CARBON MECHANISMS REVIEW

VOL. 11 | NO. 2 SUMMER 2023

Scaling Climate Action

Combining public and private funding on the road towards carbon neutrality and climate resilience

Beyond Offsetting

The 'Contribution Claim' as an alternative model

Beyond Offsetting

Streamlining the Concept of Private Finance Contributions

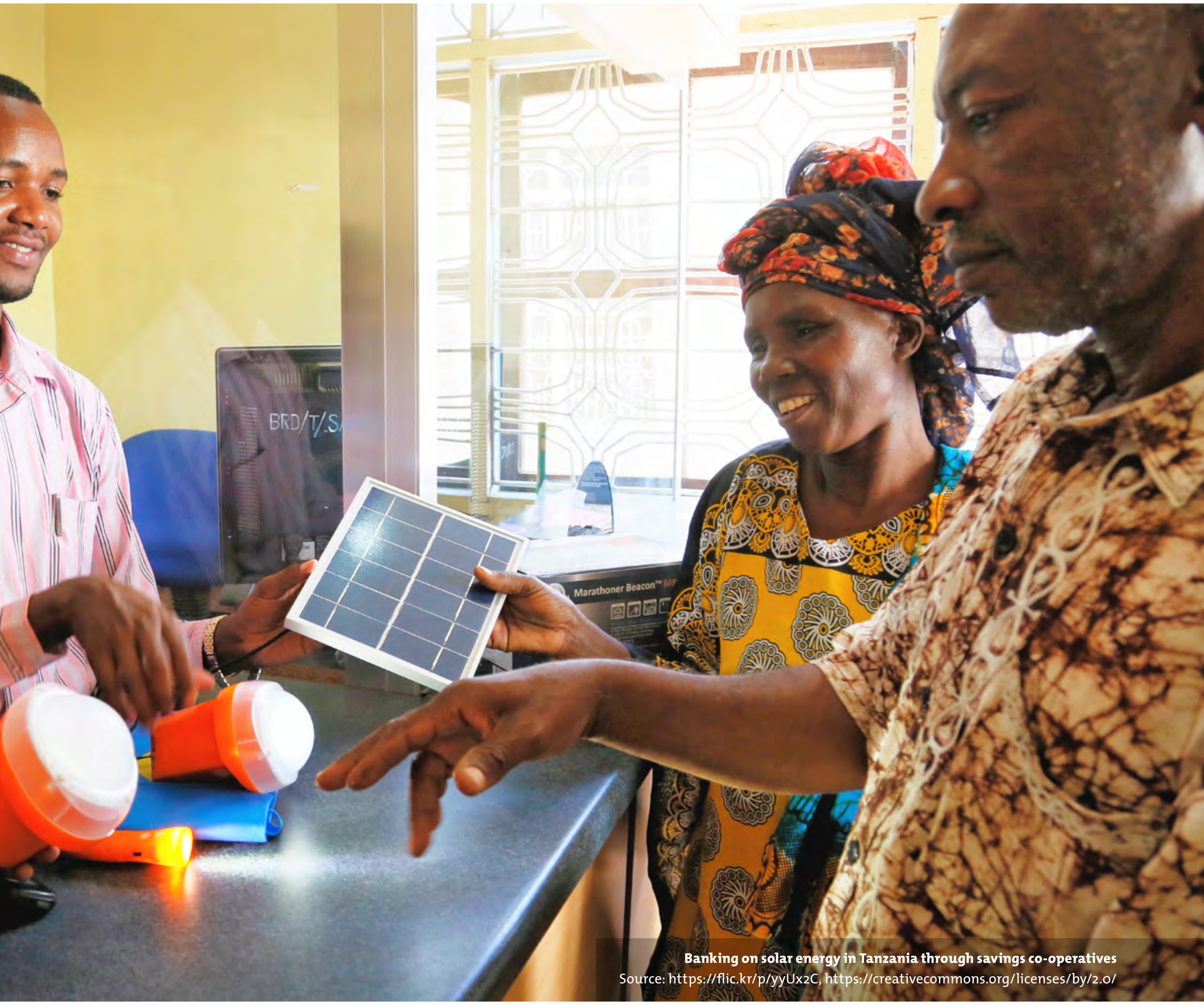
by Nicolas Kreibich, Wuppertal Institute & Gesa Schöneberg, Foundation Development and Climate Alliance

Background

Carbon neutrality claims and the associated practice of carbon offsetting are under continued criticism: Companies that claim to be 'carbon neutral' or use this and similar terms when advertising their products are increasingly being accused of greenwashing. In addition to the risk of reputational damage, companies are also running legal risks, e.g. lawsuits by consumer agencies or other NGOs. At the same time, the requirements for making claims are tightening, particularly in view of ongoing legislative initiatives such as the EU Green Claims Directive.

