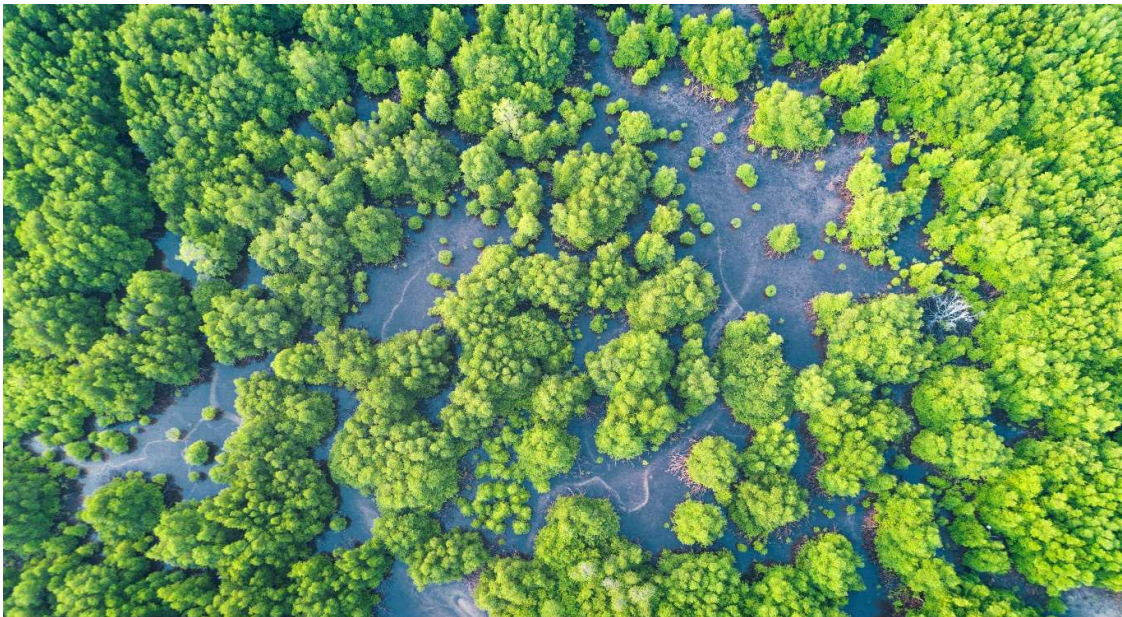


What's a high-quality carbon credit?

Overview for JREDD+

FORESTS FOR CLIMATE

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Carbon credits can bring high benefits to climate as well as the local communities and environment. However, not all credits are the same. It is, therefore, important for buyers to ensure they are buying high-quality credits that will achieve the desirable benefits.

High-quality credits are carbon credits that bring quantifiable benefits. In addition to allow carbon sequestration, they permit biodiversity to be protected, ecosystems to be conserved, sustainable livelihood to be ensure for local communities. As indigenous and local communities are the primer protector of forests, high-quality credits shall ensure their rights are protected, their voices heard and that they are correctly remunerated. In addition,

To ensure credits are high-quality, they need to pass a number of checks. Strict measures, monitoring and evaluations methods are put in place to ensure they bring the benefits wanted. This guide will help you understand what are the important points to focus on when evaluating a carbon credit to ensure it is high-quality.

Environmental Integrity

Environmental integrity in carbon markets refers to achieving real and measurable emission reductions through the transfer of credits. There are four factors that shape the outcome of a given emission trading scheme:

- Robust accounting to avoid the double counting of emission reductions achieved in a single project
- The quality of an individual verified carbon unit through the application of stringent verification methodologies
- The ambition of the underlying mitigation target which translates to the overall emissions cap in the market
- Imposing a limit on the transfer of high-risk units by defining eligibility criteria¹

Additionality

A carbon credit is additional if the emission reduction resulting would not have occurred under business as usual. The concept of additionality is important to ensure the economic efficiency and environmental effectiveness of the trading scheme. Finance should not be allocated to an emission reduction that would have occurred regardless of the incentive.²

The question of additionality can be addressed by establishing stringent baselines that account for any projects which would take place in the absence of a carbon market.³ Programmes like the FCPF and VCS JNR factor this into their methodologies.



1 <https://www.tandfonline.com/doi/pdf/10.1080/14693062.2018.1521332?needAccess=true>

2 https://www.globalcarbonproject.org/global/pdf/WWF_2008_A%20comparison%20of%20C%20offset%20Standards.pdf

3 https://www.climatefocus.com/sites/default/files/Should%20forest%20carbon%20credits%20be%20included%20in%20CORSIA_0.pdf

Leakage

Leakage occurs when an environmentally harmful activity is regulated in one jurisdiction and moves to a neighbouring jurisdiction that doesn't have the same level of regulation in place. For example, when deforestation decreases in one country after the introduction of limits, it may have increased in a neighbouring country. The net amount of deforestation remains the same, it simply occurs in a different place.⁴

One way to address leakage from natural climate solutions is to discount the certified emissions reduction, some programmes include discount rates of up to 40%.⁵ Verra has developed a tool to address leakage for forest-based carbon credits as part of the JNR methodology.⁶

Under the Warsaw Framework for REDD+, implementation at the scale of national and sub-national jurisdictions is a key approach for minimizing the risk of leakage within participating countries.⁷

Permanence

A key concern with nature-based credits is that emission reductions may not be permanent, forests might get cut, mangroves be damaged, agricultural practices change. Permanence refers to the longevity of emission reductions and carbon removals from the atmosphere. Reversals could be anthropogenic or natural, such as extreme weather events.

