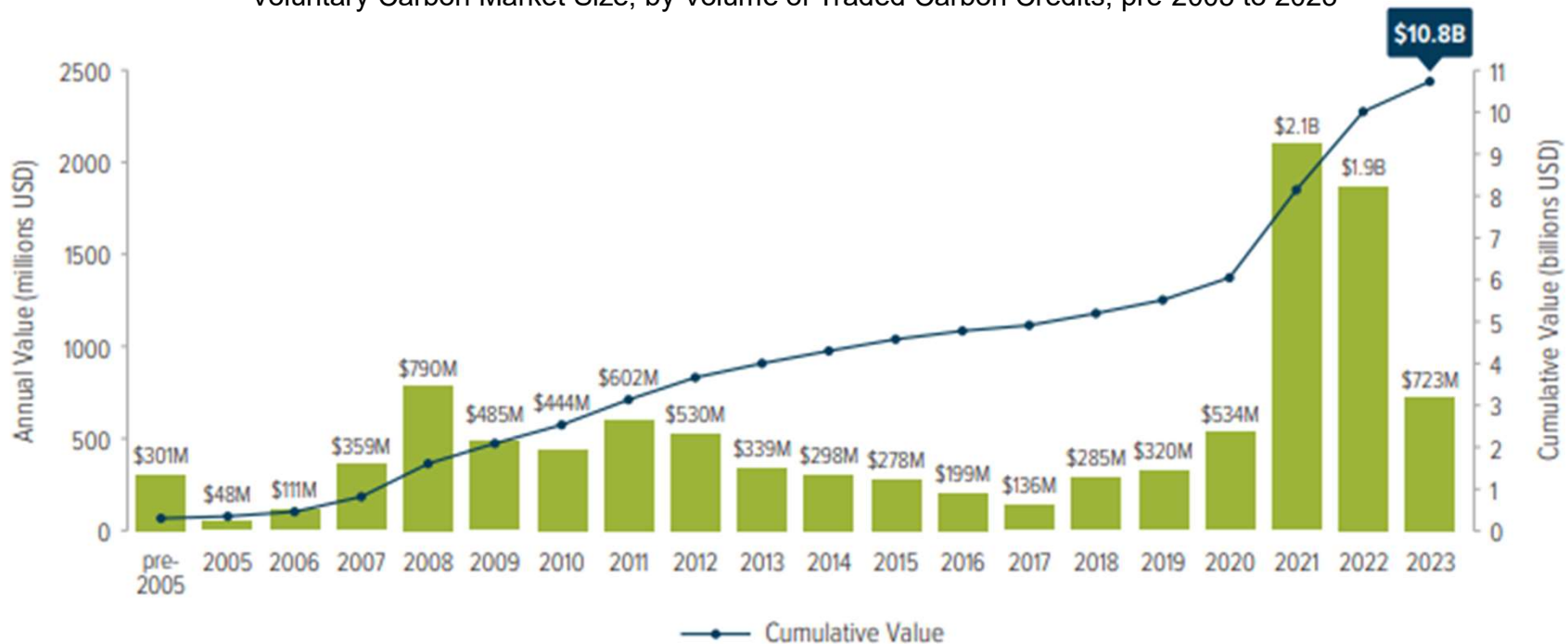


Teles Pires dam in Brazil. Experts say large renewable energy projects like dams should not cut. Composite: Reuters

Majority of offset projects that have sold the most carbon credits are 'likely junk', according to analysis by Corporate Accountability and the Guardian

