

From Crisis to Confidence

Rethinking Integrity in
the Voluntary Carbon Market



Compensate
Foundation

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Foreword

Foreword

The Voluntary Carbon Market (VCM) has been recognized as a powerful tool for climate change mitigation by supporting corporate climate targets in addition to deep emission cuts aligned with a 1.5-degree trajectory. However, with great power comes significant responsibility, and unfortunately, the current state of the VCM falls short in this regard. Like any nascent and voluntary market, the VCM is riddled with a lack of transparency and quality standards, which are imperative for fostering high integrity and trust – the fundamental requisites for the market to expand.

When I joined Compensate approximately four years ago, I knew there were projects with dubious climate impact, questionable baselines, and harmful social and biodiversity effects. Yet I was unprepared for the alarming reality that over 90% of the projects I would evaluate would fit into this category. The initial shock of this revelation was rapidly replaced by an unwavering determination to rectify the flaws of the broken market. This determination stemmed from a commitment to unveil these findings to market stakeholders, policymakers, and, most crucially, the numerous businesses, organizations, and individuals relying on carbon offsets as a means of addressing climate change. Our objective was to instigate reform within the VCM.

In 2021, after evaluating around 100 forestry offset projects, we published a white paper highlighting the existing quality issues and the imperative of overhauling the market. The Compensate Foundation emerged as a pivotal voice in the industry due to this white paper, which garnered widespread recognition, featured in reputable outlets such as Bloomberg, Quartz,

MSN Money, Business Insider, Euronews Green, and Nikkei. This document marked the inception of our journey toward transforming the market.

Throughout the years, we've scrutinized specific projects' climate integrity and impacts, actively participated in public consultations for VCM integrity initiatives, and engaged in dialogues with the research community, international carbon standards organizations, project developers, brokers, and carbon market watchdogs. Furthermore, we've disseminated our invaluable market insights through conversations with businesses contemplating emissions offsetting. Our outreach extended globally through articles, blog posts, and social media platforms.

I have been deeply involved in shaping the trajectory of the VCM and have closely observed its evolution through various phases. As with any immature market, the VCM grapples with growing pains and is constantly in flux. Despite the challenges and uncertainties encountered along this journey, I still believe that the VCM has the potential to serve as a powerful instrument for addressing the climate crisis. This potential, however, can only be realized by acknowledging and rectifying the existing shortcomings.



The purpose of this white paper is two-fold. Firstly, it aims to provide updated insights on project screening and evaluation, drawing from an assessment of over 170 projects, thereby building upon the foundation laid by the 2021 white paper. Secondly, it delves into the ever-evolving landscape related to quality assurance, claims, regulations, and the imminent risks of greenwashing associated with current offsetting practices. These combined factors will ultimately determine whether the ambitious growth forecasts for the VCM will come to fruition.


From the very start, the Compensate Foundation supported Compensate Operations, a company it fully owned. Known for pioneering high-quality offsetting services through a diverse portfolio and innovative risk mitigation called overcompensation. Unfortunately, economic uncertainties led to its closure in spring 2023. However, the essence of Compensate Operations lives on within the Compensate Foundation, carrying forward its work and values.

I trust that this white paper will clarify the multifaceted complexities surrounding the VCM today while offering pragmatic solutions for advancing climate action with integrity.

Eftimiya Salo

Carbon Market and Policy Lead
The Compensate Foundation





1.0

Introduction

1.0

Introduction

The voluntary carbon market has been in the spotlight since The Taskforce on Scaling Voluntary Carbon Markets (TSVCM) launched in 2021, shining a light on the market's potential to scale corporate climate action. In early 2021, TSVCM, with knowledge support from McKinsey, estimated that demand for carbon credits could increase by a factor of 15 or more by 2030 and by a factor of up to 100 by 2050, potentially resulting in a market for carbon credits worth upward of \$50 billion in 2030.

This growth potential sparked immediate interest from investors, brokers, project developers, and rating agencies. Many new market players emerged to help shape the evolving VCM and provide the missing tools for the projected market growth. However, attempting to scale the market without addressing the long-standing quality issues proved a common mistake, as many actors realized over the next two years.

The VCM market also garnered significant media attention, with investigative journalists striving to comprehend the complexities of carbon projects and their associated quality issues. Various independent investigations reached the same conclusion - the market is flooded with low-quality credits with little to no impact on the climate. Thus, claiming to be carbon neutral



using such credits does more harm than good to the climate and equals greenwashing. The Compensate Foundation reached the same conclusion after starting project evaluation with its forestry project evaluation criteria in early 2020.

While most of the attention so far has been on the quality of carbon credits and what claims can be made using offsets, investigations into transparency are equally important. In many cases, buyers are unaware that only a tiny fraction of the money they pay for the carbon credits reaches the project, with most funds withheld by intermediaries.

Efforts to enhance integrity, such as the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI), are attempting to address the issues with quality and transparency and guide companies in making robust offset claims. However, it is still too early to say whether they will succeed.

The market is flooded with tremendous amounts of legacy low-quality credits, and surprisingly, project developers and carbon standards are still denying the obvious quality and transparency problems which are the bottleneck for market growth.

The VCM is in turmoil. Growth projections have yet to be realized. Negative publicity on nature-based carbon projects has undermined the trust in the market, both in buyers and investors, who are waiting for tighter quality rules or going upstream – developing their projects to ensure high quality.

The price for REDD+ projects, subject to several recent investigations, has hit a “rock bottom,” impacting future investment decisions. Large companies are increasingly betting on carbon dioxide removal (CDR) and investing in emerging innovative technologies.

Policies to tackle greenwashing claims are also evolving quickly, putting in question the future of “carbon neutrality” and “net-zero” claims.

New corporate non-offset claims are also emerging, such as climate contributions and beyond the value chain mitigation. The risk of double claiming is looming for all carbon credits issued in 2021 and onwards unless host countries implement a corresponding adjustment. As most countries are not ready to implement corresponding adjustments, non-double-counted credits suitable for credible offset claims are getting scarce.

Despite the quality and transparency issues, the long-term market growth projections are optimistic as demand for high-quality carbon credits is locked by corporate carbon neutrality and net-zero targets between 2030 to 2050. According to a recent report by BCG and Shell, VCM is expected to grow to \$10-40 billion in value by 2030. This growth projection is also reinforced by BNEF’s analysis, which outlines the potential of the VCM to even reach \$1 trillion in 2037 with the “right rules.”

A high-integrity voluntary carbon market would allow us to unlock urgently needed climate finance and reduce and remove billions of tonnes of emissions. However, there is a long way to go to fix the current flaws and make the VCM work for the climate.

A tall, narrow, reflective metal sculpture stands in a grassy field. The sculpture is a vertical rectangular prism that reflects the surrounding landscape, including the trees and sky. The background consists of a dense line of green trees under a cloudy sky. The foreground is filled with tall, green grass.

2.0

Systemic flaws in the market

- 2.1 Why do more than 90% of evaluated projects fail
Compensate Foundation's evaluation criteria?
- 2.2 Recommendations for selecting high-quality
projects
 - 2.2.1 Ensuring climate integrity
 - 2.2.2 Generating positive impact beyond climate

2.0

Systemic flaws in the market

The value of the VCM quadrupled in 2021, reaching approximately \$2 billion. Amid concerns regarding quality, transparency, and the prevailing economic situation, investments in VCM projects grew to \$10 billion in 2022, making a substantial increase from \$7 billion in 2021.

However, the purchases of carbon credits in 2022 witnessed a decline of 4%, totaling 155 million, in comparison to the figures for 2021. This decrease was attributed to apprehensions surrounding the quality of carbon offsets, a concern accentuated by a series of investigations into individual carbon offset projects carried out throughout the year.

The culmination was in early 2023 when [The Guardian](#), [Source Material](#), and [Die Zeit](#) published a joint investigation on Verra, the world's leading carbon standard, which revealed that more than 90% of their rainforest offset credits are likely to be “phantom credits” and do not represent genuine carbon reductions.

This is precisely what we at Compensate have been asserting for years – current market standards within the VCM exhibit systemic issues with quantifying the real impact of REDD+ forest protection projects, in particular. At last, the media is shedding light on



this problem as a pervasive system-wide challenge. The issue extends beyond isolated cases of a few bad apples. The revelations align closely with conclusions outlined in Compensate Foundation's 2021 white paper, revealing that up to 90% of screened nature-based projects are unsuitable for offset use.

During Q1 2023, an investigative article published by Follow the Money unveiled a comprehensive expose on the VCM's leading project developer. The article revealed how millions of worthless credits from its project were sold to various corporate buyers over the years for making carbon neutrality claims. The news, also reflected by Bloomberg, shook the market and resulted in even more mistrust and criticism towards the VCM. Consequently, this development triggered a sharp price decrease for all REDD+ credits amid weak corporate demand for such credits due to fear of reputational risk.

