

GUIDELINES FOR HIGH INTEGRITY USE OF CARBON CREDITS



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SINCE 1999 IETA HAS BEEN THE LEADING VOICE OF BUSINESS ON AMBITIOUS MARKET-BASED CLIMATE CHANGE SOLUTIONS AND DRIVING NET ZERO. IETA ADVOCATES FOR TRADING SYSTEMS FOR EMISSIONS REDUCTIONS AND REMOVALS THAT ARE ENVIRONMENTALLY ROBUST, FAIR, OPEN, EFFICIENT, ACCOUNTABLE AND CONSISTENT ACROSS NATIONAL BOUNDARIES. REPRESENTING MORE THAN 300 LEADING INTERNATIONAL ORGANISATIONS, IETA IS A TRUSTED PARTNER IN DEVELOPING INTERNATIONAL POLICIES AND MARKET FRAMEWORKS TO REDUCE GREENHOUSE GAS EMISSIONS AT THE LOWEST COST WHILE BUILDING A CREDIBLE PATH TO NET ZERO EMISSIONS. SEE WWW.IETA.ORG FOR MORE INFORMATION.

THE IETA VCM GUIDELINES FOR HIGH INTEGRITY USE OF CARBON CREDITS WAS DEVELOPED BY THE IETA DEMAND TASK FORCE DURING 2023/2024. THE IETA GUIDELINES ENDEAVOUR TO PRESENT A COLLECTIVE VIEW OF THE TASK FORCE LISTED ABOVE AND, ALTHOUGH THE CONTRIBUTORS SUPPORT THE GENERAL THRUST OF THE DOCUMENT, CONTRIBUTORS CANNOT BE TAKEN TO AGREE WITH ALL OF ITS CONTENT. THE CONTRIBUTORS HAVE NOT BEEN ASKED TO FORMALLY ENDORSE THE IETA GUIDELINES.

DESIGN: HITMAN CREATIVE MEDIA INC.

QUOTES

“ICROA HELPS TO ENSURE THAT CARBON CREDITS SERVICE PROVIDERS OPERATE TO THE HIGHEST LEVEL OF ENVIRONMENTAL INTEGRITY TO DELIVER PARIS ALIGNED REDUCTION PATHWAYS. TO THIS END, THE IETA GUIDELINES PROVIDE A PRAGMATIC APPROACH FOR COMPANIES TO USE THE CARBON MARKET IN SUPPORT OF GLOBAL DECARBONISATION. WE CONGRATULATE IETA ON THIS WORK AND ENCOURAGE ALL COMPANIES TO USE THESE GUIDELINES.”

– **MEMBERS OF THE ICROA INDEPENDENT ADVISORY COMMITTEE**
(SHELLEY ESTCOURT, EDIT KISS, BRYAN ADKINS, NATHALIE FLORES, MARIA CARVALHO)

“IT IS CRITICAL THAT CARBON CREDIT INVESTMENTS ARE NET ZERO ALIGNED. TO THIS END, IT IS GREAT TO SEE IETA’S RECOGNITION OF THE VITAL ROLE CARBON MARKETS CAN PLAY IN SCALING CARBON REMOVAL, INCLUDING AS EXPRESSED IN THE OXFORD PRINCIPLES FOR NET ZERO CARBON ALIGNED OFFSETTING.”

– **RESEARCH ASSOCIATE, OXFORD SUSTAINABLE FINANCE GROUP**

“THE WORLD’S BEST COMPANIES ARE SETTING TARGETS TO MEET A CRITICAL PATH TO NET-ZERO CARBON EMISSIONS. IETA’S NEW GUIDELINES FOR COMPANIES MAKE IT CLEAR THAT THAT PATH INVOLVES REDUCING EMISSIONS AND OFFSETTING THE REMAINDER UNTIL THEY HIT THAT TARGET. THIS CLARITY IS MUCH NEEDED IN AN ARENA THAT HAS SUFFERED FROM CONFUSION FOR TOO LONG.”

– **CARBON GROWTH PARTNERS**

CONTRIBUTORS*

anew



 **carbonplace**



 **EcoRegistry.**



RioTinto



Vertree.



*The IETA VCM Guidelines for high integrity use of carbon credits was developed by the IETA Demand Task Force during 2023/2024. The IETA Guidelines endeavour to present a collective view of the Contributors listed above and, although the Contributors support the general thrust of the document, Contributors cannot be taken to agree with all of its content. The Contributors have not been asked to formally endorse the IETA Guidelines.

INTRODUCTION

TO MEET THE GOALS OF THE PARIS AGREEMENT AT THE LOWEST COST, EMISSION REDUCTIONS AND REMOVALS MUST BE FINANCED IMMEDIATELY.

The Paris Agreement's objective of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels", requires immediate action by the private sector alongside governments and broader society.

However, the gap between climate commitments and the 1.5°C pathway is growing, and modelling shows the world is on track for a temperature rise of over 3°C! If the world is to limit warming to 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) has stated that global emissions must peak before the end of 2024, and almost halve by 2030 and that removals must be deployed at considerable scale.² IETA views the use of carbon credits as an especially valuable decarbonisation tool, particularly for the private sector.

Evidence from new modelling³ indicates there is a strong likelihood of companies missing near- and long-term net zero targets, risking an overshoot of the Paris Agreement's objectives.

The IETA Guidelines outline how the use of carbon credits should be deployed in parallel with other mitigation levers – specifically activities to avoid and reduce absolute emissions across all emissions scopes in line with ambitious near- and long-term targets. To be clear, we believe investment in carbon credit projects should not be delayed.

This investment enables emission reductions and removals needed to deliver global decarbonisation. The voluntary carbon market (VCM) is an important mechanism for channeling finance to where it is desperately needed, including the global south, carbon dioxide removal technologies, forest and biodiversity conservation⁴, and delivery of the United Nations Sustainable Development Goals (UN SDGs). (See further Appendix A, The Role of the VCM.)

IETA's mission is to "Empower business to engage in climate action and pursue net zero ambitions to advance the Paris Agreement's objectives"⁵. Carbon credits and the VCM are critically important levers to support business and governments in this effort. It is critical that we do not limit the solutions available to companies seeking to engage in climate action and reduce emissions; even as the VCM evolves⁶, which it needs to, and as efforts continue to strengthen integrity⁷ across both demand and supply.