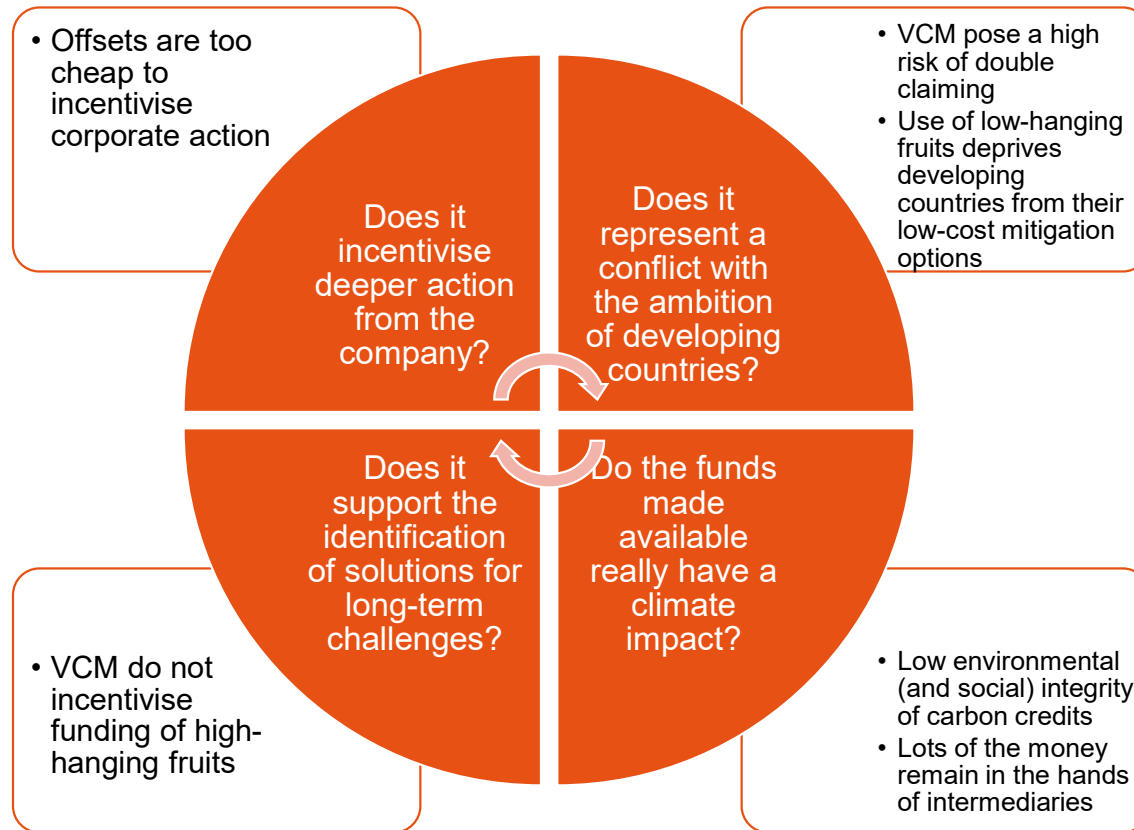
Trends in the VCM – market crashed in 2023

Voluntary Carbon Market Size, by Volume of Traded Carbon Credits, pre-2005 to 2023



Source: State of the Voluntary Carbon Market 2024, Ecosystem Marketplace

How does offsetting perform on its own theory of change?

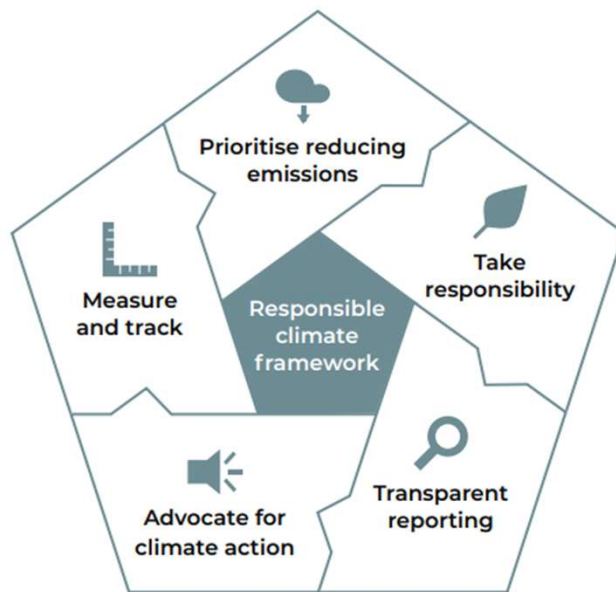


A GUIDE TO CLIMATE CONTRIBUTIONS

Taking responsibility for emissions without offsetting

Climate contributions

A responsible climate framework



[A guide to climate contributions \(newclimate.org\)](https://www.newclimate.org)



Measure and track

Comprehensive measurement of climate impacts throughout full value chain to build understanding and inform strategy



Prioritise reducing emissions

Transformative action to reduce own emissions throughout the value chain as a central focus



Take responsibility

Assume responsibility for the damage caused by emissions and finance climate action beyond the value chain to support global goals



Transparent reporting

Full and transparent disclosure of climate impacts, actions to cut emissions, climate targets, and progress to build trust and guard against risks



Advocate for climate action

Actively encourage strong climate policy and avoid advocacy that risks undermining climate goals to foster a competitive advantage for climate leaders

Feature 1: raising the funds

Adopt a carbon fee as
the main instrument

- Setting a **carbon fee** incentivises own emission reductions and provides a tool to take responsibility for the impacts it causes

High carbon price

- Price emissions at a **level of at least USD 100-250/tonne**
- Carbon price should rise over time

Ensure
comprehensive
coverage of climate
footprint

- Companies should apply the same carbon fee to activities throughout their **full value chain**, including scope 3

