

Voluntary Carbon Credit Trends (April-June 2024) New Guiding Principles for Carbon Credit Market

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1. Introduction

This report outlines new principles for the carbon credit market released from April to June 2024. Three actors - namely, private companies, carbon crediting bodies, and governments - have been working to establish a high-quality carbon credit market.

2. Amazon.com, Inc. promotes Abacus standards

Amazon has been working on forest restoration projects as part of its carbon removal initiative.¹ As part of this effort, the company has been developing *Abacus* as a unique framework to verify the quality of carbon offsets related to reforestation and agroforestry. Collaboratively working with Verra, a carbon credit certifier, from 2022, the Abacus label requires “the use of ecologically appropriate restoration systems” and “excludes monoculture plantations.”² According to Reuters, Abacus has been developed as an alternative to the standards of the Integrity Council for the Voluntary Carbon Market (ICVCM), an organization that sets and evaluates quality standards for voluntary carbon credits.³ The Abacus label can be applied for by anyone who meets the requirements of Verra's methodology. However, it is expected to take 2-3 years to obtain the Abacus label since measuring the amount of absorbed carbon will take place after the trees have grown. Symbiosis, a group jointly formed by Alphabet, Meta, Microsoft, and Salesforce, declared in March 2024 that it would purchase up to 20 million tons of nature-based carbon removal credits by 2030. The group believes that Abacus “incorporates the latest innovations in carbon accounting, including dynamic baselining, robust approaches to leakage mitigation, and pathways for creating durable projects.”⁴

With the development of the Abacus standard, Amazon is expected to be the first company

¹ Amazon. (2023, November 29). *An update on Amazon's sustainability efforts: Here's what we're doing to aid nature-based solutions and carbon removal.* <https://www.aboutamazon.com/news/sustainability/updates-on-amazons-sustainability-efforts-to-aid-nature-based-solutions-and-carbon-removal>.

² Verified Carbon Standard. (2023, December 15). *PUBLIC CONSULTATION ON ABACUS VCU LABEL.* https://verra.org/wp-content/uploads/2023/11/ABACUS-Public-Consultation_Updated.pdf.

³ Furness, Virginia. (2024, July 4). *Focus: Amazon sidesteps carbon offset standard Bezos helped fund.* Reuters. <https://www.reuters.com/sustainability/amazon-sidesteps-carbon-offset-standard-bezos-helped-fund-2024-07-01/>.

⁴ Strong, Julia. (n.d.). *Introducing Symbiosis.* <https://www.symbiosiscoalition.org/perspectives/introductory-blog>. Retrieved August 16, 2024.

to adopt the standard instead of the ICVCM's carbon offset standard. However, the Bezos Earth Fund remains one of the major funders of ICVCM and has provided \$10 billion for climate change initiatives.⁵ While some are concerned about the proliferation of carbon offset standards established by large technology companies, others point out the significance of the transparency and monitoring of the Abacus label in increasing market integrity.

3. ICVCM releases the first carbon credit methodology to meet CCPs

ICVCM announced the first carbon credit methodologies that meet the Core Carbon Principles (CCPs) on June 6, 2024.⁶ The seven carbon crediting methodologies, equivalent to 27 million carbon credits, were approved. Projects are supposed to tackle potent greenhouse gases by capturing methane from landfill sites and by destroying ozone-depleting foams and refrigerant gases from discarded equipment such as refrigerators and air conditioners. Another 27 categories, representing more than 50% of the market, are still under evaluation. The most popular carbon credits, such as renewable energy and REDD+⁷ projects, will be evaluated in a multi-stakeholder working group. The assessments of these methodologies are expected to be completed in the coming months.⁸

The CCP label is a *two tick* system in which CCP-eligible status can only be granted if CCP-approved carbon crediting programs adopt CCP-approved methodologies. Currently, five programs - ACR (American Carbon Registry), ART (Architecture for REDD+ Transactions), CAR (Climate Action Reserve), Gold Standard, and Verra - are CCP-eligible.⁹ These five credit organizations issue 98% of credits in the market. Approval of the methodology has been awaited.

As demand for reliable credits increases, the Claims Code of Practice established by the Voluntary Carbon Markets Integrity Initiative (VCMI) stipulates that carbon credits used by companies must meet the CCPs. Although 90% of credit demand (retirement) is for

⁵ The Integrity Council for the Voluntary Carbon Market. (n.d.). *Our funders*. <https://icvcm.org/our-funders/>. Retrieved August 16, 2024.

⁶ ICVCM. (2024, June 6). *Integrity Council announces first high-integrity CCP-labelled carbon credits, as assessments continue*. <https://icvcm.org/integrity-council-announces-first-high-integrity-ccp-labelled-carbon-credits-as-assessments-continue/>.

⁷ REDD+ stands for reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries

⁸ Assessment status can be checked at the following site: ICVCM. (n.d.). *Assessment Status*. <https://icvcm.org/assessment-status/>. Retrieved January 10, 2025.

⁹ ICVCM. (2024, May 2). *Integrity Council confirms Verra and ART meet its high-integrity benchmark*. <https://icvcm.org/integrity-council-confirms-verra-and-art-meet-its-high-integrity-benchmark/>.

voluntary purposes,¹⁰ compliance purposes are expected to increase in the future due to the introduction of emissions trading schemes, carbon taxes, CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), and Nationally Determined Contribution (NDC).