Alongside quality concerns, recent investigations also revealed problems with the transparency of offset projects.

Greenpeace Unearthed revealed that some resellers are buying carbon credits for a mere couple of euros, subsequently inflating the price up to tenfold when selling to buyers. Furthermore, in early 2023, Carbon Market Watch issued a report which revealed that 90% of the intermediaries investigated did not disclose details about the fees they levied or the profit margins they gained from the sale of carbon credits on the voluntary carbon market.

2.1

Why do more than 90% of evaluated projects fail Compensate Foundation's evaluation criteria?

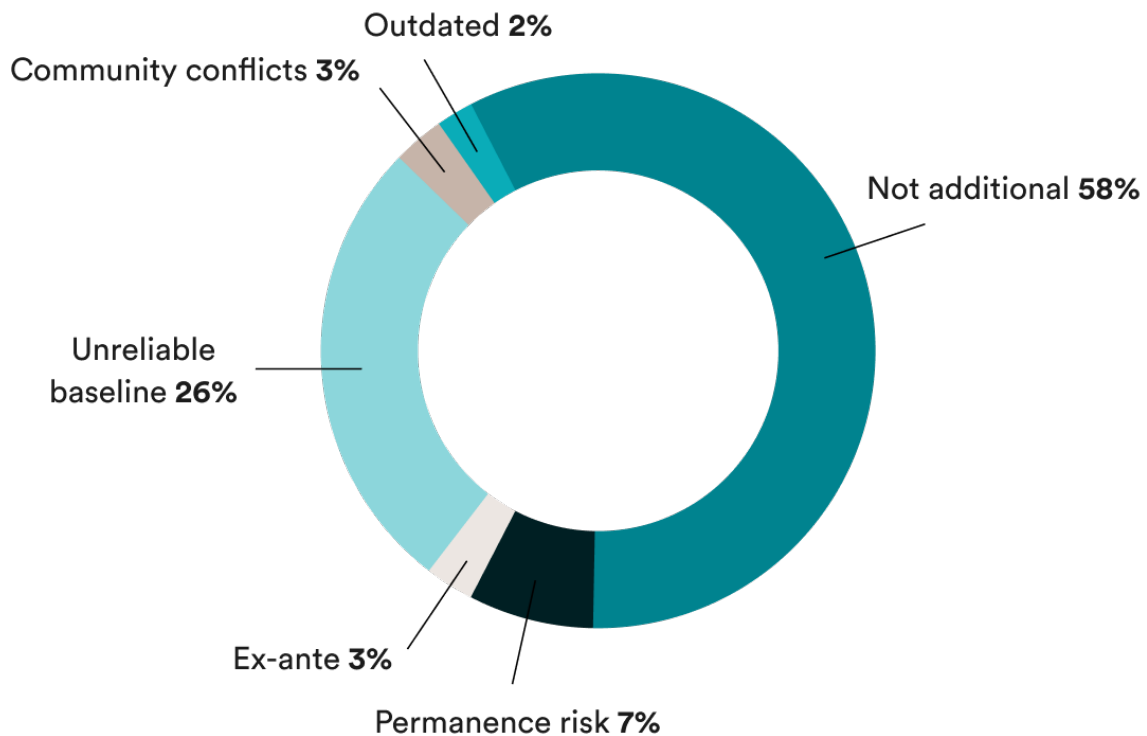
In early 2020, the Compensate Foundation, in collaboration with its Scientific Advisory Panel, developed a set of project evaluation criteria that go beyond prevailing international standards. These strict criteria challenge the offsetting field and its current standards. The criteria cover climate integrity,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

Since the inception of these criteria in 2020, the Compensate Foundation has screened and evaluated 175 nature-based projects. The project evaluation and selection process supported Compensate Operations – a provider of high-quality offsetting services, in finding the best projects on the market. The screened and evaluated projects were all offered to Compensate Operations by project developers and intermediaries and were considered for inclusion in the carbon project portfolio. Thus, the 175 project sample is based on available projects and doesn't follow specific selection criteria, such as geography, project type, project size, etc. The evaluated projects encompass a range of project types, specifically: 94 conservation projects, 72 Reforestation/Afforestation projects, 5 Improved Forest Management projects (IFM), 2 Agroforestry projects, and two soil carbon projects.

Regrettably, the outcomes of these evaluations have revealed a disconcerting trend – more than 90% of these projects have fallen short, totaling 164 unsuccessful endeavors.

Taking a closer look at the reasons why projects fail outlines the key problems identified in the sample of 164 projects that had failed Compensate Foundation's evaluation criteria.

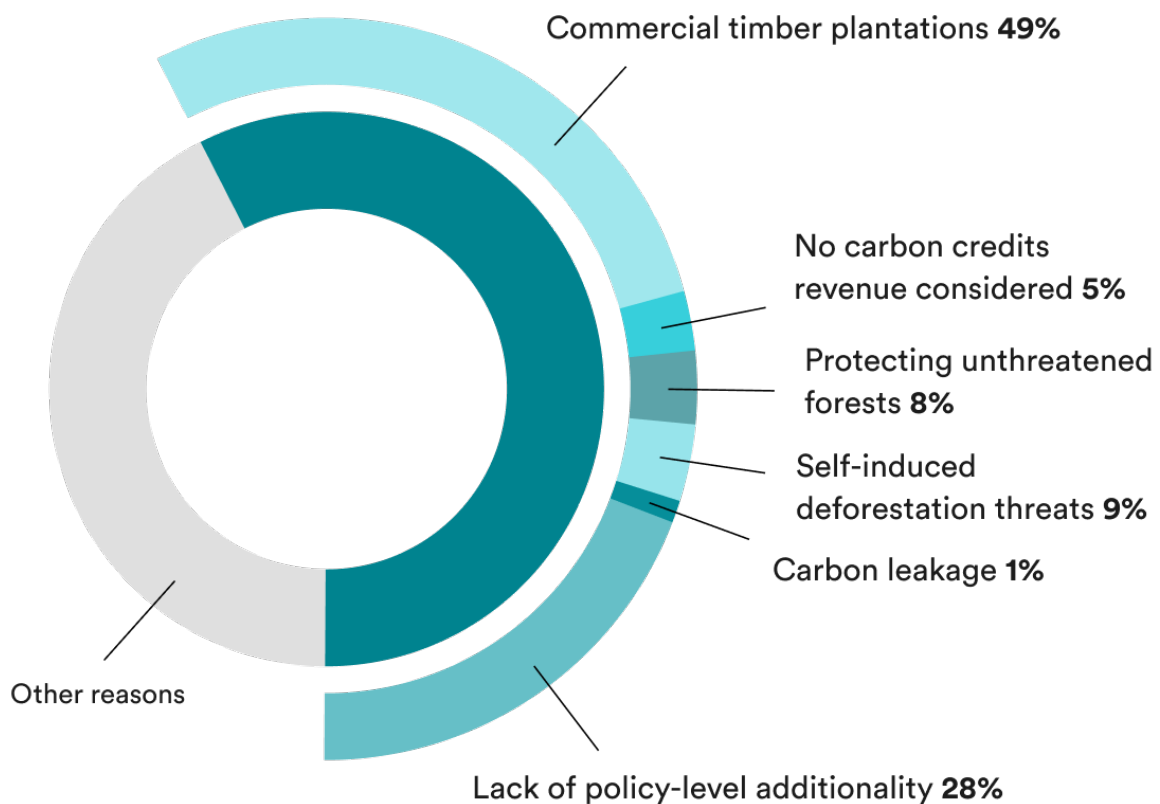
Figure 1. Why more than 90% of evaluated projects fail.



The greatest weaknesses of nature-based projects are lack of additionality or unreliable baselines, both resulting in overcrediting. Other common problems are high permanence risks and community conflicts.

It is essential to underline that most evaluated projects (58%) fail additionality because the criteria's Pass and Fail test starts with assessing additionality. If a project does not pass the additionality test, it immediately fails the evaluation. Only projects that pass additionality proceed to baseline evaluation, resulting in fewer projects failing the baseline test, as it comes second. Even though only 26% of projects fail the Compensate Foundation criteria due to unreliable baseline, the number is much higher, as often projects that are not additional also have an unreliable baseline. Still, the primary reason for failing is additionality.

