

Voluntary Carbon Credit Trends (April-June 2023)

Corporate Trends in the Use of Voluntary Credits and Efforts to Ensure Credibility

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1. Introduction

Private demand for carbon credits has grown in recent years. For example, credits are used to offset greenhouse gas emissions generated in the LNG value chain to provide carbon neutral LNG (CNLNG). In fact, many Japanese companies provide CNLNG. On the other hand, a major challenge is how to ensure the credibility of credits, as media reports have been concerned about whether emissions reduction projects really reduce the amount of emissions.

The importance of carbon markets was emphasized in the Group of Seven Ministers' Meeting on Climate, Energy and Environment in Sapporo, Japan. Here, the Principles of High Integrity Carbon Markets were adopted, reaffirming the need to improve the quality of carbon markets, including voluntary credits. Initiatives to ensure the quality of credits are undertaken by both the supply and demand sides for voluntary credits. There are moves to formulate specific guidelines for this purpose.

This report shows the latest trends in voluntary carbon credits, summarizing the trends of private sector and credit issuers from April to June 2023.

2. Private sector trends

While some cast doubts on the credibility of voluntary carbon credits, some private sectors promote the development and trading of the credits. Among them, information technology giants Apple Inc. and Meta Platforms Inc. have announced their purchases of credits and their investment in nature-based solutions (NBSs), which are actions to reduce or remove CO₂ emissions through the protection of natural ecosystems. In Japan, interest in voluntary carbon credits among companies is still high, as evidenced by a project to absorb CO₂ into seaweed and the opening of exchanges for trading in J-Credits. On the other hand, it has been reported that a well-known Western fashion brand used carbon credits to achieve its carbon neutrality goal, but later withdrew its claim on carbon neutrality due to concern about the credibility of the credits.¹ This reminds us that there are risks associated with voluntary carbon credits.

Here, we report in detail on the trend of demand for NBSs, regardless of headwinds or tailwinds, and on lawsuits over the use of credits for companies' voluntary carbon neutrality initiatives.

¹ Greenfield, P., Ambrose, J., and Ormesher, E. (2023, May 15). Adverts claiming products are carbon neutral by using offsetting face UK ban. *The Guardian*. <https://www.theguardian.com/environment/2023/may/15/uk-advertising-watchdog-to-crack-down-on-carbon-offsetting-claims-aoe>

(1) Persistent demand for NBSs

Currently, there are many projects called REDD+ (reducing emissions from deforestation and forest degradation) that reduce emissions through forest conservation and provide massive carbon credits. On January 18, 2023, however, the Guardian reported that REDD+ projects registered with VCS, which is a leading crediting program, might have provided excessive credits. Subsequently, a similar report was issued by Die Zeit, German newspaper), raising concerns about the credibility of REDD+ projects registered with VCS.²

There are various criticisms about credits derived from forest conservation, in particular REDD + project pointing to suspicions of overstating emissions reduction. However, demand is strong for credits derived from NBS initiatives to reduce or remove CO₂ from the atmosphere through the protection of natural ecosystems, including forest conservation.

In April, IT giant Apple announced that it would invest up to an additional \$200 million in the Restore Fund launched in 2021 to tackle NBSs as part of the measures to achieve carbon neutrality in Scope 3 emissions by 2030.³ Last year, Apple announced its goal of becoming carbon neutral throughout its global supply chain by 2030, achieving a 75% reduction in emissions and balancing residual emissions that are difficult to reduce with existing technologies through high-quality carbon removal. The investment aims to achieve this goal, with the company expected to remove up to one million tons of CO₂ per year.

The Restore Fund is planned to invest in two types of projects: (a) nature-forward agricultural projects that generate income from sustainably managed farming practices and (b) conserve and restore critical ecosystems that remove and store carbon from the atmosphere. Apple will use satellite imagery and other equipment to monitor and measure the impact of Restore Fund projects.