In addition to the reputational risks and legal uncertainty, the voluntary carbon market has been in major crisis since the operationalisation of the Paris Agreement. With all countries having to strive towards maximum ambition in their Nationally Determined Contributions (NDCs), identifying truly additional projects has become even more challenging than in the past. And given the global scope of the Paris Agreement, carbon credits will inevitably have to be generated in economic sectors that are covered by national mitigation targets. To avoid double counting of emission reductions, Corresponding Adjustments (CAs) were introduced, which can also be applied if emission reductions are used for voluntary purposes such as carbon neutrality claims by companies. However, developing the infrastructure and technical capacities needed to implement CAs still presents a key challenge, especially for developing countries.

With the Contribution Claim model, an alternative is being developed that allows companies to promote global climate action by making private financial contributions. In the debate on the future of the voluntary carbon market, such an alternative was proposed early on in light of the market's "identity crisis" (Hermwille & Kreibich, 2016). Back in 2017, the Gold Standard proposed the development of "certified emission reduction statements" as a new product that would certify a contribution to the host country's target but could not be used to support statements on climate neutrality (Gold Standard, 2017). For a long time, this proposal did not find majority support in the voluntary carbon market, as key actors did not agree on the need to apply CAs to emission reductions used for voluntary targets.



Banking on solar energy in Tanzania through savings co-operatives
Source: https://flic.kr/p/yyUx2C, https://creativecommons.org/licenses/by/2.0/

Recently, however, there seems to have been a change within the voluntary carbon market: A growing number of actors, including large offset providers, are showing increased interest in alternative approaches. As a first mover, the carbon credit supplier myclimate introduced an impact label at the end of 2022. As an alternative to the previous 'climate neutral' label, this new label is given to companies that support mitigation activities outside their own value chain (myclimate, 2023). Similarly, South Pole recently introduced its "Funding Climate Action Label" (South Pole, 2023).

While these new labels mainly differ from their predecessors insofar as claiming carbon neutrality is no longer possible, other concepts go much further in differentiating themselves from conventional carbon offsetting. Building on earlier publications, WWF Germany presented its "Fit for Paris" proposal at the end of 2022. The concept goes beyond the ton-per-ton approach by requiring companies to set an internal carbon price on their residual emissions, which is used as a basis for defining the climate investments outside their value chain. WWF's approach also breaks new ground in terms of the activities to be promoted. Instead of purchasing carbon credits, the focus is on activities to reduce agricultural and forestry emissions and promote commercial innovations for climate protection (WWF Deutschland, 2022).

Other initiatives have already made progress in implementation. The NewClimate Institute, for example, has been applying its Climate Responsibility Approach since 2020. Another relevant actor is the Swedish company Milkywire, which has established the Climate Transformation Fund (Milkywire, 2022), and the French "Net Zero Initiative" led by Carbone4, which already promotes climate finance contributions to reach the global net zero goal (NZI, 2022, 2023).