In service of this mission, IETA has outlined the following Guidelines which we believe offer a pragmatic approach to the high integrity use of carbon credits by companies.

The focus of this paper is on better defining carbon credit use cases for companies; however, such use must always occur in parallel with activities to reduce absolute emissions across all emissions scopes in line with ambitious near- and long-term targets. The Guidelines address these broader issues but do not define how to set net zero pathways.



IETA VIEWS THE USE OF CARBON CREDITS AS AN ESPECIALLY VALUABLE DECARBONISATION TOOL, PARTICULARLY FOR THE PRIVATE SECTOR.

IETA GUIDELINES

FOR HIGH INTEGRITY USE

OF CARBON CREDITS

GUIDELINE 1

DEMONSTRATE SUPPORT FOR THE PARIS AGREEMENT GOALS

GUIDELINE 2

QUANTIFY AND PUBLICLY DISCLOSE SCOPE 1, 2, AND 3 EMISSIONS PROFILES

GUIDELINE 3

ESTABLISH A NET ZERO DECARBONISATION PATHWAY AND NEAR-TERM TARGETS

GUIDELINE 4

USE CARBON CREDITS IN LINE WITH THE MITIGATION HIERARCHY

GUIDELINE 5

ENSURE THAT ONLY HIGH-QUALITY CARBON CREDITS ARE USED

GUIDELINE 6

TRANSPARENTLY DISCLOSE USE OF CARBON CREDITS

DEVELOPING THE GUIDELINES

These Guidelines were developed by and for companies who are serious about climate action and decarbonising their businesses. They share the belief that mobilising private sector finance at scale through the VCM is a critical and affordable pathway towards reaching the Paris Agreement goals. The Guidelines are based on analysis of best practices in the VCM and intentionally build on existing guidance⁸ as we continue to work towards a consensus in the market. The Guidelines also reference new modelling⁹ as we strive to understand the opportunity the carbon market and the private sector could play to support Paris goals.

In this regard, AlliedOffsets¹⁰, an independent carbon market data firm, was commissioned by IETA to consider whether the volume and pace of emission reductions could be increased through different compensation 'use cases' for carbon credits. Specifically, the modelling study – 'High Integrity Demand in the VCM: Forecast Analysis'¹¹ – looks at the role carbon credits can play in compensating for company greenhouse gas (GHG) emissions and helping to raise ambition where a high risk of companies missing their climate targets exists (specifically interim and near-term targets), and where companies are struggling to reduce their GHG inventory (specifically so called 'hard-to-abate sectors'), at the pace required by climate science to achieve the Paris Agreement goals.

It is important to note that the nature of scope 3 accounting means that the total modelled emissions in the study are double, or even triple counted. However, we acknowledge the importance of companies taking account of their scope 3 emissions and proactively working to reduce these. We have therefore included the total aggregated scope 3 emissions in our study but clearly indicate that this quantum of GHG emissions will not align with global inventories.

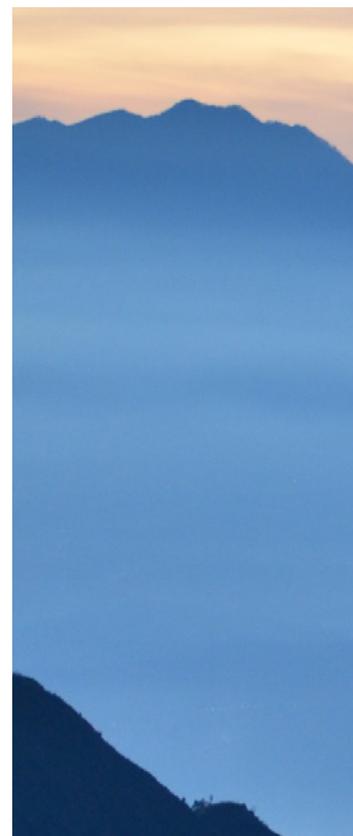
In developing these Guidelines, we build on an extensive body of work that already exists in the VCM. A full list of work we have assessed can be found at www.ieta.org/resources¹². However, the use cases for carbon credits in the IETA Guidelines take a different approach to the Science Based Targets initiative (SBTi) and extends the work of Voluntary Carbon Markets Integrity Initiative (VCMI) (See table A on next page). This is because we believe, based on the most current research coming from independent research providers (such as MSCI¹³ and Ecosystem Marketplace)¹⁴, the recent AlliedOffsets research as well as the experience of IETA members, that carbon credits can accelerate and increase climate action, at the lowest cost.

IETA therefore believes that carbon credits can play a role in a company's achievement of its interim targets and that companies should be able to make robust and accurate claims about these efforts. We believe that by following the IETA Guidelines, such investments can be implemented with high integrity.

IETA THEREFORE BELIEVES THAT CARBON CREDITS CAN PLAY A ROLE IN A COMPANY'S ACHIEVEMENT OF ITS INTERIM TARGETS AND THAT COMPANIES SHOULD BE ABLE TO MAKE ROBUST AND ACCURATE CLAIMS ABOUT THESE EFFORTS.