Permanence is not exclusive to natural climate solutions, it is equally a concern with other types of carbon removals, e.g. geological storage. New technological capabilities have made monitoring more accurate today than in early programmes.⁸

Permanence is addressed through monitoring and verification requirements of NCS programmes. All programmes require MRV for the entirety of the crediting period and in some cases beyond.⁹

Establishing buffer pools, i.e., a share of total credits issued set aside as insurance to replace those lost to reversals, is a common way to manage risks related to permanence.

Under the Warsaw Framework for REDD+, implementation at the scale of national and sub-national jurisdictions is a key approach for minimizing the risk of reversals. The larger the scale of the area covered, the lower the risk of a single event causing a significant reversal.¹⁰



4 https://www.concawe.eu/wp-content/uploads/2017/09/Rpt_17-9.pdf

5 https://newclimate.org/wp-content/uploads/2018/09/Studie_2018_REDD_and_carbon_markets.pdf

6 <https://verra.org/project/vcs-program/methodologies/methodology-catalog/>

7 <https://redd.unfccc.int/fact-sheets/warsaw-framework-for-redd.html>

8 <https://www.pwc.com/gx/en/sustainability/assets/ai-for-the-earth-jan-2018.pdf>

9 https://newclimate.org/wp-content/uploads/2018/09/Studie_2018_REDD_and_carbon_markets.pdf

10 <https://redd.unfccc.int/fact-sheets/warsaw-framework-for-redd.html>

Uncertainty



It is inherently difficult to calculate the exact amount of carbon that is captured or emitted by forests, crop or grasslands given the differences in vegetation cover of a given ecosystem.

Hence, global numbers rely on complex methodologies to yield estimates based on expected regional averages. New monitoring technologies like satellites and improved models complemented by practitioner experience have vastly improved accuracy¹¹, while GHG programmes establish baselines that are below the estimates carbon stocks to ensure environmental integrity. Standards such as FCPF Carbon Fund and the VCS JNR systematically assess uncertainty in their methodology.¹²

Competitiveness



Under current carbon pricing schemes, there has been little to none displacement of productive capacity. Studies have shown that other factors including labour availability, infrastructure and taxation are more significant to investment levels than environmental regulation.

On the flip side, carbon pricing may actually incentivize innovation, R&D and growth in low-carbon sectors thereby future-proofing the economy.

There are a number of established policy measures that can alleviate impacts on competitiveness for local business including border tax adjustments and rebates. The following table shows an overview of relevant policy interventions and their respective effectiveness.¹³

Social and environmental safeguards



Safeguards refer to a set of measures that ensure the generation of carbon credits does not have any adverse effects on local communities or natural ecosystems. This includes factors like public participation, Indigenous rights and land tenure to take into account the socio-political context in a given host country. Other considerations include capacity building, informed consent, and environmental criteria.

Safeguards have been extensively researched particularly in the context of forest carbon credits, there are existing standards on free, prior and informed consent, as well as principles for indigenous peoples' rights and transparent reporting.¹⁴

Market Design



There are ongoing discussions on the type, as well as the amount of carbon credits based on natural climate solutions that should be allowed into compliance markets to avoid market flooding and ensure the environmental integrity of outcomes.

Further recommendations are needed on the time period an NCS credits should be in circulation for before being retired. As an example, the California Cap and Trade system limited the amount of forest-based credits allowed into the market.

11 https://www.concawe.eu/wp-content/uploads/2017/09/Rpt_17-9.pdf

12 https://newclimate.org/wp-content/uploads/2018/09/Studie_2018_REDD_and_carbon_markets.pdf

13 <https://openknowledge.worldbank.org/bitstream/handle/10986/32419/141917.pdf?sequence=4&isAllowed=y>

14 https://newclimate.org/wp-content/uploads/2018/09/Studie_2018_REDD_and_carbon_markets.pdf

Demand Side Eligibility

Currently, there isn't one set of criteria to determine which sectors might be eligible to balance their emissions with NCS credits and which share of their emissions could be offset.

However, companies are encouraged to follow a mitigation hierarchy and prioritize the avoidance of emissions (like switching to renewable energy sources), followed by efforts to minimize greenhouse gas emissions. The residual emissions in the company's operating model would then be offset by investing in emissions reductions of the same amount, e.g. through forestry solutions.¹⁵

Accounting

Accounting for emissions reductions towards a given country's climate targets remains one of the most heated debates in the space. Current discussions include how to account for international transfers while avoiding the double counting of emission reductions, whether to account for offsets in voluntary markets and how to integrate emission reductions at the project level into (sub-) national accounting.

In the space of international market mechanisms, countries did not come to a conclusion during COP25 negotiations meaning the topic will need to be brought to a conclusion at COP26 in Glasgow.¹⁶

One approach that is gaining momentum on the international stage is the nesting model such as piloted in Peru. The programme accounts for individual REDD+ projects making it possible to deduct exported emission reductions from the country's national inventory.¹⁷

At the voluntary level, Verra has produced the jurisdictional and nesting REDD+ framework in order to verify and register carbon credits at the project level.¹⁸



🗨️ Would like to know more?

Read our whitepaper [Scaling up Forest Conservation to Reach Net Zero](#) here

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¹⁵ https://docs.wbcsd.org/2019/09/WBCSD-Natural_climate_solutions-the_business_perspective.pdf

¹⁶ <http://blogs.edf.org/climate411/2019/12/16/cop-25-international-carbon-markets-can-still-drive-ambition-despite-lack-of-article-6-rules/>

¹⁷ <https://www.ecosystemmarketplace.com/carbon-markets/>

¹⁸ <https://verra.org/project/jurisdictional-and-nested-redd-framework/>