Governments and regulatory agencies are expected to refer to the CCPs as a benchmark for quality standards. In fact, the UK government, the Monetary Authority of Singapore (Transition Credits Coalition; TRACTION), and the U.S. Commodity Futures Trading Commission are considering reflecting the CCPs as international standards in their policies, regulations, guidelines, etc.¹¹ Moreover, Japan also examines the possibility of approving the CORSIA-eligible or CCPs-eligible programs as quality standards in the first phase of the GX-ETS. However, the methodologies that can be accepted so far under GX-ETS are limited to CCU (Carbon capture and utilization), coastal blue carbon, BECCS (Bioenergy with carbon capture and storage), and DACCS (Direct Air Capture with Carbon Storage). In the case of overseas projects, GX League participating companies are required to be involved in the project.¹²

The announcement of ICVCM marks a milestone in the creation of a high-quality credit market, and it will be interesting to see how much of a price premium will be attached to CCP-labeled credits in the future. On the other hand, the market share of the approved methodologies is limited, and it will be important to see if similar approvals will be granted to methodologies with larger market shares in the future. MSCI analyzed over 4,000 projects and reported that only 18% of all projects are likely to be CCPs-eligible.¹³ 64% of projects that technically remove carbon are likely to meet the standards, while only 8% of renewable energy projects satisfy the requirements. It should be noted that this analysis determines eligibility for CCPs on each project, but the judgment in CCPs will be made on a methodology basis. It should be remembered that credits from non-CCPs-eligible methodologies should not be immediately considered as low quality since there may be some high-quality projects even under the non-CCPs-eligible methodologies.¹⁴

As expected in the analysis above, ICVCM also announced on August 6, 2024, that credits

¹⁰ World Bank. (2024). *State and Trends of Carbon Pricing 2024*. <http://hdl.handle.net/10986/41544>.

¹¹ ICVCM. (2024, January 31). *Integrity Council reaches new milestone, assessing 100 carbon credit methodologies against high-integrity benchmark*. <https://icvcm.org/integrity-council-reaches-new-milestone-assessing-100-carbon-credit-methodologies-against-high-integrity-benchmark/>.

¹² Ministry of Economy, Trade and Industry. (2024, April 19) "Guidelines for the Use of Qualified Carbon Credits in the GX-ETS" (in Japanese). <https://gx-league.go.jp/news/20240419/>.

¹³ MSCI. (2023, September 20). *Potential Impact of the Core Carbon Principles on the Global Carbon Credit Market*. <https://www.msci.com/www/blog-posts/potential-impact-of-the-core/04582276687>.

¹⁴ MSCI. (2024, June 6). *The First Core Carbon Principles-Qualifying Projects — the VCM Steps on the Gas*. <https://www.msci.com/www/blog-posts/the-first-core-carbon/04528494831#f1>.

from existing renewable energy methodologies (8 methodologies) would not be able to obtain the CCP label.¹⁵ These credits are estimated to amount to 236 million tons, representing 32% of the voluntary carbon market. The refusal was mostly due to insufficient assessment that projects could not be executed without incentives by credit income (additionality requirements). Renewable energy continues to be an essential climate change solution, and updated methodologies are needed to ensure that the projects meeting additionality are properly evaluated.

4. U.S. Government Announces New Principles for Voluntary Carbon Markets

On May 28, 2024, the U.S. government released new Principles for Responsible Participation in Voluntary Carbon Markets (VCMs).¹⁶ The announcement outlined seven principles for the development of the VCM, which relate to high-integrity supply (Principles 1 and 2), high-integrity demand (Principles 3, 4, and 5), and market integrity (Principles 6 and 7):

1. Carbon credits and the activities that generate them should meet credible atmospheric integrity standards and represent real decarbonization.
2. Credit-generating activities should avoid environmental and social harm and should, where applicable, support co-benefits and transparent and inclusive benefits-sharing.
3. Corporate buyers that use credits should prioritize measurable emissions reductions within their own value chains.
4. Credit users should publicly disclose the nature of purchased and retired credits.
5. Public claims by credit users should accurately reflect the climate impact of retired credits and should only rely on credits that meet high integrity standards.
6. Market participants should contribute to efforts that improve market integrity.
7. Policymakers and market participants should facilitate efficient market participation and seek to lower transaction costs.

¹⁵ ICVCM. (2024, August 6). *Carbon credits from current renewable energy methodologies will not receive high-integrity CCP® label.* <https://icvcm.org/carbon-credits-from-current-renewable-energy-methodologies-will-not-receive-high-integrity-ccp-label/>. In the same announcement a new methodology for the detection and repair of methane leaks in the gas industry was approved.

¹⁶ The White House. (2024, May 28). *FACT SHEET: Biden-Harris Administration Announces New Principles for High-Integrity Voluntary Carbon Markets.* <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/28/fact-sheet-biden-harris-administration-announces-new-principles-for-high-integrity-voluntary-carbon-markets/>.

These principles aim to increase market certainty for credit buyers and suppliers. Moreover, the principles are consistent with the ICVCM standards, such as additionality, permanence, and prohibition of double counting. Ms. Annette Nazareth, Chair of ICVCM, welcomed the U.S. government's principles, noting that they will reduce greenhouse gas emissions.¹⁷

The announcement by the U.S. government was a ratification of state-level legislation regarding VCM. California, for example, passed a bill on VCM in October 2023.¹⁸ This bill requires the disclosure of information on voluntary carbon offset projects implemented in the state, which needs to be updated at least annually.

Demand for carbon credits is increasing as an influential measure against climate change. In this regard, new principles/regulations/guidelines on carbon credits should be carefully examined.

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¹⁷ ICVCM. (2024, May 28). *Integrity Council welcomes US Govt's high-integrity principles for carbon credits*. <https://icvcm.org/integrity-council-welcomes-us-carbon-principles-alignment/>.

¹⁸ California Legislative Information. (2023, September 10). *AB-1305 Voluntary carbon market disclosures*. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240AB1305.