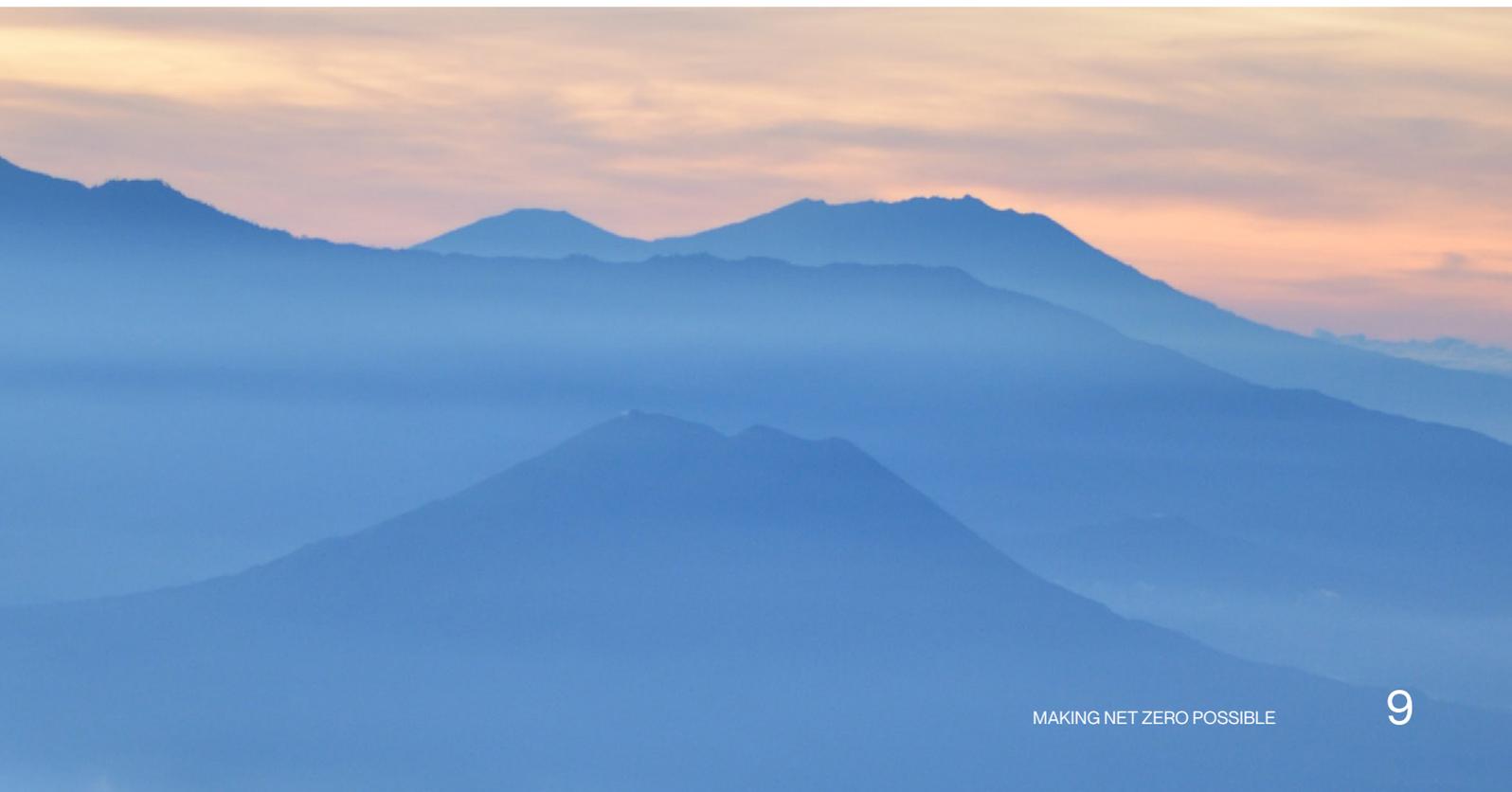
IN DEVELOPING THESE GUIDELINES, WE BUILD ON AN EXTENSIVE BODY OF WORK THAT ALREADY EXISTS IN THE VCM.





**TABLE A:
A COMPARISON OF GUIDANCE LITERATURE ON THE USE CASES FOR CARBON CREDITS
TO COMPENSATE FOR COMPANIES' EMISSIONS ON THE PATHWAY TO NET ZERO**

Use Case	Carbon credits can be used to...	IETA Guidelines	SBTi	VCMI	EU Joint Statement ¹⁵	ISO 14068 (carbon neutrality)	2024 Oxford Net Zero Guiding Principles
1	compensate for some or all unabated scope 1, 2 and 3 emissions after meeting interim targets aligned to science-based reduction pathways	Yes	Yes	Yes Min 10%, Max 100%	Yes	Yes	Yes
2	compensate for residual scope 1, 2 and 3 emissions through removals in your net zero year	Yes	Yes	Yes	Not covered	Yes	Yes
3	compensate for unabated scope 1 and 2 emissions to help achieve interim targets and stay on track between interim target years	Yes	No	No	No	Not covered	Not covered
4	compensate for unabated scope 3 emissions, including in hard-to-abate sectors, to help achieve interim targets and stay on track between interim target years	Yes	No	Yes Scope 3 Flexibility Claim	No	Not covered	Not covered



GUIDELINES FOR HIGH INTEGRITY USE OF CARBON CREDITS

IETA'S GUIDELINES ARE DESIGNED TO HELP COMPANIES GLOBALLY TO RESPONSIBLY AND CREDIBLY INCORPORATE HIGH QUALITY CARBON CREDITS INTO THEIR BROADER CLIMATE STRATEGY ENCOMPASSING SETTING A NET ZERO AMBITION, AND NEAR- AND LONG-TERM DECARBONISATION TARGETS.

The Guidelines do not cover how to set a net zero pathway, how to quantify scope 1, 2, and 3 emissions, or how to make appropriate claims based on the use of carbon credits. The primary focus of the guidelines is the use of credits for compensation towards corporate net zero targets and we acknowledge the important use case of credits for compensating product emissions and emissions related to the delivery of services.

Based on the evidence available to us, we believe that carbon credits are an effective and immediately available tool for affordable, global decarbonisation that can, and should, be used by companies to support the goals of the Paris Agreement.

GUIDELINE 1 DEMONSTRATE SUPPORT FOR THE PARIS AGREEMENT GOALS

Company climate action should not be seen in isolation, but as part of the global aim to achieve the Paris Agreement goals. This is a collective goal. Company ambition should include setting a decarbonisation pathway aligned with net zero, meeting interim targets (including compensating for unabated emissions), and contributing as much as possible to the decarbonisation of the global economy.

GUIDELINE 2 QUANTIFY AND PUBLICLY DISCLOSE SCOPE 1, 2, AND 3 EMISSION PROFILES

To effectively manage its emissions, a company must first measure them. Quantifying scope 1, 2, and 3 emissions is an important step so that the company understands its emissions baseline and can make a data- and science-based decision on where to prioritise emission reductions and how targets should be set.