Figure 2. Why projects fail additionality



Additionality

- **Commercial timber plantations:** These afforestation/reforestation projects are often orchestrated by logging or timber companies, entailing the harvesting of trees upon reaching maturity. These types of projects, where there is a clear business model, e.g., in the form of a profitable timber plantation, do not pass the financial additionality criteria. This arises from the projects' inherent feasibility without the need for revenue from carbon credits.
- **Lack of policy-level additionality:** This circumstance materializes when project undertakings are already included in national statutes and regulations. Instances of this phenomenon encompass safeguarding a forest within a nation where a moratorium exists

on transforming natural forests into palm oil plantations (e.g., Indonesia) or a moratorium on granting new timber concessions (e.g., Democratic Republic of Congo). Another example is reforestation initiatives in China on state-owned land. These endeavors cannot always be considered additional since extensive reforestation initiatives are already addressed within Chinese governmental policy.

- **No carbon credits revenue considered:** Project activities have commenced without consideration of carbon credit revenues. This indicates a lack of financial additionality, meaning that the project activities are happening even without registering it as a carbon project to generate carbon credits.
- **Protecting unthreatened forests:** Instances arise where carbon credits are marketed by safeguarding forests that were never genuinely imperiled and had previously been managed in an identical manner. These projects are usually categorized as Improved Forest Management. Examples encompass scenarios wherein the project developer and the landowner are the same entity or in the context of improved forest management initiatives within urban centers across regions such as the US. The claim is that, in the absence of the project, the city or forest owner will log 100% of the trees in 5 or 10 years. This is not likely to happen, as these forests may have been in the possession of the landowner for decades without the threat of being deforested. For carbon credits to be real, the sale of the credits needs to generate or incentivize an environmental benefit, which is not happening in these cases.
- **Self-induced deforestation threats:** There exist instances wherein landowners assert the intention to deforest their own forest unless they are financially compensated within the framework of a project. Alternatively, timber companies acquire logging permits not for logging purposes but rather to preserve the forest's integrity. Notably, projects focusing on Planned Avoided Deforestation,



although forming a relatively minor portion of Compensate Foundation's evaluated samples, are currently undergoing robust expansion.

Over the span of 2020 to 2021, volumes attributed to REDD+ for avoided planned deforestation surged by an astonishing 972%. The process of initiating a Planned Avoided Deforestation project is deceptively straightforward and alluring – securing legal rights over a forest, either as a landowner or via a logging license, and expressing the willingness to eventually exercise the logging rights. Consequently, it comes as no surprise that a multitude of logging and timber entities are capitalizing on this opportunity, pursuing logging licenses primarily to safeguard the forest. This inclination is understandable, as carbon projects tend to yield greater profitability in comparison to timber sales. Nonetheless, this project category raises legitimate concerns regarding its permanence. Post-project culmination, there exists no hindrance preventing a landowner from proceeding with forest logging.

→ **Carbon leakage:** Safeguarding a region marked for a logging concession can inadvertently lead to the displacement of

deforestation or carbon leakage. This scenario entails the government conferring conservation concession status upon the project area, only to allocate a logging concession to a different location subsequently. Carbon leakage could also occur if a project area is protected but deforestation actors move outside of the protected area.

Unreliable baseline

- **Overestimated deforestation projections:** A prevalent challenge encountered across numerous projects involves the deliberate inflation of baseline emissions, a practice aimed at generating an augmented quantity of carbon credits for the project. Consequently, credit is claimed for actions that the project did not genuinely undertake. Within the realm of REDD+ projects, carbon credits are issued founded on counterfactual baselines that illustrate the hypothetical developments within the forest had the project not been executed. In principle, this baseline ought to be constructed based on a reference area mirroring the same deforestation risks as the project area, albeit this ideal is seldom realized in practical applications. Project developers possess the autonomy to select the most favorable baseline from an array of options, including a reference area, regional deforestation rates, or even national rates.

Typically, this choice gravitates toward the one yielding the maximal volume of carbon credits, thereby optimizing profit margins. A telling illustration of baseline “shopping” is evident in the selection of a compact, extensively deforested reference area situated proximal to a populous city or coastline. This choice is then employed to forecast the complete deforestation of an entire project area isolated in nature, characterized by low population density, spanning the subsequent three decades. Alternatively, applying

national deforestation rates to an elevated mountainous project area inaccessible by roads exemplifies another instance. In both scenarios, the outcome culminates in over-crediting – the issuance and trade of carbon credits devoid of any substantive positive climate impact.

Permanence risks

Challenge of illegal logging: Despite conservation efforts, projects sometimes struggle to effectively curtail deforestation, with illegal logging persisting as a significant concern. Tracking tree cover loss over time can be accomplished through reliable satellite analysis tools subject to open-source, peer-reviewed scrutiny. However, a recurring issue arises when project developers employ customized maps tailored to their specific project objectives. These maps can be manipulated to mask the genuine magnitude of deforestation, eroding trust in the accuracy of project data and performance as depicted in monitoring reports. In certain instances, illegal logging



can transpire due to pervasive corruption and the complicity of local authorities. Illegal logging was the main issue in half of the evaluated projects that failed permanence.

- **Political Instability and Forest Preservation:** Uncertain political climates pose significant risks to post-project forest conditions, particularly in countries marred by instability and corruption. Cattle grazing, soy, and palm oil production drive much of the deforestation in tropical rainforests. In regions where these activities persist during projects, a looming concern arises – the government may grant logging and land use permits to companies post-project, jeopardizing forest preservation. Brazil and Indonesia stand as prime examples of such risk-prone nations. The Paris Agreement's goals and demand from the voluntary carbon market could hopefully encourage governments to prioritize forest protection, fostering a more secure setting for enduring carbon projects. A quarter of the evaluated projects failed the permanence test due to unstable political situations.
- **Natural disaster risks:** Nature-based projects globally are at risk from natural disasters. For instance, in 2020, a third of Bangladesh experienced severe floods, endangering coastal mangrove restoration efforts and their carbon storage. Forest protection projects in California are threatened by future wildfires while rising sea levels pose challenges to coastal initiatives. A quarter of the evaluated projects failed the permanence test due to the high risks of natural disasters.

Community conflicts

- **Human rights abuses and displacement:** In the pursuit of carbon credit-generating projects, landowners, including governments, may

resort to forceful eviction of local residents from the project area. Such actions frequently lead to human rights violations.

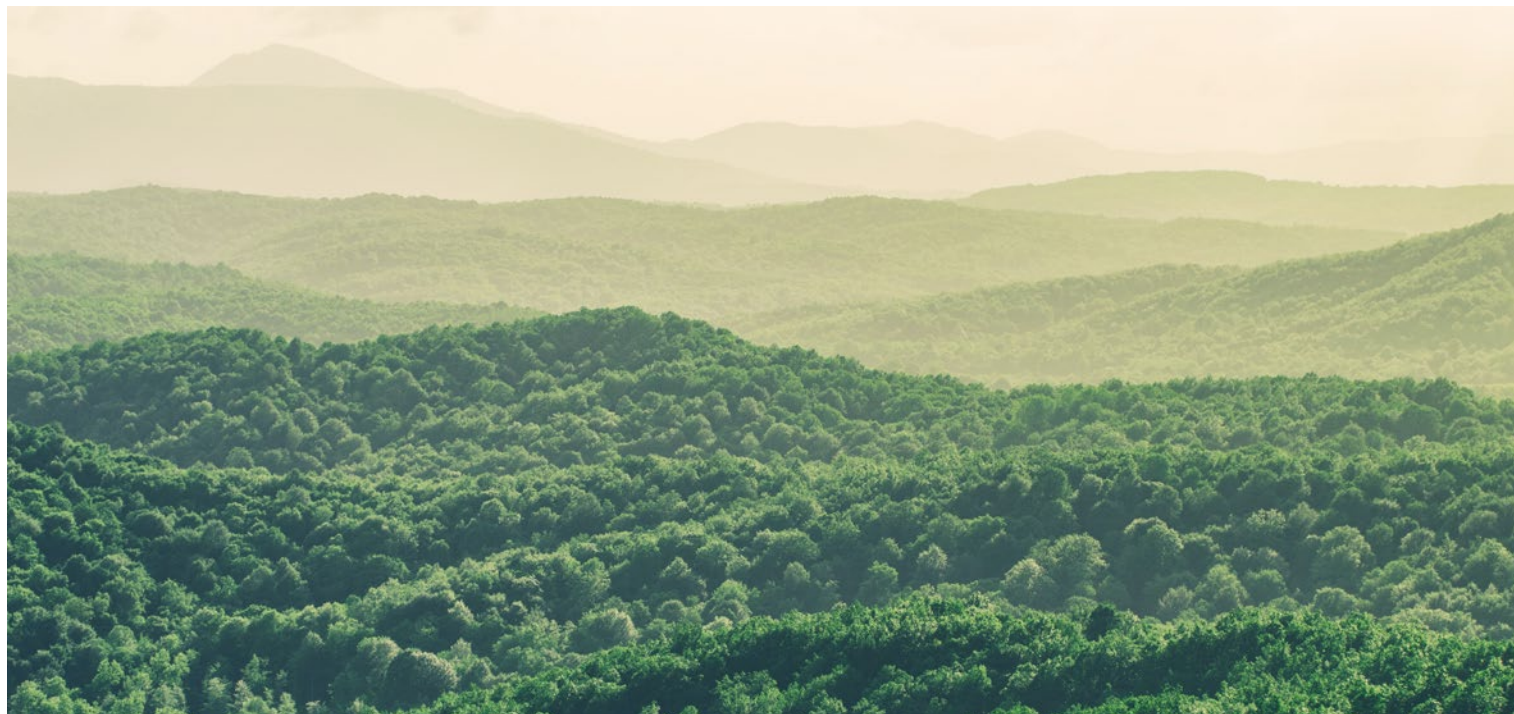
- **Unfulfilled promises of project benefits:** Instances arise where projects fail to deliver on their pledges, such as the construction of schools, or when community members express dissatisfaction with benefit-sharing processes. For instance, carbon credit revenues may be channeled into facilities benefiting only a select few community members, or benefit-sharing arrangements may exclusively cater to landowners, leaving many landless community members excluded.