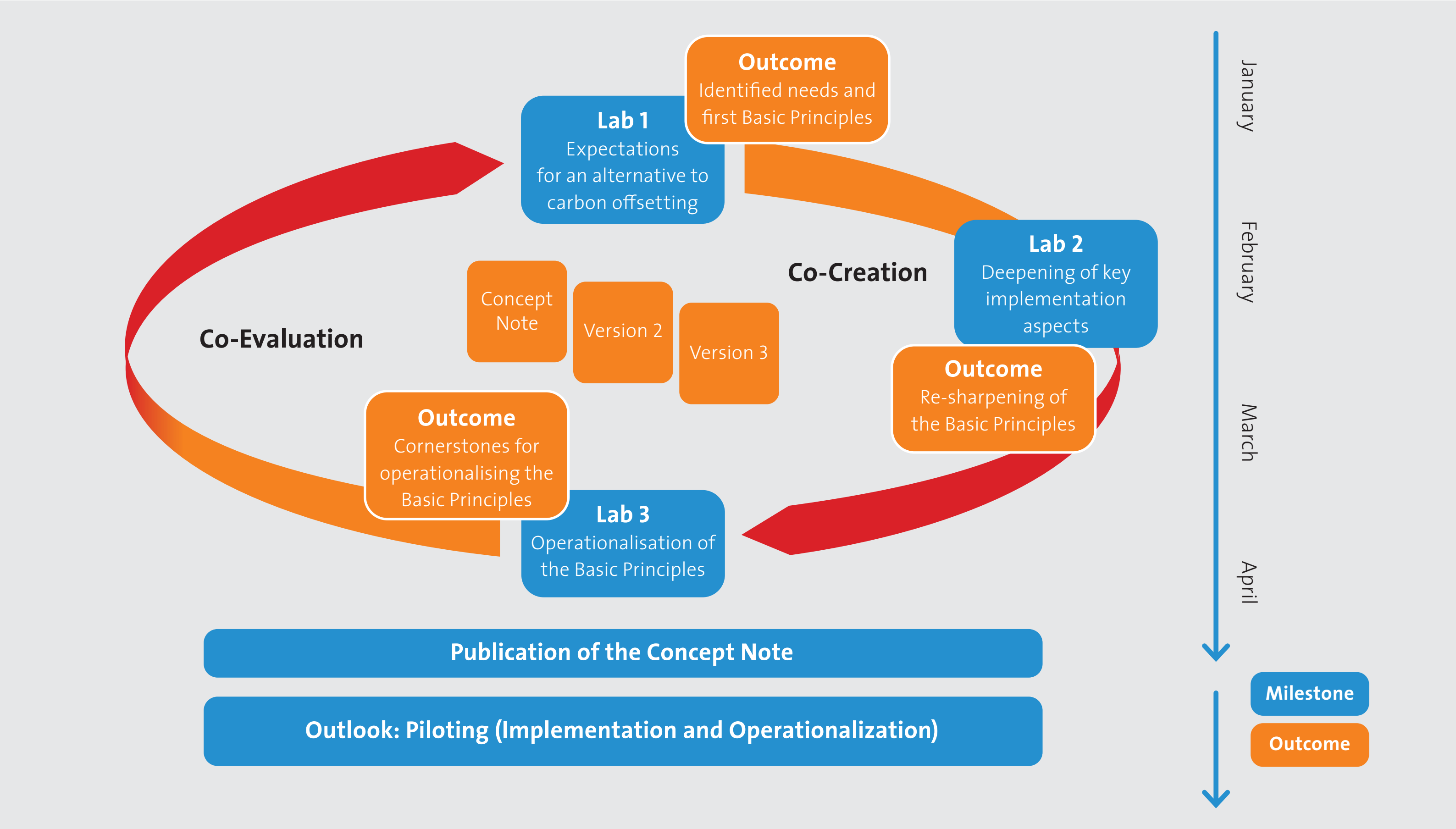
Even though the approaches are very different in their design and objectives, they share one decisive element: the emission reductions achieved by the mitigation projects may not be used to counterbalance residual emissions. They go beyond offsetting.

Streamlining the Contribution Claim model

Against the background of these new developments and prevailing uncertainties within the VCM, the Foundation Development and Climate Alliance commissioned the "Contribution Claim as an alternative approach to carbon offsetting" project, which is implemented by the Wuppertal Institute. The transdisciplinary research project was designed with the objective of developing a new narrative and basic principles of the Contribution Claim model with the participation of key stakeholders in order to drive the implementation of ambitious alternative approaches and counteract the current fragmentation of the market. The aim was not to develop another 'new' concept for the Contribution Claim model, but to streamline the existing approaches, taking into account the highest possible quality and feasibility.

In order to identify the major lines of the model, basic principles for implementing the Contribution Claim model were elaborated upon and further developed in three living labs with representatives from the private sector, project development, civil society, research and public policy.