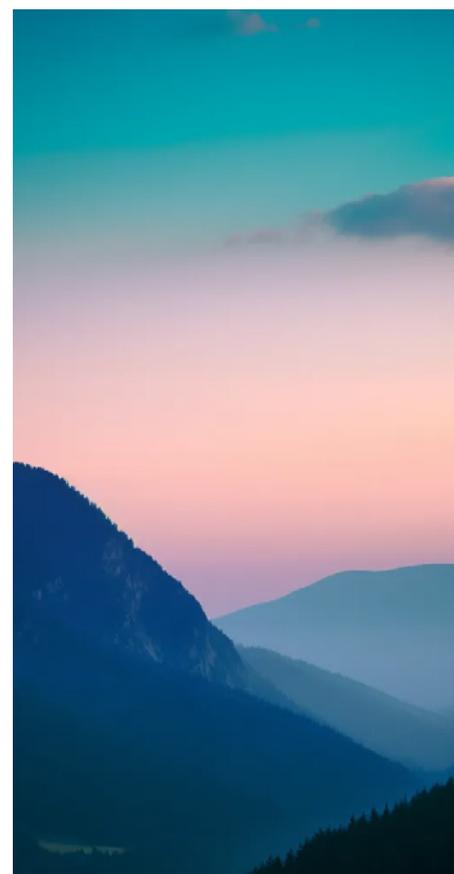
QUANTIFY

Companies should quantify their scope 1, 2, and 3 emissions in line with internationally recognised standards. The Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard (and associated guidance and calculation tools)¹⁶ and ISO 14064-1 are two valuable standards for understanding the requirements for the design, development, management, reporting and verification of a company's GHG inventory.¹⁷ Emissions intensity disclosures, as appropriate, can also be an effective quantification method such that product and cross-sector comparisons can be made. However, long-term decarbonisation strategies should reduce absolute emissions in line with the Paris Agreement goals.

DISCLOSE

Companies should regularly disclose publicly and transparently their emission quantifications with annual updates or follow regulation where it exists¹⁸. IETA also strongly encourages third-party verification of the company's emission profile.¹⁹

IN DEVELOPING THESE GUIDELINES, WE BUILD ON AN EXTENSIVE BODY OF WORK THAT ALREADY EXISTS IN THE VCM.





EVERY COMPANY MUST TAKE NEAR-TERM ACTIONS TO REDUCE ITS ABSOLUTE SCOPE 1, 2, AND 3 EMISSIONS AS PART OF THE GLOBAL DECARBONISATION EFFORTS TO ACHIEVE THE PARIS AGREEMENT GOALS.

GUIDELINE 3 ESTABLISH A NET ZERO DECARBONISATION PATHWAY AND NEAR-TERM TARGETS

Every company must take near-term actions to reduce its absolute scope 1, 2, and 3 emissions as part of the global decarbonisation efforts to achieve the Paris Agreement goals. Setting ambitious targets is a crucial step around which a company climate strategy must be designed. Companies should also set internal carbon pricing to support emission reduction activities and the associated business case. An internal carbon price can help to set a price benchmark for developing a portfolio of high-quality credits for compensation use.

MODELLING FINDING

Size of the company challenge²⁰:

The AlliedOffset study estimates that some 81% of the world's largest companies globally have not yet set climate targets. This represents ~7.5GT CO₂e (scope 1 and 2 only) which are not subject to any form of reduction target.

NET ZERO TARGETS

Targets should take account of scientific evidence related to climate change and be aligned with achieving the Paris Agreement goals. In the

IPCC AR6 report,²¹ 'science-aligned' mean that the whole of society should collectively aim to reduce global emissions, relative to 2019 emissions, by 43% by 2030, 60% by 2035, 69% by 2040 and 84% by 2050.

IETA's view, on the basis of the evidence available to us, is that companies can contribute to these societal goals by aiming for net zero no later than 2050. Depending on their sector, geography and policies in the jurisdictions in which they operate, some companies may achieve net zero earlier than others. It is also recognised that sectors – in particular hard-to-abate sectors – may have different pathways to net zero versus society's overall average pathway as described in Guideline 4.

Finally, it should be noted that whilst the overarching Paris Agreement goal is "to achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs by the second half of the 21st century", the cumulative emissions released into the atmosphere between now and then will determine the level of global warming and the extent to which tipping points are breached.

INTERIM TARGETS

All companies must set interim targets that are ambitious and rooted in pragmatism. 'Empty' targets that a company has no intention or ability to meet are misleading and are considered greenwashing. Companies must demonstrate where and how their emissions can be reduced to support the Paris Agreement goals, including financing plans and the technological advances required to support their climate strategy. Climate risk assessments can help companies

COMPANIES SHOULD ALSO SET INTERNAL CARBON PRICING TO SUPPORT EMISSION REDUCTION ACTIVITIES AND THE ASSOCIATED BUSINESS CASE.

understand both their physical and transition risks and may provide supportive financial, reputational, legal, and regulatory rationale for increased climate ambition including investment in carbon credits.

Companies can find guidance on how to set targets from the many frameworks that have been developed in line with science-based practices, such as Science-Based Targets Initiative²², Transition Pathway Initiative,²³ UK Department of Energy Security and Net Zero,²⁴ and Mission Possible Partnership,²⁵ among others.

CLIMATE INITIATIVES

IETA further encourages companies to promote collective action by joining initiatives such as the UN Race-to-Zero,²⁶ We Mean Business Coalition,²⁷ Business Declares²⁸ and Climate Pledge²⁹.

GUIDELINE 4

USE CARBON CREDITS IN LINE WITH THE MITIGATION HIERARCHY

MITIGATION HIERARCHY

The mitigation hierarchy³⁰ is a framework that supports the use of carbon credits alongside internal decarbonisation efforts. The first step in the mitigation hierarchy is to avoid emissions from occurring in the first place in order to prevent negative climate impacts.³¹ Companies should then reduce emissions where possible through switching to less intensive activities and minimising the environmental impacts that cannot be entirely avoided. The final step is to use carbon credits to compensate for remaining emissions on the pathway to net zero.