Ex-ante

- **Delayed climate impact:** The concept of ex-ante credits involves planting a sapling and selling carbon credits based on the anticipated CO₂ sequestration as the sapling matures over 50-60 years. Utilizing ex-ante credits to assert claims is problematic due to uncertainties in early-stage reforestation projects, including tree survival and future logging risks post-maturation. While establishing new carbon stocks is vital for climate mitigation, offsetting present emissions with projects that promise CO₂ sequestration far in the future cannot genuinely be labeled as compensation.

Outdated

- **Outdated documentation:** Some of the evaluated projects had outdated documentation, such as monitoring and verification reports completed 6–10 years ago. A big gap in monitoring and verification could indicate concerns about whether the projects are still active and if they are effective in halting deforestation or maintaining forest cover of newly planted trees.



2.2

Recommendations for ensuring climate integrity

High-integrity carbon projects have two things in common - climate integrity and positive impact beyond carbon capture. Evaluating climate integrity involves scrutinizing the project's additionality and its genuine effect on climate, including the prevention of double claiming and the longevity of avoided emissions or removals.

To gauge a broader positive impact, an evaluation of the project's social and environmental co-benefits is essential, as well as an examination of the stakeholder consultation process that was undertaken.

Additionality

Additionality is evaluated by questioning whether the carbon sink would exist without the project's intervention. If the response is affirmative, the project is deemed non-additional, lacking impact beyond the business-as-usual scenario. Typically, project developers focus solely on financial

additionality, signifying the project's inability to be self-sustaining without revenue from carbon credits.

However, the Compensate Foundation advocates for a broader approach, encompassing policy-level, environmental, and technological additionality:

- Policy-level additional projects do not contribute to national or international climate targets. Thus they do not replace already planned climate change mitigation actions.
- Environmentally additional projects result in higher levels of emission reductions or removal than would have otherwise occurred under the business-as-usual scenario. For instance, forest conservation projects with inflated and unrealistic estimates for deforestation do not actually avoid the claimed CO₂ emissions, as even without the project, the actual deforestation would just be a small fraction of the estimate. Removal projects, such as afforestation/reforestation, might exaggerate the project benefits in terms of tree cover extent or the soil carbon uptake without taking into account natural regeneration and pre-existing conditions.



- Technological additionality refers to whether the project introduces technological practices that go beyond conventional practices in carbon capture projects. Examples include emerging carbon dioxide removal (CDR) technology-based carbon capture, such as biochar, and direct air capture and storage or carbonation of CO₂ into building materials, such as concrete.

Reliable baselines and carbon calculations

Whether the project actually avoids emissions or removes carbon from the atmosphere should be evaluated on the basis of the reliability of the baseline deforestation projections and carbon stock changes.

An effective starting point is a thorough examination of project documentation, critically appraising the plausibility of carbon modeling assumptions. This scrutiny is ideally complemented by a satellite/remote-sensing analysis gauging deforestation patterns before and after the project's commencement while also considering aspects such as illegal logging or carbon leakage. While satellite analysis accuracy can vary across distinct forest types and should not singularly dictate project evaluation, it forms the bedrock for subsequent inquiry.

The Compensate Foundation underscores the importance of consulting forest scientists regarding the precision of employed deforestation rates, tree growth parameters, and projected soil carbon accumulation. These factors can potentially lead to over-crediting by inflating the climate impact of the carbon project.



Assessing Permanence

The evaluation of permanence, or the likelihood of sustained forest preservation, entails considerations of political stability in the host country, exposure to natural disasters, and the potential for logging within projects aimed at forest conservation and preventing deforestation. Tackling these key deforestation drivers becomes crucial for mitigating permanence risks.

VCS-certified conservation and reforestation projects are predominantly situated in developing nations, where elevated political and corruption risks impact permanence. While many projects secure state-owned land for implementation over fixed periods, it's imperative to ensure that post-project logging isn't imminent.

Some projects opt to reduce this risk by formalizing forest management practices through contracts lasting 30, 60, or even 100 years post-project. Despite the value of such contracts, complete reliance is cautioned, as circumstances can swiftly change. REDD+ projects which comply with the ICVCM's Core Carbon Principles will have to monitor and compensate for reversals for 40 years, which is longer than the usual project crediting period of 30 years. However, Jurisdictional REDD+ is exempted from this requirement.

In regions susceptible to natural disasters like sea level rise, forest fires, and hurricanes, evaluating how projects address permanence risks becomes vital. For instance, projects in fire-prone areas may establish firefighting units, while flood-prone zones could implement climate adaptation strategies like mangrove planting.

Unplanned deforestation often stems from small-scale subsistence farming and charcoal production. In such cases, project evaluation should ascertain whether initiatives are fostering alternative practices. Supporting climate-smart farming, which promotes stable cultivation instead of expansion, or introducing sustainable livelihood activities devoid of deforestation, are recommended approaches.

Notably, projects aiming to deter planned deforestation carry heightened permanence risks. Unless safeguards are in place, landowners could proceed with deforestation after the project concludes.

Logging or palm oil concessions pose particular challenges, potentially necessitating logging or palm oil moratoriums to thwart post-project deforestation.

Verra, the leading market standard on the VCM, is assessing the reversal risks for 100 years in its Verified Carbon Standard's (VCS) AFOLU Non-Permanence Risk Tool. Under the newly published VCS requirements, projects contribute an amount corresponding to their actual risks to the buffer pool, but no less than 12%, set as the fixed minimum contribution.

However, estimating reversal risks in the ICVCM's Assessment Framework (AF) is less ambitious than the existing VCS requirements. Under the AF, projects will have much lower permanence risk assessed over 40 years compared to the 100 years required by the VCS.

As requirements on permanence and buffer pool are likely to weaken, when evaluating nature-based projects, it is important to see if the project is complying with the minimum requirements or going beyond, e.g., by taking a 100-year period for assessing the permanence risks and contributing a corresponding number of credits to the buffer pool.

Preventing double claiming

Double claiming happens when two entities claim a carbon credit simultaneously. Typically, this involves an organization offsetting emissions and the project's host country pursuing its nationally determined contributions (NDC) or climate targets as outlined in the Paris Agreement. Double claiming poses a significant concern, as both parties cannot simultaneously take credit for the same climate action.

The Paris Agreement's accounting framework places carbon credits issued from 2021 onward at risk of double claiming if the project activity overlaps with a country's climate targets. This situation frequently emerges in land-use sector projects like REDD+ and reforestation.

The sole method to prevent double claiming involves implementing a 'corresponding adjustment' or excluding carbon credits obtained from the VCM for offset claims from the host country's national greenhouse gas inventory and reporting. This ensures that private climate actions transcend existing national policies and genuinely contribute in an additional manner. For in-depth insights into double claiming and the necessity for corresponding adjustments, please refer to section → 3.1.



2.3

Recommendations for generating positive impact beyond climate

Social and environmental co-benefits

The Compensate Foundation holds a strong conviction that all carbon projects should enhance the well-being of local communities and the environment. Regrettably, this isn't always the case, especially within forest conservation initiatives like REDD+. In such projects, local communities might face evictions or restrictions from accessing forests, their main income source.

Emphasizing human rights and well-being is paramount, and projects should never generate carbon credits at the cost of local communities, often referred to as “carbon colonialism.”