Figure 1: Interaction of the three living labs in the course of the project



Developing and refining solutions in a transdisciplinary fashion

The methodological approach underlying the project uses the concept of 'transformative research' (cf. Schneidewind & Scheck, 2013). It is characterised by an explicit intention to intervene in order to address existing problems by developing solutions with the participation of key stakeholder groups. The living lab approach is used as a basis for implementation. Living labs comprise research and innovation formats that enable new perspectives for improving sustainability impacts and market acceptance and also uncover unintended rebound effects in the development process, taking them into account in further development (Liedtke et al., 2012; Von Geibler et al., 2014). Short iteration cycles allow feedback from stakeholders to be quickly take into account. New insights can be iteratively incorporated when developing the basic principles of the Contribution Claim model. The methodical approach is expected to have a positive impact on the development outcome and subsequent market acceptance. In order to incorporate the perspectives of the key stakeholders into the development of basic principles in the best possible way, a co-creation approach with established collaboration methods was applied. For this purpose, three living labs were designed and implemented, each of which alternated between individual work (brainwriting), small group work (World Café method, focus groups) and plenary discussions (moderation based on guiding questions) in order to facilitate iterative development and learning loops. The interim results developed were critically reflected on with the stakeholders using guiding questions and case studies following the co-evaluation approach. The key discussions of the individual labs fed into the concept paper, which served as a living document for securing and processing results. In addition to the results produced in the living labs, the concept paper was supplemented using the expertise of the project team.

Key observations made during the project implementation phase

The living labs facilitated the exchange between companies, NGOs, project developers, policy makers and research institutions, allowing for **mutual learning and the development of a common understanding** of the Contribution Claim model. Stakeholders could discuss their expectations regarding the new model and how it aligned with existing corporate strategies. This enabled the participants to distinguish the new model more clearly from conventional carbon offsetting.

The multi-stakeholder process also facilitated an in-depth exploration of selected design aspects. One aspect critically discussed was the minimum criteria that companies should meet in order to be allowed to use the Contribution Claim model. The discussions made clear that the vast majority of stakeholders supported **ambitious requirements for companies as a prerequisite for using the model.** In order to not exclude small and medium sizes enterprises with limited capacities, the idea of support activities was added.

A less controversial question was the necessity of creating a (new) tradable product – even for companies this seems to be of no or only minor relevance – and there was a **great openness towards impact investment.** It would therefore seem to be particularly relevant in the future to distinguish between the interests of those willing to invest in mitigation activities and the positioning of project developers or carbon credit suppliers.

The fact that companies do not consider the issuance of carbon credits a prerequisite for their investments in mitigation activities **significantly broadens the spectrum of investment opportunities.** Under the Contribution Claim model, the focus no longer has to be on activities with a short-term mitigation impact expressed in tons of CO_2 as the main metric. Instead, mitigation activities can be promoted that could enable emission reductions to materialise in the future. Similarly, the Contribution Claim model could also allow activities to be promoted that are better embedded in national strategies and thus fill implementation gaps. The understanding of these observations is reflected in the basic principles and the new narrative.

A new narrative

The overarching understanding of the Contribution Claim model elaborated upon in the living labs served as a basis for developing a new narrative. Commitment in line with the goals of the Paris Agreement is the central starting point and the global net zero target serves as a guiding star for companies and other organisations. But in order to carry out the transformations needed to reach global carbon neutrality by 2050, the focus is not on organisations achieving individual carbon/climate neutrality but rather on making the best possible contribution to implementing the global goals. This means that avoiding and reducing one's own emissions must be the top priority. Complementary to these reduction efforts, the approach enables the supporting of high-quality mitigation activities outside one's own value chain, particularly in the Global South (climate responsibility). For this, an internal carbon price is applied to the non-avoidable residual emissions based on the social and environmental costs of these emissions. In a corresponding amount, high-quality – ideally transformative – mitigation activities are financed. In return for this support, companies receive evidence of the contribution made and the impact of the activities supported. Together with the information provided on mitigation action within the organisation, these form the basis for communicating their engagement. It also enables companies and other organisations to make claims that do not pose a risk to their reputation.