To be clear, the mitigation hierarchy should be applied to decarbonisation strategies across scopes 1, 2, and 3. Organisations by definition have direct control over their scope 1 and scope 2 emissions profiles, but often do not have as much visibility, data, or control of scope 3 emissions. However, organisations still have a responsibility to first measure these emissions in order to then influence, support, and collaborate with their value chain to drive down emissions from either the demand or supply side.

MEETING INTERIM TARGETS

IETA believes that carbon credits can play a role in a company's achievement of its interim targets, and that companies should be able to make robust and accurate claims about these efforts. Investing in high-quality carbon credits to compensate annually for unabated emissions is a lever to demonstrate additional ambition and accelerate global decarbonisation (as supported by SBTi³² and VCMI³³). Such action should be recognised accordingly through appropriate claims.

Where there is a particular risk of missing an interim target, companies can use carbon credits to meet that target. The modeling work conducted by AlliedOffsets, shows there is a risk of under-delivery of net zero reduction pathways, see below.

MODELLING FINDING

Net zero under-delivery³⁴:

Based on historical data of companies with net zero emission reduction pathways, emissions have been higher than Paris aligned pathways by 26% (scope 1 and 2). Should this rate of under-delivery continue, this could represent 4.5GtCO₂e in 2030 alone. Even if all companies set Paris aligned targets, the risk of missing targets still exists. Assuming targets continue to be missed at 26% of scope 1 and 2 and 62% of scope 3, the gap in 2030 to a Paris aligned pathway could be as much as 25.5GT CO₂e.

IETA believes that under-delivery of net zero pathways and missing interim targets is not acceptable when there exists a flexible, affordable and immediately available mechanism at our disposal to compensate for emissions.

There are legitimate reasons why a company may find itself off track from its transition pathway; these can include access to renewable energy, cost of technology, availability of low carbon technology alternatives, take-up by consumers of low carbon products etc. It is essential that companies publicly disclose the reasons for being offtrack (see Guideline 6). Companies must compensate for under-delivery and missed targets on a tonne-for-tonne basis as these credits are counted against a company's GHG inventory.



THE MITIGATION HIERARCHY IS A FRAMEWORK THAT SUPPORTS THE USE OF CARBON CREDITS ALONGSIDE INTERNAL DECARBONISATION EFFORTS.



THE VCM IS, BY NATURE, UNREGULATED, AND THE BUYER IS ULTIMATELY RESPONSIBLE FOR CAREFUL SELECTION AND DUE DILIGENCE OF CARBON CREDITS PURCHASED.

HARD-TO-ABATE SECTORS

In some hard-to-abate sectors, the technology and infrastructure required for deep decarbonisation may not be immediately available. These companies are encouraged to support research, development and deployment of emission reducing technologies in support of their decarbonisation efforts and should use carbon credits in the interim with full public disclosure. Investment in carbon credits is necessary now in addition to investment in absolute emission reductions; the immediacy of the climate crisis requires an “and-and” approach. As UN Secretary General Antonio Guterres said last year “In short, our world needs climate action on all fronts — everything, everywhere, all at once.”³⁵.

MODELLING FINDING

Hard-to-abate sectors³⁶:

These sectors, as defined in the study, have a greater challenge to deliver reductions at a pace aligned with the Paris Agreement goals. Based on various decarbonisation scenarios developed by the Mission Possible Partnership, the gap in 2030 to a Paris aligned pathway is between 2.5 to 7.5 Gt CO₂e.

GUIDELINE 5

ENSURE THAT ONLY HIGH-QUALITY CARBON CREDITS ARE USED

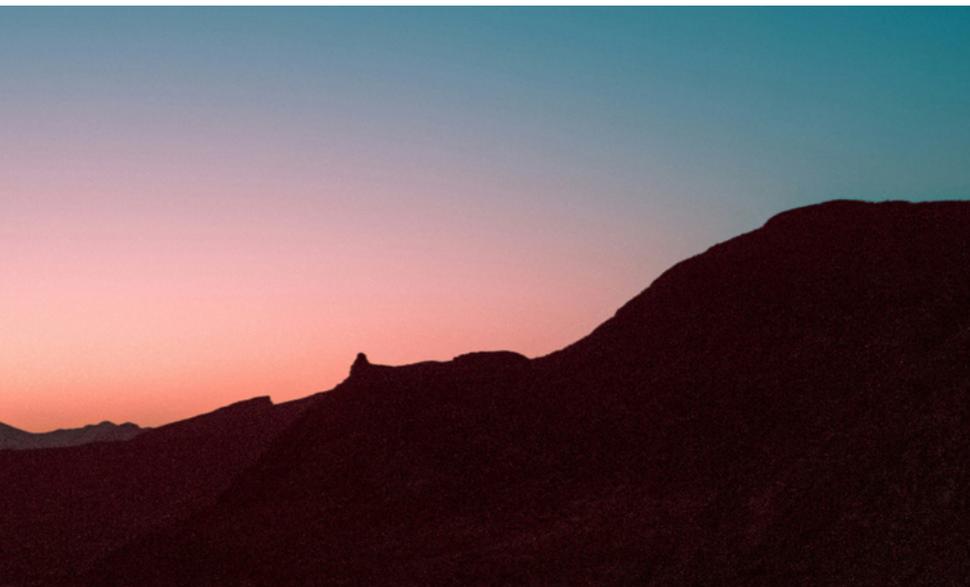
DUE DILIGENCE

The VCM is, by nature, unregulated, and the buyer is ultimately responsible for careful selection and due diligence of carbon credits purchased. Some companies have their own technical capability and are able to ensure carbon credit projects meet specific ‘quality’ standards but if not, or in addition to in-house due diligence, it is recommended to procure carbon credits that have been issued by a reputable, experienced carbon crediting programme and which have an independent, third-party ‘quality’ label such as those awarded by the Integrity Council for the Voluntary Carbon Market (ICVCM) from 2024 or programme endorsement from CORSIA³⁷ or ICROA³⁸.

About ICROA

Companies sourcing credits can seek out ICROA Accredited service providers. These service providers are accredited against an industry code of best practise and undergo an annual third-party audit. ICROA Accredited service providers can provide guidance and assist companies to source credits that adhere to good governance.