To uncover potential human rights violations, evictions, and community conflicts, the Compensate Foundation advocates for conducting desktop

research involving scientific and media articles as part of the project evaluation. Unexpected site visits and auditing by independent third parties have proven to provide valuable insights into the situation on the ground, which is often different from the description in the project documentation.

Community well-being is not only crucial from an ethical standpoint, but it also aids in curbing illegal logging if local communities support and endorse the project.

High-integrity carbon projects yield tangible benefits for local communities, uplifting livelihoods. This assessment involves scrutinizing the project's benefit-sharing principles and assessing potential social disparities. For instance, if only a select few, like landowners, benefit financially or from improved infrastructure, this can disadvantage the majority. Failing to deliver on project promises can leave communities feeling betrayed, fanning conflicts, protests, and anti-project activities.

Projects must generate measurable, additional benefits for socioeconomic community development. This includes understanding the root causes of deforestation and enhancing livelihoods through alternative means, training, and job opportunities. Moreover, local communities' needs should be acknowledged, allowing forest access for collecting non-timber products and dead wood. An exemplary model of high integrity is community-led reforestation, empowering subsistence farmers to plant and care for trees on their lands while receiving cash payments, which uplift them from poverty and foster long-term tree protection.

The Compensate Foundation does not endorse large-scale timber plantations due to their adverse impacts on both local communities and the environment.

Negative repercussions for communities encompass reduced wages, job losses, land sales at low rates, and heightened food costs.



Stakeholder engagement and grievance mechanisms

Projects of high integrity prioritize transparent and inclusive stakeholder consultation processes, where local communities provide their free, prior, and informed consent and hold decision-making authority over sustainable development endeavors funded by the project. Unfortunately, this isn't always the reality, as contracts are often struck solely between project developers and government officials, sidelining community input before project commencement.

Numerous projects are established in remote regions of the Global South, often marked by low literacy rates. Hence, ensuring all project plans are communicated in local languages and comprehensively explained to both directly and indirectly impacted local populations becomes paramount. Project activities should be disseminated through public media channels, inviting all stakeholders to partake and voice their opinions. In cases necessitating locals' legal agreement, access to legal counsel should be provided, ensuring comprehension of the cooperation's nature and agreement to all clauses. Project concepts, documentation, and

stakeholder consultations should also be accessible in local languages and paper format for those without internet access.

In certain scenarios, projects may lead to conflicts, human rights infringements, or even carbon colonialism. Robust grievance mechanisms guarantee local voices are acknowledged and appropriate actions are taken.

A review conducted on behalf of Carbon Market Watch found that only one voluntary carbon standard, Gold Standard, provides appropriate recourse to file grievances to communities affected by climate projects.

Most standards currently overlook the importance of grievance mechanisms, which undermines the credibility of the voluntary carbon market.

Some conflicts attract journalists' or researchers' attention and reach the media. Recent examples of projects causing community conflicts are investigated by the Australian Broadcasting Corporation documentary "Carbon Colonialism" and an article by The Guardian. A SUMAÚMA investigation also shook the VCM this summer, revealing that carbon credit companies are trying to secure deals on protected and disputed public lands, including indigenous territories, prompting concerns about "green land grabs."

Buyers of carbon credits and investors should conduct due diligence to ensure that the projects they work with don't cause more harm than good to local communities.

Enhancing Biodiversity

Carbon projects must demonstrate a net-positive impact on biodiversity, achieved through habitat improvement, initiatives to boost species diversity, and population growth.

The Compensate Foundation refrains from endorsing large-scale timber plantations, notorious for cultivating monocultures of non-native species harvested in 10-20 year cycles. These plantations prioritize rapid growth and profit by opting for fast-growing species such as eucalyptus, often coupled with chemical fertilizers and pesticides. This practice leads to water contamination, biodiversity depletion, and soil pollution.



3

Uncertainties stemming from evolving regulations

- 3.1 Addressing double claiming
- 3.2 The potential of Article 6 to increase the quality bar for the VCM
- 3.3 Countries taking the lead in developing VCM projects
- 3.4 EU carbon removal certificate
- 3.5 Uncertainties on corporate claims

3.1

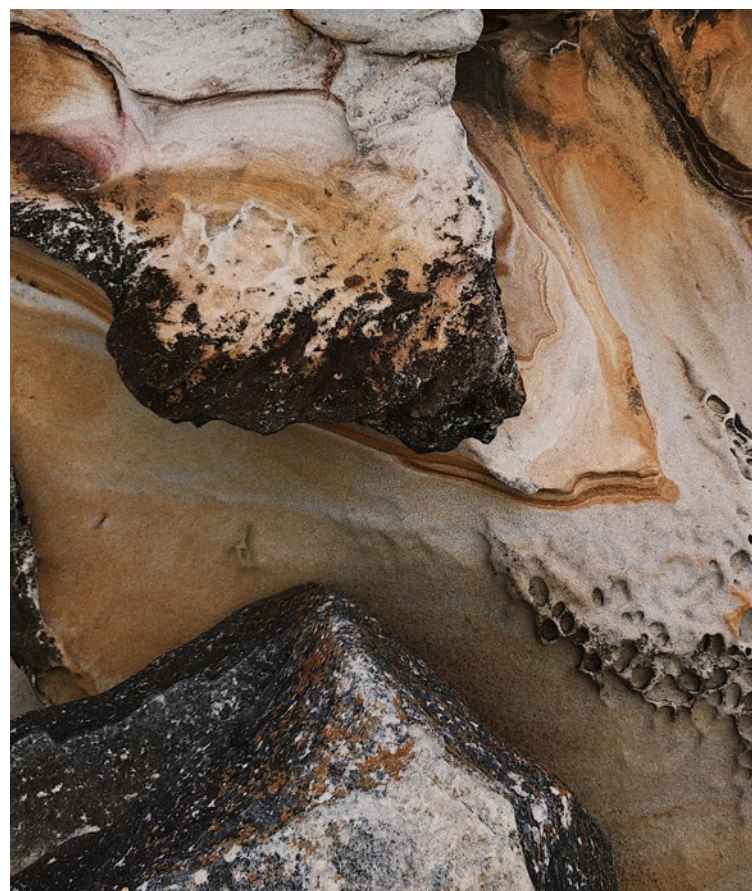
Addressing double claiming

Double claiming occurs when two entities concurrently claim a carbon credit. This typically involves an organization offsetting emissions and the project's host country pursuing its nationally determined contribution (NDC) in line with the Paris Agreement or similar EU or national climate goals. This practice presents a significant issue, as it entails two parties claiming credit for the same climate action without additional benefit.

Corporate offset claims based on double-claimed credits do not tangibly contribute to climate change mitigation beyond the host country's established commitments.

The sole remedy to mitigate double claiming and facilitate offset claims for companies lies in adjusting host countries' carbon inventories and reporting through a 'corresponding adjustment' process. This approach, however, remains a relatively new concept within the voluntary carbon market, generating ongoing debate. The Core Carbon Principles set forth by the ICVCM currently permit the eligibility of credits double claimed with NDCs.

Under pressure from corporate buyers and investors to circumvent double claiming, project developers are already negotiating



corresponding adjustments with project host countries. However, most countries lack the essential registries, administrative structures, and procedures for effective corresponding adjustment implementation. Leading organizations such as Gold Standard are actively involved in increasing awareness and aiding countries in adopting corresponding adjustments.

Certain nations, heavily reliant on the land-use sector to fulfill their NDC commitments, express concerns that implementing a corresponding adjustment could complicate NDC attainment. Conversely, others view the corresponding adjustment as an opportunity to tap into corporate demand within the VCM. Notably, progressive countries like Indonesia, Kenya, Ghana, and Tanzania have initiated preliminary steps toward applying corresponding adjustments within the VCM framework.

Presently, few carbon credits in the market feature implemented corresponding adjustments. This partially explains the mounting corporate interest in alternative claims, such as the contributions approach, which doesn't solely rely on offsets. For further insights into non-offset claims,



please refer to the Compensate Foundation’s recent white paper titled “Non-offset claims: How to make a robust climate claim?”.

3.2

The potential of Article 6 to increase the quality bar for the VCM

From the standpoint of project developers, the anticipated incorporation of VCM carbon projects into Article 6 of the Paris Agreement holds the promise of more robust demand from countries striving to meet their NDCs, surpassing the voluntary offsetting efforts of corporate buyers.

The determinations made under Article 6.4 regarding eligible project types and methodologies will wield a broader influence, extending to the voluntary carbon market by establishing a much-needed quality benchmark.