Transportation in the Philippines
Source: https://flic.kr/p/dQZBP8, https://creativecommons.org/licenses/by/2.0/

Basic principles of an effective Contribution Claim model

Based on the discussions in the living labs, basic principles have been developed that take into account the key elements, requirements and approaches for the design and implementation of the Contribution Claim model. The basic principles refer to a) the Contribution Claim model, b) the participating organisations and their claims and c) the mitigation activities supported.

Overview of the basic principles

Responsibility

Organisations take responsibility for the climate damage they cause. They focus on avoiding and reducing emissions within their own value chain and also support mitigation activities outside their own value chain.

Organisations using the Contribution Claim model meet a set of minimum requirements to fulfil their responsibilities, e.g. robust GHG accounting for their emissions, developing a Paris-compatible climate change strategy and applying an increasing internal carbon price to all residual emissions.

The climate change mitigation measure supported by the organisation is also embedded in a Paris-compatible climate action strategy, which is in line with the net zero target at global level and implemented in accordance with international criteria for environmental and social safeguards (ESS).

Credibility

Organisations acknowledge their responsibility to combat climate change. They do not make statements based on offsetting emissions, such as claiming that individual products/services or the organisation are climate neutral.

Science-based

The Contribution Claim model is based on scientific findings and uses them both in defining requirements for companies and in designing and implementing mitigation activities.

Transparency

The Contribution Claim model promotes transparency by using standardised rules and clear definitions.

The claims made by the organisation reflect the nature of its participation and the amount of its contribution in relation to the organisation's carbon footprint, while the impact of the mitigation activities supported is shown separately.

The approach also contributes to cost transparency by making it clear to outsiders how the funds provided by the organisation are used in the supported climate protection measure.

Transformative sustainability impact
This approach promotes transformative climate actions that meet high-quality requirements/criteria and are embedded in a holistic development strategy. The activities should have a high level of replicability and scalability.

Effectiveness
The transaction costs for ensuring the transparency and effectiveness of the mitigation activity are adequate for the impact targeted by the activity. Standardisation of impact measurement and claims ensures the effective use of resources and scalability.

Verifiability and demonstrability
The effects achieved by the activities (climate protection and other sustainability contributions) are quantifiable (measurable) or are plausibly qualified in the form of a causal impact path. The additionality of the measure is also verifiably demonstrated.

Ambition raising
The mitigation activity supported contributes to an increase in mitigation ambition by establishing a clear link between the respective activities and the NDC of the host country as well as its long-term strategy (LTS). Care is taken to ensure that the measure is not already covered by a country policy (additionality and search for “high-hanging fruit”). Furthermore, each activity must be planned in such a way as to ensure a long-term or follow-up use.
Increasing ambition is also required with regard to the mitigation strategy of the participating organisation. Here, an increase in ambition is expressed, for example, by a steadily increasing internal CO_2 price.

Connectivity
The Contribution Claim model builds on existing tools and, where appropriate, leverages the infrastructure of the global carbon market to demonstrate its potential for further development. When designing the mitigation activity, emphasis is placed on integrating existing actors and ongoing processes so that the complexity of the measure is not increased unnecessarily and duplication is avoided. The Contribution Claim model aims to identify and close existing implementation gaps.
It is intended that the participation of organisations in the Contribution Claim model will be recognised in future non-financial reporting.

Legal compliance
The climate protection measure promoted within the Contribution Claim model is implemented in accordance with applicable law (national, international) and uses the legal framework and its further development to address the problem at hand.
The claims made by the organisations are compatible with applicable legal requirements, such as the European Union’s Green Claims Directive.

Outlook

The transdisciplinary approach of the project facilitated the co-creation of basic principles and a new narrative for the Contribution Claim model by bringing together a broad range of stakeholders. The involvement of stakeholders and sharing of different perspectives on the Contribution Claim model is particularly relevant given the current fragmentation of the market due to the emergence of several new concepts in Germany and globally. In order to avoid a repetition of the poor experiences with carbon offsetting claims and the use of carbon credits, developing a common understanding of the new model and applying the basic principles will be essential.