Companies should consider further specific due diligence to enable selection of carbon credits that are in line with the organisation’s requirements e.g., project location, project type, SDG impact, share of proceeds etc.). Further information and individual project-level reviews can be obtained from various carbon credit ratings agencies and research platforms, and companies should consider the scope of assessment provided by such third parties as these do vary.



EMISSION REDUCTIONS AND REMOVALS

IETA recognises that carbon credits for both emission removals and emission reductions can meet high quality thresholds. Reduction credits are needed now to prevent further emissions entering the atmosphere, and removals need to be scaled up significantly to net off residual emissions as we get closer to 2050.³⁹

If the world is to limit warming to 1.5°C, the IPCC has stated that global emissions must peak before the end of 2024, and almost halve by 2030, and that removals must be deployed at considerable scale.⁴⁰ Carbon markets, funded by companies and governments, can play a role in building these critical removals pipelines.

GUIDELINE 6

TRANSPARENTLY DISCLOSE USE OF CARBON CREDITS

Companies should publicly and transparently disclose their use of carbon credits. This includes disclosure of quantities and details about the carbon credits that have been retired by the company within a reporting year. This should include project name, type, vintage, location, the programme and methodology under which the credits were issued, purpose of retirement, link to registry retirement listing and any relevant due diligence measures undertaken. Companies are also encouraged to report on the social and environmental benefits and risks of their carbon credits.

In this regard there are existing disclosure frameworks,⁴¹ both mandatory and voluntary, that include the reporting of carbon credit use, such as the Transition Plan Taskforce Disclosure Framework.⁴² Some jurisdictions may include specific disclosure requirements for carbon credit use. It is important that companies, especially multinationals, observe this trend which may differ from one jurisdiction to another to both fulfill regulatory obligations and to build trust in the market through transparency.

As set out above, where companies are using carbon credits to compensate for under-delivery or missed targets, it is essential to disclose through annual reporting why these targets were missed – that is, clarifying the planned mitigation activity that could not take place, why it could not be implemented, and how long this may last, in line with best practices in quantifying an organisation's climate risk.

CLAIMS

These Guidelines do not cover how to make appropriate claims based on the use of carbon credits. However, our position is that companies voluntarily compensating for their emissions should be able to make robust and accurate claims. This should include recognition of the co-benefits that their investments support.

We recognise the important work on claims done by the VCMI and their Code of Practice⁴³ for companies who can meet the VCMI Foundational Criteria. We would however like to see VCMI embrace the use of compensation as a mechanism to support delivery of near- and long-term targets and not only to support compensation of unabated emissions. We welcome the evolving work on VCMI's scope 3 Flexibility Claim and the recent research⁴⁴ conducted by The Climate Board highlighting the need for wider carbon market participation if companies are to meet ambitious scope 3 targets.

At the time of writing, the EU has concluded new legislation on its Directive on Empowering Consumers for the Green Transition (ECGT)⁴⁵ and is in the process of drafting the newer Directive on substantiation and communication of explicit environmental claims (Green Claims Directive⁴⁶). These directives, designed to protect consumers from misleading or inaccurate claims, significantly restrict claims linked to the use of carbon credits and compensation⁴⁷.

Companies need to be particularly vigilant when making environmental claims around products sold with carbon credits to ensure they are accurate and are not misinterpreted by consumers. Legal guidance is advised.

Compensation for emissions in specific products or service line

Companies with net zero targets are encouraged to compensate for unabated emissions – be they scope 1, 2 or 3. Within scope 3, product and service emissions can be considerable and therefore we briefly highlight the importance here.

Compensating for product and service emissions is a particularly important use case for high-integrity carbon credits. It holds the potential to engage consumers directly on the road to net zero, which company strategies do not. Raising awareness of the carbon impact of products and helping consumers make more informed and lower carbon choices is a role all companies can play.

The use of compensation for products must also follow the mitigation hierarchy, as is the case for company decarbonisation. However, product and service GHG accounting must be done on a lifecycle basis, considering the cradle-to-grave emissions associated with that product⁴⁸.

If compensating for emissions for products or services, companies should follow the IETA Guidelines in this paper.

SIGNIFICANT FUNDING IS NECESSARY TO CREATE JURISDICTIONAL BASELINES, IMPLEMENT PROGRAMMES ON THE GROUND, OR BUILD AND MAINTAIN A FUNCTIONING NATIONAL FOREST MONITORING SYSTEM.



CONCLUSION

The IETA Guidelines serve as a framework for companies to incorporate carbon credits into their climate strategies. Emphasising immediate, rigorous action in line with the Paris Agreement goals, these Guidelines advocate for the quantification and transparent disclosure of emissions, the establishment of ambitious net zero pathways, and the prudent selection and use of high-quality carbon credits to ensure the delivery of these pathways.

There is no time to waste. Modelling work shows 81% of the world's largest companies have not set net zero climate targets, and this should be the focus of our attention. Acknowledging the critical role of the private sector, the Guidelines urge companies to set net zero pathways, avoid missing near- and long-term targets (or moving targets) by compensating with carbon credits and, for hard-to-abate industries, to 'close-the-gap' between reduction pathways and Paris aligned pathways through carbon markets. We also recognise that the potential risk of missing targets could change with

the introduction of new and evolving compliance schemes. Such regulation would be welcomed. IETA supports the principle of moving towards a globally linked GHG market, that will level the playing field for competitors, ensure a strong price signal and deliver emissions reductions/removals in the most cost-efficient manner.

The relationship between voluntary and compliance markets, the potential convergence of the two and guidelines on how compliance units are counted against company targets, may be the focus of future IETA work.

We acknowledge that the market and its infrastructure is rapidly evolving. We welcome ideas to continue strengthening these Guidelines including how we may add additional safeguards beyond transparent reporting, to support any of the use cases.

The IETA Guidelines are a call to action for companies to not only meet but exceed their climate targets supported by carbon markets, thereby contributing significantly to the global pursuit of the Paris Agreement goals.