Initiatives to elevate project quality, like the ICVCM’s Core Carbon Principles and Assessment Framework, introduced in July 2023, represent initial strides towards enhancing integrity within the VCM. However, in its present form, these endeavors are unlikely to yield substantial improvements to project quality within the market.

Access to the Article 6.4 compliance market could catalyze project developers to exceed VCM requirements, adopting more ambitious methodologies to adhere to the higher quality standards stipulated for Article 6.4 credits.

Nonetheless, the automatic inclusion of VCM projects under Article 6.4 hinges on concurrent actions to elevate carbon credit quality. This is crucial, given that a series of reports have unveiled that most carbon credits on the market are low quality and contribute to climate change mitigation only on paper.

3.3

Countries taking the lead in developing VCM projects

Countries in the Global South are taking a leading role in developing projects for the voluntary carbon market by taking a tighter hold on the regulation. This is a significant change to the regulatory environment of the VCM, creating uncertainties in how existing markets will align with the developing national laws and regulations.

An increasing number of countries want to gain better control and more revenue from carbon credits and direct a more significant share of it to local communities.

Zimbabwe released a national carbon credit framework in May 2023, which strives to better track and control the VCM. The framework aims to ensure the host countries get a larger share of the revenues generated by the carbon credit trade. The framework states the government should take 50% of the total revenue generated from carbon credit projects. A further 20% will be ring-fenced for local communities and investors, leaving 30%



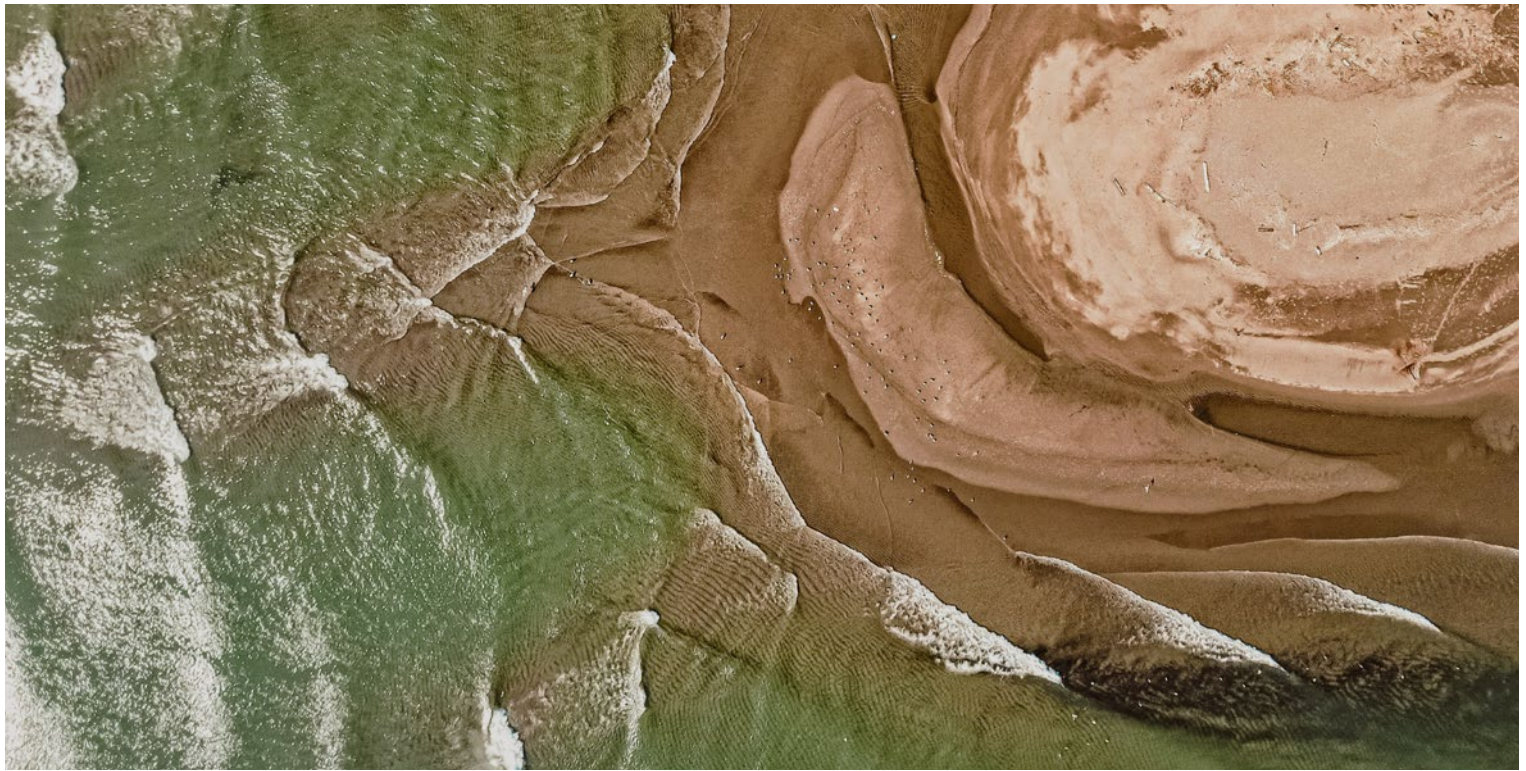
to foreign investors and project developers. The news received a lot of discontent from the industry, with concerns that carbon projects will not be competitive and investments being deterred. Three months after Zimbabwe shook the VCM by declaring all projects “null and void” unless they comply with the new revenue-sharing requirements, the country announced it would accept a smaller share of the revenue. The revised regulation will allow project developers to keep 70% of the carbon credit revenues for the project’s first decade (the usual project duration is 30 years), and 30% will be paid as an environmental levy.

Tanzania, which introduces an 18% tax on gross revenue from carbon projects, is facing protests over the unprecedented fees, also putting many investments on hold. In Kenya, 25% of credit revenue must go to local communities. Malawi has ordered the review of all carbon projects in the country and will establish agencies and institutions to oversee the trade of carbon credits. Rwanda is considering a minimum price of 30\$ for the credits sold in the country. Other countries will likely follow.

The Africa Carbon Markets Initiative (ACMI) aims to amplify Africa’s place in the global carbon markets. Its objective is to boost the production of African carbon credits, ensure carbon credit revenues are transparent, equitable, and create local employment. ACMI’s carbon market roadmap report proposes various action programs to scale up VCM and to develop institutional and regulatory development of the VCM in Africa.

The countries in the Global South have every right to control their natural resources and ecosystems and to secure their fair share of the VCM revenues. The tighter regulation protects local people’s interests, ensuring they are not taken advantage of by foreign investors and that the revenues do not go solely to foreign intermediaries.

Unexpected taxes and fees on gross revenue, applying to all existing and future projects, is a precedent on the VCM.



Many market actors are concerned about the uncertainties when planning new projects and the possible difficulties with getting investors on board. Project host countries need to strike the right balance by imposing reasonable fees and ensuring predictability in the long term, given that most projects run for a minimum of 30 years.

3.3

EU carbon removal certificate

On November 30, 2022, the EU published the EU carbon removal certificate proposal, outlining a voluntary EU-wide framework to certify carbon removals generated in Europe. The certificate aims to amplify carbon removal activities and bolster corporate climate action. It encompasses diverse carbon removal project types, including permanent storage (BECCS and DACCS), carbon farming, and carbon storage in products. Stakeholders are harboring high expectations for this certificate, viewing it as a potential solution to address various criticisms currently afflicting the voluntary carbon market, including mistrust in carbon credits due to their perceived low quality.

The removal certificate is poised to ensure transparency and credibility through rigorous Q.U.A.L.I.T.Y criteria, encompassing accurate quantification, additionality, long-term storage, and environmental sustainability. The EU Commission will formulate certification methodologies for distinct carbon removal activities, involving consultations with experts and stakeholders. Subsequently, it aims to harmonize the implementation of the certification framework and quality criteria through established certification schemes.

While the EU carbon removal certificate is anticipated to yield broader positive implications for the voluntary carbon market by introducing more stringent methodologies and criteria likely to be embraced by VCM projects, the issue of double claiming remains unresolved.

Currently, any removals within the land use sector automatically contribute to the EU's climate targets.

However, applying a corresponding adjustment by any EU country is presently not feasible; there is hope that this may change.

Please read our analysis in the Compensate Foundation's [blog post](#) for more information on the EU Carbon removal certificate.

3.4

Uncertainties on corporate claims

A primary incentive for companies to invest in climate action is their ability to leverage these commitments in their communication and marketing efforts directed at consumers, clients, investors, and other stakeholders.