In June, Meta (formerly Facebook) signed a deal to purchase NBS-derived credits, according to an executive of Aspiration, the partner of the deal.⁴ Meta has pre-ordered 6.75 million tons of carbon removal credits with an expected delivery from 2027 through 2035. These credits will be derived from reforestation, agroforestry, and sustainable agricultural practices in Aspiration's portfolio.

Although there has been no official announcement about the deal from Meta, the executive explains

² Greenfield, P. (2023, January 18). Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows. *The Guardian*. <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>

REDD+ initiatives reduce CO₂ emissions or remove CO₂ from the atmosphere by preventing deforestation and expanding forest sinks. For more detailed information, see the following website:

<http://carbon-markets.env.go.jp/>

³ Apple. (2023, April 11). *Apple expands innovative Restore Fund for carbon removal* [Press release]. https://www.apple.com/newsroom/2023/04/apple-expands-innovative-restore-fund-for-carbon-removal/?utm_source=pocket_reader

⁴ Lee, R. (2023, June 7). Meta and Aspiration partner to scale nature-based carbon removal solutions. *Green Biz*. https://www.greenbiz.com/article/meta-and-aspiration-partner-scale-nature-based-carbon-removal-solutions?utm_source=pocket_reader

that Meta has set a goal to reach net-zero emissions across its entire value chain in 2030 and will work with Aspiration to achieve the goal. It is emphasized that the credits to be provided to Meta in the future will be those created by projects developed under high standards based on the company's experiences and achievements. Due to the fact that Aspiration has a track record of providing payment services and developing businesses related to voluntary credits and has already developed various projects to generate credits, Meta partnered with Aspiration.

Despite negative views about voluntary carbon credits, some companies have a strong demand for NBSs. Given that both Apple and Meta plan to use high-quality credits, it could be concluded that interest among companies in credible credits has not diminished.

It is also interesting that Apple plans to deploy its innovative remote sensing technologies for monitoring the status of Restore Fund projects to accurately grasp the status and measure carbon removal by using high-resolution satellite imagery to check forests and other natural ecosystems. This indicates that not only developers but also investors in NBS projects are required to engage to ensure the credibility of these projects.

(2) Delta Air Lines hit with lawsuit over greenwashing allegations

The voluntary setting of carbon neutrality goals is coming under increasing scrutiny, leading to cases of suspected greenwashing. In Europe, government regulations on greenwashing have been implemented, with relevant lawsuits going on. In the United States as well, a lawsuit has been filed on suspected greenwashing regarding a corporate carbon neutrality initiative.

The lawsuit was filed against Delta Air Lines, a major U.S. air carrier. On May 30, it was sued in U.S. District Court in California for alleged greenwashing. One California resident filed the lawsuit as a so-called class action.⁵

According to the complaint, the plaintiff had purchased multiple tickets for Delta Air Lines in view of an ad on Delta's carbon neutrality initiative since 2020, paying premiums on recognition of the carrier's contributions to environmental conservation. Delta claimed the use of voluntary carbon credits as grounds for its carbon neutrality initiative. Noting that voluntary carbon credits have been often criticized for failing to contribute to reducing emissions, however, the plaintiff has complained that Delta's claims regarding carbon neutrality are misleading.

In response to the complaint, a Delta spokesperson countered that the company is not relying solely on voluntary credits to achieve carbon neutrality, commenting that the lawsuit is not subject to legal action. The spokesperson also noted that Delta focuses not only on voluntary carbon credits toward the decarbonization of its operations, but also on its efforts to invest in sustainable aviation fuel and

⁵ A class action is a procedural device that permits one or more plaintiffs to file a lawsuit on behalf of a larger group, or "class." See https://www.law.cornell.edu/wex/class_action

renew its fleet with more fuel-efficient aircraft since 2022⁶

A legal expert pointed out that consumers' lawsuit targets are shifting from companies' products to their false advertisements of addressing social and environmental issues as a consequence of an increase in consumer interest in environmental issues, which has led companies to implement and advertise various initiatives to protect the environment.⁷ This means that companies have no choice but to prepare for such risks when advertising their initiatives to address environmental issues. In this sense, companies that claim to be committed to protecting the environment need to ensure that they are making efforts to protect the environment and should prepare to respond decisively when greenwashing and other allegations are raised, according to the expert.