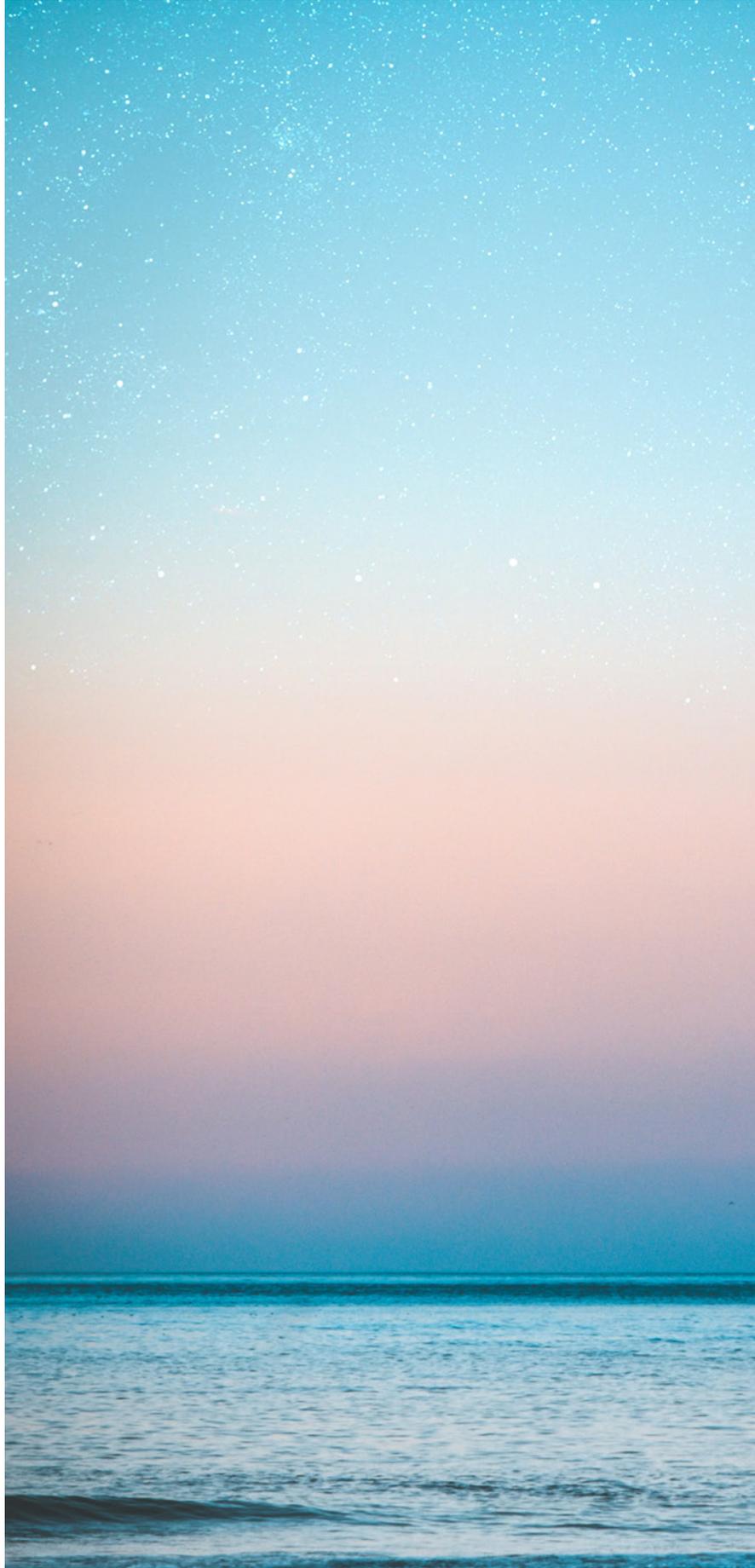
THERE IS NO TIME TO WASTE. MODELLING WORK SHOWS 81% OF THE WORLD'S LARGEST COMPANIES HAVE NOT SET NET ZERO CLIMATE TARGETS, AND THIS SHOULD BE THE FOCUS OF OUR ATTENTION.



WE WELCOME IDEAS TO CONTINUE STRENGTHENING THESE GUIDELINES INCLUDING HOW WE MAY ADD ADDITIONAL SAFEGUARDS BEYOND TRANSPARENT REPORTING, TO SUPPORT ANY OF THE USE CASES.

APPENDIX A -
THE ROLE OF THE VCM

TO SUPPORT THESE GUIDELINES, IETA HAS DEVELOPED THESE OVERARCHING PRINCIPLES ON THE USE OF CARBON CREDITS AND THE ROLE OF THE VCM IN SUPPORTING GLOBAL DECARBONISATION. MANY ACHIEVABLE EMISSION REDUCTIONS ARE NOT CURRENTLY BEING DELIVERED DUE TO LACK OF FUNDING OR INCENTIVE. MODELLING SHOWS THAT THE VCM COULD GROW TO MORE THAN \$50 BILLION BY 2030.⁴⁹ IETA SEES THE ROLE OF THE VCM AS FOLLOWS:





The VCM can provide a robust mechanism for companies to reduce or remove emissions in support of global decarbonisation. All companies should proactively participate in delivering the Paris Agreement goals by using carbon credits in alignment with these Guidelines. We view it as unacceptable for companies to miss climate targets when carbon markets provide a global, quantifiable, and affordable climate mitigation mechanism.

The VCM can channel finance to where it is desperately needed, including to low- and low-to-middle income countries (LLMIC), removals (both nature-based and technological), environmental conservation, and delivery of the UN SDGs. Carbon markets can provide a sustainable income source for people in LLMICs, and offer an economic incentive for local communities to conserve biodiverse, carbon-rich ecosystems. It is important that companies invest in both emission reductions and removals as this will be required to achieve net zero and balance emission sources with sinks as we get closer to 2050.

Companies voluntarily compensating for their emissions should be able to make robust and accurate claims. This should include recognition of the co-benefits that their investments support.

The VCM paves the way towards compliance markets. As a runway towards compliance, the VCM helps build capacity and knowledge for governments and companies on the best practices for registries, verification, project development and financing mechanisms. The agility of the VCM offers ongoing opportunities for experimentation, technology innovation and additional forms of climate mitigation.

The urgency of the climate crisis requires significant action now. Science-based pathways that make sense on paper are in themselves not enough – actions are critical. High integrity carbon markets bring the potential to deliver this action, driving investment to crucial mitigation activities that will help reduce near term emissions and support a 1.5°C pathway.