Feature 2: spending the funds

System change

- Focus on transformative system change to deliver ambitious, sustainable outcomes

Wider pool of critical investments than those suitable to carbon crediting

- Mitigation & removals
- But also: R&D, biodiversity protection, advocacy, behaviour change

Carbon credits vs. other ways of channeling the money

- Carbon credits offer an established route for those seeking quantifiable impacts
- Carbon credits less suited to support technologies and measures with higher risks and uncertainties
- Either way, **appropriate climate-related claim is important**

Tonne for tonne vs. money for tonne



TON-FOR-TON: LINKING BVCM TO UNABATED VALUE CHAIN EMISSIONS

Using this method, a company would deliver mitigation beyond its value chain proportional to the climate impact of some percentage of the GHGs emissions of that company in a defined period (e.g., in a given year or since a reference year).



MONEY-FOR-TON: APPLYING A CARBON PRICE TO UNABATED VALUE CHAIN EMISSIONS

Using this method, a company would channel finance into BVCM based on a predefined reference price of the unabated GHG emissions of that company in a defined period (e.g., in a given year or since the inception of the company).



MONEY-FOR-MONEY: LINKING BVCM TO A PORTION OF REVENUE OR PROFIT

Using this method, a company would allocate a share of revenue or profit towards funding climate mitigation beyond the value chain. The volume of finance deployed towards BVCM would be determined by the chosen denominator (e.g., profit or revenue) and the chosen percentage.

<https://sciencebasedtargets.org/resources/files/Above-and-Beyond-Report-on-BVCM.pdf>

We are now
climate neutral

BUT WE HAD TO CHEAT
TO GET THERE

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Claims

Credit buyers' claims matter



Offsetting emissions

- Implies a “balancing out” or “neutralisation” of emissions
- Often used to support claims of carbon / climate **neutrality**
- Signals that the outcome for the climate is the same **as if there were no physical emissions** released
- **Possible claims:** Compensation / neutralisation / netting out / offsetting / “net-zero” / “climate-neutral” / “carbon neutral” state achieved

- Customers may **justify** the higher emissions of an activity and **increase their demand** for a product or service



Contributing to climate mitigation

- Implies **support without a balancing out** of climate impacts
- Does **not lend itself to carbon / climate neutrality**
- Parallels to claims to support **sustainable development “co-benefits”**, e.g. clean water access or enhancing biodiversity
- **Possible claims:** Support provided to country to (over-) achieve its NDC / Support provided to country to increase the ambition of NDCs / Support provided to lower barriers for new technology

- Does not pose a **double counting risk** as long as end customers are aware that the climate impact of their purchase decision is **not offset**

<https://newclimate.org/2020/11/24/future-role-for-voluntary-carbon-markets-in-the-paris-era/>



Climate Contributions gaining traction



- » https://wwf.panda.org/wwf_news/?1172766/Blueprint-Corporate-Action-Climate-Nature
- » https://goldstandard.cdn.prismic.io/goldstandard/ZfgKccmUzjad_ULW_BeyondValueChainMitigationReportMarch2024.pdf
- » <https://julkaisut.valtioneuvosto.fi/handle/10024/164732>
- » <https://www.milkywire.com/internal-carbon-fee#contact>

Regulations on claims

» EU Directive Empowering Consumers for the Green Transition

- Prohibits “the making of claims, based on the offsetting of greenhouse gas emissions, that a product, either a good or service has a neutral, reduced, or positive impact on the environment in terms of greenhouse gas emissions”
- EU member states must align their national legislation with this new directive by September 2026

» EU Directive Green Claims Initiative

- Company-level (as opposed to product level) consumer-facing claims are under discussion in the currently mid-negotiation ‘Green Claims Directive’.
- The outcome is not yet clear, but the Parliament’s position is that ‘compensation claims’ are limited to residual emissions

Same thing under a new label?



South Pole Funding Climate Action Label

Your big
climate story
in a little label



ClimatePartner





Climate contributions vs. BVCM

Definition and status of climate contributions

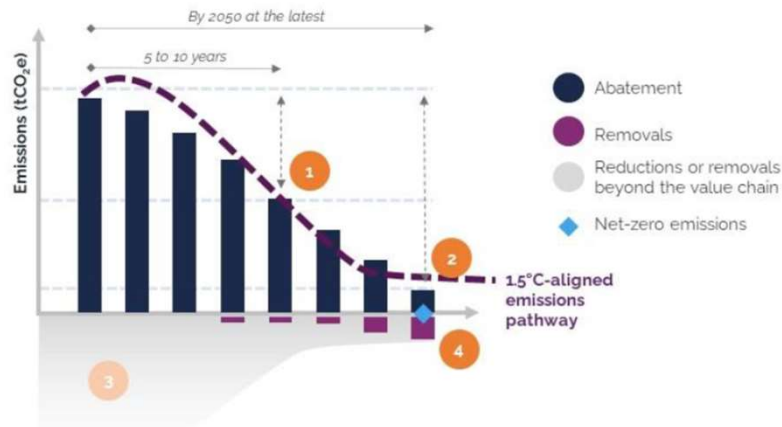
» **NewClimate's Institute definition** of the climate contributions approach:

- No credits or markets involved per se
- Money-for-tonne approach instead tonne-for-tonne
- Does not lead to a net-zero claim on the way to or in the target year
- No offsetting/net-zero/climate neutrality

» **Status of the climate contributions model**

- Widely known as headline subject but diverse interpretations and definitions
- No central governance, no leading organisation
- Available information and materials have gaps and are scattered
- No coordination of actions and actors
- Infrastructure required for wider implementation is not yet established
- Organisations interested to implement it in its original form are faced with insurmountable hurdles
- Compensation / credit proponents are free to define what they need (contribution credits, etc.)

SBTI Net zero standard and the BVCM



- 1 **To set near-term science-based targets:**
5-10 year emission reduction targets in line with 15°C pathways
- 2 **To set long-term science-based targets:**
Target to reduce emissions to a residual level in line with 15°C scenarios by no later than 2050
- 3 **Beyond value chain mitigation:**
In the transition to net-zero, companies should take action to mitigate emissions beyond their value chains. For example, purchasing high-quality, jurisdictional REDD+ credits or investing in direct air capture (DAC) and geologic storage
- 4 **Neutralization of residual emissions:**
GHGs released into the atmosphere when the company has achieved their long-term SBT must be counterbalanced through the permanent removal and storage of carbon from the atmosphere

Required Recommended

–Key elements of the Net-Zero Standard



SBTi Net zero standard development

- » Agreed that solution needs to be found for residual emissions in target year
- » Controversy around what to do on the way to net-zero
- » Agreed that emissions on the way to net zero are a completely different category
- » Climate contributions were on the table and seen as a credible solution although not attractive for some
- » To avoid a decision the new umbrella term “BVCM” was born, and the final decision was forwarded to a new process
- » BVCM process outcome describes **compensation and contribution claims as two different options to choose from**

- » An introduction to climate contributions

SBTI BVCM

BVCM Goals

-  Deliver additional near-term mitigation outcomes to achieve the peaking of global emissions in the mid-2020s and the halving of global emissions by 2030.
-  Drive additional finance into the scale-up of nascent climate solutions and enabling activities to unlock the systemic transformation needed to achieve net-zero by mid-century globally.



» STEP 1: SET AND WORK TO DELIVER A NET-ZERO TARGET

- Develop and disclose a full GHG emissions inventory
- Set, submit, validate and disclose a science-based net-zero target
- Develop, disclose and work towards a net-zero aligned climate transition plan

» STEP 2: ESTABLISH A BVCM PLEDGE

- Determine the business case and strategic objectives for BVCM
- Define the time period of the BVCM pledge
- Define the scale of the BVCM pledge

» STEP 3: TAKE ACTION TO DELIVER BVCM

- Define quality standards and guardrails for BVCM activities and investments
- Deploy resources and finance towards a portfolio of BVCM activities

» STEP 4: REPORT BVCM ACTIVITIES AND OUTCOMES

- Establish a BVCM Measurement Reporting and Verification (MRV) framework to measure
- Report annually on BVCM activities, investments, and outcomes
- Make transparent and accurate BVCM claims

» An introduction to climate contributions

Climate contributions vs. SBTi BVCM

	Climate contributions	SBTi BVCM
Status	No central governance, definition, or infrastructure	Guide (not a standard): optional for SBTi companies
Raising the funds	First: price emissions Then use the budget for Climate Contributions	First: price emissions Then use the budget for BVCM
Level of carbon price	Carbon fee of at least USD 100-250 per tonne	“Apply a science-based carbon price “
Spending the funds	Mitigation & removals but also R&D, biodiversity, advocacy, behaviour change	Wider categories of climate action (adaptation, loss & damage) but also capacity building, behaviour change, or policy advocacy
Channeling the funds: role of carbon credits	Can play a role, but other instruments more promising (funds)	Recommendation to do 50% ton-for-ton
Claims	Only contribution claims No compensation claims	“ Choose the type of BVCM claim (e.g., compensation or contribution claims) ” No plans to validate claims + reliance on VCMI (focus on ton-for-ton)



Thank you

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