

IETA Position

The Case for Compensation Claims

November 2023

In the complex landscape of carbon markets and climate action, the terminology we use to describe our actions is critical. Two terms currently under discussion in the market are compensation claims and contribution claims. Compensation claims can be made when an organisation “compensates” or takes responsibility for their unabated emissions through the purchase of an equivalent volume of carbon credits. Meanwhile, contribution claims can be made when an organisation makes a financial investment into credits for the purpose of supporting global climate goals.

IETA strongly supports maintaining the use of compensation claims for several compelling reasons, emphasising the importance of transparent, high-integrity claims that support ambitious climate goals and avoid accusations of greenwashing. However, whether a company opts to make a compensation or contribution claim is ultimately their choice, so long as the claim is accurate and does not overstate environmental impact.

Not a Way to Avoid Decarbonisation. Contrary to some misconceptions, buying carbon credits through compensation claims is not a means of buying one's way out of decarbonisation efforts. Studies have shown that companies investing in carbon credits are more likely to also invest in other decarbonisation activities.^{1,2} This is a logical outcome because a corporate purchase of carbon credits places an internal price on carbon, which then changes the future return on investment calculations for investments in direct emission reductions.

Tonne-for-Tonne Accountability. Compensation claims provide a clear and accountable framework for companies to take responsibility for their Scope 1, 2, and 3 emissions on a tonne-for-tonne basis (whilst following the mitigation hierarchy). This accountability is crucial for the credibility of corporate action. Tonne-for-tonne accountability is the clearest and most transparent way for companies to use carbon credits as part of their climate ambitions.

Recognition of Environmental Impact of Carbon Credits. Compensation claims acknowledge the verified environmental impact of carbon credits and the valuable role the voluntary carbon market plays in reducing and removing global emissions.

Stronger and Clearer Claims. Compensation claims are often stronger and clearer than contribution claims. They convey a direct commitment to offsetting a stated quantity of emissions, leaving less room for ambiguity. IETA members are also concerned that contribution claims may weaken the business case for purchasing and retiring carbon credits, shifting the money from strategic budgets to often much smaller philanthropic budgets.

Buyer Understanding. The language of compensation claims is easy for buyers to understand and communicate. It helps ensure that buyers - companies and consumers - grasp the significance of

¹ <https://www.ecosystemmarketplace.com/publications/2023-em-all-in-on-climate-report/>

² <https://trove-research.com/report/corporate-emission-performance-and-the-use-of-carbon-credits>



their responsibility in mitigating their climate impact. IETA members believe contribution to be a weaker term as it implies partial responsibility for climate impact and risks opening organisations up to criticisms of greenwashing.

A High Ambition Path to Net Zero. Companies with science-aligned targets and ambitious internal decarbonisation plans can compensate for unabated emissions, thereby taking an immediate, and high-ambition pathway to net zero. Carbon credits were created under the Kyoto Protocol and confirmed in the Paris Agreement as a flexible mechanism for countries to cooperate in achieving their nationally determined contributions. IETA believes this flexibility should also apply to corporates who are working to decarbonise their businesses in support of the Paris Agreement goals.

While IETA broadly supports compensation claims, there are several situations in which contribution claims may be appropriate. For example, in areas where impacts are hard to measure such as biodiversity claims or societal outcomes, a contribution claim may be preferred. Contribution claims can be valuable when companies go beyond offsetting their own emissions and invest in carbon credits beyond their own requirements. This demonstrates a commitment to broader climate action where they are no longer compensating for their own emissions and are supporting additional emission reductions. Contribution claims may also be appropriate when companies invest in research and development or expensive credits like technology-based carbon dioxide removal credits which may not align on a tonne-for-tonne basis. Finally, this type of claim may be the right choice if that's the company's preference and the style of claim motivates a company to take more ambitious climate actions, including when contribution claims are made on a tonne-for-tonne basis. When a company prefers to style their purchase of carbon credits as a contribution to the global good, this is the approach they should use. IETA notes that some members have moved to contribution claims, stating that their action remains the same and only their claims have changed.

While contribution claims have their place in the climate action toolkit, maintaining the use of compensation claims is essential. Compensation claims ensure accountability, recognise the environmental impact of carbon credits, and provide a clear and understandable framework for buyers. They also counteract accusations of greenwashing, when decarbonisation is happening in parallel, and emphasise the importance of taking responsibility for one's carbon footprint. By retaining the option of compensation claims, we can continue to promote transparent, high-integrity climate solutions that support ambitious climate goals and contribute to a sustainable future.

Overall, it is vital that there is action. The urgency of climate change demands it. IETA believes internal decarbonisation of corporate emissions alone is not enough. We encourage the use of carbon credits to compensate for unabated emissions and for corporations to take responsibility for their GHG inventory. The use of compensation claims provides this clarity.