The VCM remains a powerful catalyst for company engagement by facilitating emissions compensation, directing finance to areas in need, and laying the groundwork for future compliance markets. As companies navigate the pathway to net zero, the VCM not only recognises their voluntary efforts but continues to play a key role in enabling global emission reductions.



THE URGENCY OF THE CLIMATE CRISIS REQUIRES SIGNIFICANT ACTION NOW. SCIENCE-BASED PATHWAYS THAT MAKE SENSE ON PAPER ARE IN THEMSELVES NOT ENOUGH – ACTIONS ARE CRITICAL.

ENDNOTES

1. "Without a strengthening of policies, global warming of 3.2 [2.2-3.5]°C is projected by 2100", AR6 Synthesis Report
2. At the time of achieving net zero CO₂, CDR levels could range between 5.5 and 16 GtCO₂/year under 1.5°C pathways (at around 2050 mid-century) and between 6.8 and 16 GtCO₂/year in 2°C pathways (at around 2070) around two decades after mid-century under the 1.5°C pathway) According to analysis by Smith et al. (2023), almost all scenarios applied in the AR6 envisage a period of net-negative emissions after mid-century. (Smith et al. 2023 <https://www.doi.org/10.17605/OSF.IO/W3B4Z>).
3. https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
4. The UNEP identified a significant funding gap for nature-based solutions. In 2022, US \$200 billion was directed to nature-based solutions but this must triple to reach US\$542 billion per year by 2030 and quadruple to US\$737 billion by 2050. <https://www.unep.org/news-and-stories/press-release/global-annual-finance-flows-7-trillion-fueling-climate-biodiversity>
5. <https://www.ieta.org/about/#vision>
6. <https://www.ieta.org/resources/reports/the-evolving-voluntary-carbon-market-paper/>
7. <https://www.ieta.org/resources/ghg-market-report/ghg-market-report-2023/>
8. Refer to Table A
9. https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
10. <https://alliedoffsets.com>
11. https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
12. <https://www.ieta.org/resources/>
13. Using Carbon Credits to Meet Corporate Climate Targets - Trove Research (trove-research.com); Corporate emission performance and the use of carbon credits - Trove Research (trove-research.com);
14. New research: Carbon credits are associated with businesses decarbonising faster - Ecosystem Marketplace
15. Netherlands, Germany, France, Spain, Finland and Austria propose framework to prevent greenwashing and restore integrity in voluntary carbon markets Joint Statement on Voluntary Carbon Market: The Claims Side | Diplomatic statement | Government.nl
16. <https://ghgprotocol.org/corporate-standard>
17. <https://www.iso.org/standard/66453.html>
18. E.g. the European Union's Corporate Sustainability Reporting Directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>
19. As an example, CDP requires verification of scope 1 & 2 emissions and some level of assessment around scope 3. For more information, see <https://www.cdp.net/en/guidance/verification>
20. Page 13, https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
21. https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf
22. <https://sciencebasedtargets.org>

23. <https://www.transitionpathwayinitiative.org/>
24. <https://www.gov.uk/government/organisations/department-for-energy-security-and-net-zero>
25. <https://missionpossiblepartnership.org/>
26. <https://climatechampions.unfccc.int/system/race-to-zero/>
27. <https://www.wemeanbusinesscoalition.org/>
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32. <https://sciencebasedtargets.org/resources/files/Above-and-Beyond-Report-on-BVCM.pdf>
33. <https://vcmintegrity.org/vcmi-claims-code-of-practice/>
34. Page 17, https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
35. <https://www.un.org/sg/en/content/sg/statement/2023-03-20/secretary-generals-video-message-for-press-conference-launch-the-synthesis-report-of-the-intergovernmental-panel-climate-change>
36. Pg 22 & 38 https://www.ieta.org/wp-content/uploads/2024/02/Report_AlliedOffsets-VCM-Forecast_150224.pdf
37. <https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx>
38. <https://icroa.org>
39. See in particular Principle 2 & 3: <https://www.smithschool.ox.ac.uk/sites/default/files/2024-02/Oxford-Principles-for-Net-Zero-Aligned-Carbon-Offsetting-revised-2024.pdf>
40. See footnote (2)
41. See Appendix to IETA Evolving VCM here: https://ieta.b-cdn.net/wp-content/uploads/2023/09/IETA_Paper_TheEvolvingVoluntaryCarbonMarket_2023_AppendixBestPracticeGuidance.pdf
42. https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf
43. <https://vcmintegrity.org/wp-content/uploads/2023/11/VCMI-Claims-Code-of-Practice-November-2023.pdf>
44. <https://vcmintegrity.org/climate-board-vcmi-research-january-2024/>
45. https://www.europarl.europa.eu/doceo/document/TA-9-2024-0018_EN.pdf
46. https://environment.ec.europa.eu/topics/circular-economy/green-claims_en
47. Whereas the ECGT bans “claiming, based on the offsetting of greenhouse gas emissions, that a product has a neutral, reduced or positive impact on the environment in terms of greenhouse gas emissions,” (Annex 1.2.4.c) the Green Claims Directive also regulates the use of carbon credits in company-level claims.
48. <https://ghgprotocol.org/product-standard>
49. https://www3.weforum.org/docs/WEF_Scaling_Voluntary_Carbon_Markets_2023.pdf



IETA VIEWS THE USE OF CARBON CREDITS AS AN ESPECIALLY VALUABLE DECARBONISATION TOOL, PARTICULARLY FOR THE PRIVATE SECTOR.

IETA

Headquarters
Grand-Rue 11
CH-1204 Genève
Switzerland
+41 22 737 05 00

Brussels
Rue du Commerce
Handelsstraat 123
1000 Brussels
Belgium
+32 289 55 747

Washington
1001 Pennsylvania Ave. NW
Suite 7117
Washington, DC 20004
+1 470 222 IETA (4382)

Toronto
180 John Street
Toronto, ON
M5T 1X5

Singapore
62 Ubi Road 1 #04-24
Oxley Bizhub 2
Singapore 408734

IETA also has
representation in:
Beijing, London, Tokyo
and Auckland.

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