We here introduced the lawsuit filed against Delta Air Lines in the United States. Lawsuits have been filed over the use of credits by companies to achieve voluntary carbon neutrality in Europe as well, indicating litigation is a risk for companies that use voluntary carbon credits.

3. Trends among credit issuing institutions

Amid the scrutiny of corporate greenwashing, there is a growing need for standards and guidelines to enhance the credibility of voluntary carbon credits. These standards and guidelines have been considered by both the credit supply and demand sides. The consideration is difficult, involving coordination among a wide variety of stakeholders and navigation between ideals and reality. Here, we introduce credit quality standards published by the Integrity Council for the Voluntary Carbon Markets (ICVCM) in late March 2023 and a rulebook for companies using voluntary credits published by the Voluntary Carbon Markets Integrity Initiative (VCMI) in late June. While there is still some work to be done, both are expected to become operational within 2023.

(1) ICVCM published standards to ensure the quality of voluntary credits⁸

On March 30, 2023, the ICVCM released the final version of the Core Carbon Principles (CCPs) and related documents. The ICVCM was established in October 2021 as an organization to consider global quality standards and evaluation frameworks for voluntary credits. It took over the consideration of the CCPs for voluntary credits and credit-issuing institutions to secure the quality of credits, as recommended by its predecessor, the Taskforce on Scaling Voluntary Carbon Markets

⁶ Davey, E. (2023, May 31). Delta Air Lines hit with lawsuit over claims of carbon neutrality. *AP*. <https://apnews.com/article/delta-airlines-lawsuit-carbon-credits-carbon-neutral-469f2671010ba7f40c934cc23d62149a>

⁷ McLain, B. J., and Waldhauser, C. K. (2023, June 15). Carbon Neutrality Suit Against Delta Airlines Signals the Arrival Time of “Greenwashing” Litigation. *Foley & Lardner LLP*. <https://www.foley.com/en/insights/publications/2023/06/carbon-neutrality-suit-delta-airlines-greenwashing>

⁸ The Integrity Council for the Voluntary Carbon Market. (2023, March 29). *Integrity Council launches global benchmark for high-integrity carbon credits* [Press release]. <https://icvcm.org/integrity-council-launches-global-benchmark-for-high-integrity-carbon-credits/>

(TSVCM).

The final version of CCPs came far behind schedule via public consultations on a draft published in July 2022. As described later, however, half the assessment framework required for the implementation of the CCPs has yet to be published, leaving relevant talks to continue.

The published CCPs consist of the following 10 principles that credible carbon credit programs must meet:

Table Overview of Core Carbon Principles (CCPs)

Governance	Emission Impact	Sustainable Development
<ul style="list-style-type: none"> ▪ Effective Governance ▪ Tracking ▪ Transparency ▪ Robust independent third-party validation and verification 	<ul style="list-style-type: none"> ▪ Additionality ▪ Permanence ▪ Robust quantification of emissions reductions and removals ▪ No double counting 	<ul style="list-style-type: none"> ▪ Sustainable development benefits and safeguards ▪ Contributing to net zero transition

Source: Retrieved from “Fact Sheet: Integrity Council for the Voluntary Carbon Market” by ICVCM⁹

When the principles are implemented, criteria are naturally required to determine whether the above principles are satisfied. The criteria are described in a document called Assessment Framework. The Assessment Framework consists of criteria at the program level (at the level of programs for registering Verra, Gold Standard, and other projects and issuing credits) and at the category level (at the level of individual credit-issuing projects [such as forest projects] registered under the programs). Only the program-level criteria have been released along with the CCPs (category-level criteria are planned to be released in the middle of 2023).

