Insights: Alert

White House Structures Voluntary Carbon Markets by Issuing Non-binding Principles

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The Biden administration issued a Voluntary Carbon Markets Joint Policy Statement and Principles for Responsible Participation in Voluntary Carbon Markets on May 28, 2024, in an effort to bolster confidence in the voluntary carbon markets ("VCMs"), which is critical to the functioning of this market and its effects for carbon reduction.

Integrity of the Voluntary Carbon Markets

Carbon credits may be traded on a voluntary marketplace, which connects buyers of emission reduction and removal credits to sellers who can benefit from this meaningful economic opportunity. This marketplace can also foster nature-based decarbonization and help technologies for carbon removal and storage become more cost effective. But, while carbon credits can be transferred to a buyer, the challenge with VCMs is that, unlike other intangible tradable commodities, the underlying asset (emissions reduction or removal) can only be constructively transferred to a buyer. For this process to function, the integrity of the methods by which a credit is measured, how the carbon reduction is verified is paramount. The Administration noted that "stakeholders must be certain that one credit truly represents one tonne [ton] of carbon dioxide" (or its equivalent (CO2e)) reduced or removed from the atmosphere, beyond what would have otherwise occurred. There has been doubt in the past whether the credits truly represent real emissions reductions. Without market confidence in VCMs, stakeholders may be less inclined to participate in the marketplace, which means the potential of carbon credits to support decarbonization would not be fully realized.

Principles for Responsible Participation in Voluntary Carbon Markets (VCMs)

The new Joint Policy Statement outlines the principles the administration deems necessary to foster the credit and market-level integrity, credible credit use, and cost-efficiency of the market:

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 ("credit users") 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; and
7. Policymakers and market participants should facilitate efficient market participation and seek to lower transaction costs.

The Principles included with the Policy Statement are non-exhaustive and are intended to encourage private sector and other stakeholders in the carbon credit value chain to responsibly participate in VCMs. While the Principles are a first step, they either only reflect general goals or developments in some marketplaces, or leave a lot of questions open, even though they include more detailed recommendations for carbon credit certification bodies and standards. For example, in Principle 1, “credible atmospheric integrity standards” need to de defined and emitters and climate non-profits have different views on which standards and models qualify. For Principle 3, it will be discussed whether Scope 3 emissions will be included, and what “measurable” should mean in this context. Since global emissions reductions are difficult to measure, the term might be interpreted more narrowly here. Principle 4 and 7 seem to expand disclosures that are typical on the California and in Quebec markets to markets nationwide. More specific disclosures will affect and possibly limit greenwashing claims, as the standards become more reliable and transparent. Principle 5 is formalizing what the markets are already doing to improve their methodologies.

The new Principles are an effort at a unified non-binding approach, after several U.S. States, the European Union, and non-profits have taken action towards formalizing carbon credit standards and making the credits more reliable. The new Principles are not enforceable, but they will be the basis of distinguishing high-quality credits from “junk” credits going forward.

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