Recent criticisms of offsetting and carbon neutrality assertions in prominent media outlets have prompted companies to retract their climate

claims. Nestle, Gucci, Easyjet, and other firms have abandoned carbon neutrality assertions and are reevaluating their climate commitments. Instead, they are pivoting toward non-offset claims, such as contributions and beyond value chain mitigation claims. This shift is motivated by concerns about the subpar quality of carbon credits, associated reputational risks, and the intensifying scrutiny of offset claims.

In early 2023, Carbon Market Watch and NewClimate Institute published Corporate Climate Responsibility Monitor 2023. This report assessed the transparency and integrity of emission reduction and net-zero targets set by 24 major global companies, collectively accounting for 4% of global emissions. The findings were disconcerting: more than half of these companies excluded significant emission sources, e.g., Scope 3 accounting for most emissions or entire business units. On average, these companies' claims of carbon neutrality covered just 3% of their total emissions, potentially misleading consumers into believing the claims applied to the entirety of the businesses. Furthermore, many companies opted for low-quality carbon credits instead of taking substantive actions to reduce emissions.

Misleading corporate claims result in greenwashing and legal actions against companies and discourage consumers from making conscious purchasing decisions based on sustainability claims of products. There are many examples where legal steps are taken against companies' greenwashing claims and lack of action, e.g., Delta Air Lines faces a lawsuit over a \$1bn carbon neutrality claim. The European Consumer Organisation BEUC filed a complaint to the European Commission and the network of consumer protection authorities (CPC) denouncing misleading climate-related claims by 17 European airlines.

The European Union is adopting a stricter stance towards climate claims with several upcoming directives.

The EU's proposed Directive on Empowering Consumers for the Green Transition aims to prevent greenwashing by banning practices that mislead consumers about the true sustainability of products. The negotiating mandate of the European Parliament plans to forbid broad environmental claims such as “environmentally friendly,” “natural,” “climate neutral,” or “eco” unless accompanied by substantiating evidence. The mandate seeks to disallow environmental claims based solely on carbon offsetting.

The Commission's proposal for a Green Claims Directive, which addresses greenwashing, covers a wide range of green claims, including environmental labels. This proposal mandates that companies validate their environmental claims and provide the necessary evidence to substantiate them. Comparisons to other goods or companies should be accompanied by information and data. However, the Directive is a missed opportunity to end greenwashing as it provides insufficient provisions concerning offset claims. For more information, please read Compensate Foundation's [blog post](#).

National regulatory agencies are increasingly adopting more stringent positions on climate claims, especially carbon neutrality claims. In the United Kingdom, the Advertising Standards Authority (ASA) is set to disallow advertisements claiming product carbon neutrality through offsets unless companies can provide credible evidence of their effectiveness.

VCMI's recent Claims Code of Practice can be seen as a shift away from carbon neutrality claims towards company-wide climate claims, backed by better transparency of the emissions caused and the carbon credits used. Read more about the Claims Code in → [section 4.2](#).

4

Efforts to improve integrity

4.1 Core Carbon Principles and Assessment Framework
by The Integrity Council for the Voluntary Carbon
Market (ICVCM)

4.2 Claims Code of Practice by Voluntary Carbon Market
Integrity Initiative

4.1

Core Carbon Principles and Assessment Framework

by The Integrity Council for the Voluntary Carbon Market (ICVCM)

The recently published Core Carbon Principles (CCPs) and Assessment Framework are seen as a landmark effort to “fix” the voluntary carbon market. While there are high hopes for these initiatives, it is essential to note that the CCPs and Assessment Framework, at most, can help eliminate the most problematic projects within the market. Despite this, the current version may not fully resolve the underlying issues of the VCM.

Hopefully, the CCPs will evolve in time, and the subsequent iterations will close the loopholes left in the current release.



The Compensate Foundation's takeaways from the CCPs and Assessment Framework:

- > One of the main challenges with robust quantification is that project data cannot be trusted in many cases. Overcrediting is one of the market's current pain points; thus, to avoid it, the core assumptions of the project need to be independently evaluated.
- > The additionality test can be passed by not providing an investment analysis - only a barrier analysis combined with market penetration/ common practice analysis will suffice. "Shopping" for the best project area will negatively impact equality, leaving certain regions and residents disadvantaged.
- > Creating double standards with regard to permanence. Unlike REDD+ projects, Jurisdictional REDD+ is not required to assure permanence for 40 years by monitoring and compensating for avoidable reversals and refraining from issuing further carbon credits until avoidable reversals have been compensated.
- > Other than high-income countries will pass the legal requirements even if project activities overlap with an already existing policy if enforcement is lacking. The role of the carbon projects is to increase ambition beyond the baseline of what countries have already committed. When projects are used for fixing a failed enforcement, this sends the wrong message and incentivizes further inaction.
- > Credits double-claimed with NDCs will be eligible - at least for now. For robust carbon neutrality and net zero claims, it is crucial to use non-double-claimed carbon credits, whose mitigation outcomes are not included in the project host country's NDCs.

Although the Core Carbon Principles (CCPs) and Assessment Framework, as they currently stand, may only partially address the underlying problems

of the VCM, they represent an initial stride towards achieving greater integrity. Notably, the CCPs incorporate specific criteria that exceed prevailing norms within the Voluntary Carbon Market, rendering them capable of identifying and eliminating the most problematic projects. Please check [Compensate Foundation analysis](#) for more details on the ICVCM's CCPs and Assessment Framework.

4.2

Claims Code of Practice by Voluntary Carbon Market Integrity Initiative

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multi-stakeholder platform that enhances understanding of the role of carbon credits as a mechanism to deliver carbon finance and provide guidance on corporate climate claims.

VCMI's primary deliverable is the Claims Code of Practice, released in June 2023. It provides requirements, recommendations, and guidance to organizations on using carbon credits in their near-term emissions reductions and long-term net-zero commitments.

The Code drives a shift from carbon neutrality claims to company-wide climate claims.

It introduces three tiers of claims (VCMI Silver, Gold, and Platinum) which represent a company's ambition of their climate commitments.

The Code requires the disclosure of emissions, emissions reduction targets, and use of credits, ensuring that offsetting is in the right place in the mitigation hierarchy. Also, it enables assessing the proportionality of using carbon credits compared with caused emissions.

The Compensate Foundation welcomes the Code's ambition in demanding strict transparency of the VCM Claims. However, some open questions remain.

Regarding the quality of the carbon credits, the Code relies on the Core Carbon Principles by the ICVCM. As discussed in 4.1, CCPs in their current form will only solve some quality issues of carbon credits, as many loopholes remain.

The Code leaves the door for double claiming open, as carbon credits with or without associated corresponding adjustments can be used to underpin all VCM Claims. Therefore, it will be up to the credit buyer to demand corresponding adjustments to avoid double claiming.

Overall, the Code is a significant improvement in demanding better integrity and transparency of climate claims. Whether the Code improves 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.



5

Conclusion

5.1

Conclusion

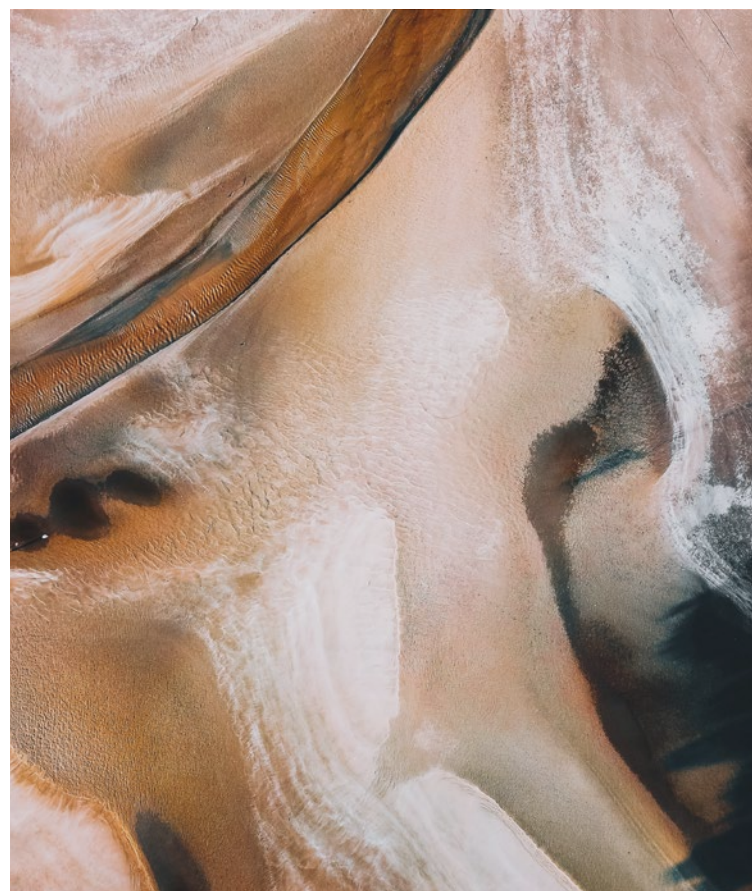
The voluntary carbon market is at crossroads. It has evolved, until recently, under very little regulation and public scrutiny. Suddenly, many of its flaws are being exposed to market players, regulators, and the wider public, sending shockwaves to the whole industry.

