Voluntary Carbon Market Standard-Setter Issues "Core Carbon Principles"

06 April 2023

On March 30, 2023, the Integrity Council for the Voluntary Carbon Market (ICVCM) released its Core Carbon Principles (CCPs), which are intended to serve as a global benchmark for "high-integrity" carbon credits. The ICVCM, which is an independent standard-setting body for the largely unregulated voluntary carbon market (VCM), believes that a high-integrity VCM will provide financing for real and verifiable climate mitigation projects — including nature-based and technology solutions — to help achieve global net zero emissions by 2050.

The CCPs, which follow a public consultation on the ICVCM's July 2022 draft version,[1] were released alongside an Assessment Procedure explaining the process for implementing the CCP label in the VCM, a series of buyer-focused Attributes to tag additional features related to the mitigation activity from which a credit is derived, and an Assessment Framework for carbon-crediting programs (also known as carbon standards). The ICVCM plans to release a second iteration of the Assessment Framework, which will include details on how specific categories of mitigation activity can qualify as "CCP-Eligible," before July 2023.

In this *Alert*, we outline the CCPs, situate them within the context of broader market and regulatory developments, and identify certain potential implications for VCM participants.

The Core Carbon Principles

The CCPs are presented in three thematic categories and comprise 10 principles:

1. Governance

Effective governance	The crediting program should have effective program governance to ensure transparency, accountability, continuous improvement and overall credit quality.
Tracking	The crediting program should operate or use a registry to uniquely identify, record and track mitigation activities and carbon credits.[2]
Transparency	The crediting program should provide comprehensive, transparent and public information on all credited mitigation activities.
Validation and verification	The crediting program should require robust, independent third-party validation of mitigation activities, and third-party verifiers should be accredited by a recognized international standard and undergo periodic review of verification performance.

2. Emissions Impact

Additionality	The greenhouse gas ("GHG") reductions or removals from the mitigation activity should not have occurred in the absence of the incentive created by the carbon credit revenues.
Permanence	The GHG reductions or removals from the mitigation activity should be permanent or, where there is risk of reversal, should have measures in place to address and compensate those risks.
Quantification	The GHG reductions or removals from the mitigation activity should be robustly quantified, based on conservative, complete and sound scientific methods.
No double counting	The GHG reductions or removals from the mitigation activity should be counted only once toward achieving mitigation targets or goals.

3. Sustainable Development

Sustainable development	The crediting program should ensure that mitigation activities meet or exceed established best practices on social and environmental safeguards while delivering positive sustainable

benefits and safeguards	development impacts, including those related to biodiversity conservation and the rights of indigenous peoples.
Contribution to net zero transition	The mitigation activity should not lock in technologies or practices that are incompatible with the objective of achieving net zero GHG emissions by 2050.

Growing Emphasis on Carbon Market Integrity

Whereas the Voluntary Carbon Markets Integrity Initiative (VCMI)'s Claims Code[3] and Science-Based Targets Initiative (SBTi)'s Corporate Net-Zero Standard seek to establish "demand side" standards for the credible use of carbon credits, the ICVCM addresses issuance and governance of credits on the "supply side" of the market.

The ICVCM is the successor body to the Task Force on Scaling Voluntary Carbon Markets (TSVCM),[4] and the CCPs' publication comes amid reputational and legal concerns over the integrity of VCM projects and credits. For instance, in January 2023, a high-profile media investigation alleged that the vast majority of rainforest avoided-deforestation credits certified by Verra, the largest voluntary carbon offset registry, do not represent actual emissions reductions. Verra has refuted the findings, and in February 2023 announced that it would update the methodology used to certify such credits.[5]

The past few years have seen a significant increase in the adoption of carbon credits as a strategy for pursuing voluntary climate commitments; however, demand for voluntary carbon credits fell slightly in 2022 amid a macroeconomic slowdown and concerns about market integrity. In its November 2022 report, the United Nations' expert group on private sector net zero commitments endorsed the voluntary use of carbon credits as a mechanism for directing climate financing to developing nations and balancing unabated emissions, but noted that any carbon credits used to pursue corporate commitments should be "high-integrity" — citing the work of the ICVCM — and should prioritize carbon dioxide removal (CDR). This is consistent with the UN Intergovernmental Panel on Climate Change (IPCC)'s March 2023 synthesis report, which finds that CDR will be necessary to achieve the emissions goals of the Paris Agreement. Demand is expected to increasingly shift toward credits associated with CDR, although the supply of removal credits remains limited and avoidance or reduction credits currently comprise the vast majority of VCM transactions.

Regulatory Developments

The linkage between the VCM and national, regional and international compliance carbon markets remains uncertain. In principle, Article 6 of the Paris Agreement permits host states to authorize voluntary carbon credits to be sold to buyers in other countries as Internationally Transferred Mitigation Outcomes (ITMOs), which are then *not* counted toward the host states' progress on its national emissions target (NDC).[6] The ICVCM, in its guidance on additional Attributes for CCP-Eligible credits, allows credits designated as ITMOs to be tagged with "host country authorization under Article 6."[7] Credits authorized for international transfer by the host country may command a price premium to similar, non-authorized credits.[8]

Meanwhile, regulatory scrutiny of the VCM is increasing,[9] with recent developments including:

- ***European Union***: in November 2022, the EU proposed a voluntary framework for the certification of high-quality CDR, which is more prescriptive than that of the ICVCM.[10] Additionally, the bloc's March 2023 proposed law on green claims would require companies making climate-related claims to report on their use of carbon credits.
- ***United Kingdom***: the UK's March 2023 Green Finance Strategy states that the government plans to consult on the development of a "high-integrity" VCM, referencing the work of the ICVCM as inspiration for potential regulatory standards.
- ***United States***: the Commodity Futures Trading Commission — which has varying degrees of regulatory and enforcement authority over the VCM — is considering whether and how the VCM could be more regulated to promote market integrity and prevent greenwashing, and the Federal Trade Commission recently sought comment on whether its planned update to the Green Guides should be more specific about claims related to the use of voluntary carbon credits. Furthermore, the Securities and Exchange Commission's proposed climate disclosure rule (the "Proposed SEC Rule") includes a number of disclosure requirements around a listed company's use of carbon credits,[11] including: (i) describe the role that offsets play in the company's climate-related business strategy,[12] (ii) if the company has any climate-related targets and goals, describe how the company intends to meet those targets and goals, including the role that offsets play in those plans and detailed information around such offsets,[13] and (iii) disclose a new metric in the company's audited financial statements covering "expenditure related to transition activities," which may include the amount of expense or capitalized costs related to offsetting emissions.[14]

Implications for VCM Participants

The full influence of the ICVCM's work is unclear. For example, Verra and Gold Standard have broadly welcomed the CCPs as providing a "floor of competence" for projects. However, Verra had previously criticized the ICVCM's work as overly prescriptive and potentially chilling to the burgeoning VCM, while Gold Standard, the second-largest registry after Verra, has stated that it will apply to be CCP-Eligible but also expressed concern that the CCPs do not "raise the bar for ambition or quality."

Nevertheless, the widespread adoption of the Task Force on Climate-related Financial Disclosures' (TCFD) framework demonstrates the potential for market-led, voluntary initiatives to form the basis of mandatory regulation.[15] The ICVCM's efforts to create an authoritative market standard — including its planned release of category-level guidance on CCP Eligibility later in Q2 2023 — may prove to be a useful tool for companies and their advisors as they develop and refine their climate strategies and seek to navigate the complex and rapidly evolving VCM landscape.

---

1. *See* our August 8, 2022, *Kirkland Alert*, "Release of Draft Carbon Credit Principles Underscores Importance of Integrity to Voluntary Carbon Market Ambitions." ↩

2. Carbon crediting programs can apply to be certified by the ICVCM as CCP-Eligible. Programs that meet the existing requirements of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) will meet the Assessment Framework's standards for CCP-Eligibility. ↩

3. We explore the release of the VCMI's draft Claims Code of Practice in our August 8, 2022, *Kirkland Alert*, "Release of Draft Carbon Credit Principles Underscores Importance of Integrity to Voluntary Carbon Market Ambitions." ↩

4. The TSVCM was launched in 2020 by UN Special Envoy for Climate Action Mark Carney, who co-chairs the Glasgow Financial Alliance for Net Zero (GFANZ). In July 2021, the TSVCM released its Final Report, recommending the creation of a new governance body to oversee the development of the CCPs. ↩

5. Credits derived from avoided deforestation activities received further scrutiny after the release of a March 21, 2023, peer-reviewed paper in *Frontiers of Forests and Land Use Change*, which identifies aspects of the methodologies used by major registries in issuing improved forest management credits that the authors conclude have resulted in the serial over-issuance of credits relative to the true emissions reductions generated by the mitigation activities. ↩

6. We discuss Article 6 in our November 23, 2021, *Kirkland Alert*, "COP26 and the Role of Private Capital." ↩

7. The ICVCM acknowledges that while it is broadly understood that carbon credits should only be counted toward a single country's NDC, there is "an active debate in the VCM about how to manage double counting in all its forms in the context of Article 6," including whether ITMOs may be counted toward a buyer's voluntary climate commitment as well as a country's NDC. The ICVCM intends to, in conjunction with the VCMI, study how future versions of the CCPs could help to more rigorously define the relationship between the Article 6 credit market and the VCM. ↩

8. *See* C2ES, "What Does the COP26 Outcome on Article 6 Mean for Non-Party Stakeholders?" October 2022 ("Authorized emissions reductions may earn a price premium if potential buyers of credits see additional value from the reputational benefit of securing additional reductions, or from the ability to claim those emissions reductions toward their own commitments (to the extent allowed by VCMI guidance or further discussion among voluntary carbon market stakeholders)."). ↩

9. *See* International Organization of Securities Commissions, "Voluntary Carbon Markets Discussion Paper," November 2022. ↩

10. Among other criteria, the EU proposal would require that mitigation activities have clearly defined carbon storage durations and contribute to an additional sustainability objective beyond CDR. ↩

11. The Proposed SEC Rule includes similar disclosure requirements around a listed company's use of Renewable Energy Credits (RECs). ↩

12. *See* Proposed SEC Rule § 1502(c). ↩

13. *See* Proposed SEC Rule § 1506(d). ↩

14. *See* Proposed SEC Rule § 210.14-02(f). ↩

15. We explore the TCFD's recommended disclosure framework in our November 10, 2021, *Kirkland Alert*, "TCFD Issues New Guidance as Its Climate Reporting Framework Continues to Gain Traction." ↩

Authors

Paul Barker

Partner / Bay Area – San Francisco

Jennie Morawetz

Partner / Washington, D.C.

James Dolphin

Partner / Houston

Abbey Raish

Partner / Los Angeles – Century City

Tony Moller

Advisor, ESG & Impact / Bay Area – San Francisco

Related Services

Practices

- ESG & Impact

Suggested Reading

- 11 June 2024 Kirkland Alert AIFMD II Q&A for Fund Sponsors
- 20 December 2023 Kirkland Alert COP28, Dubai: $30B Investment Fund, Carbon Markets Initiatives Reflect Increasing Momentum Behind Private Financing for Climate Solutions and Energy Transition
- 07 December 2023 Kirkland Alert UK's Financial Conduct Authority Publishes Final Sustainability Disclosure Requirements