Public policy makers also have a key role to play in strengthening transparency and preventing this new model from being misused for greenwashing purposes. Many governments are currently in the process of developing guidelines on how to use the VCM. These guideline documents should not focus exclusively on the use of carbon credits for the purpose of making carbon neutrality claims but also provide guidance on the Contribution Claim model. Not focusing exclusively on carbon neutrality and similar claims is also particularly relevant given the fact that these offset claims are increasingly becoming subject to regulation with ongoing initiatives such as the Green Claims Directive and the Empowering Consumers Directive in the EU. There is hence a risk that public policy guideline documents will become irrelevant if they focus on a model that will hardly be used at all in the future, while the private sector is (again) setting precedents through the development of new concepts that lack transparency and are barely understood by consumers and investors.

This is all the more significant as the Contribution Claim model provides a dual opportunity for the voluntary carbon market. On the one hand, the model could allow the market to continue implementing high-quality projects without undermining the integrity of corporate climate action. On the other hand, it provides an opportunity for the VCM to reinvent itself by becoming a key player in bridging the climate finance gap and pushing towards more mitigation ambition and action.

For this to be implemented, the VCM must expand its current project portfolio, which is not in line with what is needed to keep global warming within the limits of the Paris Agreement. Building and expanding on the methods and tools developed in the (voluntary) carbon market, new catalytic activities must be promoted that go beyond the short-term carbon impact and accelerate transformative change towards global sustainability.

How to do this in practice by applying the Contribution Claim model will be the focus of the project's implementation phase, which is currently being elaborated upon with a multi-actor group. In this phase, which aims at strengthening the ties to ongoing international processes such as the SBTI, VCMI and IC VCM, the new narrative and the basic principles elaborated upon will be put in practice.

References

- Gold Standard. (2017). A New Paradigm for Voluntary Climate Action: 'Reduce Within, Finance Beyond' [GOLD STANDARD POLICY BRIEF]. https://www.goldstandard.org/sites/default/files/documents/a_new_paradigm_for_voluntary_climate_action.pdf
- Hermwille, L. & Kreibich, N. (2016). Identity Crisis? Voluntary Carbon Crediting and the Paris Agreement. https://www.carbon-mechanisms.de/fileadmin/media/dokumente/Publikationen/Policy_Brief/PB_2016_02_Voluntary_Carbon_Markets_bf.pdf
- Liedtke, C., Baedeker, C., Geibler, J. & Hasselkuß, M. (2012). User-integrated innovation: Sustainable LivingLabs research and development of sustainable products and services through user-driven innovation.
- Milkywire. (2022). Climate Transformation Fund. https://www.milkywire.com/climate-transformation-fund-readmore
- myclimate. (2023). What is the myclimate impact label? https://de.myclimate.org/en/information/faq/faq-detail/what-is-the-myclimate-impact-label-1/
- NZI. (2022). 10 principes pour une stratégie climat d'entreprise ambitieuse. Net Zero Initiative. https://uploads-ssl.webflow.com/612ca83f8578a75a8cf1cf3d/62bb1410bfda467f91acb275_NZI_10_principes_VF.pdf
- NZI. (2023). Net Zero Initiative. https://www.net-zero-initiative.com/en
- Schneidewind, U. & Scheck, H. (2013). Die Stadt als „Reallabor" für Systeminnovationen. In J. Rückert-John (Ed.), Soziale Innovation und Nachhaltigkeit: Perspektiven sozialen Wandels (pp. 229–248). Springer Fachmedien Wiesbaden. https://doi.org/10.1007/978-3-531-18974-1_12
- South Pole. (2023). Climate Action Labels. South Pole. https://www.southpole.com/sustainability-solutions/climate-action-labels
- Von Geibler, J., Erdmann, L., Liedtke, C., Rohn, H., Stabe, M., Berner, S., Leismann, K., Schnalzer, K. & Kennedy, K. (2014). Exploring the Potential of a German Living Lab Research Infrastructure for the Development of Low Resource Products and Services. Resources, 3(3), 575–598. https://doi.org/10.3390/resources3030575
- WWF Deutschland. (2022). FIT FÜR PARIS – Ein Nachfolgemodell für die CO_2-Kompensation: Wie Unternehmen zusätzlichen Klimaschutz finanzieren sollten. https://www.wwf.de/fileadmin/fm-wwf/Publikationen-PDF/Unternehmen/WWF-Fit-fuer-Paris-Nachfolgemodell-CO2-Kompensation.pdf