The problems are real, and they are diverse.

The quality of carbon credits is undermined by a lack of permanence and additionality, shady baselines, double claiming, and questionable impacts on sustainable development goals and local communities. In many cases, the lack of transparency makes verifying whether the carbon credits deliver the impact they promise impossible.

Furthermore, different rules and requirements under different carbon crediting standards and methodologies fragment the field, complicating closer examination of emission reduction and carbon removal projects.

Concerns over the quality of carbon credits are not new. Still, recent media publicity has spotlighted companies greenwashing their operations by using low-quality credits for making carbon neutrality claims. High reputational risks associated with using carbon credits



have resulted in uncertainties about the market's future as companies are backing away from their climate targets.

The critical enabling factor for upscaling the voluntary carbon market is restoring the trust of corporate buyers, consumers, investors, and climate experts.

The task is not easy, given the legacy of the VCM and the various interests of market players who already have ongoing projects and a massive supply of unsold carbon credits that would not meet the necessary quality thresholds.

In an attempt to save the reputation of the voluntary carbon market, initiatives providing an integrity benchmark both on the quality of carbon credits and corporate claims emerged. ICVCM's Core Carbon Principles and Assessment Framework and VCMI Claims Code of Practice are steps in the right direction on the long road to integrity.

For the first time during the VCM's existence, there is a standard integrity benchmark for carbon credits' supply and demand side. However, in their current form, the two initiatives will likely compromise strict requirements



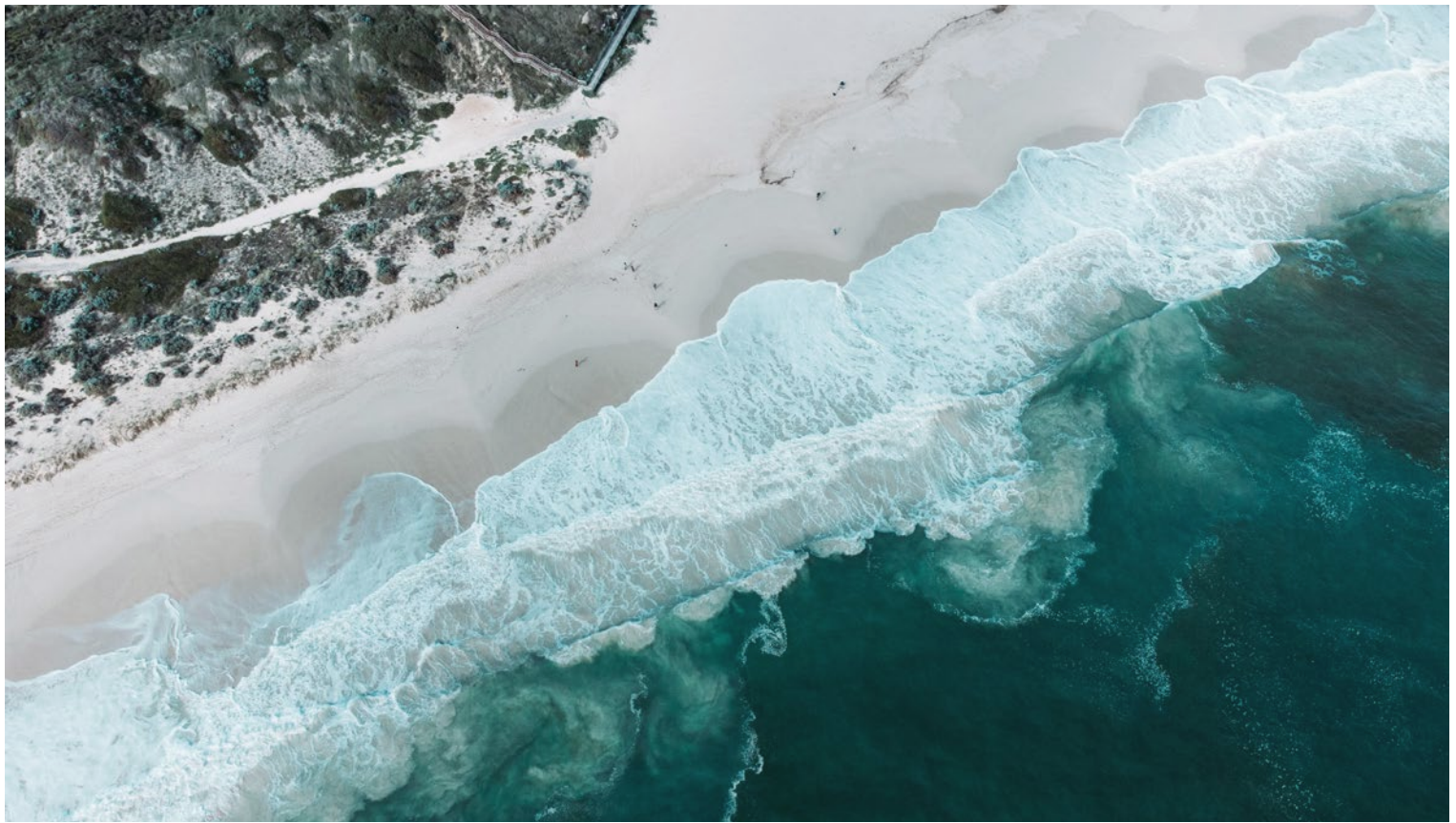
in favor of accessibility. While weaker requirements are welcome by the industry as more projects will get the CCP label without doing much beyond business-as-usual or doing less, that might hurt the market in the long term.

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 and regain customers' trust. Still, in its current shape, they are not strict enough to solve the fundamental problems of the VCM. The first VCMI-approved claims, made with CCP-eligible credits, will see daylight before the end of 2023. That will show how well these milestone initiatives perform in ensuring the integrity of 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.

Buyers of carbon credits are often not equipped with the skills to evaluate carbon projects. Furthermore, some aspects, such as avoiding double claiming through a corresponding adjustment, are out of the corporate's reach and depend on the project host country's capacity and willingness. Even when credits are independently assessed and deemed credible, reputational damage due to future permanence risks, community conflicts, or double claiming may drive corporate climate action towards non-offset approaches.

Regulators, like the EU, demand tighter rules to weed out unsubstantiated green claims and protect consumers from misleading communication. National regulatory agencies are also taking stringent positions on climate claims, e.g., disallowing advertisements claiming product carbon neutrality through offsets unless companies can provide credible evidence of their effectiveness.



It is too early to tell if carbon neutrality claims will disappear altogether, but the gradual shift to non-offset claims is gaining traction.

New claims are not a get-out-of-jail-free card. Regardless of the type, climate claims should be robust, transparent, and based on actions with real climate impact.

Non-offset claims should be proportionate to the company's value chain emissions and aligned with science-based climate targets. The SBTi is spearheading the work on establishing rules for beyond value chain mitigation.

The Compensate Foundation believes that credible net zero commitment with ambitious interim targets should be the foundation of any robust climate claim. Furthermore, offset and non-offset approaches, such as beyond value chain mitigation and climate contributions, are not exclusive. Both approaches can deliver genuine climate benefits when implemented with high quality, integrity, and transparency.

The market's future depends on how successful integrity initiatives and stakeholders within the VCM can tackle the current challenges.

The Compensate Foundation believes that the VCM, despite its current problems and controversy, can effectively mitigate the climate crisis if its integrity and transparency improve dramatically.

The fundamental market flaws need to be confronted without delay, even if it requires rejecting many of the current prevailing practices for quality assurance. The voluntary carbon market needs an overhaul now to be fit to serve the long-term demand for high-quality carbon credits for meeting corporate net-zero targets.

We cannot wait another ten years for the market to provide a credible impact. The only way to channel the much-needed corporate funding to climate change mitigation is to regain the trust. This will only happen if the whole industry is ready to demand better integrity.

An aerial photograph of a vast, dense tropical rainforest. The forest is a deep, vibrant green, with a thick canopy of trees. In the background, several layers of mountain ridges are visible, their peaks softened by a light mist or haze. The sky above is filled with heavy, grey clouds, creating a dramatic and atmospheric scene. The overall composition emphasizes the scale and beauty of the natural environment.

5

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Sources and further reading

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