The program-level criteria comply with the requirements for programs to issue credits recognized as eligible under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) implemented by the International Civil Aviation Organization (ICAO) since 2021 for commercial airlines to counter global warming, while including some additional requirements.¹⁰ As for CORSIA-eligible programs, there is no need to provide evidence for the criteria required by CORSIA, but evidence is required for additional requirements. For example, in addition to the governance

⁹ The Integrity Council for the Voluntary Carbon Market. *Fact Sheet: Integrity Council for the Voluntary Carbon Market*. <https://icvcm.org/wp-content/uploads/2023/05/CCP-Fact-Sheet-6-4-23.docx>

¹⁰ Under CORSIA, commercial airlines operating international flights are required to limit emissions to the standard level from 2021. Credits allowed to be used to comply with this requirement are limited to those issued in programs that meet the criteria set by ICAO and CORSIA-Eligible programs. For more information on the criteria for CORSIA-Eligible programs, see the following website (in Japanese): <http://carbon-markets.env.go.jp/mkt-mech/climate/icao.html>

requirements under CORSIA, establishing an independent council operated under robust rules is required.

Furthermore, the ICVCM has paid special attention to indigenous peoples and local communities in the development of CCPs regarding sustainable development. The ICVCM holds a public consultation process including a workshop to hear from indigenous peoples and local communities and they allocate three of their 22 board seats to members from indigenous peoples and local communities. The CCPs require free, prior and informed consent (FPIC) to be secured for indigenous peoples and local communities and REDD+¹¹ projects to comply with Cancun Safeguards¹² measures to prevent adverse social and environmental impacts.

Critical requirements, such as the specifics of category-level criteria for projects to be approved, the definition of additionality and permanence, and the quantification of reductions and removals (setting baselines) will be made available when the category-level criteria are published in mid-2023. According to the ICVCM, applications for specific programs will be opened in mid-2023. In the third quarter of 2023, the categories that should be promoted quickly or prioritized will be announced. In the second half of this year, CCP-Eligible programs and CCP-Approved categories will be published, with CCP-labeled credits debuting in the market.

A document on CCP Attributes has also been released. Three attributes are used to identify additional features: (1) Host country authorization pursuant to Article 6 of the Paris Agreement, (2) Share of Proceeds for Adaptation, and (3) Quantified positive SDG impacts.

As mentioned above, the announcement of the CCPs seems to have been generally welcomed by major carbon credit programs, such as Verra and Gold Standard, which issue voluntary credits, as well as market participants, although some details of the CCPs are still unclear. Verra had once criticized the draft published in July last year as a “one-size-fits-all approach” failing to take into account regional characteristics and the requirements for CCPs as too prescriptive and unworkable.¹³ However, Verra announced that the release of CCPs was “an important moment for the voluntary carbon market”, and “the work of the ICVCM will continue to increase confidence in the market”.¹⁴ The Environmental Defense Fund (EDF), an environmental NGO, and others have asserted that the allocation of proceeds to adaptation, which is currently optional, should be mandatory. However, this

¹¹ For an explanation of REDD+, see footnote 1.

¹² Safeguards to avoid adverse social and environmental impacts in the implementation of REDD+ were discussed at the UNFCCC and adopted as Cancun Safeguards at COP16. For more details, see (in Japanese): http://redd.ffpri.affrc.go.jp/technical/safeguard_ja.html

¹³ Verra. (2022, September 21) *ICVCM Process Needs Course Correction* [Press release]. <https://verra.org/icvcm-process-needs-course-correction/>

¹⁴ Verra. (2023, March 31). *March Newsletter* [Press release]. <https://verra.org/march-newsletter-2/>

assertion came under opposition from project developers and market participants.¹⁵

(2) VCMi published a rulebook for the use of voluntary credits¹⁶

On June 28, 2023, the VCMi published the VCMi Claims Cod, a rulebook for companies using voluntary credits. The VCMi, established in 2021 by Sir Alok Sharma, who was appointed as president for the 26th Conference of Parties to the United Nations Framework Convention on Climate Change (COP26), has formulated the above rulebook for credit users and the VCM Access Strategy Toolkit as guidance for credit suppliers to encourage host countries' market participation. The rulebook for credit users is an extension of the provisional version announced in June last year, reflecting the requirements of major initiatives, such as the Carbon Pricing Leadership Coalition (CPLC) and the Science Based Target initiative (SBTi). Its publication came after public consultations and field trials by about 70 companies. The Claims Code consists of four steps for the use of voluntary credits for corporate emissions reductions:

Steps for making a VCMi claim

- (1) Comply with the Foundational Criteria. Specifically, a company is required to maintain and publicly disclose an annual GHG emissions inventory, to set and publicly disclose validated science-based near-term emissions reduction targets and publicly commit to reaching net zero emissions no later than 2050, and to demonstrate that the company is on track towards meeting a near-term emissions reduction target. The company is required to set an emission reduction target¹⁷ based on its identification of emissions throughout its value chain (covering Scopes 1, 2, and 3) and disclose the target's percentage share of the emissions.
- (2) Select a VCMi Claim to make from the three tiers – Platinum, Gold, and Silver. VCMi Silver is the lowest tier that a company is required to demonstrate progress towards its near-term targets. It requires the purchase and retirement of carbon credits in an amount of 20-60% of a company's remaining emissions. Gold requires 60-100% and Platinum, the highest tier, requires equal to or greater than 100% of remaining emissions.

¹⁵ Lo, J. (2023, March 30). Carbon credit industry resists vulnerable nations' call to fund adaptation. *Climate Home News*. <https://climatechangenews.com/2023/03/30/carbon-credit-industry-resists-vulnerable-nations-call-to-fund-adaptation/>

¹⁶ VCMi. (2023, June 28). *Global launch: New VCMi Claims Code to accelerate corporate use of voluntary carbon markets as part of net-zero pathways* [Press release]. <https://vcmintegrity.org/launch-claims-code/>

¹⁷ Regarding Scope 3 near-term targets, the SBTi standards require that 67% of Scope 3 emissions must be covered under target(s) if Scope 3 emissions become 40% or more of total emissions. If a company sells fossil fuels, however, its target must cover all Scope 3 emissions.

- (3) Select high-quality credits following the ICVCM CCPs beyond value chain mitigation.
- (4) Obtain third-party assurance following the VCMI Monitoring, Reporting and Assurance (MRA) Framework

In November 2023, the abovementioned MRA Framework and other additional documents will be released, allowing companies to make VCMI claims by the end of the year.¹⁸

While initiatives to formulate codes for using voluntary credits have been undertaken not only by VCMI but also by various other entities,¹⁹ voluntary credit market experts have questioned that VCMI requirements are so hard for companies, which will result in a decrease in demand for credits. According to Trove Research, more than 470 companies using carbon credits show that only 3.8% of these companies currently meet VCMI Silver claims since the foundational criteria are difficult to achieve. The survey shows that although 40% of companies have a net zero target, only 25% meet VCMI's requirements.²⁰

In response, the VCMI plans to consider and publish some additional guidance within several months to make the rulebook more flexible to secure more companies' market participation while maintaining high ambitions for emissions reductions.²¹ We should consistently observe whether this rulebook will be established as a guideline balancing between ideals and reality, which will diffuse among companies.

¹⁸ VCMI. (2023, June 28). *Global launch: New VCMI Claims Code to accelerate corporate use of voluntary carbon markets as part of net-zero pathways* [Press release]. <https://vcmintegrity.org/launch-claims-code/>

¹⁹ For example, South Pole, a project developer and credit intermediary, published its own Funding Climate Action label on the day before the publication of the VCMI Claims Code of Practice.

²⁰ Trove Research (2023, June 29) *VCMI Claims Code of Practice – Important progress but the difficult stuff still lies ahead*. <https://trove-research.com/report/vcmi-claims-code-of-practice-important-progress-but-the-difficult-stuff-still-lies-ahead>

²¹ Presentation by Mr. Mark Kenber, Executive Director of VCMI, at the VCMI Claims Code of Practice Global Launch Event. Available on the following website: <https://vcmintegrity.org/vcmi-claims-code-launch-event/>